

TOWN OF FRONT ROYAL, VIRGINIA

*COMPREHENSIVE
ANNUAL FINANCIAL REPORT*

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

FOREWORD

Front Royal is located in Warren County in Northern Virginia approximately 17 miles south of Winchester and 70 miles west of Washington, DC. The Town was founded in 1754 and chartered by the General Assembly of Virginia in 1788. U.S. Highways 522 and 340, and State Route 55 provide access to the Town. Interstate Highways 66 and 81 are located 1 mile north and 6 miles west of the Town, respectively. The Town covers an area of approximately 9 square miles and has a population estimated at 14,573.

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.

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INTRODUCTORY SECTION



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

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

November 16, 2010

The Honorable Mayor,
Members of the Town Council, and
Citizens 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, 2010.

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 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's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town of Front Royal'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'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, 2010, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Based upon their audit, the independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the Town of Front Royal's financial statements for the fiscal year ending June 30, 2010, 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 14,573.

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, Environmental Services, Energy Resources, Human Resources, Tourism, Public Safety and Planning/Zoning are appointed by and operate under the supervision of the Town Manager.

In Virginia, incorporated towns are part of the county in which they are located. Accordingly, the residents of an incorporated town are required to pay certain taxes, including ad valorem taxes, to both the town and 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. The Town completed \$9 million improvements to the water treatment plant in 2009 that were funded through bonds. In addition, the Town plans to construct an estimated \$35 million improvement to the waste water treatment plant in 2011 through bonds. The Town has hired a consultant to develop a long term rate structure to support debt service on these bond, as well as anticipated operating and maintenance costs. In addition, the Town is working to stabilize our future power purchase expenses through diversification of power supply sources. Finally, the Town has developed Fiscal Impact Model to assist the Town in determining development impact costs.

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 2010. The overall goals of risk management are to reduce the Town's losses to the lowest possible level and to protect the Town's assets from loss, theft and misuse.

Pension and Other Post-Employment Benefits. The Town contributes to the Virginia Retirement System (VRS) on behalf of its employees. All full-time permanent employees must participate in the system. Benefits vest after five (5) years of service so that employees are eligible for unreduced retirement at age 65 with five (5) years of service or at age 50 with 30 years of service. Benefits are actuarially reduced for employees who retire prior to becoming eligible for full 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 their length 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, 2009. This is the twenty-second (22) consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the Town published an easily readable and efficiently organized CAFR. This report satisfied both generally accepted accounting principles 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 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's finances.

Respectfully submitted,



Steven M. Burke
Interim 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, 2009

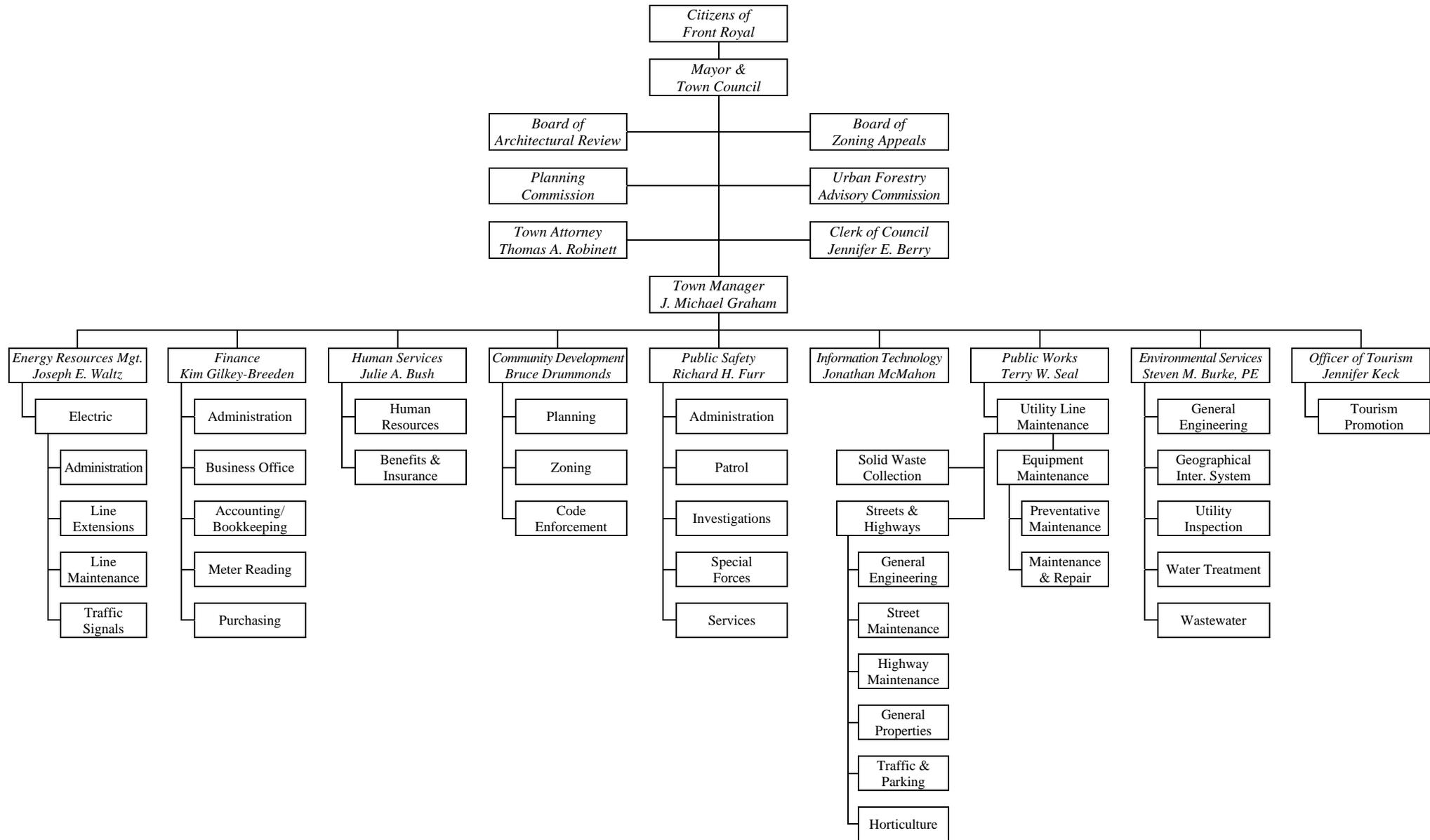
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

**TOWN OF FRONT ROYAL
ORGANIZATIONAL CHART
FISCAL YEAR ENDED JUNE 30, 2010**



**TOWN OF FRONT ROYAL, VIRGINIA
JUNE 30, 2010**

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

Town Manager	J. Michael Graham
Director of Community Development	Bruce Drummonds
Town Attorney	Thomas R. Robinett
Chief of Police	Richard H. Furr
Director of Public Works	Terry W. Seal, Sr.
Director of Environmental Services	Steven M. Burke, P.E.
Purchasing Agent	Cynthia A. Hartman
Director of Human Services	Julie A. Bush
Clerk of Council	Jennifer E. Berry
Director of Finance	Kim D. Gilkey-Breeden
Director of Tourism	Jennifer Keck
Director of Information Technology	Jonathan McMahan
Director of Energy Resources	Joseph P. Waltz

FINANCIAL SECTION

MITCHELL & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

110 EAST MARKET STREET, SUITE 200

LEESBURG, VIRGINIA 20176

JEFFREY D. MITCHELL, 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, 2010, 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, the standards applicable to financial audits contained in *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 the 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 opinions.

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, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2010 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 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Front Royal, Virginia's financial statements as a whole. The introductory section, supplementary information, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. This information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

November 30, 2010
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, 2010. 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 \$119,085,932. Of this amount, \$26,503,340 may be used to meet the Town's ongoing obligations to its citizens and creditors.
- The Town's total net assets decreased by \$4,247,933.
- As of the close of the current fiscal year, the Town of Front Royal's governmental funds reported combined ending fund balances of \$6,007,753, a decrease of \$459,998 in comparison with the prior year. Most of this total amount, \$5,946,778, 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 \$5,803,554, or 55.4 percent of total general fund expenditures.
- The Town's total bonded debt increased by \$1,734,180 (14.2 percent) during the current fiscal year.

Overview of the Financial Statements

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

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

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

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

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

The government-wide financial statements can be found on pages 18 – 19 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 in this report.

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

The basic governmental fund financial statements can be found on pages 20 – 23 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 24 – 28 of this report.

Notes to the financial statements. The notes and required supplementary information provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements and required supplementary information can be found on pages 29 – 49 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 50 – 60 of this report. Additional state required supplementary schedules follow the combining and individual fund statements and can be found on pages 61 – 63 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 \$119,085,932 at the close of the most recent fiscal year.

By far the largest portion of the Town's net assets (77.7 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, 2010 and 2009.

TOWN OF FRONT ROYAL -- NET ASSETS						
	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 7,333,293	\$ 7,234,242	\$22,664,852	\$20,740,389	\$ 29,998,145	\$ 27,974,631
Capital assets	62,354,100	64,770,441	44,396,162	46,436,657	106,750,262	111,207,098
Total Assets	69,687,393	72,004,683	67,061,014	67,177,046	136,748,407	139,181,729
Long-term liabilities	1,301,966	1,095,775	14,399,801	12,401,586	15,701,767	13,497,361
Other liabilities	344,093	452,187	1,616,615	1,898,316	1,960,708	2,350,503
Total Liabilities	1,646,059	1,547,962	16,016,416	14,299,902	17,662,475	15,847,864
Net Assets						
Invested-capital assets, net of related debt	62,087,906	64,423,422	30,494,686	34,365,817	92,582,592	98,789,239
Unrestricted	5,953,428	6,033,299	20,549,912	18,511,327	26,503,340	24,544,626
Total Net Assets	\$68,041,334	\$70,456,721	\$51,044,598	\$52,877,144	\$119,085,932	\$123,333,865

An additional portion of the Town of Front Royal's net assets (0.05 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 \$4,247,933 during the current fiscal year.

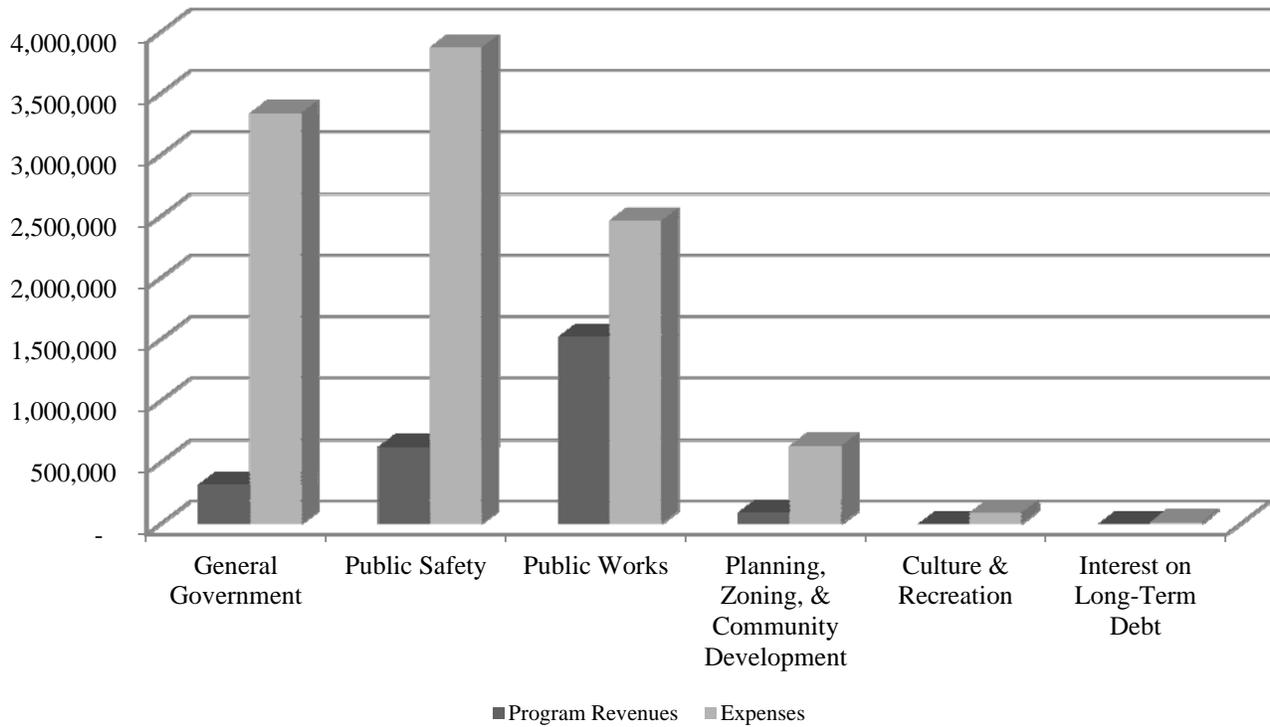
Governmental activities. Governmental activities decreased the Town of Front Royal, Virginia's net assets by \$2,415,387. These changes are presented in column one of the following table:

