

**TOWN OF FRONT ROYAL, VIRGINIA**

*COMPREHENSIVE  
ANNUAL FINANCIAL REPORT*

**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**PREPARED BY THE  
DEPARTMENT OF FINANCE  
B.J. WILSON  
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 10.5 square miles and has a population estimated at 15,153.

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 Manager 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

JOSEPH E. WALTZ  
Town Manager  
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November 29, 2017

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

RE: FY 2016-2017 Comprehensive Annual Financial Report(CAFR)  
Letter of Transmittal

Citizens of Front Royal:

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) for the Town of Front Royal, Virginia, for the fiscal year ending June 30, 2017. The CAFR fulfills the requirements of the Code of Virginia and the Town's Code to complete an annual audit of the Town's financial accounts and records by a certified public accountant. The CAFR also provides informative and relevant financial data to you about how the Town operated in FY2016-2017.

Responsibility for both the accuracy of the data and all disclosures, as well as the completeness of its presentation rests with the management of the Town. To the best of our knowledge and belief, the information provided in this report is accurate in all material respects and fairly presents the financial position of the Town. All disclosures necessary to enable the reader to gain an understanding of the Town's financial activities have been included. Our internal control structure is designed to provide reasonable, but not absolute assurance that these objects are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived. The evaluation of costs and benefits of internal control requires estimates and judgements by management.

Based upon their audit, Mitchell & Co., P.C., a firm of licensed certified public accountants, has concluded that there was a reasonable basis for rendering an unqualified opinion the Town's financial statements for the fiscal year ending June 30, 2017, conform to the generally accepted accounting principles and standards of financial reporting as prescribed by the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association of the United States and Canada (GFOA). The goal of their indecent audit was to provide reasonable assurance that the financial statements of the Town for the fiscal year ending June 30, 2017, are free of material misstatements. The independent audit involved examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

## **The Comprehensive Annual Financial Report (CAFR)**

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

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

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

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

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

## **Profile of the Town**

Front Royal is located in Warren County in Northwestern Virginia approximately seventeen (17) miles south of Winchester and seventy (70) miles west of Washington DC. The Town was founded in 1754 and incorporated by the General Assembly of Virginia in 1788. Interstates 66 and 81 are located at the northern Town limits and west of the Town, respectively. US Highways 522 and 340, and State Route 55 provide access to the Town. Major rail lines are also located along the western and northern sides of the Town. The Town covers an approximately ten and one-half (10.5) square miles, and has a population estimated at 15,038.

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

The Town Manager is appointed by the Town Council as the chief executive officer of the Town and is responsible to the Town Council and citizens for the proper administration of the Town government. The Town Manager also serves as the Town Treasurer and is responsible for the financial operations of the Town. The Clerk of Council and Town Attorney are also appointed by the Town Council. The Department Heads of Community Development and Tourism, Finance, Energy Services, Human Resources, Public Works, Risk Management, Information Technology, Public Safety, and Planning & Zoning are appointed by and operate under the supervision of the Town Manager.

In Virginia, incorporated Towns are part of the County in which they are located. Accordingly, the residents of an incorporated Town are required to pay certain taxes, including ad valorem taxes, to both the Town and the County. Certain services received by residents of a Town are provided by the Town with other services being provided by the County.

The Town government maintains budgetary control over its spending. The objective of these budgetary controls is to ensure compliance with the legal provisions embodied in the annual appropriated budget approved by the Town Council. Activities of the General Fund and all enterprise funds are included in the annual appropriated budget. The level of budgetary control, that is the level at which expenditures cannot legally exceed the appropriated amount, is established by function and activity within the individual fund. The Town government also maintains an encumbrance accounting system as one technique for accomplishing budgetary control. Encumbered amounts lapse at the year-end, unless otherwise re-appropriated as part of the following year's budget by Town Council. As demonstrated by the statements and schedules included in the financial section of the report, the Town government continues to meet its responsibilities for sound financial management.

### **Economic Outlook**

Front Royal continues to experience a fairly stable economy with slight growth in our revenues. Existing property values have been stable in this past year, and home sales continue to improve. The Town continues to attract new commercial business development.

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

The Town continues with the development of the Avtex Property from its "Superfund" status by the EPA this year, and IT Federal to development of Lot 6. The Town secured an Industrial Access Grant funding to extend Main Street through the property to facilitate further development.

Construction of the Leach Run Parkway was completed in June 2017 and this road will provide relief to the Town's transportation network, will allow access to the new middle school, and will facilitate future residential and medical development.

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



The Town of Front Royal will continue to experience growth into 2018.

### **Major Achievements**

During the FY 16-17 Budget, the Town continued to focus on improving the quality of life for our citizens and planning for our community. The following major projects were initiated, continued, or completed during the fiscal year:

- Leach Run Parkway - Complete
- Corridor Water Tank Study - Study completed
- Avtex Property Released for Development - Completed
- Wastewater Treatment Plant (WWTP) Improvement Design - Under Construction
- Police Headquarters – Design completed
- Installation of a 2.5MW Solar generation facility in Town
- Comprehensive Plan Update - Continuing

### **Certificate of Achievement**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Front Royal for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2016. This was the thirty (30) consecutive year that the Town has received this prestigious award. The GFOA awards a Certificate to municipalities that exemplify excellence in financial reporting and conform to stringent reporting requirements established by the GFOA.

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

### **Acknowledgements**

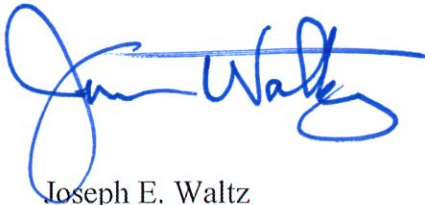
The Town of Front Royal has established and continues to maintain a stable financial position through strong, progressive management of financial operations combined with sound accounting and financial reporting practices. Appreciation is expressed to the Mayor and members of Town Council for their support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

This report could not have been prepared without the dedication of the Town's Finance Department. Their hard work, dedication, and continuing efforts to improve the quality of this report directly benefit all who use this document. Special recognition is also extended to those member of the Department of Energy Services and Environmental Services who assisted the auditors in their evaluation of the

inventory for both Departments. Special recognition goes to BJ Wilson, Director of Finance, for his technical expertise and efforts in the preparation of this CAFR.

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

Respectfully submitted,



Joseph E. Waltz

Town Manager



BJ Wilson

Director of Finance



Government Finance Officers Association

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

Presented to

**Town of Front Royal  
Virginia**

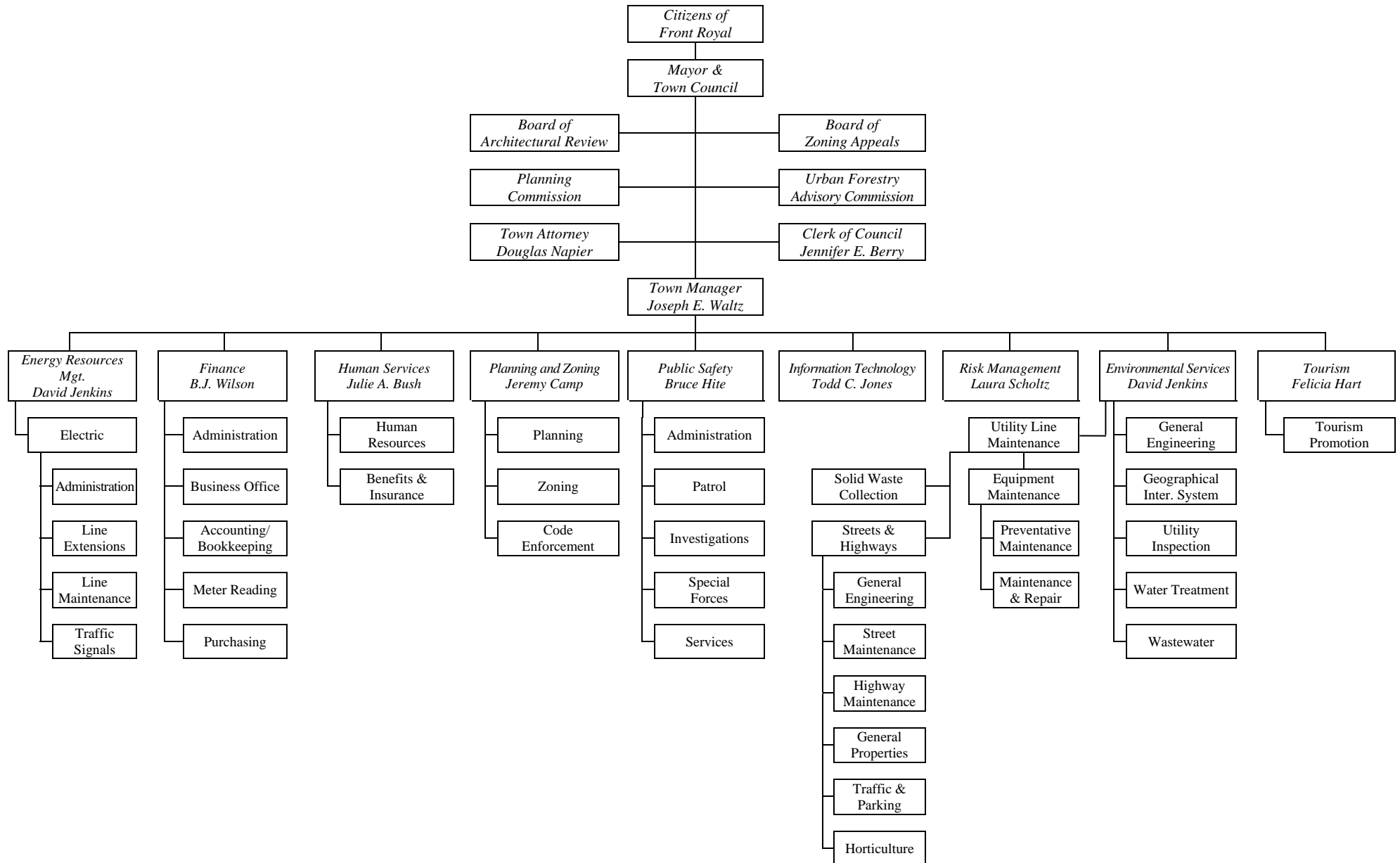
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2016**



Executive Director/CEO

**TOWN OF FRONT ROYAL  
ORGANIZATIONAL CHART  
FISCAL YEAR ENDED JUNE 30, 2017**



**TOWN OF FRONT ROYAL, VIRGINIA**  
**JUNE 30, 2017**

**TOWN COUNCIL**

Hollis L. Tharpe - Mayor  
Eugene R. Tewalt - Vice Mayor  
John P. Connolly  
Bébhinn C. Egger  
Jacob L. Meza  
Christopher S. Morrison  
William A. Sealock

**TOWN OFFICIALS**

Town Manager	Joseph E. Waltz
Director of Planning & Zoning	Jeremy Camp
Town Attorney	Douglas Napier
Chief of Police	Bruce Hite (Interim)
Director of Environmental Services	David Jenkins (Interim)
Purchasing Agent	Cynthia A. Hartman
Director of Human Resources	Julie A. Bush
Clerk of Council	Jennifer E. Berry
Director of Finance	B.J. Wilson
Director of Tourism	Felicia Hart
Director of Information Technology	Todd C. Jones
Director of Energy Services	David Jenkins (Interim)
Risk Management Manager	Laura Scholtz

## **FINANCIAL SECTION**

# MITCHELL & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

AMANDA M. NOORDHOFF, CPA  
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MEMBERS  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

VIRGINIA SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Front Royal, Virginia, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Front Royal, Virginia, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 – 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

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

The supplementary information including the general fund schedules, combining and individual nonmajor fund schedules and other supplementary schedules is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information including the general fund schedules, combining and individual nonmajor fund schedules and other supplementary schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards* we have also issued our report dated October 6, 2017 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Front Royal, Virginia's internal control over financial reporting and compliance.

October 6, 2017  
Leesburg, Virginia

*Mitchell & Co., P.C.*



## TOWN OF FRONT ROYAL, VIRGINIA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

---

As management of the Town of Front Royal, Virginia, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Front Royal, Virginia for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in our letter of transmittal, which can be found on pages 1 – 5 of this report.

#### Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$137,706,645. Of this amount, \$29,405,632 may be used to meet the Town's ongoing obligations to its citizens and creditors.
- The Town's total net position increased by \$12,751,587.
- As of the close of the current fiscal year, the Town of Front Royal's governmental funds reported combined ending fund balances of \$11,278,786, an increase of \$475,958 in comparison with the prior year. Approximately 68% of this amount, (\$7,632,807) 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 \$8,127,236 or 40.9 percent of total general fund expenditures.
- The Town's total bonded debt increased by \$14,636,895 (47 percent) during the current fiscal year.

#### Overview of the Financial Statements

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

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

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

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

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

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

## TOWN OF FRONT ROYAL, VIRGINIA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

The Town of Front Royal, Virginia maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund which is considered to be major fund. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

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

The basic governmental fund financial statements can be found on pages 22 – 25 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 26 – 30 of this report.

**Notes to the financial statements.** The notes and required supplementary information contained in the notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements and required supplementary information contained in the notes can be found on pages 31 – 75 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 76 – 86 of this report. Additional state required supplementary schedules follow the combining and individual fund statements and can be found on pages 87 – 89 of this report.

## TOWN OF FRONT ROYAL, VIRGINIA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town of Front Royal, Virginia, assets exceeded liabilities by \$137,706,645 at the close of the most recent fiscal year.

By far the largest portion of the Town's net position (78.1 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following table presents a summary of the Town's net position by type of activity as of June 30, 2017 and 2016.

TOWN OF FRONT ROYAL -- NET POSITION						
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 14,326,750	\$ 14,416,962	\$ 35,791,684	\$ 32,882,870	\$ 50,118,434	\$ 47,299,832
Capital assets	53,926,594	49,088,542	93,877,111	77,085,251	147,803,705	126,173,793
Total Assets	68,253,344	63,505,504	129,668,795	109,968,121	197,922,139	173,473,625
Deferred Outflows of Resources	1,277,030	629,660	1,193,250	891,482	2,470,280	1,521,142
Long-term liabilities	7,658,878	6,498,052	49,872,999	34,575,442	57,531,877	41,073,494
Other liabilities	1,251,149	1,892,372	3,902,748	6,303,511	5,153,897	8,195,883
Total Liabilities	8,910,027	8,390,424	53,775,747	40,878,953	62,685,774	49,269,377
Deferred Inflows of Resources	-	505,713	-	264,619	-	770,332
Net investment in capital assets	53,926,594	49,088,542	50,846,302	51,478,830	104,772,896	100,567,372
Restricted	3,528,117	3,394,680	-	-	3,528,117	3,394,680
Unrestricted	3,165,636	2,755,805	26,239,996	18,237,201	29,405,632	20,993,006
Total Net Position	\$ 60,620,347	\$ 55,239,027	\$ 77,086,298	\$ 69,716,031	\$ 137,706,645	\$ 124,955,058

An additional portion of the Town of Front Royal's net position (2.56%) represents resources that are in a nonspendable form. The remaining balance of \$26,618,139 is unrestricted net position and may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the Town of Front Royal is able to report positive balances in all categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The Town's net position increased by \$12,751,587 during the current fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

## TOWN OF FRONT ROYAL, VIRGINIA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

**Governmental activities.** Governmental activities increased the Town's net position by \$5,381,320. These changes are presented in column one of the following table and key elements of the increase are noted below:

TOWN OF FRONT ROYAL -- CHANGES IN NET POSITION						
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues						
Charges for services	\$ 279,441	\$ 324,535	\$ 30,008,963	\$ 29,707,874	\$ 30,288,404	\$ 30,032,409
Operating grants & contributions	2,231,968	2,164,424	-	-	2,231,968	2,164,424
Capital grants & contributions	7,760,114	5,315,112	4,358,919	5,381,345	12,119,033	10,696,457
General revenues						
Property taxes	1,935,993	1,843,505	-	-	1,935,993	1,843,505
Other taxes	5,523,834	5,231,018	-	-	5,523,834	5,231,018
Investment and other earnings	33,784	65,457	327,807	194,315	361,591	259,772
Total revenues	17,765,134	14,944,051	34,695,689	35,283,534	52,460,823	50,227,585
Expenses						
General government	3,371,036	3,866,401	-	-	3,371,036	3,866,401
Public safety	4,626,250	4,401,137	-	-	4,626,250	4,401,137
Engineering and public works	2,971,237	2,832,612	-	-	2,971,237	2,832,612
Planning and zoning	1,246,737	1,077,032	-	-	1,246,737	1,077,032
Infrastructure depreciation	3,591,054	3,591,055	-	-	3,591,054	3,591,055
Electric	-	-	15,515,533	15,869,418	15,515,533	15,869,418
Water	-	-	3,444,027	3,604,540	3,444,027	3,604,540
Sewer	-	-	4,106,234	3,584,110	4,106,234	3,584,110
Solid waste management	-	-	837,128	864,785	837,128	864,785
Total expenses	15,806,314	15,768,237	23,902,922	23,922,853	39,709,236	39,691,090
Increase (decrease) in net position before transfers	1,958,820	(824,186)	10,792,767	11,360,681	12,751,587	10,536,495
Transfers	3,422,500	3,193,645	(3,422,500)	(3,193,645)	-	-
Increase (decrease) in net position	5,381,320	2,369,459	7,370,267	8,167,036	12,751,587	10,536,495
Net position – beginning	55,239,027	52,869,568	69,716,031	61,548,995	124,955,058	114,418,563
Net position – ending	\$ 60,620,347	\$ 55,239,027	\$ 77,086,298	\$ 69,716,031	\$ 137,706,645	\$ 124,955,058

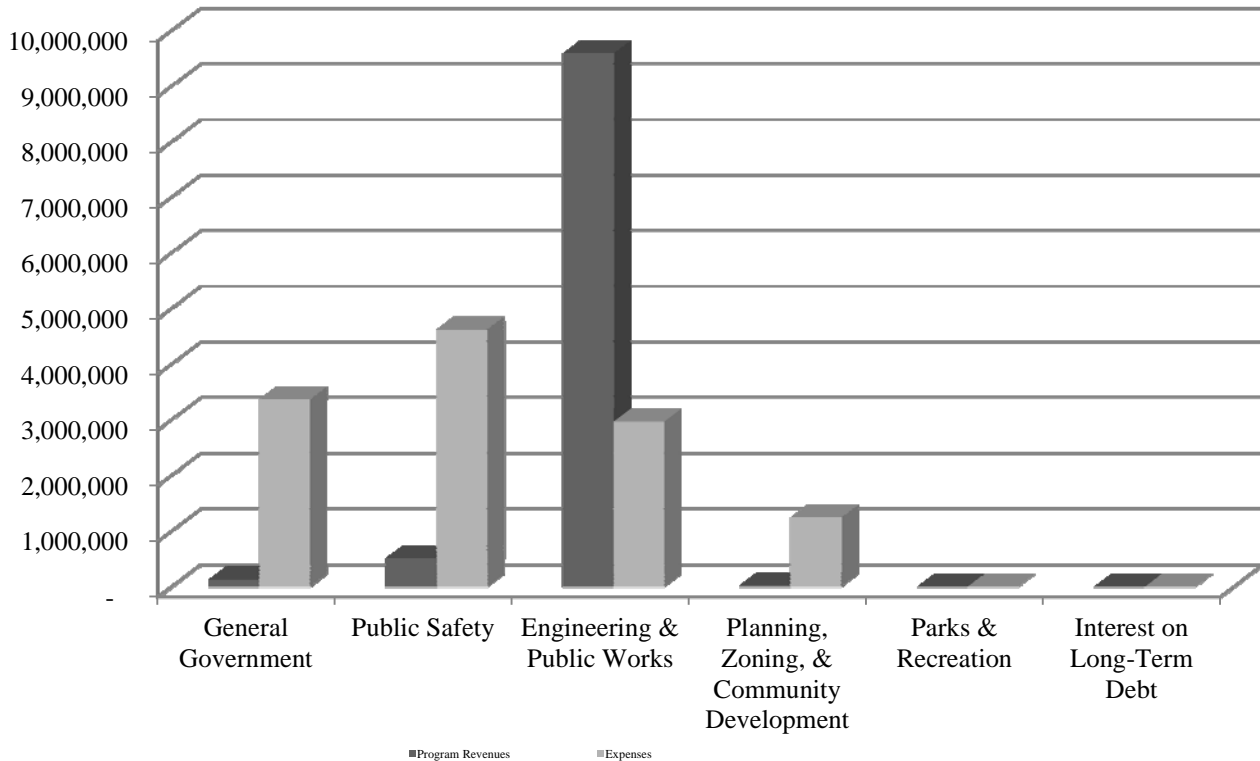
- VDOT project grants.

