

TOWN OF FRONT ROYAL, VIRGINIA

*COMPREHENSIVE
ANNUAL FINANCIAL REPORT*

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**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 14,709.

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

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

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

**TOWN OF FRONT ROYAL, VIRGINIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
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INTRODUCTORY SECTION



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

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

November 1, 2016

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

RE: FY 2015-2016 Comprehensive Annual Financial Report (CAFR)
Letter of Transmittal

Citizens of Front Royal:

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) for the Town of Front Royal, Virginia, for the fiscal year ending June 30, 2016. 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 FY2015-2016.

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, 2016, 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, 2016, are free of material misstatements. The independent audit involved examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

The Comprehensive Annual Financial Report (CAFR)

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

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

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

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

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

Profile of the Town

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

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

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

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

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

Economic Outlook

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

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

The Town has celebrated the release of the Avtex Property from its "Superfund" status by the EPA this year, and welcomes IT Federal to develop Lot 6. The Town is working to secure Industrial Access Grant funding to extend Main Street through the property to facilitate further development.

The Town has also welcomed Rural King to replace Kmart at the Royal Plaza Shopping Center. In addition, Shop n' Save has replaced Food Lion in the Gateway Plaza.

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

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

The Town of Front Royal will continue to experience growth into 2017.

Major Achievements

During the FY 15-16 Budget, the Town continued to focus on improving the quality of life for our citizens and planning for our community. The following major projects were initiated, continued, or completed during the fiscal year:

- Leach Run Parkway - Under Construction
- Corridor Water Tank Study - Study completed
- Avtex Property Released for Development - Completed
- Wastewater Treatment Plant (WWTP) Improvement Design - Under Construction
- Water Treatment Plant & Distribution Improvements - Construction Completed
- Police Headquarters - Under Design
- Comprehensive Plan Update - Continuing
- Energy Services Compound - Construction Completed
- First Night Front Royal - Event Success
- Battle of Front Royal - Event Success

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Front Royal for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2015. This was the twenty-sixth (26) consecutive year that the Town has received this prestigious award. The GFOA awards a Certificate to municipalities that exemplify excellence in financial reporting and conform to stringent reporting requirements established by the GFOA.

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

Acknowledgements

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

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

inventory for both Departments. Special recognition goes to BJ Wilson, Director of Finance, for his technical expertise and efforts in the preparation of this first CAFR during his career as the Town's Director of Finance.

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

Respectfully submitted,



Steven M. Burke, PE
Town Manager



BJ Wilson
Director of Finance



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

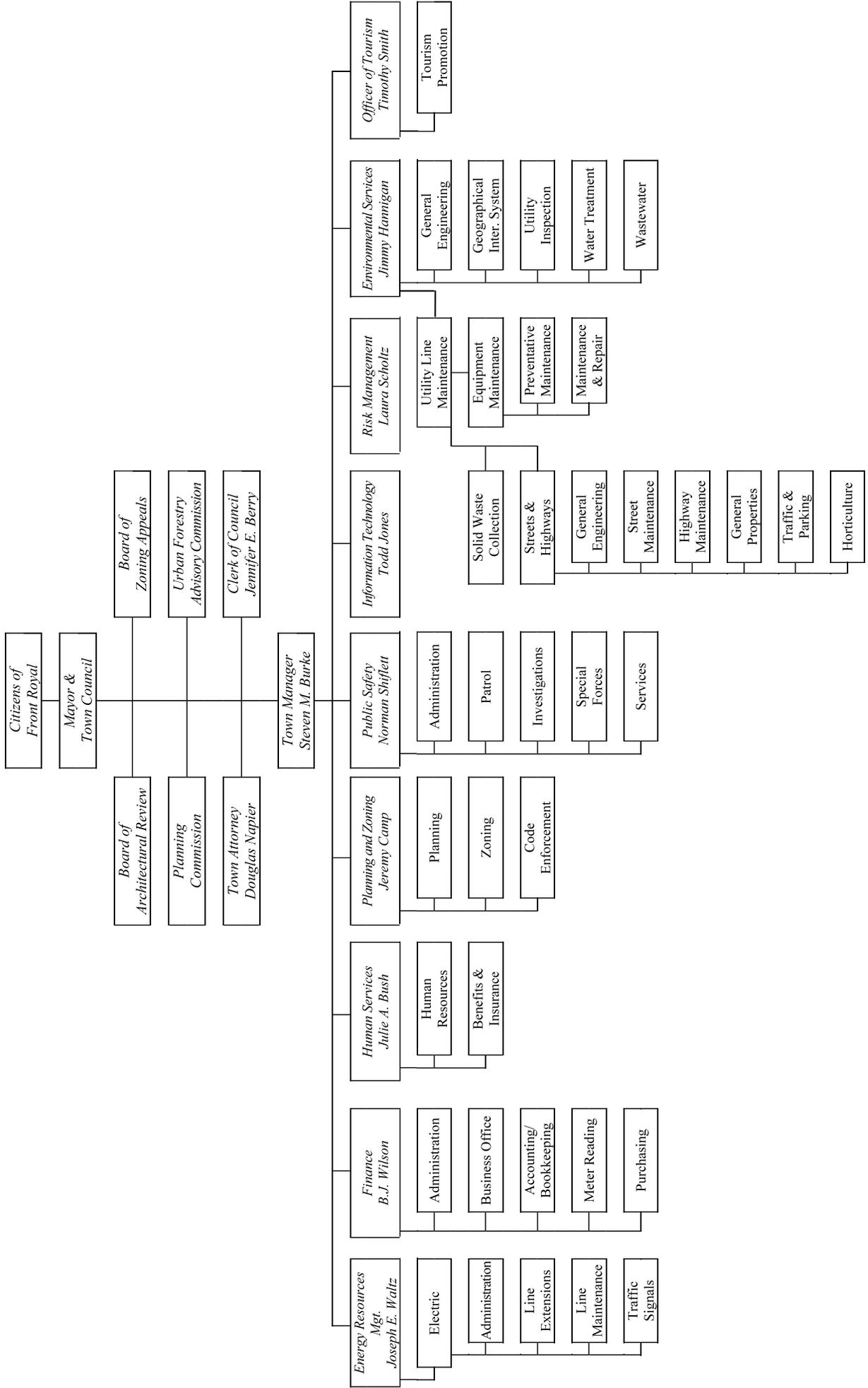
**Town of Front Royal
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