TOWN OF FRONT ROYAL -- CHANGES IN NET ASSETS						
	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues						
Charges for services	\$ 600,005	\$ 502,737	\$21,896,520	\$21,964,985	\$ 22,496,525	\$ 22,467,722
Operating grants & contributions	1,870,222	1,912,511	-	-	1,870,222	1,912,511
Capital grants & contributions	93,087	121,767	-	798,530	93,087	920,297
General revenues						
Property taxes	2,563,604	1,303,327	-	-	2,563,604	1,303,327
Other taxes	4,376,150	4,905,682	-	-	4,376,150	4,905,682
Investment earnings	109,480	119,307	254,472	255,529	363,952	374,836
Total revenues	9,612,548	8,865,331	22,150,992	23,019,044	31,763,540	31,884,375
Expenses						
General government	3,340,772	3,172,642	-	-	3,340,772	3,172,642
Public safety	3,873,965	3,686,304	-	-	3,873,965	3,686,304
Public works	2,467,186	3,901,830	-	-	2,467,186	3,901,830
Planning and zoning	636,471	1,024,574	-	-	636,471	1,024,574
Culture and recreation	91,004	74,044	-	-	91,004	74,044
Interest on long-term debt	16,205	19,812	-	-	16,205	19,812
Infrastructure depreciation	3,591,054	3,591,054	-	-	3,591,054	3,591,054
Electric	-	-	14,119,794	13,535,201	14,119,794	13,535,201
Water	-	-	3,023,196	2,231,532	3,023,196	2,231,532
Sewer	-	-	3,550,177	2,659,873	3,550,177	2,659,873
Solid waste management	-	-	1,301,649	963,068	1,301,649	963,068
Total expenses	14,016,657	15,470,260	21,994,816	19,389,674	36,011,473	34,859,934
Increase in net assets before transfers	(4,404,109)	(6,604,929)	156,176	3,629,370	(4,247,933)	(2,975,559)
Transfers	1,988,722	1,781,900	(1,988,722)	(1,781,900)	-	-
Increase (decrease) in net assets	(2,415,387)	(4,823,029)	(1,832,546)	1,847,470	(4,247,933)	(2,975,559)
Net assets – 07/01/2009	70,456,721	75,279,750	52,877,144	51,029,674	123,333,865	126,309,424
Net assets – 06/30/2010	\$68,041,334	\$70,456,721	\$51,044,598	\$52,877,144	\$119,085,932	\$123,333,865

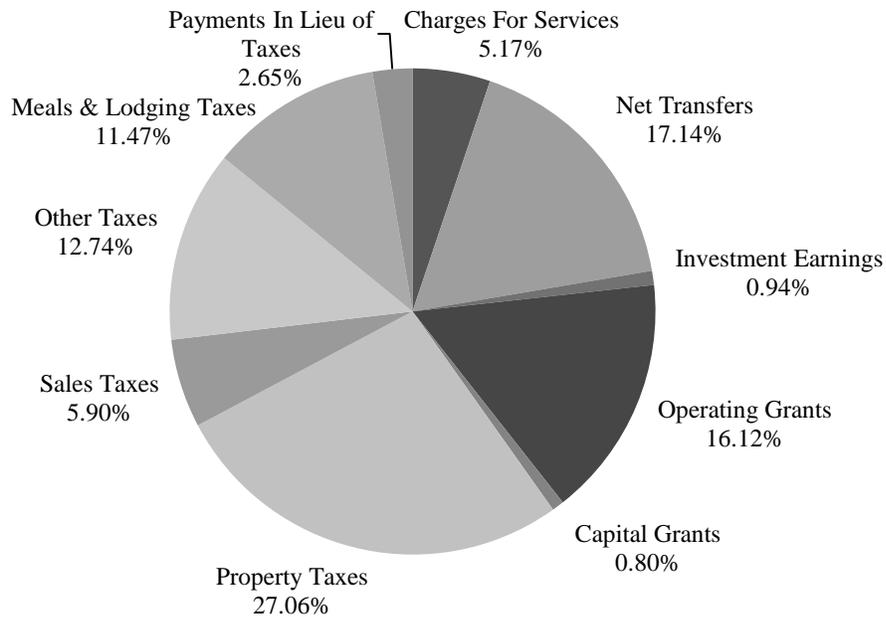
- Revenue from property taxes increased by \$1,260,277 (97 percent) during the current year due to a change in the levy date of property taxes from December 5 to June 5 each year. 2010 includes two years of property revenues whereas all prior years and all future years will include only one.
- Operating grants for governmental activities amounted to \$1,870,222, mostly as a result of Virginia state funding. The Virginia state funding furnished resources to support two of the Town's primary functions: public safety, public works and engineering.

The following charts present a graphic representation of the Town's governmental activities and the related revenue structure for fiscal year 2010.

EXPENSES AND PROGRAM REVENUES – GOVERNMENTAL ACTIVITIES



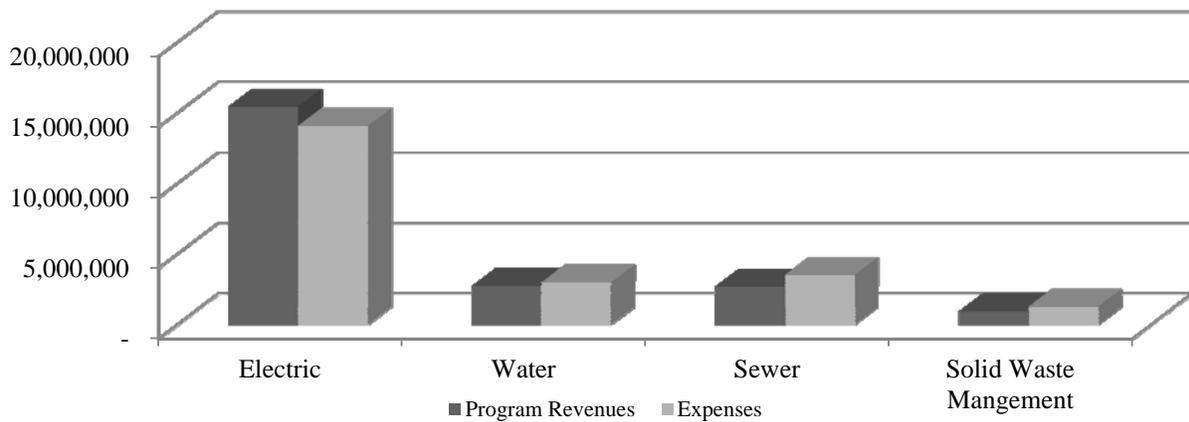
REVENUES BY SOURCE – GOVERNMENTAL ACTIVITIES



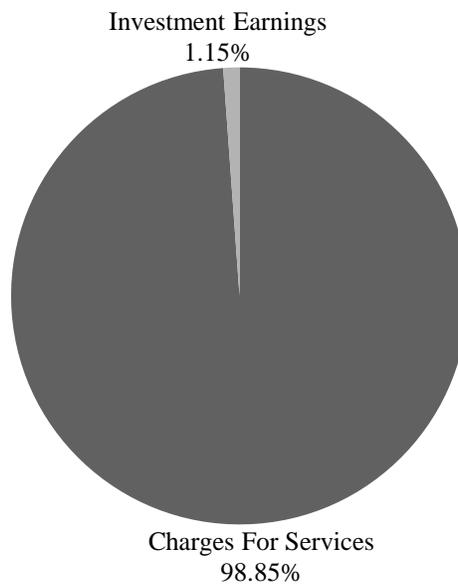
Business-type activities. Business-type activities decreased the Town of Front Royal, Virginia’s net assets by \$1,832,546, accounting for 46.5 percent of the Town’s decrease in net assets. Key elements of this decrease are as follows:

- Charges for services for business-type activities decreased by \$68,465.
- Capital contributions decreased \$798,530, due to a lack of donated lines during 2010.
- Interest expenses increased \$405,533 as the water treatment plant was completed thus ending the capitalization period for interest related to the bonded debt.

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 \$6,007,753, a decrease of \$459,998 in comparison with the prior year. The majority of this total amount, \$5,946,778, 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 \$5,803,554, while total fund balance reached \$5,864,529. 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 55.4 percent of total general fund expenditures, while total fund balance represents 56.0 percent of that same amount.

The fund balance of the Town of Front Royal, Virginia's general fund increased by \$316,945 during the current fiscal year. Key factors in this increase are as follows:

- Expenditures were in excess of revenues by \$1,671,777.
- The general fund received its annual transfers from the proprietary funds. These net transfers of \$1,988,722 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 \$34,769,330 and those for the electric function amounted to \$16,275,268. The total decrease in net assets for all enterprise funds was \$1,832,546. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

Additional net appropriations increases between the original budget and the final amended budget totaled \$1,371,892 and are noted as follows: a \$10,080 increase in Legislative; a \$382,821 increase in Executive; a \$11,000 increase in Legal; a \$11,780 increase in Finance; a \$119,379 increase in Planning and Zoning; a \$98,912 increase in Police Department; a \$740,920 increase in Public Works and Engineering; and a \$3,000 decrease in non-departmental 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, 2010, amounts to \$106,750,262 (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, 2010 and 2009.

TOWN OF FRONT ROYAL - CAPITAL ASSETS (NET OF DEPRECIATION)						
	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 1,117,508	\$ 1,117,508	\$ 1,488,822	\$ 1,488,822	\$ 2,606,330	\$ 2,606,330
Buildings and Improvements	4,206,927	2,768,690	15,527,979	15,065,857	19,734,906	17,834,547
Utility distribution systems	-	-	26,452,014	27,349,952	26,452,014	27,349,952
Vehicles	287,662	490,617	315,596	1,088,570	603,258	1,579,187
Machinery and Equipment	936,263	996,832	611,751	1,443,456	1,548,014	2,440,288
Infrastructure	55,805,740	59,396,794	-	-	55,805,740	59,396,794
Total	\$62,354,100	\$64,770,441	\$44,396,162	\$46,436,657	\$106,750,262	\$111,207,098

Additional information on the Town of Front Royal's capital assets can be found in Note IV. E. on pages 40 – 41 of this report.

Long-term debt. At the end of the current fiscal year, the Town of Front Royal, Virginia had total bonded debt outstanding of \$13,931,270. All of this amount comprises debt backed by the full faith and credit of the government even though most (98.1 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	
	2010	2009	2010	2009	2010	2009
General Obligation Bonds	\$ 266,194	\$ 347,020	\$13,665,076	\$11,850,070	\$ 13,931,270	\$ 12,197,090

The Town of Front Royal's total debt increased by \$1,734,180 (14.2 percent) during the current fiscal year including proceeds of \$2,735,000 related to recovery act bonds. 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 \$145,073,555 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 6.7 percent, which is more than a year ago.
- This compares favorably 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 2010 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund was \$5,803,554. Town of Front Royal has not appropriated any of this amount for spending in the 2010 fiscal year budget. It is available to offset the need for additional resources to be generated by the general fund.

Requests for Information

This report is designed to provide a general overview of the Town of Front Royal's finances for all those with an interest in the government's financial operations. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Office of the Director of Finance, 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, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 4,716,048	\$ 11,840,406	\$ 16,556,454
Investments	1,589,900	3,236,487	4,826,387
Receivables (net of allowance for uncollectibles, where applicable)			
Delinquent taxes, including penalties	997,482	-	997,482
Accounts	-	2,917,560	2,917,560
Other	(56,804)	34,047	(22,757)
Internal balances	(448,800)	448,800	-
Due from other governments	381,799	-	381,799
Inventories and other assets	153,668	1,039,457	1,193,125
Temporarily restricted assets - cash and cash equivalents			
Customer deposits	-	274,495	274,495
Bond escrow funds	-	2,706,465	2,706,465
Deferred charges	-	167,135	167,135
Capital assets (net of accumulated depreciation)			
Land	1,117,508	1,488,822	2,606,330
Buildings and improvements	4,206,927	15,527,979	19,734,906
Utility distribution systems	-	26,452,014	26,452,014
Vehicles	287,662	315,596	603,258
Machinery and equipment	936,263	611,751	1,548,014
Infrastructure	55,805,740	-	55,805,740
Total Assets	69,687,393	67,061,014	136,748,407
Liabilities			
Accounts payable	344,093	1,171,978	1,516,071
Accrued interest payable	-	170,142	170,142
Liabilities payable with restricted assets	-	274,495	274,495
Noncurrent liabilities			
Due within one year	459,431	1,135,958	1,595,389
Due in more than one year	842,535	13,263,843	14,106,378
Total Liabilities	1,646,059	16,016,416	17,662,475
Net Assets			
Invested in capital assets, net of related debt	62,087,906	30,494,686	92,582,592
Unrestricted	5,953,428	20,549,912	26,503,340
Total Net Assets	\$ 68,041,334	\$ 51,044,598	\$ 119,085,932

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, 2010**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Change in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities							
General government	\$ 3,340,772	\$ 227,814	\$ -	\$ 93,087	\$ (3,019,871)	\$ -	\$ (3,019,871)
Public safety	3,873,965	272,406	354,833	-	(3,246,726)	-	(3,246,726)
Public works	2,467,186	6,366	1,515,389	-	(945,431)	-	(945,431)
Planning, zoning, and community development	636,471	93,419	-	-	(543,052)	-	(543,052)
Culture and recreation	91,004	-	-	-	(91,004)	-	(91,004)
Interest on long-term debt	16,205	-	-	-	(16,205)	-	(16,205)
Infrastructure depreciation - unallocated	3,591,054	-	-	-	(3,591,054)	-	(3,591,054)
Total governmental activities	14,016,657	600,005	1,870,222	93,087	(11,453,343)	-	(11,453,343)
Business-type activities							
Electric	14,119,794	15,462,065	-	-	-	1,342,271	1,342,271
Water	3,023,196	2,758,853	-	-	-	(264,343)	(264,343)
Sewer	3,550,177	2,723,871	-	-	-	(826,306)	(826,306)
Solid Waste Mangement	1,301,649	951,731	-	-	-	(349,918)	(349,918)
Total business-type activities	21,994,816	21,896,520	-	-	-	(98,296)	(98,296)
Total primary government	\$ 36,011,473	\$ 22,496,525	\$ 1,870,222	\$ 93,087	(11,453,343)	(98,296)	(11,551,639)
General Revenues							
Property taxes					2,563,604	-	2,563,604
Sales taxes					684,300	-	684,300
Business and occupational taxes					613,273	-	613,273
Franchise taxes					24,167	-	24,167
Communication taxes					178,294	-	178,294
Consumer taxes					190,188	-	190,188
Meals and lodging taxes					1,330,656	-	1,330,656
Virginia personal property tax reduction					575,726	-	575,726
Payment in lieu of taxes (net of refunds of \$101,812)					307,158	-	307,158
Other general taxes					472,388	-	472,388
Unrestricted investment earnings					109,480	254,472	363,952
Transfers					1,988,722	(1,988,722)	-
Total general revenues and transfers					9,037,956	(1,734,250)	7,303,706
Change in net assets					(2,415,387)	(1,832,546)	(4,247,933)
Net assets - beginning					70,456,721	52,877,144	123,333,865
Net assets - ending					\$ 68,041,334	\$ 51,044,598	\$ 119,085,932

