

TOWN OF FRONT ROYAL, VIRGINIA

*COMPREHENSIVE
ANNUAL FINANCIAL REPORT*

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

**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 15,221.

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
(540) 635-8007
(540) 636-7475 (Fax)
jwaltz@frontroyalva.com

October 21, 2019

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

RE: FY 2018-19 Comprehensive Annual Financial Report(CAFR)
Letter of Transmittal

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, 2019. 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 FY2018-2019.

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, 2019, 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, 2019, 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 15,006.

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 every 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, Fleet Management, Human Resources, Public Works, Risk Management, Information Technology, Public Safety, and Planning & Zoning are appointed by and operated 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

The Town of Front Royal continues to experience a stable economy with a slight increase in revenues. The Town expects a flat revenue stream until further development in the community with the focus on attracting new commercial development in Town to increase economic impact. The two areas of focus are the superfund site (Royal Phoenix) and the Happy Creek area with the completion of Leach Run Parkway, a new Middle School and the future home of a new hospital.

The Town's General Fund revenues has remained stable with effective planning and prudent fiscal spending by the Town having positioned our finances for future growth. The Town will continue to monitor outside influences for our fiscal condition. The Town's Enterprise Funds remains stable with all funds operating within the budget except for the Energy Services department. The Town has experienced some additional cost due to congestion and weather-related events in the electric market. The Town is currently in the process of a cost of service study to determine the acceptable rates to provide the service to our community. The Town will continue to work with our financial consultant to plan for future needs appropriately to minimize any future rate adjustments.

Major Initiatives in FY19

In FY19 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:

- Rte. 522 Corridor Water Upgrade/Redundancy – The Town continues to work on a redundant water supply in the Corridor to provide reliable water service to our commercial users. We are currently working on engineering services for the design of the \$11.8M loop project that is projected to be completed in the next two years.

- Community Development Block Grant (CDBG) – In FY19, the Town was awarded the block grant for the Front Royal District Revitalization project to include a facade program for Main Street merchants, a pavilion with bathrooms, and a parking study with improvements for downtown area. The implementation of the grant will take place over the next two years.
- Criser Road Bridge Replacement – The bridge project involved the demolition and replacement of an undersized bridge structure over Happy Creek near the eastern end of Criser Road. The project was begun on May 14, 2018 and was completed on January 9, 2019. The new 42-foot long structure cost a total of \$1,013,522.44.
- Police Department Facility (new) – In FY19 the Town started the construction of the new police facility in Town with a completion in late FY20. The facility will be comprised of two buildings supporting all police services for the community.
- Royal Phoenix Site - The Town continues with the development of the Avtex Property (Superfund site) with the installation of water and sewer facilities to support the IT Federal development of Lot 6.
- West Main Extension - – The Town secured an Industrial Access Grant funding to extend Main Street through the Royal Phoenix site to facilitate further development and is currently scheduled for completion at the end of FY20. The W. Main Extension project involved the construction of approximately 800 feet of a new three lane roadway off Kendrick Lane, providing access to the northern portion of the former Avtex superfund site. The project began on July 2, 2018 and the current contract amount for the project is \$1,181,946.38.

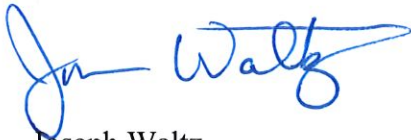
Town Awards and Achievements

- Certificate of Achievement for Excellence in Financial Reporting - 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, 2018. This was the thirty first (31) 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.
- Certificate of Excellence in Reliability – The Town of Front Royal received national recognition for achieving exceptional electric reliability in 2018 from the American Power Association (APPA). The Town has achieved excellence in reliability by significantly outperforming the electric industry national average as reported by the Energy Information Administration (EIA).
- 2018 Excellence in Waterworks Operations/Performance Award – The Town of Front Royal Water Treatment plant was awarded the 2018 Excellence Award from the Virginia Department of Health Office of Drinking Water.

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 benefits all who use this document. Special recognition is also extended to those members of the Department of Energy Services and Public Works who assisted the auditors in their evaluation of the inventory for both departments.

A handwritten signature in blue ink, appearing to read "Joe Waltz", with a stylized flourish at the end.

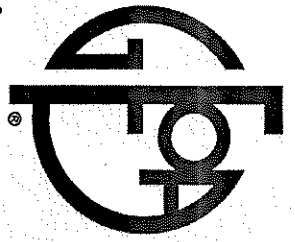
Joseph Waltz

Town Manager

A handwritten signature in blue ink, appearing to read "B.J. Wilson", with a stylized flourish at the end.

B.J. Wilson

Director of Finance



The Government Finance Officers Association
of the United States and Canada

presents this

AWARD OF FINANCIAL REPORTING ACHIEVEMENT

to

B.J. Wilson

Director of Finance

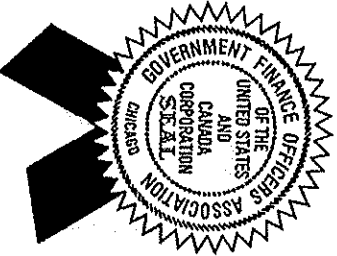
Town of Front Royal, Virginia

The award of Financial Reporting Achievement is presented by the Government Finance Officers Association to the individual(s) designated as instrumental in their government unit achieving a Certificate of Achievement for Excellence in Financial Reporting. A Certificate of Achievement is presented to those government units whose annual financial reports are judged to adhere to program standards and represents the highest award in government financial reporting.

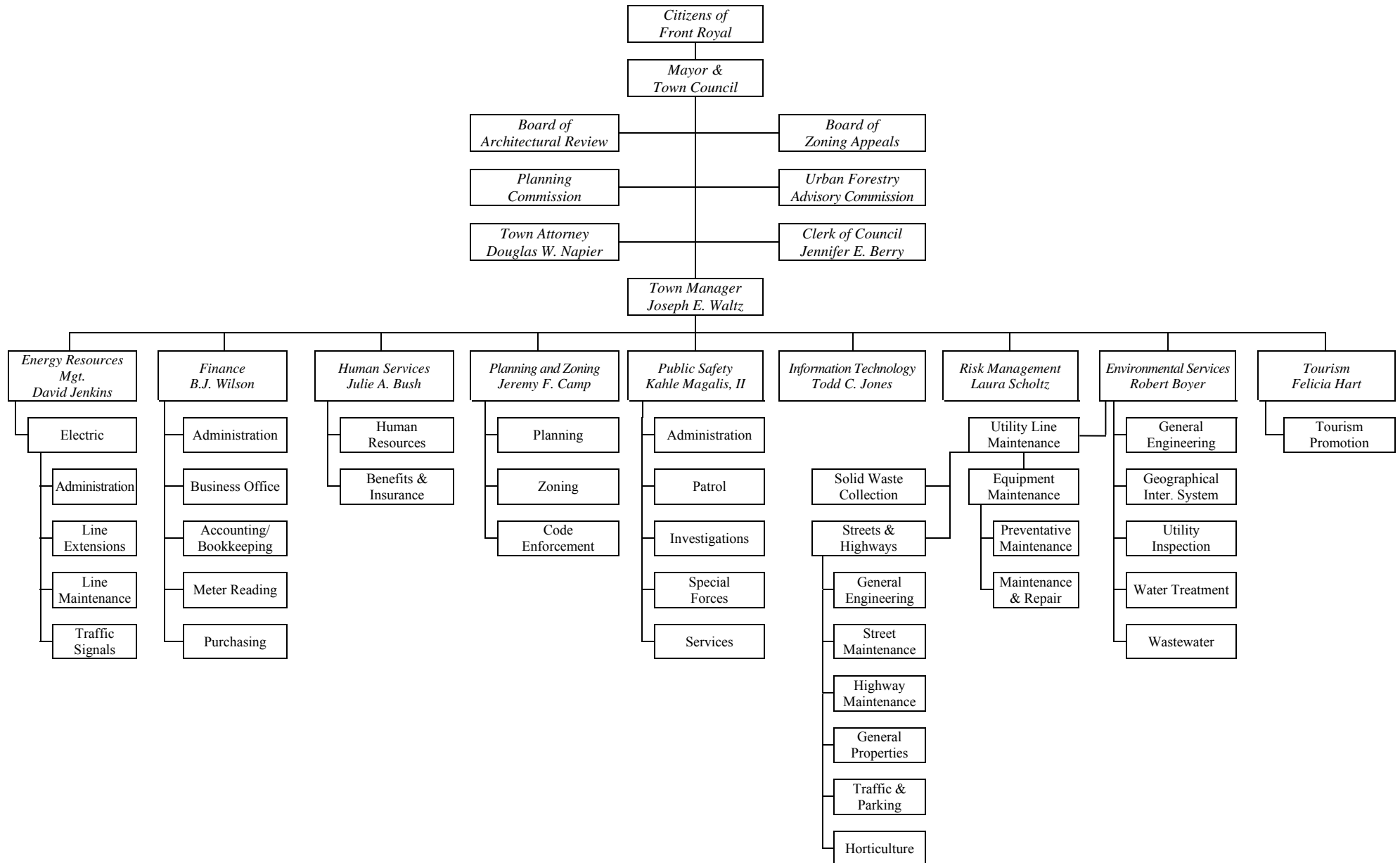
Executive Director

Christopher P. Merrill

Date May 7, 2019



**TOWN OF FRONT ROYAL
ORGANIZATIONAL CHART
FISCAL YEAR ENDED JUNE 30, 2019**



**TOWN OF FRONT ROYAL, VIRGINIA
JUNE 30, 2019**

TOWN COUNCIL

Matthew A. Tederick – Interim Mayor
William A. Sealock – Vice Mayor
Christopher W. Holloway
Gary Gillispie
Jacob L. Meza
Letasha T. Thompson
Eugene R. Tewalt

TOWN OFFICIALS

Town Manager	Joseph E. Waltz
Director of Planning & Zoning	Jeremy F. Camp
Town Attorney	Douglas W. Napier
Chief of Police	Kahle Magalis II
Director of Environmental Services	Robert Boyer
Purchasing Agent	Alisa Scott
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
Risk Management Manager	Laura Scholtz
Town Engineer	Robert Brown

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
KARA J. SANTMYER, 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, 2019, 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, 2019, 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 and required supplementary information 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 21, 2019 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 21, 2019
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, 2019. 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 \$138,591,332. Of this amount, \$31,387,261 may be used to meet the Town's ongoing obligations to its citizens and creditors.
- The Town's total net position increased by \$1,885,300 for fiscal year ended June 30, 2019.
- As of the close of the current fiscal year, the Town of Front Royal's governmental funds reported combined ending fund balances of \$13,648,132, an increase of \$794,464 in comparison with the prior year. Approximately 50% of this amount (\$6,815,982) 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 \$7,169,004 or 38 percent of total general fund expenditures.
- The Town's total bonded debt decreased by \$2,277,790 (4.8 percent) during the current fiscal year.

Overview of the Financial Statements

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

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

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

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

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

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

TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31 – 87 of this report.

Required Supplementary Information (RSI). The RSI is additional historical and trending information related to the VRS pension plan funding and other post-employment benefits. This information is found on pages 88-97.

Supplementary Information. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information to the financial statements. Combining and individual fund statements and schedules can be found on 98-111 of this report.

TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Additional state required supplementary schedules follow the combining and individual fund statements and can be found on pages 104 – 105 of this report.

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 \$138,591,332 at the close of the most recent fiscal year.

By far the largest portion of the Town's net position (75.6 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, 2019 and 2018.

TOWN OF FRONT ROYAL -- NET POSITION						
	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 16,562,402	\$ 15,538,113	\$ 39,073,128	\$ 37,199,225	\$ 55,635,530	\$ 52,737,338
Capital assets	58,424,571	54,613,788	95,252,733	96,487,818	153,677,304	151,101,606
Total Assets	74,986,973	70,151,901	134,325,861	133,687,043	209,312,834	203,838,944
Deferred Outflows of Resources	824,222	696,068	716,117	818,506	1,540,339	1,514,574
Long-term liabilities	18,204,382	12,093,142	49,346,459	51,467,088	67,550,841	63,560,230
Other liabilities	900,866	827,847	3,181,615	3,267,075	4,082,481	4,094,922
Total Liabilities	19,105,248	12,920,989	52,528,074	54,734,163	71,633,322	67,655,152
Deferred Inflows of Resources	466,708	702,215	161,811	290,119	628,519	992,334
Net investment in capital assets	49,299,224	51,389,043	53,014,215	51,965,853	102,313,439	103,354,896
Restricted	4,890,632	4,133,610	-	-	4,890,632	4,133,610
Unrestricted	2,049,383	1,702,112	29,337,878	27,515,414	31,387,261	29,217,526
Total Net Position	\$ 56,239,239	\$ 57,224,765	\$ 82,352,093	\$ 79,481,267	\$ 138,591,332	\$ 136,706,032

An additional portion of the Town of Front Royal's net position (3.53%) represents resources that are in a nonspendable form. The remaining balance of \$31,387,261 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.

TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Town's net position increased by \$1,835,300 from fiscal year ended June 30, 2019 activities. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

Governmental activities. Governmental activities decreased the Town's net position by \$985,526. 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	
	2019	2018	2019	2018	2019	2018
Revenues						
Program revenues						
Charges for services	\$ 385,611	\$ 364,735	\$ 32,985,997	\$ 31,851,073	\$ 33,371,608	\$ 32,215,808
Operating grants & contributions	3,008,198	2,263,456	-	-	3,008,198	2,263,456
Capital grants & contributions	283,281	1,296,492	262,563	1,841,670	545,844	3,138,162
General revenues						
Property taxes	2,175,076	1,960,007	-	-	2,175,076	1,960,007
Other taxes	6,053,351	5,756,327	-	-	6,053,351	5,756,327
Investment and other earnings	314,587	303,517	1,005,568	144,313	1,320,155	447,830
Total revenues	12,220,104	11,944,534	34,254,128	33,837,056	46,474,232	45,781,590
Expenses						
General government	3,591,283	3,688,420	-	-	3,591,283	3,688,420
Public safety	5,084,827	5,137,009	-	-	5,084,827	5,137,009
Engineering and public works	2,671,218	2,661,967	-	-	2,671,218	2,661,967
Planning and zoning	936,586	1,078,310	-	-	936,586	1,078,310
Infrastructure depreciation	4,052,716	3,591,054	-	-	4,052,716	3,591,054
Electric	-	-	18,681,552	18,153,934	18,681,552	18,153,934
Water	-	-	3,380,314	3,583,833	3,380,314	3,583,833
Sewer	-	-	5,307,707	5,003,086	5,307,707	5,003,086
Solid waste management	-	-	882,729	898,003	882,729	898,003
Total expenses	16,336,630	16,156,760	28,252,302	27,638,856	44,588,932	43,795,616
Increase (decrease) in net position before transfers	(4,116,526)	(4,212,226)	6,001,826	6,198,200	1,885,300	1,985,974
Transfers	3,131,000	3,155,000	(3,131,000)	(3,155,000)	-	-
Increase (decrease) in net position	(985,526)	(1,057,226)	2,870,826	3,043,200	1,885,300	1,985,974
Net position restatement	-	(2,338,356)	-	(648,231)	-	(2,986,587)
Net position – beginning	57,224,765	60,620,347	79,481,267	77,086,298	136,706,032	137,706,645
Net position – ending	\$ 56,239,239	\$ 57,224,765	\$ 82,352,093	\$ 79,481,267	\$ 138,591,332	\$ 136,706,032

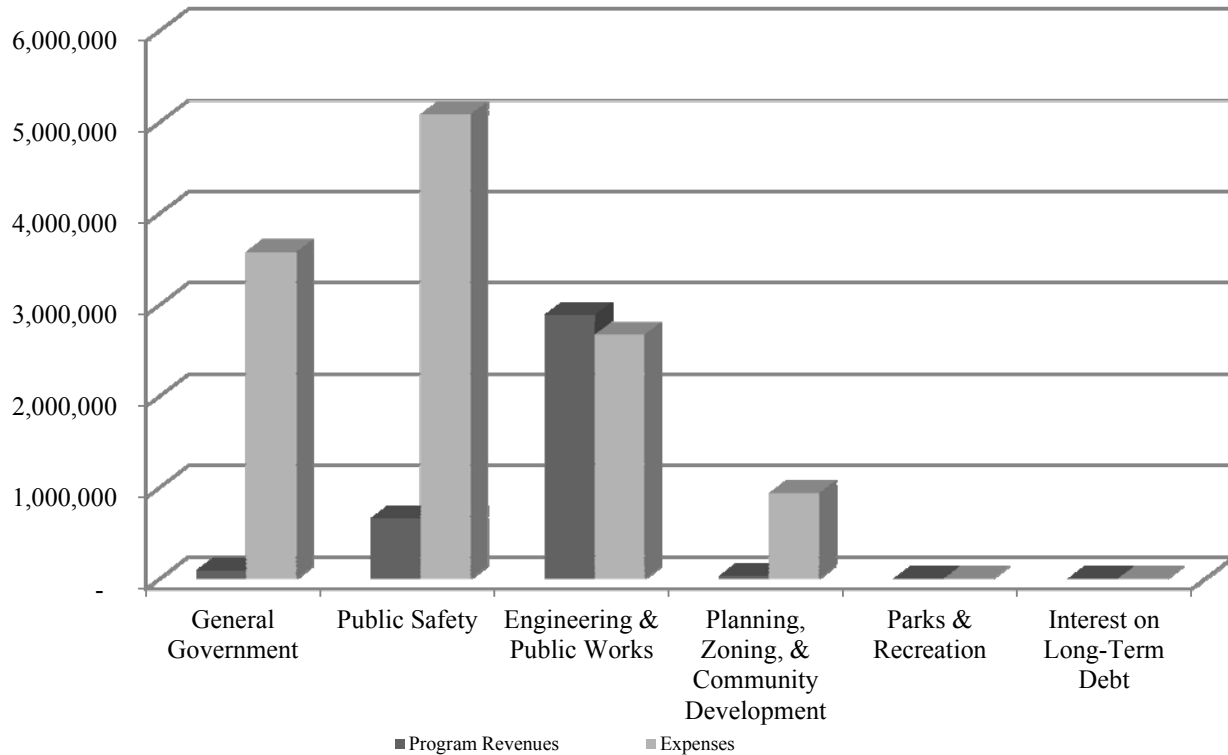
- Infrastructure improvements (streets and police station).

TOWN OF FRONT ROYAL, VIRGINIA

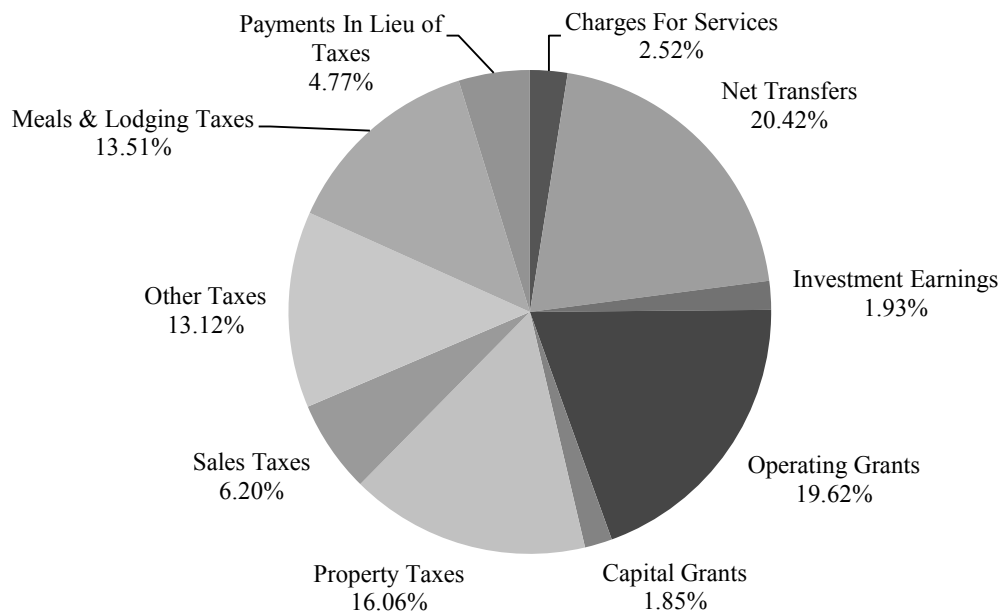
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following charts present a graphic representation of the Town's governmental activities and the related revenue structure for fiscal year 2019.