## TOWN OF FRONT ROYAL, VIRGINIA

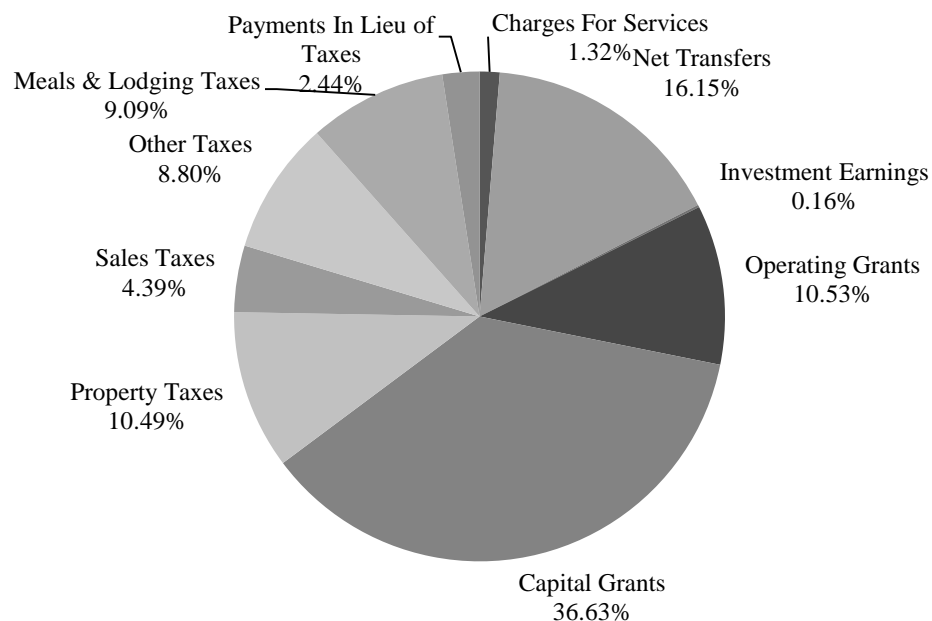
### MANAGEMENT'S DISCUSSION AND ANALYSIS

The following charts present a graphic representation of the Town's governmental activities and the related revenue structure for fiscal year 2017.

#### EXPENSES AND PROGRAM REVENUES – GOVERNMENTAL ACTIVITIES



#### REVENUES BY SOURCE – GOVERNMENTAL ACTIVITIES



## TOWN OF FRONT ROYAL, VIRGINIA

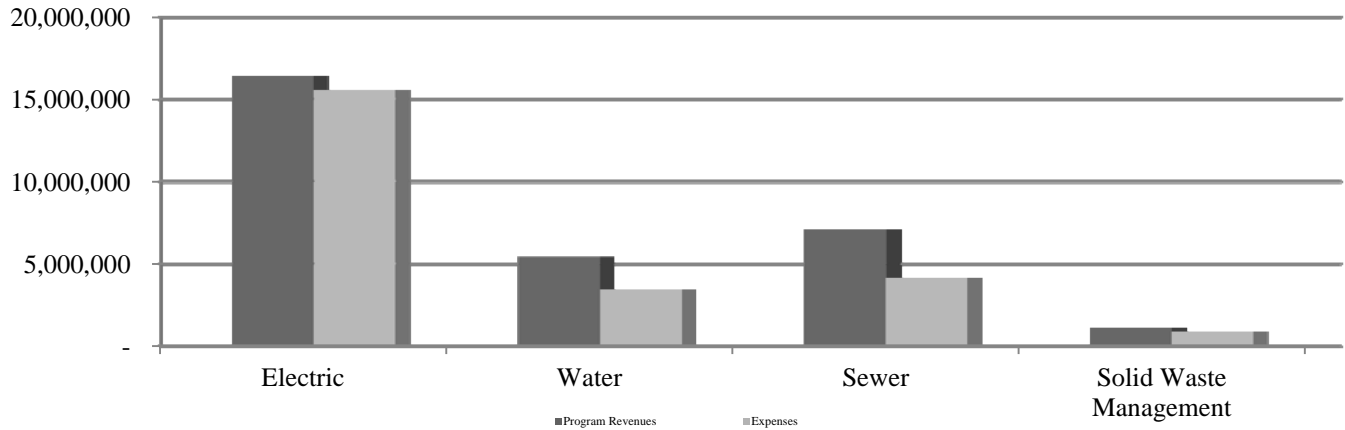
### MANAGEMENT'S DISCUSSION AND ANALYSIS

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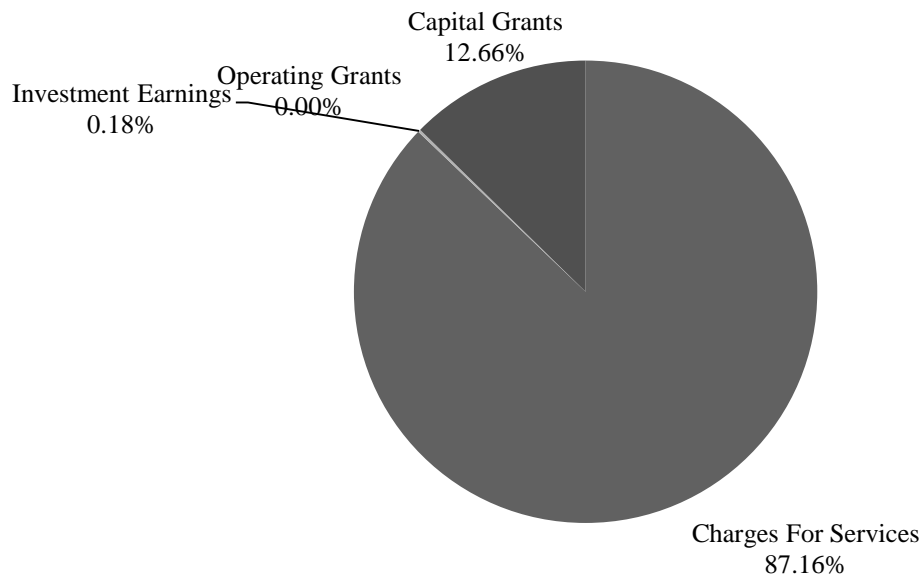
**Business-type activities.** Business-type activities increased the Town of Front Royal, Virginia's net position by \$7,370,267. Key elements of this increase are as follows:

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

As of the end of the current fiscal year, the Town of Front Royal, Virginia's governmental funds reported combined ending fund balances of \$11,278,786, an increase of \$475,958 in comparison with the prior year. Approximately 67.7% of this total amount, \$7,632,807 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance represents funds in nonspendable form (\$117,862), and restricted by third parties (\$3,528,117).

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 \$8,127,236, while total fund balance reached \$11,021,128. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 40.9 percent of total general fund expenditures, while total fund balance represents 55.5 percent of that same amount.

The fund balance of the Town's general fund increased by \$669,697 during the current fiscal year. Key factors in this increase are as follows:

- VDOT project grants.

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

Net position of the water, sewer and solid waste management functions at the end of the year amounted to \$60,147,982 and those for the electric function amounted to \$16,938,316. The total increase in net position for all enterprise funds was \$7,370,267. 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 \$10,410,690 and are noted as follows: a \$90,461 increase in Legislative; a \$188,890 increase in Executive; a \$2,435 increase in Legal; a \$291,586 increase in General Government; a \$122,468 increase in Planning, Zoning and Community Development; a \$2,327 increase in Police Department; a \$9,952,834 increase in Public Works and Engineering; and, a \$41,475 increase in Nondepartmental.

Actual general fund revenues were greater than budgeted revenues by \$7,352,054. The variance relates primarily to project reimbursements received but not budgeted. Actual general fund expenditures were less than budgeted expenditures by \$3,262,495. The variance relates primarily to less capital outlays than budgeted.

## TOWN OF FRONT ROYAL, VIRGINIA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Capital Asset and Debt Administration

**Capital assets.** The Town of Front Royal, Virginia's investment in capital assets for its governmental and business-type activities as of June 30, 2017, amounts to \$147,803,705 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, roads, highways, and bridges. The total increase in capital assets for the current fiscal year was approximately 17.1%. Major capital assets events during the current fiscal year included the following:

- Waste water treatment plant of \$18,310,086
- Road construction in progress of \$8,206,938.

The table below summarizes the capital assets of the Town at June 30, 2017 and 2016.

<b>TOWN OF FRONT ROYAL - CAPITAL ASSETS (NET OF DEPRECIATION)</b>						
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 1,334,786	\$ 1,334,786	\$ 1,461,822	\$ 1,488,822	\$ 2,796,608	\$ 2,823,608
Construction in progress	13,456,686	5,249,748	-	-	13,456,686	5,249,748
Buildings and Improvements	7,450,430	7,263,230	68,845,462	51,954,576	76,295,892	59,217,806
Utility distribution systems	-	-	22,338,173	22,672,367	22,338,173	22,672,367
Vehicles	307,786	294,194	628,099	379,763	935,885	673,957
Machinery and Equipment	708,544	687,168	603,555	589,723	1,312,099	1,276,891
Infrastructure	30,668,362	34,259,416	-	-	30,668,362	34,259,416
Total	\$ 53,926,594	\$ 49,088,542	\$ 93,877,111	\$ 77,085,251	\$ 147,803,705	\$ 126,173,793

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

**Long-term debt.** At the end of the current fiscal year, the Town of Front Royal, Virginia had total bonded debt outstanding of \$44,940,746. All of this amount comprises debt backed by the full faith and credit of the government even though all bonded debt will be repaid from enterprise fund revenue.

<b>TOWN OF FRONT ROYAL -- OUTSTANDING DEBT (GENERAL OBLIGATION BONDS)</b>						
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
General Obligation Bonds	\$ -	\$ -	\$ 44,940,746	\$ 30,219,582	\$ 44,940,746	\$ 30,219,582

The Town of Front Royal's total debt increased by \$14,721,164 (48.7 percent) during the current fiscal year. The majority of the debt is \$36,173,152 in general obligation bonds in the Sewer Fund. The reason for the increase is the issuance of new debt for the waste water treatment plant improvement.

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



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

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

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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 \$117,563,708 which is significantly in excess of the Town's outstanding general obligation debt.

Additional information on the Town of Front Royal's long-term debt can be found in note IV. G. on pages 47 – 49 of this report.

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

- The unemployment rate for the Town of Front Royal is currently 3.8 percent, which is the same as the prior year.
- This compares to the state's average unemployment rate of 3.8 percent and favorably to the national average rate of 4.3 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 2017 fiscal year.

During the current fiscal year, unassigned fund balance in the general fund was \$8,127,236. Town of Front Royal has not appropriated any of this amount for spending in the 2018 fiscal year budget. It is available to offset the need for additional resources to be generated by the general fund.

#### **Requests for Information**

This report is designed to provide a general overview of the Town of Front Royal's finances for all those with an interest in the government's financial operations. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Office of the Director of Finance, 102 East Main Street, P.O. Box 1560, Front Royal, Virginia 22630-1560.

**TOWN OF FRONT ROYAL, VIRGINIA**  
**GOVERNMENT WIDE STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 12,810,653	\$ 9,718,362	\$ 22,529,015
Investments	-	17,563,833	17,563,833
Receivables (net of allowance for uncollectibles, where applicable)			
Delinquent taxes, including penalties	1,823,910	-	1,823,910
Accrued interest	-	-	-
Accounts	-	2,752,116	2,752,116
Other	26,876	104,900	131,776
Internal balances	(1,183,165)	1,183,165	-
Due from other governments	730,613	-	730,613
Inventories and other assets	117,863	1,450,104	1,567,967
Temporarily restricted assets - cash and cash equivalents			
Customer deposits	-	501,084	501,084
Bond funds	-	2,518,120	2,518,120
Capital assets (net of accumulated depreciation)			
Land	1,334,786	1,461,822	2,796,608
Buildings and improvements	7,450,430	68,845,462	76,295,892
Utility distribution systems	-	22,338,173	22,338,173
Vehicles	307,786	628,099	935,885
Machinery and equipment	708,544	603,555	1,312,099
Infrastructure	30,668,362	-	30,668,362
Construction in progress	13,456,686	-	13,456,686
<b>Total Assets</b>	<b>68,253,344</b>	<b>129,668,795</b>	<b>197,922,139</b>
<b>Deferred Outflows of Resources</b>			
Deferred charge on refunded debt	-	514,513	514,513
Deferred pension obligation	1,277,030	678,737	1,955,767
<b>Total Deferred Outflows</b>	<b>1,277,030</b>	<b>1,193,250</b>	<b>2,470,280</b>
<b>Liabilities</b>			
Accounts payable	1,251,149	3,278,493	4,529,642
Accrued interest payable	-	123,171	123,171
Bank advances	-	-	-
Liabilities payable with restricted assets	-	501,084	501,084
Noncurrent liabilities			
Due within one year	776,016	966,417	1,742,433
Due in more than one year	6,882,862	48,906,582	55,789,444
<b>Total Liabilities</b>	<b>8,910,027</b>	<b>53,775,747</b>	<b>62,685,774</b>
<b>Net Position</b>			
Net investment in capital assets	53,926,594	50,846,302	104,772,896
Restricted for:			
Streets and highways	2,776,030	-	2,776,030
Capital outlays	(7,557)	-	(7,557)
Community development	759,644	-	759,644
Unrestricted	3,165,636	26,239,996	29,405,632
<b>Total Net Position</b>	<b>\$ 60,620,347</b>	<b>\$ 77,086,298</b>	<b>\$ 137,706,645</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, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
Governmental activities							
General government	\$ 3,371,036	\$ 82,552	\$ -	\$ 50,891	\$ (3,237,593)	\$ -	\$ (3,237,593)
Public safety	4,626,250	167,355	349,248	-	(4,109,647)	-	(4,109,647)
Engineering and public works	2,971,237	-	1,882,720	7,709,223	6,620,706	-	6,620,706
Planning, zoning, and community development	1,246,737	29,534	-	-	(1,217,203)	-	(1,217,203)
Infrastructure depreciation - unallocated	3,591,054	-	-	-	(3,591,054)	-	(3,591,054)
Total governmental activities	15,806,314	279,441	2,231,968	7,760,114	(5,534,791)	-	(5,534,791)
Business-type activities							
Electric	15,515,533	16,427,093	-	-	-	911,560	911,560
Water	3,444,027	5,405,199	-	-	-	1,961,172	1,961,172
Sewer	4,106,234	7,077,220	-	4,358,919	-	7,329,905	7,329,905
Solid Waste Mangement	837,128	1,099,451	-	-	-	262,323	262,323
Total business-type activities	23,902,922	30,008,963	-	4,358,919	-	10,464,960	10,464,960
Total primary government	\$ 39,709,236	\$ 30,288,404	\$ 2,231,968	\$ 12,119,033	(5,534,791)	10,464,960	4,930,169
General Revenues							
Property taxes					1,935,993	-	1,935,993
Sales taxes					930,123	-	930,123
Business and occupational taxes					735,679	-	735,679
Franchise and bank stock taxes					286,165	-	286,165
Communication taxes					160,990	-	160,990
Consumer taxes					225,029	-	225,029
Meals and lodging taxes					1,926,177	-	1,926,177
Virginia personal property tax reduction					287,000	-	287,000
Payment in lieu of taxes					516,858	-	516,858
Motor vehicle tax					365,261	-	365,261
Other general taxes					90,552	-	90,552
Unrestricted investment earnings					33,784	62,459	96,243
Asset sales and insurance recoveries					-	265,348	265,348
Transfers					3,422,500	(3,422,500)	-
Total general revenues and transfers					10,916,111	(3,094,693)	7,821,418
Change in net position					5,381,320	7,370,267	12,751,587
Net position - beginning					55,239,027	69,716,031	124,955,058
Net position - ending					\$ 60,620,347	\$ 77,086,298	\$ 137,706,645

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

**TOWN OF FRONT ROYAL, VIRGINIA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2017**

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 12,410,549	\$ 400,104	\$ 12,810,653
Receivables (net of allowance for uncollectibles, where applicable)			
Delinquent taxes, including penalties	1,823,910	-	1,823,910
Other	26,876	-	26,876
Due from other governments	730,613	-	730,613
Interfund advances	49,915	4,500	54,415
Inventories and other assets	117,863	-	117,863
<b>Total Assets</b>	<b>\$ 15,159,726</b>	<b>\$ 404,604</b>	<b>\$ 15,564,330</b>
<b>Liabilities, Deferred Inflows and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 889,727	\$ -	\$ 889,727
Accrued liabilities	361,422	-	361,422
Interfund advances	1,090,634	146,946	1,237,580
<b>Total Liabilities</b>	<b>2,341,783</b>	<b>146,946</b>	<b>2,488,729</b>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue	1,796,815	-	1,796,815
<b>Fund balances</b>			
Nonspendable:			
Inventory	5,148	-	5,148
Prepaid items	112,714	-	112,714
Restricted for:			
Streets and highways	2,776,030	-	2,776,030
Capital outlays	-	(7,557)	(7,557)
Community development	-	759,644	759,644
Assigned for:			
Capital projects	-	-	-
Expenditures designated for future years	-	-	-
Unassigned	8,127,236	(494,429)	7,632,807
<b>Total Fund Balances</b>	<b>11,021,128</b>	<b>257,658</b>	<b>11,278,786</b>
<b>Total Liabilities, Deferred Inflows and Fund Balances</b>	<b>\$ 15,159,726</b>	<b>\$ 404,604</b>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	53,926,594
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,796,815
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(2,021,348)
Pension obligation and funding requirement reporting is not due in the current period and, therefore, not reported in the funds.	(4,360,500)
Net position of governmental activities	<u>\$ 60,620,347</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, 2017**