**TOWN OF FRONT ROYAL
ORGANIZATIONAL CHART
FISCAL YEAR ENDED JUNE 30, 2016**



**TOWN OF FRONT ROYAL, VIRGINIA
JUNE 30, 2016**

TOWN COUNCIL

Timothy W. Darr - Mayor
Hollis L. Tharpe - Vice Mayor
John P. Connolly
Bébhinn C. Egger
Bret W. Hrbek
Jacob L. Meza
Eugene R. Tewalt

TOWN OFFICIALS

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

FINANCIAL SECTION

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

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

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MEMBERS
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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, 2016, 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, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* we have also issued our report dated October 17, 2016 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 17, 2016
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, 2016. 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 \$124,955,058. Of this amount, \$20,993,006 may be used to meet the Town's ongoing obligations to its citizens and creditors.
- The Town's total net position increased by \$10,536,495.
- As of the close of the current fiscal year, the Town of Front Royal's governmental funds reported combined ending fund balances of \$10,802,828, an increase of \$933,305 in comparison with the prior year. Approximately 67% of this amount, (\$7,266,273) 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 \$7,747,379 or 53.8 percent of total general fund expenditures.
- The Town's total bonded debt increased by \$16,264,341 (117 percent) during the current fiscal year.

Overview of the Financial Statements

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

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

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

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

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

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

TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements. The notes and required supplementary information contained in the notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements and required supplementary information contained in the notes can be found on pages 31 – 75 of this report.

Supplementary Information. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on 76 – 86 of this report. Additional state required supplementary schedules follow the combining and individual fund statements and can be found on pages 87 – 89 of this report.

TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town of Front Royal, Virginia, assets exceeded liabilities by \$124,955,058 at the close of the most recent fiscal year.

By far the largest portion of the Town's net position (80.5 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, 2016 and 2015.

	TOWN OF FRONT ROYAL -- NET POSITION					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 14,416,962	\$ 11,819,720	\$ 32,882,870	\$ 29,683,093	\$ 47,299,832	\$ 41,502,813
Capital assets	49,088,542	47,470,993	77,085,251	53,323,601	126,173,793	100,794,594
Total Assets	63,505,504	59,290,713	109,968,121	83,006,694	173,473,625	142,297,407
Deferred Outflows of Resources	629,660	593,349	891,482	912,657	1,521,142	1,506,006
Long-term liabilities	6,498,052	5,567,869	34,575,442	17,812,862	41,073,494	23,380,731
Other liabilities	1,892,372	287,553	6,303,511	3,965,295	8,195,883	4,252,848
Total Liabilities	8,390,424	5,855,422	40,878,953	21,778,157	49,269,377	27,633,579
Deferred Inflows of Resources	505,713	1,159,072	264,619	592,199	770,332	1,751,271
Net investment in capital assets	49,088,542	47,470,993	51,478,830	44,159,747	100,567,372	91,630,740
Restricted	3,394,680	3,239,409	-	-	3,394,680	3,239,409
Unrestricted	2,755,805	2,159,166	18,237,201	17,389,248	20,993,006	19,548,414
Total Net Position	\$ 55,239,027	\$ 52,869,568	\$ 69,716,031	\$ 61,548,995	\$ 124,955,058	\$ 114,418,563

An additional portion of the Town of Front Royal's net position (2.72%) represents resources that are in a nonspendable form. The remaining balance of \$20,993,006 is unrestricted net position and may be used to meet the government's ongoing obligations to its citizens and creditors.

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

The Town's net position increased by \$10,536,495 during the current fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental activities. Governmental activities increased the Town's net position by \$2,369,459. These changes are presented in column one of the following table and key elements of the increase are noted below:

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues						
Charges for services	\$ 324,535	\$ 374,236	\$29,707,874	\$ 30,234,362	\$ 30,032,409	\$ 30,608,598
Operating grants & contributions	2,164,424	2,094,216	-	-	2,164,424	2,094,216
Capital grants & contributions	5,315,112	29,357	5,381,345	474,457	10,696,457	503,814
General revenues						
Property taxes	1,843,505	1,846,740	-	-	1,843,505	1,846,740
Other taxes	5,231,018	5,103,781	-	-	5,231,018	5,103,781
Investment earnings	65,457	65,337	194,315	119,434	259,772	184,771
Total revenues	14,944,051	9,513,667	35,283,534	30,828,253	50,227,585	40,341,920
Expenses						
General government	3,866,401	3,356,075	-	-	3,866,401	3,356,075
Public safety	4,401,137	4,071,072	-	-	4,401,137	4,071,072
Engineering and public works	2,832,612	2,351,087	-	-	2,832,612	2,351,087
Planning and zoning	1,077,032	700,053	-	-	1,077,032	700,053
Infrastructure depreciation	3,591,055	3,591,055	-	-	3,591,055	3,591,055
Electric	-	-	15,869,418	14,906,428	15,869,418	14,906,428
Water	-	-	3,604,540	3,042,885	3,604,540	3,042,885
Sewer	-	-	3,584,110	3,387,659	3,584,110	3,387,659
Solid waste management	-	-	864,785	842,450	864,785	842,450
Total expenses	15,768,237	14,069,342	23,922,853	22,179,422	39,691,090	36,248,764
Increase (decrease) in net position before transfers	(824,186)	(4,555,675)	11,360,681	8,648,831	10,536,495	4,093,156
Transfers	3,193,645	2,951,585	(3,193,645)	(2,951,585)	-	-
Increase (decrease) in net position	2,369,459	(1,604,090)	8,167,036	5,697,246	10,536,495	4,093,156
Net position – beginning	52,869,568	59,316,745	61,548,995	58,326,205	114,418,563	117,642,950
GASB Statement No. 68 Reporting	-	(4,843,087)	-	(2,474,456)	-	(7,317,543)
Net position – ending	\$ 55,239,027	\$ 52,869,568	\$ 69,716,031	\$ 61,548,995	\$ 124,955,058	\$ 114,418,563

