

TOWN OF FRONT ROYAL, VIRGINIA

*COMPREHENSIVE
ANNUAL FINANCIAL REPORT*

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**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 15,127.

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

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

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

**TOWN OF FRONT ROYAL, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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INTRODUCTORY SECTION



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

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

November 20, 2014

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

RE: FY 2013-2014 Comprehensive Annual Financial Report (CAFR)
Letter of Transmittal

Citizens of Front Royal:

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) for the Town of Front Royal, Virginia, for the fiscal year ending June 30, 2014. The CAFR fulfills the requirements of the Code of Virginia and the Town's Code to complete an annual audit of the Town's financial accounts and records by a certified public accountant. The CAFR also provides informative and relevant financial data to you about how the Town operated in FY2013-2014.

Responsibility for both the accuracy of the data and all disclosures, as well as the completeness of its presentation rests with the management of the Town. To the best of our knowledge and belief, the information provided in this report is accurate in all material respects and fairly presents the financial position of the Town. All disclosures necessary to enable the reader to gain an understanding of the Town's financial activities have been included.

Based upon their audit, Mitchell & Co., P.C., a firm of licensed certified public accountants, has concluded that there was a reasonable basis for rendering an unqualified opinion the Town's financial statements for the fiscal year ending June 30, 2014, conform to the generally accepted accounting principles and standards of financial reporting as prescribed by the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association of the United States and Canada (GFOA). The goal of their indecent audit was to provide reasonable assurance that the financial statements of the Town for the fiscal year ending June 30, 2014, are free of material misstatements. The independent audit involved examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

The Comprehensive Annual Financial Report (CAFR)

The CAFR is presented in four (4) main sections: Introductory, Financial, Statistical, and Compliance.

The Introductory Section includes this Letter of Transmittal, a copy of last fiscal year's Certificate of Achievement for Excellence in Financial Reporting awarded by the Government Finance Officers Association of the United States and Canada (GFOA), our Organizational Chart, and a list identifying the Mayor, Town Council, and Town staff.

The Financial Section includes the Independent Auditor's Report, Management's Discussion and Analysis (MD&A), followed by the Basic Financial Statements and Supplementary Information.

The Statistical Section includes information about trends in the Town's financial position, Debt Capacity, and other operating information.

The Compliance Section includes Mitchell & Co., P.C.'s report on internal control procedures and compliance with auditing standards.

Profile of the Town

Front Royal is located in Warren County in Northwestern Virginia approximately seventeen (17) miles south of Winchester and seventy (70) miles west of Washington DC. The Town was founded in 1754 and incorporated by the General Assembly of Virginia in 1788. Interstates 66 and 81 are located at the northern Town limits and west of the Town, respectively. US Highways 522 and 340, and State Route 55 provide access to the Town. Major rail lines are also located along the western and northern sides of the Town. The Town covers an approximately ten (10) square miles, and has a population estimated at 14,700.

The Town is governed under a Council/Manager form of government. The Town Council, in its role as governing body, formulates policies for the proper administration of the Town. The Mayor, who serves a two-year term, presides over the Town Council, but votes only to break a tie. The Town Council is comprised of six (6) members, who are elected at large to serve four-year terms. Elections for three (3) Council seats are held two (2) years. Elections for the Mayor and Town Council seats are conducted in November with the elected officials being seated on January 1st.

The Town Manager is appointed by the Town Council as the chief executive officer of the Town and is responsible to the Town Council and citizens for the 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 also appointed by the Town Council. The Department Heads of Finance, Energy Services, Environmental Services, Human Resources, Risk Management, Information Technology, 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 Town government maintains 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 appropriated amount, is established by function and activity within the individual fund. The Town government also maintains an encumbrance accounting system as one technique for accomplishing budgetary control. Encumbered amounts lapse at the year-end, unless otherwise re-appropriated as part of the following year's budget by Town Council. As demonstrated by the statements and schedules included in the financial section of the report, the Town government continues to meet its responsibilities for sound financial management.

Economic Outlook

As the nation continues to slowly recover from the economic downturn, Front Royal has been successful in maintaining stable and predictable tax rates and service fees, while continuing to provide quality local government services. The Town has been successful in limiting the growth of local operating and maintenance expenditures on needed public services. The Town has adjusted tax rates and service fees only when justified by necessary capital expenses that are required either by outside regulatory actions or by appropriate planning for the future.

General Fund revenues have stabilized and some revenue sources have grown slightly. Effective planning and prudent fiscal spending by the Town have positioned our finances for future growth. The Town will continue to monitor outside influences on our fiscal condition.

The Town has celebrated the release of the Avtex Property from its "Superfund" status by the EPA this year. Redevelopment of this 160 acres as commercial and light industrial development will contribute to the Town's economic prosperity. In addition, the Town grew by 604 acres through the boundary adjustment agreement with Warren County for property to be developed residentially and commercially.

The announced closure of Kmart is discouraging. From this loss, however, there has been a surge of cooperation with the Economic Development Authority (EDA), the Town, and the Royal Plaza Management Team to seek a strong tenant to anchor this site. The Town is receiving significant input from the community about development opportunities that should be investigated by the EDA.

Warren County is currently conducting the reassessment of property values. These new figures will need to be considered during the Town's budget process to minimize impact to the Town's finances and to our residents.

The Town's Enterprise Funds remain stable. Our electric rates have been recognized for the past two consecutive years as being the lowest residential electric rates in the Commonwealth of Virginia. The Town has also secured an approximate \$12 million grant and a zero-interest loan for improvements at the Wastewater Treatment Plant to minimize impact to our customers. The Town will continue to work with our financial consultant to plan for future needs appropriately to minimize any future rate adjustments.

The Town of Front Royal is poised on economic and residential growth that will be challenging and rewarding to our community.

Major Achievements

During the FY 13-14 Budget, the Town continued to focus on improving the quality of life for our citizens and planning for our community. The following major projects were initiated, continued, or completed during the fiscal year:

- Leach Run Parkway - Design completed
- Happy Creek Trail - Construction completed
- South Street Pedestrian Trail Crossing - Completed
- Boundary Adjustment of Front Royal Limited Partnership (604 ac) - Completed
- Corridor Water Loop Study - Study completed (Alternative to be explored)
- Avtex Property Released for Development - Completed
- Wastewater Treatment Plant (WWTP) Improvement Design - Completed (Construction to begin 2015)
- Water Treatment Plant & Distribution Improvements - Design Completed & Construction ongoing
- Town Vision Adoption - Completed
- Comprehensive Plan Update - Initiated
- Mobile App - Completed
- Video Production (Town Services, Tourism, Public Safety) - Completed
- Riverton Electric Substation - Construction Initiated

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Front Royal for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2013. This was the twenty-sixth (26) consecutive year that the Town has received this prestigious award. The GFOA awards a Certificate to municipalities that exemplify excellence in financial reporting and conform to stringent reporting requirements established by the GFOA.

A Certificate of Achievement is valid for a period of only one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we will submit the CAFR to the GFOA to determine its eligibility for continued recognition.

Acknowledgements

The Town of Front Royal has established and continues to maintain a stable financial position through strong, progressive management of financial operations combined with sound accounting and financial reporting practices. Appreciation is expressed to the Mayor and members of Town Council for their support and guidance in the management of Town finances, as well as the responsible manner in which they exercise their financial stewardship of the Town.

This report could not have been prepared without the dedication of the Town’s Finance Department. Their hard work, dedication, and continuing efforts to improve the quality of this report directly benefit all who use this document. Special recognition is also extended to those member of the Department of Energy Services and Environmental Services who assisted the auditors in their evaluation of the inventory for both Departments. Special recognition goes to Kim Gilkey-Breeden, Director of Finance, for her technical expertise and efforts in the preparation of this CAFR.

Finally, we would like to express our appreciation to Mitchell & Co., PC, for their cooperation, guidance, and assistance in these efforts.

Respectfully submitted,



Steven M. Burke, PE
Town Manager



Kim Gilkey-Breeden
Director of Finance



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

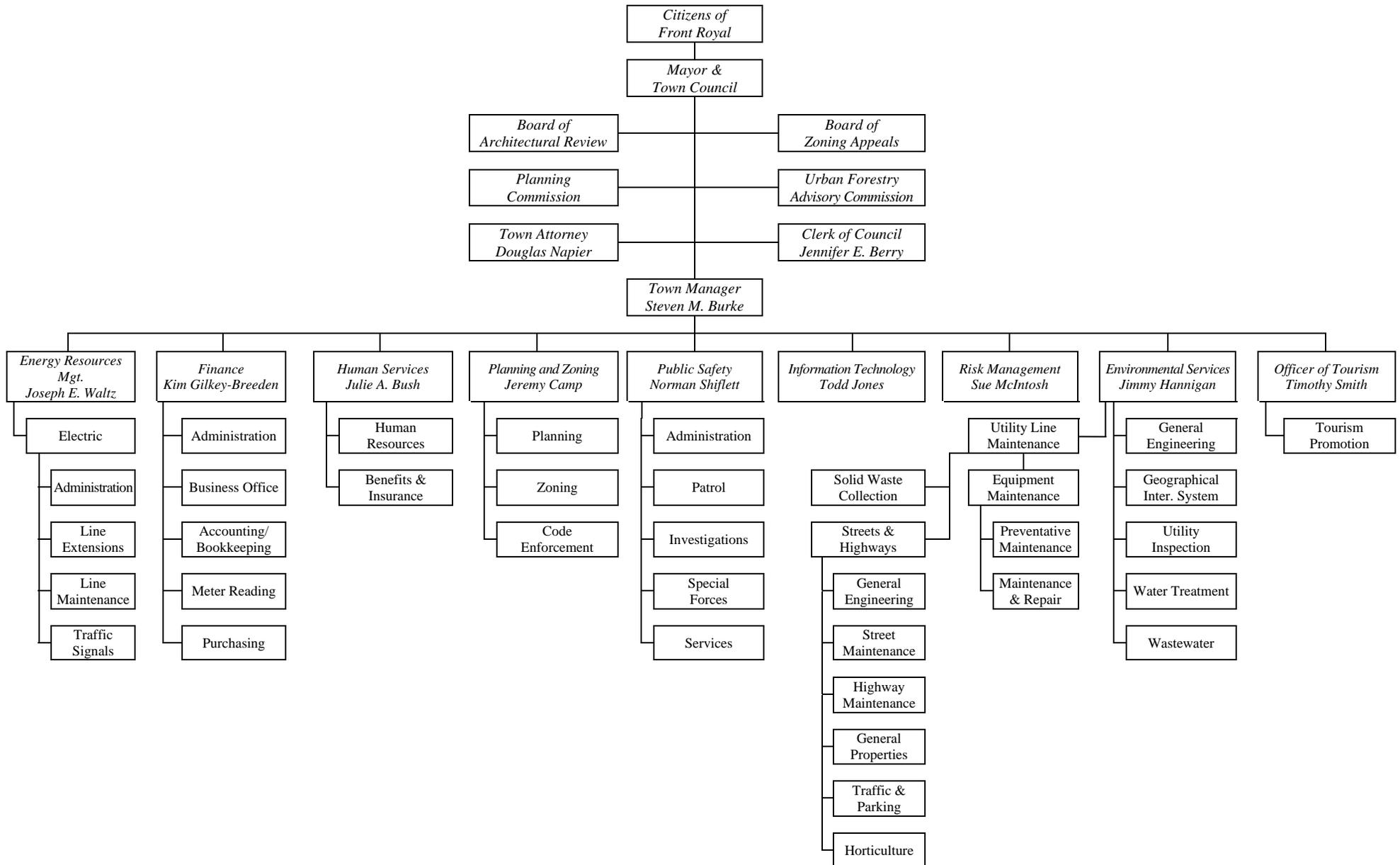
**Town of Front Royal
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

**TOWN OF FRONT ROYAL
ORGANIZATIONAL CHART
FISCAL YEAR ENDED JUNE 30, 2014**



**TOWN OF FRONT ROYAL, VIRGINIA
JUNE 30, 2014**

TOWN COUNCIL

Timothy W. Darr - Mayor
N. Shae Parker - Vice Mayor
Bret W. Hrbek
Daryl Lee Funk
Thomas H. Sayre
Eugene R. Tewalt
Hollis L. Tharpe

TOWN OFFICIALS

Town Manager	Steven M. Burke, PE
Director of Planning & Zoning	Jeremy Camp
Town Attorney	Douglas Napier
Chief of Police	Norman Shiflett
Director of Environmental Services	Jimmy Hannigan
Purchasing Agent	Cynthia A. Hartman
Director of Human Resources	Julie A. Bush
Clerk of Council	Jennifer E. Berry
Director of Finance	Kim D. Gilkey-Breeden
Director of Tourism	Timothy Smith
Director of Information Technology	Todd C. Jones
Director of Energy Services	Joseph E. Waltz
Risk Management Manager	Sue McIntosh

FINANCIAL SECTION

MITCHELL & Co., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

JEFFREY D. MITCHELL, CPA
SANDRA M. TONDREAU, CPA
W. MATTHEW BURNS, CPA

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MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

VIRGINIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 – 19 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 the required supplementary information 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Front Royal, Virginia's basic financial statements. The accompanying information listed in the table of contents as introductory section, supplementary information, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information including the general fund schedules, combining and individual nonmajor fund schedules and other supplementary schedules is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 including the general fund schedules, combining and individual nonmajor fund schedules and other supplementary schedules are fairly stated in all material respects in relation to the basic 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* we have also issued our report dated October 23, 2014 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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* in considering the Town of Front Royal, Virginia's internal control over financial reporting and compliance.

October 23, 2014
Leesburg, Virginia

Mitchell & Co., P.C.

TOWN OF FRONT ROYAL, VIRGINIA

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, 2014. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in our letter of transmittal, which can be found on pages 1 – 5 of this report.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$117,642,950. Of this amount, \$28,654,824 may be used to meet the Town's ongoing obligations to its citizens and creditors.
- The Town's total net position increased by \$677,111.
- As of the close of the current fiscal year, the Town of Front Royal's governmental funds reported combined ending fund balances of \$8,680,801, an increase of \$1,092,598 in comparison with the prior year. Approximately 65% of this amount, (\$5,642,031) is available for spending at the government's discretion.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$6,022,406, or 55.2 percent of total general fund expenditures.
- The Town's total bonded debt increased by \$2,085,000 (19.4 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 position presents information on all Town assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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, engineering and public works, planning, zoning and community development, and parks and recreation. The business-type activities of the Town include water, sewer, electricity, and solid waste management operations.

The government-wide financial statements include Town of Front Royal itself. The proprietary fund, although is legally separate, functions for all practical purposes as a department of the Town of Front Royal, and therefore has been included as an integral part of the primary government.

TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The government-wide financial statements can be found on pages 20 – 21 of this report.

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

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

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

The Town of Front Royal, Virginia maintains six 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 which is considered to be major fund. 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 22 – 25 of this report.

Proprietary funds. The Town of Front Royal, Virginia uses enterprise funds to report the same functions presented as business-type activities in the government-wide financial statements. The Town's enterprise funds include the water fund, sewer fund, electric fund, and 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 on pages 26 – 30 of this report.

Notes to the financial statements. The notes and required supplementary information contained in the notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements and required supplementary information contained in the notes can be found on pages 31 – 57 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 58 – 68 of this report. Additional state required supplementary schedules follow the combining and individual fund statements and can be found on pages 69 – 71 of this report.

TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-wide Financial Analysis

As noted earlier, net position 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 \$117,642,950 at the close of the most recent fiscal year.

By far the largest portion of the Town's net position (83 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 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 position by type of activity as of June 30, 2014 and 2013.