EXPENSES AND PROGRAM REVENUES – GOVERNMENTAL ACTIVITIES



REVENUES BY SOURCE – GOVERNMENTAL ACTIVITIES



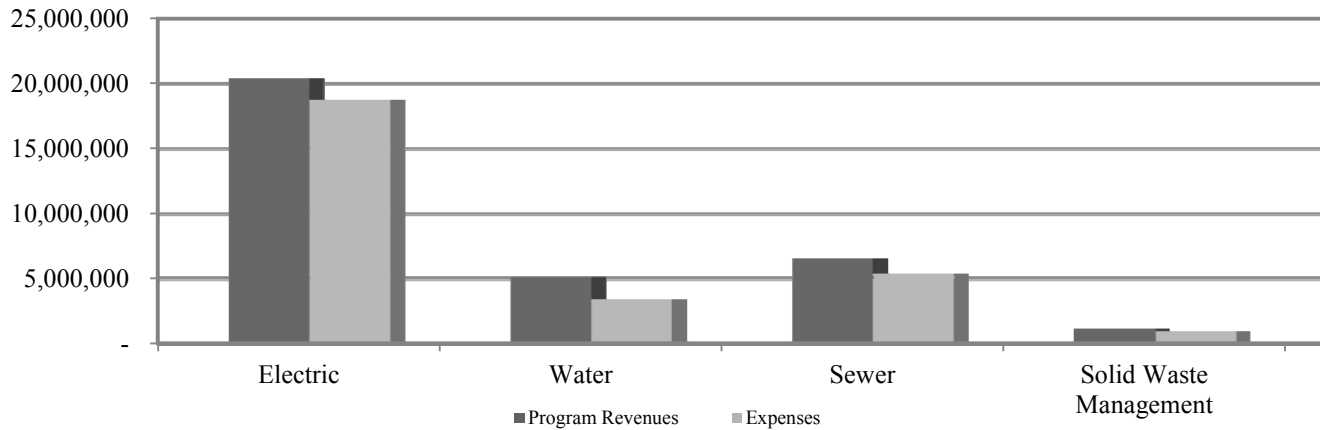
TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

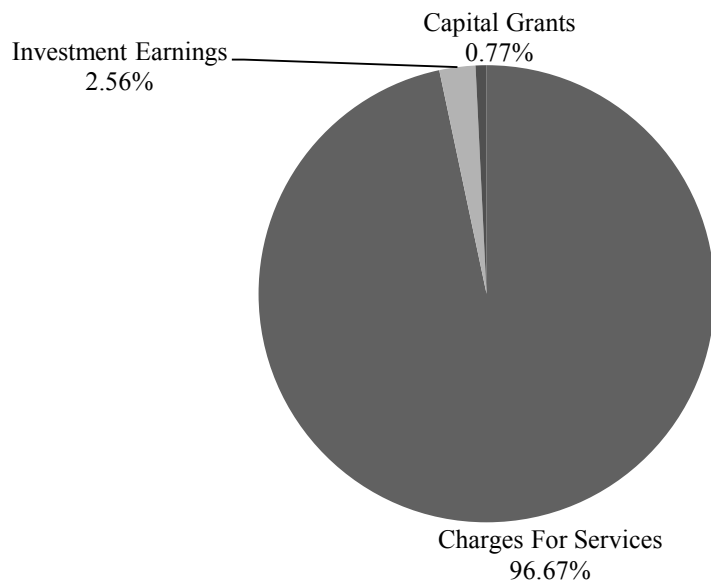
Business-type activities. Business-type activities increased the Town of Front Royal, Virginia's net position by \$2,403,195. Key elements of this increase are as follows:

- Increases in charges for services.

EXPENSES AND PROGRAM REVENUES – BUSINESS-TYPE ACTIVITIES



REVENUES BY SOURCE – BUSINESS-TYPE ACTIVITIES



TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the Town of Front Royal's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Town of Front Royal itself, or group that has been delegated authority to assign resources for use for particular purposes by the Town of Front Royal's Council.

As of the end of the current fiscal year, the Town of Front Royal, Virginia's governmental funds reported combined ending fund balances of \$13,648,132, an increase of \$794,464 in comparison with the prior year. Approximately 49.9% of this total amount, \$6,815,982 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance represents funds in nonspendable form (\$67,677), assigned for future use (\$1,873,841), and restricted by third parties (\$4,890,632).

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 \$7,169,004, while total fund balance reached \$13,013,341. 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 37.6 percent of total general fund expenditures, while total fund balance represents 68.3 percent of that same amount.

The fund balance of the Town's general fund increased by \$574,556 during the current fiscal year. Key factors in this increase are as follows:

- Intergovernmental project support payments

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 \$66,730,262 and those for the electric function amounted to \$15,621,831. The total increase in net position for all enterprise funds was \$2,870,826. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

Additional net appropriations increases between the original budget and the final amended budget totaled \$2,913,199 and are noted as follows: a \$58,454 increase in Legislative; a \$178,350 increase in Executive; a \$86,855 increase in Legal; a \$324,209 increase in General Government; a \$116,857 increase in Planning, Zoning and Community Development; a \$551,107 increase in Police Department; a \$1,974,809 increase in Public Works and Engineering; and, a \$53,783 decrease in Nondepartmental.

Actual general fund revenues were greater than budgeted revenues by \$6,088,881. The variance relates primarily to project reimbursements received but not budgeted. Actual general fund expenditures exceeded the budgeted expenditures by \$3,316,426.

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, 2019, amounts to \$153,677,304 (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 1.70%. Major capital assets events during the current fiscal year included the following:

- Waste water treatment plant of \$561,088
- Water line upgrades and paving of \$545,439
- Bridge construction of \$701,611
- Police station in progress of \$5,819,387

The table below summarizes the capital assets of the Town at June 30, 2019 and 2018.

TOWN OF FRONT ROYAL - CAPITAL ASSETS (NET OF DEPRECIATION)						
	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 1,304,316	\$ 1,304,316	\$ 1,488,822	\$ 1,488,822	\$ 2,793,138	\$ 2,793,138
Construction in progress	8,967,827	3,456,270	-	-	8,967,827	3,456,270
Buildings and Improvements	8,519,327	7,543,169	70,454,626	70,804,435	78,973,953	78,347,604
Utility distribution systems	-	-	22,247,051	22,705,201	22,247,051	22,705,201
Vehicles	502,556	527,243	338,833	488,721	841,389	1,015,964
Machinery and Equipment	1,015,807	624,768	723,401	1,000,639	1,739,208	1,625,407
Infrastructure	38,114,738	41,158,022	-	-	38,114,738	41,158,022
Total	\$ 58,424,571	\$ 54,613,788	\$ 95,252,733	\$ 96,487,818	\$ 153,677,304	\$ 151,101,606

Additional information on the Town of Front Royal's capital assets can be found in Note IV. E. on pages 46 – 47 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 \$44,550,354. All of this amount comprises debt backed by the full faith and credit of the government even though all bonded debt will be repaid from enterprise fund revenue.

TOWN OF FRONT ROYAL -- OUTSTANDING DEBT (GENERAL OBLIGATION BONDS)						
	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
General Obligation Bonds	\$ -	\$ -	\$ 44,550,354	\$ 46,747,725	\$ 44,550,354	\$ 46,747,725

The Town of Front Royal's total bonded debt decreased by \$2,277,790 (4.8 percent) during the current fiscal year. The majority of the debt is \$37,020,354 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.

TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total taxable assessed valuation. The current debt limitation for the Town of Front Royal is \$132,069,040 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 48 – 51 of this report.

Economic Factors and Next Year’s Budgets and Rates

- The unemployment rate for the Town of Front Royal is currently 3.1 percent, which is the same as the prior year.
- This compares to the state’s average unemployment rate of 3.1 percent and favorably to the national average rate of 3.7 percent.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the Town of Front Royal, Virginia’s budget for the 2019 fiscal year.

During the current fiscal year, unassigned fund balance in the general fund was \$7,169,004. Town of Front Royal has not appropriated any of this amount for spending in the 2020 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, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 14,791,703	\$ 13,496,716	\$ 28,288,419
Investments	-	16,505,068	16,505,068
Receivables (net of allowance for uncollectibles, where applicable)			
Delinquent taxes, including penalties	2,050,489	-	2,050,489
Accounts	-	3,256,786	3,256,786
Other	148,306	80,034	228,340
Internal balances	(883,165)	883,165	-
Due from other governments	387,392	-	387,392
Inventories and other assets	67,677	1,733,178	1,800,855
Temporarily restricted assets - cash and cash equivalents			
Customer deposits	-	519,539	519,539
Bond funds	-	2,598,642	2,598,642
Capital assets (net of accumulated depreciation)			
Land	1,304,316	1,488,822	2,793,138
Buildings and improvements	8,519,327	70,454,626	78,973,953
Utility distribution systems	-	22,247,051	22,247,051
Vehicles	502,556	338,833	841,389
Machinery and equipment	1,015,807	723,401	1,739,208
Infrastructure	38,114,738	-	38,114,738
Construction in progress	8,967,827	-	8,967,827
Total Assets	74,986,973	134,325,861	209,312,834
Deferred Outflows of Resources			
Deferred charge on refunded debt	-	419,526	419,526
Deferred pension and life obligations	824,222	296,591	1,120,813
Total Deferred Outflows	824,222	716,117	1,540,339
Liabilities			
Accounts payable	900,866	1,698,813	2,599,679
Accrued interest payable	-	107,873	107,873
Banking advances	-	855,390	855,390
Liabilities payable with restricted assets	-	519,539	519,539
Noncurrent liabilities			
Due within one year	950,350	3,036,219	3,986,569
Due in more than one year	17,254,032	46,310,240	63,564,272
Total Liabilities	19,105,248	52,528,074	71,633,322
Deferred Inflows of Resources			
Deferred pension and life inflows	466,708	161,811	628,519
Net Position			
Net investment in capital assets	49,299,224	53,014,215	102,313,439
Restricted for:			
Streets and highways	3,902,819	-	3,902,819
Capital outlays	8,755	-	8,755
Community development	979,058	-	979,058
Unrestricted	2,049,383	29,337,878	31,387,261
Total Net Position	\$ 56,239,239	\$ 82,352,093	\$ 138,591,332

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, 2019

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
Primary government:							
Governmental activities							
General government	\$ 3,580,318	\$ 55,704	\$ -	\$ 37,557	\$ (3,487,057)	\$ -	\$ (3,487,057)
Public safety	5,084,827	298,212	362,168	-	(4,424,447)	-	(4,424,447)
Engineering and public works	2,671,218	-	2,646,030	245,724	220,536	-	220,536
Planning, zoning, and community development	936,586	31,695	-	-	(904,891)	-	(904,891)
Interest	10,965	-	-	-	(10,965)	-	(10,965)
Infrastructure depreciation	4,052,716	-	-	-	(4,052,716)	-	(4,052,716)
Total governmental activities	16,336,630	385,611	3,008,198	283,281	(12,659,540)	-	(12,659,540)
Business-type activities							
Electric	18,681,552	20,344,673	-	17,699	-	1,680,820	1,680,820
Water	3,380,314	5,073,560	-	-	-	1,693,246	1,693,246
Sewer	5,307,707	6,473,632	-	244,864	-	1,410,789	1,410,789
Solid Waste Mangement	882,729	1,094,132	-	-	-	211,403	211,403
Total business-type activities	28,252,302	32,985,997	-	262,563	-	4,996,258	4,996,258
Total primary government	\$ 44,588,932	\$ 33,371,608	\$ 3,008,198	\$ 545,844	(12,659,540)	4,996,258	(7,663,282)
General Revenues							
Property taxes					2,175,076	-	2,175,076
Sales taxes					951,020	-	951,020
Business and occupational taxes					763,876	-	763,876
Franchise and bank stock taxes					368,735	-	368,735
Communication taxes					145,928	-	145,928
Consumer taxes					232,517	-	232,517
Meals and lodging taxes					2,071,821	-	2,071,821
Virginia personal property tax reduction					287,863	-	287,863
Payment in lieu of taxes					730,871	-	730,871
Motor vehicle tax					377,554	-	377,554
Other general taxes					123,166	-	123,166
Unrestricted investment earnings					295,260	873,411	1,168,671
Asset sales and insurance recoveries					19,327	132,157	151,484
Transfers					3,131,000	(3,131,000)	-
Total general revenues and transfers					11,674,014	(2,125,432)	9,548,582
Change in net position					(985,526)	2,870,826	1,885,300
Net position - beginning					57,224,765	79,481,267	136,706,032
Net position - ending					\$ 56,239,239	\$ 82,352,093	\$ 138,591,332

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

TOWN OF FRONT ROYAL, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 14,010,974	\$ 780,729	\$ 14,791,703
Receivables (net of allowance for uncollectibles, where applicable)			
Delinquent taxes, including penalties	2,050,489	-	2,050,489
Other	148,306	-	148,306
Due from other governments	387,392	-	387,392
Interfund advances	49,915	4,500	54,415
Inventories and other assets	67,677	-	67,677
Total Assets	\$ 16,714,753	\$ 785,229	\$ 17,499,982
Liabilities, Deferred Inflows and Fund Balances			
Liabilities			
Accounts payable	\$ 713,917	\$ 3,492	\$ 717,409
Accrued liabilities	183,457	-	183,457
Interfund advances	790,634	146,946	937,580
Total Liabilities	1,688,008	150,438	1,838,446
Deferred Inflows of Resources			
Unavailable revenue	2,013,404	-	2,013,404
Fund balances			
Nonspendable:			
Inventory	3,412	-	3,412
Prepaid items	64,265	-	64,265
Restricted for:			
Streets and highways	3,902,819	-	3,902,819
Capital outlays	-	8,755	8,755
Community development	-	979,058	979,058
Assigned for:			
Expenditures designated for future years	1,873,841	-	1,873,841
Unassigned	7,169,004	(353,022)	6,815,982
Total Fund Balances	13,013,341	634,791	13,648,132
Total Liabilities, Deferred Inflows and Fund Balances	\$ 16,714,753	\$ 785,229	

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.	58,424,571
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	2,013,404
Long-term liabilities, including bonds, notes, advances and other post employment benefits payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(12,914,100)
Pension, life and line of duty obligations and funding requirement reporting is not due in the current period and, therefore, not reported in the funds.	(4,932,768)
Net position of governmental activities	<u>\$ 56,239,239</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, 2019

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes			
Property	\$ 1,162,225	\$ 856,045	\$ 2,018,270
Sales	951,020	-	951,020
Business and occupational	763,876	-	763,876
Franchise	49,029	-	49,029
Consumer	232,517	-	232,517
Vehicle taxes	377,554	-	377,554
Bank stock	319,706	-	319,706
Meals and lodging	2,071,821	-	2,071,821
Payment in lieu of taxes	730,871	-	730,871
Permits, fees, and licenses	31,695	-	31,695
Fines and forfeitures	290,829	-	290,829
Revenues from use of money & property	295,260	-	295,260
Charges for services	52,077	-	52,077
Miscellaneous	3,627	-	3,627
Recovered costs	-	7,383	7,383
Intergovernmental	8,586,972	674,662	9,261,634
Total revenues	<u>15,919,079</u>	<u>1,538,090</u>	<u>17,457,169</u>
Expenditures			
General government			
Legislative	235,441	-	235,441
Executive	2,066,390	-	2,066,390
Legal	347,002	-	347,002
Finance	837,058	-	837,058
Public safety - Police	10,857,703	-	10,857,703
Planning, zoning, and community development	428,181	463,465	891,646
Engineering and public works	3,661,478	854,717	4,516,195
Nondepartmental	611,597	-	611,597
Total expenditures	<u>19,044,850</u>	<u>1,318,182</u>	<u>20,363,032</u>
Deficiency of revenues under expenditures	<u>(3,125,771)</u>	<u>219,908</u>	<u>(2,905,863)</u>
Other Financing Sources (Uses)			
Transfers in	3,131,000	-	3,131,000
Transfers (out)	-	-	-
Issuance of debt	550,000	-	550,000
Insurance recoveries	1,309	-	1,309
Sale of real estate	18,018	-	18,018
Total other financing sources and uses	<u>3,700,327</u>	<u>-</u>	<u>3,700,327</u>
Net change in fund balances	<u>574,556</u>	<u>219,908</u>	<u>794,464</u>
Fund balances - beginning	<u>12,438,785</u>	<u>414,883</u>	<u>12,853,668</u>
Fund balances - ending	<u>\$ 13,013,341</u>	<u>\$ 634,791</u>	<u>\$ 13,648,132</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, 2019

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

Net change in fund balances - total governmental funds		\$ 794,464
Governmental funds report capital outlays as expenditures. However, in the Government Wide 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.		
Expenditure for capital assets	8,476,447	
Less depreciation and amortization expense	<u>(4,665,664)</u>	
Excess of capital outlay over depreciation and amortization		3,810,783
Revenues in the Government Wide Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in deferred revenue		156,806
The issuance of long-term debt (i.e. advances, bonds, notes, leases) provides current financial resources to governmental funds, but in the Government Wide Statement of Net Position is reported as a liability.		
Advanced project funding from EDA	(5,413,198)	
Equipment purchase loans	<u>(487,404)</u>	
		(5,900,602)
Some expenses reported in the Government Wide Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences	(45,049)	
Other post employment benefits		
Pension obligation	178,654	
Health insurance	(168,923)	
Group life insurance and LODA	<u>(175,320)</u>	
		(210,638)
Governmental funds do not report the deferred outflows and inflows in the Balance Sheet and in the Statement of Revenues, Expenditures and Changes in Fund Balance. However, in the Government Wide statements the deferred outflows and deferred inflows of resources are recorded.		
Deferred outflows	128,154	
Deferred inflows	<u>235,507</u>	
		<u>363,661</u>
Change in net position of governmental activities		<u>\$ (985,526)</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, 2019

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	Positive (Negative)
Revenues				
General property taxes	\$ 1,320,040	\$ 1,320,040	\$ 1,162,225	\$ (157,815)
Other local taxes	5,262,100	5,262,100	5,496,394	234,294
Permits, fees, and licenses	29,100	29,100	31,695	2,595
Fines and forfeitures	180,000	184,000	290,829	106,829
Revenues from use of money & property	78,545	78,545	295,260	216,715
Charges for services	47,300	47,300	52,077	4,777
Miscellaneous	37,060	37,060	3,627	(33,433)
Intergovernmental	2,880,080	2,896,380	8,586,972	5,690,592
Total revenues	9,834,225	9,854,525	15,919,079	6,064,554
Expenditures				
General government				
Legislative	223,115	281,569	235,441	46,128
Executive	2,213,740	2,392,090	2,066,390	325,700
Legal	372,255	459,110	347,002	112,108
Finance	911,075	911,625	837,058	74,567
Total general government	3,720,185	4,044,394	3,485,891	558,503
Public safety - police	5,059,840	5,610,947	10,857,703	(5,246,756)
Planning and zoning	558,635	675,492	428,181	247,311
Public works and engineering	2,867,565	4,842,374	3,661,478	1,180,896
Non-departmental	609,000	555,217	611,597	(56,380)
Total expenditures	12,815,225	15,728,424	19,044,850	(3,316,426)
Deficiency of revenues under expenditures	(2,981,000)	(5,873,899)	(3,125,771)	2,748,128
Other Financing Sources				
Transfers in	3,131,000	3,131,000	3,131,000	-
Transfers out	-	-	-	-
Sale of real estate	-	-	18,018	18,018
Insurance proceeds	-	-	1,309	1,309
Bond proceeds	-	545,000	550,000	5,000
	3,131,000	3,676,000	3,700,327	24,327
Net change in fund balances	150,000	(2,197,899)	574,556	2,772,455
Fund balances - beginning	12,438,785	12,438,785	12,438,785	-
Fund balances - ending	\$ 12,588,785	\$ 10,240,886	\$ 13,013,341	\$ 2,772,455