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

TOWN OF FRONT ROYAL, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 4,430,766	\$ 522,501	\$ 4,953,267
Investments	1,589,900	-	1,589,900
Receivables (net of allowance for uncollectibles, where applicable)			
Delinquent taxes, including penalties	994,612	2,870	997,482
Accrued interest	-	-	-
Other	(56,804)	-	(56,804)
Due from other governments	381,799	-	381,799
Interfund advances	49,915	4,888	54,803
Inventories and other assets	153,668	-	153,668
Total Assets	7,543,856	530,259	8,074,115
Liabilities and Fund Balances			
Liabilities			
Accounts payable	129,060	-	129,060
Banking advances	-	237,219	237,219
Accrued liabilities	215,033	-	215,033
Deferred revenue	978,577	2,870	981,447
Interfund advances	356,657	146,946	503,603
Total Liabilities	1,679,327	387,035	2,066,362
Fund balances			
Reserved for			
Inventory	60,975	-	60,975
Unreserved, reported in			
General fund	5,803,554	-	5,803,554
Special revenue funds	-	142,836	142,836
Capital projects funds	-	388	388
Total Fund Balances	5,864,529	143,224	6,007,753
Total Liabilities and Fund Balances	\$ 7,543,856	\$ 530,259	

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.	62,354,100
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	981,447
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,301,966)</u>
Net assets of governmental activities	<u>\$ 68,041,334</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, 2010

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes				
Property	\$ 1,789,790	\$ -	\$ 106,671	\$ 1,896,461
Sales	684,300	-	-	684,300
Business and occupational	613,273	-	-	613,273
Franchise	24,167	-	-	24,167
Consumer	190,188	-	-	190,188
Vehicle licenses	174,686	-	-	174,686
Bank stock	239,686	-	-	239,686
Meals and lodging	1,330,656	-	-	1,330,656
Payment in lieu of taxes (net of refunds of \$101,812)	307,158	-	-	307,158
Permits, fees, and licenses	93,419	-	-	93,419
Fines and forfeitures	238,363	-	-	238,363
Revenues from use of money & property	109,480	-	-	109,480
Charges for services	20,237	-	-	20,237
Miscellaneous	213,943	-	-	213,943
Recovered costs	-	-	34,043	34,043
Intergovernmental	2,775,345	-	-	2,775,345
Total revenues	<u>8,804,691</u>	<u>-</u>	<u>140,714</u>	<u>8,945,405</u>
Expenditures				
General government				
Legislative	166,884	-	-	166,884
Executive	1,588,909	-	-	1,588,909
Legal	517,295	-	-	517,295
Finance	790,675	-	-	790,675
Public safety - Police	3,531,806	-	28,706	3,560,512
Planning, zoning, and community development	401,087	-	791,920	1,193,007
Engineering and public works	2,878,813	-	-	2,878,813
Parks and recreation	82,000	-	-	82,000
Nondepartmental	518,999	-	-	518,999
Debt Service				
Principal	-	80,826	-	80,826
Interest	-	16,205	-	16,205
Total expenditures	<u>10,476,468</u>	<u>97,031</u>	<u>820,626</u>	<u>11,394,125</u>
Deficiency of revenues under expenditures	<u>(1,671,777)</u>	<u>(97,031)</u>	<u>(679,912)</u>	<u>(2,448,720)</u>
Other Financing Sources (Uses)				
Transfers in	1,988,722	97,031	-	2,085,753
Transfers (out)	-	-	(97,031)	(97,031)
Total other financing sources and uses	<u>1,988,722</u>	<u>97,031</u>	<u>(97,031)</u>	<u>1,988,722</u>
Net change in fund balances	316,945	-	(776,943)	(459,998)
Fund balances - beginning	5,547,584	-	920,167	6,467,751
Fund balances - ending	<u>\$ 5,864,529</u>	<u>\$ -</u>	<u>\$ 143,224</u>	<u>\$ 6,007,753</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, 2010

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

Net change in fund balances - total governmental funds \$ (459,998)

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. (2,416,341)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 667,143

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. 80,826

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. (287,017)

Change in net assets of governmental activities \$ (2,415,387)

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, 2010**

	Budgeted Amounts		Actual Amounts	Variance Positive (Negative)
	Original	Final		
Revenues				
General property taxes	\$ 1,374,906	\$ 1,494,906	\$ 1,789,790	\$ 294,884
Other local taxes	4,317,000	4,215,187	3,564,114	(651,073)
Permits, fees, and licenses	80,000	80,000	93,419	13,419
Fines and forfeitures	320,000	320,000	238,363	(81,637)
Revenues from use of money & property	161,000	161,000	109,480	(51,520)
Charges for services	34,500	34,500	20,237	(14,263)
Miscellaneous	165,000	168,279	213,943	45,664
Intergovernmental	2,454,600	2,454,600	2,775,345	320,745
Total revenues	8,907,006	8,928,472	8,804,691	(123,781)
Expenditures				
General Government				
Legislative	165,126	175,206	166,884	8,322
Executive	1,640,658	2,023,479	1,588,909	434,570
Legal	462,096	473,096	517,295	(44,199)
Finance	851,865	863,645	790,675	72,970
Total general government	3,119,745	3,535,426	3,063,763	471,663
Public Safety - Police	3,530,084	3,628,996	3,531,806	97,190
Planning and zoning	438,994	558,373	401,087	157,286
Public works and engineering	3,109,422	3,850,342	2,878,813	971,529
Parks and recreation	82,000	82,000	82,000	-
Non-departmental	615,483	612,483	518,999	93,484
Total Expenditures	10,895,728	12,267,620	10,476,468	1,791,152
Deficiency of Revenues under Expenditures	(1,988,722)	(3,339,148)	(1,671,777)	1,667,371
Other Financing Sources				
Transfers in	1,988,722	1,988,722	1,988,722	-
Net change in fund balances	-	(1,350,426)	316,945	1,667,371
Fund balances - beginning	5,547,584	5,547,584	5,547,584	-
Fund balances - ending	\$ 5,547,584	\$ 4,197,158	\$ 5,864,529	\$ 1,667,371

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, 2010

	Business-type Activities - Enterprise Funds			
	Electric Current Year	Electric Prior Year	Water Current Year	Water Prior Year
Assets				
Current assets				
Cash and cash equivalents	\$ 5,683,309	\$ 4,580,552	\$ 3,740,358	\$ 3,539,614
Investments	1,659,727	2,773,212	831,390	1,919,190
Due from other funds	195,663	250,000	395,646	478,533
Interest receivable	-	200	-	-
Accounts receivable (net of allowance for uncollectibles)	2,047,267	1,789,026	414,354	487,461
Other receivables	21,157	34,317	3,990	480
Inventories	821,455	717,588	109,001	101,876
Total current assets	10,428,578	10,144,895	5,494,739	6,527,154
Noncurrent assets				
Restricted cash and cash equivalents				
Customer deposits	259,865	218,409	14,630	12,370
Bond escrow funds	-	-	-	-
Deferred charges	-	-	76,194	87,254
	259,865	218,409	90,824	99,624
Capital assets				
Land, buildings and structures	3,659,034	3,072,604	13,518,937	13,291,094
Utility distribution systems	7,639,959	7,372,370	21,196,034	21,088,571
Vehicles	898,772	1,044,189	387,970	346,969
Equipment	914,006	914,006	533,845	533,845
Less accumulated depreciation	(6,065,381)	(5,434,220)	(10,940,963)	(10,157,875)
Total capital assets (net of accumulated depreciation)	7,046,390	6,968,949	24,695,823	25,102,604
Total noncurrent assets	7,306,255	7,187,358	24,786,647	25,202,228
Total Assets	17,734,833	17,332,253	30,281,386	31,729,382
Liabilities				
Current liabilities				
Accounts payable	1,079,690	1,246,658	23,730	259,528
Accrued interest payable	-	-	118,574	121,739
Compensated absences - current	41,396	-	62,743	-
General obligation bonds - current	-	-	654,544	637,498
Premium on bonds - current	-	-	12,741	-
Total current liabilities	1,121,086	1,246,658	872,332	1,018,765
Noncurrent liabilities				
Customer deposits payable	259,865	218,408	14,630	12,370
Compensated absences	41,395	74,480	62,744	114,340
OPEB liability	37,219	-	38,703	-
General obligation bonds payable	-	-	9,452,994	10,107,537
Premium on bonds payable	-	-	194,305	220,770
Total noncurrent liabilities	338,479	292,888	9,763,376	10,455,017
Total Liabilities	1,459,565	1,539,546	10,635,708	11,473,782
Net Assets				
Invested in capital assets, net of related debt	7,046,390	6,968,949	14,381,239	14,136,799
Unrestricted	9,228,878	8,823,758	5,264,439	6,118,801
Total Net Assets	\$ 16,275,268	\$ 15,792,707	\$ 19,645,678	\$ 20,255,600

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

(Continued)

TOWN OF FRONT ROYAL, VIRGINIA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010

	Business-type Activities - Enterprise Funds				
	Sewer Current Year	Sewer Prior Year	Solid Waste Management Current Year	Solid Waste Managment Prior Year	Totals Current Year
Assets					
Current assets					
Cash and cash equivalents	\$ 2,585,175	\$ 1,110,382	\$ (168,436)	\$ -	\$ 11,840,406
Investments	745,370	2,354,607	-	(99,926)	3,236,487
Due from other funds	(124,327)	(192,468)	(18,182)	-	448,800
Interest receivable	-	-	-	-	-
Accounts receivable (net of allowance for uncollectibles)	326,400	308,237	129,539	132,262	2,917,560
Other receivables	8,900	7,440	-	43	34,047
Inventories	109,001	101,876	-	-	1,039,457
Total current assets	<u>3,650,519</u>	<u>3,690,074</u>	<u>(57,079)</u>	<u>32,379</u>	<u>19,516,757</u>
Noncurrent assets					
Restricted cash and cash equivalents					
Customer deposits	-	-	-	-	274,495
Bond escrow funds	2,706,465	-	-	-	2,706,465
Deferred charges	90,941	27,854	-	-	167,135
	<u>2,797,406</u>	<u>27,854</u>	<u>-</u>	<u>-</u>	<u>3,148,095</u>
Capital assets					
Land, buildings and structures	4,289,417	4,112,787	34,160	-	21,501,548
Utility distribution systems	22,586,946	22,573,125	-	-	51,422,939
Vehicles	436,144	538,310	994,711	1,042,359	2,717,597
Equipment	866,716	866,716	595,734	585,084	2,910,301
Less accumulated depreciation	(15,702,396)	(14,237,486)	(1,447,483)	(1,115,791)	(34,156,223)
Total capital assets (net of accumulated depreciation)	<u>12,476,827</u>	<u>13,853,452</u>	<u>177,122</u>	<u>511,652</u>	<u>44,396,162</u>
Total noncurrent assets	<u>15,274,233</u>	<u>13,881,306</u>	<u>177,122</u>	<u>511,652</u>	<u>47,544,257</u>
Total Assets	<u>18,924,752</u>	<u>17,571,380</u>	<u>120,043</u>	<u>544,031</u>	<u>67,061,014</u>
Liabilities					
Current liabilities					
Accounts payable	59,935	22,274	8,623	5,478	1,171,978
Accrued interest payable	51,568	11,861	-	-	170,142
Compensated absences - current	61,205	-	14,934	-	180,278
General obligation bonds - current	284,545	282,498	-	-	939,089
Premium on bonds - current	3,850	-	-	-	16,591
Total current liabilities	<u>461,103</u>	<u>316,633</u>	<u>23,557</u>	<u>5,478</u>	<u>2,478,078</u>
Noncurrent liabilities					
Customer deposits payable	-	-	-	-	274,495
Compensated absences	61,205	112,409	14,933	29,517	180,277
OPEB liability	34,209	-	27,639	-	137,770
General obligation bonds payable	3,272,993	822,537	-	-	12,725,987
Premium on bonds payable	25,504	-	-	-	219,809
Total noncurrent liabilities	<u>3,393,911</u>	<u>934,946</u>	<u>42,572</u>	<u>29,517</u>	<u>13,538,338</u>
Total Liabilities	<u>3,855,014</u>	<u>1,251,579</u>	<u>66,129</u>	<u>34,995</u>	<u>16,016,416</u>
Net Assets					
Invested in capital assets, net of related debt	8,889,935	12,748,417	177,122	511,652	30,494,686
Unrestricted	6,179,803	3,571,384	(123,208)	(2,616)	20,549,912
Total Net Assets	<u>\$ 15,069,738</u>	<u>\$ 16,319,801</u>	<u>\$ 53,914</u>	<u>\$ 509,036</u>	<u>\$ 51,044,598</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, 2010