TOWN OF FRONT ROYAL -- NET POSITION						
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 10,618,142	\$ 9,490,091	\$ 27,772,064	\$ 24,569,759	\$ 38,390,206	\$ 34,059,850
Capital assets	50,772,052	53,782,076	46,839,298	44,852,961	97,611,350	98,635,037
Total Assets	61,390,194	63,272,167	74,611,362	69,422,720	136,001,556	132,694,887
Deferred Outflows of Resources	-	-	609,500	-	609,500	-
Long-term liabilities	1,700,635	1,527,744	14,789,476	11,651,231	16,490,111	13,178,975
Other liabilities	372,814	533,493	2,105,181	1,911,238	2,477,995	2,444,731
Total Liabilities	2,073,449	2,061,237	16,894,657	13,562,469	18,968,106	15,623,706
Net investment in capital assets	50,772,052	53,782,076	35,385,515	36,419,933	86,157,567	90,202,009
Restricted	2,830,559	1,975,178	-	-	2,830,559	1,975,178
Unrestricted	5,714,134	5,453,676	22,940,690	19,440,318	28,654,824	24,893,994
Total Net Position	\$ 59,316,745	\$ 61,210,930	\$ 58,326,205	\$ 55,860,251	\$ 117,642,950	\$ 117,071,181

An additional portion of the Town of Front Royal's net position (2.39%) represents resources that are in a nonspendable form. The remaining balance of \$28,654,824 is unrestricted net position and 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 categories of net position, 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 position increased by \$677,111 during the current fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental activities. Governmental activities decreased the Town of Front Royal, Virginia's net position by \$1,894,185. These changes are presented in column one of the following table and key elements of the decrease are noted below:

TOWN OF FRONT ROYAL -- CHANGES IN NET POSITION						
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues						
Charges for services	\$ 529,750	\$ 370,780	\$ 27,917,275	\$ 28,368,247	\$ 28,447,025	\$ 28,739,027
Operating grants & contributions	2,047,240	1,998,364	-	-	2,047,240	1,998,364
Capital grants & contributions	32,554	10,249	-	-	32,554	10,249
General revenues						
Property taxes	1,788,416	1,549,507	-	-	1,788,416	1,549,507
Other taxes	5,124,035	5,502,708	-	-	5,124,035	5,502,708
Investment earnings	77,835	12,113	174,807	(32,882)	252,642	(20,769)
Total revenues	9,599,830	9,443,721	28,092,082	28,335,365	37,691,912	37,779,086
Expenses						
General government	3,610,966	3,404,737	-	-	3,610,966	3,404,737
Public safety	4,256,684	4,226,075	-	-	4,256,684	4,226,075
Engineering and public works	2,152,085	2,200,764	-	-	2,152,085	2,200,764
Planning and zoning	720,592	617,998	-	-	720,592	617,998
Parks and recreation	22,344	53,548	-	-	22,344	53,548
Interest on long-term debt	-	4,345	-	-	-	4,345
Infrastructure depreciation	3,591,054	3,591,054	-	-	3,591,054	3,591,054
Electric	-	-	15,469,985	13,293,934	15,469,985	13,293,934
Water	-	-	3,075,201	2,953,064	3,075,201	2,953,064
Sewer	-	-	3,186,205	2,966,184	3,186,205	2,966,184
Solid waste management	-	-	929,685	924,107	929,685	924,107
Total expenses	14,353,725	14,098,521	22,661,076	20,137,289	37,014,801	34,235,810
Increase (decrease) in net position before transfers	(4,753,895)	(4,654,800)	5,431,006	8,198,076	677,111	3,543,276
Transfers	2,859,710	2,848,460	(2,859,710)	(2,848,460)	-	-
Increase (decrease) in net position	(1,894,185)	(1,806,340)	2,571,296	5,349,616	677,111	3,543,276
Net position – 07/01/2013	61,210,930	63,017,270	55,754,909	50,510,635	116,965,839	113,527,905
Net position – 06/30/2014	<u>\$ 59,316,745</u>	<u>\$ 61,210,930</u>	<u>\$ 58,326,205</u>	<u>\$ 55,860,251</u>	<u>\$ 117,642,950</u>	<u>\$ 117,071,181</u>

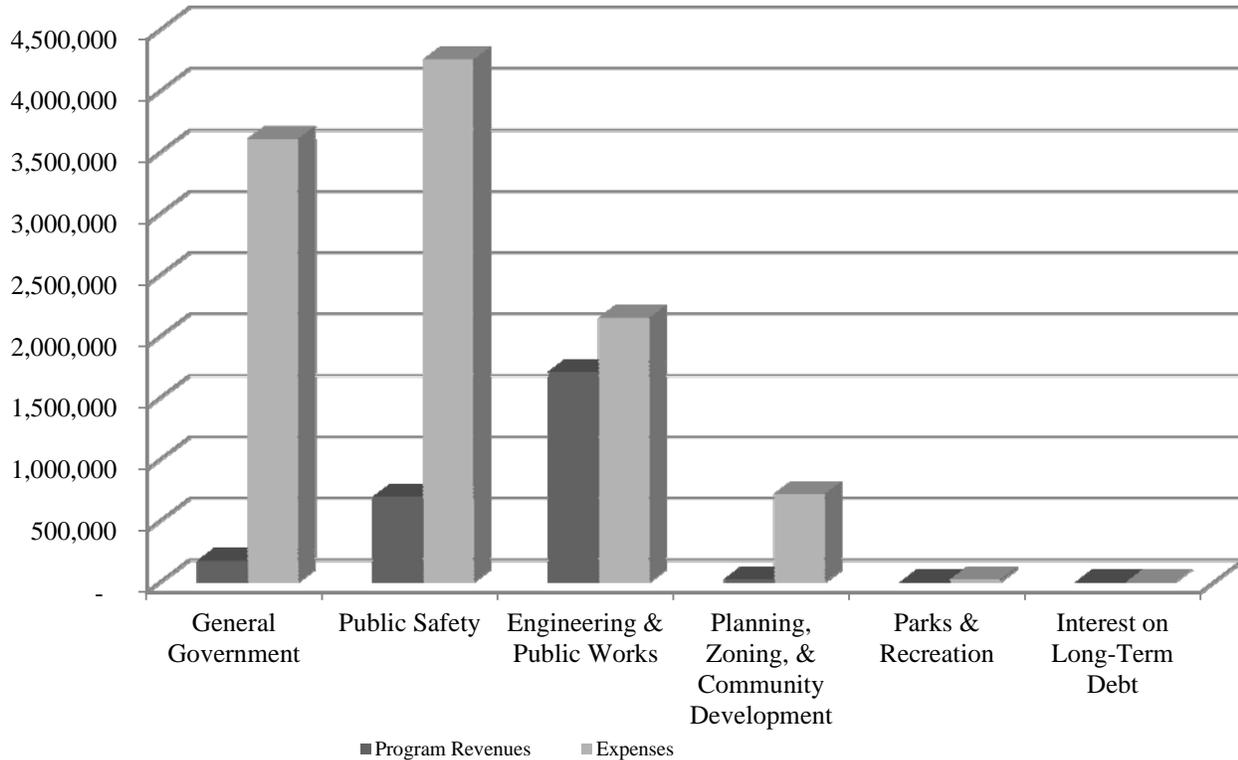
- Revenue from property taxes increased by \$238,909 from 2013.
- Operating grants and contributions for governmental activities amounted to \$2,047,240, mostly as a result of Virginia state funding. The Virginia state funding furnished resources to support two of the Town's primary functions: public safety, public works and engineering.
- General government and public safety expenses increased by \$206,229 and \$30,609 respectively. Total expenses increased \$255,204.

TOWN OF FRONT ROYAL, VIRGINIA

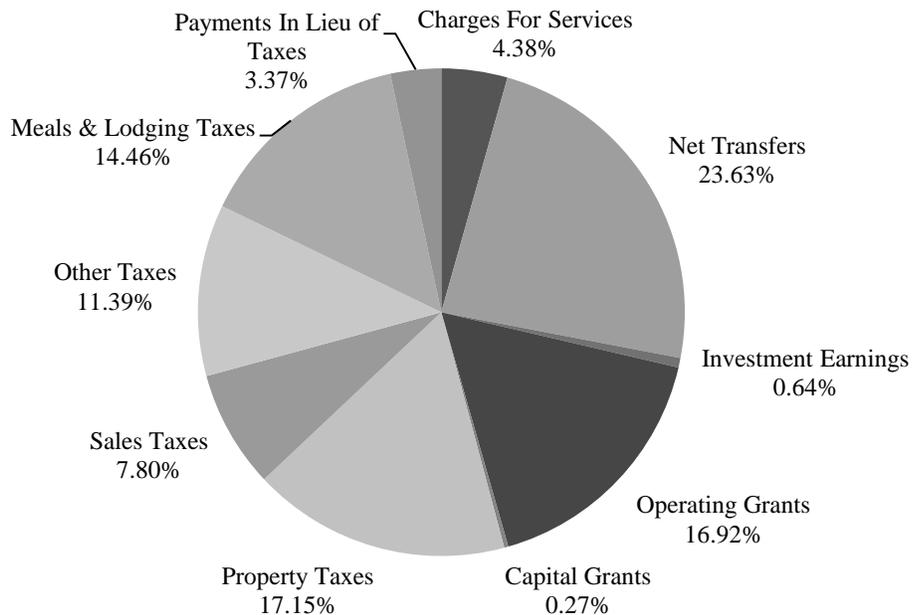
MANAGEMENT’S DISCUSSION AND ANALYSIS

The following charts present a graphic representation of the Town’s governmental activities and the related revenue structure for fiscal year 2014.

EXPENSES AND PROGRAM REVENUES – GOVERNMENTAL ACTIVITIES



REVENUES BY SOURCE – GOVERNMENTAL ACTIVITIES



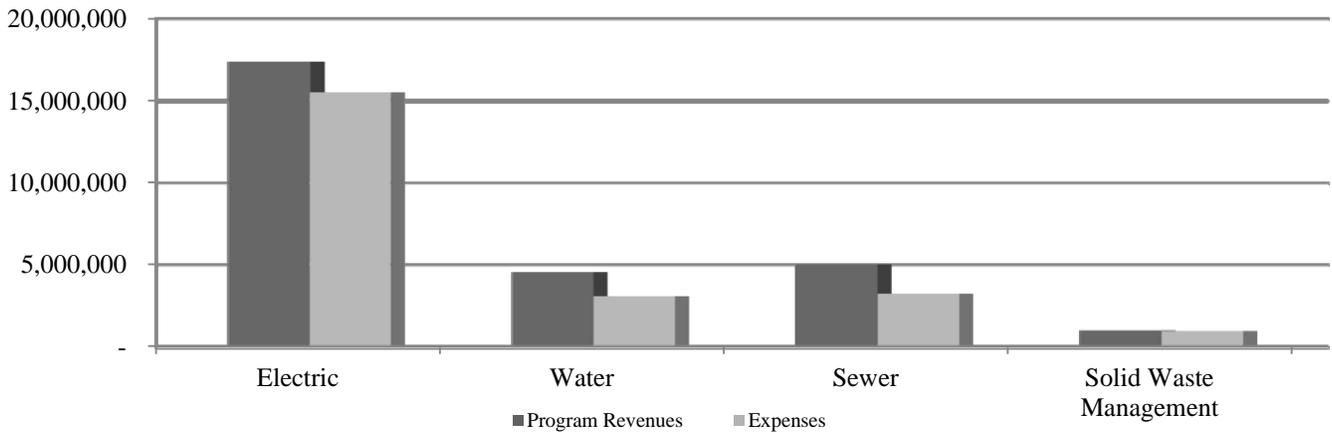
TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT’S DISCUSSION AND ANALYSIS

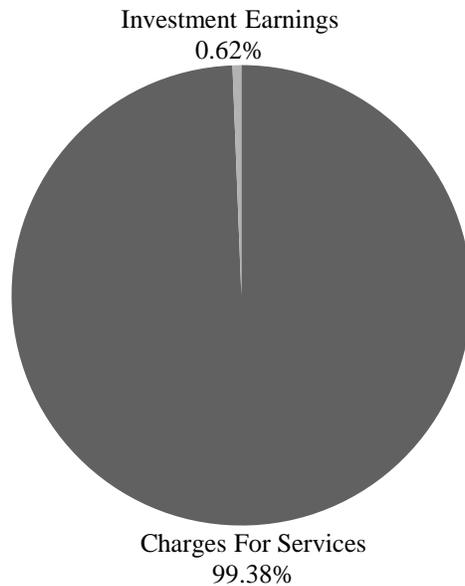
Business-type activities. Business-type activities increased the Town of Front Royal, Virginia’s net position by \$2,571,296. Key elements of this increase are as follows:

- Electric service expenses increased by \$2,176,051, an increase of 16.37 percent.
-

EXPENSES AND PROGRAM REVENUES – BUSINESS-TYPE ACTIVITIES



REVENUES BY SOURCE – BUSINESS-TYPE ACTIVITIES



TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Town of Front Royal itself, or group that has been delegated authority to assign resources for use for particular purposes by the Town of Front Royal's Council

As of the end of the current fiscal year, the Town of Front Royal, Virginia's governmental funds reported combined ending fund balances of \$8,680,801, an increase of \$1,092,598 in comparison with the prior year. Approximately 64.99% of this total amount, \$5,642,031 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance represents funds in nonspendable form (\$207,823), restricted by third parties (\$2,830,559), and assigned by the Town for specific purposes (\$388).

The general fund is the chief operating fund of the Town of Front Royal, Virginia. At the end of the current fiscal year, unassigned fund balance of the general fund was \$6,022,406, while total fund balance reached \$8,130,510. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 55.2 percent of total general fund expenditures, while total fund balance represents 74.6 percent of that same amount.

The fund balance of the Town's general fund increased by \$904,437 during the current fiscal year. Key factors in this increase are as follows:

- The general fund received its annual transfers from the proprietary funds. These transfers of \$2,859,710 are used to pay 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 position of the water, sewer and solid waste management functions at the end of the year amounted to \$41,043,914 and those for the electric function amounted to \$17,282,291. The total increase in net position for all enterprise funds was \$2,571,296. 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 \$1,189,475 and are noted as follows: a \$51,308 increase in Legislative; a \$336,048 increase in Executive; a \$7,150 increase in Legal; a \$87,782 decrease in Planning, Zoning and Community Development; a \$52,005 increase in Police Department; and a \$653,336 increase in Public Works and Engineering.

Actual general fund revenues exceeded budgeted revenues by \$637,477. The variance relates primarily to unanticipated increases in collections for automobile licensing, meals and sales tax, and payments in lieu of taxes. Actual general fund expenditures were less than budgeted expenditures by \$1,316,547. The majority of the variance relates to decreased costs for snow removal and street projects relative to previous years.

TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2014, amounts to \$97,611,350 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, roads, highways, and bridges. The total decrease in capital assets for the current fiscal year was approximately 1.04%. Major capital assets events during the current fiscal year included the following:

- The building renovations cost amounted to \$735,684.
- Various equipment purchased amounted to of \$306,228.
- Various improvements on water, sewer and electric lines including equipment amounted to \$3,790,184.

The table below summarizes the capital assets of the Town at June 30, 2014 and 2013.

TOWN OF FRONT ROYAL - CAPITAL ASSETS (NET OF DEPRECIATION)						
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 1,350,986	\$ 1,314,306	\$ 1,488,822	\$ 1,488,822	\$ 2,839,808	\$ 2,803,128
Buildings and Improvements	7,106,230	6,572,568	20,212,871	17,891,364	27,319,101	24,463,932
Utility distribution systems	-	-	24,001,277	24,581,880	24,001,277	24,581,880
Vehicles	269,996	284,451	557,754	614,460	827,750	898,911
Machinery and Equipment	603,315	578,173	578,574	276,435	1,181,889	854,608
Infrastructure	41,441,525	45,032,578	-	-	41,441,525	45,032,578
Total	\$ 50,772,052	\$ 53,782,076	\$ 46,839,298	\$ 44,852,961	\$ 97,611,350	\$ 98,635,037

Additional information on the Town of Front Royal's capital assets can be found in Note IV. E. on pages 45 – 46 of this report.

Long-term debt. At the end of the current fiscal year, the Town of Front Royal, Virginia had total bonded debt outstanding of \$12,385,000. All of this amount comprises debt backed by the full faith and credit of the government even though all bonded debt will be repaid from enterprise fund revenue.

TOWN OF FRONT ROYAL -- OUTSTANDING DEBT (GENERAL OBLIGATION BONDS)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
General Obligation Bonds	\$ -	\$ -	\$ 12,835,000	\$ 10,750,000	\$ 12,835,000	\$ 10,750,000

The Town of Front Royal's total debt increased by \$2,085,000 (19.4 percent) during the current fiscal year. The majority of the debt is \$10,330,000 in general obligation bonds in the Water Fund. The reason for the increase is the issuance of new debt.

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.

TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total taxable assessed valuation. The current debt limitation for the Town of Front Royal is \$114,638,940 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 47 – 49 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the Town of Front Royal is currently 5.6 percent, which is 0.1 percent lower in comparison to prior year.
- This compares to the state's average unemployment rate of 5.4 percent and favorably to the national average rate of 6.1 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 2014 fiscal year.

During the current fiscal year, unassigned fund balance in the general fund was \$6,022,406. Town of Front Royal has not appropriated any of this amount for spending in the 2015 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, 102 East Main Street, P.O. Box 1560, Front Royal, Virginia 22630-1560.

