

**TOWN OF FRONT ROYAL, VIRGINIA**

*COMPREHENSIVE  
ANNUAL FINANCIAL REPORT*

**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

## **FOREWORD**

Front Royal is located in Warren County in Northern Virginia approximately 17 miles south of Winchester and 70 miles west of Washington, DC. The Town was founded in 1754 and chartered by the General Assembly of Virginia in 1788. U.S. Highways 522 and 340, and State Route 55 provide access to the Town. Interstate Highways 66 and 81 are located 1 mile north and 6 miles west of the Town, respectively. The Town covers an area of approximately 9 square miles and has a population estimated at 14,610.

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

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

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

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# **INTRODUCTORY SECTION**



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

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

October 1, 2012

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

RE: FY2011-2012 Comprehensive Annual Financial Report

We are pleased to present the Town of Front Royal's Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2012. These statements are presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with accepted auditing standards by a firm of licensed certified public accountants.

This report consists of management's representations concerning the finances of the Town of Front Royal, Virginia. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, the management of the Town of Front Royal has established a comprehensive internal control framework. These controls are designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town of Front Royal's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town of Front Royal's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

State law requires that an annual audit be performed by independent certified public accountants of the Town's financial affairs. The Town of Front Royal's financial statements have been audited by Mitchell & Co., P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Front Royal, Virginia for the fiscal year ending June 30, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

Based upon their audit, Mitchell & Co., P.C. concluded that there was a reasonable basis for rendering an unqualified opinion that the Town of Front Royal's financial statements for the fiscal year ending June 30, 2012, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter

of transmittal is designed to complement MD&A and should be read in conjunction with it. The Town of Front Royal, Virginia's MD&A can be found immediately following the report of the independent auditors.

### **Profile of the Government**

Front Royal is located in Warren County in Northern Virginia approximately 17 miles south of Winchester and 70 miles west of Washington D.C. The Town was founded in 1754 and Chartered by the General Assembly of Virginia in 1788. U.S. Highways 522 and 340, and State Route 55 provide access to the Town. Interstate Highways 66 and 81 are located at the northern town limits and 6 miles west of the Town, respectively. The Town covers an area of approximately 9 square miles and has a population estimated at 14,440.

The Town is governed under a Council-Mayor form of government. The Town Council is comprised of six (6) members, who are elected at large, to serve four-year terms. Elections for three (3) seats on the Town Council are held every two (2) years. The Mayor, who serves a two-year term, presides over the Town Council, but votes only to break a tie.

The Town Manager is appointed by the Town Council as the chief executive officer of the Town and is responsible to the Town Council for proper administration of the Town government. The Town Manager also serves as the Town Treasurer and is responsible for the financial operations of the Town. The Clerk of Council and Town Attorney are also appointed by the Town Council. The Department Heads of Finance, Environmental Services, Energy 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 appropriate 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 year-end. However, encumbrances generally are re-appropriated as part of the following year's budget. As demonstrated by the statements and schedules included in the financial section of the report, the government continues to meet its responsibility for sound financial management.

### **Economic Outlook**

The Town of Front Royal maintained a strong financial condition at the conclusion of the 2011-2012 fiscal year despite the continuing challenges associated with the economic recession. The Town continues to maintain superior service levels to our citizens and customers, and endeavors to seek new

opportunities to improve these services.

Our General Fund revenues continue to be stable. This stability has allowed the Town to improve our program service delivery to maximize the return on these revenue sources. The Town continues to use our Capital Improvement Plan as a tool to identify our project and equipment needs to better plan for future expenses.

The Town's Enterprise Funds also appear stable. Our electric rates remain some of the lowest in the Commonwealth. While the Town has had to increase our water and sewer rates in previous fiscal years, our rates remain very competitive especially with other communities facing the nutrient removal requirements associated with the Chesapeake Bay Act.

The Town will continue to face challenges in the upcoming years. Our commercial areas continue to compete with those businesses located in the Rt. 522 Corridor. The Royal Phoenix site is anticipated to begin development in the next few years. Increasing traffic demands require the Town to construct new roadways including the completion of the next phases of Happy Creek Road, the Leach Run Parkway, the Local Connector Road from Kendrick Lane to Kerfoot Avenue, and the East-West Connector Road. Our utility services will continue to face ever-changing regulatory requirements that force facility upgrades. And the Town will be challenged by continued "unfunded mandates" from the State.

All of these challenges shall be addressed in our future efforts.

### **Major Achievements**

During the FY11-12 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 begun or continued during the fiscal year:

- Neighborhood Improvement Program – Utility & Road Improvements in Warren Park
- Review Outdoor Display & Storage Ordinance – Planning Commission
- Upgrade Wastewater Treatment Plant – Design of Improvements
- Construction of Police Department Training Range
- Administration Building – Acquisition & Improvements to new administrative offices
- Upgrade Channel 16 Recording & Broadcast Equipment
- Extension of Trail from Prospect Street to South Street
- Leach Run Parkway – MOU with Warren County & EDA for design and construction
- Achieved and maintained 100% compliance on all Water Treatment Plant quality requirements by Virginia Departments of Health and of Environmental Quality
- Continued Communication Efforts – Newsletter, Business Forum, Public Information Meetings, etc.
- Established Sewer Backup Abatement Program
- Established Town Employee Safe Driver Program to reduce Town Insurance Rates
- Designated Lowest Municipal Electric Rates in Commonwealth
- Established On-Line Bill Payment



**Awards and Acknowledgements**

The Government Finance Officers' Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Front Royal for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2011. This is the twenty-fourth (24<sup>th</sup>) 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.

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the Town of Front Royal Finance Department. The staff's hard work, dedication, and continuing efforts to improve the quality of this report directly benefit all who read and use it. Special recognition goes to Kim Gilkey-Breeden, Director of Finance, for her technical expertise, review, and service in the preparation of this CAFR. Credit must also be given to the Mayor and Town Council for their support to maintain the highest standards of professionalism in the management of the Town of Front Royal's finances.

Respectfully submitted,



Steven M. Burke, PE  
Town Manager



Kim Gilkey-Breeden  
Director of Finance

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Front Royal  
Virginia

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2011

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



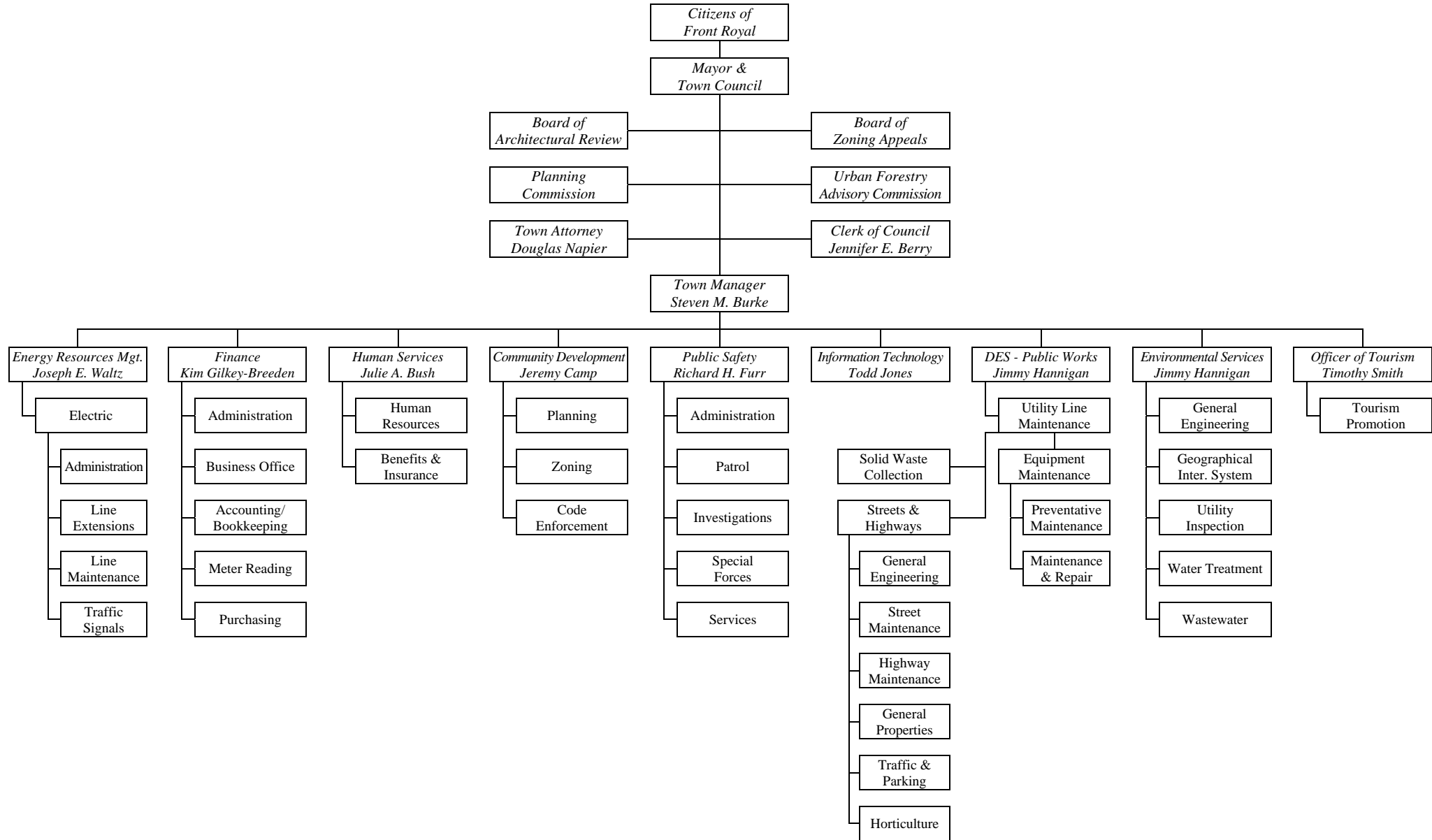
*Linda C. Davison*

President

*Jeffrey R. Emmer*

Executive Director

**TOWN OF FRONT ROYAL  
ORGANIZATIONAL CHART  
FISCAL YEAR ENDED JUNE 30, 2012**



**TOWN OF FRONT ROYAL, VIRGINIA  
JUNE 30, 2012**

**TOWN COUNCIL**

Timothy W. Darr - Mayor  
Chris W. Holloway - Vice Mayor  
Thomas E. Conkey  
Carson C. Lauder, Jr.  
N. Shae Parker  
Thomas H. Sayre  
Hollis L. Tharpe

**TOWN OFFICIALS**

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

## **FINANCIAL SECTION**

# MITCHELL & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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MEMBERS  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

VIRGINIA SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

MEGAN R. JOLLON, CPA

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Front Royal, Virginia, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Front Royal, Virginia's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Front Royal, Virginia, as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* and the *Specifications for Audits of Counties, Cities and Towns*, we have also issued our report dated September 21, 2012 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the *Specifications for Audits of Counties, Cities and Towns* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

September 21, 2012  
Leesburg, Virginia

*Mitchell & Co., P.C.*

## TOWN OF FRONT ROYAL, VIRGINIA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2012. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in our letter of transmittal, which can be found on pages 1 – 4 of this report.

#### Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$113,527,905. Of this amount, \$22,694,140 may be used to meet the Town's ongoing obligations to its citizens and creditors.
- The Town's total net assets decreased by \$1,752,403.
- As of the close of the current fiscal year, the Town of Front Royal's governmental funds reported combined ending fund balances of \$6,364,174, an increase of \$78,677 in comparison with the prior year. Approximately 76% of this amount, (\$4,843,120) 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 \$5,248,533, or 48.5 percent of total general fund expenditures.
- The Town's total bonded debt decreased by \$1,046,864 (8.1 percent) during the current fiscal year.

#### Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the Town of Front Royal that are principally supported by taxes and intergovernmental revenues, (governmental activities), from other functions that are intended to recover all or a significant portion of their costs through user fees and charges, (business-type activities). The governmental activities of the Town of Front Royal include general government, public safety, 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

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The government-wide financial statements can be found on pages 19 – 20 of this report.

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

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

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

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

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

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

The basic proprietary fund financial statements can be found starting on pages 25 – 29 of this report.

**Notes to the financial statements.** The notes and required supplementary information provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements and required supplementary information can be found on pages 30 – 55 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 56 – 66 of this report. Additional state required supplementary schedules follow the combining and individual fund statements and can be found on pages 67 – 69 of this report.

## TOWN OF FRONT ROYAL, VIRGINIA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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#### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Front Royal, Virginia, assets exceeded liabilities by \$113,527,905 at the close of the most recent fiscal year.

By far the largest portion of the Town's net assets (80 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following table presents a summary of the Town's net assets by type of activity as of June 30, 2012 and 2011.

<b>TOWN OF FRONT ROYAL -- NET ASSETS</b>						
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 7,963,344	\$ 7,778,569	\$ 21,355,300	\$ 21,913,375	\$ 29,318,644	\$ 29,691,944
Capital assets	56,862,671	59,081,005	43,520,751	43,788,713	100,383,422	102,869,718
Total Assets	64,826,015	66,859,574	64,876,051	65,702,088	129,702,066	132,561,662
Long-term liabilities	1,480,784	1,408,232	12,559,258	13,487,376	14,040,042	14,895,608
Other liabilities	327,961	289,576	1,806,158	2,096,170	2,134,119	2,385,746
Total Liabilities	1,808,745	1,697,808	14,365,416	15,583,546	16,174,161	17,281,354
Invested in capital assets, net of related debt	56,769,628	58,899,411	34,064,137	33,459,029	90,833,765	92,358,440
Restricted	1,313,146	1,136,560	-	-	1,313,146	1,136,560
Unrestricted	4,934,496	5,125,795	16,446,498	16,659,513	21,380,994	21,785,308
Total Net Assets	\$ 63,017,270	\$ 65,161,766	\$ 50,510,635	\$ 50,118,542	\$ 113,527,905	\$ 115,280,308

An additional portion of the Town of Front Royal's net assets (1.16%) represents resources that are in a nonspendable form. The remaining balance of \$21,380,994 is unrestricted net assets 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 assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

However the Town's net assets decreased by \$1,752,403 during the current fiscal year. The reasons for this overall decrease 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 assets by \$2,144,496, accounting for 122% of the Town's decrease in net asset. These changes are presented in column one of the following table:

<b>TOWN OF FRONT ROYAL -- CHANGES IN NET ASSETS</b>						
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues						
Charges for services	\$ 418,855	\$ 453,966	\$23,865,169	\$ 24,086,514	\$ 24,284,024	\$ 24,540,480
Operating grants & contributions	1,967,288	1,960,551	-	-	1,967,288	1,960,551
Capital grants & contributions	113,971	133,154	-	-	113,971	133,154
General revenues						
Property taxes	1,544,123	1,685,744	-	-	1,544,123	1,685,744
Other taxes	4,591,611	4,571,775	-	-	4,591,611	4,571,775
Investment earnings	123,824	56,357	301,615	217,969	425,439	274,326
<b>Total revenues</b>	<b>8,759,672</b>	<b>8,861,547</b>	<b>24,166,784</b>	<b>24,304,483</b>	<b>32,926,456</b>	<b>33,166,030</b>
Expenses						
General government	3,003,366	3,161,198	-	-	3,003,366	3,161,198
Public safety	3,890,462	3,821,530	-	-	3,890,462	3,821,530
Engineering and public works	2,167,403	2,440,880	-	-	2,167,403	2,440,880
Planning and zoning	641,552	596,574	-	-	641,552	596,574
Parks and recreation	105,801	105,720	-	-	105,801	105,720
Interest on long-term debt	8,480	12,431	-	-	8,480	12,431
Infrastructure depreciation	3,591,054	3,591,054	-	-	3,591,054	3,591,054
Electric	-	-	14,466,632	16,888,252	14,466,632	16,888,252
Water	-	-	2,799,552	2,742,241	2,799,552	2,742,241
Sewer	-	-	3,036,433	2,680,077	3,036,433	2,680,077
Solid waste management	-	-	968,124	931,697	968,124	931,697
<b>Total expenses</b>	<b>13,408,118</b>	<b>13,729,387</b>	<b>21,270,741</b>	<b>23,242,267</b>	<b>34,678,859</b>	<b>36,971,654</b>
Increase in net assets						
before transfers	(4,648,446)	(4,867,840)	2,896,043	1,062,216	(1,752,403)	(3,805,624)
Transfers	2,503,950	1,988,272	(2,503,950)	(1,988,272)	-	-
<b>Increase (decrease) in net assets</b>	<b>(2,144,496)</b>	<b>(2,879,568)</b>	<b>392,093</b>	<b>(926,056)</b>	<b>(1,752,403)</b>	<b>(3,805,624)</b>
Net assets – 07/01/2011	65,161,766	68,041,334	50,118,542	51,044,598	115,280,308	119,085,932
Net assets – 06/30/2012	<u>\$ 63,017,270</u>	<u>\$ 65,161,766</u>	<u>\$ 50,510,635</u>	<u>\$ 50,118,542</u>	<u>\$ 113,527,905</u>	<u>\$ 115,280,308</u>

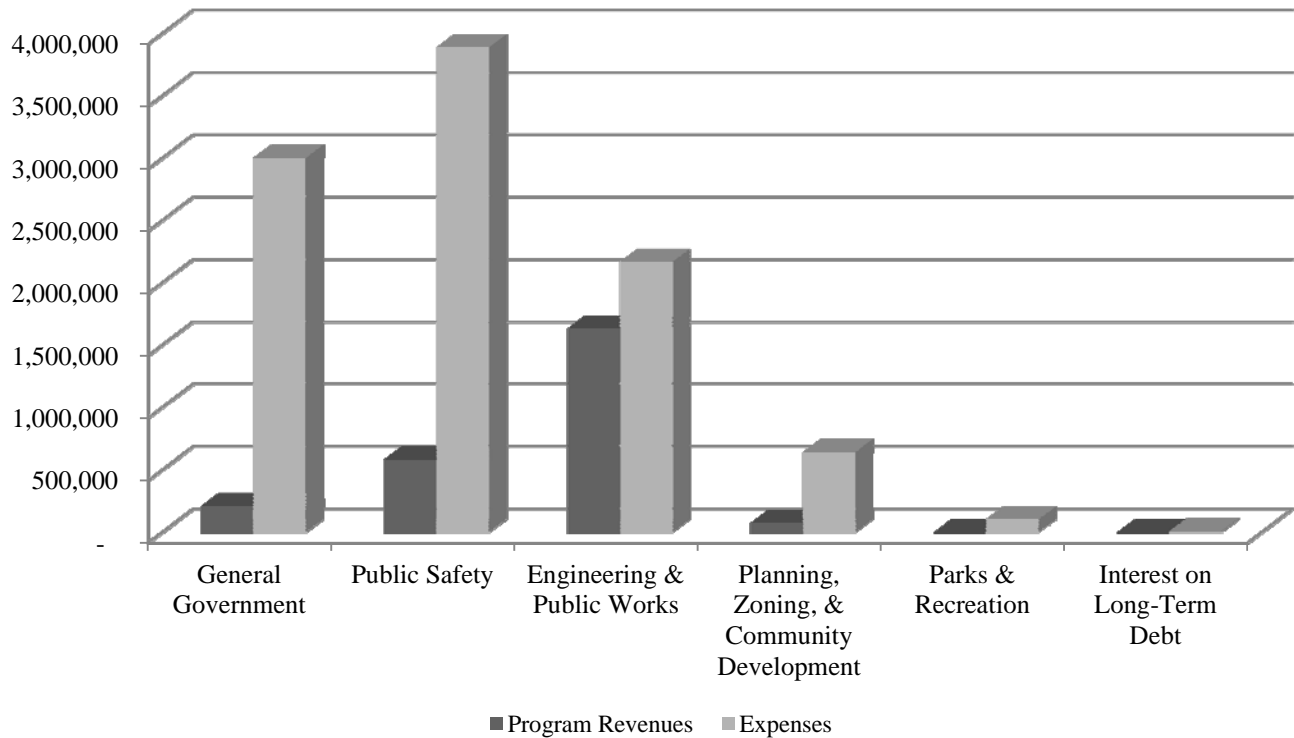
- Revenue from property taxes decreased by \$141,621 (8.4 percent) during the current year.
- Operating grants and contributions for governmental activities amounted to \$1,967,288, mostly as a result of Virginia state funding. The Virginia state funding furnished resources to support two of the Town's primary functions: public safety, public works and engineering.