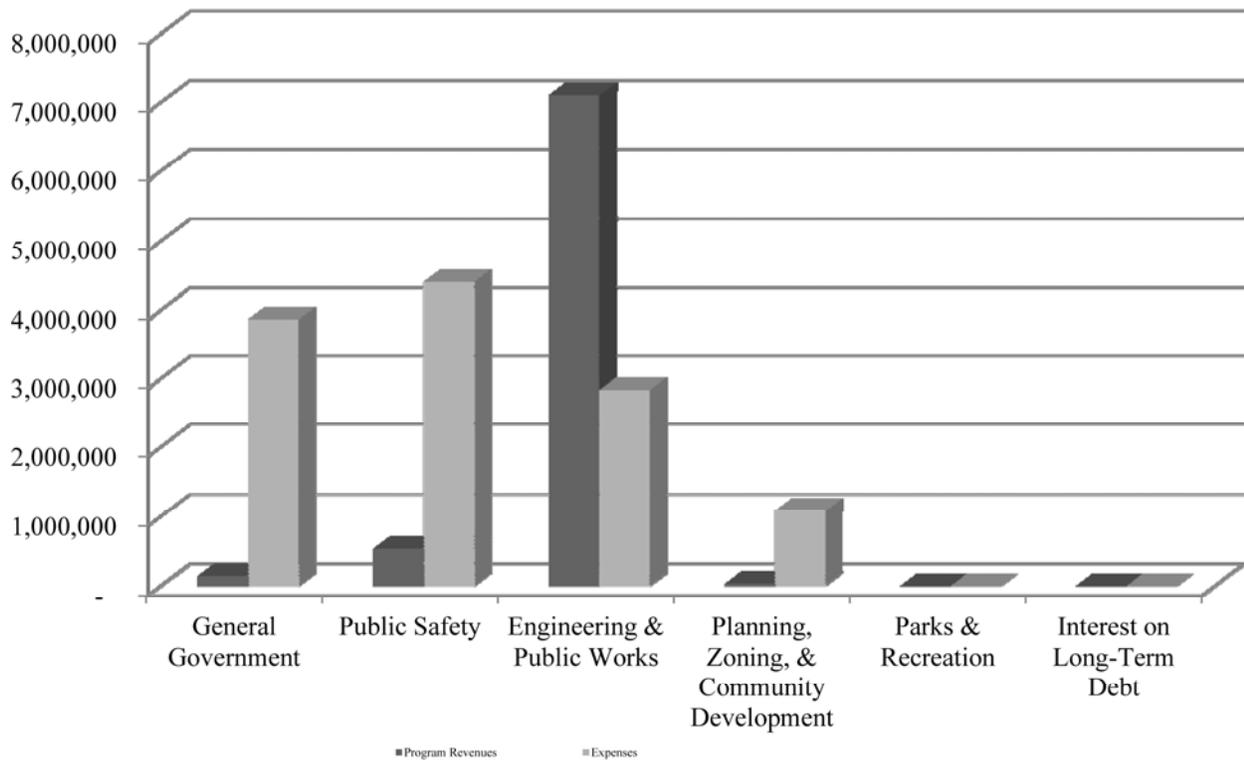
- VDOT reimbursements.

TOWN OF FRONT ROYAL, VIRGINIA

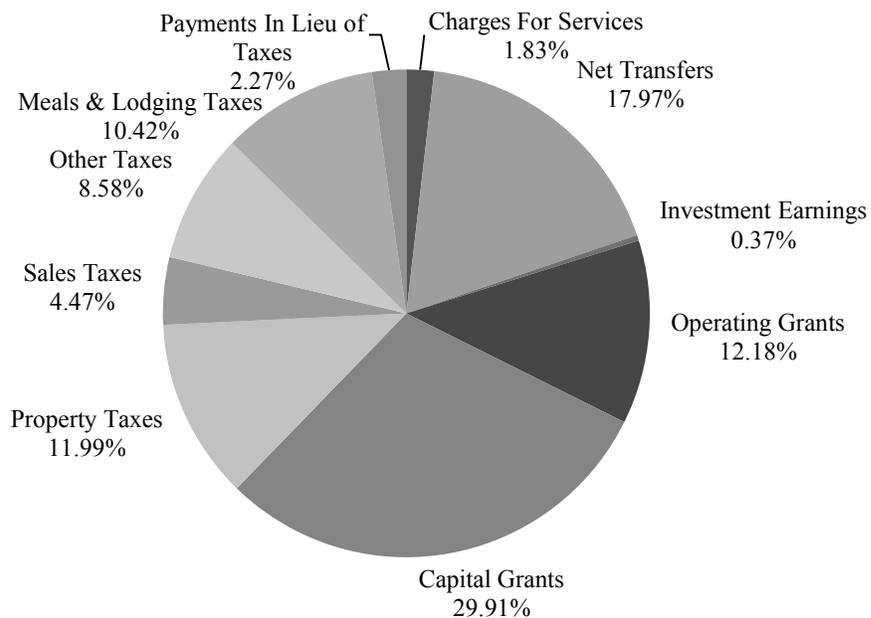
MANAGEMENT’S DISCUSSION AND ANALYSIS

The following charts present a graphic representation of the Town’s governmental activities and the related revenue structure for fiscal year 2016.