	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	\$ 15,327,325	\$ 14,906,183	\$ -	\$ -
Water and sewer sales	-	-	2,645,793	2,793,682
Installation and connection charges	110,239	200,848	64,876	304,746
Refuse service fees	-	-	-	-
Miscellaneous revenues	24,501	18,780	48,184	47,530
Total operating revenues	<u>15,462,065</u>	<u>15,125,811</u>	<u>2,758,853</u>	<u>3,145,958</u>
Operating expenses				
Personal service	915,681	861,547	975,254	839,785
Contractual service	126,881	378,339	141,785	125,262
Electric power	12,189,181	11,636,839	-	-
Depreciation	705,915	386,979	807,795	619,892
Other charges	449,724	639,274	730,027	652,487
Operating expenses capitalized	(267,588)	(373,472)	(107,463)	(114,075)
Total operating expenses	<u>14,119,794</u>	<u>13,529,506</u>	<u>2,547,398</u>	<u>2,123,351</u>
Operating income	<u>1,342,271</u>	<u>1,596,305</u>	<u>211,455</u>	<u>1,022,607</u>
Nonoperating revenues (expenses)				
Investment earnings	140,290	83,850	51,193	120,731
Interest expense	-	(5,695)	(469,942)	(96,977)
Bond issuance costs	-	-	(5,856)	(11,204)
Total nonoperating revenue (expenses)	<u>140,290</u>	<u>78,155</u>	<u>(424,605)</u>	<u>12,550</u>
Income before contributions and transfers	1,482,561	1,674,460	(213,150)	1,035,157
Transfers and contributions				
Capital contributions	-	-	-	399,265
Transfers in (out)	(1,000,000)	(920,000)	(396,772)	(389,950)
Change in net assets	482,561	754,460	(609,922)	1,044,472
Total net assets - beginning of year	<u>15,792,707</u>	<u>15,038,247</u>	<u>20,255,600</u>	<u>19,211,128</u>
Total net assets - end of year	<u>\$ 16,275,268</u>	<u>\$ 15,792,707</u>	<u>\$ 19,645,678</u>	<u>\$ 20,255,600</u>

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

(Continued)

TOWN OF FRONT ROYAL, VIRGINIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Business-type Activities - Enterprise Funds				
	Sewer	Sewer	Solid Waste	Solid Waste	Totals
	Current Year	Prior Year	Managment	Managment	Current Year
	Current Year	Prior Year	Current Year	Prior Year	Current Year
Operating revenues					
Charges for sales and services					
Electric sales	\$ -	\$ -	\$ -	\$ -	\$ 15,327,325
Water and sewer sales	2,640,729	2,523,920	-	-	5,286,522
Installation and connection charges	77,442	247,896	-	-	252,557
Refuse service fees	-	-	946,851	894,884	946,851
Miscellaneous revenues	5,700	2,789	4,880	23,727	83,265
Total operating revenues	<u>2,723,871</u>	<u>2,774,605</u>	<u>951,731</u>	<u>918,611</u>	<u>21,896,520</u>
Operating expenses					
Personal service	842,620	773,183	681,244	637,506	3,414,799
Contractual service	287,669	235,298	60,401	40,429	616,736
Electric power	-	357,399	-	-	12,189,181
Depreciation	1,516,116	702,273	397,521	99,437	3,427,347
Other charges	834,257	567,113	162,483	185,696	2,176,491
Operating expenses capitalized	(13,821)	(24,707)	-	-	(388,872)
Total operating expenses	<u>3,466,841</u>	<u>2,610,559</u>	<u>1,301,649</u>	<u>963,068</u>	<u>21,435,682</u>
Operating income	<u>(742,970)</u>	<u>164,046</u>	<u>(349,918)</u>	<u>(44,457)</u>	<u>460,838</u>
Nonoperating revenues (expenses)					
Investment earnings	66,193	53,506	(3,204)	(2,558)	254,472
Interest expense	(79,867)	(41,604)	-	-	(549,809)
Bond issuance costs	(3,469)	(7,710)	-	-	(9,325)
Total nonoperating revenues (expenses)	<u>(17,143)</u>	<u>4,192</u>	<u>(3,204)</u>	<u>(2,558)</u>	<u>(304,662)</u>
Income before contributions and transfers	(760,113)	168,238	(353,122)	(47,015)	156,176
Transfers and contributions					
Capital contributions	-	399,265	-	-	-
Transfers in (out)	(489,950)	(389,950)	(102,000)	(82,000)	(1,988,722)
Change in net assets	(1,250,063)	177,553	(455,122)	(129,015)	(1,832,546)
Total net assets - beginning of year	<u>16,319,801</u>	<u>16,142,248</u>	<u>509,036</u>	<u>638,051</u>	<u>52,877,144</u>
Total net assets - end of year	<u>\$ 15,069,738</u>	<u>\$ 16,319,801</u>	<u>\$ 53,914</u>	<u>\$ 509,036</u>	<u>\$ 51,044,598</u>

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

TOWN OF FRONT ROYAL, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Business-type Activities - Enterprise Funds				Totals
	Electric	Water	Sewer	Solid Waste Management	
Cash Flows from Operating Activities					
Receipts from customers and users	\$ 15,216,984	\$ 2,828,450	\$ 2,704,248	\$ 954,497	\$ 21,704,179
Payments to suppliers	(12,690,357)	(955,249)	(1,106,447)	(192,100)	(14,944,153)
Payments to employees	(907,370)	(964,107)	(832,619)	(680,894)	(3,384,990)
Net cash provided by operating activities	<u>1,619,257</u>	<u>909,094</u>	<u>765,182</u>	<u>81,503</u>	<u>3,375,036</u>
Cash Flows from Noncapital Financing Activities					
Transfers to other funds	(1,000,000)	(396,772)	(489,950)	(102,000)	(1,988,722)
Repayment of interfund advances	54,337	82,887	(68,141)	18,182	87,265
Net cash used in noncapital financing activities	<u>(945,663)</u>	<u>(313,885)</u>	<u>(558,091)</u>	<u>(83,818)</u>	<u>(1,901,457)</u>
Cash Flows from Capital and Related Financing Activities					
Acquisition/construction of capital assets	(783,356)	(401,014)	(139,491)	(62,991)	(1,386,852)
Proceeds from bond issuance	-	-	2,735,000	-	2,735,000
Principal paid on capital debt	-	(637,497)	(282,497)	-	(919,994)
Interest paid	-	(492,687)	(14,275)	-	(506,962)
Net cash provided by (used in) capital and related financing activities	<u>(783,356)</u>	<u>(1,531,198)</u>	<u>2,298,737</u>	<u>(62,991)</u>	<u>(78,808)</u>
Cash Flows from Investing Activities					
Sales (purchases) of investments	1,113,485	1,087,800	1,609,237	(99,926)	3,710,596
Interest and dividends received	140,490	51,193	66,193	(3,204)	254,672
Net cash provided by (used in) investing activities	<u>1,253,975</u>	<u>1,138,993</u>	<u>1,675,430</u>	<u>(103,130)</u>	<u>3,965,268</u>
Net increase in cash and cash equivalents	1,144,213	203,004	4,181,258	(168,436)	5,360,039
Cash and cash equivalents July 1, 2009	4,798,961	3,551,984	1,110,382	-	9,461,327
Cash and cash equivalents June 30, 2010	<u>\$ 5,943,174</u>	<u>\$ 3,754,988</u>	<u>\$ 5,291,640</u>	<u>\$ (168,436)</u>	<u>\$ 14,821,366</u>
Reconciliation of operating income to net cash provided (used) by operating activities					
Operating income	\$ 1,342,271	\$ 211,455	\$ (742,970)	\$ (349,918)	\$ 460,838
Adjustments to reconcile operating income to net cash provided by (used in) operating activities					
Depreciation expense	705,915	807,795	1,516,116	397,521	3,427,347
(Increase) decrease in:					
Accounts receivable	(258,241)	73,107	(18,163)	2,723	(200,574)
Other receivables	13,160	(3,510)	(1,460)	43	8,233
Inventories	(103,867)	(7,125)	(7,125)	-	(118,117)
Deferred charges	-	11,060	(63,087)	-	(52,027)
Increase (decrease) in:					
Customer deposits	41,457	2,260	-	-	43,717
Accounts payable	(166,968)	(235,798)	37,661	3,145	(361,960)
OPEB liability	37,219	38,703	34,209	27,639	137,770
Compensated absences	8,311	11,147	10,001	350	29,809
Total adjustments	<u>276,986</u>	<u>697,639</u>	<u>1,508,152</u>	<u>431,421</u>	<u>2,914,198</u>
Net cash provided by operating activities	<u>\$ 1,619,257</u>	<u>\$ 909,094</u>	<u>\$ 765,182</u>	<u>\$ 81,503</u>	<u>\$ 3,375,036</u>

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

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

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 processing operations.

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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 based on quoted prices in active markets for identical assets. The Town has adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, for the year ended June 30, 2010. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Virginia state law currently prohibits local governments from investing in derivative instruments.

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."

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Assets or Equity (Continued)

2. Receivables and Payables (Continued)

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

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

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

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

3. Inventories and Other Assets

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the general fund consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are 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.

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Assets or Equity (Continued)

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. The Town has adopted GASB Statement No. 51, *Accounting for Financial Reporting for Intangible Assets*, for the year ended June 30, 2010. This statement requires all identifiable intangible assets not excluded by its scope provisions be classified as capital assets.

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

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

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

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 another financing source.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Assets or Equity (Continued)

7. Long-term Obligations (Continued)

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. Other Postemployment Benefits

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

9. 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.

10. Comparative Data/Reclassifications

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$1,301,966 are as follows:

Description	Amount
Bonds payable	\$ 266,194
Compensated absences	749,633
OPEB liability	286,139
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at net assets - governmental activities	<u>\$ 1,301,966</u>

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

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

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

The governmental statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of the \$2,416,341 difference is as follows:

Description	Amount
Capital outlay	\$ 1,548,679
Depreciation expense	<u>(3,965,020)</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at changes in net assets of governmental activities	<u>\$ (2,416,341)</u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.” The details of this \$80,826 difference are as follows:

Description	Amount
Principal debt retirements of bonded	\$ 80,826
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at changes in net assets of governmental activities	<u>\$ 80,826</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

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

The appropriated budget is prepared by fund, function, and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. The council made several general fund budgetary appropriations throughout the year, totaling \$1,371,892.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

A. Budgetary Information (Continued)

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

B. Excess of Expenditures over Appropriations

For the year ended June 30, 2010, expenditures exceeded appropriations in the following general fund department:

Department	Expenditures Excess
Legal	\$ 44,199

C. Deficit Fund Equity

At June 30, 2010 Special Revenue Funds which had a deficit fund balance are noted below:

Fund	Deficit Fund Balance
Downtown Service District	\$ 1,512
Economic Development	231,207

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits

As of June 30, 2010, the carrying amount of the Town's deposits with banks and savings institutions was \$6,245,115 and the bank balance was \$6,345,968. 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 FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Deposits and Investments (Continued)

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, 2010, the government had the following investments:

Investment Type	Fair Value	Maturity	
		1 Year	Over 1 Year
Treasury and agency securities	\$ 6,921,138	\$ 6,921,138	\$ -
Class A mutual funds	2,803,021	2,803,021	-
Repurchase agreements	123,358	123,358	-
Local Government Investment Pool	2,917,796	2,917,796	-
Banking repurchase agreements	3,783,176	3,783,176	-
SunTrust US Government Fund	1,568,709	1,568,709	-
Total	<u>\$ 18,117,198</u>	<u>\$ 18,117,198</u>	<u>\$ -</u>

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

Custodial credit risk. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The investments of the government have a custodial credit risk exposure because the related securities are uninsured, unregistered and held by the government's brokerage firm or outside custodian 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, 2010, the Town's investment in the State Treasurer's investment pool was rated AAAM by Standard & Poor's. The Town's investments in treasury and agency securities were rated AAA by Standard & Poor's and Moody's Investors Service.

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Deposits and Investments (Continued)

Investments (Continued)

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	6,245,115	6,245,115	-
Investments	18,117,198	13,290,811	4,826,387
Total	\$ 24,363,801	\$ 19,537,414	\$ 4,826,387

B. Estimated Unbilled Revenue

Proprietary fund types estimate and record utility services rendered but not yet billed at June 30, 2010. 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, 2010, unbilled service recorded was \$1,602,075.