**TOWN OF FRONT ROYAL, VIRGINIA**

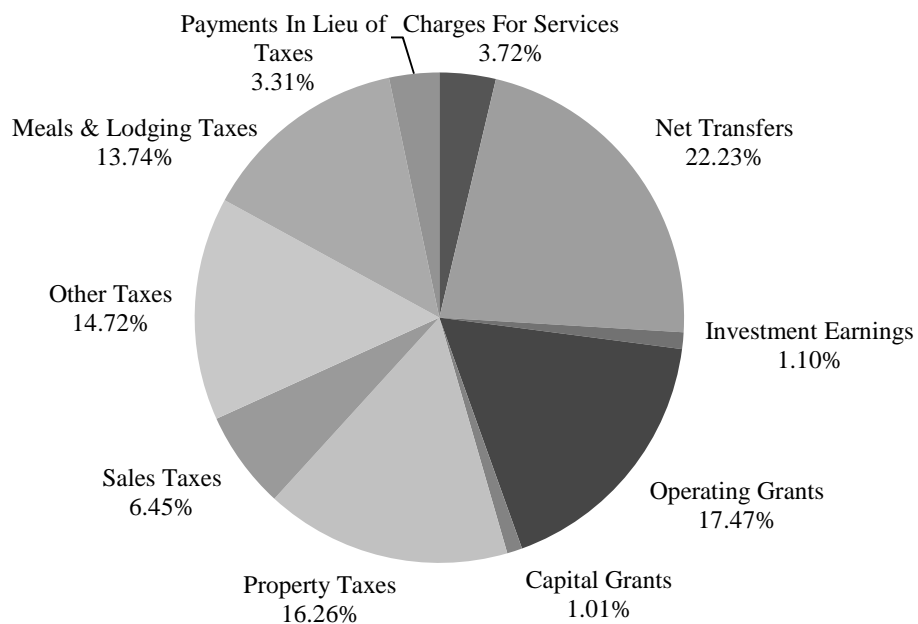
**MANAGEMENT’S DISCUSSION AND ANALYSIS**

The following charts present a graphic representation of the Town’s governmental activities and the related revenue structure for fiscal year 2012.

**EXPENSES AND PROGRAM REVENUES – GOVERNMENTAL ACTIVITIES**



**REVENUES BY SOURCE – GOVERNMENTAL ACTIVITIES**



**TOWN OF FRONT ROYAL, VIRGINIA**

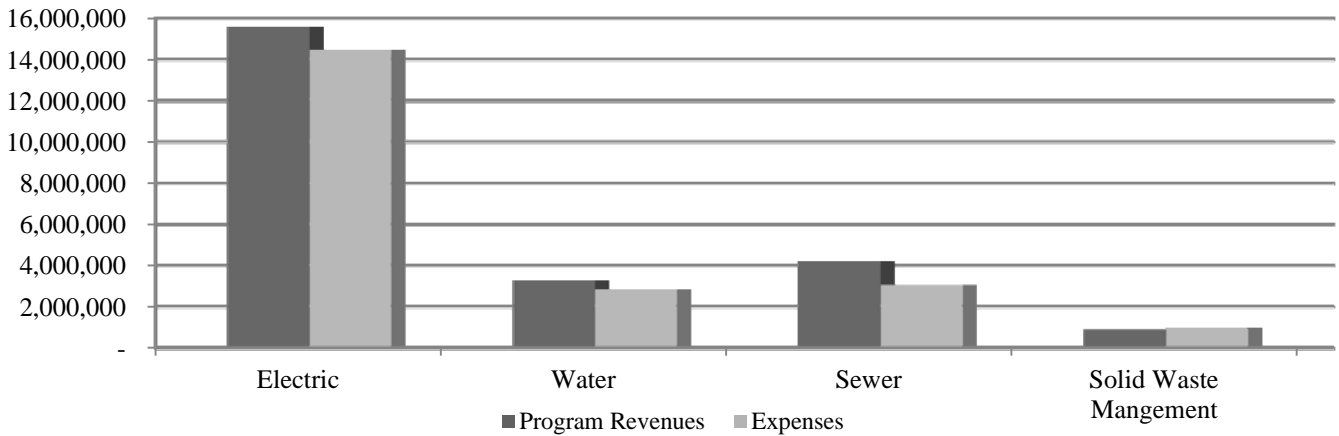
**MANAGEMENT’S DISCUSSION AND ANALYSIS**

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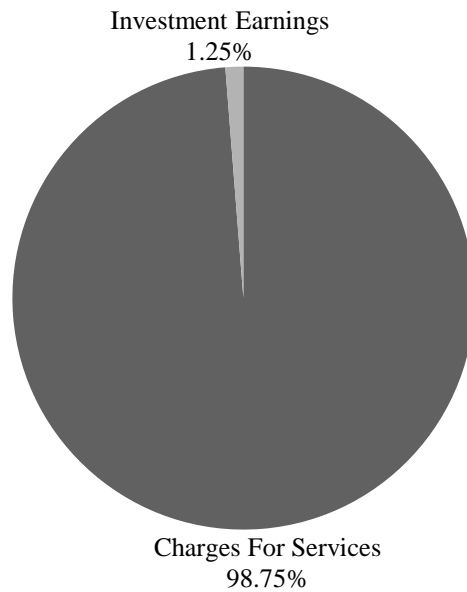
**Business-type activities.** Business-type activities increased the Town of Front Royal, Virginia’s net assets by \$392,093, accounting for 22.37 percent of the Town’s increase in net assets. Key elements of this increase are as follows:

- Electric service expenses decreased by \$2,421,620, a decrease of 14.34 percent.
- 

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



**REVENUES BY SOURCE – BUSINESS-TYPE ACTIVITIES**



## TOWN OF FRONT ROYAL, VIRGINIA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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#### Financial Analysis of the Government's Funds

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

**Governmental funds.** The focus of the Town of Front Royal's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for 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 \$6,364,174, an increase of \$78,677 in comparison with the prior year. Approximately 76.10% of this total amount, \$4,843,120 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance represents funds in nonspendable form (\$207,520), restricted by third parties (\$1,313,146), 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 \$5,248,533, while total fund balance reached \$6,222,986. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 48.5 percent of total general fund expenditures, while total fund balance represents 57.5 percent of that same amount.

The fund balance of the Town's general fund decreased by \$24,469 during the current fiscal year. Key factors in this decrease are as follows:

- Expenditures were in excess of revenues by \$2,528,419.
- The general fund received its annual transfers from the proprietary funds. These net transfers of \$2,503,950 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 assets of the water, sewer and solid waste management functions at the end of the year amounted to \$35,750,682 and those for the electric function amounted to \$14,759,953. The total increase in net assets for all enterprise funds was \$392,093. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

#### General Fund Budgetary Highlights

Additional net appropriations increases between the original budget and the final amended budget totaled \$2,118,905 and are noted as follows: a \$10,000 increase in Legislative; a \$155,056 increase in Executive; a \$2,000 increase in Finance; a \$37,036 increase in Police Department; a \$1,914,813 increase in Public Works and Engineering.

#### 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, 2012, amounts to \$100,383,422 (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 2.42%.

## TOWN OF FRONT ROYAL, VIRGINIA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Major capital assets events during the current fiscal year included the following:

- Purchase of a building and related renovations cost amounted to \$1,113,459 (Construction in process).
- Various projects related to streets, and sidewalks cost amounted to of \$490,753.
- Various improvements on water, sewer and electric lines amounted to \$1,016,593.

The table below summarizes the capital assets of the Town at June 30, 2012 and 2011.

<b>TOWN OF FRONT ROYAL - CAPITAL ASSETS (NET OF DEPRECIATION)</b>						
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 1,314,306	\$ 1,117,508	\$ 1,488,822	\$ 1,488,822	\$ 2,803,128	\$ 2,606,330
Buildings and Improvements	5,915,411	4,652,570	16,496,496	15,915,661	22,411,907	20,568,231
Utility distribution systems	-	-	25,147,952	25,793,116	25,147,952	25,793,116
Vehicles	309,208	251,238	138,073	191,627	447,281	442,865
Machinery and Equipment	700,114	845,003	249,408	399,487	949,522	1,244,490
Infrastructure	48,623,632	52,214,686	-	-	48,623,632	52,214,686
<b>Total</b>	<b>\$ 56,862,671</b>	<b>\$ 59,081,005</b>	<b>\$ 43,520,751</b>	<b>\$ 43,788,713</b>	<b>\$ 100,383,422</b>	<b>\$ 102,869,718</b>

Additional information on the Town of Front Royal's capital assets can be found in Note IV. E. on pages 43 – 44 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 \$11,860,717. All of this amount comprises debt backed by the full faith and credit of the government even though most (99 percent) of it will be repaid from enterprise fund revenue.

<b>TOWN OF FRONT ROYAL -- OUTSTANDING DEBT (GENERAL OBLIGATION BONDS)</b>						
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds	\$ 93,043	\$ 181,594	\$ 11,767,674	\$ 12,725,987	\$ 11,860,717	\$ 12,907,581

The Town of Front Royal's total debt decreased by \$1,046,864 (8.1 percent) during the current fiscal year. The majority of the debt is \$8,781,337 in general obligation bonds in the Water Fund. The reason for the decrease regularly scheduled principal reductions on the existing outstanding debt and no new debt issuance during the year.

The Town of Front Royal and its water and sewer functions maintain an "A" rating from Standard and Poor's and from Moody's for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total taxable assessed valuation. The current debt limitation for the Town of Front Royal is \$114,459,425 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 45 – 47 of this report.

## **TOWN OF FRONT ROYAL, VIRGINIA**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

- The unemployment rate for the Town of Front Royal is currently 5.5 percent, which is 1.2 percent lower in comparison to prior year.
- This compares to the state's average unemployment rate of 5.5 percent and favorably to the national average rate of 7.9 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 2012 fiscal year.

During the current fiscal year, unassigned fund balance in the general fund was \$5,248,533. Town of Front Royal has not appropriated any of this amount for spending in the 2013 fiscal year budget. It is available to offset the need for additional resources to be generated by the general fund.

#### **Requests for Information**

This report is designed to provide a general overview of the Town of Front Royal's finances for all those with an interest in the government's financial operations. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Office of the Director of Finance, 15 North Royal Avenue, P.O. Box 1560, Front Royal, Virginia 22630-1560.



**TOWN OF FRONT ROYAL, VIRGINIA**  
**GOVERNMENT WIDE STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 4,893,066	\$ 5,409,213	\$ 10,302,279
Investments	2,961,983	7,204,257	10,166,240
Receivables (net of allowance for uncollectibles, where applicable)			
Delinquent taxes, including penalties	1,335,859	-	1,335,859
Accounts	-	2,752,039	2,752,039
Other	25,666	28,132	53,798
Internal balances	(1,835,778)	1,835,778	-
Due from other governments	375,028	-	375,028
Inventories and other assets	207,520	1,156,550	1,364,070
Temporarily restricted assets - cash and cash equivalents			
Customer deposits	-	332,504	332,504
Bond funds	-	2,514,277	2,514,277
Deferred charges	-	122,550	122,550
Capital assets (net of accumulated depreciation)			
Land	1,314,306	1,488,822	2,803,128
Buildings and improvements	5,915,411	16,496,496	22,411,907
Utility distribution systems	-	25,147,952	25,147,952
Vehicles	309,208	138,073	447,281
Machinery and equipment	700,114	249,408	949,522
Infrastructure	48,623,632	-	48,623,632
<b>Total Assets</b>	<b>64,826,015</b>	<b>64,876,051</b>	<b>129,702,066</b>
<b>Liabilities</b>			
Accounts payable	327,961	1,331,435	1,659,396
Accrued interest payable	-	142,219	142,219
Liabilities payable with restricted assets	-	332,504	332,504
Noncurrent liabilities			
Due within one year	505,722	1,193,060	1,698,782
Due in more than one year	975,062	11,366,198	12,341,260
<b>Total Liabilities</b>	<b>1,808,745</b>	<b>14,365,416</b>	<b>16,174,161</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	56,769,628	34,064,137	90,833,765
Restricted for:			
Streets and highways	766,933	-	766,933
Capital outlays	129,024	-	129,024
Community development	417,189	-	417,189
Unrestricted	4,934,496	16,446,498	21,380,994
<b>Total Net Assets</b>	<b>\$ 63,017,270</b>	<b>\$ 50,510,635</b>	<b>\$ 113,527,905</b>

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

**TOWN OF FRONT ROYAL, VIRGINIA  
GOVERNMENT WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Change in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
Governmental activities							
General government	\$ 3,003,366	\$ 96,447	\$ -	\$ 113,971	\$ (2,792,948)	\$ -	\$ (2,792,948)
Public safety	3,890,462	244,888	338,352	-	(3,307,222)	-	(3,307,222)
Engineering and public works	2,167,403	2,932	1,628,936	-	(535,535)	-	(535,535)
Planning, zoning, and community development	641,552	74,588	-	-	(566,964)	-	(566,964)
Parks and recreation	105,801	-	-	-	(105,801)	-	(105,801)
Interest on long-term debt	8,480	-	-	-	(8,480)	-	(8,480)
Infrastructure depreciation - unallocated	3,591,054	-	-	-	(3,591,054)	-	(3,591,054)
Total governmental activities	13,408,118	418,855	1,967,288	113,971	(10,908,004)	-	(10,908,004)
Business-type activities							
Electric	14,466,632	15,561,410	-	-	-	1,094,778	1,094,778
Water	2,799,552	3,231,718	-	-	-	432,166	432,166
Sewer	3,036,433	4,204,653	-	-	-	1,168,220	1,168,220
Solid Waste Mangement	968,124	867,388	-	-	-	(100,736)	(100,736)
Total business-type activities	21,270,741	23,865,169	-	-	-	2,594,428	2,594,428
Total primary government	\$ 34,678,859	\$ 24,284,024	\$ 1,967,288	\$ 113,971	(10,908,004)	2,594,428	(8,313,576)
General Revenues							
Property taxes					1,544,123	-	1,544,123
Sales taxes					726,745	-	726,745
Business and occupational taxes					612,660	-	612,660
Franchise taxes					19,385	-	19,385
Communication taxes					157,940	-	157,940
Consumer taxes					228,374	-	228,374
Meals and lodging taxes					1,547,442	-	1,547,442
Virginia personal property tax reduction					287,000	-	287,000
Payment in lieu of taxes					372,920	-	372,920
Other general taxes					639,145	-	639,145
Unrestricted investment earnings					123,824	301,615	425,439
Transfers					2,503,950	(2,503,950)	-
Total general revenues and transfers					8,763,508	(2,202,335)	6,561,173
Change in net assets					(2,144,496)	392,093	(1,752,403)
Net assets - beginning					65,161,766	50,118,542	115,280,308
Net assets - ending					\$ 63,017,270	\$ 50,510,635	\$ 113,527,905