TOWN OF FRONT ROYAL, VIRGINIA
GOVERNMENT WIDE STATEMENT OF NET POSITION
JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 10,039,033	\$ 8,933,241	\$ 18,972,274
Investments	-	9,453,668	9,453,668
Receivables (net of allowance for uncollectibles, where applicable)			
Delinquent taxes, including penalties	1,613,758	-	1,613,758
Accrued interest	-	-	-
Accounts	-	2,811,045	2,811,045
Other	17,820	738,939	756,759
Internal balances	(1,633,165)	1,633,165	-
Due from other governments	372,873	-	372,873
Inventories and other assets	207,823	1,307,613	1,515,436
Temporarily restricted assets - cash and cash equivalents			
Customer deposits	-	390,794	390,794
Bond funds	-	2,503,599	2,503,599
Capital assets (net of accumulated depreciation)			
Land	1,350,986	1,488,822	2,839,808
Buildings and improvements	7,106,230	20,212,871	27,319,101
Utility distribution systems	-	24,001,277	24,001,277
Vehicles	269,996	557,754	827,750
Machinery and equipment	603,315	578,574	1,181,889
Infrastructure	41,441,525	-	41,441,525
Total Assets	61,390,194	74,611,362	136,001,556
Deferred Outflows of Resources			
Deferred charge on refunded debt	-	609,500	609,500
Liabilities			
Accounts payable	372,814	1,569,677	1,942,491
Accrued interest payable	-	144,710	144,710
Liabilities payable with restricted assets	-	390,794	390,794
Noncurrent liabilities			
Due within one year	905,409	879,884	1,785,293
Due in more than one year	795,226	13,909,592	14,704,818
Total Liabilities	2,073,449	16,894,657	18,968,106
Net Position			
Net investment in capital assets	50,772,052	35,385,515	86,157,567
Restricted for:			
Streets and highways	1,900,281	-	1,900,281
Capital outlays	300,701	-	300,701
Community development	629,577	-	629,577
Unrestricted	5,714,134	22,940,690	28,654,824
Total Net Position	\$ 59,316,745	\$ 58,326,205	\$ 117,642,950

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, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities							
General government	\$ 3,610,966	\$ 142,191	\$ -	\$ 32,554	\$ (3,436,221)	\$ -	\$ (3,436,221)
Public safety	4,256,684	357,460	338,352	-	(3,560,872)	-	(3,560,872)
Engineering and public works	2,152,085	3,848	1,708,888	-	(439,349)	-	(439,349)
Planning, zoning, and community development	720,592	26,251	-	-	(694,341)	-	(694,341)
Parks and recreation	22,344	-	-	-	(22,344)	-	(22,344)
Interest on long-term debt	-	-	-	-	-	-	-
Infrastructure depreciation - unallocated	3,591,054	-	-	-	(3,591,054)	-	(3,591,054)
Total governmental activities	14,353,725	529,750	2,047,240	32,554	(11,744,181)	-	(11,744,181)
Business-type activities							
Electric	15,469,985	17,389,372	-	-	-	1,919,387	1,919,387
Water	3,075,201	4,549,414	-	-	-	1,474,213	1,474,213
Sewer	3,186,205	4,984,234	-	-	-	1,798,029	1,798,029
Solid Waste Mangement	929,685	994,255	-	-	-	64,570	64,570
Total business-type activities	22,661,076	27,917,275	-	-	-	5,256,199	5,256,199
Total primary government	\$ 37,014,801	\$ 28,447,025	\$ 2,047,240	\$ 32,554	(11,744,181)	5,256,199	(6,487,982)
General Revenues							
Property taxes					1,788,416	-	1,788,416
Sales taxes					943,728	-	943,728
Business and occupational taxes					672,494	-	672,494
Franchise and bank stock taxes					284,714	-	284,714
Communication taxes					169,927	-	169,927
Consumer taxes					164,137	-	164,137
Meals and lodging taxes					1,750,295	-	1,750,295
Virginia personal property tax reduction					287,000	-	287,000
Payment in lieu of taxes					407,661	-	407,661
Vehicle licenses					357,359	-	357,359
Other general taxes					86,720	-	86,720
Unrestricted investment earnings					77,835	174,807	252,642
Transfers					2,859,710	(2,859,710)	-
Total general revenues and transfers					9,849,996	(2,684,903)	7,165,093
Change in net position					(1,894,185)	2,571,296	677,111
Net position - beginning					61,210,930	55,754,909	116,965,839
Net position - ending					\$ 59,316,745	\$ 58,326,205	\$ 117,642,950

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

TOWN OF FRONT ROYAL, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 9,346,684	\$ 692,349	\$ 10,039,033
Investments	-	-	-
Receivables (net of allowance for uncollectibles, where applicable)			
Delinquent taxes, including penalties	1,610,888	2,870	1,613,758
Other	17,820	-	17,820
Due from other governments	372,873	-	372,873
Interfund advances	49,914	4,888	54,802
Inventories and other assets	207,824	-	207,824
Total Assets	<u>11,606,003</u>	<u>700,107</u>	<u>12,306,110</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	203,084	-	203,084
Banking advances	-	-	-
Accrued liabilities	169,730	-	169,730
Interfund advances	1,541,022	146,946	1,687,968
Total Liabilities	<u>1,913,836</u>	<u>146,946</u>	<u>2,060,782</u>
Deferred Inflows of Resources			
Unavailable revenue	<u>1,561,657</u>	<u>2,870</u>	<u>1,564,527</u>
Fund balances			
Nonspendable:			
Inventory	138,715	-	138,715
Prepaid items	69,108	-	69,108
Restricted for:			
Streets and highways	1,900,281	-	1,900,281
Capital outlays	-	300,701	300,701
Community development	-	629,577	629,577
Assigned for:			
Capital projects	-	388	388
Unassigned	6,022,406	(380,375)	5,642,031
Total Fund Balances	<u>8,130,510</u>	<u>550,291</u>	<u>8,680,801</u>
Total Liabilities and Fund Balances	<u>\$ 10,044,346</u>	<u>\$ 697,237</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	50,772,052
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,564,527
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,700,635)</u>
Net position of governmental activities	<u>\$ 59,316,745</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, 2014

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes			
Property	\$ 1,337,195	\$ 255,090	\$ 1,592,285
Sales	943,728	-	943,728
Business and occupational	672,494	-	672,494
Franchise	67,191	-	67,191
Consumer	164,137	-	164,137
Vehicle licenses	357,359	-	357,359
Bank stock	217,523	-	217,523
Meals and lodging	1,750,295	-	1,750,295
Payment in lieu of taxes	407,661	-	407,661
Permits, fees, and licenses	26,251	-	26,251
Fines and forfeitures	157,767	-	157,767
Revenues from use of money & property	77,835	-	77,835
Charges for services	37,924	-	37,924
Miscellaneous	108,115	-	108,115
Recovered costs	-	199,693	199,693
Intergovernmental	2,623,441	-	2,623,441
Total revenues	<u>8,948,916</u>	<u>454,783</u>	<u>9,403,699</u>
Expenditures			
General government			
Legislative	171,338	-	171,338
Executive	2,049,108	-	2,049,108
Legal	362,454	-	362,454
Finance	811,502	-	811,502
Public safety - Police	3,962,771	10,519	3,973,290
Planning, zoning, and community development	391,255	256,103	647,358
Engineering and public works	2,565,474	-	2,565,474
Parks and recreation	20,000	-	20,000
Nondepartmental	570,287	-	570,287
Total expenditures	<u>10,904,189</u>	<u>266,622</u>	<u>11,170,811</u>
Deficiency of revenues under expenditures	<u>(1,955,273)</u>	<u>188,161</u>	<u>(1,767,112)</u>
Other Financing Sources (Uses)			
Transfers in	2,859,710	-	2,859,710
Transfers (out)	-	-	-
Total other financing sources and uses	<u>2,859,710</u>	<u>-</u>	<u>2,859,710</u>
Net change in fund balances	<u>904,437</u>	<u>188,161</u>	<u>1,092,598</u>
Fund balances - beginning	<u>7,226,073</u>	<u>362,130</u>	<u>7,588,203</u>
Fund balances - ending	<u>\$ 8,130,510</u>	<u>\$ 550,291</u>	<u>\$ 8,680,801</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, 2014

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

Net change in fund balances - total governmental funds	\$ 1,092,598
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expenses exceeded capital outlays in the current period.	(3,010,024)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	196,133
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(172,892)</u>
Change in net position of governmental activities	<u><u>\$ (1,894,185)</u></u>

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

**TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance Positive (Negative)
	Original	Final		
Revenues				
General property taxes	\$ 1,292,950	\$ 1,292,950	\$ 1,337,195	\$ 44,245
Other local taxes	4,172,000	4,172,000	4,580,388	408,388
Permits, fees, and licenses	80,000	80,000	26,251	(53,749)
Fines and forfeitures	215,000	215,000	157,767	(57,233)
Revenues from use of money & property	99,250	99,250	77,835	(21,415)
Charges for services	26,000	26,000	37,924	11,924
Miscellaneous	40,000	41,700	108,115	66,415
Intergovernmental	2,406,359	2,414,539	2,623,441	208,902
Total revenues	8,331,559	8,341,439	8,948,916	607,477
Expenditures				
General government				
Legislative	212,980	264,288	171,338	92,950
Executive	1,801,265	2,138,813	2,049,108	89,705
Legal	393,330	400,480	362,454	38,026
Finance	833,195	833,195	811,502	21,693
Total general government	3,240,770	3,636,776	3,394,402	242,374
Public safety - police	4,077,730	4,130,053	3,962,771	167,282
Planning and zoning	455,350	543,132	391,255	151,877
Public works and engineering	2,656,760	3,310,126	2,565,474	744,652
Parks and recreation	20,000	20,000	20,000	-
Non-departmental	580,650	580,649	570,287	10,362
Total expenditures	11,031,260	12,220,736	10,904,189	1,316,547
Deficiency of revenues under expenditures	(2,699,701)	(3,879,297)	(1,955,273)	1,924,024
Other Financing Sources				
Transfers in	2,829,710	2,829,710	2,859,710	30,000
Transfers out	-	-	-	-
	2,829,710	2,829,710	2,859,710	30,000
Net change in fund balances	130,009	(1,049,587)	904,437	1,954,024
Fund balances - beginning	7,226,073	7,226,073	7,226,073	-
Fund balances - ending	\$ 7,356,082	\$ 6,176,486	\$ 8,130,510	\$ 1,954,024

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

TOWN OF FRONT ROYAL, VIRGINIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	Business-type Activities - Enterprise Funds			
	Electric Current Year	Electric Prior Year	Water Current Year	Water Prior Year
Assets				
Current assets				
Cash and cash equivalents	\$ 3,528,913	\$ 3,157,684	\$ 3,623,701	\$ 3,509,683
Investments	1,702,560	1,795,096	4,126,803	1,119,557
Due from other funds	1,270,663	1,420,663	558,177	391,617
Accounts receivable (net of allowance for uncollectibles)	1,634,361	1,653,208	492,072	414,534
Other receivables	299,770	295,519	307,094	309,512
Inventories	1,004,956	934,048	151,355	154,406
Total current assets	9,441,223	9,256,218	9,259,202	5,899,309
Noncurrent assets				
Restricted cash and cash equivalents				
Customer deposits	369,784	421,917	21,010	21,937
Bond funds	-	-	-	-
Bond issuance costs	-	-	-	45,538
	369,784	421,917	21,010	67,475
Capital assets				
Land, buildings and structures	6,049,896	5,311,793	14,441,917	13,944,795
Utility distribution systems	8,724,580	8,435,344	21,750,449	21,593,805
Vehicles	1,171,970	1,121,399	439,431	439,431
Equipment	984,801	984,801	698,171	642,149
Less accumulated depreciation	(7,521,987)	(7,146,410)	(13,959,617)	(13,200,236)
Total capital assets (net of accumulated depreciation)	9,409,260	8,706,927	23,370,351	23,419,944
Total noncurrent assets	9,779,044	9,128,844	23,391,361	23,487,419
Total Assets	19,220,267	18,385,062	32,650,563	29,386,728
Deferred Outflows of Resources				
Deferred charge on refunded debt	-	-	609,500	-
Liabilities				
Current liabilities				
Accounts payable	1,358,460	1,058,484	104,204	267,017
Accrued interest payable	-	-	104,887	93,088
Compensated absences - current	50,719	45,801	72,572	62,774
General obligation bonds - current	-	-	540,418	432,741
Total current liabilities	1,409,179	1,104,285	822,081	855,620
Noncurrent liabilities				
Customer deposits payable	369,784	346,920	21,010	18,038
Compensated absences	50,718	45,801	72,572	62,773
OPEB liability	108,295	90,270	112,612	93,869
General obligation bonds payable	-	-	10,898,009	7,866,081
Total noncurrent liabilities	528,797	482,991	11,104,203	8,040,761
Total Liabilities	1,937,976	1,587,276	11,926,284	8,896,381
Net Position				
Net investment in capital assets	9,409,260	8,706,927	11,931,924	15,121,122
Unrestricted	7,873,031	8,090,859	9,401,855	5,369,225
Total Net Position	\$ 17,282,291	\$ 16,797,786	\$ 21,333,779	\$ 20,490,347

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

(Continued)

TOWN OF FRONT ROYAL, VIRGINIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	Business-type Activities - Enterprise Funds				
	Sewer Current Year	Sewer Prior Year	Solid Waste Management Current Year	Solid Waste Management Prior Year	Totals Current Year
Assets					
Current assets					
Cash and cash equivalents	\$ 2,035,346	\$ 2,186,526	\$ (254,719)	\$ (340,479)	\$ 8,933,241
Investments	3,624,305	3,623,155	-	-	9,453,668
Due from other funds	(177,493)	(10,932)	(18,182)	(18,182)	1,633,165
Accounts receivable (net of allowance for uncollectibles)	567,008	517,563	117,604	112,290	2,811,045
Other receivables	132,075	137,090	-	-	738,939
Inventories	151,302	154,406	-	-	1,307,613
Total current assets	6,332,543	6,607,808	(155,297)	(246,371)	24,877,671
Noncurrent assets					
Restricted cash and cash equivalents					
Customer deposits	-	-	-	-	390,794
Bond funds	2,503,599	2,503,599	-	-	2,503,599
Bond issuance costs	-	59,804	-	-	-
	2,503,599	2,563,403	-	-	2,894,393
Capital assets					
Land, buildings and structures	7,497,064	5,900,446	34,160	34,160	28,023,037
Utility distribution systems	22,658,360	22,631,628	-	-	53,133,389
Vehicles	845,495	797,418	1,022,826	1,022,826	3,479,722
Equipment	1,257,914	933,254	608,543	602,144	3,549,429
Less accumulated depreciation	(18,258,585)	(17,603,561)	(1,606,090)	(1,592,225)	(41,346,279)
Total capital assets (net of accumulated depreciation)	14,000,248	12,659,185	59,439	66,905	46,839,298
Total noncurrent assets	16,503,847	15,222,588	59,439	66,905	49,733,691
Total Assets	22,836,390	21,830,396	(95,858)	(179,466)	74,611,362
Deferred Outflows of Resources					
Deferred charge on refunded debt	-	-	-	-	609,500
Liabilities					
Current liabilities					
Accounts payable	70,288	60,483	36,725	27,316	1,569,677
Accrued interest payable	39,823	39,892	-	-	144,710
Compensated absences - current	66,847	60,437	25,478	21,219	215,616
General obligation bonds - current	123,850	118,850	-	-	664,268
Total current liabilities	300,808	279,662	62,203	48,535	2,594,271
Noncurrent liabilities					
Customer deposits payable	-	-	-	-	390,794
Compensated absences	66,846	60,437	25,477	21,219	215,613
OPEB liability	99,538	82,970	80,420	67,034	400,865
General obligation bonds payable	2,395,105	2,518,955	-	-	13,293,114
Total noncurrent liabilities	2,561,489	2,662,362	105,897	88,253	14,300,386
Total Liabilities	2,862,297	2,942,024	168,100	136,788	16,894,657
Net Position					
Net investment in capital assets	13,984,892	12,524,979	59,439	66,905	35,385,515
Unrestricted	5,989,201	6,363,393	(323,397)	(383,159)	22,940,690
Total Net Position	\$ 19,974,093	\$ 18,888,372	\$ (263,958)	\$ (316,254)	\$ 58,326,205