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>			
Taxes			
Property	\$ 1,290,688	\$ 570,252	\$ 1,860,940
Sales	930,123	-	930,123
Business and occupational	735,679	-	735,679
Franchise	48,750	-	48,750
Consumer	225,029	-	225,029
Vehicle taxes	365,261	-	365,261
Bank stock	237,415	-	237,415
Meals and lodging	1,926,177	-	1,926,177
Payment in lieu of taxes	516,858	-	516,858
Permits, fees, and licenses	29,534	-	29,534
Fines and forfeitures	160,643	-	160,643
Revenues from use of money & property	33,784	-	33,784
Charges for services	41,280	-	41,280
Miscellaneous	41,272	-	41,272
Recovered costs	-	6,712	6,712
Intergovernmental	10,530,624	-	10,530,624
Total revenues	<u>17,113,117</u>	<u>576,964</u>	<u>17,690,081</u>
<b>Expenditures</b>			
General government			
Legislative	252,619	-	252,619
Executive	1,999,411	-	1,999,411
Legal	333,082	-	333,082
Finance	713,821	-	713,821
Public safety - Police	4,530,636	21,361	4,551,997
Planning, zoning, and community development	440,887	749,342	1,190,229
Engineering and public works	11,042,304	-	11,042,304
Nondepartmental	553,160	-	553,160
Total expenditures	<u>19,865,920</u>	<u>770,703</u>	<u>20,636,623</u>
Deficiency of revenues under expenditures	<u>(2,752,803)</u>	<u>(193,739)</u>	<u>(2,946,542)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	3,422,500	-	3,422,500
Transfers (out)	-	-	-
Total other financing sources and uses	<u>3,422,500</u>	<u>-</u>	<u>3,422,500</u>
<b>Net change in fund balances</b>	<u>669,697</u>	<u>(193,739)</u>	<u>475,958</u>
<b>Fund balances - beginning</b>	<u>10,351,431</u>	<u>451,397</u>	<u>10,802,828</u>
<b>Fund balances - ending</b>	<u>\$ 11,021,128</u>	<u>\$ 257,658</u>	<u>\$ 11,278,786</u>

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

**TOWN OF FRONT ROYAL, VIRGINIA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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

Net change in fund balances - total governmental funds	\$ 475,958
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 capital outlays exceeded depreciation in the current period.	4,838,052
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds and reported as deferred inflows.	75,053
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as current year expenditures in governmental funds.	(166,395)
Pension obligation is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources. Therefore, pension obligation and certain funding obligations are not reported in the funds.	<u>158,652</u>
Change in net position of governmental activities	<u><u>\$ 5,381,320</u></u>

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

**TOWN OF FRONT ROYAL, VIRGINIA**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Positive (Negative)</b>
<b>Revenues</b>				
General property taxes	\$ 1,333,230	\$ 1,333,230	\$ 1,290,688	\$ (42,542)
Other local taxes	4,760,500	4,791,937	4,985,292	193,355
Permits, fees, and licenses	33,000	33,000	29,534	(3,466)
Fines and forfeitures	200,000	200,000	160,643	(39,357)
Revenues from use of money & property	80,250	80,250	33,784	(46,466)
Charges for services	44,500	44,500	41,280	(3,220)
Miscellaneous	49,395	55,890	41,272	(14,618)
Intergovernmental	2,944,350	2,990,472	10,530,624	7,540,152
<b>Total revenues</b>	<b>9,445,225</b>	<b>9,529,279</b>	<b>17,113,117</b>	<b>7,583,838</b>
<b>Expenditures</b>				
General government				
Legislative	302,715	393,176	252,619	140,557
Executive	2,164,875	2,353,765	1,999,411	354,354
Legal	370,630	373,065	333,082	39,983
Finance	794,000	803,800	713,821	89,979
Total general government	3,632,220	3,923,806	3,298,933	624,873
Public safety - police	4,874,045	4,876,372	4,530,636	345,736
Planning and zoning	470,190	592,658	440,887	151,771
Public works and engineering	3,121,070	13,073,904	11,042,304	2,031,600
Non-departmental	620,200	661,675	553,160	108,515
<b>Total expenditures</b>	<b>12,717,725</b>	<b>23,128,415</b>	<b>19,865,920</b>	<b>3,262,495</b>
<b>Deficiency of revenues under expenditures</b>	<b>(3,272,500)</b>	<b>(13,599,136)</b>	<b>(2,752,803)</b>	<b>10,846,333</b>
<b>Other Financing Sources</b>				
Transfers in	3,422,500	3,422,500	3,422,500	-
Transfers out	-	-	-	-
Bond proceeds	-	231,784	-	(231,784)
	<b>3,422,500</b>	<b>3,654,284</b>	<b>3,422,500</b>	<b>(231,784)</b>
<b>Net change in fund balances</b>	<b>150,000</b>	<b>(9,944,852)</b>	<b>669,697</b>	<b>10,614,549</b>
<b>Fund balances - beginning</b>	<b>10,351,431</b>	<b>10,351,431</b>	<b>10,351,431</b>	<b>-</b>
<b>Fund balances - ending</b>	<b>\$ 10,501,431</b>	<b>\$ 406,579</b>	<b>\$ 11,021,128</b>	<b>\$ 10,614,549</b>

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

**TOWN OF FRONT ROYAL, VIRGINIA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2017**

	Business-type Activities - Enterprise Funds			
	Electric Current Year	Electric Prior Year	Water Current Year	Water Prior Year
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 545,299	\$ 1,988,993	\$ 3,543,317	\$ 961,679
Investments	3,710,062	3,364,672	4,190,276	3,170,328
Due from other funds	820,663	970,663	877,859	738,324
Accounts receivable (net of allowance for uncollectibles)	1,605,540	1,656,191	490,713	535,779
Other receivables	86,012	58,578	3,000	5,445
Inventories	1,050,319	969,019	200,082	142,681
Total current assets	<u>7,817,895</u>	<u>9,008,116</u>	<u>9,305,247</u>	<u>5,554,236</u>
Noncurrent assets				
Restricted cash and cash equivalents				
Customer deposits	465,509	424,432	35,575	25,165
Bond funds	-	-	-	3,016,627
	<u>465,509</u>	<u>424,432</u>	<u>35,575</u>	<u>3,041,792</u>
Capital assets				
Land, buildings and structures	8,327,189	7,768,768	17,606,506	17,385,950
Utility distribution systems	9,733,413	9,166,159	22,214,829	22,064,192
Vehicles	1,546,457	1,314,969	365,270	439,431
Equipment	1,077,308	1,061,108	858,200	788,998
Less accumulated depreciation	(8,869,234)	(8,371,786)	(16,324,381)	(15,554,225)
Total capital assets (net of accumulated depreciation)	<u>11,815,133</u>	<u>10,939,218</u>	<u>24,720,424</u>	<u>25,124,346</u>
Total noncurrent assets	<u>12,280,642</u>	<u>11,363,650</u>	<u>24,755,999</u>	<u>28,166,138</u>
<b>Total Assets</b>	<u>20,098,537</u>	<u>20,371,766</u>	<u>34,061,246</u>	<u>33,720,374</u>
<b>Deferred Outflows of Resources</b>				
Deferred charge on refunded debt	-	-	514,513	562,006
Deferred pension obligation	198,858	93,869	196,888	95,361
<b>Total Deferred Outflows</b>	<u>198,858</u>	<u>93,869</u>	<u>711,401</u>	<u>657,367</u>
<b>Liabilities</b>				
Current liabilities				
Accounts payable	1,732,874	1,668,300	37,594	53,139
Accrued interest payable	-	-	93,454	104,842
Bank advances	-	-	-	-
Compensated absences - current	59,892	55,663	75,853	70,510
General obligation bonds - current	-	-	565,000	580,000
Total current liabilities	<u>1,792,766</u>	<u>1,723,963</u>	<u>771,901</u>	<u>808,491</u>
Noncurrent liabilities				
Customer deposits payable	465,509	424,432	35,575	25,165
Compensated absences	59,891	55,662	75,853	70,509
OPEB liability	163,043	144,112	169,542	149,857
General obligation bonds payable	-	-	9,072,170	9,677,589
Unfunded pension liability	877,870	692,191	869,174	703,187
Total noncurrent liabilities	<u>1,566,313</u>	<u>1,316,397</u>	<u>10,222,314</u>	<u>10,626,307</u>
<b>Total Liabilities</b>	<u>3,359,079</u>	<u>3,040,360</u>	<u>10,994,215</u>	<u>11,434,798</u>
<b>Deferred Inflows of Resources</b>				
Deferred pension inflow	-	75,391	-	76,589
<b>Net Position</b>				
Net investment in capital assets	11,815,133	10,939,218	15,597,767	18,168,763
Unrestricted	5,123,183	6,410,666	8,180,665	4,697,591
<b>Total Net Position</b>	<u>\$ 16,938,316</u>	<u>\$ 17,349,884</u>	<u>\$ 23,778,432</u>	<u>\$ 22,866,354</u>

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

(Continued)



**TOWN OF FRONT ROYAL, VIRGINIA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2017**

	Business-type Activities - Enterprise Funds				
	Sewer Current Year	Sewer Prior Year	Solid Waste Management Current Year	Solid Waste Management Prior Year	Totals Current Year
<b>Assets</b>					
Current assets					
Cash and cash equivalents	\$ 5,294,985	\$ 4,807,623	\$ 334,761	\$ -	\$ 9,718,362
Investments	9,663,495	7,040,280	-	-	17,563,833
Due from other funds	(357,640)	(357,640)	(157,717)	(18,182)	1,183,165
Accounts receivable (net of allowance for uncollectibles)	545,210	611,037	110,653	112,567	2,752,116
Other receivables	15,800	10,267	88	88	104,900
Inventories	199,703	139,273	-	-	1,450,104
Total current assets	15,361,553	12,250,840	287,785	94,473	32,772,480
Noncurrent assets					
Restricted cash and cash equivalents					
Customer deposits	-	-	-	-	501,084
Bond funds	2,518,120	2,508,981	-	-	2,518,120
	2,518,120	2,508,981	-	-	3,019,204
Capital assets					
Land, buildings and structures	53,421,601	35,917,492	34,160	34,160	79,389,456
Utility distribution systems	22,733,611	22,706,951	-	-	54,681,853
Vehicles	740,994	880,112	1,198,761	1,022,826	3,851,482
Equipment	1,481,517	1,389,976	639,227	615,242	4,056,252
Less accumulated depreciation	(21,272,365)	(19,919,520)	(1,635,952)	(1,625,552)	(48,101,932)
Total capital assets (net of accumulated depreciation)	57,105,358	40,975,011	236,196	46,676	93,877,111
Total noncurrent assets	59,623,478	43,483,992	236,196	46,676	96,896,315
<b>Total Assets</b>	<b>74,985,031</b>	<b>55,734,832</b>	<b>523,981</b>	<b>141,149</b>	<b>129,668,795</b>
<b>Deferred Outflows of Resources</b>					
Deferred charge on refunded debt	-	-	-	-	514,513
Deferred pension obligation	179,371	86,367	103,620	53,879	678,737
<b>Total Deferred Outflows</b>	<b>179,371</b>	<b>86,367</b>	<b>103,620</b>	<b>53,879</b>	<b>1,193,250</b>
<b>Liabilities</b>					
Current liabilities					
Accounts payable	1,466,213	3,892,041	41,812	5,429	3,278,493
Accrued interest payable	29,717	31,452	-	-	123,171
Bank advances	-	-	-	98,711	-
Compensated absences - current	75,098	71,148	20,574	22,191	231,417
General obligation bonds - current	130,000	125,000	-	-	695,000
Total current liabilities	1,701,028	4,119,641	62,386	126,331	4,328,081
Noncurrent liabilities					
Customer deposits payable	-	-	-	-	501,084
Compensated absences	75,098	71,147	20,574	22,191	231,416
OPEB liability	149,858	132,458	121,075	107,017	603,518
General obligation bonds payable	36,043,152	20,790,838	-	-	45,115,322
Unfunded pension liability	791,844	636,872	457,438	397,300	2,996,326
Total noncurrent liabilities	37,059,952	21,631,315	599,087	526,508	49,447,666
<b>Total Liabilities</b>	<b>38,760,980</b>	<b>25,750,956</b>	<b>661,473</b>	<b>652,839</b>	<b>53,775,747</b>
<b>Deferred Inflows of Resources</b>					
Deferred pension inflow	-	69,366	-	43,273	-
<b>Net Position</b>					
Net investment in capital assets	23,197,206	22,324,173	236,196	46,676	50,846,302
Unrestricted	13,206,216	7,676,704	(270,068)	(547,760)	26,239,996
<b>Total Net Position</b>	<b>\$ 36,403,422</b>	<b>\$ 30,000,877</b>	<b>\$ (33,872)</b>	<b>\$ (501,084)</b>	<b>\$ 77,086,298</b>

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

**TOWN OF FRONT ROYAL, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<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	\$ 16,185,420	\$ 16,548,133	\$ -	\$ -
Water and sewer sales	-	-	4,656,308	4,364,848
Installation and connection charges	203,220	156,034	650,001	622,534
Refuse service fees	-	-	-	-
Miscellaneous revenues	38,453	146,177	-	12,715
Total operating revenues	<u>16,427,093</u>	<u>16,850,344</u>	<u>5,306,309</u>	<u>5,000,097</u>
<b>Operating expenses</b>				
Personal service	1,147,038	1,151,557	1,262,047	1,255,248
Contractual service	78,414	55,154	152,819	150,392
Electric power	14,004,049	13,396,441	-	-
Depreciation	497,447	443,852	867,446	828,439
Other charges	432,924	679,248	968,511	853,056
Operating expenses capitalized	(648,553)	(141,364)	(150,637)	(165,434)
Total operating expenses	<u>15,511,319</u>	<u>15,584,888</u>	<u>3,100,186</u>	<u>2,921,701</u>
Operating income	<u>915,774</u>	<u>1,265,456</u>	<u>2,206,123</u>	<u>2,078,396</u>
<b>Nonoperating revenues (expenses)</b>				
Investment earnings	(5,039)	64,607	17,530	62,286
Interest expense	(4,214)	(4,530)	(343,841)	(375,745)
Lease income	-	-	98,890	134,076
Insurance recoveries	-	-	-	-
Donations	-	38,600	-	-
Services revaluation	-	(280,000)	-	(307,094)
Gain on sale of capital assets	181,911	-	9,161	-
Total nonoperating revenue (expenses)	<u>172,658</u>	<u>(181,323)</u>	<u>(218,260)</u>	<u>(486,477)</u>
Income before contributions and transfers	1,088,432	1,084,133	1,987,863	1,591,919
<b>Transfers and contributions</b>				
Capital grants	-	-	-	-
Transfers in (out)	<u>(1,500,000)</u>	<u>(1,470,000)</u>	<u>(1,075,785)</u>	<u>(840,000)</u>
Change in net position	(411,568)	(385,867)	912,078	751,919
Total net position - beginning of year	<u>17,349,884</u>	<u>17,735,751</u>	<u>22,866,354</u>	<u>22,114,435</u>
Total net position - end of year	<u>\$ 16,938,316</u>	<u>\$ 17,349,884</u>	<u>\$ 23,778,432</u>	<u>\$ 22,866,354</u>

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

(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	Business-type Activities - Enterprise Funds				
	Sewer Current Year	Sewer Prior Year	Solid Waste Managment Current Year	Solid Waste Managment Prior Year	Totals Current Year
<b>Operating revenues</b>					
Charges for sales and services					
Electric sales	\$ -	\$ -	\$ -	\$ -	\$ 16,185,420
Water and sewer sales	5,726,845	5,403,568	-	-	10,383,153
Installation and connection charges	1,337,650	1,312,791	-	-	2,190,871
Refuse service fees	-	-	1,099,451	1,003,608	1,099,451
Miscellaneous revenues	12,725	2,705	-	685	51,178
Total operating revenues	<u>7,077,220</u>	<u>6,719,064</u>	<u>1,099,451</u>	<u>1,004,293</u>	<u>29,910,073</u>
<b>Operating expenses</b>					
Personal service	1,090,881	1,044,400	596,706	638,405	4,096,672
Contractual service	387,568	428,239	45,741	2,011	664,542
Electric power	-	-	-	-	14,004,049
Depreciation	1,515,092	908,326	10,401	10,401	2,890,386
Other charges	1,052,985	1,019,211	184,280	213,968	2,638,700
Operating expenses capitalized	(26,659)	(30,191)	-	-	(825,849)
Total operating expenses	<u>4,019,867</u>	<u>3,369,985</u>	<u>837,128</u>	<u>864,785</u>	<u>23,468,500</u>
Operating income	<u>3,057,353</u>	<u>3,349,079</u>	<u>262,323</u>	<u>139,508</u>	<u>6,441,573</u>
<b>Nonoperating revenues (expenses)</b>					
Investment earnings	14,729	52,145	35,239	15,277	62,459
Interest expense	(86,367)	(90,250)	-	-	(434,422)
Lease income	-	-	-	-	98,890
Insurance recoveries	-	-	60,534	-	60,534
Donations	-	-	-	-	-
Services revaluation	-	(123,875)	-	-	-
Gain on sale of capital assets	9,161	-	4,581	-	204,814
Total nonoperating revenues (expenses)	<u>(62,477)</u>	<u>(161,980)</u>	<u>100,354</u>	<u>15,277</u>	<u>(7,725)</u>
Income before contributions and transfers	<u>2,994,876</u>	<u>3,187,099</u>	<u>362,677</u>	<u>154,785</u>	<u>6,433,848</u>
<b>Transfers and contributions</b>					
Capital grants	4,358,919	5,342,745	-	-	4,358,919
Transfers in (out)	(951,250)	(850,000)	104,535	(33,645)	(3,422,500)
Change in net position	<u>6,402,545</u>	<u>7,679,844</u>	<u>467,212</u>	<u>121,140</u>	<u>7,370,267</u>
Total net position - beginning of year	<u>30,000,877</u>	<u>22,321,033</u>	<u>(501,084)</u>	<u>(622,224)</u>	<u>69,716,031</u>
Total net position - end of year	<u>\$ 36,403,422</u>	<u>\$ 30,000,877</u>	<u>\$ (33,872)</u>	<u>\$ (501,084)</u>	<u>\$ 77,086,298</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, 2017**