C. Receivables

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

	General	Electric	Water	Sewer	Solid Waste Management	Nonmajor	Total
Receivables:							
Delinquent taxes	\$ 994,612	\$ -	\$ -	\$ -	\$ -	\$ 2,870	\$ 997,482
Accounts	-	2,385,967	321,645	266,500	145,560	-	3,119,672
Intergovernmental	381,799	-	-	-	-	-	381,799
Unbilled	-	1,087,096	259,453	189,055	66,471	-	1,602,075
Other	(56,804)	30,812	3,990	11,926	50	-	(10,026)
Less: allowance	-	(1,435,451)	(166,744)	(132,181)	(82,542)	-	(1,816,918)
Net receivables	\$1,319,607	\$2,068,424	\$ 418,344	\$ 335,300	\$ 129,539	\$ 2,870	\$4,274,084

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	\$ 978,577	\$ -
Special Revenue Fund - Property Taxes	2,870	-
	\$ 981,447	\$ -

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Due from Other Governments

At June 30, 2010 amounts due from other governments were as follows:

Description/Payer	General
Commonwealth of Virginia	
Communication Tax	\$ 30,095
2010 PPTRA	287,863
Warren County, Virginia - Sales Tax	63,841
	<u>\$ 381,799</u>

E. Capital Assets

Capital asset activity for the year ended June 30, 2010 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
Capital assets being depreciated				
Buildings and improvements	3,951,968	1,428,850	-	5,380,818
Vehicles	1,731,354	37,734	(172,550)	1,596,538
Equipment	2,805,458	82,095	-	2,887,553
Infrastructure	109,527,139	-	-	109,527,139
Total capital assets being depreciated	<u>118,015,919</u>	<u>1,548,679</u>	<u>(172,550)</u>	<u>119,392,048</u>
Less accumulated depreciation for				
Buildings and improvements	(1,183,278)	9,387	-	(1,173,891)
Vehicles	(1,240,737)	(240,689)	172,550	(1,308,876)
Equipment	(1,808,626)	(142,664)	-	(1,951,290)
Infrastructure	(50,130,345)	(3,591,054)	-	(53,721,399)
Total accumulated depreciation	<u>(54,362,986)</u>	<u>(3,965,020)</u>	<u>172,550</u>	<u>(58,155,456)</u>
Net capital assets being depreciated	<u>63,652,933</u>	<u>(2,416,341)</u>	<u>-</u>	<u>61,236,592</u>
Governmental capital assets, net	<u>\$ 64,770,441</u>	<u>\$ (2,416,341)</u>	<u>\$ -</u>	<u>\$ 62,354,100</u>

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Capital Assets (Continued)

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

Activity	Depreciation
Governmental activities:	
General government	\$ 106,586
Public safety	122,870
Public works	100,153
Planning, zoning, and community development	41,504
Culture and recreation	2,853
Infrastructure depreciation	3,591,054
Total depreciation expense - governmental activities	<u>\$ 3,965,020</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 1,488,822	\$ -	\$ -	\$ 1,488,822
Capital assets being depreciated				
Buildings and improvements	19,150,710	862,016	-	20,012,726
Utility Distribution Systems	50,871,019	551,920	-	51,422,939
Vehicles	2,971,827	-	(254,230)	2,717,597
Equipment	2,899,651	10,650	-	2,910,301
Total capital assets being depreciated	<u>75,893,207</u>	<u>1,424,586</u>	<u>(254,230)</u>	<u>77,063,563</u>
Less accumulated depreciation for				
Buildings and improvements	(4,084,853)	(399,894)	-	(4,484,747)
Utility Distribution Systems	(23,521,067)	(1,449,858)	-	(24,970,925)
Vehicles	(1,883,256)	(735,241)	216,496	(2,402,001)
Equipment	(1,456,196)	(842,354)	-	(2,298,550)
Total accumulated depreciation	<u>(30,945,372)</u>	<u>(3,427,347)</u>	<u>216,496</u>	<u>(34,156,223)</u>
Net capital assets being depreciated	44,947,835	(2,002,761)	(37,734)	42,907,340
Business-type capital assets, net	<u>\$ 46,436,657</u>	<u>\$ (2,002,761)</u>	<u>\$ (37,734)</u>	<u>\$ 44,396,162</u>

During fiscal year ended June 30, 2009 bonded debt interest expense capitalized as part of the water plant expansion project amounted to \$387,652 and total project capitalized interest expense was \$542,023. The water plant expansion project was completed during 2009 and the subsequent bond interest expense debt service was expensed and reflect as such in the statement of revenues, expenses, and changes in fund net assets.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Capital Assets (Continued)

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

Activity	Depreciation
Business-type activities:	
Electric	\$ 705,915
Water	807,795
Sewer	1,516,116
Solid Waste Management	397,521
Total depreciation expense - business-type activities	<u>\$ 3,427,347</u>

There were no significant intangible asset acquisitions during the fiscal year ended June 30, 2010.

F. Inter-fund Advances/Transfers

The composition of inter-fund advances at June 30, 2010 is as follows:

Advanced to	From	Amount
General Fund	Electric Fund	\$ 162,734
General Fund	Sewer Fund	96,503
General Fund	Water Fund	97,032
General Fund	Town Facilities Fund	388
Special Projects	Sewer Fund	48,516
Special Projects	Water Fund	48,515
Special Revenue	General Fund	49,915
Sewer Fund	Economic Development Fund	2,250
Sewer Fund	Water Fund	267,096
Water Fund	Economic Development Fund	2,250
Water Fund	Electric Fund	14,747
Solid Waste Management	Electric Fund	18,182
		<u>\$ 808,128</u>

The composition of inter-fund transfers during 2010 is as follows:

Transferred to	From	Amount
General Fund	Electric Fund	\$ 1,000,000
General Fund	Water Fund	396,772
General Fund	Sewer Fund	489,950
General Fund	Solid Waste Management Fund	102,000
Debt Service Fund	Economic Development Fund	97,031
		<u>\$ 2,085,753</u>

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

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, 2010 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%.	\$ 1,645,076
\$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%.	266,194
\$10,315,000, 2006 series general obligation bonds, issued June 8, 2006 due in increasing annual maturities starting with \$330,000 in 2008 and increasing to \$780,000 in 2026, with interest at 3.63% to 4.95%.	9,285,000
\$2,735,000, 2010 series recovery act bonds, issued March 15, 2010, due in increasing annual maturities starting with \$115,000 in 2013 and increasing to \$600,000 in 2030, with interest at 2.00% to 6.57%.	2,735,000
Total General Obligation Debt	\$ 13,931,270

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
2011	\$ 84,614	\$ 12,417	\$ 939,089	\$ 619,340
2012	88,566	8,465	958,313	597,461
2013	93,014	4,017	1,017,674	561,026
2014	-	-	535,000	523,214
2015	-	-	565,000	500,308
Thereafter	-	-	9,650,000	3,627,122
Total	\$ 266,194	\$ 24,899	\$ 13,665,076	\$ 6,428,471

The legal debt limit mandated by the Commonwealth of Virginia is \$145,073,555.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

G. Long-Term Debt (Continued)

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, 2010 was as follows:

	June 30, 2009	Additions	Retirements	June 30, 2010	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 347,020	\$ -	\$ (80,826)	\$ 266,194	\$ 84,614
Compensated absences	748,755	749,633	(748,755)	749,633	374,817
Other post-employment benefits	-	286,139	-	286,139	-
Governmental activity					
Long-term liabilities	<u>\$ 1,095,775</u>	<u>\$ 1,035,772</u>	<u>\$ (829,581)</u>	<u>\$ 1,301,966</u>	<u>\$ 459,431</u>
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 11,850,070	\$ 2,735,000	\$ (919,994)	\$ 13,665,076	\$ 939,089
Unamortized premium	220,770	30,477	(14,847)	236,400	16,591
Compensated absences	330,746	30,201	(392)	360,555	180,278
Other post-employment benefits	-	137,770	-	137,770	-
Business-type activity					
Long-term liabilities	<u>\$ 12,401,586</u>	<u>\$ 2,933,448</u>	<u>\$ (935,233)</u>	<u>\$ 14,399,801</u>	<u>\$ 1,135,958</u>

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

Individual Fund	Due Within	
	1 Year	Long-term
General	<u>\$ 374,817</u>	<u>\$ 374,816</u>
Electric	\$ 41,396	\$ 41,395
Water	62,743	62,744
Sewer	61,205	61,205
Solid Waste Management	14,934	14,933
	<u>\$ 180,278</u>	<u>\$ 180,277</u>

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION

A. Risk Management

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

VMGSIA: The Town has workers' compensation coverage with the Virginia Municipal Group Self Insurance Association (VMGSIA). During the fiscal year 2010 the Town paid premiums of approximately \$165,405 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 2010, the Town paid contributions of approximately \$296,705 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.

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.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

C. Commitments and Contingent Liabilities (Continued)

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	\$ 2,090,000
Town of Front Royal support agreement obligation – 20%	\$ 418,000

Year	IDA Debt		20% Support Agreement		
	Principal	Interest	Principal	Interest	Total
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
2015	305,000	28,810	61,000	5,762	66,762
Thereafter	650,000	23,515	130,000	4,703	134,703
	\$2,090,000	\$ 272,661	\$ 418,000	\$ 54,532	\$ 472,532

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 at 1% per year of employment, coverage is extended from retirement to age 65 and the benefit is earned only upon retirement from Town employment.

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

Funding Policy: Payments are made monthly to cover the Town’s portion of the retiree health insurance premiums. For fiscal year 2010, 22 retirees had a benefit under this policy with a total cost to the Town of \$39,104.

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

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

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

	Amount
Annual required contribution	\$ 247,300
Interest on Net OPEB obligations	8,297
Annual OPEB cost (expense)	255,597
Contributions made	(39,104)
Increase in net OPEB obligation	216,493
Net OPEB obligation - Beginning of year	207,417
Net OPEB obligation - End of year	\$ 423,910

The Town’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2010 and 2009 were as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 255,597	15.30%	\$ 423,910
2009	237,700	12.74%	207,417

Funding Status and Funding Progress: As of June 30, 2009, the most recent actuarial valuation date, the unfunded actuarial accrued liability (UAAL) was \$2,774,100. The covered payroll (annual payroll of active employees covered by the plan) was \$6,623,100, and the ratio of the UAAL to the covered payroll was 41.89%.

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

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

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

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

Actuarial Methods and Assumptions (Continued): The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2009 actuarial valuation, the Projected Unit Credit method was used. The actuarial assumption includes a 4.0 percent rate of return and projected salary increases of 3.75 percent. The unfunded liability is being amortized over a 30 year period based on the level percent of payroll amortization method.

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

Schedule of Funding Progress

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

Schedule of Employer Contributions

Fiscal Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2010	\$ 247,300	15.81%
2009	237,700	12.74%

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).

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

E. Defined Benefit Pension Plan (Continued)

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 2010 was 14.80% of annual covered payroll.

Annual Pension Cost: For 2010, the Town’s annual pension cost of \$946,639 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 period of 20 years or less.

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

Fiscal Year Ended	Annual Premium Costs (APC)	% APC Funded	Net Pension Oligation
2010	\$ 946,639	100	None
2009	1,002,397	100	None
2008	945,511	100	None
2007	795,405	100	None
2006	695,723	100	None

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

E. Defined Benefit Pension Plan (Continued)

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	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30,	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
2009	\$ 23,201,463	\$ 29,244,201	\$ 6,042,738	79.34%	\$ 6,480,537	93.24%
2008	23,160,592	26,997,676	3,837,084	85.79%	6,218,074	61.71%
2007	21,064,235	23,601,590	2,537,355	89.25%	5,735,604	44.24%
2006	18,887,465	20,416,447	1,528,982	92.51%	5,149,154	29.69%
2005	17,855,882	20,383,018	2,527,136	87.60%	4,945,591	51.10%

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.

G. Subsequent Events

The Town has evaluated subsequent events through November 30, 2010, the date these financial statements were available to be issued, and determined that there were no material subsequent events requiring adjustment to, or disclosure in, the basic financial statements for the year ended June 30, 2010.

TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES-BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual Revenues	Variance Positive (Negative)
Source of Revenues				
General Property Taxes				
Real estate taxes				
Current taxes, including penalties	\$ 1,091,000	\$ 1,091,000	\$ 1,358,956	\$ 267,956
Delinquent taxes, including penalties	17,000	17,000	10,618	(6,382)
Personal property taxes				
Current taxes, including penalties	240,000	360,000	374,617	14,617
Public service corporation taxes	11,654	11,654	22,543	10,889
Interest on delinquent taxes	15,252	15,252	23,056	7,804
Total General Property Taxes	<u>1,374,906</u>	<u>1,494,906</u>	<u>1,789,790</u>	<u>294,884</u>
Other Local Taxes				
Warren County sales tax	750,000	750,000	684,300	(65,700)
Business and occupational taxes and penalties	632,000	632,000	613,273	(18,727)
Franchise taxes	10,000	10,000	24,167	14,167
Consumer taxes - electric deregulation	255,000	255,000	190,188	(64,812)
Vehicle licenses	220,000	220,000	174,686	(45,314)
Bank stock taxes	150,000	150,000	239,686	89,686
Lodging taxes	300,000	300,000	238,421	(61,579)
Meal taxes	1,200,000	1,200,000	1,092,235	(107,765)
Payment in lieu of taxes (net of refunds of \$101,812)	800,000	698,187	307,158	(391,029)
Total Other Local Taxes	<u>4,317,000</u>	<u>4,215,187</u>	<u>3,564,114</u>	<u>(651,073)</u>
Permits, Fees and Licenses				
Zoning income	30,000	30,000	26,113	(3,887)
Public ROW use fees	50,000	50,000	67,306	17,306
Total Permits, Fees and Licenses	<u>80,000</u>	<u>80,000</u>	<u>93,419</u>	<u>13,419</u>
Fines and Forfeitures				
Fines and forfeitures - county	300,000	300,000	207,686	(92,314)
Fines and forfeitures - town	20,000	20,000	30,677	10,677
Total Fines and Forfeitures	<u>320,000</u>	<u>320,000</u>	<u>238,363</u>	<u>(81,637)</u>
Revenues from Use of Money and Property				
Interest on bank deposits	150,000	150,000	98,650	(51,350)
Interest on accounts receivable	2,000	2,000	1,169	(831)
Rental - Comcast property	9,000	9,000	9,661	661
Total Revenues from Use of Money and Property	<u>\$ 161,000</u>	<u>\$ 161,000</u>	<u>\$ 109,480</u>	<u>\$ (51,520)</u>
Charges for Services				
Curb and gutter charges	\$ 28,000	\$ 28,000	\$ 3,951	\$ (24,049)
Street & walk assessment	4,000	4,000	2,415	(1,585)
Credit card fees	-	-	291	291
Sales at Visitors' Center	1,000	1,000	13,032	12,032
Sales of publications	1,500	1,500	548	(952)
Total Charges for Services	<u>34,500</u>	<u>34,500</u>	<u>20,237</u>	<u>(14,263)</u>

(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES-BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010**

	Original Budget	Final Budget	Actual Revenues	Variance Positive (Negative)
Miscellaneous Revenue				
Miscellaneous	165,000	168,279	213,943	45,664
Intergovernmental				
Rolling stock tax	12,600	12,600	15,381	2,781
Virginia personal property tax reduction	287,000	287,000	575,726	288,726
Communication tax	170,000	170,000	178,294	8,294
Rental tax vehicles	40,000	40,000	42,635	2,635
State aid for police and fire	410,000	410,000	354,833	(55,167)
Highway maintenance	1,500,000	1,500,000	1,515,389	15,389
Grants	35,000	35,000	93,087	58,087
Total Intergovernmental	2,454,600	2,454,600	2,775,345	320,745
Total General Fund Revenues	8,907,006	8,928,472	8,804,691	(123,781)
Other Financing Sources				
Transfers from other funds	1,988,722	1,988,722	1,988,722	-
Total Other Financing Sources	1,988,722	1,988,722	1,988,722	-
Total General Fund Revenues and Other Financing Sources	\$10,895,728	\$10,917,194	\$10,793,413	\$ (123,781)

**TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
Legislative				
Town Council				
Personal service	\$ 60,284	\$ 60,884	\$ 60,234	\$ 650
Contractual service	46,000	54,480	49,289	5,191
Materials and supplies	11,800	7,600	6,131	1,469
Travel and communications	6,600	6,800	6,948	(148)
Total Town Council	<u>124,684</u>	<u>129,764</u>	<u>122,602</u>	<u>7,162</u>
Clerk of Council				
Personal service	30,142	35,142	35,113	29
Materials and supplies	7,000	7,000	6,086	914
Travel and communications	3,000	3,000	2,848	152
Dues and memberships	300	300	235	65
Total Clerk of Council	<u>40,442</u>	<u>45,442</u>	<u>44,282</u>	<u>1,160</u>
Total Legislative	<u>165,126</u>	<u>175,206</u>	<u>166,884</u>	<u>8,322</u>
Executive				
Town Manager				
Personal service	247,120	247,120	237,146	9,974
Materials and supplies	13,800	13,194	5,468	7,726
Travel and communications	3,700	4,300	3,707	593
Dues and memberships	1,700	1,706	1,911	(205)
Total Town Manager	<u>266,320</u>	<u>266,320</u>	<u>248,232</u>	<u>18,088</u>
Management Services				
Personal service	218,271	218,271	208,098	10,173
Contractual service	150	150	-	150
Materials and supplies	35,700	33,100	20,303	12,797
Travel and communications	1,600	4,200	1,919	2,281
Dues and memberships	350	350	145	205
Total Management Services	<u>256,071</u>	<u>256,071</u>	<u>230,465</u>	<u>25,606</u>
Auto/Motorpool				
Personal service	300,734	300,734	295,049	5,685
Contractual service	500	1,120	1,559	(439)
Materials and supplies	41,725	42,485	20,316	22,169
Travel and communications	2,300	1,160	1,561	(401)
Utilities	2,000	1,760	1,755	5
Capital outlays	-	25,000	-	25,000
Total Auto/Motorpool	<u>347,259</u>	<u>372,259</u>	<u>320,240</u>	<u>52,019</u>
Office of Information Technology				
Personal service	63,838	63,838	62,655	1,183
Contractual service	148,395	130,828	113,484	17,344
Materials and supplies	13,050	16,050	20,208	(4,158)
Travel and communications	46,000	46,000	49,533	(3,533)
Dues and memberships	500	500	473	27
Capital outlays	159,000	446,788	290,465	156,323
Total Office of Information Technology	<u>\$ 430,783</u>	<u>\$ 704,004</u>	<u>\$ 536,818</u>	<u>\$ 167,186</u>

(Continued)

TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
Office of Tourism				
Personal service	\$ 127,298	\$ 127,298	\$ 102,330	\$ 24,968
Contractual service	39,000	19,650	15,085	4,565
Materials and supplies	141,777	244,720	105,525	139,195
Utilities	300	300	135	165
Travel and communications	11,000	11,407	9,922	1,485
Dues and memberships	2,500	2,500	1,260	1,240
Cultural Activities	10,000	10,000	10,000	-
Total Office of Tourism	<u>331,875</u>	<u>415,875</u>	<u>244,257</u>	<u>171,618</u>
Board of Elections				
Contractual service	8,350	8,950	8,897	53
Total Executive	<u>1,640,658</u>	<u>2,023,479</u>	<u>1,588,909</u>	<u>434,570</u>
Legal				
Town Attorney				
Personal service	302,196	302,196	298,828	3,368
Contractual service	142,750	153,750	204,930	(51,180)
Materials and supplies	12,800	12,800	10,315	2,485
Travel and communications	3,100	3,100	2,317	783
Dues and memberships	1,250	1,250	905	345
Total Legal	<u>462,096</u>	<u>473,096</u>	<u>517,295</u>	<u>(44,199)</u>
Finance				
Finance Department				
Personal service	730,465	725,865	670,410	55,455
Contractual service	14,000	16,030	4,917	11,113
Materials and supplies	96,850	109,375	107,852	1,523
Travel and communications	10,150	11,975	7,231	4,744
Dues and memberships	400	400	265	135
Total Finance Department	<u>851,865</u>	<u>863,645</u>	<u>790,675</u>	<u>72,970</u>
Total General Government	<u>3,119,745</u>	<u>3,535,426</u>	<u>3,063,763</u>	<u>471,663</u>
Planning, Zoning and Community Development				
Planning and Zoning				
Personal service	334,562	332,062	307,008	25,054
Contractual service	20,700	35,700	13,761	21,939
Materials and supplies	7,550	114,429	5,896	108,533
Travel and communications	2,300	2,300	3,420	(1,120)
Dues and memberships	600	600	90	510
Total Planning and Zoning	<u>365,712</u>	<u>485,091</u>	<u>330,175</u>	<u>154,916</u>
Economic Development				
Contributions to other entities	42,615	42,615	41,740	875
Total Economic Development	<u>42,615</u>	<u>42,615</u>	<u>41,740</u>	<u>875</u>

(Continued)

TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
Boards and Commissions				
Personal service	10,443	10,443	16,848	(6,405)
Contractual service	1,295	1,295	1,240	55
Materials and supplies	4,800	4,800	2,179	2,621
Travel and communications	1,500	1,500	460	1,040
Joint operations	12,629	12,629	8,445	4,184
Total Boards and Commissions	30,667	30,667	29,172	1,495
Total Planning, Zoning and Community Development	\$ 438,994	\$ 558,373	\$ 401,087	\$ 157,286
Police				
Police Department				
Personal service	\$ 3,245,434	\$ 3,248,179	\$ 3,146,784	\$ 101,395
Contractual service	14,275	4,950	5,301	(351)
Materials and supplies	201,725	205,177	213,966	(8,789)
Travel and communications	37,400	50,430	49,773	657
Dues and memberships	2,350	1,460	1,448	12
Joint operations	28,900	28,800	76,800	(48,000)
Capital outlays	-	90,000	37,734	52,266
Total Police Department	3,530,084	3,628,996	3,531,806	97,190
Engineering and Public Works				
Engineering				
Personal service	106,143	106,143	90,570	15,573
Contractual service	3,500	3,380	1,291	2,089
Materials and supplies	28,650	33,200	18,750	14,450
Travel and communications	5,750	9,244	9,771	(527)
Dues and memberships	2,500	2,500	220	2,280
Total Engineering	146,543	154,467	120,602	33,865
Streets and Sidewalks				
Personal service	886,922	970,222	902,958	67,264
Contractual service	4,000	43,500	41,783	1,717
Materials and supplies	1,054,900	1,234,550	756,779	477,771
Travel and communications	7,900	6,700	6,346	354
Utilities	34,000	34,000	29,279	4,721
Dues and memberships	100	100	-	100
Capital outlays	240,000	637,468	424,668	212,800
Total Streets and Sidewalks	2,227,822	2,926,540	2,161,813	764,727

(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
General Properties				
Personal service	66,528	66,528	63,949	2,579
Contractual service	2,000	2,000	1,199	801
Materials and supplies	114,450	240,950	69,733	171,217
Travel and communications	2,000	2,000	1,472	528
Utilities	57,000	57,000	68,466	(11,466)
Capital outlays	125,000	24,999	24,999	-
Total General Properties	366,978	393,477	229,818	163,659
Horticulture				
Personal service	294,229	309,229	285,683	23,546
Contractual service	5,000	10,000	9,683	317
Materials and supplies	68,100	55,049	69,327	(14,278)
Travel and communications	750	1,580	1,887	(307)
Total Horticulture	368,079	375,858	366,580	9,278
Total Engineering and Public Works	3,109,422	3,850,342	2,878,813	971,529
Parks and Recreation				
Library	82,000	82,000	82,000	-
Total Parks and Recreation	\$ 82,000	\$ 82,000	\$ 82,000	\$ -
Nondepartmental				
Fringe Benefits	\$ 246,800	\$ 249,300	\$ 218,294	\$ 31,006
Insurance	333,000	333,000	300,705	32,295
Reserves	35,683	30,183	-	30,183
Total Nondepartmental	615,483	612,483	518,999	93,484
Total General Fund Expenditures	\$10,895,728	\$12,267,620	\$10,476,468	\$ 1,791,152

**TOWN OF FRONT ROYAL, VIRGINIA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2010**

	Special Revenue				Total	Capital Project	Total Nonmajor Governmental Funds
	Downtown Service District	Asset Forfeitures	Economic Development	Community/ Neighborhood		Town Facilities	
Assets							
Cash and cash equivalents	\$ -	\$ 157,053	\$ -	\$ 365,448	\$ 522,501	\$ -	\$ 522,501
Accounts receivable - real estate taxes	2,870	-	-	-	2,870	-	2,870
Interfund advances	-	-	4,500	-	4,500	388	4,888
Total Assets	<u>2,870</u>	<u>157,053</u>	<u>4,500</u>	<u>365,448</u>	<u>529,871</u>	<u>388</u>	<u>530,259</u>
Liabilities							
Bank advances	\$ 1,512	\$ -	\$ 235,707	\$ -	\$ 237,219	\$ -	\$ 237,219
Deferred revenue	2,870	-	-	-	2,870	-	2,870
Interfund advances	-	49,915	-	97,031	146,946	-	146,946
Total Liabilities	<u>4,382</u>	<u>49,915</u>	<u>235,707</u>	<u>97,031</u>	<u>387,035</u>	<u>-</u>	<u>387,035</u>
Fund Balances							
Unreserved, undesignated	(1,512)	107,138	(231,207)	268,417	142,836	388	143,224
Total Fund Balances	<u>(1,512)</u>	<u>107,138</u>	<u>(231,207)</u>	<u>268,417</u>	<u>142,836</u>	<u>388</u>	<u>143,224</u>
Total Liabilities and Fund Balances	<u>\$ 2,870</u>	<u>\$ 157,053</u>	<u>\$ 4,500</u>	<u>\$ 365,448</u>	<u>\$ 529,871</u>	<u>\$ 388</u>	<u>\$ 530,259</u>

TOWN OF FRONT ROYAL, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Special Revenue				Capital Project	Total Nonmajor Governmental Funds	
	Downtown Sevice District	Asset Forfeitures	Economic Development	Community/ Neighborhood	Town Facilities		
Revenues							
Real estate taxes	\$ 322	\$ -	\$ 106,349	\$ -	\$ 106,671	\$ -	\$ 106,671
Asset Forfeitures	-	34,043	-	-	34,043	-	34,043
Total revenues	322	34,043	106,349	-	140,714	-	140,714
Expenditures							
Current							
Support payment of EDA debt issue	-	-	67,940	-	67,940	-	67,940
Contractual service	-	-	-	687,495	687,495	-	687,495
Contributions to other entities	-	-	36,485	-	36,485	-	36,485
Capital outlays	-	28,706	-	-	28,706	-	28,706
Total expenditures	-	28,706	104,425	687,495	820,626	-	820,626
Excess (deficiency) of revenues over (under) expenditures	322	5,337	1,924	(687,495)	(679,912)	-	(679,912)
Other Financing Uses							
Transfers out	-	-	(97,031)	-	(97,031)	-	(97,031)
Total other financing sources (uses)	-	-	(97,031)	-	(97,031)	-	(97,031)
Net change in fund balances	322	5,337	(95,107)	(687,495)	(776,943)	-	(776,943)
Fund balances - beginning	(1,834)	101,801	(136,100)	955,912	919,779	388	920,167
Fund balances - ending	\$ (1,512)	\$ 107,138	\$ (231,207)	\$ 268,417	\$ 142,836	\$ 388	\$ 143,224

**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, 2010**

	Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues			
Asset forfeitures	\$ 18,200	\$ 34,043	\$ 15,843
Expenditures			
Capital outlays	18,200	28,706	(10,506)
Excess of revenues over expenditures	-	5,337	5,337
Fund balances - beginning	101,801	101,801	-
Fund balances - ending	<u>\$ 101,801</u>	<u>\$ 107,138</u>	<u>\$ 5,337</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, 2010**

	Original and Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues			
Real estate taxes	\$ 133,516	\$ 106,349	\$ (27,167)
Expenditures			
Payments in support of EDA debt issue	-	67,940	(67,940)
Contributions to other entities	36,485	36,485	-
Total Expenditures	36,485	104,425	(67,940)
Excess of revenues over expenditures	97,031	1,924	(95,107)
Other Financing Uses			
Transfers out - Debt Service	(97,031)	(97,031)	-
Net change in fund balances	-	(95,107)	(95,107)
Fund balances - beginning	(136,100)	(136,100)	-
Fund balances - ending	<u>\$ (136,100)</u>	<u>\$ (231,207)</u>	<u>\$ (95,107)</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, 2010**

	Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues			
Miscellaneous	\$ 54,000	\$ -	\$ (54,000)
Total Revenues	<u>54,000</u>	<u>-</u>	<u>(54,000)</u>
Expenditures			
Contractual services	<u>805,979</u>	<u>687,495</u>	<u>118,484</u>
Total Expenditures	<u>805,979</u>	<u>687,495</u>	<u>118,484</u>
Deficiency of revenues under expenditures	(751,979)	(687,495)	64,484
Fund balances - beginning	<u>955,912</u>	<u>955,912</u>	<u>-</u>
Fund balances - ending	<u><u>\$ 203,933</u></u>	<u><u>\$ 268,417</u></u>	<u><u>\$ 64,484</u></u>