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, 2019

	Business-type Activities - Enterprise Funds			
	Electric Current Year	Electric Prior Year	Water Current Year	Water Prior Year
Assets				
Current assets				
Cash and cash equivalents	\$ -	\$ -	\$ 5,297,119	\$ 5,286,291
Investments	2,984,030	2,751,667	4,268,052	3,552,683
Due from other funds	520,663	670,663	877,859	877,859
Accounts receivable (net of allowance for uncollectibles)	1,959,886	1,827,401	544,924	481,942
Other receivables	67,946	21,259	3,000	3,000
Inventories	1,178,118	1,110,851	277,530	267,586
Total current assets	6,710,643	6,381,841	11,268,484	10,469,361
Noncurrent assets				
Restricted cash and cash equivalents				
Customer deposits	480,159	460,340	39,380	36,782
Bond funds	-	-	-	-
	480,159	460,340	39,380	36,782
Capital assets				
Land, buildings and structures	8,733,488	8,733,488	18,227,125	17,681,686
Utility distribution systems	10,654,888	10,304,513	22,989,023	22,704,234
Vehicles	1,404,092	1,546,457	428,354	428,354
Equipment	1,490,910	1,466,825	858,200	858,200
Less accumulated depreciation	(9,863,029)	(9,410,602)	(18,094,219)	(17,208,980)
Total capital assets (net of accumulated depreciation)	12,420,349	12,640,681	24,408,483	24,463,494
Total noncurrent assets	12,900,508	13,101,021	24,447,863	24,500,276
Total Assets	19,611,151	19,482,862	35,716,347	34,969,637
Deferred Outflows of Resources				
Deferred charge on refunded debt	-	-	419,526	467,019
Deferred pension obligation	107,607	110,553	93,807	104,610
Total Deferred Outflows	107,607	110,553	513,333	571,629
Liabilities				
Current liabilities				
Accounts payable	1,532,953	1,630,899	77,361	52,763
Accrued interest payable	-	-	78,180	92,655
Bank advances	855,390	744,553	-	-
Compensated absences - current	64,645	60,040	61,713	59,494
General obligation bonds - current	-	-	635,000	635,000
Loan payable - current	-	-	-	-
Total current liabilities	2,452,988	2,435,492	852,254	839,912
Noncurrent liabilities				
Customer deposits payable	480,159	460,340	39,380	36,782
Compensated absences	64,645	60,039	61,713	59,494
OPEB liability	379,011	357,038	394,120	371,271
General obligation bonds payable	-	-	7,601,332	8,316,751
Loan payable	-	-	-	-
Unfunded pension liability	669,221	697,948	633,133	660,432
Total noncurrent liabilities	1,593,036	1,575,365	8,729,678	9,444,730
Total Liabilities	4,046,024	4,010,857	9,581,932	10,284,642
Deferred Inflows of Resources				
Deferred pension inflow	50,903	91,251	48,158	86,346
Net Position				
Net investment in capital assets	12,420,349	12,640,681	16,591,677	15,978,726
Unrestricted	3,201,482	2,850,626	10,007,913	9,191,552
Total Net Position	\$ 15,621,831	\$ 15,491,307	\$ 26,599,590	\$ 25,170,278

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, 2019

	Business-type Activities - Enterprise Funds				
	Sewer Current Year	Sewer Prior Year	Solid Waste Management Current Year	Solid Waste Management Prior Year	Totals Current Year
Assets					
Current assets					
Cash and cash equivalents	\$ 7,385,472	\$ 8,393,043	\$ 814,125	\$ 445,673	\$ 13,496,716
Investments	9,252,986	8,033,773	-	-	16,505,068
Due from other funds	(357,640)	(357,640)	(157,717)	(157,717)	883,165
Accounts receivable (net of allowance for uncollectibles)	620,806	559,204	131,170	117,259	3,256,786
Other receivables	9,000	4,192	88	-	80,034
Inventories	277,530	267,586	-	-	1,733,178
Total current assets	17,188,154	16,900,158	787,666	405,215	35,954,947
Noncurrent assets					
Restricted cash and cash equivalents					
Customer deposits	-	-	-	-	519,539
Bond funds	2,598,642	2,545,528	-	-	2,598,642
	2,598,642	2,545,528	-	-	3,118,181
Capital assets					
Land, buildings and structures	57,977,430	56,882,373	54,941	54,941	84,992,984
Utility distribution systems	23,163,308	23,133,771	-	-	56,807,219
Vehicles	762,022	762,022	951,567	1,198,761	3,546,035
Equipment	1,706,949	1,706,949	639,227	639,227	4,695,286
Less accumulated depreciation	(25,353,625)	(23,313,301)	(1,477,918)	(1,681,100)	(54,788,791)
Total capital assets (net of accumulated depreciation)	58,256,084	59,171,814	167,817	211,829	95,252,733
Total noncurrent assets	60,854,726	61,717,342	167,817	211,829	98,370,914
Total Assets	78,042,880	78,617,500	955,483	617,044	134,325,861
Deferred Outflows of Resources					
Deferred charge on refunded debt	-	-	-	-	419,526
Deferred pension obligation	66,306	88,182	28,871	48,142	296,591
Total Deferred Outflows	66,306	88,182	28,871	48,142	716,117
Liabilities					
Current liabilities					
Accounts payable	79,248	206,717	9,251	14,455	1,698,813
Accrued interest payable	29,693	27,911	-	-	107,873
Bank advances	-	-	-	-	855,390
Compensated absences - current	60,869	58,583	13,221	17,871	200,448
General obligation bonds - current	2,103,880	2,103,880	-	-	2,738,880
Loan payable - current	-	-	35,945	-	35,945
Total current liabilities	2,273,690	2,397,091	58,417	32,326	5,637,349
Noncurrent liabilities					
Customer deposits payable	-	-	-	-	519,539
Compensated absences	60,869	58,583	13,221	17,871	200,448
OPEB liability	348,362	328,166	281,452	265,136	1,402,945
General obligation bonds payable	34,916,474	36,478,845	-	-	42,517,806
Loan payable	-	-	122,661	-	122,661
Unfunded pension liability	533,731	556,717	291,241	303,929	2,127,326
Total noncurrent liabilities	35,859,436	37,422,311	708,575	586,936	46,890,725
Total Liabilities	38,133,126	39,819,402	766,992	619,262	52,528,074
Deferred Inflows of Resources					
Deferred pension inflow	40,597	72,786	22,153	39,736	161,811
Net Position					
Net investment in capital assets	23,834,372	23,134,617	167,817	211,829	53,014,215
Unrestricted	16,101,091	15,678,877	27,392	(205,641)	29,337,878
Total Net Position	\$ 39,935,463	\$ 38,813,494	\$ 195,209	\$ 6,188	\$ 82,352,093

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, 2019

	Business-type Activities - Enterprise Funds			
	Electric Current Year	Electric Prior Year	Water Current Year	Water Prior Year
Operating revenues				
Charges for sales and services				
Electric sales	\$ 20,185,657	\$ 18,610,503	\$ -	\$ -
Water and sewer sales	-	-	4,508,739	4,613,203
Installation and connection charges	130,883	151,351	421,839	505,480
Refuse service fees	-	-	-	-
Miscellaneous revenues	28,133	32,865	40,013	37,611
Total operating revenues	<u>20,344,673</u>	<u>18,794,719</u>	<u>4,970,591</u>	<u>5,156,294</u>
Operating expenses				
Personal service	1,218,874	1,243,514	1,220,181	1,216,446
Contractual service	77,477	80,978	243,782	221,148
Electric power	16,255,699	16,091,582	-	-
Depreciation	594,792	541,368	885,239	884,599
Other charges	948,780	824,230	1,034,761	1,046,518
Operating expenses capitalized	(417,642)	(631,632)	(284,789)	(109,004)
Total operating expenses	<u>18,677,980</u>	<u>18,150,040</u>	<u>3,099,174</u>	<u>3,259,707</u>
Operating income	<u>1,666,693</u>	<u>644,679</u>	<u>1,871,417</u>	<u>1,896,587</u>
Nonoperating revenues (expenses)				
Investment earnings	267,547	9,846	245,066	28,021
Interest expense	(3,572)	(3,894)	(281,140)	(324,126)
Lease income	-	-	102,969	102,067
Insurance recoveries	130,462	-	-	-
Gain on sale of capital assets	1,695	-	-	-
Total nonoperating revenue (expenses)	<u>396,132</u>	<u>5,952</u>	<u>66,895</u>	<u>(194,038)</u>
Income before contributions and transfers	<u>2,062,825</u>	<u>650,631</u>	<u>1,938,312</u>	<u>1,702,549</u>
Transfers and contributions				
Capital grants	17,699	27,482	-	-
Capital contributions	-	-	-	380,400
Transfers in (out)	<u>(1,950,000)</u>	<u>(1,950,000)</u>	<u>(509,000)</u>	<u>(509,000)</u>
Change in net position	<u>130,524</u>	<u>(1,271,887)</u>	<u>1,429,312</u>	<u>1,573,949</u>
Net asset restatement	-	(175,122)	-	(182,103)
Total net position - beginning of year	<u>15,491,307</u>	<u>16,938,316</u>	<u>25,170,278</u>	<u>23,778,432</u>
Total net position - end of year	<u>\$ 15,621,831</u>	<u>\$ 15,491,307</u>	<u>\$ 26,599,590</u>	<u>\$ 25,170,278</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, 2019

	Business-type Activities - Enterprise Funds				
	Sewer	Sewer	Solid Waste	Solid Waste	Totals
	Current Year	Prior Year	Managment	Managment	Current Year
			Current Year	Prior Year	
Operating revenues					
Charges for sales and services					
Electric sales	\$ -	\$ -	\$ -	\$ -	\$ 20,185,657
Water and sewer sales	5,531,658	5,612,427	-	-	10,040,397
Installation and connection charges	941,374	1,058,497	-	-	1,494,096
Refuse service fees	-	-	1,080,021	1,124,249	1,080,021
Miscellaneous revenues	600	1,219	14,111	1,601	82,857
Total operating revenues	<u>6,473,632</u>	<u>6,672,143</u>	<u>1,094,132</u>	<u>1,125,850</u>	<u>32,883,028</u>
Operating expenses					
Personal service	888,772	956,446	531,177	514,558	3,859,004
Contractual service	369,555	350,806	56,262	79,595	747,076
Electric power	-	-	-	-	16,255,699
Depreciation	2,040,325	2,040,936	44,012	45,148	3,564,368
Other charges	1,955,525	1,592,090	248,111	258,702	4,187,177
Operating expenses capitalized	(29,537)	(19,761)	-	-	(731,968)
Total operating expenses	<u>5,224,640</u>	<u>4,920,517</u>	<u>879,562</u>	<u>898,003</u>	<u>27,881,356</u>
Operating income	<u>1,248,992</u>	<u>1,751,626</u>	<u>214,570</u>	<u>227,847</u>	<u>5,001,672</u>
Nonoperating revenues (expenses)					
Investment earnings	298,180	55,188	62,618	51,258	873,411
Interest expense	(83,067)	(82,569)	(3,167)	-	(370,946)
Lease income	-	-	-	-	102,969
Insurance recoveries	-	-	-	-	130,462
Gain on sale of capital assets	-	-	-	-	1,695
Total nonoperating revenues (expenses)	<u>215,113</u>	<u>(27,381)</u>	<u>59,451</u>	<u>51,258</u>	<u>737,591</u>
Income before contributions and transfers	<u>1,464,105</u>	<u>1,724,245</u>	<u>274,021</u>	<u>279,105</u>	<u>5,739,263</u>
Transfers and contributions					
Capital grants	244,864	1,053,388	-	-	262,563
Capital contributions	-	380,400	-	-	-
Transfers in (out)	<u>(587,000)</u>	<u>(587,000)</u>	<u>(85,000)</u>	<u>(109,000)</u>	<u>(3,131,000)</u>
Change in net position	<u>1,121,969</u>	<u>2,571,033</u>	<u>189,021</u>	<u>170,105</u>	<u>2,870,826</u>
Net asset restatement	-	(160,961)	-	(130,045)	-
Total net position - beginning of year	<u>38,813,494</u>	<u>36,403,422</u>	<u>6,188</u>	<u>(33,872)</u>	<u>79,481,267</u>
Total net position - end of year	<u>\$ 39,935,463</u>	<u>\$ 38,813,494</u>	<u>\$ 195,209</u>	<u>\$ 6,188</u>	<u>\$ 82,352,093</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, 2019

	Business-type Activities - Enterprise Funds				
	Electric	Water	Sewer	Solid Waste Management	Totals
Cash Flows from Operating Activities					
Receipts from customers and users	\$ 20,165,501	\$ 4,907,609	\$ 6,407,222	\$ 1,080,133	\$ 32,560,465
Payments to suppliers	(16,987,735)	(953,653)	(2,412,760)	(293,261)	(20,647,409)
Payments to employees	(1,275,792)	(1,270,427)	(917,499)	(551,477)	(4,015,195)
Net cash provided by operating activities	1,901,974	2,683,529	3,076,963	235,395	7,897,861
Cash Flows from Noncapital Financing Activities					
Transfers to other funds	(1,950,000)	(509,000)	(587,000)	(85,000)	(3,131,000)
Lease income	-	102,969	-	-	102,969
Interfund (advances)/repayments	150,000	-	-	-	150,000
Net cash used in noncapital financing activities	(1,800,000)	(406,031)	(587,000)	(85,000)	(2,878,031)
Cash Flows from Capital and Related Financing Activities					
Acquisition/construction of capital assets	(374,460)	(830,228)	(1,124,594)	-	(2,329,282)
Proceeds on capital asset sales	1,695	-	-	-	1,695
Insurance recoveries	130,462	-	-	-	130,462
Principal paid on capital debt	-	(635,000)	(2,103,881)	(17,692)	(2,756,573)
Proceeds on loans issued	-	-	-	176,298	176,298
Proceeds on debt issued	-	-	541,509	-	541,509
Grants received	17,699	-	244,864	-	262,563
Interest paid	(3,572)	(328,541)	(81,285)	(3,167)	(416,565)
Net cash provided by (used in) capital and related financing activities	(228,176)	(1,793,769)	(2,523,387)	155,439	(4,389,893)
Cash Flows from Investing Activities					
Sales (purchases) of investments	(232,363)	(715,369)	(1,219,213)	-	(2,166,945)
Interest and dividends received	267,547	245,066	298,180	62,618	873,411
Net cash provided by (used in) investing activities	35,184	(470,303)	(921,033)	62,618	(1,293,534)
Net increase (decrease) in cash and cash eq.	(91,018)	13,426	(954,457)	368,452	(663,597)
Cash and cash equivalents July 1, 2018	(284,213)	5,323,073	10,938,571	445,673	16,423,104
Cash and cash equivalents June 30, 2019	\$ (375,231)	\$ 5,336,499	\$ 9,984,114	\$ 814,125	\$ 15,759,507
Reconciliation of operating income to net cash provided (used) by operating activities					
Operating income	\$ 1,666,693	\$ 1,871,417	\$ 1,248,992	\$ 214,570	\$ 5,001,672
Adjustments to reconcile operating income to net cash provided by (used in) operating activities					
Depreciation expense	594,792	885,239	2,040,325	44,012	3,564,368
(Increase) decrease in:					
Accounts receivable	(132,485)	(62,982)	(61,602)	(13,911)	(270,980)
Other receivables	(46,687)	-	(4,808)	(88)	(51,583)
Inventories	(67,267)	(9,944)	(9,944)	-	(87,155)
Deferred pension	2,946	10,803	21,876	19,271	54,896
Customer deposits	19,819	2,598	-	-	22,417
Increase (decrease) in:					
Accounts payable	(97,946)	24,598	(127,469)	(5,204)	(206,021)
OPEB liability	21,973	22,849	20,196	16,316	81,334
Compensated absences	9,211	4,438	4,572	(9,300)	8,921
Pension liability	(28,727)	(27,299)	(22,986)	(12,688)	(91,700)
Deferred pension	(40,348)	(38,188)	(32,189)	(17,583)	(128,308)
Total adjustments	235,281	812,112	1,827,971	20,825	2,896,189
Net cash provided by (used in) operating activities	\$ 1,901,974	\$ 2,683,529	\$ 3,076,963	\$ 235,395	\$ 7,897,861
Noncash investing, capital, and financing activities					
Capital assets contributed by developers	\$ -	\$ -	\$ -	\$ -	\$ -

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

The government reports the following major governmental funds:

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

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

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

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The government reports the following major proprietary funds:

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

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

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

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

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

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

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

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.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

2. Receivables and Payables

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

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

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

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

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

3. Inventories and Other Assets

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

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

4. Restricted Assets

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

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, 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 (OPEB)

The Town adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as of July 1, 2017. This statement requires governments to recognize an expense under the accrual basis for annual required other postemployment benefits contributions, regardless of amounts paid. Additionally, the total net OPEB liability (or net OPEB asset) is reported as the difference between the actuarial present value of projected benefits attributed to past periods of employee services and the plan fiduciary net asset position.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 OPEB and pension obligations 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 obligation results from advance payments on the funding prior to the actuarial report establishing the funding requirement.

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 and OPEB 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 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.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

11. Fund Balance (Continued)

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 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 \$2,306,399 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.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

F. Recently Issued Accounting Standards

During the fiscal year ended June 30, 2019 the Town implemented where applicable the following new accounting pronouncements issued by the Government Accounting Standards Board (GASB):

- GASB Statement No. 83 – Certain Asset Retirement Obligations, effective for the fiscal year ending June 30, 2019.

The following are recently issued governmental accounting standards which will be applicable in future years:

- GASB Statement No. 84 – Fiduciary Activities, effective for the fiscal year ending June 30, 2020.
- GASB Statement No. 87 – Leases, effective for fiscal year ending June 30, 2021.

The impact of these pronouncements on the Town's financial statements has not yet been determined.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

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, notes, advances, and other post-employment benefits payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$12,914,100 are as follows:

Description	Amount
Compensated absences	\$ 880,430
OPEB liability - health insurance benefit	2,908,323
Equipment purchase loan	719,199
Advance from EDA (construction of police station)	8,406,148
Net adjustment to reduce <i>fund balance - total governmental</i>	<u>\$ 12,914,100</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 Government Wide Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of the \$3,756,103 difference is as follows:

Description	Amount
Capital outlay	\$ 8,476,447
Depreciation expense	(4,665,664)
Net adjustment to increase <i>net changes in fund balances -total governmental</i>	<u>\$ 3,810,783</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

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 \$2,913,199.

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, 2019, the police department of the general fund had expenditures which exceeded appropriations by \$5,246,756 due to reporting as an expenditure the fiscal year 2019 construction costs related to the police department facility of \$6,202,270.

C. Deficit Fund Balance

At June 30, 2019 Special Revenue Funds which had a deficit fund balance are noted below:

Fund	Deficit Fund Balance
Economic Development	\$ 353,022

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits

As of June 30, 2019 the carrying amount of the Town's deposits with bank and savings institutions was \$2,941,371 and the bank balance was \$3,525,964.