	Business-type Activities - Enterprise Funds				
	Electric	Water	Sewer	Solid Waste Management	Totals
<b>Cash Flows from Operating Activities</b>					
Receipts from customers and users	\$ 16,450,310	\$ 5,353,820	\$ 7,137,514	\$ 1,101,365	\$ 30,043,009
Payments to suppliers	(13,818,253)	(1,025,673)	(3,890,150)	(212,456)	(18,946,532)
Payments to employees	(1,138,580)	(1,251,360)	(1,082,980)	(599,940)	(4,072,860)
Net cash provided by operating activities	1,493,477	3,076,787	2,164,384	288,969	7,023,617
<b>Cash Flows from Noncapital Financing Activities</b>					
Transfers to other funds	(1,500,000)	(1,075,785)	(951,250)	104,535	(3,422,500)
Lease income	-	98,890	-	-	98,890
Interfund (advances)/repayments	150,000	(139,535)	-	139,535	150,000
Net cash used in noncapital financing activities	(1,350,000)	(1,116,430)	(951,250)	244,070	(3,173,610)
<b>Cash Flows from Capital and Related Financing Activities</b>					
Acquisition/construction of capital assets	(1,400,362)	(463,524)	(17,645,439)	(199,921)	(19,709,246)
Proceeds on capital asset sales	208,911	9,161	9,161	4,581	231,814
Insurance recoveries	-	-	-	60,534	60,534
Principal paid on capital debt	-	(540,000)	(125,000)	-	(665,000)
Proceeds on debt issued	-	-	15,386,164	-	15,386,164
Grants received	-	-	4,358,919	-	4,358,919
Interest paid	(4,214)	(388,155)	(91,952)	-	(484,321)
Net cash provided by (used in) capital and related financing activities	(1,195,665)	(1,382,518)	1,891,853	(134,806)	(821,136)
<b>Cash Flows from Investing Activities</b>					
Sales (purchases) of investments	(345,390)	(1,019,948)	(2,623,215)	-	(3,988,553)
Interest and dividends received	(5,039)	17,530	14,729	35,239	62,459
Net cash provided by (used in) investing activities	(350,429)	(1,002,418)	(2,608,486)	35,239	(3,926,094)
Net increase (decrease) in cash and cash eq.	(1,402,617)	(424,579)	496,501	433,472	(897,223)
Cash and cash equivalents July 1, 2016	2,413,425	4,003,471	7,316,604	(98,711)	13,634,789
Cash and cash equivalents June 30, 2017	<u>\$ 1,010,808</u>	<u>\$ 3,578,892</u>	<u>\$ 7,813,105</u>	<u>\$ 334,761</u>	<u>\$ 12,737,566</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>					
Operating income	\$ 915,774	\$ 2,206,123	\$ 3,057,353	\$ 262,323	\$ 6,441,573
Adjustments to reconcile operating income to net cash provided by (used in) operating activities					
Depreciation expense	497,447	867,446	1,515,092	10,401	2,890,386
(Increase) decrease in:					
Accounts receivable	50,651	45,066	65,827	1,914	163,458
Other receivables	(27,434)	2,445	(5,533)	-	(30,522)
Inventories	(81,300)	(57,401)	(60,430)	-	(199,131)
Deferred pension	(104,989)	(101,527)	(93,004)	(49,741)	(349,261)
Increase (decrease) in:					
Customer deposits	41,077	10,410	-	-	51,487
Accounts payable	64,574	(15,545)	(2,425,828)	36,383	(2,340,416)
OPEB liability	18,931	19,685	17,400	14,058	70,074
Compensated absences	8,458	10,687	7,901	(3,234)	23,812
Pension liability	185,679	165,987	154,972	60,138	566,776
Deferred pension	(75,391)	(76,589)	(69,366)	(43,273)	(264,619)
Total adjustments	577,703	870,664	(892,969)	26,646	582,044
Net cash provided by (used in) operating activities	<u>\$ 1,493,477</u>	<u>\$ 3,076,787</u>	<u>\$ 2,164,384</u>	<u>\$ 288,969</u>	<u>\$ 7,023,617</u>
<b>Noncash investing, capital, and financing activities</b>					
Capital assets contributed by developers	\$ -	\$ -	\$ 4,358,919	\$ -	\$ 4,358,919

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

##### A. Reporting Entity

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

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

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

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

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

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

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 45 days after year end are reflected as deferred revenues. Sales, which are collected by the state and subsequently remitted to the County, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the County. Utility taxes are collected by the utilities and remitted directly to the Town.

Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

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

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

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

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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

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

The government reports the following major proprietary funds:

The *water and sewer funds* account for the activities of the Town's water and sewer operations.

The *electric fund* accounts for the activities of the Town's electric production and distribution operations.

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

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

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

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

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

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

### **NOTES TO FINANCIAL STATEMENTS**

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

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

###### **1. Deposits and Investments**

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, short-term investments with original maturities of three months or less from the date of acquisition, government securities backed mutual funds and marketable certificates of deposit.

Investments for the government are reported at fair value. The State Treasurer's Local Government Investment Pool (LGIP) and Virginia SNAP bond fund deposits operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

###### **2. Receivables and Payables**

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

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

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

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

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

###### **3. Inventories and Other Assets**

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



TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

4. Restricted Assets

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

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

5. Use of Estimates

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

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. The Town has adopted GASB Statement No. 51, *Accounting for Financial Reporting for Intangible Assets*. This statement requires all identifiable intangible assets not excluded by its scope provisions be classified as capital assets.

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

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

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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

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

###### 7. Compensated Absences

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

###### 8. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts 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 expensed as incurred.

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

###### 9. Other Postemployment Benefits

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

###### 10. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town of Front Royal has two items that qualify for reporting in this category: (1) Deferred charge on refunding debt reported in the proprietary funds financial statement of net position and government wide financial statement of net position. A deferred charge on refunded debt results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt; and, (2) Deferred pension obligation reporting in the proprietary funds financial statement of net position and in the governmental and business-type activities in the government wide financial statement of net position. A deferred charge pension obligation results from advance payments on the pension funding prior to the actuarial report establishing the funding requirement.

## 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 Position or Fund Balance (Continued)

###### 10. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of net position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town of Front Royal has two items which qualify for reporting in this category: (1) Under modified accrual basis of accounting under the governmental funds, unavailable revenue, is reported in the governmental funds balance sheet. The governmental funds report unavailable revenues from real estate taxes. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available; and, (2) Deferred pension inflow reported in the proprietary funds financial statement of net position and in the governmental and business-type activities in the government wide financial statement of net position. The deferred pension inflow results from the net difference between projected and actual earnings on plan investments.

###### 11. Fund Balance

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

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

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

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

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

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

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

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

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

### **NOTES TO FINANCIAL STATEMENTS**

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

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

###### **11. Fund Balance (Continued)**

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

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of resources are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year-end are reported as reservations in the appropriate category of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. General fund encumbrances totaling approximately \$19,105,703 have been classified as assigned under fund balance.

###### **12. Net Position**

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The caption net position “net invested in capital assets” consists of capital assets, net of accumulated depreciation, reduced by any borrowings used for the acquisition, construction or improvement of those assets. Net investment in capital assets also includes an adjustment for deferred outflows or inflows related to gains or losses associated with debt issuances or refundings. Net investment in capital assets excludes unspent bond proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors or laws and regulations of other governments.

The Town first applies restricted resources when an expense is incurred for purposes which both restricted and unrestricted net assets are available.

###### **13. Comparative Data**

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds.

##### **E. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Town’s Retirement Plan and the additions to/deductions from the Town’s Retirement Plan’s net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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

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

The governmental fund balance sheet includes reconciliation between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$2,021,348 are as follows:

Description	Amount
Compensated absences	\$ 776,016
OPEB liability	1,245,332
Net adjustment to reduce <i>fund balance - total governmental</i>	<u>\$ 2,021,348</u>

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

The governmental statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of the \$4,838,052 difference is as follows:

Description	Amount
Capital outlay	\$ 8,945,400
Depreciation expense	(4,107,348)
Net adjustment to decrease <i>net changes in fund balances -total governmental</i>	<u>\$ 4,838,052</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.

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

##### A. Budgetary Information (Continued)

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 \$10,410,690.

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, 2017, there were no general fund departments where expenditures exceeded appropriations.

##### C. Deficit Fund Balance

At June 30, 2017 Special Revenue Funds which had a deficit fund balance are noted below:

Fund	Deficit Fund Balance
Economic Development	\$ 494,429
Asset Forfeitures	(7,557)

#### IV. DETAILED NOTES ON ALL FUNDS

##### A. Deposits and Investments

###### Deposits

As of June 30, 2017 the carrying amount of the Town's deposits with bank and savings institutions was \$2,555,382 and the bank balance was \$2,771,291.

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 (CONTINUED)

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

###### Investments

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

*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

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#### 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; 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, 2017, 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, 2017, the government had the following investments:

Investment Type	Fair Value	Maturity	
		1 Year	Over 1 Year
Marketable CDs	\$ 4,045,121	\$ 300,068	\$ 3,745,053
Governmental securities	14,702,990	1,160,634	13,542,356
Governmental securities mutual funds	3,583,236	3,583,236	-
Secure term annuity	3,183,003	3,183,003	-
Local government investment pool (LGIP)	2,971,153	2,971,153	-
Banking account sweep investment	12,069,559	12,069,559	-
Total	\$ 40,555,062	\$ 23,267,653	\$ 17,287,409



## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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

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

###### Investments (Continued)

A reconciliation of cash on hand, bank deposits and investments is as follows:

Footnote Classification	Combined Balance Sheet Classifications		
	Total	Cash and Equivalents	Investments
Petty Cash	\$ 1,608	\$ 1,608	\$ -
Bank Deposits	2,555,382	2,555,382	-
Investments	40,555,062	22,991,230	17,563,832
Total	<u>\$ 43,112,052</u>	<u>\$ 25,548,220</u>	<u>\$ 17,563,832</u>

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Town has the following recurring fair value measurements as of June 30, 2017:

- Marketable CDs, governmental securities and governmental securities mutual funds are valued using quoted market prices (Level 1 inputs)
- Secured term annuity and banking accounting sweep investment are stated at contract value (Level 2 inputs)
- VA SNAP program investment pool and LGIP are excluded from the fair value hierarchy.

##### B. Estimated Unbilled Revenue

Proprietary fund types estimate and record utility services rendered but not yet billed at June 30, 2017. 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, 2017, unbilled service recorded was \$1,376,689.

# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

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

#### 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	\$1,823,910	\$ -	\$ -	\$ -	\$ -	\$ -	\$1,823,910
Accounts	-	1,605,901	317,999	381,028	127,978	-	2,432,906
Interest	-	-	-	-	-	-	-
Intergovernmental	730,613	-	-	-	-	-	730,613
Unbilled	-	756,134	277,806	293,915	48,834	-	1,376,689
Other	26,876	110,941	3,000	18,827	88	-	159,732
Less: allowance	-	(781,424)	(105,092)	(132,760)	(66,159)	-	(1,085,435)
Net receivables	\$2,581,399	\$ 1,691,552	\$ 493,713	\$ 561,010	\$ 110,741	\$ -	\$5,438,415

Governmental funds reported deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

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

Fund/Type	Unavailable	Unearned
General Fund - Property Taxes	\$ 1,796,815	\$ -
Special Revenue Fund - Property Taxes	-	-
	<u>\$ 1,796,815</u>	<u>\$ -</u>

#### D. Due from Other Governments

At June 30, 2017 amounts due from other governments were as follows:

Description/Payer	General
Commonwealth of Virginia	
2017 Personal Property Tax Relief Act	\$ 287,000
Communications Tax	14,365
VDOT - Street project	178,870
Warren County, Virginia	
Sales Tax	71,508
Street project	178,870
	<u>\$ 730,613</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, 2017 was as follows:

##### Primary Government

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not depreciated				
Land	\$ 1,334,786	\$ -	\$ -	\$ 1,334,786
Construction in progress	5,249,748	8,206,938	-	13,456,686
	<u>6,584,534</u>	<u>8,206,938</u>	<u>-</u>	<u>14,791,472</u>
Capital assets being depreciated				
Buildings and improvements	9,343,742	422,777	-	9,766,519
Vehicles	2,016,228	133,807	(260,804)	1,889,231
Equipment	3,857,224	181,878	-	4,039,102
Infrastructure	109,527,139	-	-	109,527,139
Total	<u>124,744,333</u>	<u>738,462</u>	<u>(260,804)</u>	<u>125,221,991</u>
Less accumulated depreciation for				
Buildings and improvements	(2,080,512)	(235,577)	-	(2,316,089)
Vehicles	(1,722,034)	(120,215)	260,804	(1,581,445)
Equipment	(3,170,056)	(160,502)	-	(3,330,558)
Infrastructure	(75,267,723)	(3,591,054)	-	(78,858,777)
Total	<u>(82,240,325)</u>	<u>(4,107,348)</u>	<u>260,804</u>	<u>(86,086,869)</u>
Net capital assets being depreciated	<u>42,504,008</u>	<u>(3,368,886)</u>	<u>-</u>	<u>39,135,122</u>
Governmental capital assets, net	<u>\$ 49,088,542</u>	<u>\$ 4,838,052</u>	<u>\$ -</u>	<u>\$ 53,926,594</u>

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

<b>Activity</b>	<b>Depreciation</b>
Governmental activities:	
General government	\$ 84,806
Public safety	117,020
Public works	283,869
Planning, zoning, and community development	30,599
Infrastructure depreciation	<u>3,591,054</u>
Total depreciation expense - governmental activities	<u>\$ 4,107,348</u>

**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>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets not being depreciated				
Land	\$ 1,488,822	\$ -	\$ (27,000)	\$ 1,461,822
Construction in process	-	-	-	-
	<u>1,488,822</u>	<u>-</u>	<u>(27,000)</u>	<u>1,461,822</u>
Capital assets being depreciated				
Buildings and improvements	59,617,548	18,310,086	-	77,927,634
Utility distribution systems	53,937,302	744,551	-	54,681,853
Vehicles	3,657,338	194,144	(259,537)	3,851,482
Equipment	3,855,324	200,928	-	4,056,252
Total	<u>121,067,512</u>	<u>19,449,709</u>	<u>(259,537)</u>	<u>140,517,221</u>
Less accumulated depreciation for				
Buildings and improvements	(7,662,972)	(1,419,200)	-	(9,082,172)
Utility distribution systems	(31,264,935)	(1,078,745)	-	(32,343,680)
Vehicles	(3,277,575)	(205,345)	259,537	(3,223,383)
Equipment	(3,265,601)	(187,096)	-	(3,452,697)
Total	<u>(45,471,083)</u>	<u>(2,890,386)</u>	<u>259,537</u>	<u>(48,101,932)</u>
Net capital assets being depreciated	<u>75,596,429</u>	<u>16,559,323</u>	<u>-</u>	<u>92,415,289</u>
Business-type capital assets, net	<u>\$ 77,085,251</u>	<u>\$ 16,559,323</u>	<u>\$ (27,000)</u>	<u>\$ 93,877,111</u>

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

<b>Activity</b>	<b>Depreciation</b>
Business-type activities:	
Electric	\$ 497,447
Water	867,446
Sewer	1,515,092
Solid Waste Management	10,401
Total depreciation expense - business-type activities	<u>\$ 2,890,386</u>

There were no significant intangible asset acquisitions during the fiscal year ended June 30, 2017.

## 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, 2017 is as follows:

Advanced to	From	Amount
General Fund	Electric Fund	\$ 787,734
General Fund	Sewer Fund	102,492
General Fund	Water Fund	200,409
General Fund	Town Facilities Fund	-
Special Projects	Sewer Fund	48,515
Special Projects	Water Fund	48,515
Special Revenue	General Fund	49,915
Sewer Fund	Economic Development Fund	2,250
Sewer Fund	Water Fund	506,397
Water Fund	Economic Development Fund	2,250
Water Fund	Electric Fund	14,747
		<u>\$ 1,763,224</u>

Transfers to the General Fund from the Electric, Water, Sewer and Solid Waste Management Funds are for administrative services performed by the general government. The composition of inter-fund transfers during 2017 is as follows:

Transferred to	From	Amount
General Fund	Electric Fund	\$ 1,500,000
General Fund	Water Fund	1,075,785
General Fund	Sewer Fund	951,250
General Fund	Solid Waste Management Fund	(104,535)
		<u>\$ 3,422,500</u>

##### G. Long-Term Liabilities

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

# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

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

#### G. Long-Term Liabilities (Continued)

General obligation bonds outstanding at June 30, 2017 are as follows:

Description	Amount
\$6,110,000, 2014 series General Obligation Bonds, issued May 21, 2014 due in increasing annual maturities starting with \$15,000 in 2014 and increasing to \$740,000 in 2026, with interest at 3.13% to 4.83%.	\$ 6,085,000
\$10,315,000 2006 series General Obligation Bonds, issued June 8, 2006 due in increasing annual maturities starting with \$330,000 in 2008 and increasing to \$780,000 in 2026, with interest at 3.63% to 4.95%. \$6,325,000 of the outstanding debt was refinanced in May, 2014.	40,000
\$2,835,000, 2014 series General Obligation Bonds, issued May 21, 2014 due in increasing annual maturities starting with \$95,000 in 2015 and increasing to \$200,000 in 2034, with interest at 3.13% to 4.84%.	2,645,000
\$2,735,000, 2010 series Recovery Act Bonds, issued March 15, 2010, due in increasing annual maturities starting with \$115,000 in 2013 and increasing to \$600,000 in 2030, with interest at 2.00% to 6.57%.	2,140,000
\$39,377,600 2014C series General Obligation Bonds, issued December 17, 2014, no state interest payable, 2015 - 2016 draws \$16,944,341, due in semi-annual payments of \$984,440 starting March, 2018.	34,030,746
Total General Obligation Debt	<u>\$ 44,940,746</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
2018	\$ -	\$ -	\$ 735,000	\$ 826,989
2019	-	-	2,738,880	485,575
2020	-	-	2,763,880	451,425
2021			2,793,880	420,174
2022			2,833,880	389,964
2023-2027			14,759,400	1,117,843
2028-2032			11,269,400	261,804
2033-2037	-	-	7,046,426	33,590
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,940,746</u>	<u>\$ 3,987,364</u>

The legal debt limit mandated by the Commonwealth of Virginia is \$117,959,718.

# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

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

#### G. Long-Term Liabilities (Continued)

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

Long-term liability activity for the year ended June 30, 2017 was as follows:

	June 30, 2016	Additions	Retirements	June 30, 2017	One Year
<b>Governmental activities:</b>					
Compensated absences	\$ 747,026	\$ 776,016	\$ (747,026)	\$ 776,016	\$ 776,016
Other post-employment benefits	1,107,927	137,405	-	1,245,332	-
Unfunded pension liability	4,643,099	994,431	-	5,637,530	-
Governmental activity					
Long-term liabilities	\$ 6,498,052	\$ 1,907,852	\$ (747,026)	\$ 7,658,878	\$ 776,016

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

	June 30, 2016	Additions	Retirements	June 30, 2017	One Year
<b>Business-type activities:</b>					
Bonds payable:					
General obligation bonds	\$ 30,219,582	\$15,386,164	\$ (665,000)	\$ 44,940,746	\$ 735,000
Unamortized premium	953,844	-	(84,269)	869,575	-
Compensated absences	439,021	462,833	(439,021)	462,833	231,417
Other post-employment benefits	533,442	132,577	-	603,518	-
Unfunded pension liability	2,429,550	566,776	-	2,996,326	-
Business-type activity					
Long-term liabilities	\$ 34,575,439	\$16,548,350	\$ (1,188,290)	\$ 49,872,998	\$ 966,417

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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

##### G. Long-Term Liabilities (Continued)

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

Individual Fund	Due Within	
	1 Year	Long-term
General	\$ 776,016	\$ -
Electric	\$ 59,892	\$ 59,891
Water	75,853	75,853
Sewer	75,098	75,098
Solid Waste Management	20,574	20,574
	<u>\$ 231,417</u>	<u>\$ 231,416</u>

#### 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 2017 the Town paid premiums of approximately \$195,892 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 2017, the Town paid contributions of approximately \$274,129 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.



## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### V. OTHER INFORMATION (CONTINUED)

##### 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.

**EDA Project Support:** The Front Royal Warren County, Virginia Economic Development Authority (EDA) sponsors and develops commercial activity throughout the Town of Front Royal and Warren County. By agreement and by annual appropriation, the Town and County have agreed to support various economic development projects. During the year ended June 30, 2017 the Town by budget appropriation supported the following EDA projects and intends to continue annual support payments through the project completion:

Project	FYE 6/30/2017 Support	
	Warren Cty.	EDA
Happy Creek Technology Park	\$ -	\$ 6,844
Success Industrial Park	-	10,368
Stephens Industrial Park	-	11,725
Baugh Drive Extension	-	6,532
Leach Run Parkway	215,715	105,921
	<u>\$ 215,715</u>	<u>\$ 141,390</u>

##### E. Post-Employment Benefits Other Than Pensions

**Plan Description:** The Town of Front Royal Virginia retiree health insurance coverage policy extends the benefits to employees hired before July 1, 2015. 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 2017, 23 retirees had a benefit under this policy with a total cost to the Town of \$64,956.

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

# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

### V. OTHER INFORMATION (CONTINUED)

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

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

Component	FYE 6/30/17
Annual required contribution	\$ 275,300
Interest on Net OPEB obligations	50,663
Adjustment to annual required contribution	(53,525)
Annual OPEB cost (expense)	272,438
Contributions made	(64,956)
Increase in net OPEB obligation	207,482
Net unfunded OPEB obligation - Beginning of year	1,641,368
Net unfunded OPEB obligation - End of year	\$ 1,848,850

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation the five years 2013 to 2017 is as follows:

FYE June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 272,438	23.84%	\$ 1,848,850
2016	263,736	21.09%	1,641,369
2015	254,861	17.97%	1,433,263
2014	241,858	15.12%	1,224,197
2013	231,918	15.93%	1,028,133

GASB Statement No. 45 does not require pre-funding of the OPEB liability. The Town has elected not to pre-fund all of the OPEB liability at this time. The Town anticipates continuing to pay the annual actual cash cost requirements. The difference between OPEB annual expense and cash payments for OPEB benefits is treated as a liability in the financial statements when the liability is not pre-funded.

At June 30, 2017 the Town has recorded a liability of \$1,848,850 on the Statement of Net Position for the governmental and business-type activities.

*Funding Status and Funding Progress:* As of June 30, 2014, the most recent actuarial valuation date, the unfunded actuarial accrued liability (UAAL) was \$2,946,300. The covered payroll (annual payroll of active employees covered by the plan) was \$7,404,500, and the ratio of the UAAL to the covered payroll was 39.79%.

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.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

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V. OTHER INFORMATION (CONTINUED)

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

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

*Actuarial Methods and Assumptions:* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. 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, 2014 actuarial valuation methods and assumption are as follows:

Valuation Date:	June 30, 2014
Actuarial Cost Method:	Projected Unit Credit
Amortization Method:	Level Percent of Payroll
Amortization Period:	30 years open periods
Asset Valuation Method:	N/A
Actuarial Assumptions:	
Investment Rate of Return:	3.50%
Healthcare cost trend rate	Getzen Trend Model
Payroll Growth:	3.75% per year

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

# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

### V. OTHER INFORMATION (CONTINUED)

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

##### Schedule of Funding Progress

Actuarial Valuation Date June 30,	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)
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%
2014	-	2,946,300	2,946,300	0%	7,404,500	39.79%

##### Schedule of Employer Contributions

FYE June 30,	Annual Required Contribution	Amount Contributed	Percentage Contributed
2017	\$ 275,300	\$ 64,956	23.59%
2016	266,400	55,631	20.88%
2015	257,300	45,794	18.93%
2014	238,300	36,561	15.34%
2013	228,800	36,945	16.15%

#### F. Defined Benefit Pension Plan

##### **Plan Description**

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

All full-time, salaried permanent employees of the Town are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer are pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria a defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and, Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

<b>Retirement Plan Provisions</b>		
<b>Plan 1</b>	<b>Plan 2</b>	<b>Plan 3</b>
<p><b>About Plan 1</b></p> <p>Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</p> <p>Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p><b>About Plan 2</b></p> <p>Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</p> <p>Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p><b>About the Hybrid Retirement Plan</b></p> <p>The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members")</p> <ul style="list-style-type: none"> <li>• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</li> <li>• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.</li> <li>• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.</li> </ul>

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

<p><b>Eligible Members</b> Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p><b>Eligible Members</b> Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p><b>Eligible Members</b> Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>• Town employees*</li> <li>• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014</li> </ul> <p><b>*Non-Eligible Members</b> Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>• Town employees who are covered by enhanced benefits for hazardous duty employees</li> </ul> <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
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# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

<p><b>Retirement Contributions</b> Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some Towns elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p><b>Retirement Contributions</b> Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some Towns elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</p>	<p><b>Retirement Contributions</b> A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>
<p><b>Creditable Service</b> Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p><b>Creditable Service</b> Same as Plan 1.</p>	<p><b>Creditable Service</b> <b><u>Defined Benefit Component:</u></b> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><b><u>Defined Contributions Component:</u></b> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

<p><b>Vesting</b></p> <p>Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p><b>Vesting</b></p> <p>Same as Plan 1.</p>	<p><b>Vesting</b></p> <p><b><u>Defined Benefit Component:</u></b></p> <p>Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><b><u>Defined Contributions Component:</u></b></p> <p>Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70½.</p>
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# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

<p><b>Calculating the Benefit</b> The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p><b>Calculating the Benefit</b> See definition under Plan 1.</p>	<p><b>Calculating the Benefit</b> <b><u>Defined Benefit Component:</u></b> See definition under Plan 1</p> <p><b><u>Defined Contribution Component:</u></b> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p><b>Average Final Compensation</b> A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p><b>Service Retirement Multiplier</b> <b>VRS:</b> The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p><b>Sheriffs and regional jail superintendents:</b> The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p><b>Town hazardous duty employees:</b> The retirement multiplier of eligible Town hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p><b>Service Retirement Multiplier</b> <b>VRS:</b> Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p><b>Sheriffs and regional jail superintendents:</b> Same as Plan 1.</p> <p><b>Town hazardous duty employees:</b> Same as Plan 1.</p>	<p><b>Service Retirement Multiplier</b> <b><u>Defined Benefit Component:</u></b> <b>VRS:</b> The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p><b>Sheriffs and regional jail superintendents:</b> Not applicable.</p> <p><b>Town hazardous duty employees:</b> Not applicable.</p> <p><b><u>Defined Contribution Component:</u></b> Not applicable.</p>

# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

<p><b>Normal Retirement Age</b>  <b>VRS:</b> Age 65.</p> <p><b>Towns hazardous duty employees:</b>  Age 60.</p>	<p><b>Normal Retirement Age</b>  <b>VRS:</b> Normal Social Security retirement age.</p> <p><b>Towns hazardous duty employees:</b>  Same as Plan 1.</p>	<p><b>Normal Retirement Age</b>  <b>Defined Benefit Component:</b>  <b>VRS:</b> Same as Plan 2.</p> <p><b>Towns hazardous duty employees:</b>  Not applicable.</p> <p><b>Defined Contribution Component:</b>    Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Unreduced Retirement Eligibility</b>  <b>VRS:</b> Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p><b>Towns hazardous duty employees:</b>  Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b>  <b>VRS:</b> Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p><b>Towns hazardous duty employees:</b>  Same as Plan 1.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b>  <b>Defined Benefit Component:</b>  <b>VRS:</b> Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p><b>Towns hazardous duty employees:</b>  Not applicable.</p> <p><b>Defined Contribution Component:</b>    Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Reduced Retirement Eligibility</b>  <b>VRS:</b> Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p><b>Towns hazardous duty employees:</b>  50 with at least five years of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility</b>  <b>VRS:</b> Age 60 with at least five years (60 months) of creditable service.</p> <p><b>Towns hazardous duty employees:</b>  Same as Plan 1.</p>	<p><b>Earliest Reduced Retirement Eligibility</b>  <b>Defined Benefit Component:</b>  <b>VRS:</b> Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p><b>Towns hazardous duty employees:</b>  Not applicable.</p> <p><b>Defined Contribution Component:</b>    Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b></p> <p>The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><b><u>Eligibility:</u></b></p> <p>For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b></p> <p>The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><b><u>Eligibility:</u></b></p> <p>Same as Plan 1</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b></p> <p><b><u>Defined Benefit Component:</u></b></p> <p>Same as Plan 2.</p> <p><b><u>Defined Contribution Component:</u></b></p> <p>Not applicable.</p> <p><b><u>Eligibility:</u></b></p> <p>Same as Plan 1 and Plan 2.</p>
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## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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<b><u>Exceptions to COLA Effective Dates:</u></b> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: <ul style="list-style-type: none"><li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li><li>• The member retires on disability.</li><li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li><li>• The member Is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.</li><li>• The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.</li></ul>	<b><u>Exceptions to COLA Effective Dates:</u></b> Same as Plan 1	<b><u>Exceptions to COLA Effective Dates:</u></b> Same as Plan 1 and Plan 2.
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## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

<p><b>Disability Coverage</b> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p><b>Disability Coverage</b> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><b>Disability Coverage</b> Employees of Towns (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>
<p><b>Purchase of Prior Service</b> Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p><b>Purchase of Prior Service</b> Same as Plan 1.</p>	<p><b>Purchase of Prior Service</b> <b><u>Defined Benefit Component:</u></b> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> <li>• Hybrid Retirement Plan members are ineligible for ported service.</li> <li>• The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.</li> <li>• Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost./ After that on-year period, the rate for most categories of service will change to actuarial cost.</li> </ul> <p><b><u>Defined Contribution Component:</u></b> Not applicable.</p>

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### V. OTHER INFORMATION (CONTINUED)

##### F. Defined Benefit Pension Plan (Continued)

###### Employees Covered by Benefit Terms

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	June 30, 2015 Number
Inactive members or their beneficiaries currently receiving benefits	135
Inactive members:	
Vested inactive members	29
Non-vested inactive members	46
Inactive members active elsewhere in VRS	56
Total inactive members	131
Active members	157
Total covered employees	423

###### Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to towns by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Town's contractually required contribution rate for the year ended June 30, 2017 was 13.49% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the pension plan from the Town were \$947,473 and \$959,136 for the years ended June 30, 2017 and June 30, 2016, respectively.

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

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**V. OTHER INFORMATION (CONTINUED)**

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

**Net Pension Liability**

The Town's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

**Actuarial Assumptions – General Employees**

The total pension liability for General Employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016:

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent - 5.35%
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: 14% of deaths are assumed to be service related

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### V. OTHER INFORMATION (CONTINUED)

##### F. Defined Benefit Pension Plan (Continued)

###### Actuarial Assumptions – General Employees (Continued)

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

###### Actuarial Assumptions – Public Safety Employees

The total pension liability for public safety employees in the Town Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.



## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### V. OTHER INFORMATION (CONTINUED)

##### F. Defined Benefit Pension Plan (Continued)

###### Actuarial Assumptions – Public Safety Employees (Continued)

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent - 4.75 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: 60% of deaths are assumed to be service related

###### Largest 10 – Non-LEOS:

###### Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females were set back 2 years.

###### Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

###### Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

###### All Others (Non 10 Largest) – Non-LEOS:

###### Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females were set back 2 years.

###### Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

###### Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

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

### **NOTES TO FINANCIAL STATEMENTS**

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#### **V. OTHER INFORMATION (CONTINUED)**

##### **F. Defined Benefit Pension Plan (Continued)**

###### **Actuarial Assumptions – Public Safety Employees (Continued)**

The actuarial assumptions used in the June 30, 2105 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2014. Changes to the actuarial assumptions as a result of the experience study are as follows:

###### **Largest 10 – LEOS:**

- Update mortality table
- Decrease in male rates of disability

###### **All Others (Non 10 Largest) – LEOS:**

- Update mortality table
- Adjustments to rates of service retirements for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

### V. OTHER INFORMATION (CONTINUED)

#### F. Defined Benefit Pension Plan (Continued)

##### Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.45%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
		Inflation	2.50%
		* Expected arithmetic normal return	8.33%

\* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

### V. OTHER INFORMATION (CONTINUED)

#### F. Defined Benefit Pension Plan (Continued)

##### Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Town Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the Long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2015	\$ 36,187,066	\$ 29,114,417	\$ 7,072,649
Changes for the year:			
Service cost	838,443	-	838,443
Interest	2,452,835	-	2,452,835
Differences between expected and actual experience	100,624	-	100,624
Contributions - employer	-	1,011,174	(1,011,174)
Contributions - employee	-	351,767	(351,767)
Net investment income	-	486,430	(486,430)
Benefit payments, including refunds of employee contributions	(2,293,121)	(2,293,121)	-
Administrative expenses	-	(18,467)	18,467
Other changes	-	(210)	210
Net changes	1,098,781	(462,427)	1,561,208
Balances at June 30, 2016	\$ 37,285,847	\$ 28,651,990	\$ 8,633,857

# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

### V. OTHER INFORMATION (CONTINUED)

#### F. Defined Benefit Pension Plan (Continued)

##### Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Town using the discount rate of 7.00%, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	(6.00%)	Rate (7.00%)	(8.00%)
Town's Net Pension Liability	\$ 13,300,173	\$ 8,633,857	\$ 4,752,877

##### Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the Town recognized pension expense of \$959,136. At June 30, 2017 the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 261,893	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	746,401	-
Employer contributions subsequent to the measurement date	-	-
Total	\$ 1,008,294	\$ -

All above amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	Amortization
2018	\$ 187,677
2019	65,649
2020	451,295
2021	303,673
2022	-
Thereafter	-

# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

### V. OTHER INFORMATION (CONTINUED)

#### F. Defined Benefit Pension Plan (Continued)

##### Schedule of Changes in Net Pension Liability and Related Ratios

	<b>2016</b>
<b>Total pension liability</b>	
Service cost	\$ 838,443
Interest	2,452,835
Changes of benefit terms	-
Differences between expected and actual experience	100,624
Changes in assumptions	-
Benefit payments, including refunds of employee contributions	(2,293,121)
<b>Net change in total pension liability</b>	<b>1,098,781</b>
<b>Total pension liability - beginning</b>	<b>36,187,066</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 37,285,847</b>
 <b>Plan fiduciary net position</b>	
Contributions - employer	\$ 1,011,174
Contributions - employee	351,767
Net investment income	486,430
Benefit payments, including refunds of employee contributions	(2,293,121)
Administrative expense	(18,467)
Other	(210)
<b>Net change in total net pension position</b>	<b>(462,427)</b>
<b>Total net pension position - beginning</b>	<b>29,114,417</b>
<b>Total net pension position - ending (b)</b>	<b>\$ 28,651,990</b>
 <b>Town's net pension liability - ending (a) - (b)</b>	<b>\$ 8,633,857</b>
 <b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>76.84%</b>
 <b>Covered-employee payroll</b>	<b>\$ 7,181,524</b>
 <b>Town's net pension liability as a percentage of covered-employee payroll</b>	<b>120.22%</b>

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**V. OTHER INFORMATION (CONTINUED)**

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

**Schedule of Employer Contributions**

FYE June 30,	Contractual Required Contribution	Amount Contributed	Deficiency (Excess)	Covered Payroll	Percentage of Covered Payroll
2017	\$ 947,473	\$ 947,473	\$ -	\$ 7,181,524	13.19%
2016	959,136	959,136	-	6,898,938	13.90%
2015	896,506	896,506	-	6,804,987	13.17%
Prior to GASB Statement No. 68 and 2015:					
2014	1,123,315	1,123,315	-	6,772,842	16.59%
2013	1,312,258	1,312,258	-	6,464,264	20.30%

**Schedule of Funding Progress**

Actuarial Valuation Date June 30,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2016	\$ 29,218,804	\$ 37,000,974	\$ 7,782,170	78.97%	\$ 7,181,524	108.36%
2015	29,114,417	36,187,066	7,072,649	80.46%	6,898,938	102.52%
2014	28,467,477	34,536,972	6,069,495	82.43%	6,807,987	89.15%
Prior to GASB Statement No. 68:						
2013	23,704,501	33,227,562	9,523,061	71.34%	6,464,264	147.32%
2012	23,136,770	33,295,121	10,158,351	69.49%	6,268,877	162.04%
2011	23,301,524	32,646,376	9,344,852	71.38%	6,047,869	154.51%
2010	22,978,490	31,623,369	8,644,879	72.66%	6,306,555	137.08%
2009	23,201,463	29,244,201	6,042,738	79.34%	6,480,537	93.24%
2008	23,160,592	26,997,676	3,837,084	85.79%	6,218,074	61.71%

**Changes of benefit terms** – There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits.

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

### **NOTES TO FINANCIAL STATEMENTS**

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#### **V. OTHER INFORMATION (CONTINUED)**

##### **G. Deferred Compensation Plan**

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

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

##### **H. Subsequent Events**

The Town has evaluated events and transactions subsequent to June 30, 2017 through October 6, 2017, 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, 2017.