TOWN OF FRONT ROYAL, VIRGINIA
SCHEDULE OF DIRECTOR OF FINANCE'S ACCOUNTABILITY
JUNE 30, 2010

Assets held by the Director of Finance

Cash on hand		\$	1,488
Cash in Banks			
Checking - SunTrust			923,091
Checking - Rappahannock National Bank			39,201
Money Market - Wells Fargo			2,706,465
Certificates of Deposit			
BB&T Bank	\$	350,000	
SONA Bank		119,512	
Rappahannock National Bank		2,000,000	
Wachovia Bank		84,445	
Virginia Savings Bank		22,401	
Total Certificates of Deposit			<u>2,576,358</u>
Virginia Local Government Investment Pool			2,917,796
Repurchase Agreements - Wachovia			123,358
Repurchase Agreements - Rappahannock National Bank			3,783,176
SunTrust Government & Agency Fund			1,568,709
Union Investment Account			<u>9,724,159</u>
Total Assets			<u><u>\$ 24,363,801</u></u>

**TOWN OF FRONT ROYAL, VIRGINIA
 SCHEDULE OF DIRECTOR OF FINANCE'S ACCOUNTABILITY TO THE TOWN
 FOR THE YEAR ENDED JUNE 30, 2010**

	Governmental Funds					2010 Totals (Memorandum Only)	2009 Totals (Memorandum Only)
	General	Debt Service	Special Revenue	Capital Projects	Proprietary Funds		
Balance July 1, 2009	\$ 6,089,591	\$ -	\$ 1,012,189	\$ -	\$ 16,408,410	\$ 23,510,190	\$ 26,081,852
Receipts (net)							
Interfund advances/receipts	37,735	-	48,490	-	125,000	211,225	125,000
General property taxes	1,976,665	-	106,671	-	-	2,083,336	1,068,473
Other local taxes	3,271,074	-	-	-	-	3,271,074	3,359,615
Permits, fees and licenses	93,419	-	-	-	-	93,419	92,660
Fines and forfeitures	238,363	-	-	-	-	238,363	252,484
Revenues from use of money and property	110,780	-	-	-	254,672	365,452	376,706
Charges for services	20,237	-	-	-	21,704,179	21,724,416	22,050,523
Capital contributed	-	-	-	-	-	-	798,530
Bond issuance	-	-	-	-	2,735,000	2,735,000	-
Miscellaneous	213,943	-	1,546	-	-	215,489	161,780
Recovered costs	-	-	34,043	-	-	34,043	43,474
Payment in lieu of taxes	307,158	-	-	-	-	307,158	1,046,893
Intergovernmental	2,478,664	-	-	-	-	2,478,664	2,555,145
Total Receipts	<u>8,748,038</u>	<u>-</u>	<u>190,750</u>	<u>-</u>	<u>24,818,851</u>	<u>33,757,639</u>	<u>31,931,283</u>
Total Available	<u>14,837,629</u>	<u>-</u>	<u>1,202,939</u>	<u>-</u>	<u>41,227,261</u>	<u>57,267,829</u>	<u>58,013,135</u>
Disbursements (net)							
Warrants (checks) issued	10,632,195	-	820,626	-	19,715,995	31,168,816	33,189,326
Retirement of indebtedness	-	80,826	-	-	919,994	1,000,820	995,645
Interfund advance payments	173,490	-	-	-	37,735	211,225	125,000
Interest on debt costs	-	16,205	-	-	506,962	523,167	192,974
Total Disbursements	<u>10,805,685</u>	<u>97,031</u>	<u>820,626</u>	<u>-</u>	<u>21,180,686</u>	<u>32,904,028</u>	<u>34,502,945</u>
Transfers in	1,988,722	97,031	-	-	-	2,085,753	1,878,931
Transfers (out)	-	-	(97,031)	-	(1,988,722)	(2,085,753)	(1,878,931)
Total Transfers In (Out)	<u>1,988,722</u>	<u>97,031</u>	<u>(97,031)</u>	<u>-</u>	<u>(1,988,722)</u>	<u>-</u>	<u>-</u>
Balance June 30, 2010	<u>\$ 6,020,666</u>	<u>\$ -</u>	<u>\$ 285,282</u>	<u>\$ -</u>	<u>\$ 18,057,853</u>	<u>\$ 24,363,801</u>	<u>\$ 23,510,190</u>

**TOWN OF FRONT ROYAL, VIRGINIA
COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2010**

Taxable assessed value of real property	<u>\$ 1,450,735,550</u>
Debt limit (10 percent of assessed value)	145,073,555
Amount of debt applicable to debt limit	
Gross bonded debt	<u>(13,931,270)</u>
Legal debt margin	<u>\$ 131,142,285</u>

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

STATISTICAL SECTION

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

CONTENTS	PAGE
Financial Trends <i>These schedules contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.</i>	64
Revenue Capacity <i>These schedules contain information to help the reader assess the Town's most significant local revenue source, the property tax.</i>	70
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>	74
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place.</i>	79
Operating Information <i>These schedules contain service and infrastructure data to help the reader understand how the information in the Town's financial report relates to the services the Town provides and the activities it performs.</i>	81

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

TOWN OF FRONT ROYAL, VIRGINIA
NET ASSETS BY COMPONENT
LAST EIGHT FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
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	\$ 62,087,906
Unrestricted	2,280,133	5,304,430	5,450,254	6,691,369	7,580,388	7,344,504	6,033,299	5,953,428
Total Governmental Activities Net Assets	<u>\$ 88,039,341</u>	<u>\$ 86,147,403</u>	<u>\$ 83,649,627</u>	<u>\$ 81,315,962</u>	<u>\$ 79,035,738</u>	<u>\$ 75,279,750</u>	<u>\$ 70,456,721</u>	<u>\$ 68,041,334</u>
Business-type Activities								
Invested in capital assets, net of related debt	\$ 85,759,208	\$ 39,613,187	\$ 39,531,599	\$ 19,751,368	\$ 24,625,302	\$ 31,350,568	\$ 34,365,817	\$ 30,494,686
Unrestricted	2,280,133	2,649,403	3,873,842	26,004,470	23,052,300	19,679,106	18,511,327	20,549,912
Total Business-type Activities Net Assets	<u>\$ 88,039,341</u>	<u>\$ 42,262,590</u>	<u>\$ 43,405,441</u>	<u>\$ 45,755,838</u>	<u>\$ 47,677,602</u>	<u>\$ 51,029,674</u>	<u>\$ 52,877,144</u>	<u>\$ 51,044,598</u>
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	\$ 92,582,592
Unrestricted	3,936,229	7,953,833	9,324,096	32,695,839	30,632,688	27,023,610	24,544,626	26,503,340
Total Primary Government Net Assets	<u>\$129,116,927</u>	<u>\$128,409,993</u>	<u>\$127,055,068</u>	<u>\$127,071,800</u>	<u>\$126,713,340</u>	<u>\$126,309,424</u>	<u>\$123,333,865</u>	<u>\$119,085,932</u>

Additional years will be added as information is available.

TOWN OF FRONT ROYAL, VIRGINIA
CHANGES IN NET ASSETS
LAST EIGHT FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

Expenses	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
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	\$ 3,340,772
Public safety	2,951,792	2,857,066	3,150,426	3,276,981	3,513,253	3,658,646	3,686,304	3,873,965
Public works	1,851,599	2,103,729	2,086,799	2,574,487	2,206,629	3,149,846	3,901,830	2,467,186
Planning, zoning, and community development	609,091	501,250	652,296	484,132	567,708	693,455	1,024,574	636,471
Culture and recreation	95,770	43,625	45,142	52,985	62,456	66,250	74,044	91,004
Interest on long term debt	41,299	3,788	69,567	28,180	26,549	23,257	19,812	16,205
Infrastructure depreciation	3,588,522	3,588,522	3,588,522	3,591,054	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	14,016,657
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	14,119,794
Water	1,581,502	1,851,233	2,328,499	1,964,023	2,343,905	2,471,839	2,231,532	3,023,196
Sewer	2,228,065	2,061,542	2,636,183	2,285,966	2,752,915	2,691,398	2,659,873	3,550,177
Refuse	685,242	649,323	739,132	828,583	876,481	856,529	963,068	1,301,649
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	21,994,816
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	36,011,473
Program Revenues								
Governmental Activities:								
Charges for services:								
General government	7,397	88,891	71,572	131,037	141,719	111,776	95,947	227,814
Public safety	251,882	308,337	235,282	406,081	361,844	283,200	295,958	272,406
Public works	50,918	46,761	45,371	18,759	27,757	10,919	18,172	6,366
Planning, zoning, and community development	73,943	80,864	93,957	77,858	101,763	103,277	92,660	93,419
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	1,870,222
Capital grants and contributions	50,189	64,156	80,484	43,416	170,526	115,062	121,767	93,087
Total Governmental Program Revenues	2,068,764	2,208,000	2,231,279	2,125,141	2,661,814	2,497,232	2,537,015	2,563,314
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	15,462,065
Water	2,241,254	2,450,850	2,856,329	3,198,691	3,695,001	3,115,794	3,145,958	2,758,853
Sewer	2,153,905	2,330,077	2,674,149	3,011,979	3,645,537	2,846,667	2,774,605	2,723,871
Refuse	730,938	770,344	779,275	806,968	801,974	934,936	918,611	951,731
Capital grants and contributions	396,743	316,543	226,919	71,706	1,094,499	646,430	798,530	-
Total Business-Type Program Revenues	15,140,745	16,826,957	17,883,433	18,596,582	24,691,141	23,004,253	22,763,515	21,896,520
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	24,459,834

(Continued)

TOWN OF FRONT ROYAL, VIRGINIA
CHANGES IN NET ASSETS
LAST EIGHT FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
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)	(11,453,343)
Business-Type Activities	4,014,479	3,091,197	3,097,010	3,994,647	2,467,702	4,384,238	3,373,841	(98,296)
Total Primary Government Net Expense	<u>(5,193,916)</u>	<u>(6,012,085)</u>	<u>(6,758,186)</u>	<u>(6,214,742)</u>	<u>(7,484,730)</u>	<u>(7,133,047)</u>	<u>(9,559,404)</u>	<u>(11,551,639)</u>
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	2,563,604
Sales taxes	448,086	507,804	570,926	586,133	613,495	683,974	690,993	684,300
Business and occupational taxes	539,916	611,617	624,511	740,268	721,486	708,018	620,567	613,273
Franchise taxes	179,371	309,497	211,544	213,601	206,989	150,318	1,500	24,167
Communication taxes	-	-	-	-	-	-	177,556	178,294
Consumer taxes	182,303	178,879	178,423	191,554	240,682	228,828	181,779	190,188
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	1,330,656
Virginia personal property tax reduction	254,979	285,334	262,457	280,041	287,878	287,863	287,863	575,726
Payment in lieu of taxes	-	-	-	-	-	229,098	1,046,893	307,158
Other general taxes	495,708	507,664	559,315	583,928	541,073	438,560	426,139	472,388
Unrestricted investment earnings	77,910	73,089	101,589	209,469	284,273	283,610	119,307	109,480
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	1,988,722
Total Governmental Activities	<u>6,535,853</u>	<u>7,211,344</u>	<u>7,357,420</u>	<u>7,875,724</u>	<u>7,672,208</u>	<u>7,761,297</u>	<u>8,110,216</u>	<u>9,037,956</u>
Business-Type Activities:								
Unrestricted investment earnings	219,843	114,857	173,241	497,182	1,097,679	749,734	255,529	254,472
Transfers	(1,957,860)	(2,021,050)	(2,127,400)	(2,141,432)	(1,643,617)	(1,781,900)	(1,781,900)	(1,988,722)
Total Business-Type Activities	<u>(1,738,017)</u>	<u>(1,906,193)</u>	<u>(1,954,159)</u>	<u>(1,644,250)</u>	<u>(545,938)</u>	<u>(1,032,166)</u>	<u>(1,526,371)</u>	<u>(1,734,250)</u>
Total Primary Government	<u>4,797,836</u>	<u>5,305,151</u>	<u>5,403,261</u>	<u>6,231,474</u>	<u>7,126,270</u>	<u>6,729,131</u>	<u>6,583,845</u>	<u>7,303,706</u>
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)	(2,415,387)
Business-Type Activities	2,276,462	1,185,004	1,142,851	2,350,397	1,921,764	3,352,072	1,847,470	(1,832,546)
Total Primary Government	<u>\$ (396,080)</u>	<u>\$ (706,934)</u>	<u>\$ (1,354,925)</u>	<u>\$ 16,732</u>	<u>\$ (358,460)</u>	<u>\$ (403,916)</u>	<u>\$ (2,975,559)</u>	<u>\$ (4,247,933)</u>

Additional years will be added as information is available.

**TOWN OF FRONT ROYAL, VIRGINIA
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
LAST EIGHT 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
2010	2,563,604	684,300	613,273	202,461	190,188	-	1,330,656	575,726	307,158	472,388	6,939,754

Additional years will be added as information is available.

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

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
General Fund								
Reserved	\$ 2,646,710	\$ 1,552,890	\$ 547,791	\$ 100,975	\$ 100,975	\$ 100,975	\$ 60,975	\$ 60,975
Unreserved	2,219,482	2,920,690	3,996,494	5,391,587	6,407,631	6,147,170	5,486,609	5,803,554
Total General Fund	<u>\$ 4,866,192</u>	<u>\$ 4,473,580</u>	<u>\$ 4,544,285</u>	<u>\$ 5,492,562</u>	<u>\$ 6,508,606</u>	<u>\$ 6,248,145</u>	<u>\$ 5,547,584</u>	<u>\$ 5,864,529</u>
All Other Governmental 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	\$ 142,836
Capital funds	706,945	974,884	7,634	388	388	388	388	388
Total all other governmental funds	<u>\$ 729,737</u>	<u>\$ 952,609</u>	<u>\$ 1,058,593</u>	<u>\$ 1,461,308</u>	<u>\$ 1,447,711</u>	<u>\$ 1,483,782</u>	<u>\$ 920,167</u>	<u>\$ 143,224</u>

Additional years will be added as information is available.