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

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

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, 2019, 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, 2019, the government had the following investments:

Investment Type	Fair Value	Maturity	
		1 Year	Over 1 Year
Marketable CDs	\$ 5,032,114	\$ 931,661	\$ 4,100,453
Money market cash accounts	2,308,303	2,308,303	-
Governmental securities mutual funds	2,598,216	2,598,216	-
Governmental securities	16,505,068	2,560,186	13,944,882
Local government investment pool (LGIP)	3,088,370	3,088,370	-
Banking account sweep investment	14,580,928	14,580,928	-
Total	\$ 44,112,999	\$ 26,067,664	\$ 18,045,335

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Deposits and Investments (Continued)

Investments (Continued)

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

Footnote Classification	Combined Balance Sheet Classifications		
	Total	Cash and Equivalents	Investments
Petty Cash	\$ 1,908	\$ 1,908	\$ -
Bank Deposits	2,941,371	2,941,371	-
Investments	44,112,999	27,607,931	16,505,068
Total	<u>\$ 47,056,278</u>	<u>\$ 30,551,210</u>	<u>\$ 16,505,068</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, 2019:

- Marketable CDs, governmental securities and governmental securities mutual funds are valued using quoted market prices (Level 1 inputs)
- Banking accounting sweep investment is stated at \$1.00 par for \$1.00 deposit (Level 2 inputs)
- LGIP investment pools are excluded from the fair value hierarchy. There are no use or withdraw restrictions as it is a Commonwealth of Virginia municipal pool.

B. Estimated Unbilled Revenue

Proprietary fund types estimate and record utility services rendered but not yet billed at June 30, 2019. 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, 2019, unbilled service recorded was \$1,598,588.

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	\$2,050,489	\$ -	\$ -	\$ -	\$ -	\$ -	\$2,050,489
Accounts	-	1,409,192	257,781	327,133	105,294	-	2,099,400
Intergovernmental	387,392	-	-	-	-	-	387,392
Unbilled	-	864,170	327,356	354,229	52,833	-	1,598,588
Other	148,306	94,773	3,000	12,026	88	-	258,193
Less: allowance	-	(340,303)	(40,213)	(63,582)	(26,957)	-	(471,055)
Net receivables	\$2,586,187	\$ 2,027,832	\$ 547,924	\$ 629,806	\$ 131,258	\$ -	\$5,923,007

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	\$ 2,013,404	\$ -
Special Revenue Fund - Property Taxes	-	-
	<u>\$ 2,013,404</u>	<u>\$ -</u>

D. Due from Other Governments

At June 30, 2019 amounts due from other governments were as follows:

Description/Payer	General
Commonwealth of Virginia	
Personal Property Tax Relief Act	\$ 287,000
Communications Tax	11,986
Warren County, Virginia - Sales Tax	88,406
	<u>\$ 387,392</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, 2019 was as follows:

Primary Government

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 1,304,316	\$ -	\$ -	\$ 1,304,316
Construction in progress	3,456,270	6,520,989	(1,009,432)	8,967,827
	<u>4,760,586</u>	<u>6,520,989</u>	<u>(1,009,432)</u>	<u>10,272,143</u>
Capital assets being depreciated				
Buildings and improvements	9,952,260	1,227,338	-	11,179,598
Vehicles	2,229,535	148,894	(109,352)	2,269,077
Equipment	4,149,147	579,226	-	4,728,373
Infrastructure	123,607,853	1,009,432	-	124,617,285
Total	<u>139,938,795</u>	<u>2,964,890</u>	<u>(109,352)</u>	<u>142,794,333</u>
Less accumulated depreciation for				
Buildings and improvements	(2,409,091)	(251,180)	-	(2,660,271)
Vehicles	(1,702,292)	(173,581)	109,352	(1,766,521)
Equipment	(3,524,379)	(188,187)	-	(3,712,566)
Infrastructure	(82,449,831)	(4,052,716)	-	(86,502,547)
Total	<u>(90,085,593)</u>	<u>(4,665,664)</u>	<u>109,352</u>	<u>(94,641,905)</u>
Net capital assets being depreciated	<u>49,853,202</u>	<u>(1,700,774)</u>	<u>-</u>	<u>48,152,428</u>
Governmental capital assets, net	<u>\$ 54,613,788</u>	<u>\$ 4,820,215</u>	<u>\$ (1,009,432)</u>	<u>\$ 58,424,571</u>

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

Activity	Depreciation
Governmental activities:	
General government	\$ 109,478
Public safety	333,629
Public works	141,837
Planning, zoning, and community development	28,004
Infrastructure depreciation	4,052,716
Total depreciation expense - governmental activities	<u>\$ 4,665,664</u>

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 1,488,822	\$ -	\$ -	\$ 1,488,822
Construction in process	-	-	-	-
	<u>1,488,822</u>	<u>-</u>	<u>-</u>	<u>1,488,822</u>
Capital assets being depreciated				
Buildings and improvements	81,863,666	1,640,496	-	83,504,162
Utility distribution systems	56,142,518	664,701	-	56,807,219
Vehicles	3,935,594	-	(389,559)	3,546,035
Equipment	4,671,201	24,085	-	4,695,286
Total	<u>146,612,979</u>	<u>2,329,282</u>	<u>(389,559)</u>	<u>148,552,702</u>
Less accumulated depreciation for				
Buildings and improvements	(11,059,231)	(1,990,305)	-	(13,049,536)
Utility distribution systems	(33,437,317)	(1,122,851)	-	(34,560,168)
Vehicles	(3,446,873)	(149,888)	389,559	(3,207,202)
Equipment	(3,670,562)	(301,323)	-	(3,971,885)
Total	<u>(51,613,983)</u>	<u>(3,564,367)</u>	<u>389,559</u>	<u>(54,788,791)</u>
Net capital assets being depreciated	<u>94,998,996</u>	<u>(1,235,085)</u>	<u>-</u>	<u>93,763,911</u>
Business-type capital assets, net	<u>\$ 96,487,818</u>	<u>\$ (1,235,085)</u>	<u>\$ -</u>	<u>\$ 95,252,733</u>

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

Activity	Depreciation
Business-type activities:	
Electric	\$ 594,791
Water	885,239
Sewer	2,040,325
Solid Waste Management	44,012
Total depreciation expense - business-type activities	<u>\$ 3,564,367</u>

There were no significant intangible asset acquisitions during the fiscal year ended June 30, 2019.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. Interfund Advances/Transfers

Interfund advances are for reimbursement for debt payments made for other funds. Advance to the General Fund from the Electric Funds was for the purchase of a town administration building. The composition of interfund advances at June 30, 2019 is as follows:

Advanced to	From	Amount
General Fund	Electric Fund	\$ 487,734
General Fund	Sewer Fund	102,492
General Fund	Water Fund	200,409
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
Solid Waste Management	Electric Fund	18,182
		<u>\$ 1,481,406</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 2018 is as follows:

Transferred to	From	Amount
General Fund	Electric Fund	\$ 1,950,000
General Fund	Water Fund	509,000
General Fund	Sewer Fund	587,000
General Fund	Solid Waste Management Fund	85,000
		<u>\$ 3,131,000</u>

G. Long-Term Liabilities

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

G. Long-Term Liabilities (Continued)

General obligation bonds and other debt outstanding at June 30, 2019 are as follows:

Description	Amount
<i>General Obligation Bonds:</i>	
\$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%.	\$ 5,090,000
\$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%.	2,440,000
\$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%.	1,875,000
\$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.	35,145,354
Total bonded debt	44,550,354
<i>Notes Payable:</i>	
\$235,284 loan dated April 27, 2017 with Brank Banking and Trust Company, with semi annual payments of \$13,330 and annual interest rate of 2.46%, due April 27, 2027.	192,531
\$550,000 equipment financing with U.S. Bancorp Government Leasing and Finance, Inc., with semi annual payments of \$32,653 and annual interest rate of 3.39%, due November 8, 2028.	526,668
\$176,298 loan dated November 29, 2018 with Union Bank Trust, with semi annual payments of \$20,859 and annual interest rate of 3.850%, due November 16, 2023.	158,606
Total notes payable	877,805
Total long-term debt	\$ 45,428,159

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

G. Long-Term Liabilities (Continued)

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

Year ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2020	69,917	22,048	2,799,826	425,946
2021	72,098	19,866	2,831,223	394,339
2022	74,349	17,615	2,872,674	357,972
2023	76,672	15,293	2,904,182	317,435
2024	79,069	12,896	2,915,203	308,350
2025-2029	314,984	26,395	13,624,400	683,868
2030-2034	32,110	544	10,949,400	136,595
2035-2038	-	-	5,812,052	3,800
Total	\$ 719,199	\$ 114,657	\$ 44,708,960	\$ 2,628,305

The legal debt limit mandated by the Commonwealth of Virginia is \$132,069,040.

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, 2019 was as follows:

	June 30, 2018	Additions	Retirements	June 30, 2019	One Year
Governmental activities:					
Compensated absences	\$ 835,381	\$ 880,430	\$ (835,381)	\$ 880,430	\$ 880,430
OPEB - Health	2,739,400	168,923	-	2,908,323	-
Advance from EDA	2,992,950	5,413,198	-	8,406,148	-
Equipment note payable	231,795	550,000	(62,596)	719,199	69,920
Unfunded life/LODA liability	910,960	175,320	-	1,086,280	-
Unfunded pension liability	4,382,656	-	(178,654)	4,204,002	-
Governmental activity					
Long-term liabilities	\$ 12,093,142	\$ 7,187,871	\$ (1,076,631)	\$ 18,204,382	\$ 950,350

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.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

G. Long-Term Liabilities (Continued)

	June 30, 2018	Additions	Retirements	June 30, 2019	One Year
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 46,747,725	\$ 541,509	\$ (2,738,880)	\$ 44,550,354	\$ 2,799,826
Unamortized premium	786,751	-	(80,419)	706,332	-
Loans payable	-	176,298	(17,692)	158,606	35,945
Compensated absences	391,975	400,896	(391,975)	400,896	200,448
OPEB - Health	1,321,611	81,334	-	1,402,945	-
Unfunded pension liability	2,219,026	(91,700)	-	2,127,326	-
Business-type activity					
Long-term liabilities	\$ 51,467,088	\$ 1,108,337	\$ (3,228,966)	\$ 49,346,459	\$ 3,036,219

Advance from EDA.: The Industrial Development Authority of the Town of Front Royal and the County of Warren, Virginia BDA Economic Development Authority (EDA) provided advanced funding for the construction of a new police department facility. It is anticipated that the construction and permanent financing will be complete in fiscal year 2020.

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

Individual Fund	Due Within	
	1 Year	Long-term
General	\$ 880,430	\$ -
Electric	\$ 64,645	\$ 64,645
Water	61,713	61,713
Sewer	60,869	60,869
Solid Waste Management	13,221	13,221
	\$ 200,448	\$ 200,448

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:

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

A. Risk Management (Continued)

VMGSIA: The Town has workers' compensation coverage with the Virginia Municipal Group Self Insurance Association (VMGSIA). During the fiscal year 2019 the Town paid premiums of approximately \$200,692 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 2019, the Town paid contributions of approximately \$300,844 to the VMLP.

Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Surety Bonds

The Town maintains a \$100,000 blanket surety bond on all employees through the Virginia Municipal Liability Pool Insurance Program.

C. Commitments and Contingent Liabilities

Litigation: The Town is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Town, through discussion with its legal counsel, these matters will not have a material adverse effect on the financial condition of the Town.

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, 2019 the Town by budget appropriation supported the following EDA projects:

Project	FYE 6/30/2019 Support	
	Warren Cty.	EDA
Happy Creek Technology Park	\$ -	\$ 6,845
Success Industrial Park	-	10,370
Stephens Industrial Park	-	11,725
Baugh Drive Extension	-	6,535
Leach Run Parkway	-	105,925
	<u>\$ -</u>	<u>\$ 141,400</u>

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

C. Commitments and Contingent Liabilities (Continued)

Construction Commitment: At June 30, 2019 the Town is contractually obligated to construct and complete a police department facility. The funds for the construction project are anticipated to come from general fund balance reserve and general debt borrowing. A summary of this construction project is as follows:

Description	Amount
Construction contract price	\$ 7,853,405
Paid - completed to June 30, 2018	(7,413,425)
Remaining outstanding obligation	<u>\$ 439,980</u>
Estimated total police department facility cost	<u>\$ 11,000,000</u>

E. Post-Employment Benefits Other Than Pensions – Health Benefit

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 2019, 31 retirees had a benefit under this policy with a total cost to the Town of \$45,940.

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. 75. 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 6/30/19
Annual required contribution	\$ 144,630
Interest on Net OPEB obligations	148,984
Adjustment to annual required contribution (deferred inflows)	2,583
Annual OPEB cost (expense)	296,197
Contributions made	(45,940)
Increase in net OPEB obligation	250,257
Net unfunded OPEB obligation - Beginning of year	4,061,011
Net unfunded OPEB obligation - End of year	<u>\$ 4,311,268</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation the five years 2015 to 2019 is as follows:

FYE June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2019	\$ 296,198	15.50%	\$ 4,311,268
2018	267,644	19.68%	4,061,011
2017 Restated	-	0.00%	3,843,406
2017 Restatement adjustment	-	0.00%	1,994,556
2017	272,438	23.84%	1,848,850
2016	263,736	21.09%	1,641,369
2015	254,861	17.97%	1,433,263

The Town has elected not to pre-fund the OPEB liability. The Town anticipates continuing to pay the annual actual cash cost requirements. The OPEB annual expense is recorded by the actuarial calculated annual cost.

At June 30, 2019 the Town has recorded a liability of \$4,311,268 on the Statement of Net Position for the governmental and business-type activities.

Funding Status and Funding Progress: As of June 30, 2017, the most recent actuarial valuation date, the unfunded actuarial accrued liability (UAAL) was \$3,843,406. The covered payroll (annual payroll of active employees covered by the plan) was \$7,384,438, and the ratio of the UAAL to the covered payroll was 58.38%.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

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

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

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

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. 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, 2019 actuarial valuation methods and assumption are as follows:

Valuation Date:	June 30, 2017
Measurement Date:	June 30, 2018
Actuarial Cost Method:	Entry Age Normal
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 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.

F. Defined Benefit Pension Plan

The Virginia Retirement System (VRS) Political Subdivision Retirement Plan is a multi-employer, agent plan. For purposes of measuring the net pension liability, deferred outflows or 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 VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

F. Defined Benefit Pension Plan (Continued)

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

Retirement Plan Provisions		
Plan 1	Plan 2	Plan 3
<p>About Plan 1 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. 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>About Plan 2 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. 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>About the Hybrid Retirement Plan 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"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • 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. • 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.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

<p>Eligible Members 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>Hybrid Opt-In Election 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>Eligible Members 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>Hybrid Opt-In Election 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>Eligible Members 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"> • Town employees* • 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 <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Town employees who are covered by enhanced benefits for hazardous duty employees <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>Retirement Contributions 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>Retirement Contributions 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>Retirement Contributions 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>Creditable Service 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>Creditable Service Same as Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u> 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><u>Defined Contributions Component:</u> 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>Vesting 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>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> 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><u>Defined Contributions Component:</u> 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"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <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>Calculating the Benefit 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>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1</p> <p><u>Defined Contribution Component:</u> 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>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier VRS: 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>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p>Town hazardous duty employees: 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>Service Retirement Multiplier VRS: 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>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>Town hazardous duty employees: Same as Plan 1.</p>	<p>Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: 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>Sheriffs and regional jail superintendents: Not applicable.</p> <p>Town hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p>

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

<p>Normal Retirement Age VRS: Age 65.</p> <p>Towns hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Towns hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Towns hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility VRS: 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>Towns hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: 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>Towns hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: 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>Towns hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: 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>Towns hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Towns hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: 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>Towns hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

<p>Cost-of-Living Adjustment (COLA) in Retirement</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><u>Eligibility:</u></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>Cost-of-Living Adjustment (COLA) in Retirement</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><u>Eligibility:</u></p> <p>Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p><u>Defined Benefit Component:</u></p> <p>Same as Plan 2.</p> <p><u>Defined Contribution Component:</u></p> <p>Not applicable.</p> <p><u>Eligibility:</u></p> <p>Same as Plan 1 and Plan 2.</p>
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TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

<u>Exceptions to COLA Effective Dates:</u> 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">• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.• The member retires on disability.• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).• 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.• 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.	<u>Exceptions to COLA Effective Dates:</u> Same as Plan 1	<u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.
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TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

<p>Disability Coverage 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>Disability Coverage 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>Disability Coverage 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>Purchase of Prior Service 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>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • 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. <p><u>Defined Contribution Component:</u> Not applicable.</p>

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

F. Defined Benefit Pension Plan (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2017 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	June 30, 2017 Number
Inactive members or their beneficiaries currently receiving benefits	141
Inactive members:	
Vested inactive members	28
Non-vested inactive members	52
Inactive members active elsewhere in VRS	60
Total inactive members	140
Active members	160
Total covered employees	441

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, 2019 was 12.42% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

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 \$920,853 and \$969,835 for the years ended June 30, 2019 and 2018.

Net Pension Liability

The Town's net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2017, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

F. Defined Benefit Pension Plan (Continued)

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, 2018, 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, 2018:

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:

All Others (Non 10 Largest) – Non-Hazardous Duty: 15% of Deaths are Assumed to be Service Related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2014 through June 30, 2018. Changes to the actuarial assumptions as a result of the experience study are as follows:

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

F. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

All Others (Non 10 Largest) – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%

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, 2018, 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, 2018.

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.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

F. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – Public Safety Employees (Continued)

Mortality rates:

All Others (Non 10 Largest) – Non-Hazardous Duty: 45% of Deaths are Assumed to be Service Related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; unisex using 100% male.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2014 through June 30, 2018. Changes to the actuarial assumptions as a result of the experience study are as follows:

All Others (Non 10 Largest) – Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

F. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – Public Safety Employees (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
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		* Expected arithmetic normal return	7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projection are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, 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, 2019, 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, 2019 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, 2017	\$ 37,873,241	\$ 31,271,558	\$ 6,601,683
Changes for the year:			
Service cost	817,668	-	817,668
Interest	2,577,315	-	2,577,315
Changes of assumptions	-	-	-
Differences between expected and actual experience	(7,181)	-	(7,181)
Contributions - employer	-	1,003,374	(1,003,374)
Contributions - employee	-	377,390	(377,390)
Net investment income	-	2,299,527	(2,299,527)
Benefit payments, including refunds of employee contributions	(2,108,908)	(2,108,908)	-
Administrative expenses	-	(20,098)	20,098
Other changes	-	(2,037)	2,037
Net changes	1,278,894	1,549,248	(270,354)
Balances at June 30, 2018	\$ 39,152,135	\$ 32,820,806	\$ 6,331,329

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	<u>\$ 11,146,455</u>	<u>\$ 6,331,329</u>	<u>\$ 2,323,644</u>

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

For the year ended June 30, 2019, the Town recognized pension expense of \$483,241. At June 30, 2019 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	\$ 11,839	\$ 113,025
Change in assumptions	-	112,974
Net difference between projected and actual earnings on pension plan investments	-	255,579
Employer contributions subsequent to the measurement date	-	-
Total	<u>\$ 11,839</u>	<u>\$ 481,578</u>

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
2020	\$ (75,836)
2021	(42,532)
2022	(324,017)
2023	(27,354)
2024	-
Thereafter	-

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

F. Defined Benefit Pension Plan (Continued)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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. Line of Duty Act Program

The Virginia Retirement System (VRS) Line of Duty Act Program (LODA) is a multiple-employer, cost-sharing plan. The Line of Duty Act Program was established pursuant to §9.1-400 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Line of Duty Act Program provides death and health insurance benefits to eligible state employees and local government employees, including volunteers, who die or become disabled as a result of the performance of their duties as a public safety officer. In addition, health insurance benefits are provided to eligible survivors and family members. For purposes of measuring the net Line of Duty Act Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Line of Duty Act Program OPEB, and Line of Duty Act Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Line of Duty Act Program OPEB Plan and the additions to/deductions from the VRS Line of Duty Act Program OPEB Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments 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

V. OTHER INFORMATION (CONTINUED)

H. Line of Duty Act Program (Continued)

Plan Description

All paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VaLORS) are automatically covered by the Line of Duty Act Program (LODA). As required by statute, the Virginia Retirement System (the System) is responsible for managing the assets of the program. Participating employers made contributions to the program beginning in FY 2012. The employer contributions are determined by the System's actuary using anticipated program costs and the number of covered individuals associated with all participating employers.