EXPENSES AND PROGRAM REVENUES – GOVERNMENTAL ACTIVITIES



REVENUES BY SOURCE – GOVERNMENTAL ACTIVITIES



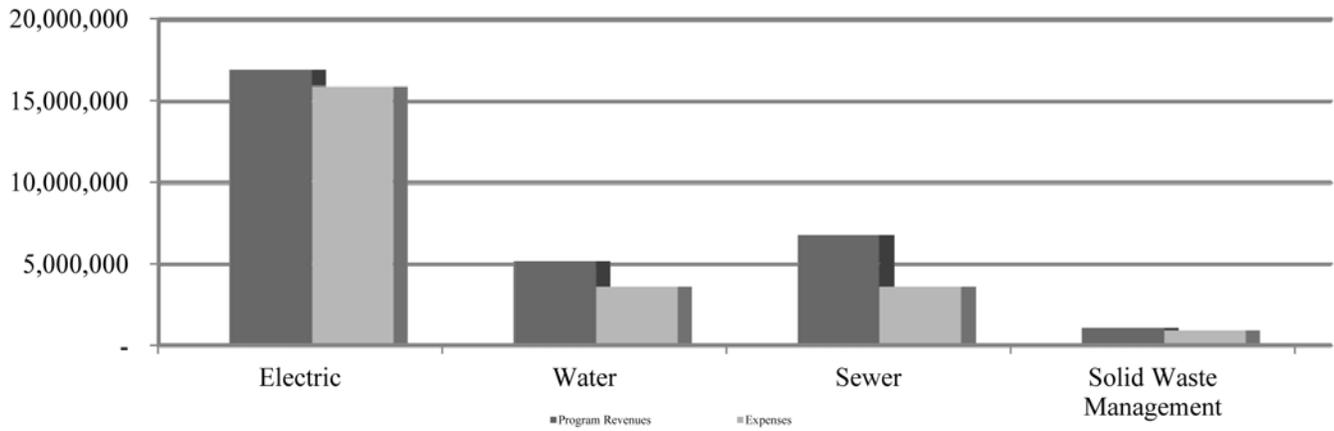
TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT’S DISCUSSION AND ANALYSIS

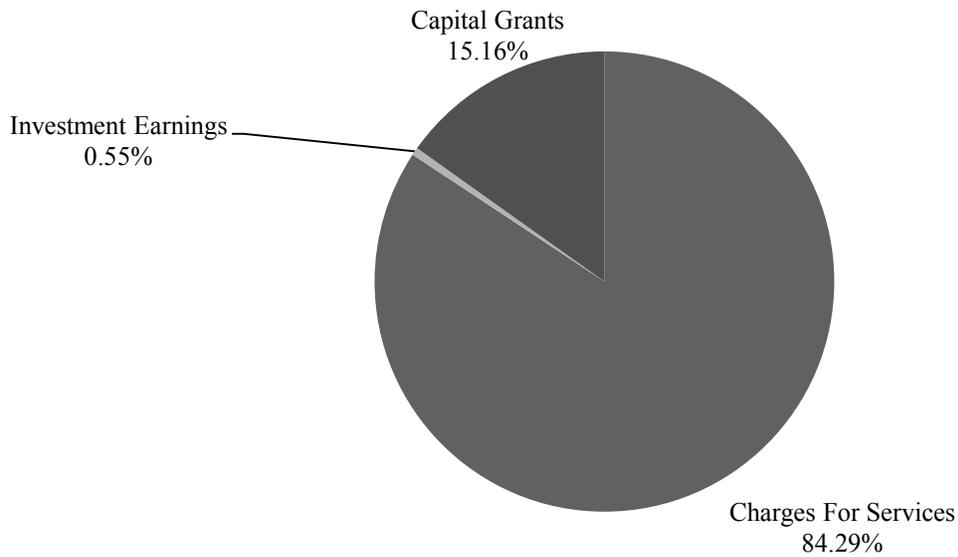
Business-type activities. Business-type activities increased the Town of Front Royal, Virginia’s net position by \$8,167,036. Key elements of this increase are as follows:

- Capital grants increased by \$4,868,288 from the prior year.

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 \$10,802,828, an increase of \$933,305 in comparison with the prior year. Approximately 67.26% of this total amount, \$7,266,273 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance represents funds in nonspendable form (\$141,487), restricted by third parties (\$3,394,680), and assigned by the Town for specific purposes (\$388).

The general fund is the chief operating fund of the Town of Front Royal, Virginia. At the end of the current fiscal year, unassigned fund balance of the general fund was \$7,747,379, while total fund balance reached \$10,351,431. 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 47.14 percent of total general fund expenditures, while total fund balance represents 62.99 percent of that same amount.

The fund balance of the Town's general fund increased by \$1,063,444 during the current fiscal year. Key factors in this increase are as follows:

- VDOT reimbursements.

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 \$52,366,147 and those for the electric function amounted to \$17,349,884. The total increase in net position for all enterprise funds was \$8,167,036. 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 \$13,523,953 and are noted as follows: a \$126,700 increase in Legislative; a \$178,608 increase in Executive; a \$28,000 increase in Legal; a \$250 increase in General Government; a \$112,195 increase in Planning, Zoning and Community Development; a \$30,318 increase in Police Department; and, a \$13,047,882 increase in Public Works and Engineering.

Actual general fund revenues were less than budgeted revenues by \$7,386,548. The variance relates primarily to bond funds budgeted and not received. Actual general fund expenditures were less than budgeted expenditures by \$9,360,452. The variance relates primarily to less capital outlays than budgeted.

TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT’S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

Capital assets. The Town of Front Royal, Virginia’s investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounts to \$126,173,793 (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 25.18%. Major capital assets events during the current fiscal year included the following:

- General building improvements of \$25,365,080.
- Construction in progress of \$5,249,748.

The table below summarizes the capital assets of the Town at June 30, 2016 and 2015.