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

**TOWN OF FRONT ROYAL, VIRGINIA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2012**

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 4,599,455	\$ 293,611	\$ 4,893,066
Investments	2,961,983	-	2,961,983
Receivables (net of allowance for uncollectibles, where applicable)			
Delinquent taxes, including penalties	1,332,989	2,870	1,335,859
Other	25,666	-	25,666
Due from other governments	375,028	-	375,028
Interfund advances	49,915	4,888	54,803
Inventories and other assets	207,520	-	207,520
<b>Total Assets</b>	<b>9,552,556</b>	<b>301,369</b>	<b>9,853,925</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	149,568	10,365	159,933
Accrued liabilities	168,028	-	168,028
Deferred revenue	1,268,339	2,870	1,271,209
Interfund advances	1,743,635	146,946	1,890,581
<b>Total Liabilities</b>	<b>3,329,570</b>	<b>160,181</b>	<b>3,489,751</b>
<b>Fund balances</b>			
<b>Nonspendable:</b>			
Inventory	121,602	-	121,602
Prepaid items	85,918	-	85,918
<b>Restricted for:</b>			
Streets and highways	766,933	-	766,933
Capital outlays	-	129,024	129,024
Community development	-	417,189	417,189
<b>Assigned for:</b>			
Capital projects	-	388	388
Unassigned	5,248,533	(405,413)	4,843,120
<b>Total Fund Balances</b>	<b>6,222,986</b>	<b>141,188</b>	<b>6,364,174</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 9,552,556</b>	<b>\$ 301,369</b>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	56,862,671
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,271,209
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,480,784)
Net assets of governmental activities	<u>\$ 63,017,270</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, 2012**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Taxes			
Property	\$ 1,117,894	\$ 358,516	\$ 1,476,410
Sales	726,745	-	726,745
Business and occupational	612,660	-	612,660
Franchise	19,385	-	19,385
Consumer	228,374	-	228,374
Vehicle licenses	350,500	-	350,500
Bank stock	235,301	-	235,301
Meals and lodging	1,547,442	-	1,547,442
Payment in lieu of taxes	372,920	-	372,920
Permits, fees, and licenses	74,588	-	74,588
Fines and forfeitures	213,721	-	213,721
Revenues from use of money & property	123,824	-	123,824
Charges for services	25,811	-	25,811
Miscellaneous	73,568	-	73,568
Recovered costs	-	31,167	31,167
Intergovernmental	2,579,543	-	2,579,543
Total revenues	<u>8,302,276</u>	<u>389,683</u>	<u>8,691,959</u>
<b>Expenditures</b>			
General government			
Legislative	155,176	-	155,176
Executive	1,520,025	-	1,520,025
Legal	342,144	-	342,144
Finance	732,352	-	732,352
Public safety - Police	3,591,549	7,125	3,598,674
Planning, zoning, and community development	408,279	182,381	590,660
Engineering and public works	3,421,997	-	3,421,997
Parks and recreation	95,000	-	95,000
Nondepartmental	564,173	-	564,173
Debt Service			
Principal	-	88,551	88,551
Interest	-	8,480	8,480
Total expenditures	<u>10,830,695</u>	<u>286,537</u>	<u>11,117,232</u>
Deficiency of revenues under expenditures	<u>(2,528,419)</u>	<u>103,146</u>	<u>(2,425,273)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	2,503,950	-	2,503,950
Transfers (out)	-	-	-
Total other financing sources and uses	<u>2,503,950</u>	<u>-</u>	<u>2,503,950</u>
<b>Net change in fund balances</b>	<b>(24,469)</b>	<b>103,146</b>	<b>78,677</b>
<b>Fund balances - beginning</b>	<b>6,247,455</b>	<b>38,042</b>	<b>6,285,497</b>
<b>Fund balances - ending</b>	<b><u>\$ 6,222,986</u></b>	<b><u>\$ 141,188</u></b>	<b><u>\$ 6,364,174</u></b>

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

**TOWN OF FRONT ROYAL, VIRGINIA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

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

Net change in fund balances - total governmental funds \$ 78,677

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expenses exceeded capital outlays in the current period. (2,218,334)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 67,713

The issuance of long term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amount are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 88,551

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. (161,103)

Change in net assets of governmental activities \$ (2,144,496)

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, 2012**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
General property taxes	\$ 1,382,654	\$ 1,382,654	\$ 1,117,894	\$ (264,760)
Other local taxes	3,807,000	3,807,000	4,093,327	286,327
Permits, fees, and licenses	90,000	90,000	74,588	(15,412)
Fines and forfeitures	260,000	260,000	213,721	(46,279)
Revenues from use of money & property	109,500	109,500	123,824	14,324
Charges for services	30,000	30,000	25,811	(4,189)
Miscellaneous	39,721	75,858	73,568	(2,290)
Intergovernmental	2,440,000	2,441,000	2,579,543	138,543
<b>Total revenues</b>	<b>8,158,875</b>	<b>8,196,012</b>	<b>8,302,276</b>	<b>106,264</b>
<b>Expenditures</b>				
General government				
Legislative	161,608	171,608	155,176	16,432
Executive	1,596,507	1,751,563	1,520,025	231,538
Legal	357,353	357,353	342,144	15,209
Finance	767,679	769,679	732,352	37,327
<b>Total general government</b>	<b>2,883,147</b>	<b>3,050,203</b>	<b>2,749,697</b>	<b>300,506</b>
Public safety - police	3,670,722	3,707,758	3,591,549	116,209
Planning and zoning	473,879	473,879	408,279	65,600
Public works and engineering	2,910,634	4,825,447	3,421,997	1,403,450
Parks and recreation	95,000	95,000	95,000	-
Non-departmental	629,443	629,443	564,173	65,270
<b>Total expenditures</b>	<b>10,662,825</b>	<b>12,781,730</b>	<b>10,830,695</b>	<b>1,951,035</b>
<b>Deficiency of revenues under expenditures</b>	<b>(2,503,950)</b>	<b>(4,585,718)</b>	<b>(2,528,419)</b>	<b>2,057,299</b>
<b>Other Financing Sources</b>				
Transfers in	2,503,950	2,503,950	2,503,950	-
	2,503,950	2,503,950	2,503,950	-
<b>Net change in fund balances</b>	<b>-</b>	<b>(2,081,768)</b>	<b>(24,469)</b>	<b>2,057,299</b>
<b>Fund balances - beginning</b>	<b>6,247,455</b>	<b>6,247,455</b>	<b>6,247,455</b>	<b>-</b>
<b>Fund balances - ending</b>	<b>\$ 6,247,455</b>	<b>\$ 4,165,687</b>	<b>\$ 6,222,986</b>	<b>\$ 2,057,299</b>

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

**TOWN OF FRONT ROYAL, VIRGINIA**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2012**

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Electric Current Year</b>	<b>Electric Prior Year</b>	<b>Water Current Year</b>	<b>Water Prior Year</b>
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 2,046,217	\$ 3,699,687	\$ 2,827,830	\$ 2,990,212
Investments	2,060,489	2,844,292	1,511,757	1,701,746
Due from other funds	1,570,663	70,663	379,494	392,659
Accounts receivable (net of allowance for uncollectibles)	1,782,084	1,827,309	376,506	367,451
Other receivables	19,388	23,380	1,995	1,995
Inventories	891,101	854,593	132,724	127,557
Total current assets	<u>8,369,942</u>	<u>9,319,924</u>	<u>5,230,306</u>	<u>5,581,620</u>
Noncurrent assets				
Restricted cash and cash equivalents				
Customer deposits	312,964	249,777	19,540	13,328
Bond funds	-	-	-	-
Deferred charges	-	-	54,062	65,128
	<u>312,964</u>	<u>249,777</u>	<u>73,602</u>	<u>78,456</u>
Capital assets				
Land, buildings and structures	4,387,588	4,154,889	13,867,095	13,521,652
Utility distribution systems	8,099,635	7,867,640	21,475,393	21,330,363
Vehicles	898,772	898,772	432,391	387,970
Equipment	949,776	914,006	535,033	533,845
Less accumulated depreciation	<u>(6,799,909)</u>	<u>(6,427,448)</u>	<u>(12,431,650)</u>	<u>(11,685,186)</u>
Total capital assets (net of accumulated depreciation)	<u>7,535,862</u>	<u>7,407,859</u>	<u>23,878,262</u>	<u>24,088,644</u>
Total noncurrent assets	<u>7,848,826</u>	<u>7,657,636</u>	<u>23,951,864</u>	<u>24,167,100</u>
<b>Total Assets</b>	<u><b>16,218,768</b></u>	<u><b>16,977,560</b></u>	<u><b>29,182,170</b></u>	<u><b>29,748,720</b></u>
<b>Liabilities</b>				
Current liabilities				
Accounts payable	1,039,248	1,550,301	144,917	74,080
Accrued interest payable	-	-	104,560	112,052
Compensated absences - current	16,726	45,053	60,392	51,982
General obligation bonds - current	-	-	664,078	684,398
Total current liabilities	<u>1,055,974</u>	<u>1,595,354</u>	<u>973,947</u>	<u>922,512</u>
Noncurrent liabilities				
Customer deposits payable	312,964	249,777	19,540	13,328
Compensated absences	16,726	45,053	60,392	51,982
OPEB liability	73,151	56,898	76,068	59,166
General obligation bonds payable	-	-	8,298,822	8,962,901
Total noncurrent liabilities	<u>402,841</u>	<u>351,728</u>	<u>8,454,822</u>	<u>9,087,377</u>
<b>Total Liabilities</b>	<u><b>1,458,815</b></u>	<u><b>1,947,082</b></u>	<u><b>9,428,769</b></u>	<u><b>10,009,889</b></u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	7,535,862	7,407,859	14,915,362	14,441,345
Unrestricted	7,224,091	7,622,619	4,838,039	5,297,486
<b>Total Net Assets</b>	<u><b>\$ 14,759,953</b></u>	<u><b>\$ 15,030,478</b></u>	<u><b>\$ 19,753,401</b></u>	<u><b>\$ 19,738,831</b></u>

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

(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2012**

	<b>Business-type Activities - Enterprise Funds</b>				
	<b>Sewer Current Year</b>	<b>Sewer Prior Year</b>	<b>Solid Waste Management Current Year</b>	<b>Solid Waste Management Prior Year</b>	<b>Totals Current Year</b>
<b>Assets</b>					
Current assets					
Cash and cash equivalents	\$ 849,493	\$ 1,793,820	\$ (314,327)	\$ (180,759)	\$ 5,409,213
Investments	3,632,011	1,779,977	-	-	7,204,257
Due from other funds	(96,197)	(109,362)	(18,182)	(18,182)	1,835,778
Accounts receivable (net of allowance for uncollectibles)	487,021	427,417	106,428	112,928	2,752,039
Other receivables	6,749	54,304	-	70	28,132
Inventories	132,725	127,557	-	-	1,156,550
Total current assets	<u>5,011,802</u>	<u>4,073,713</u>	<u>(226,081)</u>	<u>(85,943)</u>	<u>18,385,969</u>
Noncurrent assets					
Restricted cash and cash equivalents					
Customer deposits	-	-	-	-	332,504
Bond funds	2,514,277	2,616,113	-	-	2,514,277
Deferred charges	68,488	79,715	-	-	122,550
	<u>2,582,765</u>	<u>2,695,828</u>	<u>-</u>	<u>-</u>	<u>2,969,331</u>
Capital assets					
Land, buildings and structures	5,039,883	4,601,432	34,160	34,160	23,328,726
Utility distribution systems	22,608,157	22,594,495	-	-	52,183,185
Vehicles	462,136	436,144	994,711	994,711	2,788,010
Equipment	866,716	866,716	602,144	595,734	2,953,669
Less accumulated depreciation	<u>(16,939,313)</u>	<u>(16,325,085)</u>	<u>(1,561,967)</u>	<u>(1,506,097)</u>	<u>(37,732,839)</u>
Total capital assets (net of accumulated depreciation)	<u>12,037,579</u>	<u>12,173,702</u>	<u>69,048</u>	<u>118,508</u>	<u>43,520,751</u>
Total noncurrent assets	<u>14,620,344</u>	<u>14,869,530</u>	<u>69,048</u>	<u>118,508</u>	<u>46,490,082</u>
<b>Total Assets</b>	<u>19,632,146</u>	<u>18,943,243</u>	<u>(157,033)</u>	<u>32,565</u>	<u>64,876,051</u>
<b>Liabilities</b>					
Current liabilities					
Accounts payable	134,231	37,267	13,039	8,731	1,331,435
Accrued interest payable	37,659	50,634	-	-	142,219
Compensated absences - current	61,099	50,897	20,578	17,552	158,795
General obligation bonds - current	370,187	290,507	-	-	1,034,265
Total current liabilities	<u>603,176</u>	<u>429,305</u>	<u>33,617</u>	<u>26,283</u>	<u>2,666,714</u>
Noncurrent liabilities					
Customer deposits payable	-	-	-	-	332,504
Compensated absences	61,099	50,896	20,578	17,551	158,795
OPEB liability	67,236	52,297	54,322	42,252	270,777
General obligation bonds payable	2,637,804	3,007,991	-	-	10,936,626
Total noncurrent liabilities	<u>2,766,139</u>	<u>3,111,184</u>	<u>74,900</u>	<u>59,803</u>	<u>11,698,702</u>
<b>Total Liabilities</b>	<u>3,369,315</u>	<u>3,540,489</u>	<u>108,517</u>	<u>86,086</u>	<u>14,365,416</u>
<b>Net Assets</b>					
Invested in capital assets, net of related debt	11,543,865	11,491,317	69,048	118,508	34,064,137
Unrestricted	4,718,966	3,911,437	(334,598)	(172,029)	16,446,498
<b>Total Net Assets</b>	<u>\$ 16,262,831</u>	<u>\$ 15,402,754</u>	<u>\$ (265,550)</u>	<u>\$ (53,521)</u>	<u>\$ 50,510,635</u>

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



**TOWN OF FRONT ROYAL, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Electric Current Year</b>	<b>Electric Prior Year</b>	<b>Water Current Year</b>	<b>Water Prior Year</b>
<b>Operating revenues</b>				
Charges for sales and services				
Electric sales	\$ 15,438,570	\$ 16,259,261	\$ -	\$ -
Water and sewer sales	-	-	3,050,667	2,898,057
Installation and connection charges	99,261	257,308	115,171	200,000
Refuse service fees	-	-	-	-
Miscellaneous revenues	23,579	27,983	65,880	63,885
Total operating revenues	<u>15,561,410</u>	<u>16,544,552</u>	<u>3,231,718</u>	<u>3,161,942</u>
<b>Operating expenses</b>				
Personal service	903,694	905,407	978,172	863,779
Contractual service	55,065	185,454	108,036	119,382
Electric power	12,726,796	14,645,589	-	-
Depreciation	372,460	362,068	746,464	744,223
Other charges	652,118	1,017,416	686,983	694,084
Operating expenses capitalized	(268,501)	(227,682)	(145,039)	(134,328)
Total operating expenses	<u>14,441,632</u>	<u>16,888,252</u>	<u>2,374,616</u>	<u>2,287,140</u>
Operating income	<u>1,119,778</u>	<u>(343,700)</u>	<u>857,102</u>	<u>874,802</u>
<b>Nonoperating revenues (expenses)</b>				
Investment earnings	105,697	98,910	72,354	70,224
Interest expense	(25,000)	-	(424,936)	(455,101)
Bond issuance costs	-	-	-	-
Total nonoperating revenue (expenses)	<u>80,697</u>	<u>98,910</u>	<u>(352,582)</u>	<u>(384,877)</u>
Income before contributions and transfers	1,200,475	(244,790)	504,520	489,925
<b>Transfers and contributions</b>				
Transfers in (out)	<u>(1,471,000)</u>	<u>(1,000,000)</u>	<u>(489,950)</u>	<u>(396,772)</u>
<b>Change in net assets</b>	(270,525)	(1,244,790)	14,570	93,153
<b>Total net assets - beginning of year</b>	<u>15,030,478</u>	<u>16,275,268</u>	<u>19,738,831</u>	<u>19,645,678</u>
<b>Total net assets - end of year</b>	<u>\$ 14,759,953</u>	<u>\$ 15,030,478</u>	<u>\$ 19,753,401</u>	<u>\$ 19,738,831</u>

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

(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	Business-type Activities - Enterprise Funds				Totals Current Year
	Sewer Current Year	Sewer Prior Year	Solid Waste Managment Current Year	Solid Waste Managment Prior Year	
<b>Operating revenues</b>					
Charges for sales and services					
Electric sales	\$ -	\$ -	\$ -	\$ -	\$ 15,438,570
Water and sewer sales	3,986,641	3,156,904	-	-	7,037,308
Installation and connection charges	216,962	294,556	-	-	431,394
Refuse service fees	-	-	867,388	927,160	867,388
Miscellaneous revenues	1,050	1,400	-	-	90,509
Total operating revenues	<u>4,204,653</u>	<u>3,452,860</u>	<u>867,388</u>	<u>927,160</u>	<u>23,865,169</u>
<b>Operating expenses</b>					
Personal service	924,698	811,085	646,206	632,842	3,452,770
Contractual service	285,998	238,583	18,082	55,579	467,181
Electric power	-	-	-	-	12,726,796
Depreciation	614,229	622,688	55,869	58,615	1,789,022
Other charges	1,069,345	884,029	247,967	184,661	2,656,413
Operating expenses capitalized	(18,831)	(7,549)	-	-	(432,371)
Total operating expenses	<u>2,875,439</u>	<u>2,548,836</u>	<u>968,124</u>	<u>931,697</u>	<u>20,659,811</u>
Operating income	<u>1,329,214</u>	<u>904,024</u>	<u>(100,736)</u>	<u>(4,537)</u>	<u>3,205,358</u>
<b>Nonoperating revenues (expenses)</b>					
Investment earnings	112,857	49,733	10,707	(898)	301,615
Interest expense	(160,994)	(131,241)	-	-	(610,930)
Bond issuance costs	-	-	-	-	-
Total nonoperating revenues (expenses)	<u>(48,137)</u>	<u>(81,508)</u>	<u>10,707</u>	<u>(898)</u>	<u>(309,315)</u>
Income before contributions and transfers	1,281,077	822,516	(90,029)	(5,435)	2,896,043
<b>Transfers and contributions</b>					
Transfers in (out)	<u>(421,000)</u>	<u>(489,500)</u>	<u>(122,000)</u>	<u>(102,000)</u>	<u>(2,503,950)</u>
<b>Change in net assets</b>	860,077	333,016	(212,029)	(107,435)	392,093
<b>Total net assets - beginning of year</b>	<u>15,402,754</u>	<u>15,069,738</u>	<u>(53,521)</u>	<u>53,914</u>	<u>50,118,542</u>
<b>Total net assets - end of year</b>	<u>\$ 16,262,831</u>	<u>\$ 15,402,754</u>	<u>\$ (265,550)</u>	<u>\$ (53,521)</u>	<u>\$ 50,510,635</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, 2012**