**TOWN OF FRONT ROYAL, VIRGINIA****GENERAL FUND****SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES-BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2017**

	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	\$ 980,000	\$ 980,000	\$ 966,508	\$ (13,492)
Delinquent taxes, including penalties	14,000	14,000	19,838	5,838
Personal property taxes				
Current taxes, including penalties	300,000	300,000	265,883	(34,117)
Public service corporation taxes	22,230	22,230	20,641	(1,589)
Interest on delinquent taxes	17,000	17,000	17,818	818
Total General Property Taxes	<u>1,333,230</u>	<u>1,333,230</u>	<u>1,290,688</u>	<u>(42,542)</u>
<b>Other Local Taxes</b>				
Warren County sales tax	862,500	862,500	930,123	67,623
Business and occupational taxes and penalties	689,500	689,500	735,679	46,179
Franchise taxes	70,000	70,000	48,750	(21,250)
Consumer taxes - electric deregulation	226,000	226,000	225,029	(971)
Vehicle licenses	365,000	365,000	365,261	261
Bank stock taxes	240,000	240,000	237,415	(2,585)
Lodging taxes	335,000	335,000	322,298	(12,702)
Meal taxes	1,455,000	1,455,000	1,603,879	148,879
Payment in lieu of taxes	517,500	548,937	516,858	(32,079)
Total Other Local Taxes	<u>4,760,500</u>	<u>4,791,937</u>	<u>4,985,292</u>	<u>193,355</u>
<b>Permits, Fees and Licenses</b>				
Zoning income	28,000	28,000	28,684	684
Public ROW use fees	5,000	5,000	850	(4,150)
Total Permits, Fees and Licenses	<u>33,000</u>	<u>33,000</u>	<u>29,534</u>	<u>(3,466)</u>
<b>Fines and Forfeitures</b>				
Fines and forfeitures - county	175,000	175,000	143,839	(31,161)
Fines and forfeitures - town	25,000	25,000	16,804	(8,196)
Total Fines and Forfeitures	<u>200,000</u>	<u>200,000</u>	<u>160,643</u>	<u>(39,357)</u>
<b>Revenues from Use of Money and Property</b>				
Interest on bank deposits	68,000	68,000	21,944	(46,056)
Interest on accounts receivable	2,000	2,000	188	(1,812)
Rental - Comcast property	10,250	10,250	11,652	1,402
Total Revenues from Use of Money and Property	<u>80,250</u>	<u>80,250</u>	<u>33,784</u>	<u>(46,466)</u>
<b>Charges for Services</b>				
Curb and gutter charges	1,000	1,000	(2,255)	(3,255)
Street & walk assessment	1,000	1,000	203	(797)
Credit card fees	20,000	20,000	24,116	4,116
Sales at Visitors' Center	22,000	22,000	19,171	(2,829)
Sales of publications	500	500	45	(455)
Total Charges for Services	<u>44,500</u>	<u>44,500</u>	<u>41,280</u>	<u>(3,220)</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, 2017**

	Original Budget	Final Budget	Actual Revenues	Variance Positive (Negative)
<b>Miscellaneous Revenue</b>				
Miscellaneous	\$ 49,395	\$ 55,890	\$ 41,272	\$ (14,618)
<b>Intergovernmental</b>				
Rolling stock tax	20,000	20,000	16,018	(3,982)
Virginia personal property tax reduction	287,000	287,000	287,000	-
Communication tax	170,000	170,000	160,990	(9,010)
Rental tax vehicles	65,000	65,000	74,534	9,534
State aid for police and fire	338,350	338,350	349,248	10,898
Highway maintenance	1,719,500	1,719,500	1,882,720	163,220
Grants	32,000	78,122	50,891	(27,231)
Road construction and improvements	312,500	312,500	7,709,223	7,396,723
Total Intergovernmental	2,944,350	2,990,472	10,530,624	7,540,152
Total General Fund Revenues	9,445,225	9,529,279	17,113,117	7,583,838
<b>Other Financing Sources</b>				
Transfers from other funds	3,422,500	3,422,500	3,422,500	-
Bond proceeds	-	231,784	-	(231,784)
Total Other Financing Sources	3,422,500	3,654,284	3,422,500	(231,784)
<b>Total General Fund Revenues and Other Financing Sources</b>	<u>\$12,867,725</u>	<u>\$13,183,563</u>	<u>\$20,535,617</u>	<u>\$ 7,352,054</u>

**TOWN OF FRONT ROYAL, VIRGINIA**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
<b>Legislative</b>				
Town Council				
Personal service	\$ 123,900	\$ 63,900	\$ 60,532	\$ 3,368
Contractual service	66,000	242,611	104,928	137,683
Materials and supplies	19,500	16,350	17,345	(995)
Travel and communications	9,000	9,500	9,156	344
Joint operations	-	-	-	-
Capital outlays	-	-	-	-
Total Town Council	<u>218,400</u>	<u>332,361</u>	<u>191,961</u>	<u>140,400</u>
Clerk of Council				
Personal service	80,430	56,930	58,438	(1,508)
Materials and supplies	350	350	360	(10)
Travel and communications	3,225	3,225	1,665	1,560
Dues and memberships	310	310	195	115
Total Clerk of Council	<u>84,315</u>	<u>60,815</u>	<u>60,658</u>	<u>157</u>
Total Legislative	<u>302,715</u>	<u>393,176</u>	<u>252,619</u>	<u>140,557</u>
<b>Executive</b>				
Town Manager				
Personal service	250,515	249,395	257,027	(7,632)
Contractual service	650	650	543	107
Materials and supplies	8,550	14,190	11,057	3,133
Travel and communications	6,500	4,200	4,120	80
Dues and memberships	2,500	2,400	2,255	145
Capital outlays	-	-	-	-
Total Town Manager	<u>268,715</u>	<u>270,835</u>	<u>275,002</u>	<u>(4,167)</u>
Management Services				
Personal service	218,795	224,295	224,612	(317)
Contractual service	150	24,000	13,750	10,250
Materials and supplies	33,500	29,604	29,771	(167)
Travel and communications	4,100	4,696	2,380	2,316
Dues and memberships	350	1,200	1,222	(22)
Total Management Services	<u>256,895</u>	<u>283,795</u>	<u>271,735</u>	<u>12,060</u>
Auto/Motorpool				
Personal service	389,640	385,860	359,790	26,070
Contractual service	5,000	5,000	4,591	409
Materials and supplies	64,950	66,750	39,858	26,892
Travel and communications	3,900	2,400	1,080	1,320
Utilities	2,000	1,700	1,527	173
Capital outlays	142,725	201,060	40,783	160,277
Total Auto/Motorpool	<u>608,215</u>	<u>662,770</u>	<u>447,629</u>	<u>215,141</u>

(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
Office of Information Technology				
Personal service	\$ 168,905	\$ 163,885	\$ 158,681	\$ 5,204
Contractual service	263,950	273,497	225,376	48,121
Materials and supplies	60,500	60,500	58,183	2,317
Travel and communications	77,200	53,200	51,361	1,839
Dues and memberships	100	100	-	100
Capital outlays	123,500	209,010	161,694	47,316
Total Office of Information Technology	694,155	760,192	655,295	104,897
Office of Tourism				
Personal service	156,790	167,477	151,935	15,542
Contractual service	8,000	8,682	8,085	597
Materials and supplies	139,005	159,298	156,369	2,929
Utilities	200	200	128	72
Travel and communications	7,500	5,116	3,620	1,496
Dues and memberships	1,400	1,400	1,377	23
Cultural Activities	10,000	20,000	10,000	10,000
Capital outlays	5,000	5,000	4,942	58
Total Office of Tourism	327,895	367,173	336,456	30,717
Board of Elections				
Contractual service	9,000	9,000	13,294	(4,294)
Total Executive	2,164,875	2,353,765	1,999,411	354,354
<b>Legal</b>				
Town Attorney				
Personal service	330,530	333,965	313,368	20,597
Contractual service	20,000	20,000	9,771	10,229
Materials and supplies	12,600	11,705	4,948	6,757
Travel and communications	6,000	5,895	4,005	1,890
Dues and memberships	1,500	1,500	990	510
Capital outlays	-	-	-	-
Total Legal	370,630	373,065	333,082	39,983
<b>Finance</b>				
Finance Department				
Personal service	678,515	688,315	598,202	90,113
Contractual service	800	375	487	(112)
Materials and supplies	107,750	109,560	110,025	(465)
Travel and communications	6,650	5,515	4,587	928
Dues and memberships	285	35	520	(485)
Total Finance Department	794,000	803,800	713,821	89,979
Total General Government	3,632,220	3,923,806	3,298,933	624,873

(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
<b>Planning, Zoning and Community Development</b>				
Planning and Zoning				
Personal service	\$ 373,280	\$ 370,405	\$ 348,446	\$ 21,959
Contractual service	25,000	61,995	40,251	21,744
Materials and supplies	10,475	14,575	8,042	6,533
Travel and communications	5,400	5,400	2,391	3,009
Dues and memberships	550	550	378	172
Capital outlays	6,750	59,631	4,526	55,105
Cultural activities	-	29,809	-	29,809
Total Planning and Zoning	421,455	542,365	404,034	138,331
Economic Development				
Contributions to other entities	8,600	8,600	8,804	(204)
Total Economic Development	8,600	8,600	8,804	(204)
Boards and Commissions				
Personal service	18,300	18,300	10,841	7,459
Contractual service	1,000	1,000	440	560
Materials and supplies	4,225	4,225	1,932	2,293
Travel and communications	3,500	5,058	3,858	1,200
Dues and memberships	100	100	-	100
Joint operations	13,010	13,010	10,978	2,032
Total Boards and Commissions	40,135	41,693	28,049	13,644
Total Planning, Zoning and Community Development	470,190	592,658	440,887	151,771
<b>Police</b>				
Police Department				
Personal service	4,337,885	4,328,055	4,114,868	213,187
Contractual service	11,975	17,675	12,522	5,153
Materials and supplies	314,875	286,510	193,950	92,560
Travel and communications	64,900	85,150	62,779	22,371
Dues and memberships	6,400	6,400	1,066	5,334
Joint operations	30,760	29,760	26,756	3,004
Capital outlays	107,250	122,822	118,695	4,127
Total Police Department	4,874,045	4,876,372	4,530,636	345,736
<b>Engineering and Public Works</b>				
Engineering				
Personal service	60,205	59,170	57,378	1,792
Contractual service	1,500	1,500	129	1,371
Materials and supplies	22,850	23,742	21,169	2,573
Travel and communications	6,000	7,480	4,911	2,569
Dues and memberships	2,000	2,000	2,127	(127)
Capital outlays	-	-	-	-
Total Engineering	92,555	93,892	85,714	8,178

(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
Streets and Sidewalks				
Personal service	\$ 823,930	\$ 806,775	\$ 743,286	\$ 63,489
Contractual service	6,000	6,278	2,569	3,709
Materials and supplies	631,000	478,115	426,413	51,702
Travel and communications	8,500	9,498	8,182	1,316
Utilities	30,000	30,000	18,724	11,276
Dues and memberships	50	50	-	50
Capital outlays	934,310	11,001,891	9,161,241	1,840,650
Total Streets and Sidewalks	2,433,790	12,332,607	10,360,415	1,972,192
General Properties				
Personal service	144,195	140,790	134,207	6,583
Contractual service	10,000	12,555	11,012	1,543
Materials and supplies	60,200	85,500	82,382	3,118
Travel and communications	2,000	1,000	996	4
Utilities	65,000	65,000	68,238	(3,238)
Capital outlays	-	35,415	26,895	8,520
Total General Properties	281,395	340,260	323,730	16,530
Horticulture				
Personal service	269,955	262,970	231,761	31,209
Contractual service	6,000	6,000	5,330	670
Materials and supplies	35,300	34,900	32,427	2,473
Travel and communications	1,900	2,950	2,627	323
Utilities	175	325	300	25
Capital outlays	-	-	-	-
Total Horticulture	313,330	307,145	272,445	34,700
Total Engineering and Public Works	3,121,070	13,073,904	11,042,304	2,031,600
<b>Nondepartmental</b>				
Fringe Benefits	288,200	268,200	275,704	(7,504)
Insurance	332,000	332,000	277,456	54,544
Reserves	-	61,475	-	61,475
Total Nondepartmental	620,200	661,675	553,160	108,515
Subtotal	12,717,725	23,128,415	19,865,920	3,262,495
<b>Total General Fund Expenditures</b>	<b>\$ 12,717,725</b>	<b>\$ 23,128,415</b>	<b>\$ 19,865,920</b>	<b>\$ 3,262,495</b>

**TOWN OF FRONT ROYAL, VIRGINIA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2017**

	<b>Special Revenue</b>					<b>Capital Project</b>	
	<b>Downtown Service District</b>	<b>Asset Forfeitures</b>	<b>Economic Development</b>	<b>Community/ Neighborhood</b>	<b>Total</b>	<b>Town Facilities</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Assets</b>							
Cash and cash equivalents	\$ -	\$ 42,358	\$ -	\$ 856,675	\$ 899,033	\$ -	\$ 899,033
Accounts receivable - real estate taxes	-	-	-	-	-	-	-
Interfund advances	-	-	4,500	-	4,500	-	4,500
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 42,358</b>	<b>\$ 4,500</b>	<b>\$ 856,675</b>	<b>\$ 903,533</b>	<b>\$ -</b>	<b>\$ 903,533</b>
<b>Liabilities</b>							
Bank advances	\$ -	\$ -	\$ 498,929	\$ -	\$ 498,929	\$ -	\$ 498,929
Accounts payable	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-
Interfund advances	-	49,915	-	97,031	146,946	-	146,946
<b>Total Liabilities</b>	<b>-</b>	<b>49,915</b>	<b>498,929</b>	<b>97,031</b>	<b>645,875</b>	<b>-</b>	<b>645,875</b>
<b>Fund Balances</b>							
Restricted for:							
Capital outlays	-	(7,557)	-	-	(7,557)	-	(7,557)
Community development	-	-	-	759,644	759,644	-	759,644
Assigned for capital projects	-	-	-	-	-	-	-
Unassigned	-	-	(494,429)	-	(494,429)	-	(494,429)
<b>Total Fund Balances</b>	<b>-</b>	<b>(7,557)</b>	<b>(494,429)</b>	<b>759,644</b>	<b>257,658</b>	<b>-</b>	<b>257,658</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ -</b>	<b>\$ 42,358</b>	<b>\$ 4,500</b>	<b>\$ 856,675</b>	<b>\$ 903,533</b>	<b>\$ -</b>	<b>\$ 903,533</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, 2017**

	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	\$ 1,512	\$ -	\$ 193,740	\$ 375,000	\$ 570,252	\$ -	\$ 570,252
Asset forfeitures	-	6,712	-	-	6,712	-	6,712
Total revenues	1,512	6,712	193,740	375,000	576,964	-	576,964
<b>Expenditures</b>							
Current							
Support payment of EDA/IDA debt issue	-	-	67,185	-	67,185	-	67,185
Contractual service	-	-	-	540,379	540,379	388	540,767
Contributions to EDA in support of projects	-	-	141,390	-	141,390	-	141,390
Capital outlays	-	21,361	-	-	21,361	-	21,361
Debt Service	-	-	-	-	-	-	-
Total expenditures	-	21,361	208,575	540,379	770,315	388	770,703
<b>Deficiency of revenues under expenditures</b>	1,512	(14,649)	(14,835)	(165,379)	(193,351)	(388)	(193,739)
<b>Other Financing Uses</b>							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing uses	-	-	-	-	-	-	-
Net change in fund balances	1,512	(14,649)	(14,835)	(165,379)	(193,351)	(388)	(193,739)
Fund balances - beginning	(1,512)	7,092	(479,594)	925,023	451,009	388	451,397
Fund balances - ending	\$ -	\$ (7,557)	\$ (494,429)	\$ 759,644	\$ 257,658	\$ -	\$ 257,658



**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, 2017**

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	Final Budget	Actual Amounts	Variance Positive (Negative)
<b>Revenues</b>			
Asset forfeitures	\$ 12,000	\$ 6,712	\$ (5,288)
<b>Expenditures</b>			
Capital outlays	29,211	21,361	7,850
<b>Deficiency of revenues under expenditures</b>	(17,211)	(14,649)	2,562
Fund balances - beginning	7,092	7,092	-
Fund balances - ending	<u>\$ (10,119)</u>	<u>\$ (7,557)</u>	<u>\$ 2,562</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, 2017**

	Final Budget	Actual Amounts	Variance Positive (Negative)
<b>Revenues</b>			
Real estate taxes	\$ 193,740	\$ 193,740	\$ -
<b>Expenditures</b>			
Payments in support of EDA debt issue	68,000	67,185	815
Contributions to other entities	125,740	141,390	(15,650)
Total Expenditures	193,740	208,575	(14,835)
<b>Deficiency of revenues under expenditures</b>	-	(14,835)	(14,835)
<b>Other Financing Uses</b>			
Transfers in - Debt Service	-	-	-
Net change in fund balances	-	(14,835)	(14,835)
Fund balances - beginning	(479,594)	(479,594)	-
Fund balances - ending	<u>\$ (479,594)</u>	<u>\$ (494,429)</u>	<u>\$ (14,835)</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, 2017**

	Final Budget	Actual Amounts	Variance Positive (Negative)
<b>Revenues</b>			
Real estate taxes	\$ 375,000	\$ 375,000	\$ -
<b>Expenditures</b>			
Contractual services	1,037,810	540,379	497,431
Total Expenditures	1,037,810	540,379	497,431
<b>Deficiency of revenues under expenditures</b>	(662,810)	(165,379)	497,431
Fund balances - beginning	925,023	925,023	-
Fund balances - ending	\$ 262,213	\$ 759,644	\$ 497,431

**TOWN OF FRONT ROYAL, VIRGINIA**  
**SCHEDULE OF DIRECTOR OF FINANCE'S ACCOUNTABILITY**  
**JUNE 30, 2017**

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**Assets held by the Director of Finance**

Cash on hand		\$	1,608
Cash in banks			
Union Bank & Trust - checking			(174,152)
Certificates of deposit			
BB&T	\$	350,000	
Sonabank		124,509	
Union First Market Bank		2,146,707	
Wells Fargo		84,521	
City National Bank		23,797	
Total certificates of deposit			<u>2,729,534</u>
Wells Fargo - government money market			2,517,847
Virginia Local Government Investment Pool			2,971,153
Union Bank & Trust - banking sweep account			12,069,559
Union Investment Services - government money market			1,588,208
Union Investment Services - fixed income securities			18,225,292
Union Investment Services - fixed secure term annuity			<u>3,183,003</u>
<b>Total Assets</b>			<u><u>\$ 43,112,052</u></u>