TOWN OF FRONT ROYAL - CAPITAL ASSETS (NET OF DEPRECIATION)						
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 1,334,786	\$ 1,334,786	\$ 1,488,822	\$ 1,488,822	\$ 2,823,608	\$ 2,823,608
Construction in progress	5,249,748	-	-	-	5,249,748	-
Buildings and Improvements	7,263,230	7,401,689	51,954,576	27,358,312	59,217,806	34,760,001
Utility distribution systems	-	-	22,672,367	23,312,899	22,672,367	23,312,899
Vehicles	294,194	290,880	379,763	536,795	673,957	827,675
Machinery and Equipment	687,168	593,168	589,723	626,773	1,276,891	1,219,941
Infrastructure	34,259,416	37,850,470	-	-	34,259,416	37,850,470
Total	\$49,088,542	\$47,470,993	\$77,085,251	\$ 53,323,601	\$126,173,793	\$100,794,594

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

Long-term debt. At the end of the current fiscal year, the Town of Front Royal, Virginia had total bonded debt outstanding of \$30,219,582. 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	
	2016	2015	2016	2015	2016	2015
General Obligation Bonds	\$ -	\$ -	\$ 30,219,582	\$ 13,955,241	\$ 30,219,582	\$ 13,955,241

The Town of Front Royal’s total debt increased by \$16,264,341 (117 percent) during the current fiscal year. The majority of the debt is \$20,909,582 in general obligation bonds in the Sewer Fund. The reason for the increase is the issuance of new debt.

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

TOWN OF FRONT ROYAL, VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total taxable assessed valuation. The current debt limitation for the Town of Front Royal is \$117,540,445 which is significantly in excess of the Town's outstanding general obligation debt.

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

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the Town of Front Royal is currently 4.8 percent, which is the same as the prior year.
- This compares to the state's average unemployment rate of 3.7 percent and favorably to the national average rate of 4.9 percent.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the Town of Front Royal, Virginia's budget for the 2016 fiscal year.

During the current fiscal year, unassigned fund balance in the general fund was \$7,747,379. Town of Front Royal has not appropriated any of this amount for spending in the 2017 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, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 12,122,604	\$ 7,758,295	\$ 19,880,899
Investments	-	13,575,280	13,575,280
Receivables (net of allowance for uncollectibles, where applicable)			
Delinquent taxes, including penalties	1,755,039	-	1,755,039
Accrued interest	-	-	-
Accounts	-	2,915,574	2,915,574
Other	1,358,124	74,378	1,432,502
Internal balances	(1,333,165)	1,333,165	-
Due from other governments	372,873	-	372,873
Inventories and other assets	141,487	1,250,973	1,392,460
Temporarily restricted assets - cash and cash equivalents			
Customer deposits	-	449,597	449,597
Bond funds	-	5,525,608	5,525,608
Capital assets (net of accumulated depreciation)			
Land	1,334,786	1,488,822	2,823,608
Buildings and improvements	7,263,230	51,954,576	59,217,806
Utility distribution systems	-	22,672,367	22,672,367
Vehicles	294,194	379,763	673,957
Machinery and equipment	687,168	589,723	1,276,891
Infrastructure	34,259,416	-	34,259,416
Construction in progress	5,249,748	-	5,249,748
Total Assets	63,505,504	109,968,121	173,473,625
Deferred Outflows of Resources			
Deferred charge on refunded debt	-	562,006	562,006
Deferred pension obligation	629,660	329,476	959,136
Total Deferred Outflows	629,660	891,482	1,521,142
Liabilities			
Accounts payable	1,892,372	5,618,909	7,511,281
Accrued interest payable	-	136,294	136,294
Bank advances	-	98,711	98,711
Liabilities payable with restricted assets	-	449,597	449,597
Noncurrent liabilities			
Due within one year	747,026	924,512	1,671,538
Due in more than one year	5,751,026	33,650,930	39,401,956
Total Liabilities	8,390,424	40,878,953	49,269,377
Deferred Inflows of Resources			
Deferred pension inflow	505,713	264,619	770,332
Net Position			
Net investment in capital assets	49,088,542	51,478,830	100,567,372
Restricted for:			
Streets and highways	2,462,565	-	2,462,565
Capital outlays	7,092	-	7,092
Community development	925,023	-	925,023
Unrestricted	2,755,805	18,237,201	20,993,006
Total Net Position	\$ 55,239,027	\$ 69,716,031	\$ 124,955,058

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, 2016**

Functions/Programs	Program Revenues					Net (Expense) Revenue and Change in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities							
General government	\$ 3,866,401	\$ 101,895	\$ -	\$ 39,154	\$ (3,725,352)	\$ -	\$ (3,725,352)
Public safety	4,401,137	188,653	338,352	-	(3,874,132)	-	(3,874,132)
Engineering and public works	2,832,612	3,248	1,826,072	5,275,958	4,272,666	-	4,272,666
Planning, zoning, and community development	1,077,032	30,739	-	-	(1,046,293)	-	(1,046,293)
Infrastructure depreciation - unallocated	3,591,055	-	-	-	(3,591,055)	-	(3,591,055)
Total governmental activities	15,768,237	324,535	2,164,424	5,315,112	(7,964,166)	-	(7,964,166)
Business-type activities							
Electric	15,869,418	16,850,344	-	38,600	-	1,019,526	1,019,526
Water	3,604,540	5,134,173	-	-	-	1,529,633	1,529,633
Sewer	3,584,110	6,719,064	-	5,342,745	-	8,477,699	8,477,699
Solid Waste Management	864,785	1,004,293	-	-	-	139,508	139,508
Total business-type activities	23,922,853	29,707,874	-	5,381,345	-	11,166,366	11,166,366
Total primary government	\$ 39,691,090	\$ 30,032,409	\$ 2,164,424	\$ 10,696,457	(7,964,166)	11,166,366	3,202,200
General Revenues							
Property taxes					1,843,505	-	1,843,505
Sales taxes					794,164	-	794,164
Business and occupational taxes					804,677	-	804,677
Franchise and bank stock taxes					288,944	-	288,944
Communication taxes					165,738	-	165,738
Consumer taxes					181,034	-	181,034
Meals and lodging taxes					1,852,221	-	1,852,221
Virginia personal property tax reduction					287,000	-	287,000
Payment in lieu of taxes					403,582	-	403,582
Vehicle licenses					368,894	-	368,894
Other general taxes					84,764	-	84,764
Unrestricted investment earnings					65,457	194,315	259,772
Transfers					3,193,645	(3,193,645)	-
Total general revenues and transfers					10,333,625	(2,999,330)	7,334,295
Change in net position					2,369,459	8,167,036	10,536,495
Net position - beginning					52,869,568	61,548,995	114,418,563
Net position - ending					\$ 55,239,027	\$ 69,716,031	\$ 124,955,058