	<b>Business-type Activities - Enterprise Funds</b>				
	<b>Electric</b>	<b>Water</b>	<b>Sewer</b>	<b>Solid Waste Management</b>	<b>Totals</b>
<b>Cash Flows from Operating Activities</b>					
Receipts from customers and users	\$ 15,610,627	\$ 3,222,663	\$ 4,192,604	\$ 873,958	\$ 23,899,852
Payments to suppliers	(13,633,599)	(550,130)	(1,218,550)	(249,671)	(15,651,950)
Payments to employees	(960,348)	(961,352)	(904,293)	(640,153)	(3,466,146)
Net cash provided by (used in) operating activities	<u>1,016,680</u>	<u>1,711,181</u>	<u>2,069,761</u>	<u>(15,866)</u>	<u>4,781,756</u>
<b>Cash Flows from Noncapital Financing Activities</b>					
Transfers to other funds	(1,471,000)	(489,950)	(421,000)	(122,000)	(2,503,950)
Interfund (advances)/repayments	(1,500,000)	13,165	(13,165)	-	(1,500,000)
Net cash used in noncapital financing activities	<u>(2,971,000)</u>	<u>(476,785)</u>	<u>(434,165)</u>	<u>(122,000)</u>	<u>(4,003,950)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>					
Acquisition/construction of capital assets	(500,463)	(536,082)	(478,105)	(6,410)	(1,521,060)
Principal paid on capital debt	-	(684,399)	(290,507)	-	(974,906)
Interest paid	(24,999)	(432,428)	(173,969)	-	(631,396)
Net cash provided by (used in) capital and related financing activities	<u>(525,462)</u>	<u>(1,652,909)</u>	<u>(942,581)</u>	<u>(6,410)</u>	<u>(3,127,362)</u>
<b>Cash Flows from Investing Activities</b>					
Sales (purchases) of investments	783,803	189,989	(1,852,034)	-	(878,242)
Interest and dividends received	105,697	72,354	112,855	10,709	301,615
Net cash provided by (used in) investing activities	<u>889,500</u>	<u>262,343</u>	<u>(1,739,179)</u>	<u>10,709</u>	<u>(576,627)</u>
Net increase (decrease) in cash and cash eq.	(1,590,282)	(156,170)	(1,046,164)	(133,567)	(2,926,183)
Cash and cash equivalents July 1, 2011	3,949,464	3,003,540	4,409,933	(180,759)	11,182,178
Cash and cash equivalents June 30, 2012	<u>\$ 2,359,181</u>	<u>\$ 2,847,370</u>	<u>\$ 3,363,770</u>	<u>\$ (314,327)</u>	<u>\$ 8,255,994</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>					
Operating income	\$ 1,119,778	\$ 857,102	\$ 1,329,214	\$ (100,736)	\$ 3,205,358
Adjustments to reconcile operating income to net cash provided by (used in) operating activities					
Depreciation expense	372,460	746,464	614,229	55,869	1,789,022
(Increase) decrease in:					
Accounts receivable	45,225	(9,055)	(59,604)	6,500	(16,934)
Other receivables	3,992	-	47,555	70	51,617
Inventories	(36,508)	(5,167)	(5,168)	-	(46,843)
Deferred charges	-	11,066	11,227	-	22,293
Increase (decrease) in:					
Customer deposits	63,187	6,212	-	-	69,399
Accounts payable	(511,053)	70,837	96,964	4,308	(338,944)
OPEB liability	16,253	16,902	14,939	12,070	60,164
Compensated absences	(56,654)	16,820	20,405	6,053	(13,376)
Total adjustments	<u>(103,098)</u>	<u>854,079</u>	<u>740,547</u>	<u>84,870</u>	<u>1,576,398</u>
Net cash provided by (used in) operating activities	<u>\$ 1,016,680</u>	<u>\$ 1,711,181</u>	<u>\$ 2,069,761</u>	<u>\$ (15,866)</u>	<u>\$ 4,781,756</u>

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Front Royal, Virginia, (the “Town”) was chartered as a Town in 1754. The Town is governed by a mayor and a six-member Town Council, who are elected at large for a four year term with elections every two years.

##### A. Reporting Entity

The Town of Front Royal, Virginia (government) is a municipal corporation governed by an elected mayor and six-member Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government’s operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

There were no blended or discretely presented component units for the Town for the year ended June 30, 2012.

##### B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets 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.

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

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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.

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

##### D. Assets, Liabilities and Net Assets 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.

# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

##### 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-ration throughout the year.

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

##### 3. Inventories and Other Assets

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

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

##### 4. Restricted Assets

*Customer Deposits* - Cash funds of the enterprise funds are restricted for customer deposits held.

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

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**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

**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.



## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

###### 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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as another financing source.

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 different between the amounts expensed and paid creates a liability (asset) similar to net pension obligations.

###### 10. 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).

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**10. Fund Balance (Continued)**

*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 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).

**11. Comparative Data/Reclassifications**

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

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

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

The governmental fund balance sheet includes reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$1,480,784 are as follows:

Description	Amount
Bonds payable	\$ 93,043
Compensated absences	825,358
OPEB liability	562,383
Net adjustment to reduce <i>fund balance - total governmental</i>	<u>\$ 1,480,784</u>

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

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

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

The governmental statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of the \$2,218,334 difference is as follows:

Description	Amount
Capital outlay	\$ 1,835,460
Depreciation expense	(4,053,794)
Net adjustment to decrease <i>net changes in fund balances -total governmental</i>	<u>\$ (2,218,334)</u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.” The details of this \$88,551 difference are as follows:

Description	Amount
Principal debt retirements of bonded debt	\$ 88,551
Net adjustment to increase <i>net changes in fund balances - total governmental</i>	<u>\$ 88,551</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 \$2,118,905.

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

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**III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information (Continued)**

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

**B. Excess of Expenditures over Appropriations**

For the year ended June 30, 2012, there were no departments in which expenditures exceeded appropriations.

**C. Deficit Fund Balance**

At June 30, 2012 Special Revenue Funds which had a deficit fund balance are noted below:

Fund	Deficit Fund Balance
Downtown Service District	\$ 1,512
Economic Development	403,901

**IV. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

**Deposits**

As of June 30, 2012 the carrying amount of the Town’s deposits with bank and savings institutions was \$7,232,768 and the bank balance was \$7,547,220.

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.

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### IV. DETAILED NOTES ON ALL FUNDS

##### A. Deposits and Investments

###### 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.

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.

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**A. Deposits and Investments (Continued)**

**Investments (Continued)**

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; and 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, 2012, 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, 2012, the government had the following investments:

Investment Type	Fair Value	Maturity	
		1 Year	Over 1 Year
Treasury and agency securities	\$ 1,748,577	\$ 1,748,577	\$ -
Governmental securities Class A mutual funds	6,918,337	6,918,337	-
Asset backed securities	1,380,661	1,380,661	-
Repurchase agreements	118,665	118,665	-
Local Government Investment Pool	2,928,307	2,928,307	-
Banking repurchase agreements	1,206,120	1,206,120	-
SunTrust US Government Fund	1,568,740	1,568,740	-
Total	\$ 15,869,407	\$ 15,869,407	\$ -

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**A. Deposits and Investments (Continued)**

**Investments (Continued)**

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

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	\$ 1,485	\$ 1,485	\$ -
Bank Deposits	7,232,768	7,232,768	-
Investments	16,081,047	5,914,807	10,166,240
<b>Total</b>	<b>\$ 23,315,300</b>	<b>\$ 13,149,060</b>	<b>\$ 10,166,240</b>

**B. Estimated Unbilled Revenue**

Proprietary fund types estimate and record utility services rendered but not yet billed at June 30, 2012. 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, 2012, unbilled service recorded was \$1,230,113.

**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	\$1,332,989	\$ -	\$ -	\$ -	\$ -	\$ 2,870	\$1,335,859
Accounts	-	2,677,724	391,836	446,273	169,616	-	3,685,449
Interest	-	-	-	-	-	-	-
Intergovernmental	375,028	-	-	-	-	-	375,028
Unbilled	-	788,889	183,679	215,551	41,994	-	1,230,113
Other	25,666	32,598	1,995	58,555	-	-	118,814
Less: allowance	-	(1,697,739)	(199,009)	(226,609)	(105,182)	-	(2,228,539)
<b>Net receivables</b>	<b>\$1,733,683</b>	<b>\$1,801,472</b>	<b>\$ 378,501</b>	<b>\$ 493,770</b>	<b>\$ 106,428</b>	<b>\$ 2,870</b>	<b>\$4,516,724</b>

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**

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**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	\$ 1,268,339	\$ -
Special Revenue Fund - Property Taxes	2,870	-
	<u>\$ 1,271,209</u>	<u>\$ -</u>

**D. Due from Other Governments**

At June 30, 2012 amounts due from other governments were as follows:

<u>Description/Payer</u>	<u>General</u>
Commonwealth of Virginia	
Communication Tax	\$ 28,000
2012 Personal Property Tax Relief Act	287,000
Warren County, Virginia - Sales Tax	60,028
	<u>\$ 375,028</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, 2012 was as follows:

**Primary Government**

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 1,117,508	196,798	\$ -	\$ 1,314,306
Capital assets being depreciated				
Buildings and improvements	5,956,279	1,407,415	-	7,363,694
Vehicles	1,677,689	174,448	-	1,852,137
Equipment	2,977,570	56,799	-	3,034,369
Infrastructure	109,527,139	-	-	109,527,139
Total	120,138,677	1,638,662	-	121,777,339
Less accumulated depreciation for				
Buildings and improvements	(1,303,709)	(144,574)	-	(1,448,283)
Vehicles	(1,426,451)	(116,478)	-	(1,542,929)
Equipment	(2,132,567)	(201,688)	-	(2,334,255)
Infrastructure	(57,312,453)	(3,591,054)	-	(60,903,507)
Total	(62,175,180)	(4,053,794)	-	(66,228,974)
Net capital assets being depreciated	57,963,497	(2,415,132)	-	55,548,365
Governmental capital assets, net	\$ 59,081,005	\$ (2,218,334)	\$ -	\$ 56,862,671

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

Activity	Depreciation
Governmental activities:	
General government	\$ 121,773
Public safety	159,055
Public works	151,547
Planning, zoning, and community development	26,158
Culture and recreation	4,207
Infrastructure depreciation	3,591,054
Total depreciation expense - governmental activities	\$ 4,053,794

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**E. Capital Assets (Continued)**

<b>Business-Type Activities</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 1,488,822	\$ -	\$ -	\$ 1,488,822
Capital assets being depreciated				
Buildings and improvements	20,823,311	1,016,593	-	21,839,904
Utility distribution systems	51,792,499	390,686	-	52,183,185
Vehicles	2,717,597	70,413	-	2,788,010
Equipment	2,910,301	43,368	-	2,953,669
Total	78,243,708	1,521,060	-	79,764,768
Less accumulated depreciation for				
Buildings and improvements	(4,907,650)	(435,758)	-	(5,343,408)
Utility distribution systems	(25,999,383)	(1,035,850)	-	(27,035,233)
Vehicles	(2,525,970)	(123,967)	-	(2,649,937)
Equipment	(2,510,814)	(193,447)	-	(2,704,261)
Total	(35,943,817)	(1,789,022)	-	(37,732,839)
Net capital assets being depreciated	42,299,891	(267,962)	-	42,031,929
Business-type capital assets, net	\$ 43,788,713	\$ (267,962)	\$ -	\$ 43,520,751

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

Activity	Depreciation
Business-type activities:	
Electric	\$ 372,460
Water	746,464
Sewer	614,229
Solid Waste Management	55,869
Total depreciation expense - business-type activities	\$ 1,789,022

There were no significant intangible asset acquisitions during the fiscal year ended June 30, 2012.

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

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**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, 2012 is as follows:

Advanced to	From	Amount
General Fund	Electric Fund	\$ 1,537,734
General Fund	Sewer Fund	151,007
General Fund	Water Fund	151,537
General Fund	Town Facilities Fund	388
Special Revenue	General Fund	49,915
Sewer Fund	Economic Development Fund	2,250
Sewer Fund	Water Fund	244,954
Water Fund	Economic Development Fund	2,250
Water Fund	Electric Fund	14,747
Solid Waste Management	Electric Fund	18,182
		<u>\$ 2,172,964</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 interfund transfers during 2012 is as follows:

Transferred to	From	Amount
General Fund	Electric Fund	\$ 1,471,000
General Fund	Water Fund	489,950
General Fund	Sewer Fund	421,000
General Fund	Solid Waste Management Fund	122,000
		<u>\$ 2,503,950</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 and notes outstanding at June 30, 2012 are as follows:

Description	Amount
\$5,655,523, 2002 series general obligation refunding bond, issued November 14, 2002 due in increasing annual maturities starting with \$135,131 in 2002 and increasing to \$502,674 in 2013, with interest at 3.22%.	\$ 502,674
\$2,275,000, 1998 series public improvement bonds, issued June 30, 1998, due in annual installments of \$547,966 through June 30, 2001, and \$97,031 from June 30, 2002 through June 30, 2013 including interest at 4.27% and 4.67%.	93,043
\$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%.	8,530,000
\$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>2,735,000</u>
Total General Obligation Debt	<u><u>\$ 11,860,717</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
2013	\$ 93,043	\$ 4,017	\$ 1,017,674	\$ 561,026
2014	-	-	535,000	523,214
2015	-	-	565,000	500,308
2016	-	-	580,000	477,798
2017	-	-	605,000	454,308
Thereafter	-	-	8,465,000	2,695,016
Total	<u>\$ 93,043</u>	<u>\$ 4,017</u>	<u>\$ 11,767,674</u>	<u>\$ 5,211,670</u>

The legal debt limit mandated by the Commonwealth of Virginia is \$114,459,425.

The Town issued \$5,655,523 of 2002 series of general obligation refunding bonds to provide resources to purchase U.S. Governmental State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$5,467,202 of general obligation water and sewer bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the business type activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$104,200. This amount is being amortized over the remaining life of the refunded debt, which is the same as the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 10 years by \$393,867 and resulted in an economic gain of \$358,124.

**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, 2012 was as follows:

	June 30, 2011	Additions	Retirements	June 30, 2012	One Year
<b>Governmental activities:</b>					
Bonds payable:					
General obligation bonds	\$ 181,594	\$ -	\$ (88,551)	\$ 93,043	\$ 93,043
Compensated absences	789,215	825,358	(789,215)	825,358	412,679
Other post-employment benefits	437,423	162,300	(37,340)	562,383	-
Governmental activity					
Long-term liabilities	\$ 1,408,232	\$ 987,658	\$ (915,106)	\$ 1,480,784	\$ 505,722

The liability for compensated absences, and net other postemployment benefit obligation is expected to be fully liquidated by the general fund.

**Business-type activities:**

Bonds payable:					
General obligation bonds	\$ 12,725,987	\$ -	\$ (958,313)	\$ 11,767,674	\$ 1,017,674
Unamortized premium	219,809	-	(16,591)	203,218	16,591
Compensated absences	330,966	53,224	(66,600)	317,590	158,795
Other post-employment benefits	210,613	60,164	-	270,777	-
Business-type activity					
Long-term liabilities	\$ 13,487,375	\$ 113,388	\$ (1,041,504)	\$ 12,559,259	\$ 1,193,060

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

Individual Fund	Due Within	
	1 Year	Long-term
General	\$ 412,679	\$ 412,679
Electric	\$ 16,726	\$ 16,726
Water	60,392	60,392
Sewer	61,099	61,099
Solid Waste Management	20,578	20,578
	\$ 158,795	\$ 158,795

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### 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 2012 the Town paid premiums of approximately \$157,612 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 2012, the Town paid contributions of approximately \$310,991 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%	\$ 1,540,000
Town of Front Royal support agreement obligation – 20%	\$ 308,000

Year	IDA Debt		20% Support Agreement		
	Principal	Interest	Principal	Interest	Total
2013	285,000	50,170	57,000	10,034	67,034
2014	300,000	39,669	60,000	7,934	67,934
2015	305,000	28,810	61,000	5,762	66,762
2016	320,000	17,591	64,000	3,518	67,518
2017	330,000	5,924	66,000	1,185	67,185
	<u>\$1,540,000</u>	<u>\$ 142,164</u>	<u>\$ 308,000</u>	<u>\$ 28,433</u>	<u>\$ 336,433</u>

**D. Post-Employment Benefits Other Than Pensions**

*Plan Description:* The Town of Front Royal Virginia adopted a retiree health insurance coverage policy. The policy states that the Town will provide healthcare insurance premium cost benefits for eligible retirees up to 25% of actual premium costs. The plan is provided through the Town’s group health insurance plan which covers both retirees and active employees. The premium payment cost benefits are earned 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 2012, 26 retirees had a benefit under this policy with a total cost to the Town of \$37,340.

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

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**V. OTHER INFORMATION (CONTINUED)**

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

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

Component	Amount
Annual required contribution	\$ 219,800
Interest on Net OPEB obligations	25,922
Adjustment to annual required contribution	(23,258)
Annual OPEB cost (expense)	222,464
Contributions made	(37,340)
Increase in net OPEB obligation	185,124
Net OPEB obligation - Beginning of year	648,036
Net OPEB obligation - End of year	\$ 833,160

The Town’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2012, 2011, and 2010 were as follows:

FYE June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
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)**

**D. 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 - 6.3% graded to 4.70% over 80 years
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
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

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#### V. OTHER INFORMATION (CONTINUED)

##### E. 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**

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**V. OTHER INFORMATION (CONTINUED)**

**E. Defined Benefit Pension Plan (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 2012 was 12.59% of annual covered payroll.

**Annual Pension Cost**

For 2012, the Town’s annual pension cost of \$1,092,670 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 Oligation
2012	\$ 1,092,670	100	None
2011	1,094,187	100	None
2010	946,639	100	None
2009	1,002,397	100	None
2008	945,511	100	None

The FY 2012 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 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 is being amortized as a level percentage of projected payroll on an open basis. Open amortization period at June 30, 2009 was 20 years.