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 POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	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	\$ 17,085,790	\$ 16,319,406	\$ -	\$ -
Water and sewer sales	-	-	3,995,030	3,088,108
Installation and connection charges	263,443	203,600	78,170	868,988
Refuse service fees	-	-	-	-
Miscellaneous revenues	40,139	309,894	474,214	387,201
Grants	-	-	2,000	-
Total operating revenues	<u>17,389,372</u>	<u>16,832,900</u>	<u>4,549,414</u>	<u>4,344,297</u>
Operating expenses				
Personal service	953,356	1,077,051	1,078,582	1,054,451
Contractual service	46,934	63,544	152,967	197,216
Electric power	13,962,216	11,756,867	-	-
Depreciation	375,577	346,502	759,381	768,585
Other charges	492,046	428,627	898,434	677,310
Operating expenses capitalized	(360,144)	(378,657)	(151,489)	(135,707)
Total operating expenses	<u>15,469,985</u>	<u>13,293,934</u>	<u>2,737,875</u>	<u>2,561,855</u>
Operating income	<u>1,919,387</u>	<u>3,538,966</u>	<u>1,811,539</u>	<u>1,782,442</u>
Nonoperating revenues (expenses)				
Investment earnings	36,118	(30,133)	37,757	(31,286)
Interest expense	-	-	(337,326)	(391,210)
Bond issuance costs	-	-	-	-
Total nonoperating revenue (expenses)	<u>36,118</u>	<u>(30,133)</u>	<u>(299,569)</u>	<u>(422,496)</u>
Income before contributions and transfers	1,955,505	3,508,833	1,511,970	1,359,946
Transfers and contributions				
Transfers in (out)	<u>(1,471,000)</u>	<u>(1,471,000)</u>	<u>(623,000)</u>	<u>(623,000)</u>
Change in net position	484,505	2,037,833	888,970	736,946
Total net position - beginning of year (Note V.H.)	<u>16,797,786</u>	<u>14,759,953</u>	<u>20,444,809</u>	<u>19,753,401</u>
Total net position - end of year	<u>\$ 17,282,291</u>	<u>\$ 16,797,786</u>	<u>\$ 21,333,779</u>	<u>\$ 20,490,347</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 POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	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	\$ -	\$ -	\$ -	\$ -	\$ 17,085,790
Water and sewer sales	4,862,217	4,076,892	-	-	8,857,247
Installation and connection charges	118,967	2,090,825	-	-	460,580
Refuse service fees	-	-	994,107	883,208	994,107
Miscellaneous revenues	1,050	135,640	148	4,486	515,551
Grants	2,000	-	-	-	4,000
Total operating revenues	<u>4,984,234</u>	<u>6,303,357</u>	<u>994,255</u>	<u>887,694</u>	<u>27,917,275</u>
Operating expenses					
Personal service	979,195	896,285	688,611	697,768	3,699,744
Contractual service	408,046	359,740	1,954	2,022	609,901
Electric power	-	-	-	-	13,962,216
Depreciation	655,024	664,247	13,865	30,258	1,803,847
Other charges	1,024,633	926,634	225,255	194,059	2,640,368
Operating expenses capitalized	(23,628)	(45,151)	-	-	(535,261)
Total operating expenses	<u>3,043,270</u>	<u>2,801,755</u>	<u>929,685</u>	<u>924,107</u>	<u>22,180,815</u>
Operating income	<u>1,940,964</u>	<u>3,501,602</u>	<u>64,570</u>	<u>(36,413)</u>	<u>5,736,460</u>
Nonoperating revenues (expenses)					
Investment earnings	82,696	23,568	18,236	4,969	174,807
Interest expense	(142,935)	(164,429)	-	-	(480,261)
Bond issuance costs	-	-	-	-	-
Total nonoperating revenues (expenses)	<u>(60,239)</u>	<u>(140,861)</u>	<u>18,236</u>	<u>4,969</u>	<u>(305,454)</u>
Income before contributions and transfers	1,880,725	3,360,741	82,806	(31,444)	5,431,006
Transfers and contributions					
Transfers in (out)	(735,200)	(735,200)	(30,510)	(19,260)	(2,859,710)
Change in net position	1,145,525	2,625,541	52,296	(50,704)	2,571,296
Total net position - beginning of year (Note V.H.)	<u>18,828,568</u>	<u>16,262,831</u>	<u>(316,254)</u>	<u>(265,550)</u>	<u>55,754,909</u>
Total net position - end of year	<u>\$ 19,974,093</u>	<u>\$ 18,888,372</u>	<u>\$ (263,958)</u>	<u>\$ (316,254)</u>	<u>\$ 58,326,205</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, 2014

	Business-type Activities - Enterprise Funds				Totals
	Electric	Water	Sewer	Solid Waste Management	
Cash Flows from Operating Activities					
Receipts from customers and users	\$ 17,403,968	\$ 4,474,294	\$ 4,939,804	\$ 988,941	\$ 27,807,007
Payments to suppliers	(13,871,095)	(1,037,959)	(1,379,574)	(204,414)	(16,493,042)
Payments to employees	(943,521)	(1,058,985)	(966,376)	(680,094)	(3,648,976)
Net cash provided by (used in) operating activities	2,589,352	2,377,350	2,593,854	104,433	7,664,989
Cash Flows from Noncapital Financing Activities					
Transfers to other funds	(1,471,000)	(623,000)	(735,200)	(30,510)	(2,859,710)
Interfund (advances)/repayments	150,000	(166,560)	166,560	-	150,000
Net cash used in noncapital financing activities	(1,321,000)	(789,560)	(568,640)	(30,510)	(2,709,710)
Cash Flows from Capital and Related Financing Activities					
Proceeds from 2014 bond debt issued	-	10,066,830	-	-	10,066,830
Acquisition/construction of capital assets	(1,077,910)	(709,788)	(1,996,086)	(6,399)	(3,790,183)
Principal paid on capital debt	-	(420,000)	(115,000)	-	(535,000)
Principal paid on refinanced debt	-	(6,942,415)	-	-	(6,942,415)
Interest paid	-	(499,837)	(146,854)	-	(646,691)
Net cash provided by (used in) capital and related financing activities	(1,077,910)	1,494,790	(2,257,940)	(6,399)	(1,847,459)
Cash Flows from Investing Activities					
Sales (purchases) of investments	92,536	(3,007,246)	(1,150)	-	(2,915,860)
Interest and dividends received	36,118	37,757	82,696	18,236	174,807
Net cash provided by (used in) investing activities	128,654	(2,969,489)	81,546	18,236	(2,741,053)
Net increase (decrease) in cash and cash eq.	319,096	113,091	(151,180)	85,760	366,767
Cash and cash equivalents July 1, 2013	3,579,601	3,531,620	4,690,125	(340,479)	11,460,867
Cash and cash equivalents June 30, 2014	\$ 3,898,697	\$ 3,644,711	\$ 4,538,945	\$ (254,719)	\$ 11,827,634
Reconciliation of operating income to net cash provided (used) by operating activities					
Operating income	\$ 1,919,387	\$ 1,811,539	\$ 1,940,964	\$ 64,570	\$ 5,736,460
Adjustments to reconcile operating income to net cash provided by (used in) operating activities					
Depreciation expense	375,577	759,381	655,024	13,865	1,803,847
(Increase) decrease in:					
Accounts receivable	18,847	(77,538)	(49,445)	(5,314)	(113,450)
Other receivables	(4,251)	2,418	5,015	-	3,182
Inventories	(70,908)	3,051	3,104	-	(64,753)
Increase (decrease) in:					
Customer deposits	22,864	2,972	-	-	25,836
Accounts payable	299,976	(162,813)	9,805	9,409	156,377
OPEB liability	18,025	18,743	16,568	13,386	66,722
Compensated absences	9,835	19,597	12,819	8,517	50,768
Total adjustments	669,965	565,811	652,890	39,863	1,928,529
Net cash provided by (used in) operating activities	\$ 2,589,352	\$ 2,377,350	\$ 2,593,854	\$ 104,433	\$ 7,664,989
Noncash investing, capital, and financing activities					
Capital assets contributed by developers	\$ -	\$ -	\$ -	\$ -	\$ -

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

The financial statements of the Town of Front Royal, Virginia (the Town) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units promulgated by the Governmental Accounting Standards Board (GASB). The more significant of the Town's accounting policies are described below.

A. Reporting Entity

The Town of Front Royal, Virginia is located in the County of Warren, Virginia and was incorporated in 1754 under the provisions of the Constitution and general statuses of the Commonwealth of Virginia.

The town is an incorporated municipal governed by an elected mayor and six-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the Town and any potential 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 its will on the component unit, 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 that there are no component units requiring inclusion in the Town's reporting.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the nonfiduciary 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.

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

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.

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. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 45 days after year end are reflected as deferred revenues. Sales, which are collected by the state and subsequently remitted to the County, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the County. Utility taxes are collected by the utilities and remitted directly to the Town.

Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general purpose grants are recognized in the period to which the grant applies. 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 *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.

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)

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.

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes. 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 *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise funds, electric enterprise fund, and refuse enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as 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.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance

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 for the government are reported at fair value. The State Treasurer's Local Government Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and Payables

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

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

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

Real estate and personal property taxes are assessed annually by Warren County, Virginia for all property of record as of January 1. The Town bills and collects its own property taxes based on the assessed values provided by the County. Real estate 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-ratio 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 consumed. 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.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Position or Fund Balance (Continued)

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.

5. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

6. 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*. 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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Position or Fund Balance (Continued)

7. 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.

8. 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 position. 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.

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.

9. 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.

10. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town of Front Royal only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the proprietary funds financial statement of net position and government wide financial statement of net position. A deferred charge on refunded debt results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Position or Fund Balance (Continued)

10. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town of Front Royal has only one type of item, which arises only under modified accrual basis of accounting, which qualifies for reporting in this category under the governmental funds. Accordingly the item for the governmental funds, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from real estate taxes. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

11. Fund Balance

The Governmental Accounting Standards Board (GASB) has issued and the Town has adopted Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories list below.

Nonspendable Fund Balance – Balances associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).

Restricted Fund Balance – Balances include amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed Fund Balance – Balances include amounts that can be used only for the specific purposes determined by a formal action of the Town Council (the Town's highest level of decision-making authority).

Assigned Fund Balance – Balances intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned Fund Balance – Residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

When fund balance resources are available for a specific purpose in more than one classification, it is the Town's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Position or Fund Balance (Continued)

11. Fund Balance (Continued)

Town Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by Town Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purpose).

8. Net Position

Net position is the difference between, assets and deferred outflows of resources, and, liabilities and deferred inflows of resources. Net position invested in capital assets represent capital assets, less accumulated depreciation less any outstanding debt related to the acquisition, construction or improvement of those assets.

11. Comparative Data

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.

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 position

The governmental fund balance sheet includes reconciliation between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position. 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 \$1,700,635 are as follows:

<u>Description</u>	<u>Amount</u>
Bonds payable	\$ -
Compensated absences	868,069
OPEB liability	832,566
Net adjustment to reduce <i>fund balance - total governmental</i>	<u><u>\$ 1,700,635</u></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 position 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 \$3,010,023 difference is as follows:

Description	Amount
Capital outlay	\$ 1,078,592
Depreciation expense	(4,088,615)
Net adjustment to decrease <i>net changes in fund balances -total governmental</i>	<u><u>\$ (3,010,023)</u></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 \$1,189,475.

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, 2014, there were no general fund departments where expenditures exceeded appropriations.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

C. Deficit Fund Balance

At June 30, 2014 Special Revenue Funds which had a deficit fund balance are noted below:

Fund	Deficit Fund Balance
Downtown Service District	\$ 1,512
Economic Development	378,863

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits

As of June 30, 2014 the carrying amount of the Town’s deposits with bank and savings institutions was \$14,765,209 and the bank balance was \$14,952,692.

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”), Section 2.2-4400 et., seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Custodial credit risk. This is the risk that in the event of a bank failure, the Town’s deposits may not be returned to the Town. The Town requires deposits to comply with the Virginia Security for Public Deposits Act. At year-end, none of the Town’s deposits are exposed to custodial credit risk.

Investments

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

Investment policy. The Town’s investment policy targets the following objectives, in order of priority, legality, safety, liquidity, and yield. The Director of Finance for the Town is responsible for administering its investments and ensuring compliance with the Town’s policies and statutory requirements.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Deposits and Investments (Continued)

Investments (Continued)

In accordance with the laws of the Commonwealth and Town policy, investments authorized to be held by the Town are: 1. *Treasury Securities* - Bonds, notes, and bills issued by the United States Treasury maturing within five years of the date of purchase, or certificates representing ownership of treasury bond principal or coupons payable with five years; 2. *Agency Securities* - Fixed rate obligation issued and guaranteed as to principal and interest by the Federal Home Loan Bank, the Federal National Mortgage Associate, the Federal Farm Credit Bank, or the Federal Loan Mortgage Corporation, maturing within five years of the date of purchase; 3. *Prime Commercial Paper* - Commercial paper maturing within 270 days of the day of purchase rated P-1 or higher by Moody's and A-1 or higher by Standard & Poor's, provided that the issuing corporation has a net worth of at least \$50 million and its long-term debt is rated A or better by Moody's and Standard & Poor's; 4. *Certificates of Deposit* - Certificates of deposit maturing within one year and issued by domestic banks rated P-1 by Moody's and A-1 by Standard & Poor's; 5. *Bankers' Acceptances* - Bankers' acceptances maturing within 180 days rated P-1 or higher by Moody's and A-1 or higher by Standard & Poor's, provided the issuer is a major domestic bank or the domestic office of an international bank rated AA or higher by Moody's and Standard & Poor's; 6. *Commonwealth of Virginia and Virginia Local Government Obligations* - General obligations, insured obligations, or revenue bonds secured by debt service reserve funds not subject to annual appropriation rated AA or higher by Moody's or Standard & Poor's; 7. *Repurchase Agreements* - Repurchase agreements collateralized by securities provided for investment herein, provided that the counterparty is rated A or better by Moody's and Standard & Poor's and the collateral is held by an independent third party; 8. *Open-End Investment Funds* - Open-end investment funds registered under the Securities Act of the Commonwealth or the Federal Investment Company Act of 1940, provided that they invest only in securities approved for investment herein; 9. *Virginia Local Government Investment Pool (LGIP)* - The LGIP is a professionally managed money market fund which invests in qualifying obligations and securities as permitted by Virginia statutes. Pursuant to Section 2.2-4605 *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings. The fair value of the position of the LGIP is the same as the value of the pool shares. i.e., the LGIP maintains a stable net asset value of \$1 per share. The LGIP has been assigned an "AAAm" rating by Standard & Poor's; 10. *Virginia State Non-Arbitrage Program (SNAP)* - Investment in the Virginia State Non-Arbitrage Program (SNAP) is used to assist in avoiding arbitrage penalties enacted with the Tax Reform Act of 1986. Section 2.2-4700 through 2.2-4705 of the *Code of Virginia*, the Government Non-Arbitrage Investment Act authorizes the Virginia Treasury Board to provide assistance to the Commonwealth of Virginia, counties, cities, and towns in the Commonwealth, and to their agencies, institutions and authorities of any combination of the foregoing ("Virginia governments") in the management of and accounting for their bond funds, including, without limitation, bond proceeds, reserves, and sinking funds, and the investment thereof. The Virginia SNAP has been assigned an "AAAm" rating by Standard & Poor's;

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Deposits and Investments (Continued)

Investments (Continued)

11. *Federally Insured Certificates of Deposit (CDARS)* - Federally insured certificates of deposit issued through the Certificates of Deposit Account Registry Service (CDARS) by financial institutions located in the United States, provided that: a. The funds are initially invested by the Town through a financial institution that is participating in CDARS and that is located and doing business in Virginia; b. The financial institution in Virginia receives reciprocal deposits from customers of other financial institutions in an amount equal to the funds initially invested by the Town; and c. Each such certificate of deposit is issued in an amount that is eligible for full FDIC insurance coverage for up to a maximum total of \$50 million in qualified investments held.

Credit risk. Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2014, all of the Town’s investments were invested in “AA+” or better rated securities. All credit ratings presented in this paragraph are Standard & Poor’s ratings.

Interest rate risk. Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting exposure to fair value losses arising from rising interest rates and to comply with the laws of the Commonwealth, the Town’s policy limits the investment of funds to investments with a stated maturity of no more than five years from the date of purchase.

As of June 30, 2014, the government had the following investments:

Investment Type	Fair Value	Maturity	
		1 Year	Over 1 Year
Treasury and agency securities	\$ 946,070	\$ 946,070	\$ -
Cash deposit mutual funds	896,905	896,905	-
Governmental securities mutual funds	2,474,302	2,474,302	-
Secure term annuity	3,047,945	3,047,945	-
Asset backed securities	721,393	721,393	-
Commercial notes	2,263,959	2,263,959	-
Local Government Investment Pool	2,936,095	2,936,095	-
Banking repurchase agreements	1,697,985	1,697,985	-
SunTrust US Government Fund	1,568,865	1,568,865	-
Total	<u>\$ 16,553,519</u>	<u>\$ 16,553,519</u>	<u>\$ -</u>

During 2011 all U.S. Securities and government backed investments were downgraded from an AAA to a AA+ rating by Standard & Poor’s.

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	\$ 1,608	\$ 1,608	\$ -
Bank Deposits	14,765,209	14,765,209	-
Investments	16,553,518	7,099,850	9,453,668
Total	\$ 31,320,335	\$ 21,866,667	\$ 9,453,668

B. Estimated Unbilled Revenue

Proprietary fund types estimate and record utility services rendered but not yet billed at June 30, 2014. 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, 2014, unbilled service recorded was \$1,354,265.