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

**TOWN OF FRONT ROYAL, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 11,455,107	\$ 667,497	\$ 12,122,604
Receivables (net of allowance for uncollectibles, where applicable)			
Delinquent taxes, including penalties	1,752,169	2,870	1,755,039
Other	16,177	-	16,177
Due from other governments	1,714,820	-	1,714,820
Interfund advances	49,915	4,888	54,803
Inventories and other assets	141,487	-	141,487
Total Assets	<u>15,129,675</u>	<u>675,255</u>	<u>15,804,930</u>
Liabilities, Deferred Inflows and Fund Balances			
Liabilities			
Accounts payable	\$ 1,634,590	\$ 74,042	\$ 1,708,632
Accrued liabilities	183,740	-	183,740
Interfund advances	1,241,022	146,946	1,387,968
Total Liabilities	<u>3,059,352</u>	<u>220,988</u>	<u>3,280,340</u>
Deferred Inflows of Resources			
Unavailable revenue	<u>1,718,892</u>	<u>2,870</u>	<u>1,721,762</u>
Fund balances			
Nonspendable:			
Inventory	11,293	-	11,293
Prepaid items	130,194	-	130,194
Restricted for:			
Streets and highways	2,462,565	-	2,462,565
Capital outlays	-	7,092	7,092
Community development	-	925,023	925,023
Assigned for:			
Capital projects	-	388	388
Expenditures designated for future years	-	-	-
Unassigned	<u>7,747,379</u>	<u>(481,106)</u>	<u>7,266,273</u>
Total Fund Balances	<u>10,351,431</u>	<u>451,397</u>	<u>10,802,828</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 15,129,675</u>	<u>\$ 675,255</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	49,088,542
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,721,762
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(1,854,953)
Pension obligation and funding requirement reporting is not due in the current period and, therefore, not reported in the funds.	<u>(4,519,152)</u>
Net position of governmental activities	<u>\$ 55,239,027</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, 2016

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes			
Property	\$ 1,232,115	\$ 552,272	\$ 1,784,387
Sales	794,164	-	794,164
Business and occupational	804,677	-	804,677
Franchise	74,743	-	74,743
Consumer	181,034	-	181,034
Vehicle licenses	368,894	-	368,894
Bank stock	214,201	-	214,201
Meals and lodging	1,852,221	-	1,852,221
Payment in lieu of taxes	403,582	-	403,582
Permits, fees, and licenses	30,739	-	30,739
Fines and forfeitures	160,047	-	160,047
Revenues from use of money & property	65,457	-	65,457
Charges for services	42,257	-	42,257
Miscellaneous	62,886	-	62,886
Recovered costs	-	28,606	28,606
Intergovernmental	8,017,038	-	8,017,038
Total revenues	<u>14,304,055</u>	<u>580,878</u>	<u>14,884,933</u>
Expenditures			
General government			
Legislative	313,478	-	313,478
Executive	2,121,888	-	2,121,888
Legal	344,280	-	344,280
Finance	829,531	-	829,531
Public safety - Police	4,212,944	111,612	4,324,556
Planning, zoning, and community development	418,343	599,405	1,017,748
Engineering and public works	7,695,362	-	7,695,362
Nondepartmental	498,430	-	498,430
Total expenditures	<u>16,434,256</u>	<u>711,017</u>	<u>17,145,273</u>
Deficiency of revenues under expenditures	<u>(2,130,201)</u>	<u>(130,139)</u>	<u>(2,260,340)</u>
Other Financing Sources (Uses)			
Transfers in	3,193,645	-	3,193,645
Transfers (out)	-	-	-
Total other financing sources and uses	<u>3,193,645</u>	<u>-</u>	<u>3,193,645</u>
Net change in fund balances	<u>1,063,444</u>	<u>(130,139)</u>	<u>933,305</u>
Fund balances - beginning	<u>9,287,987</u>	<u>581,536</u>	<u>9,869,523</u>
Fund balances - ending	<u>\$ 10,351,431</u>	<u>\$ 451,397</u>	<u>\$ 10,802,828</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, 2016**

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

Net change in fund balances - total governmental funds	\$ 933,305
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expenses exceeded capital outlays in the current period.	1,617,549
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds and reported as deferred inflows.	59,118
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as current year expenditures in governmental funds.	(304,155)
Pension obligation is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources. Therefore, pension obligation and certain funding obligations are not reported in the funds.	<u>63,642</u>
Change in net position of governmental activities	<u><u>\$ 2,369,459</u></u>

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

TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual Amounts	Variance Positive (Negative)
	Original	Final		
Revenues				
General property taxes	\$ 1,312,230	\$ 1,312,230	\$ 1,232,115	\$ (80,115)
Other local taxes	4,519,000	4,519,000	4,693,516	174,516
Permits, fees, and licenses	33,000	33,000	30,739	(2,261)
Fines and forfeitures	150,000	150,000	160,047	10,047
Revenues from use of money & property	81,030	81,030	65,457	(15,573)
Charges for services	24,500	24,500	42,257	17,757
Miscellaneous	45,000	81,790	62,886	(18,904)
Intergovernmental	3,062,350	9,332,762	8,017,038	(1,315,724)
Total revenues	9,227,110	15,534,312	14,304,055	(1,230,257)
Expenditures				
General government				
Legislative	360,595	487,295	313,478	173,817
Executive	2,052,850	2,231,458	2,121,888	109,570
Legal	413,335	441,335	344,280	97,055
Finance	871,410	871,660	829,531	42,129
Total general government	3,698,190	4,031,748	3,609,177	422,571
Public safety - police	4,371,325	4,401,643	4,212,944	188,699
Planning and zoning	461,285	573,480	418,343	155,137
Public works and engineering	3,128,755	16,176,637	7,695,362	8,481,275
Non-departmental	611,200	611,200	498,430	112,770
Total expenditures	12,270,755	25,794,708	16,434,256	9,360,452
Deficiency of revenues under expenditures	(3,043,645)	(10,260,396)	(2,130,201)	8,130,195
Other Financing Sources				
Transfers in	3,193,645	3,193,645	3,193,645	-
Transfers out	-	-	-	-
Bond proceeds	-	6,156,291	-	(6,156,291)
	3,193,645	9,349,936	3,193,645	(6,156,291)
Net change in fund balances	150,000	(910,460)	1,063,444	1,973,904
Fund balances - beginning	9,287,987	9,287,987	9,287,987	-
Fund balances - ending	\$ 9,437,987	\$ 8,377,527	\$ 10,351,431	\$ 1,973,904