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

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**V. OTHER INFORMATION (CONTINUED)**

**E. Defined Benefit Pension Plan (Continued)**

**Funded Status and Funding Progress**

As of June 30, 2011, the most recent actuarial valuation date, the plan was 71.38% funded. The actuarial accrued liability for benefits was \$32,646,376, and the actuarial value of assets was \$23,301,524, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,344,852. The covered payroll (annual payroll of active employees covered by the plan) was \$6,047,869, and ratio of the UAAL to the covered payroll was 154.51%.

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 June 30,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
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%
2007	21,064,235	23,601,590	2,537,355	89.25%	5,735,604	44.24%

**F. Deferred Compensation Plan**

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

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### V. OTHER INFORMATION (CONTINUED)

##### G. Pending GASB Statements

At June 30, 2012, the Governmental Accounting Standards Board (GASB) has issued the following statements not yet implemented by the Town. The statements which impact the Town are as follows:

GASB Statement No. 61, *Financial Reporting Entity Omnibus*, will result in the financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transaction of a financial reporting entity. Statement No. 61 will be effective for periods beginning after June 15, 2012.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, improves financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. Statement No. 62 will be effective for periods beginning after December 15, 2011.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. Statement No. 63 will be effective for periods beginning after December 15, 2011.

The Town has reviewed these statements and is in the process of determining the full effect these GASB Statements will have on its financial statements.

##### H. Subsequent Events

The Town has evaluated events and transactions subsequent to June 30, 2012 through September 21, 2012, 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, 2012.

**TOWN OF FRONT ROYAL, VIRGINIA**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES-BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	Original Budget	Final Budget	Actual Revenues	Variance Positive (Negative)
<b>Source of Revenues</b>				
<b>General Property Taxes</b>				
Real estate taxes				
Current taxes, including penalties	\$ 1,091,000	\$ 1,091,000	\$ 851,573	\$ (239,427)
Delinquent taxes, including penalties	20,000	20,000	6,286	(13,714)
Personal property taxes				
Current taxes, including penalties	240,000	240,000	205,293	(34,707)
Public service corporation taxes	11,654	11,654	38,498	26,844
Interest on delinquent taxes	20,000	20,000	16,244	(3,756)
Total General Property Taxes	<u>1,382,654</u>	<u>1,382,654</u>	<u>1,117,894</u>	<u>(264,760)</u>
<b>Other Local Taxes</b>				
Warren County sales tax	725,000	725,000	726,745	1,745
Business and occupational taxes and penalties	614,000	614,000	612,660	(1,340)
Franchise taxes	15,000	15,000	19,385	4,385
Consumer taxes - electric deregulation	232,000	232,000	228,374	(3,626)
Vehicle licenses	260,000	260,000	350,500	90,500
Bank stock taxes	175,000	175,000	235,301	60,301
Lodging taxes	280,000	280,000	285,245	5,245
Meal taxes	1,200,000	1,200,000	1,262,197	62,197
Payment in lieu of taxes	306,000	306,000	372,920	66,920
Total Other Local Taxes	<u>3,807,000</u>	<u>3,807,000</u>	<u>4,093,327</u>	<u>286,327</u>
<b>Permits, Fees and Licenses</b>				
Zoning income	30,000	30,000	25,317	(4,683)
Public ROW use fees	60,000	60,000	49,271	(10,729)
Total Permits, Fees and Licenses	<u>90,000</u>	<u>90,000</u>	<u>74,588</u>	<u>(15,412)</u>
<b>Fines and Forfeitures</b>				
Fines and forfeitures - county	225,000	225,000	196,549	(28,451)
Fines and forfeitures - town	35,000	35,000	17,172	(17,828)
Total Fines and Forfeitures	<u>260,000</u>	<u>260,000</u>	<u>213,721</u>	<u>(46,279)</u>
<b>Revenues from Use of Money and Property</b>				
Interest on bank deposits	98,000	98,000	113,007	15,007
Interest on accounts receivable	2,000	2,000	562	(1,438)
Rental - Comcast property	9,500	9,500	10,255	755
Total Revenues from Use of Money and Property	<u>109,500</u>	<u>109,500</u>	<u>123,824</u>	<u>14,324</u>
<b>Charges for Services</b>				
Curb and gutter charges	10,000	10,000	1,933	(8,067)
Street & walk assessment	4,000	4,000	999	(3,001)
Credit card fees	-	-	7,189	7,189
Sales at Visitors' Center	15,000	15,000	15,155	155
Sales of publications	1,000	1,000	535	(465)
Total Charges for Services	<u>30,000</u>	<u>30,000</u>	<u>25,811</u>	<u>(4,189)</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, 2012**

	Original Budget	Final Budget	Actual Revenues	Variance Positive (Negative)
<b>Miscellaneous Revenue</b>				
Miscellaneous	\$ 39,721	\$ 75,858	\$ 73,568	\$ (2,290)
<b>Intergovernmental</b>				
Rolling stock tax	15,000	15,000	15,139	139
Virginia personal property tax reduction	287,000	287,000	287,000	-
Communication tax	180,000	180,000	157,940	(22,060)
Rental tax vehicles	40,000	40,000	38,205	(1,795)
State aid for police and fire	358,000	358,000	338,352	(19,648)
Highway maintenance	1,500,000	1,500,000	1,628,936	128,936
Grants	60,000	61,000	113,971	52,971
Total Intergovernmental	<u>2,440,000</u>	<u>2,441,000</u>	<u>2,579,543</u>	<u>138,543</u>
Total General Fund Revenues	<u>8,158,875</u>	<u>8,196,012</u>	<u>8,302,276</u>	<u>106,264</u>
<b>Other Financing Sources</b>				
Transfers from other funds	<u>2,503,950</u>	<u>2,503,950</u>	<u>2,503,950</u>	<u>-</u>
Total Other Financing Sources	<u>2,503,950</u>	<u>2,503,950</u>	<u>2,503,950</u>	<u>-</u>
<b>Total General Fund Revenues and Other Financing Sources</b>	<u><u>\$10,662,825</u></u>	<u><u>\$10,699,962</u></u>	<u><u>\$10,806,226</u></u>	<u><u>\$ 106,264</u></u>

**TOWN OF FRONT ROYAL, VIRGINIA**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
<b>Legislative</b>				
Town Council				
Personal service	\$ 60,284	\$ 60,284	\$ 60,371	\$ (87)
Contractual service	46,000	46,000	39,733	6,267
Materials and supplies	11,700	11,700	10,061	1,639
Travel and communications	6,000	6,900	7,272	(372)
Capital outlays	-	9,100	1,543	7,557
Total Town Council	<u>123,984</u>	<u>133,984</u>	<u>118,980</u>	<u>15,004</u>
Clerk of Council				
Personal service	33,909	33,909	33,284	625
Materials and supplies	410	410	747	(337)
Travel and communications	2,990	2,990	1,970	1,020
Dues and memberships	315	315	195	120
Total Clerk of Council	<u>37,624</u>	<u>37,624</u>	<u>36,196</u>	<u>1,428</u>
Total Legislative	<u>161,608</u>	<u>171,608</u>	<u>155,176</u>	<u>16,432</u>
<b>Executive</b>				
Town Manager				
Personal service	252,138	238,388	220,280	18,108
Contractual service	-	420	440	(20)
Materials and supplies	11,700	11,280	7,563	3,717
Travel and communications	4,700	5,500	5,840	(340)
Dues and memberships	2,000	2,200	2,933	(733)
Capital outlays	-	19,000	18,430	570
Total Town Manager	<u>270,538</u>	<u>276,788</u>	<u>255,486</u>	<u>21,302</u>
Management Services				
Personal service	214,927	214,927	211,125	3,802
Contractual service	150	150	-	150
Materials and supplies	29,300	29,300	35,084	(5,784)
Travel and communications	2,600	4,800	2,197	2,603
Dues and memberships	350	350	180	170
Total Management Services	<u>247,327</u>	<u>249,527</u>	<u>248,586</u>	<u>941</u>
Auto/Motorpool				
Personal service	301,198	301,198	292,900	8,298
Contractual service	1,200	1,200	1,564	(364)
Materials and supplies	45,010	45,010	40,022	4,988
Travel and communications	1,110	1,110	1,155	(45)
Utilities	580	580	1,197	(617)
Capital outlays	-	-	-	-
Total Auto/Motorpool	<u>349,098</u>	<u>349,098</u>	<u>336,838</u>	<u>12,260</u>

(Continued)



**TOWN OF FRONT ROYAL, VIRGINIA**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
<b>Office of Information Technology</b>				
Personal service	80,438	80,438	76,662	3,776
Contractual service	142,051	150,056	139,181	10,875
Materials and supplies	16,500	14,250	8,777	5,473
Travel and communications	48,000	55,300	51,317	3,983
Dues and memberships	100	100	-	100
Capital outlays	147,000	270,282	140,783	129,499
<b>Total Office of Information Technology</b>	<b>\$ 434,089</b>	<b>\$ 570,426</b>	<b>\$ 416,720</b>	<b>\$ 153,706</b>
<b>Office of Tourism</b>				
Personal service	\$ 121,123	\$ 121,123	\$ 99,180	\$ 21,943
Contractual service	25,500	25,845	8,307	17,538
Materials and supplies	118,777	128,701	127,690	1,011
Utilities	200	200	129	71
Travel and communications	9,000	9,000	7,546	1,454
Dues and memberships	1,355	1,355	1,290	65
Cultural Activities	10,000	10,000	10,000	-
<b>Total Office of Tourism</b>	<b>285,955</b>	<b>296,224</b>	<b>254,142</b>	<b>42,082</b>
<b>Board of Elections</b>				
Contractual service	9,500	9,500	8,253	1,247
<b>Total Executive</b>	<b>1,596,507</b>	<b>1,751,563</b>	<b>1,520,025</b>	<b>231,538</b>
<b>Legal</b>				
Town Attorney				
Personal service	308,103	304,291	309,380	(5,089)
Contractual service	35,000	35,000	19,764	15,236
Materials and supplies	8,882	12,694	9,105	3,589
Travel and communications	4,368	4,368	3,305	1,063
Dues and memberships	1,000	1,000	590	410
<b>Total Legal</b>	<b>357,353</b>	<b>357,353</b>	<b>342,144</b>	<b>15,209</b>
<b>Finance</b>				
Finance Department				
Personal service	654,629	654,629	625,905	28,724
Contractual service	1,150	1,350	1,662	(312)
Materials and supplies	105,100	106,900	97,687	9,213
Travel and communications	6,300	6,300	6,668	(368)
Dues and memberships	500	500	430	70
<b>Total Finance Department</b>	<b>767,679</b>	<b>769,679</b>	<b>732,352</b>	<b>37,327</b>
<b>Total General Government</b>	<b>2,883,147</b>	<b>3,050,203</b>	<b>2,749,697</b>	<b>300,506</b>

(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA  
GENERAL FUND  
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2012**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
<b>Planning, Zoning and Community Development</b>				
Planning and Zoning				
Personal service	326,733	326,733	295,834	30,899
Contractual service	12,700	12,700	930	11,770
Materials and supplies	9,150	9,150	6,535	2,615
Travel and communications	3,400	3,400	2,346	1,054
Dues and memberships	500	500	488	12
Capital outlays	45,000	45,000	33,985	11,015
Total Planning and Zoning	<u>397,483</u>	<u>397,483</u>	<u>340,118</u>	<u>57,365</u>
Economic Development				
Contributions to other entities	40,511	40,511	38,583	1,928
Total Economic Development	<u>\$ 40,511</u>	<u>\$ 40,511</u>	<u>\$ 38,583</u>	<u>\$ 1,928</u>
Boards and Commissions				
Personal service	\$ 18,785	\$ 18,785	\$ 14,883	\$ 3,902
Contractual service	1,000	1,000	550	450
Materials and supplies	5,100	5,100	3,883	1,217
Travel and communications	2,500	2,500	1,769	731
Dues and memberships	50	50	48	2
Joint operations	8,450	8,450	8,445	5
Total Boards and Commissions	<u>35,885</u>	<u>35,885</u>	<u>29,578</u>	<u>6,307</u>
Total Planning, Zoning and Community Development	<u>473,879</u>	<u>473,879</u>	<u>408,279</u>	<u>65,600</u>
<b>Police</b>				
Police Department				
Personal service	3,212,607	3,212,137	3,139,833	72,304
Contractual service	14,378	4,550	5,264	(714)
Materials and supplies	229,086	257,639	238,367	19,272
Travel and communications	62,300	53,500	46,392	7,108
Dues and memberships	3,450	1,650	1,802	(152)
Joint operations	28,900	26,745	18,745	8,000
Capital outlays	120,001	151,537	141,146	10,391
Total Police Department	<u>3,670,722</u>	<u>3,707,758</u>	<u>3,591,549</u>	<u>116,209</u>
<b>Engineering and Public Works</b>				
Engineering				
Personal service	115,218	115,218	64,653	50,565
Contractual service	2,900	2,900	830	2,070
Materials and supplies	33,950	33,950	15,386	18,564
Travel and communications	9,700	9,700	8,090	1,610
Dues and memberships	2,600	2,600	1,090	1,510
Capital outlays	35,000	35,000	24,939	10,061
Total Engineering	<u>199,368</u>	<u>199,368</u>	<u>114,988</u>	<u>84,380</u>

(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA  
GENERAL FUND  
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2012**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
<b>Streets and Sidewalks</b>				
Personal service	697,895	697,895	586,503	111,392
Contractual service	675	675	505	170
Materials and supplies	423,925	437,925	277,282	160,643
Travel and communications	6,750	6,750	4,994	1,756
Utilities	32,000	32,000	23,454	8,546
Dues and memberships	200	200	-	200
Capital outlays	922,000	1,263,112	753,502	509,610
<b>Total Streets and Sidewalks</b>	<b>\$ 2,083,445</b>	<b>\$ 2,438,557</b>	<b>\$ 1,646,240</b>	<b>\$ 792,317</b>
<b>General Properties</b>				
Personal service	\$ 73,370	\$ 73,370	\$ 57,004	\$ 16,366
Contractual service	17,900	17,500	1,886	15,614
Materials and supplies	98,280	97,105	60,267	36,838
Travel and communications	1,800	1,800	786	1,014
Utilities	58,600	58,600	36,652	21,948
Capital outlays	420	1,547,496	1,186,730	360,766
<b>Total General Properties</b>	<b>250,370</b>	<b>1,795,871</b>	<b>1,343,325</b>	<b>452,546</b>
<b>Horticulture</b>				
Personal service	273,751	283,751	242,840	40,911
Contractual service	20,000	20,000	12,450	7,550
Materials and supplies	57,600	85,800	59,997	25,803
Travel and communications	26,100	2,100	2,157	(57)
Capital outlays	-	-	-	-
<b>Total Horticulture</b>	<b>377,451</b>	<b>391,651</b>	<b>317,444</b>	<b>74,207</b>
<b>Total Engineering and Public Works</b>	<b>2,910,634</b>	<b>4,825,447</b>	<b>3,421,997</b>	<b>1,403,450</b>
<b>Parks and Recreation</b>				
Library	95,000	95,000	95,000	-
<b>Total Parks and Recreation</b>	<b>95,000</b>	<b>95,000</b>	<b>95,000</b>	<b>-</b>
<b>Nondepartmental</b>				
Fringe Benefits	283,581	283,581	253,182	30,399
Insurance	330,405	330,405	310,991	19,414
Reserves	15,457	15,457	-	15,457
<b>Total Nondepartmental</b>	<b>629,443</b>	<b>629,443</b>	<b>564,173</b>	<b>65,270</b>
<b>Subtotal</b>	<b>10,662,825</b>	<b>12,781,730</b>	<b>10,830,695</b>	<b>1,951,035</b>
<b>Total General Fund Expenditures</b>	<b>\$10,662,825</b>	<b>\$12,781,730</b>	<b>\$10,830,695</b>	<b>\$ 1,951,035</b>

**TOWN OF FRONT ROYAL, VIRGINIA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2012**

	Special Revenue				Capital Project		Total Nonmajor Governmental Funds
	Downtown Service District	Asset Forfeitures	Economic Development	Community/ Neighborhood	Total	Town Facilities	
<b>Assets</b>							
Cash and cash equivalents	\$ -	\$ 178,939	\$ -	\$ 514,220	\$ 693,159	\$ -	\$ 693,159
Accounts receivable - real estate taxes	2,870	-	-	-	2,870	-	2,870
Interfund advances	-	-	4,500	-	4,500	388	4,888
<b>Total Assets</b>	<b>2,870</b>	<b>178,939</b>	<b>4,500</b>	<b>514,220</b>	<b>700,529</b>	<b>388</b>	<b>700,917</b>
<b>Liabilities</b>							
Bank advances	\$ 1,512	\$ -	\$ 398,036	\$ -	\$ 399,548	\$ -	\$ 399,548
Accounts payable	-	-	10,365	-	10,365	-	10,365
Deferred revenue	2,870	-	-	-	2,870	-	2,870
Interfund advances	-	49,915	-	97,031	146,946	-	146,946
<b>Total Liabilities</b>	<b>4,382</b>	<b>49,915</b>	<b>408,401</b>	<b>97,031</b>	<b>559,729</b>	<b>-</b>	<b>559,729</b>
<b>Fund Balances</b>							
Restricted for:							
Capital outlays	-	129,024	-	-	129,024	-	129,024
Community development	-	-	-	417,189	417,189	-	417,189
Assigned for capital projects	-	-	-	-	-	388	388
Unassigned	(1,512)	-	(403,901)	-	(405,413)	-	(405,413)
<b>Total Fund Balances</b>	<b>(1,512)</b>	<b>129,024</b>	<b>(403,901)</b>	<b>417,189</b>	<b>140,800</b>	<b>388</b>	<b>141,188</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,870</b>	<b>\$ 178,939</b>	<b>\$ 4,500</b>	<b>\$ 514,220</b>	<b>\$ 700,529</b>	<b>\$ 388</b>	<b>\$ 700,917</b>