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:

Description	General	Electric	Water	Sewer	Solid Waste	Nonmajor	Total
Receivables:							
Delinquent taxes	\$1,610,888	\$ -	\$ -	\$ -	\$ -	\$ 2,870	\$1,613,758
Accounts	-	2,084,751	360,093	415,590	153,434	-	3,013,868
Interest	-	-	-	-	-	-	-
Intergovernmental	372,873	-	-	-	-	-	372,873
Unbilled	-	739,307	261,497	303,585	48,960	-	1,353,349
Other	17,820	27,968	307,094	135,101	-	-	487,983
Less: allowance	-	(1,197,895)	(129,518)	(155,193)	(84,790)	-	(1,567,396)
Net receivables	\$2,001,581	\$ 1,654,131	\$ 799,166	\$ 699,083	\$ 117,604	\$ 2,870	\$5,274,435

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.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Receivables (Continued)

At the end of the current fiscal year, the various components of the unearned revenue reported in the governmental funds were as follows:

<u>Fund/Type</u>	<u>Unavailable</u>	<u>Unearned</u>
General Fund - Property Taxes	\$ 1,561,657	\$ -
Special Revenue Fund - Property Taxes	2,870	-
	<u>\$ 1,564,527</u>	<u>\$ -</u>

D. Due from Other Governments

At June 30, 2014 amounts due from other governments were as follows:

<u>Description/Payer</u>	<u>General</u>
Commonwealth of Virginia	
2013 Personal Property Tax Relief Act	\$ 287,000
Warren County, Virginia - Sales Tax	85,873
	<u>\$ 372,873</u>

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

Primary Government

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 1,314,306	36,680	\$ -	\$ 1,350,986
Capital assets being depreciated				
Buildings and improvements	8,201,394	735,684	-	8,937,078
Vehicles	1,708,303	96,156	-	1,804,459
Equipment	3,129,271	210,071	-	3,339,342
Infrastructure	109,527,139	-	-	109,527,139
Total	122,566,107	1,041,911	-	123,608,018
Less accumulated depreciation for				
Buildings and improvements	(1,628,826)	(202,022)	-	(1,830,848)
Vehicles	(1,423,852)	(110,611)	-	(1,534,463)
Equipment	(2,551,098)	(184,929)	-	(2,736,027)
Infrastructure	(64,494,561)	(3,591,053)	-	(68,085,614)
Total	(70,098,337)	(4,088,615)	-	(74,186,952)
Net capital assets being depreciated	52,467,770	(3,046,704)	-	49,421,066
Governmental capital assets, net	\$ 53,782,076	\$ (3,010,024)	\$ -	\$ 50,772,052

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

Activity	Depreciation
Governmental activities:	
General government	\$ 159,484
Public safety	186,187
Public works	120,536
Planning, zoning, and community development	30,415
Culture and recreation	940
Infrastructure depreciation	3,591,053
Total depreciation expense - governmental activities	\$ 4,088,615

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 1,488,822	\$ -	\$ -	\$ 1,488,822
Construction in process	-	-	-	-
Capital assets being depreciated				
Buildings and improvements	23,702,372	2,831,843	-	26,534,215
Utility distribution systems	52,660,777	472,612	-	53,133,389
Vehicles	3,381,074	98,648	-	3,479,722
Equipment	3,162,348	387,081	-	3,549,429
Total	82,906,571	3,790,184	-	86,696,755
Less accumulated depreciation for				
Buildings and improvements	(5,811,008)	(510,336)	-	(6,321,344)
Utility distribution systems	(28,078,897)	(1,053,215)	-	(29,132,112)
Vehicles	(2,766,614)	(155,354)	-	(2,921,968)
Equipment	(2,885,913)	(84,942)	-	(2,970,855)
Total	(39,542,432)	(1,803,847)	-	(41,346,279)
Net capital assets being depreciated	43,364,139	1,986,337	-	45,350,476
Business-type capital assets, net	\$ 44,852,961	\$ 1,986,337	\$ -	\$ 46,839,298

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

Activity	Depreciation
Business-type activities:	
Electric	\$ 375,577
Water	759,381
Sewer	655,024
Solid Waste Management	13,865
Total depreciation expense - business-type activities	\$ 1,803,847

There were no significant intangible asset acquisitions during the fiscal year ended June 30, 2014.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. Interfund Advances/Transfers

Interfund advances are for reimbursement for debt payments made for other funds. Advance to the General Fund from the Electric Funds was for the purchase of a town administration building. The composition of interfund advances at June 30, 2014 is as follows:

Advanced to	From	Amount
General Fund	Electric Fund	\$ 1,237,734
General Fund	Sewer Fund	102,492
General Fund	Water Fund	200,409
General Fund	Town Facilities Fund	388
Special Projects	Sewer Fund	48,515
Special Projects	Water Fund	48,515
Special Revenue	General Fund	49,915
Sewer Fund	Economic Development Fund	2,250
Sewer Fund	Water Fund	326,250
Water Fund	Economic Development Fund	2,250
Water Fund	Electric Fund	14,747
Solid Waste Management	Electric Fund	18,182
		<u>\$ 2,051,647</u>

Transfers to the General Fund from the Electric, Water, Sewer and Solid Waste Management Funds are for administrative services performed by the general government. The composition of inter-fund transfers during 2014 is as follows:

Transferred to	From	Amount
General Fund	Electric Fund	\$ 1,471,000
General Fund	Water Fund	623,000
General Fund	Sewer Fund	735,200
General Fund	Solid Waste Management Fund	30,510
		<u>\$ 2,859,710</u>

G. Long-Term Liabilities

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

G. Long-Term Liabilities (Continued)

General obligation bonds outstanding at June 30, 2014 are as follows:

Description	Amount
\$6,110,000, 2014 series General Obligation Bonds, issued May 21, 2014 due in increasing annual maturities starting with \$15,000 in 2014 and increasing to \$740,000 in 2026, with interest at 3.13% to 4.83%.	\$ 6,110,000
\$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%. \$6,325,000 of the outstanding debt was refinanced in May, 2014.	\$ 1,385,000
\$2,835,000, 2014 series General Obligation Bonds, issued May 21, 2014 due in increasing annual maturities starting with \$95,000 in 2015 and increasing to \$200,000 in 2034, with interest at 3.13% to 4.84%.	\$ 2,835,000
\$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%.	<u>2,505,000</u>
Total General Obligation Debt	<u><u>\$ 12,835,000</u></u>

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

Year ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2015	\$ -	\$ -	\$ 580,000	\$ 807,570
2016	-	-	680,000	854,104
2017	-	-	705,000	826,989
2018	-	-	695,000	485,575
2019	-	-	770,000	451,425
Thereafter	-	-	9,405,000	2,578,423
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,835,000</u>	<u>\$ 6,004,086</u>

The legal debt limit mandated by the Commonwealth of Virginia is \$114,638,940.

In May, 2014 the Town issued \$6,110,000 general obligation refunding bonds. The Town issued the bonds to currently refund the series 2006 general obligation bonds. The advance refunding will reduce total debt service payments over the next 13 years by \$438,927. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$370,574 and an accounting loss (difference between escrow deposit to fund debt payoff and actual principal paid) of \$617,415.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

G. Long-Term Liabilities (Continued)

Long-term liability activity for the year ended June 30, 2014 was as follows:

	June 30, 2013	Additions	Retirements	June 30, 2014	One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ -	\$ -	\$ -	\$ -	\$ -
Compensated absences	833,754	868,069	(833,754)	868,069	868,069
Other post-employment benefits	693,990	175,916	(37,340)	832,566	37,340
Governmental activity					
Long-term liabilities	\$ 1,527,744	\$ 1,043,985	\$ (871,094)	\$ 1,700,635	\$ 905,409

The liability for compensated absences is expected to be fully liquidated by the general fund. Other post-employment benefits liquidated within one year is prorated based on actual payments for the benefit.

	June 30, 2013	Additions	Retirements	June 30, 2014	One Year
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 10,750,000	\$ 8,945,000	\$ (6,860,000)	\$ 12,835,000	\$ 580,000
Unamortized premium	186,627	1,121,830	(186,075)	1,122,382	84,269
Compensated absences	380,461	123,753	(72,985)	431,229	215,615
Other post-employment benefits	334,143	66,722	-	400,865	-
Business-type activity					
Long-term liabilities	\$ 11,651,231	\$ 10,257,305	\$ (7,119,060)	\$ 14,789,476	\$ 879,884

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

Individual Fund	Due Within	
	1 Year	Long-term
General	\$ 868,069	\$ -
Electric	\$ 50,719	\$ 50,718
Water	72,572	72,572
Sewer	66,847	66,846
Solid Waste Management	25,478	25,477
	\$ 215,616	\$ 215,613

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 2014 the Town paid premiums of approximately \$190,352 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 2014, the Town paid contributions of approximately \$323,225 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 issued March 1, 2005 in increasing annual maturities starting with \$225,000 in 2005 and increasing to \$330,000 in 2016 with interest at 3.59%	\$ 955,000
Town of Front Royal support agreement obligation – 20%	\$ 191,000

Year	IDA Debt		20% Support Agreement		
	Principal	Interest	Principal	Interest	Total
2015	305,000	28,810	61,000	5,762	66,762
2016	320,000	17,591	64,000	3,518	67,518
2017	330,000	5,924	66,000	1,185	67,185
	\$ 955,000	\$ 52,325	\$ 191,000	\$ 10,465	\$ 201,465

E. 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 2014, 18 retirees had a benefit under this policy with a total cost to the Town of \$36,561.

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)

E. 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.

Component	FYE 6/30/14
Annual required contribution	\$ 238,300
Interest on Net OPEB obligations	34,618
Adjustment to annual required contribution	(31,060)
Annual OPEB cost (expense)	241,858
Contributions made	(36,561)
Increase in net OPEB obligation	205,297
Net unfunded OPEB obligation - Beginning of year	1,028,133
Net unfunded OPEB obligation - End of year	\$ 1,233,430

The Town’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation the five years 2010 to 2014 is as follows:

FYE June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 241,858	15.12%	\$ 1,233,430
2013	231,918	15.93%	1,028,133
2012	222,464	16.78%	833,160
2011	264,257	15.19%	648,037
2010	255,597	15.30%	423,910

Funding Status and Funding Progress: As of June 30, 2011, the most recent actuarial valuation date, the unfunded actuarial accrued liability (UAAL) was \$2,484,600. The covered payroll (annual payroll of active employees covered by the plan) was \$6,153,700, and the ratio of the UAAL to the covered payroll was 40.38%.

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.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

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

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. 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.

June 30, 2011 actuarial valuation methods and assumption are as follows:

Valuation Date:	June 30, 2011
Actuarial Cost Method:	Projected Unit Credit
Amortization Method:	Level Percent of Payroll
Amortization Period:	30 years
Asset Valuation Method:	N/A
Actuarial Assumptions:	
Investment Rate of Return:	4.00%
Healthcare cost trend rate	Getzen Trend Model
Payroll Growth:	3.75% per year

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%
2011	-	2,484,600	2,484,600	0%	6,153,700	40.38%

Schedule of Employer Contributions

FYE June 30,	Annual Required Contribution	Amount Contributed	Percentage Contributed
2014	\$ 238,300	\$ 36,561	15.34%
2013	228,800	36,945	16.15%
2012	219,800	37,340	16.99%
2011	247,300	40,130	16.23%
2010	247,300	39,104	15.81%
2009	237,700	30,283	12.74%

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

F. Defined Benefit Pension Plan

Plan Description

Name of Plan: Virginia Retirement System (VRS)
Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70 %. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

F. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2011-annual-report.pdf> or obtained by writing to the System’s Chief Financial Officer 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 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. 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 Code of Virginia and approved by the VRS Board of Trustees. The Town’s contribution rate for the fiscal year ended 2013 was 15.29% of annual covered payroll.

Annual Pension Cost

For 2014, the Town’s annual pension cost of \$1,123,315 was equal to the Town’s required and actual contributions.

Five-year trend information for the Town:

FYE June 30,	Annual Premium Costs (APC)	% APC Funded	Net Pension Obligation
2014	\$ 1,123,315	100	None
2013	1,312,258	100	None
2012	1,092,670	100	None
2011	1,094,187	100	None
2010	946,639	100	None

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

F. Defined Benefit Pension Plan (Continued)

Annual Pension Cost (Continued)

The FY 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include 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 uses 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(UAAL) is being amortized as a level percentage of projected payroll on an open basis. The 2011 UAAL annual amortization rate is an employer contribution at a rate of 9.05% for 29 years.

Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was 71.34% funded. The actuarial accrued liability for benefits was \$33,227,562, and the actuarial value of assets was \$23,704,501, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,523,061. The covered payroll (annual payroll of active employees covered by the plan) was \$6,464,264, and ratio of the UAAL to the covered payroll was 147.32%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

Required Supplementary Information

Schedule of Funding Progress for the Town

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)			
2013	\$ 23,704,501	\$ 33,227,562	\$ 9,523,061	71.34%	\$ 6,464,264	147.32%
2012	23,136,770	33,295,121	10,158,351	69.49%	6,268,877	162.04%
2011	23,301,524	32,646,376	9,344,852	71.38%	6,047,869	154.51%
2010	22,978,490	31,623,369	8,644,879	72.66%	6,306,555	137.08%
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%

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

G. 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.

H. Change in Accounting Principal

In the current fiscal year, the Town of Front Royal adopted the provisions of GASB Statement 65, Items Previously Reported as Assets and Liabilities (Statement No. 65). The provisions of Statement No. 65 relevant to the Town of Front Royal related to changes in the accounting and reporting of bonded debt activities. Specifically, bond issuance costs incurred are recorded as current period expenditures as opposed to being deferred and amortized over the maturity period of the debt. Statement No. 65 also requires that deferred charges (credit) resulting from the refunding of debt be presented as a deferred outflows (inflows) of resources and not as assets or liabilities. As the provisions of Statement No. 65 were effective July 1, 2013, net position as of that date has been adjusted accordingly:

<u>Business-type Activities</u>	<u>Net Position</u>
Net position, previously reported	\$ 55,860,251
Adjustment: debt issuance costs charged against net position	(105,342)
Net position, as adjusted	<u>\$ 55,754,909</u>

I. Subsequent Events

The Town has evaluated events and transactions subsequent to June 30, 2014 through October 23, 2014, 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, 2014.

TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES-BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

	Original Budget	Final Budget	Actual Revenues	Variance Positive (Negative)
Source of Revenues				
General Property Taxes				
Real estate taxes				
Current taxes, including penalties	\$ 971,200	\$ 971,200	\$ 1,072,911	\$ 101,711
Delinquent taxes, including penalties	15,000	15,000	7,749	(7,251)
Personal property taxes				
Current taxes, including penalties	280,000	280,000	220,974	(59,026)
Public service corporation taxes	11,750	11,750	22,973	11,223
Interest on delinquent taxes	15,000	15,000	12,588	(2,412)
Total General Property Taxes	<u>1,292,950</u>	<u>1,292,950</u>	<u>1,337,195</u>	<u>44,245</u>
Other Local Taxes				
Warren County sales tax	760,000	760,000	943,728	183,728
Business and occupational taxes and penalties	625,000	625,000	672,494	47,494
Franchise taxes	50,000	50,000	67,191	17,191
Consumer taxes - electric deregulation	232,000	232,000	164,137	(67,863)
Vehicle licenses	300,000	300,000	357,359	57,359
Bank stock taxes	240,000	240,000	217,523	(22,477)
Lodging taxes	290,000	290,000	336,088	46,088
Meal taxes	1,300,000	1,300,000	1,414,207	114,207
Payment in lieu of taxes	375,000	375,000	407,661	32,661
Total Other Local Taxes	<u>4,172,000</u>	<u>4,172,000</u>	<u>4,580,388</u>	<u>408,388</u>
Permits, Fees and Licenses				
Zoning income	30,000	30,000	29,210	(790)
Public ROW use fees	50,000	50,000	(2,959)	(52,959)
Total Permits, Fees and Licenses	<u>80,000</u>	<u>80,000</u>	<u>26,251</u>	<u>(53,749)</u>
Fines and Forfeitures				
Fines and forfeitures - county	200,000	200,000	133,259	(66,741)
Fines and forfeitures - town	15,000	15,000	24,508	9,508
Total Fines and Forfeitures	<u>215,000</u>	<u>215,000</u>	<u>157,767</u>	<u>(57,233)</u>
Revenues from Use of Money and Property				
Interest on bank deposits	88,000	88,000	62,853	(25,147)
Interest on accounts receivable	1,000	1,000	4,096	3,096
Rental - Comcast property	10,250	10,250	10,886	636
Total Revenues from Use of Money and Property	<u>99,250</u>	<u>99,250</u>	<u>77,835</u>	<u>(21,415)</u>
Charges for Services				
Curb and gutter charges	5,000	5,000	2,608	(2,392)
Street & walk assessment	4,000	4,000	1,240	(2,760)
Credit card fees	-	-	18,299	18,299
Sales at Visitors' Center	16,000	16,000	15,686	(314)
Sales of publications	1,000	1,000	91	(909)
Total Charges for Services	<u>26,000</u>	<u>26,000</u>	<u>37,924</u>	<u>11,924</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, 2014**