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

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
REVENUES:								
Taxes:								
Property	\$ 975,882	\$ 1,301,901	\$ 1,261,184	\$ 1,349,228	\$ 1,356,387	\$ 1,291,255	\$ 1,298,909	\$ 1,896,461
Sales	448,086	507,804	570,926	586,133	613,495	683,974	690,993	684,300
Business and occupational	539,916	611,617	624,511	740,268	721,486	708,018	620,567	613,273
Franchise	179,371	309,497	211,544	213,601	206,989	150,318	1,500	24,167
Consumer	182,303	178,879	178,423	191,554	240,682	228,828	181,779	190,188
Vehicle licenses	226,033	230,743	236,441	246,458	239,854	226,689	223,417	174,686
Bank stock	143,828	143,065	166,904	197,212	159,285	160,640	152,245	239,686
Meals and lodging	1,238,298	1,378,666	1,433,420	1,578,910	1,633,723	1,622,217	1,472,392	1,330,656
Permits, fees, and licenses	73,943	80,864	93,957	77,858	101,763	103,277	92,660	93,419
Fines and forfeitures	106,882	203,904	219,713	307,275	356,631	246,650	252,484	238,363
Revenues from use of money								
and property	77,910	73,089	101,589	209,469	284,273	283,610	119,307	109,480
Charges for services	101,107	111,143	101,343	84,363	100,909	73,114	45,165	20,237
Miscellaneous	7,397	16,055	74,017	118,667	68,567	49,581	68,954	213,943
Recovered costs	145,000	104,433	15,569	98,806	5,213	36,550	43,474	34,043
Payment in lieu of taxes	62,582	66,970	84,251	80,200	90,215	229,098	1,046,893	307,158
Intergovernmental	1,984,347	2,058,357	2,135,590	1,847,929	2,384,644	2,343,470	2,550,174	2,775,345
Total Revenues	6,492,885	7,376,987	7,509,382	7,927,931	8,564,116	8,437,289	8,860,913	8,945,405
EXPENDITURES:								
General government								
Legislative	165,682	188,630	205,523	135,379	156,788	175,717	173,189	166,884
Executive	1,010,533	931,212	1,165,197	1,188,427	1,243,995	1,401,822	1,605,219	1,588,909
Legal	187,413	215,643	246,472	215,991	248,934	257,621	416,400	517,295
Finance	664,008	779,038	670,026	673,576	748,380	801,115	828,300	790,675
Public Safety								
Police	2,553,496	2,807,340	2,937,684	2,926,282	3,153,821	3,439,362	3,467,748	3,560,512
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	1,193,007
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	2,878,813
Parks and recreation	88,131	41,000	41,000	47,596	56,594	61,208	68,924	82,000
Nondepartmental	291,714	385,770	621,043	584,781	532,993	513,067	520,070	518,999
Debt Service								
Principal	325,927	18,196	144,742	75,410	70,483	73,774	77,219	80,826
Interest	41,299	3,788	69,567	28,180	26,549	23,257	19,812	16,205
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	11,394,125
DEFICIENCY OF REVENUES								
UNDER EXPENDITURES	(2,807,637)	(1,255,985)	(1,950,711)	(790,440)	(788,160)	(2,006,290)	(3,046,076)	(2,448,720)
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	2,085,753
Transfers (out)	(390,702)	(37,400)	(221,309)	(103,590)	(97,032)	(97,031)	(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	3,308,571	2,075,666	2,127,400	2,141,432	1,790,607	1,781,900	1,781,900	1,988,722
Sources (Uses)								
NET CHANGE IN								
FUND BALANCES	\$ 500,934	\$ 819,681	\$ 176,689	\$ 1,350,992	\$ 1,002,447	\$ (224,390)	\$ (1,264,176)	\$ (459,998)
Debt service as a percentage								
of noncapital expenditures	4.44%	0.26%	2.28%	1.19%	1.04%	0.93%	0.81%	0.85%

Additional years will be added as information is available.

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

Fiscal Year	Real Property		Personal Property			Total Taxable Assesed Value	Tax Rates	
	Commercial Residential Property	Public Service	Motor Vehicles	Business Equipment	Other		Real Estate	Personal Property
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
2010	1,418,723,500	15,826,250	77,266,939	17,878,066	1,850,545	1,531,545,300	0.07	0.60

Source: Warren County Property Assessor's 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 and Overlapping Rates
	Real Estate	Personal Property	Machinery and Tools	Mobile Homes	Total Direct	Real Estate	Personal Property	Machinery Tools	Mobile Homes	Total Overlapping Rate	
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
2010	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

**TOWN OF FRONT ROYAL, VIRGINIA
PRINCIPAL PROPERTY TAX PAYERS
CURRENT YEAR AND 2001**

Taxpayer	2010		Taxpayer	2001	
	Taxable Assessed Value	Percentage of Total Town Taxable Assessed Value		Taxable Assessed Value	Percentage of Total Town Taxable Assessed Value
Boisseau Family	\$ 20,597,100	1.43%	P W & Bosseau Rudacille, L.P.	\$ 8,410,100	1.48%
Ramsey Inc.	10,150,500	0.70%	Gateway Plaza Shopping Center	5,318,600	0.93%
Gateway Plaza Shopping Center	7,678,000	0.53%	Home Life, Inc	5,046,300	0.89%
Shenandoah Square LP	6,947,000	0.48%	Shenandoah Properties	4,286,500	0.75%
HLI Endowment	6,845,200	0.47%	James E. Corr	2,918,900	0.51%
Williams Land co Inc.	6,728,700	0.47%	Cogil Corporation	2,767,400	0.49%
Cogil Corporation	6,021,500	0.42%	Front Royal Associates	2,628,100	0.46%
Corr Family	5,416,300	0.37%	Southerlands	2,613,800	0.46%
Royal Arms Associates	4,765,100	0.33%	Royal Hills Limited	2,597,700	0.46%
Puja Properties	4,294,800	0.30%	CCC Quality Inn	2,292,600	0.40%
Total	<u>\$ 79,444,200</u>	<u>5.50%</u>		<u>\$ 38,880,000</u>	<u>6.83%</u>

Source: Warren County Property Assessor's Office

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

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Total Collection as Percent of Current Levy
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%
2010	3,131,608	2,332,404	74.48%	106,109	2,438,513	77.87%

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

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

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

Fiscal Year	Governmental 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					
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
2010	266,194	13,665,076	13,931,270	466,320	2.99%	14,573	956

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
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	12,197,090	11,850,070	347,020	1,567,042	0.02%	14,616	23.74
2010	13,931,270	13,665,076	266,194	1,531,545	0.02%	14,573	18.27

**TOWN OF FRONT ROYAL, VIRGINIA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2010**

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Debt repaid with property taxes			
Warren County	3,692,000		
Warren County School Board	<u>7,234,315</u>		
Subtotal, overlapping debt	<u>10,926,315</u>	49%	5,353,894
Town of Front Royal (direct debt)	<u>13,931,270</u>	100%	<u>13,931,270</u>
Total direct and overlapping debt			<u><u>19,285,164</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 NINE FISCAL YEARS**

	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Debt limit	58,590,810	71,147,598	56,191,727	76,458,758	78,458,758	143,323,827	145,212,163	145,266,886	145,073,555
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	13,931,270
Legal debt margin	50,806,175	64,170,362	49,985,091	71,158,234	63,693,504	129,182,523	132,031,822	133,069,796	131,142,285
Net debt applicable to the limit as a percentage of debt limit	13%	10%	11%	7%	19%	10%	9%	8%	10%

Additional years will be added as information is available.

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

Fiscal Year	Gross Revenue ¹	Operating Expenses ²	Net Revenue Available	Debt Service Requirements			Coverage
				Principal	Interest	Total	
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
2010	22,150,992	18,008,335	4,142,657	919,994	506,962	1,426,956	2.90

¹Gross revenue includes operating revenues and investment earnings

²Total operating expenses exclusive of depreciation

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

Year	Estimated Population	Personal Income (thousands of dollars)	Per Capita Personal Income	Median Age	Education Level in Years of Formal Schooling	School Enrollment	Unemployment Rate
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%
2010	14,573	466,320	31,999	37	*	5,720	6.7%

*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 2001**

2010		2001	
Employer	Employees	Employer	Employees
Warren Co. School Board	900-1000	Warren County School Board	650
Family Dollar Stores Distribution Center	300-600	Family Dollar Stores Distribution Center	525
Warren County Hospital	300-600	E. I. Dupont De Nemours & Company	375
E.I. Dupont De Nemours & Co.	300-600	Valley Health System	325
Ferguson Enterprises, Inc.	300-600	West Tab Industries	250
Warren County	200-300	United Parcel Service	200
Toray Plastics America, Inc.	100-300	Randolph Macon Academy	200
Sysco Baugh Northeast Cooperative	100-300	Ferguson	190
United Parcel Service	100-300	Town of Front Royal	175
Town of Front Royal	150-200	KMart Corporation	150
		Toray Plastics	140
		County of Warren	110

Source: Estimates from Warren County Economic Development Authority

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

Function/Program	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
General Government	26	29	27	29	29	41	40	38
Fire Protection	3	1	1	1	1	0	0	0
Police Protection	43	45	45	45	45	47	47	47
Highway - Streets	21	20	20	19	22	17	17	17
Sanitation	13	13	14	13	14	15	13	13
Water	12	13	13	13	12	13	14	15
Sewer	17	17	16	18	17	15	15	14
Electrical	15	15	14	12	14	11	12	13
Culture and Recreation	1	1	1	1	1	0	0	0
	151	154	151	151	155	159	158	157

Additional years will be added as information is available.

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

Function/Program	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
Public Safety								
Police								
Physical arrests				1,398	1,443	1,436	1,108	1,943
Parking violations				1,074	1,063	678	752	841
Traffic violations				3,739	3,844	3,560	4,379	3,770
Wastewater								
New service connections					320	48	33	14
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	3,764,984
Water System								
New connections					320	52	32	13
Average daily consumption	1,750,000	1,678,000	1,708,000	1,708,000	1,708,000	1,976,953	2,143,041	2,182,274
Electric Distribution								
New Connections					320	25	16	4
Average daily KWH consumption			472,041	492,688	493,095	576,589	545,482	552,178
Sanitation								
Refuse collected (tons/day)	40.00	40.00	40.00	40.00	40.00	22.00	15.00	14.20
Recyclables collected (tons/day)	0.25	0.25	0.25	0.25	0.25	2.00	2.00	1.20
Highway and Streets								
Repair services				55	60	65	55	28
Street resurfacing (miles)				15	27	35	5	11.75

Additional years will be added as information is available.

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

Function/Program	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
Public Safety								
Police								
Stations	1	1	2	2	2	2	2	2
Patrol Units	6	6	9	12	12	12	12	12
Fire Stations	1	1	1	1	1	1	1	1
Highways and Streets								
Streets (miles)	143	143	143	143	143	133	133	133
Streetlights	1,430	1,430	1,430	1,430	1,430	1,430	1,450	1,450
Traffic signals	14	14	14	15	15	15	14	14
Culture and Recreation								
Community centers	1	1	1	1	1	1	1	1
Parks	13	13	13	13	13	13	13	13
Park acreage	165	165	165	165	165	165	165	165
Swimming pools	1	1	1	1	1	1	1	1
Tennis courts	9	9	9	9	9	9	9	9
Sewer System								
Sanitary sewers (miles)	117	117	117	196	196	198	198	198
Storm sewers (miles)	27	27	27	90	90	92	92	92
Treatment plants	1	1	1	1	1	1	1	1
Max daily capacity				4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Water System								
Facilities	1	1	1	1	1	1	1	1
Fire Hydrants	555	555	555	560	560	582	618	618
Max daily capacity				3,000,000	3,000,000	3,000,000	6,000,000	6,000,000
Electric System								
Service lines (miles)	140	140	140	140	140	140	140	140
Distribution stations	3	3	3	3	3	3	4	4
Sanitation								
Collection Trucks	5	5	5	5	5	5	5	5

Additional years will be added as information is available.

COMPLIANCE SECTION

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER 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, 2010, which collectively comprise the Town of Front Royal, Virginia's basic financial statements and have issued our report thereon dated November 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below to be material weaknesses. The Town's responses to the findings identified in our audit are presented below the findings. We did not audit the Town's response and, accordingly, we express no opinion on it.

Under Staffing - Department of Finance

The Town Finance Department staff is able to maintain up-to-date day-to-day activity and transactions including the normal routine billing and invoice/payroll payment functions. Due to limited resources and budget issues, there has been no additional Finance Department staff added to assist with the analytical and reconciliation functions. These functions are particularly important as part of the month-end close out procedures to verify and confirm correct account balances. These monthly functions include, but are not limited to:

- Banking account reconciliations
- Bond proceeds account reconciliations
- Utility billing reconciliations
- Capital asset purchasing analysis
- Debt payment account classifications
- Accrued expense recording

We believe without the performance of these functions, the monthly financial statements presented to Council could potentially not reflect accurately the financial position of the Town. Additionally, the audit process is extended as the accounts are reviewed, analyzed and reconciled to verify proper year end reporting. For the fiscal year ended June 30, 2010, we provided the finance department with over ninety (90) year-end account adjustments.

As noted, the Finance Department is maintaining the day-to-day transactional activity, but due to staffing limitations, is unable to timely recognize and make proper account adjustments. We believe this presents a material weakness in internal control over financial reporting.

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.

November 30, 2010
Leesburg, Virginia

Mitchell & Co., P.C.