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, 2016

	Business-type Activities - Enterprise Funds			
	Electric	Electric	Water	Water
	Current Year	Prior Year	Current Year	Prior Year
Assets				
Current assets				
Cash and cash equivalents	\$ 1,988,993	\$ 4,944,113	\$ 961,679	\$ 3,387,060
Investments	3,364,672	439,089	3,170,328	1,126,953
Due from other funds	970,663	1,120,663	738,324	738,324
Accounts receivable (net of allowance for uncollectibles)	1,656,191	1,702,322	535,779	528,515
Other receivables	58,578	300,497	5,445	313,548
Inventories	969,019	1,061,654	142,681	139,573
Total current assets	<u>9,008,116</u>	<u>9,568,338</u>	<u>5,554,236</u>	<u>6,233,973</u>
Noncurrent assets				
Restricted cash and cash equivalents				
Customer deposits	424,432	408,809	25,165	21,640
Bond funds	-	-	3,016,627	3,001,104
	<u>424,432</u>	<u>408,809</u>	<u>3,041,792</u>	<u>3,022,744</u>
Capital assets				
Land, buildings and structures	7,768,768	6,655,928	17,385,950	16,173,190
Utility distribution systems	9,166,159	8,932,161	22,064,192	21,898,758
Vehicles	1,314,969	1,311,562	439,431	439,431
Equipment	1,061,108	1,015,154	788,998	772,730
Less accumulated depreciation	(8,371,786)	(7,927,934)	(15,554,225)	(14,725,786)
Total capital assets (net of accumulated depreciation)	<u>10,939,218</u>	<u>9,986,871</u>	<u>25,124,346</u>	<u>24,558,323</u>
Total noncurrent assets	<u>11,363,650</u>	<u>10,395,680</u>	<u>28,166,138</u>	<u>27,581,067</u>
Total Assets	<u>20,371,766</u>	<u>19,964,018</u>	<u>33,720,374</u>	<u>33,815,040</u>
Deferred Outflows of Resources				
Deferred charge on refunded debt	-	-	562,006	609,500
Deferred pension obligation	93,869	78,107	95,361	87,967
Total Deferred Outflows	<u>93,869</u>	<u>78,107</u>	<u>657,367</u>	<u>697,467</u>
Liabilities				
Current liabilities				
Accounts payable	1,668,300	1,021,966	53,139	370,627
Accrued interest payable	-	-	104,842	104,842
Bank advances	-	-	-	-
Compensated absences - current	55,663	42,965	70,510	61,477
General obligation bonds - current	-	-	580,000	560,000
Total current liabilities	<u>1,723,963</u>	<u>1,064,931</u>	<u>808,491</u>	<u>1,096,946</u>
Noncurrent liabilities				
Customer deposits payable	424,432	408,809	25,165	21,640
Compensated absences	55,662	42,965	70,509	61,477
OPEB liability	144,112	108,295	149,857	112,612
General obligation bonds payable	-	-	9,677,589	10,338,008
Unfunded pension liability	692,191	528,797	703,187	595,551
Total noncurrent liabilities	<u>1,316,397</u>	<u>1,088,866</u>	<u>10,626,307</u>	<u>11,129,288</u>
Total Liabilities	<u>3,040,360</u>	<u>2,153,797</u>	<u>11,434,798</u>	<u>12,226,234</u>
Deferred Inflows of Resources				
Deferred pension inflow	75,391	152,577	76,589	171,838
Net Position				
Net investment in capital assets	10,939,218	9,986,871	18,168,763	17,104,815
Unrestricted	6,410,666	7,748,880	4,697,591	5,009,620
Total Net Position	<u>\$ 17,349,884</u>	<u>\$ 17,735,751</u>	<u>\$ 22,866,354</u>	<u>\$ 22,114,435</u>

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

(Continued)

TOWN OF FRONT ROYAL, VIRGINIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016