	Original Budget	Final Budget	Actual Revenues	Variance Positive (Negative)
Miscellaneous Revenue				
Miscellaneous	\$ 40,000	\$ 41,700	\$ 108,115	\$ 66,415
Intergovernmental				
Rolling stock tax	20,000	20,000	18,331	(1,669)
Virginia personal property tax reduction	287,000	287,000	287,000	-
Communication tax	180,000	180,000	169,927	(10,073)
Rental tax vehicles	41,000	41,000	68,389	27,389
State aid for police and fire	338,350	338,350	338,352	2
Highway maintenance	1,500,000	1,500,000	1,708,888	208,888
Grants	40,009	48,189	32,554	(15,635)
Total Intergovernmental	2,406,359	2,414,539	2,623,441	208,902
Total General Fund Revenues	8,331,559	8,341,439	8,948,916	607,477
Other Financing Sources				
Transfers from other funds	2,829,710	2,829,710	2,859,710	30,000
Total Other Financing Sources	2,829,710	2,829,710	2,859,710	30,000
Total General Fund Revenues and Other Financing Sources	\$11,161,269	\$11,171,149	\$11,808,626	\$ 637,477

**TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
Legislative				
Town Council				
Personal service	\$ 61,440	\$ 61,440	\$ 61,297	\$ 143
Contractual service	96,000	147,308	52,660	94,648
Materials and supplies	11,600	11,600	9,338	2,262
Travel and communications	6,000	6,000	10,432	(4,432)
Capital outlays	-	-	-	-
Total Town Council	<u>175,040</u>	<u>226,348</u>	<u>133,727</u>	<u>92,621</u>
Clerk of Council				
Personal service	34,230	34,230	34,905	(675)
Materials and supplies	400	400	777	(377)
Travel and communications	3,000	3,000	1,674	1,326
Dues and memberships	310	310	255	55
Total Clerk of Council	<u>37,940</u>	<u>37,940</u>	<u>37,611</u>	<u>329</u>
Total Legislative	<u>212,980</u>	<u>264,288</u>	<u>171,338</u>	<u>92,950</u>
Executive				
Town Manager				
Personal service	227,230	227,230	230,015	(2,785)
Contractual service	-	420	422	(2)
Materials and supplies	10,050	9,020	6,184	2,836
Travel and communications	7,250	7,250	7,089	161
Dues and memberships	2,000	2,610	2,607	3
Capital outlays	-	-	-	-
Total Town Manager	<u>246,530</u>	<u>246,530</u>	<u>246,317</u>	<u>213</u>
Management Services				
Personal service	222,870	222,870	220,042	2,828
Contractual service	150	150	35	115
Materials and supplies	33,000	32,700	25,207	7,493
Travel and communications	3,900	5,700	4,407	1,293
Dues and memberships	350	350	334	16
Total Management Services	<u>260,270</u>	<u>261,770</u>	<u>250,025</u>	<u>11,745</u>
Auto/Motorpool				
Personal service	344,450	344,450	314,008	30,442
Contractual service	1,200	1,200	1,826	(626)
Materials and supplies	45,000	45,000	59,223	(14,223)
Travel and communications	3,200	3,200	4,561	(1,361)
Utilities	1,500	1,500	2,547	(1,047)
Capital outlays	38,200	40,800	22,651	18,149
Total Auto/Motorpool	<u>433,550</u>	<u>436,150</u>	<u>404,816</u>	<u>31,334</u>

(Continued)

TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
Office of Information Technology				
Personal service	\$ 124,070	\$ 124,070	\$ 119,477	\$ 4,593
Contractual service	165,000	173,617	179,414	(5,797)
Materials and supplies	19,660	5,660	6,764	(1,104)
Travel and communications	47,500	45,000	43,784	1,216
Dues and memberships	-	-	-	-
Capital outlays	192,300	341,246	345,557	(4,311)
Total Office of Information Technology	<u>548,530</u>	<u>689,593</u>	<u>694,996</u>	<u>(5,403)</u>
Office of Tourism				
Personal service	136,770	136,770	135,264	1,506
Contractual service	8,300	8,300	7,800	500
Materials and supplies	142,010	168,381	141,558	26,823
Utilities	200	200	140	60
Travel and communications	5,000	9,000	8,654	346
Dues and memberships	1,355	1,355	906	449
Cultural Activities	10,000	10,000	10,000	-
Capital outlays	-	162,014	148,632	13,382
Total Office of Tourism	<u>303,635</u>	<u>496,020</u>	<u>452,954</u>	<u>43,066</u>
Board of Elections				
Contractual service	8,750	8,750	-	8,750
Total Executive	<u>1,801,265</u>	<u>2,138,813</u>	<u>2,049,108</u>	<u>89,705</u>
Legal				
Town Attorney				
Personal service	336,080	339,080	338,099	981
Contractual service	35,000	31,150	6,656	24,494
Materials and supplies	15,250	18,250	12,224	6,026
Travel and communications	6,000	6,000	4,505	1,495
Dues and memberships	1,000	1,000	970	30
Capital outlays	-	5,000	-	5,000
Total Legal	<u>393,330</u>	<u>400,480</u>	<u>362,454</u>	<u>38,026</u>
Finance				
Finance Department				
Personal service	719,360	719,360	693,585	25,775
Contractual service	1,200	1,200	736	464
Materials and supplies	105,350	104,750	108,835	(4,085)
Travel and communications	6,900	7,200	7,631	(431)
Dues and memberships	385	685	715	(30)
Total Finance Department	<u>833,195</u>	<u>833,195</u>	<u>811,502</u>	<u>21,693</u>
Total General Government	<u>3,240,770</u>	<u>3,636,776</u>	<u>3,394,402</u>	<u>242,374</u>

(Continued)

TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
Planning, Zoning and Community Development				
Planning and Zoning				
Personal service	\$ 336,050	\$ 336,050	\$ 303,435	\$ 32,615
Contractual service	11,000	47,172	18,132	29,040
Materials and supplies	9,975	36,585	9,665	26,920
Travel and communications	5,400	5,400	3,900	1,500
Dues and memberships	500	500	360	140
Capital outlays	25,000	50,000	-	50,000
Cultural activities	20,000	20,000	19,940	60
Total Planning and Zoning	<u>407,925</u>	<u>495,707</u>	<u>355,432</u>	<u>140,275</u>
Economic Development				
Contributions to other entities	8,300	8,300	8,515	(215)
Total Economic Development	<u>8,300</u>	<u>8,300</u>	<u>8,515</u>	<u>(215)</u>
Boards and Commissions				
Personal service	18,300	18,300	11,286	7,014
Contractual service	1,000	1,000	440	560
Materials and supplies	4,225	4,225	2,079	2,146
Travel and communications	6,500	6,500	5,059	1,441
Dues and memberships	100	100	-	100
Joint operations	9,000	9,000	8,444	556
Total Boards and Commissions	<u>39,125</u>	<u>39,125</u>	<u>27,308</u>	<u>11,817</u>
Total Planning, Zoning and Community Development	<u>455,350</u>	<u>543,132</u>	<u>391,255</u>	<u>151,877</u>
Police				
Police Department				
Personal service	3,655,700	3,651,920	3,520,972	130,948
Contractual service	6,175	3,019	2,848	171
Materials and supplies	241,955	256,158	249,776	6,382
Travel and communications	53,000	58,260	55,118	3,142
Dues and memberships	3,000	1,000	870	130
Joint operations	20,900	22,558	22,553	5
Capital outlays	97,000	137,138	110,634	26,504
Total Police Department	<u>4,077,730</u>	<u>4,130,053</u>	<u>3,962,771</u>	<u>167,282</u>
Engineering and Public Works				
Engineering				
Personal service	48,355	48,355	41,206	7,149
Contractual service	1,500	1,500	-	1,500
Materials and supplies	25,350	26,650	13,405	13,245
Travel and communications	7,000	8,200	6,454	1,746
Dues and memberships	2,000	2,000	1,575	425
Capital outlays	-	-	-	-
Total Engineering	<u>84,205</u>	<u>86,705</u>	<u>62,640</u>	<u>24,065</u>

(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
Streets and Sidewalks				
Personal service	\$ 751,390	\$ 777,975	\$ 733,718	\$ 44,257
Contractual service	1,000	500	523	(23)
Materials and supplies	661,250	585,060	472,500	112,560
Travel and communications	8,500	8,500	6,272	2,228
Utilities	30,000	30,000	24,632	5,368
Dues and memberships	50	50	-	50
Capital outlays	505,000	1,159,552	721,766	437,786
Total Streets and Sidewalks	1,957,190	2,561,637	1,959,411	602,226
General Properties				
Personal service	133,305	133,335	111,238	22,097
Contractual service	11,500	9,941	10,181	(240)
Materials and supplies	54,400	53,450	64,459	(11,009)
Travel and communications	2,000	1,000	1,103	(103)
Utilities	59,000	64,900	75,678	(10,778)
Capital outlays	-	5,348	5,304	44
Total General Properties	260,205	267,974	267,963	11
Horticulture				
Personal service	270,960	270,970	221,237	49,733
Contractual service	10,000	10,000	5,752	4,248
Materials and supplies	32,650	99,120	47,030	52,090
Travel and communications	1,400	2,000	1,257	743
Utilities	150	170	184	(14)
Capital outlays	40,000	11,550	-	11,550
Total Horticulture	355,160	393,810	275,460	118,350
Total Engineering and Public Works	2,656,760	3,310,126	2,565,474	744,652
Parks and Recreation				
Library	20,000	20,000	20,000	-
Total Parks and Recreation	20,000	20,000	20,000	-
Nondepartmental				
Fringe Benefits	247,650	247,649	248,733	(1,084)
Insurance	333,000	333,000	321,554	11,446
Reserves	-	-	-	-
Total Nondepartmental	580,650	580,649	570,287	10,362
Subtotal	11,031,260	12,220,736	10,904,189	1,316,547
Transfers to Other Funds				
Economic Development Fund	-	-	-	-
Total Transfers	-	-	-	-
Total General Fund Expenditures	\$ 11,031,260	\$ 12,220,736	\$ 10,904,189	\$ 1,316,547

**TOWN OF FRONT ROYAL, VIRGINIA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2014**

	Special Revenue				Capital Project		Total Nonmajor Governmental Funds
	Downtown Service District	Asset Forfeitures	Economic Development	Community/ Neighborhood	Total	Town Facilities	
Assets							
Cash and cash equivalents	\$ -	\$ 350,616	\$ -	\$ 726,608	\$ 1,077,224	\$ -	\$ 1,077,224
Accounts receivable - real estate taxes	2,870	-	-	-	2,870	-	2,870
Interfund advances	-	-	4,500	-	4,500	388	4,888
Total Assets	\$ 2,870	\$ 350,616	\$ 4,500	\$ 726,608	\$ 1,084,594	\$ 388	\$ 1,084,982
Liabilities							
Bank advances	\$ 1,512	\$ -	\$ 383,363	\$ -	\$ 384,875	\$ -	\$ 384,875
Accounts payable	-	-	-	-	-	-	-
Deferred revenue	2,870	-	-	-	2,870	-	2,870
Interfund advances	-	49,915	-	97,031	146,946	-	146,946
Total Liabilities	4,382	49,915	383,363	97,031	534,691	-	534,691
Fund Balances							
Restricted for:							
Capital outlays	-	300,701	-	-	300,701	-	300,701
Community development	-	-	-	629,577	629,577	-	629,577
Assigned for capital projects	-	-	-	-	-	388	388
Unassigned	(1,512)	-	(378,863)	-	(380,375)	-	(380,375)
Total Fund Balances	(1,512)	300,701	(378,863)	629,577	549,903	388	550,291
Total Liabilities and Fund Balances	\$ 2,870	\$ 350,616	\$ 4,500	\$ 726,608	\$ 1,084,594	\$ 388	\$ 1,084,982

TOWN OF FRONT ROYAL, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Special Revenue					Capital Project	Total Nonmajor Governmental Funds
	Downtown Service District	Asset Forfeitures	Economic Development	Community/ Neighborhood	Total	Town Facilities	
Revenues							
Real estate taxes	\$ -	\$ -	\$ 95,150	\$ 159,940	\$ 255,090	\$ -	\$ 255,090
Asset forfeitures	-	199,693	-	-	199,693	-	199,693
Total revenues	-	199,693	95,150	159,940	454,783	-	454,783
Expenditures							
Current							
Support payment of EDA debt issue	-	-	67,934	-	67,934	-	67,934
Contractual service	-	-	-	93,025	93,025	-	93,025
Contributions to other entities	-	-	95,144	-	95,144	-	95,144
Capital outlays	-	10,519	-	-	10,519	-	10,519
Debt Service	-	-	-	-	-	-	-
Total expenditures	-	10,519	163,078	93,025	266,622	-	266,622
Deficiency of revenues under expenditures	-	189,174	(67,928)	66,915	188,161	-	188,161
Other Financing Uses							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing uses	-	-	-	-	-	-	-
Net change in fund balances	-	189,174	(67,928)	66,915	188,161	-	188,161
Fund balances - beginning	(1,512)	111,527	(310,935)	562,662	361,742	388	362,130
Fund balances - ending	\$ (1,512)	\$ 300,701	\$ (378,863)	\$ 629,577	\$ 549,903	\$ 388	\$ 550,291

**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, 2014**

	Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues			
Asset forfeitures	\$ 203,291	\$ 199,693	\$ (3,598)
Expenditures			
Capital outlays	208,291	10,519	197,772
Deficiency of revenues under expenditures	(5,000)	189,174	194,174
Fund balances - beginning	111,527	111,527	-
Fund balances - ending	<u>\$ 106,527</u>	<u>\$ 300,701</u>	<u>\$ 194,174</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, 2014**

	Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues			
Real estate taxes	\$ 95,150	\$ 95,150	\$ -
Expenditures			
Payments in support of EDA debt issue	-	67,934	(67,934)
Contributions to other entities	95,150	95,144	6
Debt Service	-	-	-
Total Expenditures	<u>95,150</u>	<u>163,078</u>	<u>(67,928)</u>
Deficiency of revenues under expenditures	-	(67,928)	(67,928)
Other Financing Uses			
Transfers in - Debt Service	-	-	-
Net change in fund balances	-	(67,928)	(67,928)
Fund balances - beginning	<u>(310,935)</u>	<u>(310,935)</u>	<u>-</u>
Fund balances - ending	<u><u>\$ (310,935)</u></u>	<u><u>\$ (378,863)</u></u>	<u><u>\$ (67,928)</u></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, 2014**

	Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues			
Real estate taxes	\$ 159,940	\$ 159,940	\$ -
Expenditures			
Contractual services	445,930	93,025	352,905
Total Expenditures	445,930	93,025	352,905
Deficiency of revenues under expenditures	(285,990)	66,915	352,905
Fund balances - beginning	562,662	562,662	-
Fund balances - ending	\$ 276,672	\$ 629,577	\$ 352,905

TOWN OF FRONT ROYAL, VIRGINIA
SCHEDULE OF DIRECTOR OF FINANCE'S ACCOUNTABILITY
JUNE 30, 2014

Assets held by the Director of Finance

Cash on hand		\$	1,608
Cash in banks			
Checking - SunTrust			8,469,428
Checking - SunTrust			14,648
Checking - Union First Market Bank			81,488
Money Market - VA SNAP			3,006,097
Money Market - Wells Fargo			2,503,599
Certificates of deposit			
BB&T	\$	350,000	
Sonabank		133,181	
Union First Market Bank		98,721	
Wells Fargo		84,507	
Virginia Savings Bank		23,540	
Total Certificates of Deposit			689,949
Virginia Local Government Investment Pool			2,936,095
Repurchase Agreement - Union First Market Bank			1,697,985
SunTrust Government & Agency Fund			1,568,865
Union Investment Services			10,350,573
Total Assets			<u><u>\$ 31,320,335</u></u>

**TOWN OF FRONT ROYAL, VIRGINIA
 SCHEDULE OF DIRECTOR OF FINANCE'S ACCOUNTABILITY TO THE TOWN
 FOR THE YEAR ENDED JUNE 30, 2014**

	Governmental Funds			2014 Totals (Memorandum Only)	2013 Totals (Memorandum Only)
	General	Special Revenue	Proprietary Funds		
Balance July 1, 2013	\$ 8,738,910	\$ 529,718	\$ 17,998,675	\$ 27,267,303	\$ 23,315,300
Receipts (net)					
Proceed on 2014 bond debt issued	-	-	10,066,830	10,066,830	-
Interfund advances/receipts	-	-	150,000	150,000	(52,612)
General property taxes	1,336,044	255,090	-	1,591,134	1,468,891
Other local taxes	4,170,154	-	-	4,170,154	4,590,546
Permits, fees and licenses	26,251	-	-	26,251	25,921
Fines and forfeitures	157,767	-	-	157,767	179,666
Revenues from use of money and property	77,835	-	174,807	252,642	(20,769)
Charges for services	37,924	-	27,807,007	27,844,931	27,744,543
Miscellaneous	108,115	-	-	108,115	112,606
Recovered costs	-	199,693	-	199,693	16,746
Payment in lieu of taxes	407,661	-	-	407,661	401,492
Intergovernmental	2,627,215	-	-	2,627,215	2,528,083
Total Receipts	8,948,966	454,783	38,198,644	47,602,393	36,995,113
Total Available	17,687,876	984,501	56,197,319	74,869,696	60,310,413
Disbursements (net)					
Warrants (checks) issued	11,050,902	292,152	23,932,201	35,275,255	31,399,192
Retirement of indebtedness	-	-	7,477,415	7,477,415	1,127,307
Interfund advance payments	150,000	-	-	150,000	(52,612)
Interest on debt costs	-	-	646,691	646,691	569,223
Total Disbursements	11,200,902	292,152	32,056,307	43,549,361	33,043,110
Transfers in	2,859,710	-	-	2,859,710	3,007,971
Transfers (out)	-	-	(2,859,710)	(2,859,710)	(3,007,971)
Total Transfers In (Out)	2,859,710	-	(2,859,710)	-	-
Balance June 30, 2014	\$ 9,346,684	\$ 692,349	\$ 21,281,302	\$ 31,320,335	\$ 27,267,303