The specific information for Disability Insurance Program OPEB, including eligibility, coverage and benefits is set below:

Eligible Employees: The eligible employees of the Line of Duty Act Program (LODA) are paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VaLORS).

Benefit Amounts: The Line of Duty Act Program (LODA) provides death and health insurance benefits for eligible individuals:

- *Death* - The Line of Duty Act program death benefit is a one-time payment made to the beneficiary or beneficiaries of a covered individual. Amounts vary as follows:
 - o \$100,000 when a death occurs as the direct or proximate result of performing duty as of January 1, 2006, or after.
 - o \$25,000 when the cause of death is attributed to one of the applicable presumptions and occurred earlier than five years after the retirement date.
 - o An additional \$20,000 benefit is payable when certain members of the National Guard and U.S. military reserves are killed in action in any armed conflict on or after October 7, 2001.
- *Health Insurance* - The Line of Duty Act program provides health insurance benefits.
 - o Prior to July 1, 2017, these benefits were managed through the various employer plans and maintained the benefits that existed prior to the employee's death or disability. These premiums were reimbursed to the employer by the LODA program.
 - o Beginning July 1, 2017, the health insurance benefits are managed through the Virginia Department of Human Resource Management (DHRM). The health benefits are modeled after the State Employee Health benefits Program plans and provide consistent, premium-free continued health plan coverage for LODA-eligible disabled individuals, survivors and family members. Individuals receiving the health insurance benefits must continue to meet eligibility requirements as defined by the Line of Duty Act.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

H. Line of Duty Act Program (Continued)

Contributions

The contribution requirements for the Line of Duty Act Program (LODA) are governed by §9.1-400.1 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the Line of Duty Act Program (LODA) for the year ended June 30, 2018 was \$567.37 per covered full-time-equivalent employee. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017 and represents the pay-as-you-go funding rate and not the full actuarial cost of the benefits under the program. The actuarially determined pay-as-you-go rate was expected to finance the costs and related expenses of benefits payable during the year. Contributions to the Line of Duty Act Program (LODA) from the entity were \$23,262 and \$20,993 for the years ended June 30, 2019 and June 30, 2018, respectively.

LODA OPEB Liabilities, LODA OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the LODA OPEB

At June 30, 2019, the entity reported a liability of \$685,000 for its proportionate share of the Net LODA OPEB Liability. The Net LODA OPEB Liability was measured as of June 30, 2018 and the total LODA OPEB liability used to calculate the Net LODA OPEB Liability was determined by an actuarial valuation as of that date. The entity's proportion of the Net LODA OPEB Liability was based on the entity's actuarially determined pay-as-you-go employer contributions to the LODA OPEB plan for the year ended June 30, 2018 relative to the total of the actuarially determined pay-as-you-go employer contributions for all participating employers. At June 30, 2018, the entity's proportion was 0.21840% as compared to .19464% at June 30, 2017.

For the year ended June 30, 2019, the entity recognized LODA OPEB expense of \$59,000. Since there was a change in proportionate share between measurement dates, a portion of the LODA OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the agency reported deferred outflows of resources and deferred inflows of resources related to the LODA OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 98,000	\$ -
Net difference between projected and actual earnings	-	2,000
Change in assumptions	-	79,000
Changes in proportion	61,000	27,000
Employer contributions subsequent to the measurement date	-	-
Total	<u>\$ 159,000</u>	<u>\$ 108,000</u>

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

H. Line of Duty Act Program (Continued)

There were no amounts reported as deferred outflows of resources related to the LODA OPEB resulting from the entity's contributions subsequent to the measurement date will be recognized as a reduction of the Net LODA OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the LODA OPEB will be recognized in LODA OPEB expense in future reporting periods as follows:

Year ended June 30,	Amortization
2020	\$ (6,400)
2021	(6,400)
2022	(6,400)
2023	(6,400)
2024	(6,197)
Thereafter	(19,204)

Actuarial Assumptions

The total LODA OPEB liability was based on an actuarial valuation as of June 30, 2018, 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, 2018.

Inflation	2.5 percent
Salary increases, including inflation -	
General state employees	3.5 percent - 4.75 percent
SPORS employees	3.5 percent - 4.75 percent
VaLORS employees	3.5 percent - 4.75 percent
Locality employees	3.5 percent - 4.75 percent
Medical cost trend rate assumption -	
Under age 65	7.75 percent - 5.00 percent
Ages 65 and older	5.75 percent - 5.00 percent
Investment rate of return	3.56 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 3.56%. However, since the difference was minimal, a more conservative 3.56% investment return assumption has been used. Since LODA is funded on a current-disbursement basis, the assumed annual rate of return of 3.56% was used since it approximates the risk-free rate of return.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

H. Line of Duty Act Program (Continued)

Mortality rates – Non-Largest Ten Locality Employers with Public Safety Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates to 50 and older projected with Scale BB to 2020; males set forward 1 year with 1% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2014 through June 30, 2018. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Changes to the LODA Program Associated with HB 1345 (2016) and HB 2243 (2017)

The following changes were made to the LODA Program as a result of legislation in 2016 and 2017, but were specifically not considered in the June 30, 2018 actuarial valuation results which were rolled forward to the measurement date of June 30, 2018. There was no current actuarial experience on which to base the adjustments and the combined impact of the changes was not considered to be material to the final results. These changes will be factored into future actuarial valuations for the LODA Program.

- The discontinuance of spouse health care coverage, if a covered spouse divorces a disabled employee or a covered surviving spouse remarries.
- The potential for VRS's periodic review of the disability status of a disabled employee.
- For those beneficiaries who become eligible for health care benefits as the result of a disability occurring after June 30, 2018, the suspension of health care benefits in years when VRS certifies current income exceeds salary at the time of the disability, indexed for inflation.
- The extension of health care benefits for dependent children to age 26.
- The expansion of the definition of presumption of death or disability to include infectious diseases.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

H. Line of Duty Act Program (Continued)

Net LODA OPEB Liability

The net OPEB liability (NOL) for the Line of Duty Act Program (LODA) represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2018, NOL amounts for the Line of Duty Act Program (LODA) is as follows (amounts expressed in thousands):

Description	LODA
Total LODA OPEB Liability	\$ 315,395
Plan Fiduciary Net Position	1,889
Employers' Net OPEB Liability (Asset)	<u>\$ 313,506</u>
Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability	<u>0.60%</u>

The total LODA OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on LODA OPEB Program's investments was set at 3.56% for this valuation. Since LODA is funded on a current-disbursement basis, it is not able to use the VRS Pooled Investments 7.00% assumption. Instead, the assumed annual rate of return of 3.56% was used since it approximates the risk-free rate of return. This Single Equivalent Interest Rate (SEIR) is the applicable municipal bond index rate based on the Bond Buyer General Obligation 20-year Municipal Bond Index published monthly by the Board of Governors of the Federal Reserve System as of the measurement date of June 30, 2018.

Discount Rate

The discount rate used to measure the total LODA OPEB liability was 3.56%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by participating employers to the LODA OPEB Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

H. Line of Duty Act Program (Continued)

Sensitivity of the Covered Employer's Proportionate Share of the Net LODA OPEB Liability to Changes in the Discount Rate

The following presents the covered employer's proportionate share of the net LODA OPEB liability using the discount rate of 3.56%, as well as what the covered employer's proportionate share of the net LODA OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.56%) or one percentage point higher (4.56%) than the current rate:

	1.00% Decrease (2.56%)	Current Discount Rate (3.56%)	1.00% Increase (4.56%)
Covered employer's proportionate share of the total LODA Net OPEB Liability	\$ 776,740	\$ 685,000	\$ 608,273

Sensitivity of the Covered Employer's Proportionate Share of the Net LODA OPEB Liability to Changes in the Health Care Trend Rate

Because the Line of Duty Act Program (LODA) contains a provisions for the payment of health insurance premiums, the liabilities are also impacted by the health care trend rates. The following presents the covered employer's proportionate share of the net LODA OPEB liability using health care trend rate of 7.75% decreasing to 5.00%, as well as what the covered employer's proportionate share of the net LODA OPEB liability would be if it were calculated using a health care trend rate that is one percentage point lower (6.75% decreasing to 4.00%) or one percentage point higher (8.75% decreasing to 6.00%) than the current rate:

	1.00% Decrease (6.75% decreasing to 4.00%)	Health Care Trend Rates (7.75% decreasing to 5.00%)	1.00% Increase (8.75% decreasing to 6.00%)
Covered employer's proportionate share of the total LODA Net OPEB Liability	\$ 583,598	\$ 685,000	\$ 811,245

LODA OPEB Plan Fiduciary Net Position

Detailed information about the Line of Duty Act Program (LODA) Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

I. Group Life Insurance

The Virginia Retirement System (VRS) Group Life Insurance Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The Group Life Insurance Program was established pursuant to §51.1-500 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Group Life Insurance Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net Group Life Insurance Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB, and Group Life Insurance Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Group Life Insurance program OPEB and the additions to/deductions from the VRS Group Life Insurance Program OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set below:

Eligible Employees: The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:

- City of Richmond
- City of Portsmouth
- City of Roanoke
- City of Norfolk
- Roanoke City Schools Board

Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

I. Group Life Insurance (Continued)

Benefit Amounts: The benefits payable under the Group Life Insurance Program have several components.

- *Natural Death Benefit* – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.
- *Accidental Death Benefit* – The accidental death benefit is double the natural death benefit.
- *Other Benefit Provisions* – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
 - o Accidental dismemberment benefit
 - o Safety belt benefit
 - o Repatriation benefit
 - o Felonious assault benefit
 - o Accelerated death benefit option

Reduction in Benefit Amounts: The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.

Minimum Benefit Amount and Cost-of-Living Adjustment (COLA): For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the Group Life Insurance Program from the entity were \$39,572 and \$38,621 for the years ended June 30, 2018 and June 30, 2017, respectively.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

I. Group Life Insurance (Continued)

GLI OPEB Liabilities, CLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

At June 30, 2018, the measurement date, the entities reported a liability of \$608,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2018 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the participating employer's proportion was 0.04002% as compared to 0.04027 % at June 30, 2017.

For the year ended June 30, 2018, the participating employer recognized GLI OPEB expense of \$4,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 30,000	\$ 11,000
Net difference between projected and actual earnings	-	20,000
Change in assumptions	-	25,000
Changes in proportion	2,000	3,000
Employer contributions subsequent to the measurement date	-	-
Total	<u>\$ 32,000</u>	<u>\$ 59,000</u>

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

I. Group Life Insurance (Continued)

\$27,000 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year ended June 30,	Amortization
2020	\$ (9,222)
2021	(9,222)
2022	(9,222)
2023	(3,402)
2024	1,911
Thereafter	2,157

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2018, 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, 2018.

Inflation	2.5 percent
Salary increases, including inflation -	
General state employees	3.5 percent - 5.35 percent
Teachers	3.5 percent - 5.95 percent
SPORS employees	3.5 percent - 4.75 percent
VaLORS employees	3.5 percent - 4.75 percent
JRS employees	4.5 percent
Locality - General employees	3.5 percent - 5.35 percent
Locality - Hazardous Duty employees	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 the OPEB liabilities.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

I. Group Life Insurance (Continued)

Mortality Rates – Non-Largest Ten Locality Employers – General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates to 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2014 through June 30, 2018. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each age and service through
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rates from 14% to 15%

Mortality Rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates to 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, unisex using 100% male.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

I. Group Life Insurance (Continued)

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2014 through June 30, 2018. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Net GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2018, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

Description	GLI OPEB Program
Total GLI OPEB Liability	\$ 3,113,508
Plan Fiduciary Net Position	1,594,773
Employers' Net GLI OPEB Liability (Asset)	<u>\$ 1,518,735</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	<u>51.22%</u>

The total GLI OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

I. Group Life Insurance (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the System's 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 System's 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
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		* Expected arithmetic normal return	7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance 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, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

I. Group Life Insurance (Continued)

Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the employer's proportionate share of the net GLI OPEB 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:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Employer's proportionate share of the total GLI Net OPEB Liability	\$ 794,578	\$ 608,000	\$ 462,000

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

J. Subsequent Events

The Town has evaluated events and transactions subsequent to June 30, 2019 through October 21, 2019, 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, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF FRONT ROYAL, VIRGINIA
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2019

	2018	2017	2016	2015	2014
Total pension liability					
Service cost	\$ 817,668	\$ 839,589	\$ 838,443	\$ 763,448	\$ 772,812
Interest	2,577,315	2,534,294	2,452,835	2,348,782	2,265,421
Changes of assumptions	-	(318,380)	-	-	-
Differences between expected and actual experience	(7,181)	(304,814)	100,624	503,756	-
Changes in assumptions	-	-	-	-	-
Benefit payments, including refunds of employee contributions	(2,108,908)	(2,163,295)	(2,293,121)	(1,965,892)	(1,728,823)
Net change in total pension liability	1,278,894	587,394	1,098,781	1,650,094	1,309,410
Total pension liability - beginning	37,873,241	37,285,847	36,187,066	34,536,972	33,227,562
Total pension liability - ending (a)	\$ 39,152,135	\$ 37,873,241	\$ 37,285,847	\$ 36,187,066	\$ 34,536,972
Plan fiduciary net position					
Contributions - employer	\$ 1,003,374	\$ 983,818	\$ 1,011,174	\$ 964,775	\$ 1,028,333
Contributions - employee	377,390	364,069	351,767	375,118	336,567
Net investment income	2,299,527	3,458,423	486,430	1,291,269	3,920,829
Benefit payments, including refunds of employee contributions	(2,108,908)	(2,163,295)	(2,293,121)	(1,965,892)	(1,728,823)
Administrative expense	(20,098)	(20,391)	(18,467)	(18,055)	(21,238)
Other	(2,037)	(3,056)	(210)	(275)	207
Net change in total net pension position	1,549,248	2,619,568	(462,427)	646,940	3,535,875
Total net pension position - beginning	31,271,558	28,651,990	29,114,417	28,467,477	24,931,602
Total net pension position - ending (b)	\$ 32,820,806	\$ 31,271,558	\$ 28,651,990	\$ 29,114,417	\$ 28,467,477
Town's net pension liability - ending (a) - (b)	\$ 6,331,329	\$ 6,601,683	\$ 8,633,857	\$ 7,072,649	\$ 6,069,495
Plan fiduciary net position as a percentage of the total pension liability	83.83%	82.57%	76.84%	80.46%	82.43%
Covered-employee payroll	\$ 7,703,337	\$ 7,425,456	\$ 7,181,524	\$ 6,898,938	\$ 6,804,987
Town's net pension liability as a percentage of covered-employee payroll	82.19%	88.91%	120.22%	102.52%	89.19%

Additional years will be added for full 10 year historical data.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE SUPPLEMENTAL PENSION SCHEDULES

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on liabilities as of the measurement date of June 30, 2017 are not material.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

All Others (Non 10 Largest) – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rates from 14% to 15%

All Others (Non 10 Largest) – Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

TOWN OF FRONT ROYAL, VIRGINIA
SCHEDULE OF CHANGES IN NET OPEB HEALTH INSURANCE LIABILITY
AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018	2017	2016	2015
Total OPEB liability					
Service cost	\$ 144,630	\$ 149,146	\$ 275,300	\$ 266,400	\$ 238,300
Interest	148,984	136,420	50,663	47,155	34,618
Change of assumptions	2,583	(17,922)	(53,525)	(49,819)	(31,060)
Benefit payments, including refunds of employee contributions	(45,940)	(52,681)	(64,956)	(55,631)	(45,794)
Net change in total OPEB liability	250,257	214,963	207,482	208,105	196,064
OPEB Liability Beginning	4,061,011	1,848,850	1,641,368	1,433,264	1,233,430
Restatement - 2017	-	1,994,556	-	-	-
Adjustment 2015 and 2018	-	2,642	-	-	3,770
Total OPEB liability - beginning	4,061,011	3,843,406	1,641,368	1,433,264	1,233,430
Total OPEB liability - ending (a)	\$ 4,311,268	\$ 4,061,011	\$ 1,848,850	\$ 1,641,369	\$ 1,429,494
Plan fiduciary net position					
Contributions - employer	\$ 45,940	\$ 52,681	\$ 64,956	\$ 55,631	\$ 45,794
Benefit payments, including refunds of employee contributions	(45,940)	(52,681)	(64,956)	(55,631)	(45,794)
Net change in total net OPEB position	-	-	-	-	-
Total net OPEB position - beginning	-	-	-	-	-
Total net OPEB position - ending (b)	\$ -	\$ -	\$ -	\$ -	\$ -
Town's net OPEB liability - ending (a) - (b)	\$ 4,311,268	\$ 4,061,011	\$ 1,848,850	\$ 1,641,369	\$ 1,429,494
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%	0.00%	0.00%	0.00%
Covered-employee payroll	\$ 7,384,438	\$ 7,384,438	\$ 7,404,500	\$ 7,404,500	\$ 6,153,700
Town's net OPEB liability as a percentage of covered-employee payroll	58.38%	54.99%	24.97%	22.17%	23.23%

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE REQUIRED SUPPLEMENTARY HEALTH INSURANCE SCHEDULES

The following reflects the actuarial assumptions and methods used in the valuation of the Towns OPEB Health benefit:

Assumption	Description
Valuation Date:	June 30, 2017
Measurement Date:	June 30, 2018
Actuarial Cost Method:	Entry Age Normal
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

TOWN OF FRONT ROYAL, VIRGINIA
SCHEDULE OF EMPLOYER'S SHARE OF NET LODA OPEB LIABILITY
FOR THE YEAR ENDED JUNE 30, 2019

		2019	2018
Employer's Proportion of the Net LODA OPEB Liability (Asset)		0.21840%	0.19464%
Employer's Proportionate Share of the Net LODA OPEB Liability (Asset)		685,000	511,000
Covered-Employee Payroll	**	1,623,007	1,453,570
Employer's Proportionate Share of the Net LODA OPEB Liability (Asset) as a Percentage of its Covered-Employee Payroll	**	42.21%	35.15%
Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability		0.60%	1.30%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

** The contributions for the Line of Duty Act Program are based on the number of participants in the Program using a per capita-based contribution versus a payroll-based contribution. Therefore, covered-employee payroll is the relevant measurement, which is the total payroll of the employees in the OPEB plan. However when volunteers and part-time employees make up a significant percentage of the employer's members in the plan, the employer may determine that covered-employee payroll is misleading and, therefore, not applicable for disclosure. See GASB codification section P50.728-1 for related guidance.