**TOWN OF FRONT ROYAL, VIRGINIA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012**

	Special Revenue					Capital Project	Total Nonmajor Governmental Funds
	Downtown Service District	Asset Forfeitures	Economic Development	Community/ Neighborhood	Total	Town Facilities	
<b>Revenues</b>							
Real estate taxes	\$ -	\$ -	\$ 133,516	\$ 225,000	\$ 358,516	\$ -	\$ 358,516
Asset forfeitures	-	31,167	-	-	31,167	-	31,167
Total revenues	-	31,167	133,516	225,000	389,683	-	389,683
<b>Expenditures</b>							
Current							
Support payment of EDA debt issue	-	-	68,062	-	68,062	-	68,062
Contractual service	-	-	-	72,456	72,456	-	72,456
Contributions to other entities	-	-	41,863	-	41,863	-	41,863
Capital outlays	-	7,125	-	-	7,125	-	7,125
Debt Service	-	-	97,031	-	97,031	-	97,031
Total expenditures	-	7,125	206,956	72,456	286,537	-	286,537
<b>Deficiency of revenues under expenditures</b>	-	24,042	(73,440)	152,544	103,146	-	103,146
Fund balances - beginning	(1,512)	104,982	(330,461)	264,645	37,654	388	38,042
Fund balances - ending	\$ (1,512)	\$ 129,024	\$ (403,901)	\$ 417,189	\$ 140,800	\$ 388	\$ 141,188

**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, 2012**

	Final Budget	Actual Amounts	Variance Positive (Negative)
<b>Revenues</b>			
Asset forfeitures	\$ 12,000	\$ 31,167	\$ 19,167
<b>Expenditures</b>			
Capital outlays	12,000	7,125	4,875
<b>Deficiency of revenues under expenditures</b>	-	24,042	24,042
Fund balances - beginning	104,982	104,982	-
Fund balances - ending	<u>\$ 104,982</u>	<u>\$ 129,024</u>	<u>\$ 24,042</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, 2012**

	Final Budget	Actual Amounts	Variance Positive (Negative)
<b>Revenues</b>			
Real estate taxes	\$ 133,516	\$ 133,516	\$ -
<b>Expenditures</b>			
Payments in support of EDA debt issue	-	68,062	(68,062)
Contributions to other entities	36,485	41,863	(5,378)
Debt Service	97,031	97,031	-
Total Expenditures	<u>133,516</u>	<u>206,956</u>	<u>(73,440)</u>
<b>Deficiency of revenues under expenditures</b>	-	(73,440)	(73,440)
Fund balances - beginning	<u>(330,461)</u>	<u>(330,461)</u>	<u>-</u>
Fund balances - ending	<u>\$ (330,461)</u>	<u>\$ (403,901)</u>	<u>\$ (73,440)</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, 2012**

	Final Budget	Actual Amounts	Variance Positive (Negative)
<b>Revenues</b>			
Real estate taxes	\$ 225,000	\$ 225,000	\$ -
<b>Expenditures</b>			
Contractual services	225,000	72,456	152,544
Total Expenditures	225,000	72,456	152,544
<b>Deficiency of revenues under expenditures</b>	-	152,544	152,544
Fund balances - beginning	264,645	264,645	-
Fund balances - ending	\$ 264,645	\$ 417,189	\$ 152,544



**TOWN OF FRONT ROYAL, VIRGINIA**  
**SCHEDULE OF DIRECTOR OF FINANCE'S ACCOUNTABILITY**  
**JUNE 30, 2012**

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**Assets held by the Director of Finance**

Cash on hand		\$	1,485
Cash in banks			
Checking - SunTrust			3,296,759
Checking - Union First Market Bank			53,892
Money Market - Wells Fargo			2,514,275
Certificates of deposit			
BB&T	\$	350,000	
Sonabank		121,585	
Union First Market Bank		788,046	
Wachovia Bank		84,903	
Virginia Savings Bank		23,309	
Total Certificates of Deposit			<u>1,367,843</u>
Virginia Local Government Investment Pool			2,928,307
Repurchase Agreement - Wells Fargo			118,665
Repurchase Agreement - Union First Market Bank			1,206,120
SunTrust Government & Agency Fund			1,568,740
Union Investment Services			<u>10,259,214</u>
<b>Total Assets</b>			<u><u>\$ 23,315,300</u></u>

**TOWN OF FRONT ROYAL, VIRGINIA  
 SCHEDULE OF DIRECTOR OF FINANCE'S ACCOUNTABILITY TO THE TOWN  
 FOR THE YEAR ENDED JUNE 30, 2012**

	Governmental Funds			2012 Totals (Memorandum Only)	2011 Totals (Memorandum Only)
	General	Special Revenue	Proprietary Funds		
Balance July 1, 2011	\$ 6,102,471	\$ 180,100	\$ 17,508,193	\$ 23,790,764	\$ 24,363,801
Receipts (net)					
Interfund advances/receipts	1,500,000	-	-	1,500,000	113,022
General property taxes	1,105,298	358,516	-	1,463,814	1,427,676
Other local taxes	3,707,452	-	-	3,707,452	3,640,836
Permits, fees and licenses	74,588	-	-	74,588	18,182
Fines and forfeitures	213,721	-	-	213,721	249,598
Revenues from use of money and property	123,824	-	301,615	425,439	274,326
Charges for services	25,811	-	23,899,852	23,925,663	24,239,524
Bond issuance	-	-	-	-	-
Miscellaneous	73,568	-	-	73,568	143,118
Recovered costs	-	31,167	-	31,167	26,811
Payment in lieu of taxes	372,920	-	-	372,920	337,469
Intergovernmental	2,587,543	-	-	2,587,543	2,616,431
Total Receipts	<u>9,784,725</u>	<u>389,683</u>	<u>24,201,467</u>	<u>34,375,875</u>	<u>33,086,993</u>
Total Available	<u>15,887,196</u>	<u>569,783</u>	<u>41,709,660</u>	<u>58,166,639</u>	<u>57,450,794</u>
Disbursements (net)					
Warrants (checks) issued	10,829,708	179,141	20,639,157	31,648,006	31,900,500
Retirement of indebtedness	-	88,551	974,906	1,063,457	1,040,279
Interfund advance payments	-	-	1,500,000	1,500,000	113,022
Interest on debt costs	-	8,480	631,396	639,876	606,229
Total Disbursements	<u>10,829,708</u>	<u>276,172</u>	<u>23,745,459</u>	<u>34,851,339</u>	<u>33,660,030</u>
Transfers in	2,503,950	-	-	2,503,950	2,085,303
Transfers (out)	-	-	(2,503,950)	(2,503,950)	(2,085,303)
Total Transfers In (Out)	<u>2,503,950</u>	<u>-</u>	<u>(2,503,950)</u>	<u>-</u>	<u>-</u>
Balance June 30, 2012	<u>\$ 7,561,438</u>	<u>\$ 293,611</u>	<u>\$ 15,460,251</u>	<u>\$ 23,315,300</u>	<u>\$ 23,790,764</u>

**TOWN OF FRONT ROYAL, VIRGINIA  
COMPUTATION OF LEGAL DEBT MARGIN  
JUNE 30, 2012**

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Taxable assessed value of real property	<u>\$ 1,144,594,250</u>
Debt limit (10 percent of assessed value)	114,459,425
Amount of debt applicable to debt limit	
Gross bonded debt	<u>(11,860,717)</u>
Legal debt margin	<u>\$ 102,598,708</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>	70
Revenue Capacity <i>These schedules contain information to help the reader assess the Town's most significant local revenue source, the property tax.</i>	76
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>	80
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>	85
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>	87

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

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental Activities										
Invested in capital assets										
net of related debt	\$ 85,759,208	\$ 80,842,973	\$ 78,199,373	\$ 74,624,593	\$ 71,455,350	\$ 67,935,246	\$ 64,423,422	\$ 62,087,906	\$ 58,899,411	\$ 56,769,628
Restricted	-	-	-	-	-	-	-	-	1,136,560	1,313,146
Unrestricted	2,280,133	5,304,430	5,450,254	6,691,369	7,580,388	7,344,504	6,033,299	5,953,428	5,125,795	4,934,496
Total Governmental										
Activities Net Assets	\$ 88,039,341	\$ 86,147,403	\$ 83,649,627	\$ 81,315,962	\$ 79,035,738	\$ 75,279,750	\$ 70,456,721	\$ 68,041,334	\$ 65,161,766	\$ 63,017,270
Business-type Activities										
Invested in capital assets										
net of related debt	\$ 85,759,208	\$ 39,613,187	\$ 39,531,599	\$ 19,751,368	\$ 24,625,302	\$ 31,350,568	\$ 34,365,817	\$ 33,201,151	\$ 33,459,029	\$ 34,064,137
Unrestricted	2,280,133	2,649,403	3,873,842	26,004,470	23,052,300	19,679,106	18,511,327	17,843,447	16,659,513	16,446,498
Total Business-type										
Activities Net Assets	\$ 88,039,341	\$ 42,262,590	\$ 43,405,441	\$ 45,755,838	\$ 47,677,602	\$ 51,029,674	\$ 52,877,144	\$ 51,044,598	\$ 50,118,542	\$ 50,510,635
Primary Government										
Invested in capital assets										
net of related debt	\$ 125,180,698	\$ 120,456,160	\$ 117,730,972	\$ 94,375,961	\$ 96,080,652	\$ 99,285,814	\$ 98,789,239	\$ 92,582,592	\$ 92,358,440	\$ 90,833,765
Restricted	-	-	-	-	-	-	-	-	1,136,560	1,313,146
Unrestricted	3,936,229	7,953,833	9,324,096	32,695,839	30,632,688	27,023,610	24,544,626	26,503,340	21,785,308	21,380,994
Total Primary										
Government Net Assets	\$ 129,116,927	\$ 128,409,993	\$ 127,055,068	\$ 127,071,800	\$ 126,713,340	\$ 126,309,424	\$ 123,333,865	\$ 119,085,932	\$ 115,280,308	\$ 113,527,905

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

Expenses	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Governmental Activities:</b>										
General government and administration	\$ 2,139,086	\$ 2,213,302	\$ 2,493,723	\$ 2,326,711	\$ 2,646,597	\$ 2,832,009	\$ 3,172,642	\$ 3,340,772	\$ 3,161,198	\$ 3,003,366
Public safety	2,951,792	2,857,066	3,150,426	3,276,981	3,513,253	3,658,646	3,686,304	3,873,965	3,821,530	3,890,462
Public works	1,851,599	2,103,729	2,086,799	2,574,487	2,206,629	3,149,846	3,901,830	2,467,186	2,440,880	2,167,403
Planning, zoning, and community development	609,091	501,250	652,296	484,132	567,708	693,455	1,024,574	636,471	596,574	641,552
Culture and recreation	95,770	43,625	45,142	52,985	62,456	66,250	74,044	91,004	105,720	105,801
Interest on long term debt	41,299	3,788	69,567	28,180	26,549	23,257	19,812	16,205	12,431	8,480
Infrastructure depreciation	3,588,522	3,588,522	3,588,522	3,591,054	3,591,054	3,591,054	3,591,054	3,591,054	3,591,054	3,591,054
<b>Total Governmental Activities Expenses</b>	<b>11,277,159</b>	<b>11,311,282</b>	<b>12,086,475</b>	<b>12,334,530</b>	<b>12,614,246</b>	<b>14,014,517</b>	<b>15,470,260</b>	<b>14,016,657</b>	<b>13,729,387</b>	<b>13,408,118</b>
<b>Business-Type Activities:</b>										
Electric	6,631,457	9,173,662	9,082,609	9,523,363	16,250,138	12,600,249	13,535,201	14,119,794	16,888,252	14,466,632
Water	1,581,502	1,851,233	2,328,499	1,964,023	2,343,905	2,471,839	2,231,532	3,023,196	2,742,241	2,799,552
Sewer	2,228,065	2,061,542	2,636,183	2,285,966	2,752,915	2,691,398	2,659,873	3,550,177	2,680,077	3,036,433
Refuse	685,242	649,323	739,132	828,583	876,481	856,529	963,068	1,301,649	931,697	968,124
<b>Total Business-Type Activities Expenses</b>	<b>11,126,266</b>	<b>13,735,760</b>	<b>14,786,423</b>	<b>14,601,935</b>	<b>22,223,439</b>	<b>18,620,015</b>	<b>19,389,674</b>	<b>21,994,816</b>	<b>23,242,267</b>	<b>21,270,741</b>
<b>Total Primary Government Expenses</b>	<b>22,403,425</b>	<b>25,047,042</b>	<b>26,872,898</b>	<b>26,936,465</b>	<b>34,837,685</b>	<b>32,634,532</b>	<b>34,859,934</b>	<b>36,011,473</b>	<b>36,971,654</b>	<b>34,678,859</b>
<b>Program Revenues</b>										
<b>Governmental Activities:</b>										
Charges for services:										
General government	7,397	88,891	71,572	131,037	141,719	111,776	95,947	227,814	155,527	96,447
Public safety	251,882	308,337	235,282	406,081	361,844	283,200	295,958	272,406	276,409	244,888
Public works	50,918	46,761	45,371	18,759	27,757	10,919	18,172	6,366	3,848	2,932
Planning, zoning, and community development	73,943	80,864	93,957	77,858	101,763	103,277	92,660	93,419	18,182	74,588
Operating grants and contributions	1,634,435	1,618,991	1,704,613	1,447,990	1,858,205	1,872,998	1,912,511	1,870,222	1,960,551	1,967,288
Capital grants and contributions	50,189	64,156	80,484	43,416	170,526	115,062	121,767	93,087	133,154	113,971
<b>Total Governmental Program Revenues</b>	<b>2,068,764</b>	<b>2,208,000</b>	<b>2,231,279</b>	<b>2,125,141</b>	<b>2,661,814</b>	<b>2,497,232</b>	<b>2,537,015</b>	<b>2,563,314</b>	<b>2,547,671</b>	<b>2,500,114</b>
<b>Business-Type Activities:</b>										
Charges for services:										
Electric	9,617,905	10,959,143	11,346,761	11,507,238	15,454,130	15,460,426	15,125,811	15,462,065	16,544,552	15,561,410
Water	2,241,254	2,450,850	2,856,329	3,198,691	3,695,001	3,115,794	3,145,958	2,758,853	3,161,942	3,231,718
Sewer	2,153,905	2,330,077	2,674,149	3,011,979	3,645,537	2,846,667	2,774,605	2,723,871	3,452,860	4,204,653
Refuse	730,938	770,344	779,275	806,968	801,974	934,936	918,611	951,731	927,160	867,388
Capital grants and contributions	396,743	316,543	226,919	71,706	1,094,499	646,430	798,530	-	-	-
<b>Total Business-Type Program Revenues</b>	<b>15,140,745</b>	<b>16,826,957</b>	<b>17,883,433</b>	<b>18,596,582</b>	<b>24,691,141</b>	<b>23,004,253</b>	<b>22,763,515</b>	<b>21,896,520</b>	<b>24,086,514</b>	<b>23,865,169</b>
<b>Total Primary Government Program Revenues</b>	<b>17,209,509</b>	<b>19,034,957</b>	<b>20,114,712</b>	<b>20,721,723</b>	<b>27,352,955</b>	<b>25,501,485</b>	<b>25,300,530</b>	<b>24,459,834</b>	<b>26,634,185</b>	<b>26,365,283</b>

(Continued)

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Net (Expense) Revenue</b>										
Governmental Activities	\$ (9,208,395)	\$ (9,103,282)	\$ (9,855,196)	\$ (10,209,389)	\$ (9,952,432)	\$ (11,517,285)	\$ (12,933,245)	\$ (11,453,343)	\$ (11,181,716)	\$ (10,908,004)
Business-Type Activities	4,014,479	3,091,197	3,097,010	3,994,647	2,467,702	4,384,238	3,373,841	(98,296)	844,247	2,594,428
Total Primary Gov't Net Expense	(5,193,916)	(6,012,085)	(6,758,186)	(6,214,742)	(7,484,730)	(7,133,047)	(9,559,404)	(11,551,639)	(10,337,469)	(8,313,576)
<b>General Revenues and Other Changes in Net Assets</b>										
Governmental Activities:										
Property taxes	1,029,043	1,258,013	1,213,101	1,280,730	1,335,686	1,330,595	1,303,327	2,563,604	1,685,744	1,544,123
Sales taxes	448,086	507,804	570,926	586,133	613,495	683,974	690,993	684,300	707,328	726,745
Business and occupational taxes	539,916	611,617	624,511	740,268	721,486	708,018	620,567	613,273	633,938	612,660
Franchise taxes	179,371	309,497	211,544	213,601	206,989	150,318	1,500	24,167	119,434	19,385
Communication taxes	-	-	-	-	-	-	177,556	178,294	177,411	157,940
Consumer taxes	182,303	178,879	178,423	191,554	240,682	228,828	181,779	190,188	242,677	228,374
Alcoholic beverage taxes	31,668	33,569	16,317	16,316	16,316	16,316	-	-	-	-
Meals and lodging taxes	1,238,298	1,378,666	1,433,420	1,578,910	1,633,723	1,622,217	1,472,392	1,330,656	1,450,203	1,547,442
Virginia pers. prop. tax reduction	254,979	285,334	262,457	280,041	287,878	287,863	287,863	575,726	287,863	287,000
Payment in lieu of taxes	-	-	-	-	-	229,098	1,046,893	307,158	337,469	372,920
Other general taxes	495,708	507,664	559,315	583,928	541,073	438,560	426,139	472,388	615,452	639,145
Unrestricted investment earnings	77,910	73,089	101,589	209,469	284,273	283,610	119,307	109,480	56,357	123,824
Gain on sale of capital assets and other recoveries	100,711	46,162	58,417	53,342	146,990	-	-	-	-	-
Transfers	1,957,860	2,021,050	2,127,400	2,141,432	1,643,617	1,781,900	1,781,900	1,988,722	1,988,272	2,503,950
Total Governmental Activities	6,535,853	7,211,344	7,357,420	7,875,724	7,672,208	7,761,297	8,110,216	9,037,956	8,302,148	8,763,508
Business-Type Activities:										
Unrestricted investment earnings	219,843	114,857	173,241	497,182	1,097,679	749,734	255,529	254,472	217,969	301,615
Transfers	(1,957,860)	(2,021,050)	(2,127,400)	(2,141,432)	(1,643,617)	(1,781,900)	(1,781,900)	(1,988,722)	(1,988,272)	(2,503,950)
Total Business-Type Activities	(1,738,017)	(1,906,193)	(1,954,159)	(1,644,250)	(545,938)	(1,032,166)	(1,526,371)	(1,734,250)	(1,770,303)	(2,202,335)
Total Primary Government	4,797,836	5,305,151	5,403,261	6,231,474	7,126,270	6,729,131	6,583,845	7,303,706	6,531,845	6,561,173
<b>Change in Net Assets</b>										
Governmental Activities	(2,672,542)	(1,891,938)	(2,497,776)	(2,333,665)	(2,280,224)	(3,755,988)	(4,823,029)	(2,415,387)	(2,879,568)	(2,144,496)
Business-Type Activities	2,276,462	1,185,004	1,142,851	2,350,397	1,921,764	3,352,072	1,847,470	(1,832,546)	(926,056)	392,093
Total Primary Government	\$ (396,080)	\$ (706,934)	\$ (1,354,925)	\$ 16,732	\$ (358,460)	\$ (403,916)	\$ (2,975,559)	\$ (4,247,933)	\$ (3,805,624)	\$ (1,752,403)