**TOWN OF FRONT ROYAL, VIRGINIA
COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2014**

Taxable assessed value of real property	<u>\$ 1,146,383,940</u>
Debt limit (10 percent of assessed value)	114,638,394
Amount of debt applicable to debt limit	
Gross bonded debt	<u>(12,835,000)</u>
Legal debt margin	<u>\$ 101,803,394</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>	72
Revenue Capacity <i>These schedules contain information to help the reader assess the Town's most significant local revenue source, the property tax.</i>	78
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>	82
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>	87
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>	89

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 POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Governmental Activities										
Net investment in										
capital assets	\$ 78,199,373	\$ 74,624,593	\$ 71,455,350	\$ 67,935,246	\$ 64,423,422	\$ 62,087,906	\$ 58,899,411	\$ 56,769,628	\$ 53,782,076	\$ 50,772,052
Restricted	-	-	-	-	-	-	1,136,560	1,313,146	1,975,178	2,830,559
Unrestricted	5,450,254	6,691,369	7,580,388	7,344,504	6,033,299	5,953,428	5,125,795	4,934,496	5,453,676	5,714,134
Total Governmental										
Activities Net Position	\$ 83,649,627	\$ 81,315,962	\$ 79,035,738	\$ 75,279,750	\$ 70,456,721	\$ 68,041,334	\$ 65,161,766	\$ 63,017,270	\$ 61,210,930	\$ 59,316,745
Business-type Activities										
Net investment in										
capital assets	\$ 39,531,599	\$ 19,751,368	\$ 24,625,302	\$ 31,350,568	\$ 34,365,817	\$ 33,201,151	\$ 33,459,029	\$ 34,064,137	\$ 36,419,933	\$ 35,385,515
Unrestricted	3,873,842	26,004,470	23,052,300	19,679,106	18,511,327	17,843,447	16,659,513	16,446,498	19,440,318	22,940,690
Total Business-type										
Activities Net Position	\$ 43,405,441	\$ 45,755,838	\$ 47,677,602	\$ 51,029,674	\$ 52,877,144	\$ 51,044,598	\$ 50,118,542	\$ 50,510,635	\$ 55,860,251	\$ 58,326,205
Primary Government										
Net investment in										
capital assets	\$ 117,730,972	\$ 94,375,961	\$ 96,080,652	\$ 99,285,814	\$ 98,789,239	\$ 92,582,592	\$ 92,358,440	\$ 90,833,765	\$ 90,202,009	\$ 86,157,567
Restricted	-	-	-	-	-	-	1,136,560	1,313,146	1,975,178	2,830,559
Unrestricted	9,324,096	32,695,839	30,632,688	27,023,610	24,544,626	26,503,340	21,785,308	21,380,994	24,893,994	28,654,824
Total Primary										
Government Net Position	\$ 127,055,068	\$ 127,071,800	\$ 126,713,340	\$ 126,309,424	\$ 123,333,865	\$ 119,085,932	\$ 115,280,308	\$ 113,527,905	\$ 117,071,181	\$ 117,642,950

**CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

Expenses	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Governmental Activities:										
General government and administration	\$ 2,493,723	\$ 2,326,711	\$ 2,646,597	\$ 2,832,009	\$ 3,172,642	\$ 3,340,772	\$ 3,161,198	\$ 3,003,366	\$ 3,404,737	\$ 3,610,966
Public safety	3,150,426	3,276,981	3,513,253	3,658,646	3,686,304	3,873,965	3,821,530	3,890,462	4,226,075	4,256,684
Public works	2,086,799	2,574,487	2,206,629	3,149,846	3,901,830	2,467,186	2,440,880	2,167,403	2,200,764	2,152,085
Planning, zoning, and community development	652,296	484,132	567,708	693,455	1,024,574	636,471	596,574	641,552	617,998	720,592
Culture and recreation	45,142	52,985	62,456	66,250	74,044	91,004	105,720	105,801	53,548	22,344
Interest on long term debt	69,567	28,180	26,549	23,257	19,812	16,205	12,431	8,480	4,345	-
Infrastructure depreciation	3,588,522	3,591,054	3,591,054	3,591,054	3,591,054	3,591,054	3,591,054	3,591,054	3,591,054	3,591,054
Total Governmental Activities Expenses	12,086,475	12,334,530	12,614,246	14,014,517	15,470,260	14,016,657	13,729,387	13,408,118	14,098,521	14,353,725
Business-Type Activities:										
Electric	9,082,609	9,523,363	16,250,138	12,600,249	13,535,201	14,119,794	16,888,252	14,466,632	13,293,934	15,469,985
Water	2,328,499	1,964,023	2,343,905	2,471,839	2,231,532	3,023,196	2,742,241	2,799,552	2,953,064	3,075,201
Sewer	2,636,183	2,285,966	2,752,915	2,691,398	2,659,873	3,550,177	2,680,077	3,036,433	2,966,184	3,186,205
Refuse	739,132	828,583	876,481	856,529	963,068	1,301,649	931,697	968,124	924,107	929,685
Total Business-Type Activities Expenses	14,786,423	14,601,935	22,223,439	18,620,015	19,389,674	21,994,816	23,242,267	21,270,741	20,137,289	22,661,076
Total Primary Government Expenses	26,872,898	26,936,465	34,837,685	32,634,532	34,859,934	36,011,473	36,971,654	34,678,859	34,235,810	37,014,801
Program Revenues										
Governmental Activities:										
Charges for services:										
General government	71,572	131,037	141,719	111,776	95,947	227,814	155,527	96,447	146,989	142,191
Public safety	235,282	406,081	361,844	283,200	295,958	272,406	276,409	244,888	196,412	357,460
Public works	45,371	18,759	27,757	10,919	18,172	6,366	3,848	2,932	1,458	3,848
Planning, zoning, and community development	93,957	77,858	101,763	103,277	92,660	93,419	18,182	74,588	25,921	26,251
Operating grants and contributions	1,704,613	1,447,990	1,858,205	1,872,998	1,912,511	1,870,222	1,960,551	1,967,288	1,998,364	2,047,240
Capital grants and contributions	80,484	43,416	170,526	115,062	121,767	93,087	133,154	113,971	10,249	32,554
Total Governmental Program Revenues	2,231,279	2,125,141	2,661,814	2,497,232	2,537,015	2,563,314	2,547,671	2,500,114	2,379,393	2,609,544
Business-Type Activities:										
Charges for services:										
Electric	11,346,761	11,507,238	15,454,130	15,460,426	15,125,811	15,462,065	16,544,552	15,561,410	16,832,900	17,389,372
Water	2,856,329	3,198,691	3,695,001	3,115,794	3,145,958	2,758,853	3,161,942	3,231,718	4,344,296	4,549,414
Sewer	2,674,149	3,011,979	3,645,537	2,846,667	2,774,605	2,723,871	3,452,860	4,204,653	6,303,357	4,984,234
Refuse	779,275	806,968	801,974	934,936	918,611	951,731	927,160	867,388	887,694	994,255
Capital grants and contributions	226,919	71,706	1,094,499	646,430	798,530	-	-	-	-	-
Total Business-Type Program Revenues	17,883,433	18,596,582	24,691,141	23,004,253	22,763,515	21,896,520	24,086,514	23,865,169	28,368,247	27,917,275
Total Primary Government Program Revenues	20,114,712	20,721,723	27,352,955	25,501,485	25,300,530	24,459,834	26,634,185	26,365,283	30,747,640	30,526,819

(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net (Expense) Revenue										
Governmental Activities	\$ (9,855,196)	\$ (10,209,389)	\$ (9,952,432)	\$ (11,517,285)	\$ (12,933,245)	\$ (11,453,343)	\$ (11,181,716)	\$ (10,908,004)	\$ (11,719,128)	\$ (11,744,181)
Business-Type Activities	3,097,010	3,994,647	2,467,702	4,384,238	3,373,841	(98,296)	844,247	2,594,428	8,230,958	5,256,199
Total Primary Gov't Net Expense	(6,758,186)	(6,214,742)	(7,484,730)	(7,133,047)	(9,559,404)	(11,551,639)	(10,337,469)	(8,313,576)	(3,488,170)	(6,487,982)
General Revenues and Other										
Changes in Net Position										
Governmental Activities:										
Property taxes	1,213,101	1,280,730	1,335,686	1,330,595	1,303,327	2,563,604	1,685,744	1,544,123	1,549,507	1,788,416
Sales taxes	570,926	586,133	613,495	683,974	690,993	684,300	707,328	726,745	1,418,512	943,728
Business and occupational taxes	624,511	740,268	721,486	708,018	620,567	613,273	633,938	612,660	656,935	672,494
Franchise and bank stock taxes (*)	211,544	213,601	206,989	150,318	1,500	24,167	119,434	254,686	280,149	284,714
Communication taxes	-	-	-	-	177,556	178,294	177,411	157,940	162,826	169,927
Consumer taxes	178,423	191,554	240,682	228,828	181,779	190,188	242,677	228,374	221,576	164,137
Alcoholic beverage taxes	16,317	16,316	16,316	16,316	-	-	-	-	-	-
Meals and lodging taxes	1,433,420	1,578,910	1,633,723	1,622,217	1,472,392	1,330,656	1,450,203	1,547,442	1,648,350	1,750,295
Virginia pers. prop. tax reduction	262,457	280,041	287,878	287,863	287,863	575,726	287,863	287,000	287,000	287,000
Payment in lieu of taxes	-	-	-	229,098	1,046,893	307,158	337,469	372,920	401,492	407,661
Vehicle licenses (*)	-	-	-	-	-	-	-	350,500	354,605	357,359
Other general taxes (*)	559,315	583,928	541,073	438,560	426,139	472,388	615,452	53,344	71,263	86,720
Unrestricted investment earnings	101,589	209,469	284,273	283,610	119,307	109,480	56,357	123,824	12,113	77,835
Gain on sale of capital assets and other recoveries	58,417	53,342	146,990	-	-	-	-	-	-	-
Transfers	2,127,400	2,141,432	1,643,617	1,781,900	1,781,900	1,988,722	1,988,272	2,503,950	2,848,460	2,859,710
Total Governmental Activities	7,357,420	7,875,724	7,672,208	7,761,297	8,110,216	9,037,956	8,302,148	8,763,508	9,912,788	9,849,996
Business-Type Activities:										
Unrestricted investment earnings	173,241	497,182	1,097,679	749,734	255,529	254,472	217,969	301,615	(32,882)	174,807
Transfers	(2,127,400)	(2,141,432)	(1,643,617)	(1,781,900)	(1,781,900)	(1,988,722)	(1,988,272)	(2,503,950)	(2,848,460)	(2,859,710)
Total Business-Type Activities	(1,954,159)	(1,644,250)	(545,938)	(1,032,166)	(1,526,371)	(1,734,250)	(1,770,303)	(2,202,335)	(2,881,342)	(2,684,903)
Total Primary Government	5,403,261	6,231,474	7,126,270	6,729,131	6,583,845	7,303,706	6,531,845	6,561,173	7,031,446	7,165,093
Change in Net Position										
Governmental Activities	(2,497,776)	(2,333,665)	(2,280,224)	(3,755,988)	(4,823,029)	(2,415,387)	(2,879,568)	(2,144,496)	(1,806,340)	(1,894,185)
Business-Type Activities	1,142,851	2,350,397	1,921,764	3,352,072	1,847,470	(1,832,546)	(926,056)	392,093	5,349,616	2,571,296
Total Primary Government	\$ (1,354,925)	\$ 16,732	\$ (358,460)	\$ (403,916)	\$ (2,975,559)	\$ (4,247,933)	\$ (3,805,624)	\$ (1,752,403)	\$ 3,543,276	\$ 677,111

* Bank stock tax and vehicle licenses were reclassified effective 2012

TOWN OF FRONT ROYAL, VIRGINIA
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

Fiscal Year	Property	Sales	Business and Occupational	Bank stock., Comm. and Franchise (*)	Consumer	Alcohol Beverage	Meals and Lodging	Virginia PPTR	In Lieu of Taxes	Vehicle License (*)	Other General (*)	Total
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
2011	1,685,744	707,328	633,938	296,845	242,677	-	1,450,203	287,863	337,469		615,452	6,257,519
2012	1,544,123	726,745	612,660	177,325	228,374	-	1,547,442	287,000	372,920	350,500	639,145	6,486,234
2013	1,549,507	1,418,512	656,935	442,975	221,576	-	1,648,350	287,000	401,492	354,605	71,263	7,052,215
2014	1,788,416	943,728	672,494	454,641	164,137	-	1,750,295	287,000	407,661	357,359	86,720	6,912,451

* Bank stock tax and vehicle licenses were reclassified from other general taxes effective 2012

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Fund										
Nonspendable	\$ 547,791	\$ 100,975	\$ 100,975	\$ 100,975	\$ 60,975	\$ 60,975	\$ 180,487	\$ 207,520	\$ 196,260	\$ 207,823
Restricted	-	-	-	-	-	-	766,933	766,933	1,300,989	1,900,281
Unassigned	3,996,494	5,391,587	6,407,631	6,147,170	5,486,609	5,803,554	5,300,035	5,248,533	5,728,824	6,022,406
Total General Fund	\$ 4,544,285	\$ 5,492,562	\$ 6,508,606	\$ 6,248,145	\$ 5,547,584	\$ 5,864,529	\$ 6,247,455	\$ 6,222,986	\$ 7,226,073	\$ 8,130,510
All Other Governmental Funds										
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 369,627	\$ 546,213	\$ 674,189	\$ 930,278
Assigned - capital funds	7,634	388	388	388	388	388	388	388	388	388
Unassigned, reported in:										
Special revenue funds	1,050,959	1,460,920	1,447,323	1,483,394	919,779	142,836	(331,973)	(405,413)	(312,447)	(380,375)
Total all other governmental funds	\$ 1,058,593	\$ 1,461,308	\$ 1,447,323	\$ 1,483,394	\$ 919,779	\$ 143,224	\$ 38,042	\$ 141,188	\$ 362,130	\$ 550,291