TOWN OF FRONT ROYAL, VIRGINIA
SCHEDULE OF EMPLOYER CONTRIBUTIONS - LINE OF DUTY ACT
LAST TEN FISCAL YEARS

Date	Contributions in Relation to		Contribution Deficiency (Excess) (a-b)	Covered- Employee Payroll (c)	Contributions as a % of Covered- Employee Payroll (b/c)	
	Contractually Required Contribution (a)	Contractually Required Contribution (b)				
2019	\$ 23,262	\$ 23,262	\$ -	\$ 1,623,007 *	1.43%	*
2018	20,993	20,993	-	1,453,570 *	1.44%	*
2017	7,499	7,499	-	1,249,881 *	0.60%	*
2016	5,714	5,714	-	952,401 *	0.60%	*
2015	2,961	2,961	-	493,546 *	0.60%	*
2014	325	325	-	54,186 *	0.60%	*

* The contributions for the Line of Duty Act Program are based on the number of participants in the Program using a per capita-based contribution versus a payroll-based contribution. Therefore, covered-employee payroll is the relevant measurement, which is the total payroll of employees in the OPEB plan. However, when volunteers and part-time employees make up a significant percentage of the employer's members in the plan, the employer may determine that covered-employee payroll is misleading and, therefore, not applicable for disclosure. See GASB codification section P50.728-1 for related guidance.

FY 2014 was the first year data was available for the Line of Duty Act Program (LODA). Additional years will be added.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE REQUIRED LODA SUPPLEMENTARY SCHEDULES

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

TOWN OF FRONT ROYAL, VIRGINIA
SCHEDULE OF EMPLOYER'S SHARE OF NET GLI OPEB LIABILITY
FOR THE YEAR ENDED JUNE 30, 2019

		2019	2018
Employer's Proportion of the Net GLI OPEB Liability (Asset)		0.04002%	0.04027%
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset)		608,000	606,000
Covered-Employee Payroll	**	7,892,019	7,609,992
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered-Employee Payroll	**	7.70%	7.96%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability		<u>51.22%</u>	<u>48.86%</u>

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

TOWN OF FRONT ROYAL, VIRGINIA
SCHEDULE OF EMPLOYER CONTRIBUTIONS - GROUP LIFE INSURANCE
LAST TEN FISCAL YEARS

Date	Contributions in Relation to			Covered- Employee Payroll	Contributions as a % of Covered- Employee Payroll
	Contractually Required Contribution (a)	Contractually Required Contribution (b)	Contribution Deficiency (Excess) (a-b)		
2019	\$ 39,572	\$ 39,572	\$ -	\$ 7,892,019	0.50%
2018	34,542	34,542	-	7,609,992	0.45%
2017	38,621	38,621	-	7,427,208	0.52%
2016	34,542	38,140	(3,598)	7,196,248	0.53%
2015	32,687	36,092	(3,405)	6,809,850	0.53%
2014	32,294	35,658	(3,364)	6,727,967	0.53%
2013	31,089	34,326	(3,237)	6,476,778	0.53%
2012	17,406	27,352	(9,946)	6,216,382	0.44%
2011	17,431	27,392	(9,961)	6,225,389	0.44%
2010	13,056	23,085	(10,029)	4,835,665	0.48%

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO THE REQUIRED GLI SUPPLEMENTARY SCHEDULES

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Non-Largest Ten Locality Employers – General Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and extended final retirement from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rates from 14% to 15%

Non-Largest Ten Locality Employers – Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rates from 60% to 45%

**SUPPLEMENTARY INFORMATION
SECTION**

TOWN OF FRONT ROYAL, VIRGINIA**GENERAL FUND****SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES-BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019**

	Original Budget	Final Budget	Actual Revenues	Variance Positive (Negative)
Source of Revenues				
General Property Taxes				
Real estate taxes				
Current taxes, including penalties	\$ 903,130	\$ 903,130	\$ 795,644	\$ (107,486)
Delinquent taxes, including penalties	15,000	15,000	15,883	883
Personal property taxes				
Current taxes, including penalties	361,410	361,410	307,415	(53,995)
Public service corporation taxes	22,500	22,500	21,777	(723)
Interest on delinquent taxes	18,000	18,000	21,506	3,506
Total General Property Taxes	<u>1,320,040</u>	<u>1,320,040</u>	<u>1,162,225</u>	<u>(157,815)</u>
Other Local Taxes				
Warren County sales tax	931,225	931,225	951,020	19,795
Business and occupational taxes and penalties	760,750	760,750	763,876	3,126
Franchise taxes	62,000	62,000	49,029	(12,971)
Consumer taxes - electric deregulation	227,800	227,800	232,517	4,717
Vehicle licenses	371,410	371,410	377,554	6,144
Bank stock taxes	242,185	242,185	319,706	77,521
Lodging taxes	322,000	322,000	316,171	(5,829)
Meal taxes	1,671,950	1,671,950	1,755,650	83,700
Payment in lieu of taxes	672,780	672,780	730,871	58,091
Total Other Local Taxes	<u>5,262,100</u>	<u>5,262,100</u>	<u>5,496,394</u>	<u>234,294</u>
Permits, Fees and Licenses				
Zoning income	28,000	28,000	30,564	2,564
Public ROW use fees	1,100	1,100	1,131	31
Total Permits, Fees and Licenses	<u>29,100</u>	<u>29,100</u>	<u>31,695</u>	<u>2,595</u>
Fines and Forfeitures				
Fines and forfeitures - county	165,000	165,000	276,177	111,177
Fines and forfeitures - town	15,000	19,000	14,652	(4,348)
Total Fines and Forfeitures	<u>180,000</u>	<u>184,000</u>	<u>290,829</u>	<u>106,829</u>
Revenues from Use of Money and Property				
Interest on bank deposits	66,000	66,000	283,211	217,211
Interest on accounts receivable	500	500	194	(306)
Rental - Comcast property	12,045	12,045	11,855	(190)
Total Revenues from Use of Money and Property	<u>78,545</u>	<u>78,545</u>	<u>295,260</u>	<u>216,715</u>
Charges for Services				
Curb and gutter charges	2,050	2,050	3,984	1,934
Street & walk assessment	1,200	1,200	-	(1,200)
Credit card fees	26,000	26,000	22,147	(3,853)
Sales at Visitors' Center	18,000	18,000	25,771	7,771
Sales of publications	50	50	175	125
Total Charges for Services	<u>47,300</u>	<u>47,300</u>	<u>52,077</u>	<u>4,777</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, 2019**

	Original Budget	Final Budget	Actual Revenues	Variance Positive (Negative)
Miscellaneous Revenue				
Miscellaneous	\$ 37,060	\$ 37,060	\$ 3,627	\$ (33,433)
Intergovernmental				
Rolling stock tax	18,000	18,000	15,972	(2,028)
Virginia personal property tax reduction	287,000	287,000	287,863	863
Communication tax	153,560	153,560	145,928	(7,632)
Rental tax vehicles	85,000	85,000	107,194	22,194
State aid for police and fire	370,200	370,200	362,168	(8,032)
Highway maintenance	1,956,320	1,956,320	1,971,368	15,048
Grants	10,000	26,300	37,557	11,257
Advances from E.D.A. - Police Station	-	-	5,413,198	5,413,198
Road construction and improvements	-	-	245,724	245,724
Total Intergovernmental	2,880,080	2,896,380	8,586,972	5,690,592
Total General Fund Revenues	9,834,225	9,854,525	15,919,079	6,064,554
Other Financing Sources				
Transfers from other funds	3,131,000	3,131,000	3,131,000	-
Sale of equipment	-	-	18,018	18,018
Insurance recoveries	-	-	1,309	1,309
Equipment loan proceeds	-	545,000	550,000	5,000
Total Other Financing Sources	3,131,000	3,676,000	3,700,327	24,327
Total General Fund Revenues and Other Financing Sources	<u>\$12,965,225</u>	<u>\$13,530,525</u>	<u>\$19,619,406</u>	<u>\$ 6,088,881</u>

TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
Legislative				
Town Council				
Personal service	\$ 61,400	\$ 61,400	\$ 60,527	\$ 873
Contractual service	52,000	116,239	69,102	47,137
Materials and supplies	17,360	13,810	16,221	(2,411)
Travel and communications	9,000	6,765	6,354	411
Total Town Council	139,760	198,214	152,204	46,010
Clerk of Council				
Personal service	79,970	79,970	79,159	811
Materials and supplies	350	350	886	(536)
Travel and communications	2,725	2,725	2,992	(267)
Dues and memberships	310	310	200	110
Total Clerk of Council	83,355	83,355	83,237	118
Total Legislative	223,115	281,569	235,441	46,128
Executive				
Town Manager				
Personal service	345,975	345,975	343,437	2,538
Contractual service	650	650	580	70
Materials and supplies	9,590	10,850	9,240	1,610
Travel and communications	8,250	8,250	5,788	2,462
Dues and memberships	2,500	2,500	2,454	46
Capital outlays	-	-	-	-
Cultural activities	1,260	1,260	1,260	-
Total Town Manager	368,225	369,485	362,759	6,726
Management Services				
Personal service	234,195	234,195	225,314	8,881
Contractual service	60	60	58	2
Materials and supplies	54,390	29,390	28,711	679
Travel and communications	1,200	4,120	1,606	2,514
Dues and memberships	650	650	637	13
Cultural activities	400	400	400	-
Total Management Services	290,895	268,815	256,726	12,089
Auto/Motorpool				
Personal service	430,950	430,950	414,417	16,533
Contractual service	10,000	10,000	9,355	645
Materials and supplies	55,450	58,250	36,535	21,715
Travel and communications	4,500	4,500	1,493	3,007
Utilities	2,500	2,500	941	1,559
Capital outlays	2,800	102,990	9,371	93,619
Total Auto/Motorpool	506,200	609,190	472,112	137,078

(Continued)

TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
Office of Information Technology				
Personal service	\$ 169,985	\$ 169,985	\$ 167,004	\$ 2,981
Contractual service	228,155	251,203	192,762	58,441
Materials and supplies	53,750	98,250	57,793	40,457
Travel and communications	61,000	69,000	62,843	6,157
Capital outlays	100,950	111,255	77,738	33,517
Total Office of Information Technology	<u>613,840</u>	<u>699,693</u>	<u>558,140</u>	<u>141,553</u>
Office of Tourism				
Personal service	221,790	221,790	204,310	17,480
Contractual service	37,400	37,400	34,535	2,865
Materials and supplies	131,290	144,962	138,778	6,184
Utilities	200	200	-	200
Travel and communications	5,500	5,500	5,838	(338)
Dues and memberships	2,500	2,500	2,245	255
Cultural Activities	22,400	22,400	20,793	1,607
Total Office of Tourism	<u>421,080</u>	<u>434,752</u>	<u>406,499</u>	<u>28,253</u>
Board of Elections				
Contractual service	<u>13,500</u>	<u>10,155</u>	<u>10,154</u>	<u>1</u>
Total Executive	<u>2,213,740</u>	<u>2,392,090</u>	<u>2,066,390</u>	<u>325,700</u>
Legal				
Town Attorney				
Personal service	337,405	337,405	324,297	13,108
Contractual service	15,000	105,000	14,338	90,662
Materials and supplies	11,350	8,850	4,573	4,277
Travel and communications	7,000	6,355	3,069	3,286
Dues and memberships	1,500	1,500	725	775
Total Legal	<u>372,255</u>	<u>459,110</u>	<u>347,002</u>	<u>112,108</u>
Finance				
Finance Department				
Personal service	790,765	790,765	713,487	77,278
Contractual service	1,590	1,590	1,642	(52)
Materials and supplies	111,015	111,015	113,899	(2,884)
Travel and communications	7,300	7,850	7,625	225
Dues and memberships	405	405	405	-
Capital outlays	-	-	-	-
Total Finance Department	<u>911,075</u>	<u>911,625</u>	<u>837,058</u>	<u>74,567</u>
Total General Government	<u>3,720,185</u>	<u>4,044,394</u>	<u>3,485,891</u>	<u>558,503</u>

(Continued)

TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
Planning, Zoning and Community Development				
Planning and Zoning				
Personal service	\$ 435,095	\$ 435,095	\$ 345,961	\$ 89,134
Contractual service	55,000	52,393	2,834	49,559
Materials and supplies	10,250	36,909	5,957	30,952
Travel and communications	5,950	4,150	3,213	937
Dues and memberships	625	625	558	67
Capital outlays	-	54,105	15,429	38,676
Total Planning and Zoning	<u>506,920</u>	<u>583,277</u>	<u>373,952</u>	<u>209,325</u>
Economic Development				
Contractual service	-	24,000	10,942	13,058
Materials and supplies	-	10,500	4,267	6,233
Travel and communications	-	4,500	1,654	2,846
Dues and memberships	-	1,500	600	900
Contributions to other entities	9,065	9,065	765	8,300
Total Economic Development	<u>9,065</u>	<u>49,565</u>	<u>18,228</u>	<u>31,337</u>
Boards and Commissions				
Personal service	18,300	18,300	12,654	5,646
Contractual service	1,000	1,000	630	370
Materials and supplies	4,225	4,225	2,776	1,449
Travel and communications	3,500	3,500	4,419	(919)
Dues and memberships	100	100	-	100
Joint operations	15,525	15,525	15,522	3
Total Boards and Commissions	<u>42,650</u>	<u>42,650</u>	<u>36,001</u>	<u>6,649</u>
Total Planning, Zoning and Community Development	<u>558,635</u>	<u>675,492</u>	<u>428,181</u>	<u>247,311</u>
Police				
Police Department				
Personal service	4,497,580	4,509,880	4,331,317	178,563
Contractual service	13,500	10,900	9,213	1,687
Materials and supplies	260,335	264,442	232,405	32,037
Travel and communications	78,300	70,400	56,077	14,323
Dues and memberships	5,300	3,300	2,173	1,127
Joint operations	26,760	24,460	24,248	212
Capital outlays	178,065	727,565	6,202,270	(5,474,705)
Total Police Department	<u>5,059,840</u>	<u>5,610,947</u>	<u>10,857,703</u>	<u>(5,246,756)</u>
Engineering and Public Works				
Engineering				
Personal service	60,655	60,655	18,608	42,047
Contractual service	1,500	1,500	136	1,364
Materials and supplies	30,600	10,700	4,612	6,088
Travel and communications	6,000	5,600	3,057	2,543
Dues and memberships	2,400	2,400	292	2,108
Capital outlays	25,000	23,610	23,610	-
Total Engineering	<u>126,155</u>	<u>104,465</u>	<u>50,315</u>	<u>54,150</u>
				(Continued)

TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
Streets and Sidewalks				
Personal service	\$ 955,115	\$ 955,115	\$ 826,030	\$ 129,085
Contractual service	3,500	3,500	1,460	2,040
Materials and supplies	341,760	341,760	338,578	3,182
Travel and communications	9,050	8,450	8,815	(365)
Utilities	34,800	27,800	26,878	922
Dues and memberships	50	50	-	50
Capital outlays	761,085	2,648,866	1,792,688	856,178
Total Streets and Sidewalks	2,105,360	3,985,541	2,994,449	991,092
General Properties				
Personal service	137,425	137,425	127,379	10,046
Contractual service	16,000	16,000	6,515	9,485
Materials and supplies	67,400	73,145	47,806	25,339
Travel and communications	1,400	1,550	1,592	(42)
Utilities	75,000	96,900	89,898	7,002
Capital outlays	-	83,206	44,417	38,789
Total General Properties	297,225	408,226	317,607	90,619
Horticulture				
Personal service	249,350	249,350	238,172	11,178
Contractual service	52,000	52,000	18,460	33,540
Materials and supplies	35,205	40,522	40,381	141
Travel and communications	1,620	1,620	1,531	89
Utilities	300	300	258	42
Dues and memberships	350	350	305	45
Total Horticulture	338,825	344,142	299,107	45,035
Total Engineering and Public Works	2,867,565	4,842,374	3,661,478	1,180,896
Nondepartmental				
Fringe Benefits	284,000	253,657	250,792	2,865
Insurance	325,000	301,560	301,493	67
Debt service	-	-	59,312	(59,312)
Total Nondepartmental	609,000	555,217	611,597	(56,380)
Subtotal	12,815,225	15,728,424	19,044,850	(3,316,426)
Transfers to Other Funds				
Economic Development Fund	-	-	-	-
Total Transfers	-	-	-	-
Total General Fund Expenditures	\$ 12,815,225	\$ 15,728,424	\$ 19,044,850	\$ (3,316,426)

**TOWN OF FRONT ROYAL, VIRGINIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2019**

	Special Revenue					Capital Project	
	Downtown Service District	Asset Forfeitures	Economic Development	Community/ Neighborhood	Total	Town Facilities	Total Nonmajor Governmental Funds
Assets							
Cash and cash equivalents	\$ -	\$ 58,670	\$ -	\$ 1,079,581	\$ 1,138,251	\$ -	\$ 1,138,251
Interfund advances	-	-	4,500	-	4,500	-	4,500
Total Assets	<u>\$ -</u>	<u>\$ 58,670</u>	<u>\$ 4,500</u>	<u>\$ 1,079,581</u>	<u>\$ 1,142,751</u>	<u>\$ -</u>	<u>\$ 1,142,751</u>
Liabilities							
Bank advances	\$ -	\$ -	\$ 357,522	\$ -	\$ 357,522	\$ -	\$ 357,522
Accounts payable	-	-	-	3,492	3,492	-	3,492
Interfund advances	-	49,915	-	97,031	146,946	-	146,946
Total Liabilities	<u>-</u>	<u>49,915</u>	<u>357,522</u>	<u>100,523</u>	<u>507,960</u>	<u>-</u>	<u>507,960</u>
Fund Balances							
Restricted for:							
Capital outlays	-	8,755	-	-	8,755	-	8,755
Community development	-	-	-	979,058	979,058	-	979,058
Assigned for capital projects	-	-	-	-	-	-	-
Unassigned	-	-	(353,022)	-	(353,022)	-	(353,022)
Total Fund Balances	<u>-</u>	<u>8,755</u>	<u>(353,022)</u>	<u>979,058</u>	<u>634,791</u>	<u>-</u>	<u>634,791</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 58,670</u>	<u>\$ 4,500</u>	<u>\$ 1,079,581</u>	<u>\$ 1,142,751</u>	<u>\$ -</u>	<u>\$ 1,142,751</u>

TOWN OF FRONT ROYAL, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	Special Revenue					Capital Project	Total Nonmajor
	Downtown	Asset	Economic	Community/		Town	Governmental
	Service District	Forfeitures	Development	Neighborhood	Total	Facilities	Funds
Revenues							
Real estate taxes	\$ -	\$ -	\$ 141,400	\$ 714,645	\$ 856,045	\$ -	\$ 856,045
Asset forfeitures	-	7,383	-	-	7,383	-	7,383
Intergovernmental	-	-	-	674,662	674,662	-	674,662
Total revenues	-	7,383	141,400	1,389,307	1,538,090	-	1,538,090
Expenditures							
Current							
Contractual service	-	-	-	463,465	463,465	-	463,465
Capital outlays	-	-	-	854,717	854,717	-	854,717
Total expenditures	-	-	-	1,318,182	1,318,182	-	1,318,182
Excess of revenues over expenditures	-	7,383	141,400	71,125	219,908	-	219,908
Other Financing Uses							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing uses	-	-	-	-	-	-	-
Net change in fund balances	-	7,383	141,400	71,125	219,908	-	219,908
Fund balances - beginning	-	1,372	(494,422)	907,933	414,883	-	414,883
Fund balances - ending	\$ -	\$ 8,755	\$ (353,022)	\$ 979,058	\$ 634,791	\$ -	\$ 634,791

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, 2019

	Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues			
Asset forfeitures	\$ 12,000	\$ 7,383	\$ (4,617)
Expenditures			
Contract services	-	-	-
Capital outlays	12,000	-	12,000
	<u>12,000</u>	<u>-</u>	<u>12,000</u>
Excess of revenues over expenditures	-	7,383	7,383
Fund balances - beginning	<u>1,372</u>	<u>1,372</u>	<u>-</u>
Fund balances - ending	<u><u>\$ 1,372</u></u>	<u><u>\$ 8,755</u></u>	<u><u>\$ 7,383</u></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, 2019**

	Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues			
Real estate taxes	\$ 141,400	\$ 141,400	\$ -
Expenditures			
Contributions to other entities	141,400	-	141,400
Debt Service	-	-	-
Total Expenditures	141,400	-	141,400
Excess of revenues over expenditures	-	141,400	141,400
Fund balances - beginning	(494,422)	(494,422)	-
Fund balances - ending	\$ (494,422)	\$ (353,022)	\$ 141,400

**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, 2019**

	Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues			
Real estate taxes	\$ 714,645	\$ 714,645	\$ -
Meals taxes	-	-	-
CDBG grant	700,000	674,662	(25,338)
Total Revenues	<u>1,414,645</u>	<u>1,389,307</u>	<u>(25,338)</u>
Expenditures			
Contractual services	1,742,370	463,465	1,278,905
Capital outlays	1,057,048	854,717	202,331
Total Expenditures	<u>2,799,418</u>	<u>1,318,182</u>	<u>1,481,236</u>
Excess of revenues over expenditures	(1,384,773)	71,125	(1,455,898)
Other Financing Uses			
Transfers in - Debt Service	-	-	-
Net change in fund balances	(1,384,773)	71,125	1,455,898
Fund balances - beginning	<u>907,933</u>	<u>907,933</u>	<u>-</u>
Fund balances - ending	<u>\$ (476,840)</u>	<u>\$ 979,058</u>	<u>\$ 1,455,898</u>

TOWN OF FRONT ROYAL, VIRGINIA
SCHEDULE OF DIRECTOR OF FINANCE'S ACCOUNTABILITY
JUNE 30, 2019

Assets held by the Director of Finance

Cash on hand		\$	1,908
Cash in banks			
Union Bank & Trust - checking			(584,593)
Certificates of deposit			
BB&T	\$	350,000	
Sonabank		126,993	
Atlantic Union Bank		2,213,989	
Wells Fargo		84,530	
City National Bank		24,154	
			<hr/>
			2,799,666
Loan escrow funds			
Atlantic Union Bank		176,298	
U.S. Bank		550,000	
			<hr/>
			726,298
Wells Fargo - government money market			2,598,217
Virginia Local Government Investment Pool			3,088,370
Union Bank & Trust - banking sweep account			14,580,928
Middleburg Financial Trust - fixed income securities			1,636,446
Middleburg Financial Trust - fixed income securities			22,209,038
			<hr/>
Total Assets			<hr/> \$ 47,056,278 <hr/>

TOWN OF FRONT ROYAL, VIRGINIA
SCHEDULE OF DIRECTOR OF FINANCE'S ACCOUNTABILITY TO THE TOWN
FOR THE YEAR ENDED JUNE 30, 2019

	Governmental Funds			2019 Totals	2018 Totals
	General	Special Revenue	Proprietary Funds	(Memorandum Only)	(Memorandum Only)
Balance July 1, 2018	\$ 13,642,974	\$ 581,497	\$ 30,761,227	\$ 44,985,698	\$ 43,112,052
Receipts (net)					
Proceed on bond debt issued	-	-	541,509	541,509	3,758,214
Proceeds on loans issued	550,000	-	176,298	726,298	-
Interfund advances/receipts	-	-	150,000	150,000	150,000
General property taxes	1,135,142	856,045	-	1,991,187	1,917,317
Other local taxes	4,630,543	-	-	4,630,543	4,567,652
Permits, fees and licenses	31,695	-	-	31,695	40,747
Fines and forfeitures	290,829	-	-	290,829	238,207
Revenues from use of money and property	295,260	-	1,108,537	1,403,797	309,433
Charges for services	52,077	-	32,560,465	32,612,542	31,647,364
Grants	-	-	262,563	262,563	1,080,870
Miscellaneous	3,627	674,662	-	678,289	20,803
Recovered costs	-	7,383	-	7,383	9,379
Payment in lieu of taxes	730,871	-	-	730,871	651,780
Intergovernmental	8,572,453	-	-	8,572,453	7,461,083
Sale of real estate	18,018	-	-	18,018	295,174
Insurance recoveries	1,309	-	-	1,309	15,406
Total Receipts	16,311,824	1,538,090	34,799,372	52,649,286	52,163,429
Total Available	29,954,798	2,119,587	65,560,599	97,634,984	95,275,481
Disbursements (net)					
Warrants (checks) issued	18,924,824	1,338,858	26,991,886	47,255,568	47,971,818
Retirement of indebtedness	-	-	2,756,573	2,756,573	1,719,440
Interfund advance payments	150,000	-	-	150,000	150,000
Interest on debt costs	-	-	416,565	416,565	448,525
Total Disbursements	19,074,824	1,338,858	30,165,024	50,578,706	50,289,783
Transfers in	3,131,000	-	-	3,131,000	3,255,000
Transfers (out)	-	-	(3,131,000)	(3,131,000)	(3,255,000)
Total Transfers In (Out)	3,131,000	-	(3,131,000)	-	-
Balance June 30, 2019	\$ 14,010,974	\$ 780,729	\$ 32,264,575	\$ 47,056,278	\$ 44,985,698

TOWN OF FRONT ROYAL, VIRGINIA
COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2019

Taxable assessed value of real property	<u>\$ 1,320,690,400</u>
Debt limit (10 percent of assessed value)	\$ 132,069,040
Amount of debt applicable to debt limit	
Advances from Economic Development Authority	8,406,148
Equipment note payable obligation	<u>719,199</u>
	<u>9,125,347</u>
Legal debt margin	<u>\$ 122,943,693</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>	112
Revenue Capacity <i>These schedules contain information to help the reader assess the Town's most significant local revenue source, the property tax.</i>	118
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>	122
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>	127
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>	129

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									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Governmental Activities										
Net investment in capital assets	\$ 62,087,906	\$ 58,899,411	\$ 56,769,628	\$ 53,782,076	\$ 50,772,052	\$ 47,470,993	\$ 49,088,542	\$ 53,926,594	\$ 51,389,043	\$ 49,299,224
Restricted	-	1,136,560	1,131,146	1,975,178	2,830,559	3,239,409	3,394,680	3,528,117	4,133,610	4,890,632
Unrestricted	5,953,428	5,125,795	4,934,496	5,453,676	5,714,134	2,159,166	2,755,805	3,165,636	1,702,112	2,049,383
Total Governmental Activities Net Position	\$ 68,041,334	\$ 65,161,766	\$ 63,017,270	\$ 61,210,930	\$ 59,316,745	\$ 52,869,568	\$ 55,239,027	\$ 60,620,347	\$ 57,224,765	\$ 56,239,239
Business-type Activities										
Net investment in capital assets	\$ 33,201,151	\$ 33,459,029	\$ 34,064,137	\$ 36,419,933	\$ 35,385,515	\$ 44,159,747	\$ 51,693,830	\$ 50,846,302	\$ 53,624,361	\$ 53,014,215
Unrestricted	17,843,447	16,659,513	16,446,498	19,440,318	22,940,690	17,389,248	18,022,201	26,239,996	25,856,906	29,337,878
Total Business-type Activities Net Position	\$ 51,044,598	\$ 50,118,542	\$ 50,510,635	\$ 55,860,251	\$ 58,326,205	\$ 61,548,995	\$ 69,716,031	\$ 77,086,298	\$ 79,481,267	\$ 82,352,093
Primary Government										
Net investment in capital assets	\$ 92,582,592	\$ 92,358,440	\$ 90,833,765	\$ 90,202,009	\$ 86,157,567	\$ 91,630,740	\$ 100,782,372	\$ 104,772,896	\$ 105,013,404	\$ 102,313,439
Restricted	-	1,136,560	1,131,146	1,975,178	2,830,559	3,239,409	3,394,680	3,528,117	4,133,610	4,890,632
Unrestricted	26,503,340	21,785,308	21,380,994	24,893,994	28,654,824	19,548,414	20,778,006	29,405,632	27,559,018	31,387,261
Total Primary Government Net Position	\$ 119,085,932	\$ 115,280,308	\$ 113,527,905	\$ 117,071,181	\$ 117,642,950	\$ 114,418,563	\$ 124,955,058	\$ 137,706,645	\$ 136,706,032	\$ 138,591,332

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

Expenses	Fiscal Year									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Governmental Activities:										
General government and administration	\$ 3,340,772	\$ 3,161,198	\$ 3,003,366	\$ 3,404,737	\$ 3,610,966	\$ 3,356,075	\$ 3,866,401	\$ 3,371,036	\$ 3,688,420	\$ 3,580,318
Public safety	3,873,965	3,821,530	3,890,462	4,226,075	4,256,684	4,071,072	4,401,137	4,626,250	5,137,009	5,084,827
Public works	2,467,186	2,440,880	2,167,403	2,200,764	2,152,085	2,351,087	2,832,612	2,971,237	2,661,967	2,671,218
Planning, zoning, and community development	636,471	596,574	641,552	617,998	720,592	700,053	1,077,032	1,246,737	1,078,310	936,586
Culture and recreation	91,004	105,720	105,801	53,548	22,344	-	-	-	-	-
Interest on long term debt	16,205	12,431	8,480	4,345	-	-	-	-	-	10,965
Infrastructure depreciation	3,591,054	3,591,054	3,591,054	3,591,054	3,591,054	3,591,055	3,591,055	3,591,054	3,591,054	4,052,716
Total Governmental Activities Expenses	14,016,657	13,729,387	13,408,118	14,098,521	14,353,725	14,069,342	15,768,237	15,806,314	16,156,760	16,336,630
Business-Type Activities:										
Electric	14,119,794	16,888,252	14,466,632	13,293,934	15,469,985	14,906,428	15,869,418	15,515,533	18,153,934	18,681,552
Water	3,023,196	2,742,241	2,799,552	2,953,064	3,075,201	3,042,885	3,604,540	3,444,027	3,583,833	3,380,314
Sewer	3,550,177	2,680,077	3,036,433	2,966,184	3,186,205	3,387,659	3,584,110	4,106,234	5,003,086	5,307,707
Refuse	1,301,649	931,697	968,124	924,107	929,685	842,450	864,785	837,128	898,003	882,729
Total Business-Type Activities Expenses	21,994,816	23,242,267	21,270,741	20,137,289	22,661,076	22,179,422	23,922,853	23,902,922	27,638,856	28,252,302
Total Primary Government Expenses	36,011,473	36,971,654	34,678,859	34,235,810	37,014,801	36,248,764	39,691,090	39,709,236	43,795,616	44,588,932
Program Revenues										
Governmental Activities:										
Charges for services:										
General government	227,814	155,527	96,447	146,989	142,191	168,283	101,895	82,552	76,402	55,704
Public safety	272,406	276,409	244,888	196,412	357,460	179,726	188,653	167,355	247,586	298,212
Public works	6,366	3,848	2,932	1,458	3,848	817	3,248	-	-	-
Planning, zoning, and community development	93,419	18,182	74,588	25,921	26,251	25,410	30,739	29,534	40,747	31,695
Operating grants and contributions	1,870,222	1,960,551	1,967,288	1,998,364	2,047,240	2,094,216	2,164,424	2,231,968	2,263,456	3,008,198
Capital grants and contributions	93,087	133,154	113,971	10,249	32,554	29,357	5,315,112	7,760,114	1,296,492	283,281
Total Governmental Program Revenues	2,563,314	2,547,671	2,500,114	2,379,393	2,609,544	2,497,809	7,804,071	10,271,523	3,924,683	3,677,090
Business-Type Activities:										
Charges for services:										
Electric	15,462,065	16,544,552	15,561,410	16,832,900	17,389,372	17,435,092	16,850,344	16,427,093	18,794,719	20,344,673
Water	2,758,853	3,161,942	3,231,718	4,344,296	4,549,414	5,170,326	5,134,173	5,405,199	5,258,361	5,073,560
Sewer	2,723,871	3,452,860	4,204,653	6,303,357	4,984,234	6,644,753	6,719,064	7,077,220	6,672,143	6,473,632
Refuse	951,731	927,160	867,388	887,694	994,255	984,191	1,004,293	1,099,451	1,125,850	1,094,132
Capital grants and contributions	-	-	-	-	-	474,457	5,381,345	4,358,919	1,841,670	262,563
Total Business-Type Program Revenues	21,896,520	24,086,514	23,865,169	28,368,247	27,917,275	30,708,819	35,089,219	34,367,882	33,692,743	33,248,560
Total Primary Government Program Revenues	24,459,834	26,634,185	26,365,283	30,747,640	30,526,819	33,206,628	42,893,290	44,639,405	37,617,426	36,925,650

(Continued)

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

	Fiscal Year									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Net (Expense) Revenue										
Governmental Activities	\$ (11,453,343)	\$ (11,181,716)	\$ (10,908,004)	\$ (11,719,128)	\$ (11,744,181)	\$ (11,571,533)	\$ (7,964,166)	\$ (5,534,791)	\$ (12,232,077)	\$ (12,659,540)
Business-Type Activities	(98,296)	844,247	2,594,428	8,230,958	5,256,199	8,529,397	11,166,366	10,464,960	6,053,887	4,996,258
Total Primary Gov't Net Expense	(11,551,639)	(10,337,469)	(8,313,576)	(3,488,170)	(6,487,982)	(3,042,136)	3,202,200	4,930,169	(6,178,190)	(7,663,282)
General Revenues and Other										
Changes in Net Position										
Governmental Activities:										
Property taxes	2,563,604	1,685,744	1,544,123	1,549,507	1,788,416	1,846,740	1,843,505	1,935,993	1,960,007	2,175,076
Sales taxes	684,300	707,328	726,745	1,418,512	943,728	852,134	794,164	930,123	905,904	951,020
Business and occupational taxes	613,273	633,938	612,660	656,935	672,494	682,756	804,677	735,679	719,089	763,876
Franchise and bank stock taxes (*)	24,167	119,434	254,686	280,149	284,714	303,207	288,944	286,165	372,811	368,735
Communication taxes	178,294	177,411	157,940	162,826	169,927	170,799	165,738	160,990	157,125	145,928
Consumer taxes	190,188	242,677	228,374	221,576	164,137	222,783	181,034	225,029	183,832	232,517
Meals and lodging taxes	1,330,656	1,450,203	1,547,442	1,648,350	1,750,295	1,751,540	1,852,221	1,926,177	1,996,490	2,071,821
Virginia pers. prop. tax reduction	575,726	287,863	287,000	287,000	287,000	287,000	287,000	287,000	287,863	287,863
Payment in lieu of taxes	307,158	337,469	372,920	401,492	407,661	389,041	403,582	516,858	651,780	730,871
Vehicle licenses (*)			350,500	354,605	357,359	362,923	368,894	365,261	375,976	377,554
Other general taxes (*)	472,388	615,452	53,344	71,263	86,720	81,598	84,764	90,552	105,457	123,166
Unrestricted investment earnings	109,480	56,357	123,824	12,113	77,835	65,337	65,457	33,784	63,053	295,260
Gain on sale of capital assets and other recoveries	-	-	-	-	-	-	-	-	240,464	19,327
Transfers	1,988,722	1,988,272	2,503,950	2,848,460	2,859,710	2,951,585	3,193,645	3,422,500	3,155,000	3,131,000
Total Governmental Activities	9,037,956	8,302,148	8,763,508	9,912,788	9,849,996	9,967,443	10,333,625	10,916,111	11,174,851	11,674,014
Business-Type Activities:										
Unrestricted investment earnings	254,472	217,969	301,615	(32,882)	174,807	119,434	194,315	62,459	144,313	873,411
Asset sales and insurance recoveries	-	-	-	-	-	-	-	265,348	-	132,157
Transfers	(1,988,722)	(1,988,272)	(2,503,950)	(2,848,460)	(2,859,710)	(2,951,585)	(3,193,645)	(3,422,500)	(3,155,000)	(3,131,000)
Total Business-Type Activities	(1,734,250)	(1,770,303)	(2,202,335)	(2,881,342)	(2,684,903)	(2,832,151)	(2,999,330)	(3,094,693)	(3,010,687)	(2,125,432)
Total Primary Government	7,303,706	6,531,845	6,561,173	7,031,446	7,165,093	7,135,292	7,334,295	7,821,418	8,164,164	9,548,582
Change in Net Position										
Governmental Activities	(2,415,387)	(2,879,568)	(2,144,496)	(1,806,340)	(1,894,185)	(1,604,090)	2,369,459	5,381,320	(1,057,226)	(985,526)
Business-Type Activities	(1,832,546)	(926,056)	392,093	5,349,616	2,571,296	5,697,246	8,167,036	7,370,267	3,043,200	2,870,826
Total Primary Government	\$ (4,247,933)	\$ (3,805,624)	\$ (1,752,403)	\$ 3,543,276	\$ 677,111	\$ 4,093,156	\$ 10,536,495	\$ 12,751,587	\$ 1,985,974	\$ 1,885,300

* 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	Meals and Lodging	Virginia PPTR	In Lieu of Taxes	Vehicle Taxes	Other General (*)	Total
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
2018	1,960,007	905,904	719,089	529,936	183,832	1,996,490	287,863	651,780	375,976	105,457	7,716,334
2019	2,175,076	951,020	763,876	514,663	232,517	2,071,821	287,863	730,871	377,554	123,166	8,228,427

* 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									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
General Fund										
Nonspendable	\$ 60,975	\$ 180,487	\$ 207,520	\$ 196,260	\$ 207,823	\$ 241,290	\$ 141,487	\$ 117,862	\$ 94,008	\$ 67,677
Restricted	-	766,933	766,933	1,300,989	1,900,281	2,211,133	2,462,565	2,776,030	3,224,305	3,902,819
Assigned	-	-	-	-	-	1,250,000	-	-	2,306,399	1,873,841
Unassigned	5,803,554	5,300,035	5,248,533	5,728,824	6,022,406	5,585,564	7,747,379	8,127,236	6,814,073	7,169,004
Total General Fund	<u>\$ 5,864,529</u>	<u>\$ 6,247,455</u>	<u>\$ 6,222,986</u>	<u>\$ 7,226,073</u>	<u>\$ 8,130,510</u>	<u>\$ 9,287,987</u>	<u>\$ 10,351,431</u>	<u>\$ 11,021,128</u>	<u>\$ 12,438,785</u>	<u>\$ 13,013,341</u>
All Other Governmental Funds										
Restricted	\$ -	\$ 369,627	\$ 546,213	\$ 674,189	\$ 930,278	\$ 1,028,276	\$ 932,115	\$ 752,087	\$ 909,305	\$ 987,813
Assigned - capital funds	388	388	388	388	388	388	388	-	-	-
Unassigned, reported in:										
Special revenue funds	142,836	(331,973)	(405,413)	(312,447)	(380,375)	(447,128)	(481,106)	(494,429)	(494,422)	(353,022)
Total all other governmental funds	<u>\$ 143,224</u>	<u>\$ 38,042</u>	<u>\$ 141,188</u>	<u>\$ 362,130</u>	<u>\$ 550,291</u>	<u>\$ 581,536</u>	<u>\$ 451,397</u>	<u>\$ 257,658</u>	<u>\$ 414,883</u>	<u>\$ 634,791</u>