**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	Comm. and Franchise	Consumer	Alcohol Beverage	Meals and Lodging	Virginia PPTR	In Lieu of Taxes	Other General	Total
2003	1,029,043	448,086	539,916	179,371	182,303	31,668	1,238,298	254,979	-	495,708	4,399,372
2004	1,258,013	507,804	611,617	309,497	178,879	33,569	1,378,666	285,334	-	507,664	5,071,043
2005	1,213,101	570,926	624,511	211,544	178,423	16,317	1,433,420	262,457	-	559,315	5,070,014
2006	1,280,730	586,133	740,268	213,601	191,554	16,316	1,578,910	280,041	-	583,928	5,471,481
2007	1,335,686	613,495	721,486	206,989	240,682	16,316	1,633,723	287,878	-	541,073	5,597,328
2008	1,330,595	683,974	708,018	150,318	228,828	16,316	1,622,217	287,863	229,098	438,560	5,695,787
2009	1,303,327	690,993	620,567	179,056	181,779	-	1,472,392	287,863	1,046,893	426,139	6,209,009
2010	2,563,604	684,300	613,273	202,461	190,188	-	1,330,656	575,726	307,158	472,388	6,939,754
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	639,145	6,135,734



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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund										
Non spendable	\$ 2,646,710	\$ 1,552,890	\$ 547,791	\$ 100,975	\$ 100,975	\$ 100,975	\$ 60,975	\$ 60,975	\$ 180,487	\$ 207,520
Restricted	-	-	-	-	-	-	-	-	766,933	766,933
Unassigned	2,219,482	2,920,690	3,996,494	5,391,587	6,407,631	6,147,170	5,486,609	5,803,554	5,300,035	5,248,533
Total General Fund	\$ 4,866,192	\$ 4,473,580	\$ 4,544,285	\$ 5,492,562	\$ 6,508,606	\$ 6,248,145	\$ 5,547,584	\$ 5,864,529	\$ 6,247,455	\$ 6,222,986
All Other Governmental Funds										
Reserved for:										
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Prepaid items	-	-	-	-	-	-	-	-	-	-
Advances to other funds	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-	-	369,627	546,213
Assigned - capital funds	706,945	974,884	7,634	388	388	388	388	388	388	388
Unassigned, reported in:										
Special revenue funds	\$ 22,792	\$ (22,275)	\$ 1,050,959	\$ 1,460,920	\$ 1,447,323	\$ 1,483,394	\$ 919,779	\$ 142,836	\$ (331,973)	\$ (405,413)
Total all other governmental funds	\$ 729,737	\$ 952,609	\$ 1,058,593	\$ 1,461,308	\$ 1,447,323	\$ 1,483,394	\$ 919,779	\$ 143,224	\$ 38,042	\$ 141,188

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>REVENUES:</b>										
Taxes:										
Property	\$ 975,882	\$ 1,301,901	\$ 1,261,184	\$ 1,349,228	\$ 1,356,387	\$ 1,291,255	\$ 1,298,909	\$ 1,896,461	\$ 1,463,695	\$ 1,476,410
Sales	448,086	507,804	570,926	586,133	613,495	683,974	690,993	684,300	707,328	726,745
Business and occupational	539,916	611,617	624,511	740,268	721,486	708,018	620,567	613,273	633,938	612,660
Franchise	179,371	309,497	211,544	213,601	206,989	150,318	1,500	24,167	119,434	19,385
Consumer	182,303	178,879	178,423	191,554	240,682	228,828	181,779	190,188	242,677	228,374
Vehicle licenses	226,033	230,743	236,441	246,458	239,854	226,689	223,417	174,686	296,784	350,500
Bank stock	143,828	143,065	166,904	197,212	159,285	160,640	152,245	239,686	259,987	235,301
Meals and lodging	1,238,298	1,378,666	1,433,420	1,578,910	1,633,723	1,622,217	1,472,392	1,330,656	1,450,203	1,547,442
Permits, fees, and licenses	73,943	80,864	93,957	77,858	101,763	103,277	92,660	93,419	18,182	74,588
Fines and forfeitures	106,882	203,904	219,713	307,275	356,631	246,650	252,484	238,363	249,598	213,721
Revenues from use of money										
and property	77,910	73,089	101,589	209,469	284,273	283,610	119,307	109,480	56,357	123,824
Charges for services	101,107	111,143	101,343	84,363	100,909	73,114	45,165	20,237	16,257	25,811
Miscellaneous	7,397	16,055	74,017	118,667	68,567	49,581	68,954	213,943	143,118	73,568
Recovered costs	145,000	104,433	15,569	98,806	5,213	36,550	43,474	34,043	26,811	31,167
Payment in lieu of taxes	62,582	66,970	84,251	80,200	90,215	229,098	1,046,893	307,158	337,469	372,920
Intergovernmental	1,984,347	2,058,357	2,135,590	1,847,929	2,384,644	2,343,470	2,550,174	2,775,345	2,617,660	2,579,543
<b>Total Revenues</b>	<b>6,492,885</b>	<b>7,376,987</b>	<b>7,509,382</b>	<b>7,927,931</b>	<b>8,564,116</b>	<b>8,437,289</b>	<b>8,860,913</b>	<b>8,945,405</b>	<b>8,639,498</b>	<b>8,691,959</b>
<b>EXPENDITURES:</b>										
General government										
Legislative	165,682	188,630	205,523	135,379	156,788	175,717	173,189	166,884	175,142	155,176
Executive	1,010,533	931,212	1,165,197	1,188,427	1,243,995	1,401,822	1,605,219	1,588,909	1,556,528	1,520,025
Legal	187,413	215,643	246,472	215,991	248,934	257,621	416,400	517,295	347,940	342,144
Finance	664,008	779,038	670,026	673,576	748,380	801,115	828,300	790,675	803,686	732,352
Public Safety										
Police	2,553,496	2,807,340	2,937,684	2,926,282	3,153,821	3,439,362	3,467,748	3,560,512	3,546,263	3,598,674
Fire protection	191,125	78,900	100,005	88,073	105,403	18,139	-	-	-	-
Planning, zoning, and										
community development	601,409	471,241	894,911	434,876	514,404	640,684	953,740	1,193,007	536,085	590,660
Engineering and public works	2,154,147	2,688,013	2,285,996	2,312,554	2,493,932	3,033,398	3,776,368	2,878,813	2,712,420	3,421,997
Parks and recreation	88,131	41,000	41,000	47,596	56,594	61,208	68,924	82,000	95,000	95,000
Nondepartmental	291,714	385,770	621,043	584,781	532,993	513,067	520,070	518,999	479,931	564,173
Debt Service										
Principal	325,927	18,196	144,742	75,410	70,483	73,774	77,219	80,826	84,600	88,551
Interest	41,299	3,788	69,567	28,180	26,549	23,257	19,812	16,205	12,431	8,480
Capital outlay	1,025,638	24,201	77,927	7,246	-	4,415	-	-	-	-
<b>Total Expenditures</b>	<b>9,300,522</b>	<b>8,632,972</b>	<b>9,460,093</b>	<b>8,718,371</b>	<b>9,352,276</b>	<b>10,443,579</b>	<b>11,906,989</b>	<b>11,394,125</b>	<b>10,350,026</b>	<b>11,117,232</b>
<b>DEFICIENCY OF REVENUES</b>										
<b>UNDER EXPENDITURES</b>	<b>(2,807,637)</b>	<b>(1,255,985)</b>	<b>(1,950,711)</b>	<b>(790,440)</b>	<b>(788,160)</b>	<b>(2,006,290)</b>	<b>(3,046,076)</b>	<b>(2,448,720)</b>	<b>(1,710,528)</b>	<b>(2,425,273)</b>
<b>OTHER FINANCING</b>										
<b>SOURCES (USES):</b>										
Transfers in	2,348,562	2,058,450	2,348,709	2,245,022	1,740,649	1,878,931	1,878,931	2,085,753	2,085,303	2,503,950
Transfers (out)	(390,702)	(37,400)	(221,309)	(103,590)	(97,032)	(97,031)	(97,031)	(97,031)	(97,031)	-
Special revenue	-	8,454	-	-	-	-	-	-	-	-
Interfund borrowing proceeds	1,250,000	-	-	-	-	-	-	-	-	-
Sale of capital assets	100,711	46,162	-	-	-	-	-	-	-	-
Other sources	-	-	-	-	146,990	-	-	-	-	-
<b>Total Other Financing</b>										
<b>Sources (Uses)</b>	<b>3,308,571</b>	<b>2,075,666</b>	<b>2,127,400</b>	<b>2,141,432</b>	<b>1,790,607</b>	<b>1,781,900</b>	<b>1,781,900</b>	<b>1,988,722</b>	<b>1,988,272</b>	<b>2,503,950</b>
<b>NET CHANGE IN</b>										
<b>FUND BALANCES</b>	<b>\$ 500,934</b>	<b>\$ 819,681</b>	<b>\$ 176,689</b>	<b>\$ 1,350,992</b>	<b>\$ 1,002,447</b>	<b>\$ (224,390)</b>	<b>\$ (1,264,176)</b>	<b>\$ (459,998)</b>	<b>\$ 277,744</b>	<b>\$ 78,677</b>
Debt service as a percentage										
of noncapital expenditures	4.80%	0.29%	2.55%	1.22%	1.11%	0.95%	0.83%	0.99%	1.01%	1.05%

Additional years will be added as information is available.

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

Fiscal Year	Real Property		Personal Property			Total Taxable Assesed Value	Tax Rates	
	Commercial Residential Property	Public Service	Motor Vehicles	Business Equipment	Other		Real Estate	Personal Property
2003	577,812,000	14,615,483	98,358,434	-	810,500	691,596,417	0.13	0.60
2004	697,130,500	16,664,771	106,727,512	-	988,960	821,511,743	0.13	0.60
2005	713,445,100	16,664,771	109,271,685	-	1,024,770	840,406,326	0.13	0.60
2006	719,331,408	15,918,461	103,400,500	-	1,082,710	839,733,079	0.13	0.60
2007	768,759,200	15,358,932	103,206,048	-	965,665	888,289,845	0.13	0.60
2008	1,409,727,643	14,984,060	106,118,951	19,346,220	2,170,520	1,552,347,394	0.07	0.60
2009	1,429,456,286	14,984,060	103,750,195	16,769,150	2,082,305	1,567,041,996	0.07	0.60
2010	1,418,723,500	15,826,250	77,266,939	17,878,066	1,850,545	1,531,545,300	0.07	0.60
2011	1,104,745,864	15,826,250	79,013,475	17,575,885	1,575,270	1,218,736,744	0.11	0.64
2012	1,118,318,200	16,425,250	82,719,086	16,645,415	1,534,520	1,235,642,471	0.11	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	
2003	0.13	0.60	0.60	0.13	1.46	0.86	3.15	2.25	0.86	7.12	8.58
2004	0.13	0.60	0.60	0.13	1.46	0.79	3.15	2.25	0.79	6.98	8.44
2005	0.13	0.60	0.60	0.13	1.46	0.79	3.15	2.25	0.79	6.98	8.44
2006	0.13	0.60	0.60	0.13	1.46	0.82	3.15	2.25	0.82	7.04	8.50
2007	0.13	0.60	0.60	0.13	1.46	0.82	3.15	1.30	0.82	6.09	7.55
2008	0.07	0.60	0.60	0.07	1.34	0.68	3.25	2.00	0.68	6.61	7.95
2009	0.07	0.60	0.60	0.07	1.34	0.46	4.00	1.30	0.46	6.22	7.56
2010	0.07	0.60	0.60	0.07	1.34	0.46	4.00	1.30	0.46	6.22	7.56
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

Source: Town of Front Royal and Warren County

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund										
Non spendable	\$ 2,646,710	\$ 1,552,890	\$ 547,791	\$ 100,975	\$ 100,975	\$ 100,975	\$ 60,975	\$ 60,975	\$ 180,487	\$ 207,520
Restricted	-	-	-	-	-	-	-	-	766,933	766,933
Unassigned	2,219,482	2,920,690	3,996,494	5,391,587	6,407,631	6,147,170	5,486,609	5,803,554	5,300,035	5,248,533
Total General Fund	<u>\$ 4,866,192</u>	<u>\$ 4,473,580</u>	<u>\$ 4,544,285</u>	<u>\$ 5,492,562</u>	<u>\$ 6,508,606</u>	<u>\$ 6,248,145</u>	<u>\$ 5,547,584</u>	<u>\$ 5,864,529</u>	<u>\$ 6,247,455</u>	<u>\$ 6,222,986</u>
All Other Governmental Funds										
Reserved for:										
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Prepaid items	-	-	-	-	-	-	-	-	-	-
Advances to other funds	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-	-	369,627	546,213
Assigned - capital funds	706,945	974,884	7,634	388	388	388	388	388	388	388
Unassigned, reported in:										
Special revenue funds	\$ 22,792	\$ (22,275)	\$ 1,050,959	\$ 1,460,920	\$ 1,447,323	\$ 1,483,394	\$ 919,779	\$ 142,836	\$ (331,973)	\$ (405,413)
Total all other governmental funds	<u>\$ 729,737</u>	<u>\$ 952,609</u>	<u>\$ 1,058,593</u>	<u>\$ 1,461,308</u>	<u>\$ 1,447,323</u>	<u>\$ 1,483,394</u>	<u>\$ 919,779</u>	<u>\$ 143,224</u>	<u>\$ 38,042</u>	<u>\$ 141,188</u>