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
REVENUES:										
Taxes:										
Property	\$ 1,261,184	\$ 1,349,228	\$ 1,356,387	\$ 1,291,255	\$ 1,298,909	\$ 1,896,461	\$ 1,463,695	\$ 1,476,410	\$ 1,452,321	\$ 1,592,285
Sales	570,926	586,133	613,495	683,974	690,993	684,300	707,328	726,745	1,418,512	943,728
Business and occupational	624,511	740,268	721,486	708,018	620,567	613,273	633,938	612,660	656,935	672,494
Franchise	211,544	213,601	206,989	150,318	1,500	24,167	119,434	19,385	87,213	67,191
Consumer	178,423	191,554	240,682	228,828	181,779	190,188	242,677	228,374	221,576	164,137
Vehicle licenses	236,441	246,458	239,854	226,689	223,417	174,686	296,784	350,500	354,605	357,359
Bank stock	166,904	197,212	159,285	160,640	152,245	239,686	259,987	235,301	192,936	217,523
Meals and lodging	1,433,420	1,578,910	1,633,723	1,622,217	1,472,392	1,330,656	1,450,203	1,547,442	1,648,350	1,750,295
Permits, fees, and licenses	93,957	77,858	101,763	103,277	92,660	93,419	18,182	74,588	25,921	26,251
Fines and forfeitures	219,713	307,275	356,631	246,650	252,484	238,363	249,598	213,721	179,666	157,767
Revenues from use of money										
and property	101,589	209,469	284,273	283,610	119,307	109,480	56,357	123,824	12,113	77,835
Charges for services	101,343	84,363	100,909	73,114	45,165	20,237	16,257	25,811	35,841	37,924
Miscellaneous	74,017	118,667	68,567	49,581	68,954	213,943	143,118	73,568	112,606	108,115
Recovered costs	15,569	98,806	5,213	36,550	43,474	34,043	26,811	31,167	16,746	199,693
Payment in lieu of taxes	84,251	80,200	90,215	229,098	1,046,893	307,158	337,469	372,920	401,492	407,661
Intergovernmental	2,135,590	1,847,929	2,384,644	2,343,470	2,550,174	2,775,345	2,617,660	2,579,543	2,529,702	2,623,441
Total Revenues	7,509,382	7,927,931	8,564,116	8,437,289	8,860,913	8,945,405	8,639,498	8,691,959	9,346,535	9,403,699
EXPENDITURES:										
General government										
Legislative	205,523	135,379	156,788	175,717	173,189	166,884	175,142	155,176	169,241	171,338
Executive	1,165,197	1,188,427	1,243,995	1,401,822	1,605,219	1,588,909	1,556,528	1,520,025	1,731,960	2,049,108
Legal	246,472	215,991	248,934	257,621	416,400	517,295	347,940	342,144	362,854	362,454
Finance	670,026	673,576	748,380	801,115	828,300	790,675	803,686	732,352	811,980	811,502
Public Safety										
Police	2,937,684	2,926,282	3,153,821	3,439,362	3,467,748	3,560,512	3,546,263	3,598,674	3,881,352	3,973,290
Fire protection	100,005	88,073	105,403	18,139	-	-	-	-	-	-
Planning, zoning, and										
community development	894,911	434,876	514,404	640,684	953,740	1,193,007	536,085	590,660	556,094	647,358
Engineering and public works	2,285,996	2,312,554	2,493,932	3,033,398	3,776,368	2,878,813	2,712,420	3,421,997	2,681,719	2,565,474
Parks and recreation	41,000	47,596	56,594	61,208	68,924	82,000	95,000	95,000	47,500	20,000
Nondepartmental	621,043	584,781	532,993	513,067	520,070	518,999	479,931	564,173	630,878	570,287
Debt Service										
Principal	144,742	75,410	70,483	73,774	77,219	80,826	84,600	88,551	93,043	-
Interest	69,567	28,180	26,549	23,257	19,812	16,205	12,431	8,480	4,345	-
Capital outlay	77,927	7,246	-	4,415	-	-	-	-	-	-
Total Expenditures	9,460,093	8,718,371	9,352,276	10,443,579	11,906,989	11,394,125	10,350,026	11,117,232	10,970,966	11,170,811
DEFICIENCY OF REVENUES										
UNDER EXPENDITURES	(1,950,711)	(790,440)	(788,160)	(2,006,290)	(3,046,076)	(2,448,720)	(1,710,528)	(2,425,273)	(1,624,431)	(1,767,112)
OTHER FINANCING										
SOURCES (USES):										
Transfers in	2,348,709	2,245,022	1,740,649	1,878,931	1,878,931	2,085,753	2,085,303	2,503,950	3,007,971	2,859,710
Transfers (out)	(221,309)	(103,590)	(97,032)	(97,031)	(97,031)	(97,031)	(97,031)	-	(159,511)	-
Special revenue	-	-	-	-	-	-	-	-	-	-
Interfund borrowing proceeds	-	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-	-	-	-	-
Other sources	-	-	146,990	-	-	-	-	-	-	-
Total Other Financing	2,127,400	2,141,432	1,790,607	1,781,900	1,781,900	1,988,722	1,988,272	2,503,950	2,848,460	2,859,710
NET CHANGE IN										
FUND BALANCES	\$ 176,689	\$ 1,350,992	\$ 1,002,447	\$ (224,390)	\$ (1,264,176)	\$ (459,998)	\$ 277,744	\$ 78,677	\$ 1,224,029	\$ 1,092,598
Debt service as a percentage										
of noncapital expenditures	2.55%	1.22%	1.11%	0.95%	0.83%	0.99%	1.01%	1.05%	0.98%	0.00%

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				
	Commercial Residential Property	Public Service	Total Assessed Value	Direct Tax Rate	Motor Vehicles	Business Equipment	Other	Total Assessed Value	Direct Tax Rate
2005	713,445,100	16,664,771	730,109,871	0.13	109,271,685	-	1,024,770	110,296,455	0.60
2006	719,331,408	15,918,461	735,249,869	0.13	103,400,500	-	1,082,710	104,483,210	0.60
2007	768,759,200	15,358,932	784,118,132	0.13	103,206,048	-	965,665	104,171,713	0.60
2008	1,409,727,643	14,984,060	1,424,711,703	0.07	106,118,951	19,346,220	2,170,520	127,635,691	0.60
2009	1,429,456,286	14,984,060	1,444,440,346	0.07	103,750,195	16,769,150	2,082,305	122,601,650	0.60
2010	1,418,723,500	15,826,250	1,434,549,750	0.07	77,266,939	17,878,066	1,850,545	96,995,550	0.60
2011	1,104,745,864	15,826,250	1,120,572,114	0.11	79,013,475	17,575,885	1,575,270	98,164,630	0.64
2012	1,118,318,200	16,425,250	1,134,743,450	0.11	82,719,086	16,645,415	1,534,520	100,899,021	0.64
2013	1,127,434,400	17,274,880	1,144,709,280	0.11	85,157,320	18,291,765	1,545,035	104,994,120	0.64
2014	1,129,575,300	16,808,640	1,146,383,940	0.13	86,666,340	19,232,980	1,557,485	107,456,805	0.64

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	
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
2011	0.11	0.64	0.64	0.11	1.50	0.59	4.00	1.30	0.59	6.48	7.98
2012	0.11	0.64	0.64	0.11	1.50	0.59	4.00	1.30	0.59	6.48	7.98
2013	0.11	0.64	0.64	0.11	1.50	0.59	4.00	1.30	0.59	6.48	7.98
2014	0.13	0.64	0.64	0.13	1.54	0.61	4.00	1.30	0.61	6.52	8.06

Source: Town of Front Royal and Warren County

**TOWN OF FRONT ROYAL, VIRGINIA
PRINCIPAL PROPERTY TAX PAYERS
CURRENT YEAR AND 2005**

Taxpayer	2014		Taxpayer	2005	
	Taxable Assessed Value	Percentage of Total Town Taxable Assessed Value		Taxable Assessed Value	Percentage of Total Town Taxable Assessed Value
Boisseau Family LC	\$ 20,022,000	1.75%	Boisseau Family, L.C.	\$ 14,518,540	2.03%
Gateway Plaza Shopping Center	8,389,500	0.73%	Gateway Plaza Shopping Center	6,271,300	0.88%
Shenandoah Square LP	8,124,600	0.71%	HLI Endowment	5,858,800	0.82%
MCAP Southerlands, LLC	7,276,600	0.63%	Shenandoah Square, L.P.	5,722,900	0.80%
HLI Endowment, Inc.	6,754,400	0.59%	Ramsey, Inc.	4,077,300	0.57%
Ramsey, Inc.	6,574,400	0.57%	Corr Family	3,522,900	0.49%
HWA Enterprises	5,967,400	0.52%	Royal Arms Association	3,340,100	0.47%
Corr Family Real Estate, LLC	5,699,200	0.50%	Cogil Corporation (including Roya	3,116,200	0.44%
Royal Arms Associates	5,442,500	0.47%	CCC Enterprises Inc. of VA	3,029,900	0.42%
Royal Hills Limited Partnership	4,256,100	0.37%	Shenandoah Properties II	3,028,200	0.42%
Total	<u>\$ 78,506,700</u>	<u>6.85%</u>		<u>\$ 52,486,140</u>	<u>7.34%</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	Subsequent Tax Collections	Total Tax Collections	Total Collection as Percent of Current Levy
2005	1,511,008	1,493,940	98.87%	15,193	1,509,133	99.88%
2006	1,606,608	1,589,992	98.97%	13,075	1,603,067	99.78%
2007	1,644,061	1,537,604	93.52%	102,351	1,639,955	99.75%
2008	1,631,281	1,531,421	93.88%	72,408	1,603,829	98.32%
2009	1,655,680	1,539,151	92.96%	78,609	1,617,760	97.71%
2010	3,131,608	2,332,404	74.48%	718,578	3,050,982	97.43%
2011	1,802,507	968,065	53.71%	726,274	1,694,339	94.00%
2012	1,833,691	683,918	37.30%	1,020,525	1,704,443	92.95%
2013	1,840,648	928,189	50.43%	744,323	1,672,512	90.87%
2014	2,084,048	1,042,874	50.04%	-	1,042,874	50.04%

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.

2010 includes two years of real estate tax levies and collections due to the adoption of a new tax levy process. The 2009 tax levy occurred on December 5, 2009 and the 2010 tax levy occurred on June 5, 2010. The tax levy will continue to be June 5 in subsequent years, with payments due June 5 and December 5.

2012 year revision made to properly record delinquent tax collections in year of levy.

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

Fiscal Year	Governmental	Business Type	Total Primary Government	Personal Income (in \$000's)	Percentage of Personal Income	Population	Per Capita
	Activities General	Activities General					
	Obligation Bonds	Obligation Bonds					
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
2011	181,594	12,725,987	12,907,581	547,521	2.36%	14,440	894
2012	93,043	11,767,674	11,860,717	553,967	2.14%	14,610	812
2013	-	10,750,000	10,750,000	663,896	1.62%	14,666	733
2014	-	12,835,000	12,835,000	700,492	1.83%	15,127	848

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 \$000's	Percentage of Actual Taxable Value of Property	Population	Per Capita
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	888,290	0.06%	14,377	34.64
2008	13,180,341	12,756,102	424,239	1,552,347	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
2011	12,907,581	12,725,987	181,594	1,218,737	0.01%	14,440	12.58
2012	11,860,717	11,767,674	93,043	1,235,642	0.01%	14,610	6.37
2013	10,750,000	10,750,000	-	1,249,703	0.00%	14,666	-
2014	12,835,000	12,835,000	-	1,253,841	0.00%	15,127	-

**TOWN OF FRONT ROYAL, VIRGINIA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2014**

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Debt repaid with property taxes			
Warren County	\$ 2,760,400		
Warren County School Board	<u>2,370,000</u>		
Subtotal, overlapping debt	<u>5,130,400</u>	49%	2,513,896
Town of Front Royal (direct debt)	<u>-</u>	100%	<u>-</u>
Total direct and overlapping debt			<u><u>\$ 2,513,896</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 TEN FISCAL YEARS**

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Debt limit	\$ 76,458,758	\$ 78,458,758	\$ 143,323,827	\$ 145,212,163	\$ 145,266,886	\$ 145,073,555	\$ 114,501,165	\$ 114,459,425	\$ 114,460,908	\$ 114,638,394
Net debt applicable to limit	5,300,524	14,765,254	14,141,304	13,180,341	12,197,090	13,931,270	12,907,581	11,860,717	10,750,000	12,835,000
Legal debt margin	\$ 71,158,234	\$ 63,693,504	\$ 129,182,523	\$ 132,031,822	\$ 133,069,796	\$ 131,142,285	\$ 101,593,584	\$ 102,598,708	\$ 103,710,908	\$ 101,803,394
Net debt applicable to the limit as a percent of debt limit	7%	19%	10%	9%	8%	10%	11%	10%	9%	11%

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

Fiscal Year	Gross Revenue ¹	Operating Expenses ²	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
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
2011	24,304,483	20,868,331	3,436,152	955,679	593,798	1,549,477	2.22
2012	24,166,784	18,870,789	5,295,995	974,906	631,396	1,606,302	3.30
2013	28,335,365	17,772,057	10,563,308	1,034,264	564,878	1,599,142	6.61
2014	28,092,082	20,376,968	7,715,114	535,000	537,563	1,072,563	7.19

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)	Household Median Income	Per Capita Personal Income	Median Age	Education Level in Years of Formal Schooling	School Enrollment	Unemployment Rate
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	*	*	*	5,252	3.4%
2009	14,616	483,029	33,048	*	*	*	5,240	7.0%
2010	14,573	466,320	31,999	*	*	*	5,720	6.7%
2011	14,440	547,521	37,917	*	38	*	5,317	6.7%
2012	14,610	553,967	37,917	*	*	*	5,325	5.5%
2013	14,666	663,896	45,268	*	*	*	5,394	5.7%
2014	15,127	700,492	46,307	26,129	*	*	5,493	5.6%

*Median age and education level only available in census years

Source: Town of Front Royal, Warren County School Board, and Warren County Economic Development Authority

**TOWN OF FRONT ROYAL, VIRGINIA
PRINCIPAL EMPLOYERS
CURRENT YEAR AND 2008**

2014			*2008		
Employer	Employees	% of Total	Employer	Employees	% of Total
Warren County School Board	1,000	13%	Warren County School Board	801	10%
Valley Health System	830	11%	Valley Health System	509	7%
Family Dollar Services	530	7%	Warren County	276	4%
Baugh Northeast, Inc.	500	6%	Martin's Food Market	175	2%
E.I. Dupont De Nernours & Company	435	6%	Randolph-Macon Academy	165	2%
Ferguson Enterprises, Inc.	400	5%	Town of Front Royal	156	2%
Interbake Foods, LLC	350	5%	United Parcel Services, Inc.	145	2%
Warren County	280	4%	VIA Satellite	135	2%
FDR Services	200	3%	Kmart Corporation	75	1%
RSW Regional Jail	140	2%	Northwest Community Mental Health	65	1%

Source: Estimates from Warren County Economic Development Authority

* - Complete prior years data is available from 2008 forward.

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

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
General Government	27	29	29	41	40	38	38	33	37	37
Fire Protection	1	1	1	0	0	0	0	0	0	0
Police Protection	45	45	45	47	47	47	47	47	48	49
Highway - Streets	20	19	22	17	17	17	17	16	17	16
Sanitation	14	13	14	15	13	13	13	14	15	14
Water	13	13	12	13	14	15	15	18	15	15
Sewer	16	18	17	15	15	14	14	17	16	16
Electrical	14	12	14	11	12	13	13	15	15	15
Culture and Recreation	1	1	1	0	0	0	0	0	0	0
	151	151	155	159	158	157	157	160	163	162

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

Function/Program	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Public Safety										
Police										
Physical arrests		1,398	1,443	1,436	1,108	1,943	1,361	1,777	1,183	1,217
Parking violations		1,074	1,063	678	752	841	462	222	364	190
Traffic violations		3,739	3,844	3,560	4,379	3,770	3,423	2,666	1,808	1,676
Wastewater										
New service connections			320	48	33	14	17	17	14	8
Average daily treatment in gallons	3,523,000	3,523,000	3,069,310	2,988,613	3,399,715	3,764,984	3,598,000	3,426,000	3,531,000	3,665,000
Water System										
New connections			320	52	32	13	16	20	16	9
Average daily consumption	1,708,000	1,708,000	1,708,000	1,976,953	2,143,041	2,182,274	2,065,043	1,453,000	1,875,000	1,875,000
Electric Distribution										
New Connections			320	25	16	4	12	18	20	20
Average daily KWH consumption	472,041	492,688	493,095	576,589	545,482	552,178	538,679	487,033	528,398	516,708
Sanitation										
Refuse collected (tons/day)	40	40	40	22	15	14	20	20	22	23
Recyclables collected (tons/day)	0.25	0.25	0.25	2.00	2.00	1.20	2.45	1.98	1.46	1.61
Highway and Streets										
Repair services		55	60	65	55	28	210	366	398	253
Street resurfacing (miles)		15.00	27.00	35.00	5.00	11.75	1.44	12.80	1.20	15.61

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

Function/Program	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Public Safety										
Police										
Stations	2	2	2	2	2	2	2	2	2	2
Patrol Units	9	12	12	12	12	12	12	12	12	20
Fire Stations	1	1	1	1	1	1	1	1	1	1
Highways and Streets										
Streets (miles)	143	143	143	133	133	133	133	133	133	138
Streetlights	1,430	1,430	1,430	1,430	1,450	1,450	1,450	1,450	1,450	1,470
Traffic signals	14	15	15	15	14	14	14	14	14	14
Culture and Recreation										
Community centers	1	1	1	1	1	1	1	1	1	1
Parks	13	13	13	13	13	13	13	13	12	12
Park acreage	165	165	165	165	165	165	165	165	125	125
Swimming pools	1	1	1	1	1	1	1	1	1	1
Tennis courts	9	9	9	9	9	9	9	9	2	2
Sewer System										
Sanitary sewers (miles)	117	196	196	198	198	198	198	198	198	198
Storm sewers (miles)	27	90	90	92	92	92	92	92	92	92
Treatment plants	1	1	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	4,000,000	4,000,000	4,000,000	4,000,000
Water System										
Facilities	1	1	1	1	1	1	1	1	1	1
Fire Hydrants	555	560	560	582	618	618	668	672	672	672
Max daily capacity		3,000,000	3,000,000	3,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Electric System										
Service lines (miles)	140	140	140	140	140	140	141	141	143	143
Distribution stations	3	3	3	3	4	4	4	4	4	4
Sanitation										
Collection Trucks	5	5	5	5	5	5	5	7	5	5

COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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, 2014, and the related notes to the financial statements, which collectively comprise the Town of Front Royal, Virginia's basic financial statements, and have issued our report thereon dated October 23, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Front Royal, Virginia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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 *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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Front Royal, Virginia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

October 23, 2014
Leesburg, Virginia

Mitchell & Co., P.C.