**TOWN OF FRONT ROYAL, VIRGINIA**  
**SCHEDULE OF DIRECTOR OF FINANCE'S ACCOUNTABILITY TO THE TOWN**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	Governmental Funds			2017 Totals (Memorandum Only)	2016 Totals (Memorandum Only)
	General	Special Revenue	Proprietary Funds		
Balance July 1, 2016	\$ 11,455,107	\$ 667,497	\$ 27,210,069	\$ 39,332,673	\$ 33,816,200
Receipts (net)					
Proceed on bond debt issued	-	-	15,386,164	15,386,164	16,944,341
Interfund advances/receipts	-	-	150,000	150,000	150,000
General property taxes	1,296,870	570,252	-	1,867,122	1,782,528
Other local taxes	4,457,735	-	-	4,457,735	4,344,311
Permits, fees and licenses	29,534	-	-	29,534	30,739
Fines and forfeitures	160,643	-	-	160,643	160,047
Revenues from use of money and property	33,784	-	453,697	487,481	259,772
Charges for services	41,280	-	30,043,009	30,084,289	29,780,928
Miscellaneous	41,272	-	4,358,919	4,400,191	5,444,231
Recovered costs	-	6,712	-	6,712	28,606
Payment in lieu of taxes	516,858	-	-	516,858	403,582
Intergovernmental	11,514,831	-	-	11,514,831	16,699,794
Total Receipts	18,092,807	576,964	50,391,789	69,061,560	76,028,879
Total Available	29,547,914	1,244,461	77,601,858	108,394,233	109,845,079
Disbursements (net)					
Warrants (checks) issued	20,409,477	844,357	42,728,638	63,982,472	59,173,440
Retirement of indebtedness	-	-	665,000	665,000	680,000
Intergovernmental	-	-	-	-	10,000,000
Interfund advance payments	150,388	-	-	150,388	150,000
Interest on debt costs	-	-	484,321	484,321	508,966
Total Disbursements	20,559,865	844,357	43,877,959	65,282,181	70,512,406
Transfers in	3,422,500	-	-	3,422,500	3,193,645
Transfers (out)	-	-	(3,422,500)	(3,422,500)	(3,193,645)
Total Transfers In (Out)	3,422,500	-	(3,422,500)	-	-
Balance June 30, 2017	\$ 12,410,549	\$ 400,104	\$ 30,301,399	\$ 43,112,052	\$ 39,332,673

**TOWN OF FRONT ROYAL, VIRGINIA**  
**COMPUTATION OF LEGAL DEBT MARGIN**  
**JUNE 30, 2017**

---

Taxable assessed value of real property	<u>\$ 1,179,597,180</u>
Debt limit (10 percent of assessed value)	\$ 117,959,718
Amount of debt applicable to debt limit	
Gross bonded debt	<u>-</u>
Legal debt margin	<u>\$ 117,959,718</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>	89
Revenue Capacity <i>These schedules contain information to help the reader assess the Town's most significant local revenue source, the property tax.</i>	95
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>	99
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>	104
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>	106

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

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

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental Activities										
Net investment in										
capital assets	\$ 67,935,246	\$ 64,423,422	\$ 62,087,906	\$ 58,899,411	\$ 56,769,628	\$ 53,782,076	\$ 50,772,052	\$ 47,470,993	\$ 49,088,542	\$ 53,926,594
Restricted	-	-	-	1,136,560	1,313,146	1,975,178	2,830,559	3,239,409	3,394,680	3,528,117
Unrestricted	7,344,504	6,033,299	5,953,428	5,125,795	4,934,496	5,453,676	5,714,134	2,159,166	2,755,805	3,165,636
Total Governmental										
Activities Net Position	\$ 75,279,750	\$ 70,456,721	\$ 68,041,334	\$ 65,161,766	\$ 63,017,270	\$ 61,210,930	\$ 59,316,745	\$ 52,869,568	\$ 55,239,027	\$ 60,620,347
Business-type Activities										
Net investment in										
capital assets	\$ 31,350,568	\$ 34,365,817	\$ 33,201,151	\$ 33,459,029	\$ 34,064,137	\$ 36,419,933	\$ 35,385,515	\$ 44,159,747	\$ 51,693,830	\$ 50,846,302
Unrestricted	19,679,106	18,511,327	17,843,447	16,659,513	16,446,498	19,440,318	22,940,690	17,389,248	18,022,201	26,239,996
Total Business-type										
Activities Net Position	\$ 51,029,674	\$ 52,877,144	\$ 51,044,598	\$ 50,118,542	\$ 50,510,635	\$ 55,860,251	\$ 58,326,205	\$ 61,548,995	\$ 69,716,031	\$ 77,086,298
Primary Government										
Net investment in										
capital assets	\$ 99,285,814	\$ 98,789,239	\$ 92,582,592	\$ 92,358,440	\$ 90,833,765	\$ 90,202,009	\$ 86,157,567	\$ 91,630,740	\$ 100,782,372	\$ 104,772,896
Restricted	-	-	-	1,136,560	1,313,146	1,975,178	2,830,559	3,239,409	3,394,680	3,528,117
Unrestricted	27,023,610	24,544,626	26,503,340	21,785,308	21,380,994	24,893,994	28,654,824	19,548,414	20,778,006	29,405,632
Total Primary										
Government Net Position	\$ 126,309,424	\$ 123,333,865	\$ 119,085,932	\$ 115,280,308	\$ 113,527,905	\$ 117,071,181	\$ 117,642,950	\$ 114,418,563	\$ 124,955,058	\$ 137,706,645



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

Expenses	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental Activities:										
General government and administration	\$ 2,832,009	\$ 3,172,642	\$ 3,340,772	\$ 3,161,198	\$ 3,003,366	\$ 3,404,737	\$ 3,610,966	\$ 3,356,075	\$ 3,866,401	\$ 3,371,036
Public safety	3,658,646	3,686,304	3,873,965	3,821,530	3,890,462	4,226,075	4,256,684	4,071,072	4,401,137	4,626,250
Public works	3,149,846	3,901,830	2,467,186	2,440,880	2,167,403	2,200,764	2,152,085	2,351,087	2,832,612	2,971,237
Planning, zoning, and community development	693,455	1,024,574	636,471	596,574	641,552	617,998	720,592	700,053	1,077,032	1,246,737
Culture and recreation	66,250	74,044	91,004	105,720	105,801	53,548	22,344	-	-	-
Interest on long term debt	23,257	19,812	16,205	12,431	8,480	4,345	-	-	-	-
Infrastructure depreciation	3,591,054	3,591,054	3,591,054	3,591,054	3,591,054	3,591,054	3,591,054	3,591,055	3,591,055	3,591,054
Total Governmental Activities Expenses	14,014,517	15,470,260	14,016,657	13,729,387	13,408,118	14,098,521	14,353,725	14,069,342	15,768,237	15,806,314
Business-Type Activities:										
Electric	12,600,249	13,535,201	14,119,794	16,888,252	14,466,632	13,293,934	15,469,985	14,906,428	15,869,418	15,515,533
Water	2,471,839	2,231,532	3,023,196	2,742,241	2,799,552	2,953,064	3,075,201	3,042,885	3,604,540	3,444,027
Sewer	2,691,398	2,659,873	3,550,177	2,680,077	3,036,433	2,966,184	3,186,205	3,387,659	3,584,110	4,106,234
Refuse	856,529	963,068	1,301,649	931,697	968,124	924,107	929,685	842,450	864,785	837,128
Total Business-Type Activities Expenses	18,620,015	19,389,674	21,994,816	23,242,267	21,270,741	20,137,289	22,661,076	22,179,422	23,922,853	23,902,922
Total Primary Government Expenses	32,634,532	34,859,934	36,011,473	36,971,654	34,678,859	34,235,810	37,014,801	36,248,764	39,691,090	39,709,236
<b>Program Revenues</b>										
Governmental Activities:										
Charges for services:										
General government	111,776	95,947	227,814	155,527	96,447	146,989	142,191	168,283	101,895	82,552
Public safety	283,200	295,958	272,406	276,409	244,888	196,412	357,460	179,726	188,653	167,355
Public works	10,919	18,172	6,366	3,848	2,932	1,458	3,848	817	3,248	-
Planning, zoning, and community development	103,277	92,660	93,419	18,182	74,588	25,921	26,251	25,410	30,739	29,534
Operating grants and contributions	1,872,998	1,912,511	1,870,222	1,960,551	1,967,288	1,998,364	2,047,240	2,094,216	2,164,424	2,231,968
Capital grants and contributions	115,062	121,767	93,087	133,154	113,971	10,249	32,554	29,357	5,315,112	7,760,114
Total Governmental Program Revenues	2,497,232	2,537,015	2,563,314	2,547,671	2,500,114	2,379,393	2,609,544	2,497,809	7,804,071	10,271,523
Business-Type Activities:										
Charges for services:										
Electric	15,460,426	15,125,811	15,462,065	16,544,552	15,561,410	16,832,900	17,389,372	17,435,092	16,850,344	16,427,093
Water	3,115,794	3,145,958	2,758,853	3,161,942	3,231,718	4,344,296	4,549,414	5,170,326	5,134,173	5,405,199
Sewer	2,846,667	2,774,605	2,723,871	3,452,860	4,204,653	6,303,357	4,984,234	6,644,753	6,719,064	7,077,220
Refuse	934,936	918,611	951,731	927,160	867,388	887,694	994,255	984,191	1,004,293	1,099,451
Capital grants and contributions	646,430	798,530	-	-	-	-	-	474,457	5,381,345	4,358,919
Total Business-Type Program Revenues	23,004,253	22,763,515	21,896,520	24,086,514	23,865,169	28,368,247	27,917,275	30,708,819	35,089,219	34,367,882
Total Primary Government Program Revenues	25,501,485	25,300,530	24,459,834	26,634,185	26,365,283	30,747,640	30,526,819	33,206,628	42,893,290	44,639,405

(Continued)

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

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Net (Expense) Revenue</b>										
Governmental Activities	\$ (11,517,285)	\$ (12,933,245)	\$ (11,453,343)	\$ (11,181,716)	\$ (10,908,004)	\$ (11,719,128)	\$ (11,744,181)	\$ (11,571,533)	\$ (7,964,166)	\$ (5,534,791)
Business-Type Activities	4,384,238	3,373,841	(98,296)	844,247	2,594,428	8,230,958	5,256,199	8,529,397	11,166,366	10,464,960
Total Primary Gov't Net Expense	(7,133,047)	(9,559,404)	(11,551,639)	(10,337,469)	(8,313,576)	(3,488,170)	(6,487,982)	(3,042,136)	3,202,200	4,930,169
<b>General Revenues and Other</b>										
<b>Changes in Net Position</b>										
Governmental Activities:										
Property taxes	1,330,595	1,303,327	2,563,604	1,685,744	1,544,123	1,549,507	1,788,416	1,846,740	1,843,505	1,935,993
Sales taxes	683,974	690,993	684,300	707,328	726,745	1,418,512	943,728	852,134	794,164	930,123
Business and occupational taxes	708,018	620,567	613,273	633,938	612,660	656,935	672,494	682,756	804,677	735,679
Franchise and bank stock taxes (*)	150,318	1,500	24,167	119,434	254,686	280,149	284,714	303,207	288,944	286,165
Communication taxes	-	177,556	178,294	177,411	157,940	162,826	169,927	170,799	165,738	160,990
Consumer taxes	228,828	181,779	190,188	242,677	228,374	221,576	164,137	222,783	181,034	225,029
Alcoholic beverage taxes	16,316	-	-	-	-	-	-	-	-	-
Meals and lodging taxes	1,622,217	1,472,392	1,330,656	1,450,203	1,547,442	1,648,350	1,750,295	1,751,540	1,852,221	1,926,177
Virginia pers. prop. tax reduction	287,863	287,863	575,726	287,863	287,000	287,000	287,000	287,000	287,000	287,000
Payment in lieu of taxes	229,098	1,046,893	307,158	337,469	372,920	401,492	407,661	389,041	403,582	516,858
Vehicle licenses (*)	-	-	-	-	350,500	354,605	357,359	362,923	368,894	365,261
Other general taxes (*)	438,560	426,139	472,388	615,452	53,344	71,263	86,720	81,598	84,764	90,552
Unrestricted investment earnings	283,610	119,307	109,480	56,357	123,824	12,113	77,835	65,337	65,457	33,784
Gain on sale of capital assets and other recoveries	-	-	-	-	-	-	-	-	-	-
Transfers	1,781,900	1,781,900	1,988,722	1,988,272	2,503,950	2,848,460	2,859,710	2,951,585	3,193,645	3,422,500
Total Governmental Activities	7,761,297	8,110,216	9,037,956	8,302,148	8,763,508	9,912,788	9,849,996	9,967,443	10,333,625	10,916,111
Business-Type Activities:										
Unrestricted investment earnings	749,734	255,529	254,472	217,969	301,615	(32,882)	174,807	119,434	194,315	62,459
Asset sales and insurance recoveries	-	-	-	-	-	-	-	-	-	265,348
Transfers	(1,781,900)	(1,781,900)	(1,988,722)	(1,988,272)	(2,503,950)	(2,848,460)	(2,859,710)	(2,951,585)	(3,193,645)	(3,422,500)
Total Business-Type Activities	(1,032,166)	(1,526,371)	(1,734,250)	(1,770,303)	(2,202,335)	(2,881,342)	(2,684,903)	(2,832,151)	(2,999,330)	(3,094,693)
Total Primary Government	6,729,131	6,583,845	7,303,706	6,531,845	6,561,173	7,031,446	7,165,093	7,135,292	7,334,295	7,821,418
<b>Change in Net Position</b>										
Governmental Activities	(3,755,988)	(4,823,029)	(2,415,387)	(2,879,568)	(2,144,496)	(1,806,340)	(1,894,185)	(1,604,090)	2,369,459	5,381,320
Business-Type Activities	3,352,072	1,847,470	(1,832,546)	(926,056)	392,093	5,349,616	2,571,296	5,697,246	8,167,036	7,370,267
Total Primary Government	\$ (403,916)	\$ (2,975,559)	\$ (4,247,933)	\$ (3,805,624)	\$ (1,752,403)	\$ 3,543,276	\$ 677,111	\$ 4,093,156	\$ 10,536,495	\$ 12,751,587

\* Bank stock tax and vehicle licenses were reclassified effective 2012

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

Fiscal Year	Property	Sales	Business and Occupational	Bank stock, Comm. and Franchise (*)	Consumer	Alcohol Beverage	Meals and Lodging	Virginia PPTR	In Lieu of Taxes	Vehicle Taxes	Other General (*)	Total
2008	1,330,595	683,974	708,018	150,318	228,828	16,316	1,622,217	287,863	229,098		438,560	5,695,787
2009	1,303,327	690,993	620,567	179,056	181,779	-	1,472,392	287,863	1,046,893		426,139	6,209,009
2010	2,563,604	684,300	613,273	202,461	190,188	-	1,330,656	575,726	307,158		472,388	6,939,754
2011	1,685,744	707,328	633,938	296,845	242,677	-	1,450,203	287,863	337,469		615,452	6,257,519
2012	1,544,123	726,745	612,660	177,325	228,374	-	1,547,442	287,000	372,920	350,500	639,145	6,486,234
2013	1,549,507	1,418,512	656,935	442,975	221,576	-	1,648,350	287,000	401,492	354,605	71,263	7,052,215
2014	1,788,416	943,728	672,494	454,641	164,137	-	1,750,295	287,000	407,661	357,359	86,720	6,912,451
2015	1,846,740	852,134	682,756	474,006	222,783	-	1,751,540	287,000	389,041	362,923	81,598	6,950,521
2016	1,843,505	794,164	804,677	454,682	181,034	-	1,852,221	287,000	403,582	368,894	84,764	7,074,523
2017	1,843,122	930,123	735,679	447,155	225,029	-	1,926,177	287,000	516,858	365,261	90,552	7,366,956

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

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

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Fund										
Nonspendable	\$ 100,975	\$ 60,975	\$ 60,975	\$ 180,487	\$ 207,520	\$ 196,260	\$ 207,823	\$ 241,290	\$ 141,487	\$ 117,862
Restricted	-	-	-	766,933	766,933	1,300,989	1,900,281	2,211,133	2,462,565	2,776,030
Assigned	-	-	-	-	-	-	-	1,250,000	-	-
Unassigned	6,147,170	5,486,609	5,803,554	5,300,035	5,248,533	5,728,824	6,022,406	5,585,564	7,747,379	8,127,236
Total General Fund	\$ 6,248,145	\$ 5,547,584	\$ 5,864,529	\$ 6,247,455	\$ 6,222,986	\$ 7,226,073	\$ 8,130,510	\$ 9,287,987	\$ 10,351,431	\$ 11,021,128
All Other Governmental Funds										
Restricted	\$ -	\$ -	\$ -	\$ 369,627	\$ 546,213	\$ 674,189	\$ 930,278	\$ 1,028,276	\$ 932,115	\$ 752,087
Assigned - capital funds	388	388	388	388	388	388	388	388	388	-
Unassigned, reported in:										
Special revenue funds	1,483,394	919,779	142,836	(331,973)	(405,413)	(312,447)	(380,375)	(447,128)	(481,106)	(494,429)
Total all other governmental funds	\$ 1,483,394	\$ 919,779	\$ 143,224	\$ 38,042	\$ 141,188	\$ 362,130	\$ 550,291	\$ 581,536	\$ 451,397	\$ 257,658