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

	Fiscal Year									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
REVENUES:										
Taxes:										
Property	\$ 1,896,461	\$ 1,463,695	\$ 1,476,410	\$ 1,452,321	\$ 1,592,285	\$ 1,748,623	\$ 1,784,387	\$ 1,860,940	\$ 1,900,224	\$ 2,018,270
Sales	684,300	707,328	726,745	1,418,512	943,728	852,134	794,164	930,123	905,904	951,020
Business and occupational	613,273	633,938	612,660	656,935	672,494	682,756	804,677	735,679	719,089	763,876
Franchise	24,167	119,434	19,385	87,213	67,191	60,797	74,743	48,750	51,205	49,029
Consumer	190,188	242,677	228,374	221,576	164,137	222,783	181,034	225,029	183,832	232,517
Vehicle licenses	174,686	296,784	350,500	354,605	357,359	362,923	368,894	365,261	375,976	377,554
Bank stock	239,686	259,987	235,301	192,936	217,523	242,410	214,201	237,415	321,606	319,706
Meals and lodging	1,330,656	1,450,203	1,547,442	1,648,350	1,750,295	1,751,540	1,852,221	1,926,177	1,996,490	2,071,821
Permits, fees, and licenses	93,419	18,182	74,588	25,921	26,251	25,410	30,739	29,534	40,747	31,695
Fines and forfeitures	238,363	249,598	213,721	179,666	157,767	172,406	160,047	160,643	238,207	290,829
Revenues from use of money and property	109,480	56,357	123,824	12,113	77,835	65,337	65,457	33,784	63,053	295,260
Charges for services	20,237	16,257	25,811	35,841	37,924	34,715	42,257	41,280	55,599	52,077
Miscellaneous	213,943	143,118	73,568	112,606	108,115	134,385	62,886	41,272	20,803	3,627
Recovered costs	34,043	26,811	31,167	16,746	199,693	7,320	28,606	6,712	9,379	7,383
Payment in lieu of taxes	307,158	337,469	372,920	401,492	407,661	389,041	403,582	516,858	651,780	730,871
Intergovernmental	2,775,345	2,617,660	2,579,543	2,529,702	2,623,441	2,662,970	8,017,038	10,530,624	7,103,343	9,261,634
Total Revenues	8,945,405	8,639,498	8,691,959	9,346,535	9,403,699	9,415,550	14,884,933	17,690,081	14,637,237	17,457,169
EXPENDITURES:										
General government										
Legislative	166,884	175,142	155,176	169,241	171,338	176,283	313,478	252,619	220,857	235,441
Executive	1,588,909	1,556,528	1,520,025	1,731,960	2,049,108	1,881,985	2,121,888	1,999,411	2,117,328	2,066,390
Legal	517,295	347,940	342,144	362,854	362,454	369,080	344,280	333,082	366,770	347,002
Finance	790,675	803,686	732,352	811,980	811,502	811,792	829,531	713,821	825,740	837,058
Public Safety										
Police	3,560,512	3,546,263	3,598,674	3,881,352	3,973,290	4,245,126	4,324,556	4,551,997	7,725,090	10,857,703
Planning, zoning, and community development	1,193,007	536,085	590,660	556,094	647,358	663,734	1,017,748	1,190,229	998,714	891,646
Engineering and public works	2,878,813	2,712,420	3,421,997	2,681,719	2,565,474	2,456,560	7,695,362	11,042,304	3,952,129	4,516,195
Parks and recreation	82,000	95,000	95,000	47,500	20,000	-	-	-	-	-
Nondepartmental	518,999	479,931	564,173	630,878	570,287	573,853	498,430	553,160	553,102	552,285
Debt Service										
Principal	80,826	84,600	88,551	93,043	-	-	-	-	-	44,858
Interest	16,205	12,431	8,480	4,345	-	-	-	-	-	14,454
Total Expenditures	11,394,125	10,350,026	11,117,232	10,970,966	11,170,811	11,178,413	17,145,273	20,636,623	16,759,730	20,363,032
DEFICIENCY OF REVENUES UNDER EXPENDITURES										
	(2,448,720)	(1,710,528)	(2,425,273)	(1,624,431)	(1,767,112)	(1,762,863)	(2,260,340)	(2,946,542)	(2,122,493)	(2,905,863)
OTHER FINANCING SOURCES (USES):										
Transfers in	2,085,753	2,085,303	2,503,950	3,007,971	2,859,710	2,980,075	3,193,645	3,422,500	3,155,000	3,131,000
Transfers (out)	(97,031)	(97,031)	-	(159,511)	-	(28,490)	-	-	-	-
Other sources	-	-	-	-	-	-	-	-	542,375	569,327
Total Other Financing Sources (Uses)	1,988,722	1,988,272	2,503,950	2,848,460	2,859,710	2,951,585	3,193,645	3,422,500	3,697,375	3,700,327
NET CHANGE IN FUND BALANCES										
	\$ (459,998)	\$ 277,744	\$ 78,677	\$ 1,224,029	\$ 1,092,598	\$ 1,188,722	\$ 933,305	\$ 475,958	\$ 1,574,882	\$ 794,464
Debt service as a percentage of noncapital expenditures	0.87%	1.10%	0.94%	1.05%	0.98%	0.00%	0.00%	0.00%	0.00%	0.50%

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	Estimated Actual Value	Direct Tax Rate	Motor Vehicles	Business Equipment	Other	Total Assessed Value	Direct Tax Rate
2010	1,418,723,500	15,826,250	1,434,549,750	1,434,549,750	0.070	77,266,939	17,878,066	1,850,545	96,995,550	0.600
2011	1,104,745,864	15,826,250	1,120,572,114	1,120,572,114	0.110	79,013,475	17,575,885	1,575,270	98,164,630	0.640
2012	1,118,318,200	16,425,250	1,134,743,450	1,134,743,450	0.110	82,719,086	16,645,415	1,534,520	100,899,021	0.640
2013	1,127,434,400	17,274,880	1,144,709,280	1,144,709,280	0.110	85,157,320	18,291,765	1,545,035	104,994,120	0.640
2014	1,129,575,300	16,808,640	1,146,383,940	1,146,383,940	0.130	86,666,340	19,232,980	1,557,485	107,456,805	0.640
2015	1,156,264,300	16,841,840	1,173,106,140	1,173,106,140	0.130	89,785,695	17,204,725	1,311,870	108,302,290	0.640
2016	1,158,897,600	16,506,850	1,175,404,450	1,175,404,450	0.130	94,765,055	17,492,560	2,108,235	114,365,850	0.640
2017	1,164,489,300	15,107,880	1,179,597,180	1,179,597,180	0.135	95,158,655	17,429,905	3,412,700	116,001,260	0.640
2018	1,168,609,100	15,861,850	1,184,470,950	1,184,470,950	0.135	97,468,645	19,249,730	3,196,990	119,915,365	0.640
2019	1,306,118,700	14,571,700	1,320,690,400	1,320,690,400	0.135	103,831,560	19,120,860	3,221,465	126,173,885	0.640

Source: Warren County Property Assessor's Office

TOWN OF FRONT ROYAL, VIRGINIA
DIRECT AND OVERLAPPING PROPERTY TAX RATES (PER \$100 OF ASSESSED VALUE)
LAST TEN FISCAL YEARS

Fiscal Year	Town Direct Rates					Overlapping Rates				Total Direct and Overlapping Rates			
	Real Estate	Personal Property	Machinery and Tools	Mobile Homes	Total Direct	Real Estate	Personal Property	Machinery Tools	Mobile Homes	Real Estate	Personal Property	Machinery and Tools	Mobile Homes
2010	0.070	0.600	0.600	0.070	0.670	0.460	4.000	1.300	0.460	0.530	4.600	1.900	0.530
2011	0.110	0.640	0.640	0.110	0.750	0.590	4.000	1.300	0.590	0.700	4.640	1.940	0.700
2012	0.110	0.640	0.640	0.110	0.750	0.590	4.000	1.300	0.590	0.700	4.640	1.940	0.700
2013	0.110	0.640	0.640	0.110	0.750	0.590	4.000	1.300	0.590	0.700	4.640	1.940	0.700
2014	0.130	0.640	0.640	0.130	0.770	0.610	4.000	1.300	0.610	0.740	4.640	1.940	0.740
2015	0.130	0.640	0.640	0.130	0.770	0.600	4.000	1.950	0.600	0.730	4.640	2.590	0.730
2016	0.130	0.640	0.640	0.130	0.770	0.620	4.000	1.950	0.595	0.750	4.640	2.590	0.725
2017	0.135	0.640	0.640	0.135	0.775	0.650	4.000	1.950	0.650	0.785	4.640	2.590	0.785
2018	0.135	0.640	0.640	0.135	0.775	0.660	4.000	2.050	0.660	0.795	4.640	2.690	0.795
2019	0.135	0.640	0.640	0.135	0.775	0.655	4.000	2.050	0.655	0.790	4.640	2.690	0.790

Source: Town of Front Royal and Warren County

**TOWN OF FRONT ROYAL, VIRGINIA
PRINCIPAL PROPERTY TAX PAYERS
CURRENT YEAR AND 2010**

2019			2010		
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	\$ 18,067,400	1.37%	Boisseau Family, L.C.	\$ 20,597,100	1.43%
Shenandoah Commons Appartmen	8,427,900	0.64%	Ramsey, Inc.	10,150,500	0.70%
MCAP Southerlands LLC	7,961,300	0.60%	Gateway Plaza Shopping Center	7,678,000	0.53%
Gateway Plaza Shopping Center	7,794,200	0.59%	Shenandoah Square LP	6,947,000	0.48%
Royal Arms Associates	7,563,400	0.57%	HLI Endowment Inc	6,845,200	0.47%
HLI Endowment Inc	6,501,100	0.49%	William Land Co, Inc.	6,728,700	0.47%
F & R Limited Partnership	6,393,600	0.48%	Cogil Corporation	6,021,500	0.42%
HWA Enterprises	6,239,200	0.47%	Corry Family Real Estate LLC	5,416,300	0.37%
Ramsey, Inc.	4,496,900	0.34%	Royal Arms Associates	4,765,100	0.33%
Fairfield Lynn Limited	4,314,500	0.33%	Puja Properties	4,294,800	0.30%
Total	<u>\$ 77,759,500</u>	<u>5.89%</u>		<u>\$ 79,444,200</u>	<u>5.50%</u>

Source: Warren County Property Assessor's Office

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

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Subsequent Tax Collections	Total Tax Collections	Total Collection as Percent of Current Levy
2010	3,131,608	2,332,404	74.48%	794,441	3,126,845	99.85%
2011	1,802,507	968,065	53.71%	828,045	1,796,110	99.65%
2012	1,833,691	683,918	37.30%	1,143,208	1,827,126	99.64%
2013	1,840,648	928,189	50.43%	835,296	1,763,485	95.81%
2014	2,084,048	1,042,874	50.04%	946,457	1,989,331	95.46%
2015	2,153,232	1,096,456	50.92%	950,251	2,046,707	95.05%
2016	2,119,854	1,067,015	50.33%	925,048	1,992,063	93.97%
2017	2,253,175	1,158,124	51.40%	933,110	2,091,234	92.81%
2018	2,342,677	1,243,129	53.06%	895,256	2,138,385	91.28%
2019	2,544,157	1,299,343	51.07%	-	1,299,343	51.07%

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.

TABLE X

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

Fiscal Year	Governmental Activities		Business Type Activities		Total Primary Government	Personal Income (in \$000's)	Percentage of Personal Income	Population	Per Capita
	Advances and Notes Payable	General Obligation Bonds	Notes Payable	General Obligation Bonds					
2010	-	266,194	-	13,901,476	14,167,670	466,320	2.99%	14,573	956
2011	-	181,594	-	12,945,796	13,127,390	547,521	2.36%	14,440	894
2012	-	93,043	-	11,970,892	12,063,935	553,967	2.14%	14,610	812
2013	-	-	-	10,936,627	10,936,627	663,896	1.62%	14,666	733
2014	-	-	-	13,957,382	13,957,382	700,492	1.83%	15,127	848
2015	-	-	-	16,021,362	16,021,362	702,210	2.14%	15,545	965
2016	-	-	-	32,121,015	32,121,015	723,276	4.31%	14,709	2,199
2017	-	-	-	46,677,491	46,677,491	727,056	6.42%	15,153	3,080
2018	3,224,745	-	-	47,534,476	50,759,221	729,179	6.96%	15,006	3,383
2019	9,125,347	-	158,606	45,256,686	54,540,639	755,433	7.22%	15,221	3,583

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

Fiscal Year	General Obligation Bonds		Total Primary Government	Assessed Value in \$000's	Percentage of Actual		
	Governmental Activities	Business- Type Activities			Taxable Value of	Population	Per Capita
2010	266,194	13,901,476	14,167,670	1,531,545	0.93%	14,573	972
2011	181,594	12,945,796	13,127,390	1,218,737	1.08%	14,440	909
2012	93,043	11,970,892	12,063,935	1,235,642	0.98%	14,610	826
2013	-	10,936,627	10,936,627	1,249,703	0.88%	14,666	746
2014	-	13,957,382	13,957,382	1,253,841	1.11%	15,127	923
2015	-	16,021,362	16,021,362	1,281,408	1.25%	15,545	1,031
2016	-	32,121,015	32,121,015	1,289,770	2.49%	14,709	2,184
2017	-	46,677,491	46,677,491	1,295,598	3.60%	15,153	3,080
2018	-	47,534,476	47,534,476	1,304,386	3.64%	15,006	3,168
2019	-	45,256,686	45,256,686	1,446,864	3.13%	15,221	2,973

TOWN OF FRONT ROYAL, VIRGINIA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2019

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Debt repaid with property taxes			
Warren County	\$ 91,873,806		
Warren County School Board	46,696,000		
Subtotal, overlapping debt	<u>138,569,806</u>	49%	67,899,205
Town of Front Royal (direct debt)	<u>9,125,347</u>	100%	<u>9,125,347</u>
Total direct and overlapping debt			<u><u>\$ 77,024,552</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									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Debt limit	\$ 145,073,555	\$ 114,501,165	\$ 114,459,425	\$ 114,460,908	\$ 114,638,394	\$ 117,310,614	\$ 117,540,445	\$ 117,959,718	\$ 118,447,095	\$ 132,069,040
Net debt applicable to limit	13,931,270	12,907,581	11,860,717	10,750,000	12,835,000	13,955,241	-	-	3,224,745	9,125,347
Legal debt margin	\$ 131,142,285	\$ 101,593,584	\$ 102,598,708	\$ 103,710,908	\$ 101,803,394	\$ 103,355,373	\$ 117,540,445	\$ 117,959,718	\$ 115,222,350	\$ 122,943,693
Net debt applicable to the limit as a percent of debt limit	10%	11%	10%	9%	11%	12%	0%	0%	3%	7%

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

Fiscal Year	Gross Revenue ¹	Operating Expenses ²	Net Revenue Available for Debt Service	Debt Service Requirements			
				Principal	Interest	Total	Coverage
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
2018	31,995,386	23,716,216	8,279,170	1,719,440	448,525	2,167,965	3.82
2019	33,859,408	24,316,988	9,542,420	2,756,573	416,565	3,173,138	3.01

¹Gross revenue includes operating revenues and investment earnings

²Total operating expenses exclusive of depreciation

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

Year	Estimated Population	Personal Income (thousands of dollars)	Household Median Income	Per Capita Personal Income	Median Age	Education Level in Years of Formal Schooling	School Enrollment	Unemployment Rate
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%
2018	15,006	729,179	48,270	17,907	39	12	5,136	3.8%
2019	15,221	755,433	49,631	25,361	38	12	5,385	3.1%

*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 2010

2019			2010		
Employer	Employees	% of Total	Employer	Employees	% of Total
Warren County School Board	750-1000	13%	Warren County School Board	900-1000	13%
Valley Health System	500-750	10%	Family Dollar Stores Distribution Center	300-600	10%
Warren County	500-600	6%	Valley Health System	300-600	6%
Walmart	300-450	6%	E.I. Dupont De Nemours & Co.	300-600	6%
Ferguson Enterprises, Inc.	300-600	3%	Warren County	300-600	3%
Interbake Foods, LLC	100-350	5%	FDR Services	200-300	5%
Family Dollar Services	300-600	5%	Town of Front Royal	100-300	5%
Sysco	300-450	4%	Martin's Food Market	100-300	4%
Axalta	300-600	3%	Randolph-Macon Academy	100-300	3%
Christiandom College	250-499	2%	VIA Satellite	150-200	2%

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>									
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
General Government	38	38	33	37	37	38	38	38	39	44
Police Protection	47	47	47	48	49	49	51	52	53	52
Highway - Streets	17	17	16	17	16	16	16	16	15	15
Sanitation	13	13	14	15	14	14	14	12	15	13
Water	15	15	18	15	15	18	18	18	18	17
Sewer	14	14	17	16	16	16	17	17	17	16
Electrical	13	13	15	15	15	15	17	17	17	17
	<u>157</u>	<u>157</u>	<u>160</u>	<u>163</u>	<u>162</u>	<u>166</u>	<u>171</u>	<u>170</u>	<u>174</u>	<u>174</u>

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

Function/Program	Fiscal Year									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Public Safety										
Police										
Physical arrests	1,943	1,361	1,777	1,183	1,217	947	837	952	1,414	1,067
Parking violations	841	462	222	364	190	12	64	154	133	158
Traffic violations	3,770	3,423	2,666	1,808	1,676	2,632	2,239	2,394	3,922	3,854
Wastewater										
New service connections	14	17	17	14	8	30	52	80	75	45
Average daily treatment in gallons	3,764,984	3,598,000	3,426,000	3,531,000	3,665,000	3,936,000	4,265,000	4,000,000	4,504,000	4,481,480
Water System										
New connections	13	16	20	16	9	34	51	78	75	45
Average daily consumption	2,182,274	2,065,043	1,453,000	1,875,000	1,875,000	1,875,000	1,868,000	1,736,000	1,783,000	1,965,000
Electric Distribution										
New Connections	4	12	18	20	20	27	26	23	26	26
Average daily KWH consumption	552,178	538,679	487,033	528,398	516,708	517,114	523,681	535,984	568,064	554,085
Sanitation										
Refuse collected (tons/day)	14	20	20	22	23	24	24	46	56	42
Recyclables collected (tons/day)	1.20	2.45	1.98	1.46	1.61	1.62	1.73	1.73	1.65	1.82
Highway and Streets										
Repair services	28	210	366	398	253	151	176	272	226	252
Street resurfacing (miles)	11.75	1.44	12.80	1.20	15.61	5.00	3.00	1.40	1.03	1.30

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

Function/Program	Fiscal Year									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Public Safety										
Police										
Stations	2	2	2	2	2	2	2	2	2	1
Patrol Units	12	12	12	12	20	26	25	26	26	38
Fire Stations	1	1	1	1	1	1	1	1	1	1
Highways and Streets										
Streets (miles)	133	133	133	133	138	132	132	132	137	137
Streetlights	1,450	1,450	1,450	1,450	1,470	1,505	1,871	1,969	1,975	1,977
Traffic signals	14	14	14	14	14	14	14	16	16	15
Culture and Recreation										
Community centers	1	1	1	1	1	2	2	2	2	2
Parks	13	13	13	12	12	20	20	23	23	23
Park acreage	165	165	165	125	125	400	400	400	400	400
Swimming pools	1	1	1	1	1	1	1	1	1	1
Tennis courts	9	9	9	2	2	6	6	6	6	6
Sewer System										
Sanitary sewers (miles)	198	198	198	198	198	198	198	124	124	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	5,000,000	6,520,000	5,300,000	5,300,000
Water System										
Facilities	1	1	1	1	1	1	1	1	1	1
Fire Hydrants	618	668	672	672	672	672	687	712	712	722
Max daily capacity	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	6,000,000
Electric System										
Service lines (miles)	140	141	141	143	143	143	145	151	152	152
Distribution stations	4	4	4	4	4	5	5	5	5	5
Sanitation										
Collection Trucks	5	5	7	5	5	8	8	8	8	6

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, 2019, 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 21, 2019.

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 21, 2019
Leesburg, Virginia

Mitchell & Co., P.C.