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>REVENUES:</b>										
Taxes:										
Property	\$ 975,882	\$ 1,301,901	\$ 1,261,184	\$ 1,349,228	\$ 1,356,387	\$ 1,291,255	\$ 1,298,909	\$ 1,896,461	\$ 1,463,695	\$ 1,476,410
Sales	448,086	507,804	570,926	586,133	613,495	683,974	690,993	684,300	707,328	726,745
Business and occupational	539,916	611,617	624,511	740,268	721,486	708,018	620,567	613,273	633,938	612,660
Franchise	179,371	309,497	211,544	213,601	206,989	150,318	1,500	24,167	119,434	19,385
Consumer	182,303	178,879	178,423	191,554	240,682	228,828	181,779	190,188	242,677	228,374
Vehicle licenses	226,033	230,743	236,441	246,458	239,854	226,689	223,417	174,686	296,784	350,500
Bank stock	143,828	143,065	166,904	197,212	159,285	160,640	152,245	239,686	259,987	235,301
Meals and lodging	1,238,298	1,378,666	1,433,420	1,578,910	1,633,723	1,622,217	1,472,392	1,330,656	1,450,203	1,547,442
Permits, fees, and licenses	73,943	80,864	93,957	77,858	101,763	103,277	92,660	93,419	18,182	74,588
Fines and forfeitures	106,882	203,904	219,713	307,275	356,631	246,650	252,484	238,363	249,598	213,721
Revenues from use of money										
and property	77,910	73,089	101,589	209,469	284,273	283,610	119,307	109,480	56,357	123,824
Charges for services	101,107	111,143	101,343	84,363	100,909	73,114	45,165	20,237	16,257	25,811
Miscellaneous	7,397	16,055	74,017	118,667	68,567	49,581	68,954	213,943	143,118	73,568
Recovered costs	145,000	104,433	15,569	98,806	5,213	36,550	43,474	34,043	26,811	31,167
Payment in lieu of taxes	62,582	66,970	84,251	80,200	90,215	229,098	1,046,893	307,158	337,469	372,920
Intergovernmental	1,984,347	2,058,357	2,135,590	1,847,929	2,384,644	2,343,470	2,550,174	2,775,345	2,617,660	2,579,543
<b>Total Revenues</b>	<b>6,492,885</b>	<b>7,376,987</b>	<b>7,509,382</b>	<b>7,927,931</b>	<b>8,564,116</b>	<b>8,437,289</b>	<b>8,860,913</b>	<b>8,945,405</b>	<b>8,639,498</b>	<b>8,691,959</b>
<b>EXPENDITURES:</b>										
General government										
Legislative	165,682	188,630	205,523	135,379	156,788	175,717	173,189	166,884	175,142	155,176
Executive	1,010,533	931,212	1,165,197	1,188,427	1,243,995	1,401,822	1,605,219	1,588,909	1,556,528	1,520,025
Legal	187,413	215,643	246,472	215,991	248,934	257,621	416,400	517,295	347,940	342,144
Finance	664,008	779,038	670,026	673,576	748,380	801,115	828,300	790,675	803,686	732,352
Public Safety										
Police	2,553,496	2,807,340	2,937,684	2,926,282	3,153,821	3,439,362	3,467,748	3,560,512	3,546,263	3,598,674
Fire protection	191,125	78,900	100,005	88,073	105,403	18,139	-	-	-	-
Planning, zoning, and										
community development	601,409	471,241	894,911	434,876	514,404	640,684	953,740	1,193,007	536,085	590,660
Engineering and public works	2,154,147	2,688,013	2,285,996	2,312,554	2,493,932	3,033,398	3,776,368	2,878,813	2,712,420	3,421,997
Parks and recreation	88,131	41,000	41,000	47,596	56,594	61,208	68,924	82,000	95,000	95,000
Nondepartmental	291,714	385,770	621,043	584,781	532,993	513,067	520,070	518,999	479,931	564,173
Debt Service										
Principal	325,927	18,196	144,742	75,410	70,483	73,774	77,219	80,826	84,600	88,551
Interest	41,299	3,788	69,567	28,180	26,549	23,257	19,812	16,205	12,431	8,480
Capital outlay	1,025,638	24,201	77,927	7,246	-	4,415	-	-	-	-
<b>Total Expenditures</b>	<b>9,300,522</b>	<b>8,632,972</b>	<b>9,460,093</b>	<b>8,718,371</b>	<b>9,352,276</b>	<b>10,443,579</b>	<b>11,906,989</b>	<b>11,394,125</b>	<b>10,350,026</b>	<b>11,117,232</b>
<b>DEFICIENCY OF REVENUES</b>										
<b>UNDER EXPENDITURES</b>	<b>(2,807,637)</b>	<b>(1,255,985)</b>	<b>(1,950,711)</b>	<b>(790,440)</b>	<b>(788,160)</b>	<b>(2,006,290)</b>	<b>(3,046,076)</b>	<b>(2,448,720)</b>	<b>(1,710,528)</b>	<b>(2,425,273)</b>
<b>OTHER FINANCING</b>										
<b>SOURCES (USES):</b>										
Transfers in	2,348,562	2,058,450	2,348,709	2,245,022	1,740,649	1,878,931	1,878,931	2,085,753	2,085,303	2,503,950
Transfers (out)	(390,702)	(37,400)	(221,309)	(103,590)	(97,032)	(97,031)	(97,031)	(97,031)	(97,031)	-
Special revenue	-	8,454	-	-	-	-	-	-	-	-
Interfund borrowing proceeds	1,250,000	-	-	-	-	-	-	-	-	-
Sale of capital assets	100,711	46,162	-	-	-	-	-	-	-	-
Other sources	-	-	-	-	146,990	-	-	-	-	-
<b>Total Other Financing</b>										
<b>Sources (Uses)</b>	<b>3,308,571</b>	<b>2,075,666</b>	<b>2,127,400</b>	<b>2,141,432</b>	<b>1,790,607</b>	<b>1,781,900</b>	<b>1,781,900</b>	<b>1,988,722</b>	<b>1,988,272</b>	<b>2,503,950</b>
<b>NET CHANGE IN</b>										
<b>FUND BALANCES</b>	<b>\$ 500,934</b>	<b>\$ 819,681</b>	<b>\$ 176,689</b>	<b>\$ 1,350,992</b>	<b>\$ 1,002,447</b>	<b>\$ (224,390)</b>	<b>\$ (1,264,176)</b>	<b>\$ (459,998)</b>	<b>\$ 277,744</b>	<b>\$ 78,677</b>
Debt service as a percentage										
of noncapital expenditures	4.80%	0.29%	2.55%	1.22%	1.11%	0.95%	0.83%	0.99%	1.01%	1.05%

Additional years will be added as information is available.

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

Fiscal Year	Real Property		Personal Property			Total Taxable Assesed Value	Tax Rates	
	Commercial Residential Property	Public Service	Motor Vehicles	Business Equipment	Other		Real Estate	Personal Property
2003	577,812,000	14,615,483	98,358,434	-	810,500	691,596,417	0.13	0.60
2004	697,130,500	16,664,771	106,727,512	-	988,960	821,511,743	0.13	0.60
2005	713,445,100	16,664,771	109,271,685	-	1,024,770	840,406,326	0.13	0.60
2006	719,331,408	15,918,461	103,400,500	-	1,082,710	839,733,079	0.13	0.60
2007	768,759,200	15,358,932	103,206,048	-	965,665	888,289,845	0.13	0.60
2008	1,409,727,643	14,984,060	106,118,951	19,346,220	2,170,520	1,552,347,394	0.07	0.60
2009	1,429,456,286	14,984,060	103,750,195	16,769,150	2,082,305	1,567,041,996	0.07	0.60
2010	1,418,723,500	15,826,250	77,266,939	17,878,066	1,850,545	1,531,545,300	0.07	0.60
2011	1,104,745,864	15,826,250	79,013,475	17,575,885	1,575,270	1,218,736,744	0.11	0.64
2012	1,118,318,200	16,425,250	82,719,086	16,645,415	1,534,520	1,235,642,471	0.11	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	
2003	0.13	0.60	0.60	0.13	1.46	0.86	3.15	2.25	0.86	7.12	8.58
2004	0.13	0.60	0.60	0.13	1.46	0.79	3.15	2.25	0.79	6.98	8.44
2005	0.13	0.60	0.60	0.13	1.46	0.79	3.15	2.25	0.79	6.98	8.44
2006	0.13	0.60	0.60	0.13	1.46	0.82	3.15	2.25	0.82	7.04	8.50
2007	0.13	0.60	0.60	0.13	1.46	0.82	3.15	1.30	0.82	6.09	7.55
2008	0.07	0.60	0.60	0.07	1.34	0.68	3.25	2.00	0.68	6.61	7.95
2009	0.07	0.60	0.60	0.07	1.34	0.46	4.00	1.30	0.46	6.22	7.56
2010	0.07	0.60	0.60	0.07	1.34	0.46	4.00	1.30	0.46	6.22	7.56
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

Source: Town of Front Royal and Warren County



**TOWN OF FRONT ROYAL, VIRGINIA  
PRINCIPAL PROPERTY TAX PAYERS  
CURRENT YEAR AND 2003**

Taxpayer	2012		2003		
	Taxable Assessed Value	Percentage of Total Town Taxable Assessed Value	Taxpayer	Taxable Assessed Value	Percentage of Total Town Taxable Assessed Value
Boisseau Family LC	\$ 20,389,125	1.42%	P W & Bosseau Rudacille, L.P.	\$ 10,082,300	1.45%
Shenandoah Square LP	8,124,600	0.57%	HLI Endowment, Inc.	6,271,300	0.90%
Williams Land Co Inc.	7,759,600	0.54%	Gateway Plaza Shopping Center	5,858,800	0.84%
Ramsey Inc.	7,463,400	0.52%	Shenandoah Square, L.P.	5,722,900	0.82%
HLI Endowment, Inc.	6,754,400	0.47%	Southerlands	4,010,100	0.58%
Royal Arms Associates	5,442,500	0.38%	James E. Corr	3,813,300	0.55%
Corr Family Real Estate LLC	4,299,900	0.30%	Cogil Corporation	3,534,100	0.51%
Royal Hills Limited Partnership	4,256,100	0.30%	Royal Arms Association	3,340,100	0.48%
Fairfield Lynn Limited	3,701,600	0.26%	Royal Hills Limited	3,299,000	0.47%
Heritage Hall XIII	3,357,500	0.23%	HWA Enterprises	3,158,700	0.45%
Total	<u>\$ 71,548,725</u>	<u>4.99%</u>		<u>\$ 49,090,600</u>	<u>7.04%</u>

Source: Warren County Property Assessor's Office

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

<b>Fiscal Year</b>	<b>Total Tax Levy</b>	<b>Current Tax Collections</b>	<b>Percent of Levy Collected</b>	<b>Delinquent Tax Collections</b>	<b>Total Tax Collections</b>	<b>Total Collection as Percent of Current Levy</b>
2003	1,298,124	1,064,604	82.01%	187	1,152,482	88.78%
2004	1,537,321	1,514,244	98.50%	191	1,588,483	103.33%
2005	1,523,668	1,493,940	98.05%	13,677	1,534,005	100.68%
2006	1,597,087	1,599,025	100.12%	9,340	1,654,027	103.57%
2007	1,643,960	1,537,604	93.53%	3,988	1,614,523	98.21%
2008	1,631,275	1,531,421	93.88%	4,774	1,566,873	96.05%
2009	1,598,477	1,539,151	96.29%	8,670	1,556,749	97.39%
2010	3,131,608	2,332,404	74.48%	34,240	2,438,513	77.87%
2011	1,802,507	968,065	53.71%	756,894	1,724,959	95.70%
2012	1,795,193	683,918	38.10%	-	683,918	38.10%

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 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.

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					
2003	806,844	6,170,392	6,977,236	DNA	DNA	13,584	514
2004	788,648	5,417,988	6,206,636	472,533	1.31%	13,584	457
2005	643,906	4,656,618	5,300,524	472,707	1.12%	14,184	374
2006	568,496	14,196,756	14,765,252	DNA	DNA	13,720	1,076
2007	498,013	13,643,291	14,141,304	DNA	DNA	14,377	984
2008	424,239	12,756,102	13,180,341	461,432	2.86%	14,475	911
2009	347,020	11,850,070	12,197,090	483,029	2.53%	14,616	835
2010	266,194	13,665,076	13,931,270	466,320	2.99%	14,573	956
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

DNA - Data Not Available

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

<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>Debt Payable from Enterprise Revenues</b>	<b>Net Bonded Debt</b>	<b>Assessed Value in \$000's</b>	<b>Percentage of Actual Taxable Value of Property</b>	<b>Population</b>	<b>Per Capita</b>
2003	6,977,236	6,170,392	806,844	691,596	0.12%	13,584	59.40
2004	6,206,636	5,417,988	788,648	821,512	0.10%	13,584	58.06
2005	5,300,524	4,656,618	643,906	840,406	0.08%	13,589	47.38
2006	14,765,252	14,196,756	568,496	839,733	0.07%	13,720	41.44
2007	14,141,304	13,643,291	498,013	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

**TOWN OF FRONT ROYAL, VIRGINIA  
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT  
AS OF JUNE 30, 2012**

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
<b>Debt repaid with property taxes</b>			
Warren County	3,281,800		
Warren County School Board	<u>4,740,000</u>		
Subtotal, overlapping debt	<u>8,021,800</u>	49%	3,930,682
 <b>Town of Front Royal (direct debt)</b>	 <u>11,860,717</u>	 100%	 <u>11,860,717</u>
 <b>Total direct and overlapping debt</b>			 <u><u>15,791,399</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									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt limit	71,147,598	56,191,727	76,458,758	78,458,758	143,323,827	145,212,163	145,266,886	145,073,555	114,501,165	114,459,425
Net debt applicable to limit	6,977,236	6,206,636	5,300,524	14,765,254	14,141,304	13,180,341	12,197,090	13,931,270	12,907,581	11,860,717
Legal debt margin	64,170,362	49,985,091	71,158,234	63,693,504	129,182,523	132,031,822	133,069,796	131,142,285	101,593,584	102,598,708
Net debt applicable to the limit as a percent of debt limit	10%	11%	7%	19%	10%	9%	8%	10%	11%	10%

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

Fiscal Year	Gross Revenue <sup>1</sup>	Operating Expenses <sup>2</sup>	Net Revenue Available	Debt Service Requirements			
				Principal	Interest	Total	Coverage
2003	14,963,845	9,434,131	5,529,714	919,792	261,538	1,181,330	4.68
2004	16,625,271	12,054,058	4,571,213	752,404	228,919	981,323	4.66
2005	17,829,755	13,119,294	4,710,461	761,370	202,048	963,418	4.89
2006	19,022,058	12,918,187	6,103,871	774,862	151,698	926,560	6.59
2007	24,694,321	19,960,695	4,733,626	553,465	553,525	1,106,990	4.28
2008	23,107,557	16,528,362	6,579,195	887,189	578,849	1,466,038	4.49
2009	22,220,514	17,417,903	4,802,611	906,030	531,927	1,437,957	3.34
2010	22,150,992	18,008,335	4,142,657	919,994	506,962	1,426,956	2.90
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

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

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

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

<b>Year</b>	<b>Estimated Population</b>	<b>Personal Income (thousands of dollars)</b>	<b>Per Capita Personal Income</b>	<b>Median Age</b>	<b>Education Level in Years of Formal Schooling</b>	<b>School Enrollment</b>	<b>Unemployment Rate</b>
2003	13,584	DNA	DNA	*	*	5,112	3.4%
2004	13,584	380,352	28,000	*	*	5,176	3.4%
2005	13,589	433,177	31,877	*	*	5,376	3.1%
2006	13,720	437,352	31,877	*	*	5,173	2.5%
2007	14,377	458,296	31,877	*	*	5,257	3.0%
2008	14,475	461,420	31,877	*	*	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%

\*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

DNA: Data Not Available



**TOWN OF FRONT ROYAL, VIRGINIA  
PRINCIPAL EMPLOYERS  
CURRENT YEAR AND 2006**

2012			*2006		
Employer	Employees	% of Total	Employer	Employees	% of Total
Warren County School Board	925	12%	Warren County School Board	400	DNA
Warren County Hospital	542	7%	E. I. Dupont De Nemours & Company	400	DNA
Family Dollar Stores Distribution Center	472	6%	Family Dollar Stores Distribution Center	325	DNA
E.I. Dupont De Nernours & Company	421	5%	Town of Front Royal, Virginia	150	DNA
Ferguson Enterprises, Inc.	383	5%	Valley Redi-Mix	80	DNA
Wal-Mart	313	4%	Toray Plastics, Inc.	75	DNA
Sysco Baugh Northeast Cooperative, Inc.	304	4%	Tartan Textiles	75	DNA
Interbake Foods, LLC	286	4%	Precision System	75	DNA
Warren County	284	4%	Walden Foods	60	DNA
Toray Plastics America Inc.	200	3%	AirPac	50	DNA

Source: Estimates from Warren County Economic Development Authority

\* - Latest available data from 2006

**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>2003</u>	<u>2004</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>
General Government	26	29	27	29	29	41	40	38	38	33
Fire Protection	3	1	1	1	1	0	0	0	0	0
Police Protection	43	45	45	45	45	47	47	47	47	47
Highway - Streets	21	20	20	19	22	17	17	17	17	16
Sanitation	13	13	14	13	14	15	13	13	13	14
Water	12	13	13	13	12	13	14	15	15	18
Sewer	17	17	16	18	17	15	15	14	14	17
Electrical	15	15	14	12	14	11	12	13	13	15
Culture and Recreation	1	1	1	1	1	0	0	0	0	0
	<u>151</u>	<u>154</u>	<u>151</u>	<u>151</u>	<u>155</u>	<u>159</u>	<u>158</u>	<u>157</u>	<u>157</u>	<u>160</u>

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

Function/Program	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public Safety										
Police										
Physical arrests				1,398	1,443	1,436	1,108	1,943	1,361	1,777
Parking violations				1,074	1,063	678	752	841	462	222
Traffic violations				3,739	3,844	3,560	4,379	3,770	3,423	2,666
Wastewater										
New service connections					320	48	33	14	17	17
Average daily treatment in gallons	2,100,000	3,490,755	3,523,000	3,523,000	3,069,310	2,988,613	3,399,715	3,764,984	3,598,000	3,426,000
Water System										
New connections					320	52	32	13	16	20
Average daily consumption	1,750,000	1,678,000	1,708,000	1,708,000	1,708,000	1,976,953	2,143,041	2,182,274	2,065,043	1,453,000
Electric Distribution										
New Connections					320	25	16	4	12	18
Average daily KWH consumption			472,041	492,688	493,095	576,589	545,482	552,178	538,679	487,033
Sanitation										
Refuse collected (tons/day)	40	40	40	40	40	22	15	14	20	20
Recyclables collected (tons/day)	0.25	0.25	0.25	0.25	0.25	2.00	2.00	1.20	2.45	1.98
Highway and Streets										
Repair services				55	60	65	55	28	210	366
Street resurfacing (miles)				15.00	27.00	35.00	5.00	11.75	1.44	12.80

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

Function/Program	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Public Safety</b>										
Police										
Stations	1	1	2	2	2	2	2	2	2	2
Patrol Units	6	6	9	12	12	12	12	12	12	12
Fire Stations	1	1	1	1	1	1	1	1	1	1
<b>Highways and Streets</b>										
Streets (miles)	143	143	143	143	143	133	133	133	133	133
Streetlights	1,430	1,430	1,430	1,430	1,430	1,430	1,450	1,450	1,450	1,450
Traffic signals	14	14	14	15	15	15	14	14	14	14
<b>Culture and Recreation</b>										
Community centers	1	1	1	1	1	1	1	1	1	1
Parks	13	13	13	13	13	13	13	13	13	13
Park acreage	165	165	165	165	165	165	165	165	165	165
Swimming pools	1	1	1	1	1	1	1	1	1	1
Tennis courts	9	9	9	9	9	9	9	9	9	9
<b>Sewer System</b>										
Sanitary sewers (miles)	117	117	117	196	196	198	198	198	198	198
Storm sewers (miles)	27	27	27	90	90	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
<b>Water System</b>										
Facilities	1	1	1	1	1	1	1	1	1	1
Fire Hydrants	555	555	555	560	560	582	618	618	668	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
<b>Electric System</b>										
Service lines (miles)	140	140	140	140	140	140	140	140	141	141
Distribution stations	3	3	3	3	3	3	4	4	4	4
<b>Sanitation</b>										
Collection Trucks	5	5	5	5	5	5	5	5	5	7

## **COMPLIANCE SECTION**

# MITCHELL & Co., P.C.

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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS AND SPECIFICATIONS FOR AUDITS OF COUNTIES, CITIES AND TOWNS

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Front Royal, Virginia, as of and for the year ended June 30, 2012, which collectively comprise the Town of Front Royal, Virginia's basic financial statements and have issued our report thereon dated September 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Town of Front Royal, Virginia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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.

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Front Royal, Virginia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and *Specifications for Audits of Counties, Cities and Towns*.

This report is intended solely for the information and use of Town Council, management, others within the Town of Front Royal, Virginia and appropriate state regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

September 27, 2012  
Leesburg, Virginia

*Mitchell & Co., P.C.*