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

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>REVENUES:</b>										
Taxes:										
Property	\$ 1,291,255	\$ 1,298,909	\$ 1,896,461	\$ 1,463,695	\$ 1,476,410	\$ 1,452,321	\$ 1,592,285	\$ 1,748,623	\$ 1,784,387	\$ 1,860,940
Sales	683,974	690,993	684,300	707,328	726,745	1,418,512	943,728	852,134	794,164	930,123
Business and occupational	708,018	620,567	613,273	633,938	612,660	656,935	672,494	682,756	804,677	735,679
Franchise	150,318	1,500	24,167	119,434	19,385	87,213	67,191	60,797	74,743	48,750
Consumer	228,828	181,779	190,188	242,677	228,374	221,576	164,137	222,783	181,034	225,029
Vehicle licenses	226,689	223,417	174,686	296,784	350,500	354,605	357,359	362,923	368,894	365,261
Bank stock	160,640	152,245	239,686	259,987	235,301	192,936	217,523	242,410	214,201	237,415
Meals and lodging	1,622,217	1,472,392	1,330,656	1,450,203	1,547,442	1,648,350	1,750,295	1,751,540	1,852,221	1,926,177
Permits, fees, and licenses	103,277	92,660	93,419	18,182	74,588	25,921	26,251	25,410	30,739	29,534
Fines and forfeitures	246,650	252,484	238,363	249,598	213,721	179,666	157,767	172,406	160,047	160,643
Revenues from use of money										
and property	283,610	119,307	109,480	56,357	123,824	12,113	77,835	65,337	65,457	33,784
Charges for services	73,114	45,165	20,237	16,257	25,811	35,841	37,924	34,715	42,257	41,280
Miscellaneous	49,581	68,954	213,943	143,118	73,568	112,606	108,115	134,385	62,886	41,272
Recovered costs	36,550	43,474	34,043	26,811	31,167	16,746	199,693	7,320	28,606	6,712
Payment in lieu of taxes	229,098	1,046,893	307,158	337,469	372,920	401,492	407,661	389,041	403,582	516,858
Intergovernmental	2,343,470	2,550,174	2,775,345	2,617,660	2,579,543	2,529,702	2,623,441	2,662,970	8,017,038	10,530,624
Total Revenues	8,437,289	8,860,913	8,945,405	8,639,498	8,691,959	9,346,535	9,403,699	9,415,550	14,884,933	17,690,081
<b>EXPENDITURES:</b>										
General government										
Legislative	175,717	173,189	166,884	175,142	155,176	169,241	171,338	176,283	313,478	252,619
Executive	1,401,822	1,605,219	1,588,909	1,556,528	1,520,025	1,731,960	2,049,108	1,881,985	2,121,888	1,999,411
Legal	257,621	416,400	517,295	347,940	342,144	362,854	362,454	369,080	344,280	333,082
Finance	801,115	828,300	790,675	803,686	732,352	811,980	811,502	811,792	829,531	713,821
Public Safety										
Police	3,439,362	3,467,748	3,560,512	3,546,263	3,598,674	3,881,352	3,973,290	4,245,126	4,324,556	4,551,997
Fire protection	18,139	-	-	-	-	-	-	-	-	-
Planning, zoning, and										
community development	640,684	953,740	1,193,007	536,085	590,660	556,094	647,358	663,734	1,017,748	1,190,229
Engineering and public works	3,033,398	3,776,368	2,878,813	2,712,420	3,421,997	2,681,719	2,565,474	2,456,560	7,695,362	11,042,304
Parks and recreation	61,208	68,924	82,000	95,000	95,000	47,500	20,000	-	-	-
Nondepartmental	513,067	520,070	518,999	479,931	564,173	630,878	570,287	573,853	498,430	553,160
Debt Service										
Principal	73,774	77,219	80,826	84,600	88,551	93,043	-	-	-	-
Interest	23,257	19,812	16,205	12,431	8,480	4,345	-	-	-	-
Capital outlay	4,415	-	-	-	-	-	-	-	-	-
Total Expenditures	10,443,579	11,906,989	11,394,125	10,350,026	11,117,232	10,970,966	11,170,811	11,178,413	17,145,273	20,636,623
<b>DEFICIENCY OF REVENUES</b>										
<b>UNDER EXPENDITURES</b>	(2,006,290)	(3,046,076)	(2,448,720)	(1,710,528)	(2,425,273)	(1,624,431)	(1,767,112)	(1,762,863)	(2,260,340)	(2,946,542)
<b>OTHER FINANCING</b>										
<b>SOURCES (USES):</b>										
Transfers in	1,878,931	1,878,931	2,085,753	2,085,303	2,503,950	3,007,971	2,859,710	2,980,075	3,193,645	3,422,500
Transfers (out)	(97,031)	(97,031)	(97,031)	(97,031)	-	(159,511)	-	(28,490)	-	-
Other sources	-	-	-	-	-	-	-	-	-	-
Total Other Financing										
Sources (Uses)	1,781,900	1,781,900	1,988,722	1,988,272	2,503,950	2,848,460	2,859,710	2,951,585	3,193,645	3,422,500
<b>NET CHANGE IN</b>										
<b>FUND BALANCES</b>	\$ (224,390)	\$ (1,264,176)	\$ (459,998)	\$ 277,744	\$ 78,677	\$ 1,224,029	\$ 1,092,598	\$ 1,188,722	\$ 933,305	\$ 475,958
Debt service as a percentage										
of noncapital expenditures	0.99%	0.83%	0.87%	1.10%	0.94%	1.05%	0.98%	0.00%	0.00%	0.00%

Additional years will be added as information is available.

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

Fiscal Year	Real Property				Personal Property				
	Commercial Residential Property	Public Service	Total Assessed Value	Direct Tax Rate	Motor Vehicles	Business Equipment	Other	Total Assessed Value	Direct Tax Rate
2008	1,409,727,643	14,984,060	1,424,711,703	0.07	106,118,951	19,346,220	2,170,520	127,635,691	0.60
2009	1,429,456,286	14,984,060	1,444,440,346	0.07	103,750,195	16,769,150	2,082,305	122,601,650	0.60
2010	1,418,723,500	15,826,250	1,434,549,750	0.07	77,266,939	17,878,066	1,850,545	96,995,550	0.60
2011	1,104,745,864	15,826,250	1,120,572,114	0.11	79,013,475	17,575,885	1,575,270	98,164,630	0.64
2012	1,118,318,200	16,425,250	1,134,743,450	0.11	82,719,086	16,645,415	1,534,520	100,899,021	0.64
2013	1,127,434,400	17,274,880	1,144,709,280	0.11	85,157,320	18,291,765	1,545,035	104,994,120	0.64
2014	1,129,575,300	16,808,640	1,146,383,940	0.13	86,666,340	19,232,980	1,557,485	107,456,805	0.64
2015	1,156,264,300	16,841,840	1,173,106,140	0.13	89,785,695	17,204,725	1,311,870	108,302,290	0.64
2016	1,158,897,600	16,506,850	1,175,404,450	0.13	94,765,055	17,492,560	2,108,235	114,365,850	0.64
2017	1,164,489,300	15,107,880	1,179,597,180	0.14	95,158,655	17,429,905	3,412,700	116,001,260	0.64

Source: Warren County Property Assessor's Office

**TOWN OF FRONT ROYAL, VIRGINIA**  
**DIRECT AND OVERLAPPING PROPERTY TAX RATES (PER \$100 OF ASSESSED VAL**  
**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	Real Estate	Personal Property	Machinery and Tools	Mobile Homes
2008	0.07	0.60	0.60	0.07	0.67	0.68	3.25	2.00	0.68	0.75	3.85	2.60	0.75
2009	0.07	0.60	0.60	0.07	0.67	0.46	4.00	1.30	0.46	0.53	4.60	1.90	0.53
2010	0.07	0.60	0.60	0.07	0.67	0.46	4.00	1.30	0.46	0.53	4.60	1.90	0.53
2011	0.11	0.64	0.64	0.11	0.75	0.59	4.00	1.30	0.59	0.70	4.64	1.94	0.70
2012	0.11	0.64	0.64	0.11	0.75	0.59	4.00	1.30	0.59	0.70	4.64	1.94	0.70
2013	0.11	0.64	0.64	0.11	0.75	0.59	4.00	1.30	0.59	0.70	4.64	1.94	0.70
2014	0.13	0.64	0.64	0.13	0.77	0.61	4.00	1.30	0.61	0.74	4.64	1.94	0.74
2015	0.13	0.64	0.64	0.13	0.77	0.60	4.00	1.95	0.60	0.73	4.64	2.59	0.73
2016	0.13	0.64	0.64	0.13	0.77	0.62	4.00	1.95	0.60	0.75	4.64	2.59	0.73
2017	0.14	0.64	0.64	0.14	0.78	0.65	4.00	1.95	0.65	0.79	4.64	2.59	0.79

Source: Town of Front Royal and Warren County

**TOWN OF FRONT ROYAL, VIRGINIA  
PRINCIPAL PROPERTY TAX PAYERS  
CURRENT YEAR AND 2008**

2017			2008		
Taxpayer	Taxable Assessed Value	Percentage of Total Town Taxable Assessed Value	Taxpayer	Taxable Assessed Value	Percentage of Total Town Taxable Assessed Value
Boisseau Family LC	\$ 17,496,200	1.48%	Boisseau Family, L.C.	\$ 20,763,000	1.46%
Gateway Plaza Shopping Center	8,313,500	0.70%	Ramsey, Inc.	9,895,205	0.69%
Shenandoah Square LP	7,948,200	0.67%	Gateway Plaza Shopping Center	7,678,000	0.54%
Royal Arms Associates	7,050,000	0.60%	Shenandoah Square LP	6,947,000	0.49%
F & R Limited Partnership	6,518,700	0.55%	Cogil Corporation	6,069,500	0.43%
HWA Enterprises	6,216,600	0.53%	Corry Family Real Estate LLC	5,416,300	0.38%
HLI Endowment Inc	6,148,600	0.52%	Royal Arms Associates	4,765,100	0.33%
MCAP Southerlands LLC	6,055,700	0.51%	CCC Enterprises Inc. of VA	3,672,100	0.26%
Ramsey, Inc.	5,187,900	0.44%	Shenandoah Properties II	2,142,900	0.15%
Corry Family Real Estate LLC	3,729,700	0.32%	Richmond Homes	1,797,300	0.13%
Total	<u>\$ 74,665,100</u>	<u>6.33%</u>		<u>\$ 69,146,405</u>	<u>4.86%</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>Subsequent Tax Collections</b>	<b>Total Tax Collections</b>	<b>Total Collection as Percent of Current Levy</b>
2008	1,631,281	1,531,421	93.88%	74,400	1,605,821	98.44%
2009	1,655,680	1,539,151	92.96%	109,860	1,649,011	99.60%
2010	3,131,608	2,332,404	74.48%	792,143	3,124,547	99.77%
2011	1,802,507	968,065	53.71%	760,173	1,728,238	95.88%
2012	1,833,691	683,918	37.30%	1,063,030	1,746,948	95.27%
2013	1,840,648	928,189	50.43%	813,721	1,741,910	94.64%
2014	2,084,048	1,042,874	50.04%	923,728	1,966,602	94.36%
2015	2,153,232	1,096,456	50.92%	920,680	2,017,136	93.68%
2016	2,119,854	1,067,015	50.33%	866,799	1,933,814	91.22%
2017	2,253,175	1,158,124	51.40%	-	1,158,124	51.40%

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

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

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

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

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

Fiscal Year	Governmental Activities General Obligation Bonds	Business Type Activities General Obligation Bonds	Total Primary Government	Personal Income (in \$000's)	Percentage of Personal Income	Population	Per Capita
2008	424,239	12,756,102	13,180,341	461,432	2.86%	14,475	911
2009	347,020	11,850,070	12,197,090	483,029	2.53%	14,616	835
2010	266,194	13,665,076	13,931,270	466,320	2.99%	14,573	956
2011	181,594	12,725,987	12,907,581	547,521	2.36%	14,440	894
2012	93,043	11,767,674	11,860,717	553,967	2.14%	14,610	812
2013	-	10,750,000	10,750,000	663,896	1.62%	14,666	733
2014	-	12,835,000	12,835,000	700,492	1.83%	15,127	848
2015	-	14,993,354	14,993,354	702,210	2.14%	15,545	965
2016	-	31,173,426	31,173,426	723,276	4.31%	14,709	2,119
2017	-	45,810,321	45,810,321	727,056	6.30%	15,153	3,023

**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>
2008	13,180,341	12,756,102	424,239	1,552,347	0.85%	14,475	911
2009	12,197,090	11,850,070	347,020	1,567,042	0.78%	14,616	835
2010	13,931,270	13,665,076	266,194	1,531,545	0.91%	14,573	956
2011	12,907,581	12,725,987	181,594	1,218,737	1.06%	14,440	894
2012	11,860,717	11,767,674	93,043	1,235,642	0.96%	14,610	812
2013	10,750,000	10,750,000	-	1,249,703	0.86%	14,666	733
2014	12,835,000	12,835,000	-	1,253,841	1.02%	15,127	848
2015	14,993,354	14,993,354	-	1,281,408	1.17%	15,545	965
2016	31,173,426	31,173,426	-	1,289,770	2.42%	14,709	2,119
2017	45,810,321	45,810,321	-	1,295,598	3.54%	15,153	3,023

**TOWN OF FRONT ROYAL, VIRGINIA**  
**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT**  
**AS OF JUNE 30, 2017**

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
<b>Debt repaid with property taxes</b>			
Warren County	\$ 9,389,634		
Warren County School Board	40,640,000		
Subtotal, overlapping debt	<u>50,029,634</u>	49%	24,514,521
<b>Town of Front Royal (direct debt)</b>	<u>-</u>	100%	<u>-</u>
<b>Total direct and overlapping debt</b>			<u><u>\$ 24,514,521</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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Debt limit	\$ 145,212,163	\$ 145,266,886	\$ 145,073,555	\$ 114,501,165	\$ 114,459,425	\$ 114,460,908	\$ 114,638,394	\$ 117,310,614	\$ 117,540,445	\$ 117,959,718
Net debt applicable to limit	13,180,341	12,197,090	13,931,270	12,907,581	11,860,717	10,750,000	12,835,000	13,955,241	-	-
Legal debt margin	\$ 132,031,822	\$ 133,069,796	\$ 131,142,285	\$ 101,593,584	\$ 102,598,708	\$ 103,710,908	\$ 101,803,394	\$ 103,355,373	\$ 117,540,445	\$ 117,959,718
Net debt applicable to the limit as a percent of debt limit	9%	8%	10%	11%	10%	9%	11%	12%	0%	0%

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

Fiscal Year	Gross Revenue <sup>1</sup>	Operating Expenses <sup>2</sup>	Net Revenue Available for Debt Service	Debt Service Requirements			
				Principal	Interest	Total	Coverage
2008	23,107,557	16,528,362	6,579,195	887,189	578,849	1,466,038	4.49
2009	22,220,514	17,417,903	4,802,611	906,030	531,927	1,437,957	3.34
2010	22,150,992	18,008,335	4,142,657	919,994	506,962	1,426,956	2.90
2011	24,304,483	20,868,331	3,436,152	955,679	593,798	1,549,477	2.22
2012	24,166,784	18,870,789	5,295,995	974,906	631,396	1,606,302	3.30
2013	28,335,365	17,772,057	10,563,308	1,034,264	564,878	1,599,142	6.61
2014	28,092,082	20,376,968	7,715,114	535,000	537,563	1,072,563	7.19
2015	30,353,796	19,830,467	10,523,329	580,000	506,187	1,086,187	9.69
2016	29,902,189	20,550,341	9,351,848	680,000	508,966	1,188,966	7.87
2017	30,071,422	20,578,114	9,493,308	665,000	484,321	1,149,321	8.26

<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>Household Median Income</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>
2008	14,475	461,420	31,877	DNA	DNA	DNA	5,252	3.4%
2009	14,616	483,029	33,048	DNA	DNA	DNA	5,240	7.0%
2010	14,573	466,320	31,999	DNA	DNA	DNA	5,720	6.7%
2011	14,440	547,521	37,917	DNA	38	DNA	5,317	6.7%
2012	14,610	553,967	37,917	DNA	DNA	DNA	5,325	5.5%
2013	14,666	663,896	45,268	DNA	DNA	DNA	5,394	5.7%
2014	15,127	700,492	46,307	26,129	DNA	DNA	5,493	5.6%
2015	15,545	702,210	46,421	DNA	DNA	DNA	5,318	4.8%
2016	14,709	723,276	46,609	DNA	DNA	DNA	5,325	4.8%
2017	15,153	727,056	47,981	24,733	40	DNA	5,433	3.8%

\*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 2008**

2017			2008		
Employer	Employees	% of Total	Employer	Employees	% of Total
Warren County School Board	750-1000	13%	Warren County School Board	801	10%
Valley Health System	500-750	10%	Valley Health System	509	7%
Warren County	500-600	6%	Warren County	276	4%
Walmart	300-450	6%	Martin's Food Market	175	2%
Ferguson Enterprises, Inc.	300-600	3%	Randolph - Macon Academy	165	2%
Interbake Foods, LLC (SYSCO)	100-350	5%	Town of Front Royal	156	2%
Family Dollar Services	300-600	5%	United Parcel Services, Inc.	145	2%
UPS	300-600	4%	VIA Satellite	135	2%
Axalta	300-600	3%	Kmart Corporation	75	1%
Town of Front Royal	165-170	2%	Northwest Community Mental Health	62	1%

Source: Estimates from Warren County Economic Development Authority



**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>									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Government	41	40	38	38	33	37	37	38	38	38
Police Protection	47	47	47	47	47	48	49	49	51	52
Highway - Streets	17	17	17	17	16	17	16	16	16	16
Sanitation	15	13	13	13	14	15	14	14	14	12
Water	13	14	15	15	18	15	15	18	18	18
Sewer	15	15	14	14	17	16	16	16	17	17
Electrical	11	12	13	13	15	15	15	15	17	17
	159	158	157	157	160	163	162	166	171	170

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

Function/Program	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Public Safety										
Police										
Physical arrests	1,436	1,108	1,943	1,361	1,777	1,183	1,217	947	837	952
Parking violations	678	752	841	462	222	364	190	12	64	154
Traffic violations	3,560	4,379	3,770	3,423	2,666	1,808	1,676	2,632	2,239	2,394
Wastewater										
New service connections	48	33	14	17	17	14	8	30	52	80
Average daily treatment in gallons	2,988,613	3,399,715	3,764,984	3,598,000	3,426,000	3,531,000	3,665,000	3,936,000	4,265,000	4,000,000
Water System										
New connections	52	32	13	16	20	16	9	34	51	78
Average daily consumption	1,976,953	2,143,041	2,182,274	2,065,043	1,453,000	1,875,000	1,875,000	1,875,000	1,868,000	1,736,000
Electric Distribution										
New Connections	25	16	4	12	18	20	20	27	26	23
Average daily KWH consumption	576,589	545,482	552,178	538,679	487,033	528,398	516,708	517,114	523,681	535,984
Sanitation										
Refuse collected (tons/day)	22	15	14	20	20	22	23	24	24	46
Recyclables collected (tons/day)	2.00	2.00	1.20	2.45	1.98	1.46	1.61	1.62	1.73	1.73
Highway and Streets										
Repair services	65	55	28	210	366	398	253	151	176	272
Street resurfacing (miles)	35.00	5.00	11.75	1.44	12.80	1.20	15.61	5.00	3.00	1.40

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

Function/Program	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Public Safety										
Police										
Stations	2	2	2	2	2	2	2	2	2	2
Patrol Units	12	12	12	12	12	12	20	26	25	26
Fire Stations	1	1	1	1	1	1	1	1	1	1
Highways and Streets										
Streets (miles)	133	133	133	133	133	133	138	132	132	132
Streetlights	1,430	1,450	1,450	1,450	1,450	1,450	1,470	1,505	1,871	1,969
Traffic signals	15	14	14	14	14	14	14	14	14	16
Culture and Recreation										
Community centers	1	1	1	1	1	1	1	2	2	2
Parks	13	13	13	13	13	12	12	20	20	23
Park acreage	165	165	165	165	165	125	125	400	400	400
Swimming pools	1	1	1	1	1	1	1	1	1	1
Tennis courts	9	9	9	9	9	2	2	6	6	6
Sewer System										
Sanitary sewers (miles)	198	198	198	198	198	198	198	198	198	124
Storm sewers (miles)	92	92	92	92	92	92	92	92	92	92
Treatment plants	1	1	1	1	1	1	1	1	1	1
Max daily capacity	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	5,000,000	6,520,000
Water System										
Facilities	1	1	1	1	1	1	1	1	1	1
Fire Hydrants	582	618	618	668	672	672	672	672	687	712
Max daily capacity	3,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Electric System										
Service lines (miles)	140	140	140	141	141	143	143	143	145	151
Distribution stations	3	4	4	4	4	4	4	5	5	5
Sanitation										
Collection Trucks	5	5	5	5	7	5	5	8	8	8

## **COMPLIANCE SECTION**

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

### INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Front Royal, Virginia, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Front Royal, Virginia's basic financial statements, and have issued our report thereon dated October 6, 2017.

#### ***Internal Control over Financial Reporting***

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

#### ***Compliance and Other Matters***

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

#### ***Purpose of this Report***

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

October 6, 2017  
Leesburg, Virginia

*Mitchell & Co., P.C.*