	Business-type Activities - Enterprise Funds				
	Sewer		Solid Waste Management		Totals
	Current Year	Prior Year	Current Year	Prior Year	Current Year
Assets					
Current assets					
Cash and cash equivalents	\$ 4,807,623	\$ 4,293,993	\$ -	\$ -	\$ 7,758,295
Investments	7,040,280	3,001,104	-	-	13,575,280
Due from other funds	(357,640)	(357,640)	(18,182)	(18,182)	1,333,165
Accounts receivable (net of allowance for uncollectibles)	611,037	632,950	112,567	117,586	2,915,574
Other receivables	10,267	136,300	88	-	74,378
Inventories	139,273	139,519	-	-	1,250,973
Total current assets	<u>12,250,840</u>	<u>7,846,226</u>	<u>94,473</u>	<u>99,404</u>	<u>26,907,665</u>
Noncurrent assets					
Restricted cash and cash equivalents					
Customer deposits	-	-	-	-	449,597
Bond funds	2,508,981	2,503,599	-	-	5,525,608
	<u>2,508,981</u>	<u>2,503,599</u>	<u>-</u>	<u>-</u>	<u>5,975,205</u>
Capital assets					
Land, buildings and structures	35,917,492	12,878,012	34,160	34,160	61,106,370
Utility distribution systems	22,706,951	22,676,760	-	-	53,937,302
Vehicles	880,112	853,655	1,022,826	1,022,826	3,657,338
Equipment	1,389,976	1,324,097	615,242	615,242	3,855,324
Less accumulated depreciation	(19,919,520)	(19,011,194)	(1,625,552)	(1,615,151)	(45,471,083)
Total capital assets (net of accumulated depreciation)	<u>40,975,011</u>	<u>18,721,330</u>	<u>46,676</u>	<u>57,077</u>	<u>77,085,251</u>
Total noncurrent assets	<u>43,483,992</u>	<u>21,224,929</u>	<u>46,676</u>	<u>57,077</u>	<u>83,060,456</u>
Total Assets	<u>55,734,832</u>	<u>29,071,155</u>	<u>141,149</u>	<u>156,481</u>	<u>109,968,121</u>
Deferred Outflows of Resources					
Deferred charge on refunded debt	-	-	-	-	562,006
Deferred pension obligation	86,367	81,986	53,879	55,097	329,476
Total Deferred Outflows	<u>86,367</u>	<u>81,986</u>	<u>53,879</u>	<u>55,097</u>	<u>891,482</u>
Liabilities					
Current liabilities					
Accounts payable	3,892,041	1,765,936	5,429	27,689	5,618,909
Accrued interest payable	31,452	33,119	-	-	136,294
Bank advances	-	-	98,711	210,667	98,711
Compensated absences - current	71,148	61,477	22,191	17,190	219,512
General obligation bonds - current	125,000	120,000	-	-	705,000
Total current liabilities	<u>4,119,641</u>	<u>1,980,532</u>	<u>126,331</u>	<u>255,546</u>	<u>6,778,426</u>
Noncurrent liabilities					
Customer deposits payable	-	-	-	-	449,597
Compensated absences	71,147	61,477	22,191	17,189	219,509
OPEB liability	132,458	99,538	107,017	80,420	533,444
General obligation bonds payable	20,790,838	3,975,346	-	-	30,468,427
Unfunded pension liability	636,872	555,060	397,300	373,018	2,429,550
Total noncurrent liabilities	<u>21,631,315</u>	<u>4,691,421</u>	<u>526,508</u>	<u>470,627</u>	<u>34,100,527</u>
Total Liabilities	<u>25,750,956</u>	<u>6,671,953</u>	<u>652,839</u>	<u>726,173</u>	<u>40,878,953</u>
Deferred Inflows of Resources					
Deferred pension inflow	69,366	160,155	43,273	107,629	264,619
Net Position					
Net investment in capital assets	22,324,173	17,010,984	46,676	57,077	51,478,830
Unrestricted	7,676,704	5,310,049	(547,760)	(679,301)	18,237,201
Total Net Position	<u>\$ 30,000,877</u>	<u>\$ 22,321,033</u>	<u>\$ (501,084)</u>	<u>\$ (622,224)</u>	<u>\$ 69,716,031</u>

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

TOWN OF FRONT ROYAL, VIRGINIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	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	\$ 16,548,133	\$ 17,300,760	\$ -	\$ -
Water and sewer sales	-	-	4,364,848	4,839,486
Installation and connection charges	156,034	99,237	622,534	242,916
Refuse service fees	-	-	-	-
Miscellaneous revenues	146,177	35,095	146,791	87,924
Grants	-	-	-	-
Total operating revenues	<u>16,850,344</u>	<u>17,435,092</u>	<u>5,134,173</u>	<u>5,170,326</u>
Operating expenses				
Personal service	1,151,557	862,451	1,255,248	1,063,694
Contractual service	55,154	40,205	150,392	199,739
Electric power	13,396,441	13,562,785	-	-
Depreciation	443,852	405,947	828,439	766,169
Other charges	679,248	299,319	853,056	818,058
Operating expenses capitalized	(141,364)	(264,279)	(165,434)	(132,170)
Total operating expenses	<u>15,584,888</u>	<u>14,906,428</u>	<u>2,921,701</u>	<u>2,715,490</u>
Operating income	<u>1,265,456</u>	<u>2,528,664</u>	<u>2,212,472</u>	<u>2,454,836</u>
Nonoperating revenues (expenses)				
Investment earnings	64,607	33,328	62,286	34,582
Interest expense	(4,530)	-	(375,745)	(327,395)
Capital grants	-	-	-	-
Donations	38,600	-	-	-
Services revaluation	(280,000)	-	(307,094)	-
Total nonoperating revenue (expenses)	<u>(181,323)</u>	<u>33,328</u>	<u>(620,553)</u>	<u>(292,813)</u>
Income before contributions and transfers	1,084,133	2,561,992	1,591,919	2,162,023
Transfers and contributions				
Capital contributions	-	-	-	-
Transfers in (out)	(1,470,000)	(1,471,000)	(840,000)	(663,355)
Change in net position	(385,867)	1,090,992	751,919	1,498,668
Total net position - beginning of year	17,735,751	17,282,291	22,114,435	21,333,779
GASB Statement No. 68 reporting restatement	-	(637,532)	-	(718,012)
Total net position - end of year	<u>\$ 17,349,884</u>	<u>\$ 17,735,751</u>	<u>\$ 22,866,354</u>	<u>\$ 22,114,435</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, 2016

	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	\$ -	\$ -	\$ -	\$ -	\$ 16,548,133
Water and sewer sales	5,403,568	6,149,095	-	-	9,768,416
Installation and connection charges	1,312,791	492,874	-	-	2,091,359
Refuse service fees	-	-	1,003,608	984,191	1,003,608
Miscellaneous revenues	2,705	2,784	685	-	296,358
Grants	-	-	-	-	-
Total operating revenues	<u>6,719,064</u>	<u>6,644,753</u>	<u>1,004,293</u>	<u>984,191</u>	<u>29,707,874</u>
Operating expenses					
Personal service	1,044,400	951,672	638,405	627,858	4,089,610
Contractual service	428,239	474,299	2,011	1,954	635,796
Electric power	-	-	-	-	13,396,441
Depreciation	908,326	752,609	10,401	9,061	2,191,018
Other charges	1,019,211	1,127,923	213,968	203,577	2,765,483
Operating expenses capitalized	(30,191)	(6,618)	-	-	(336,989)
Total operating expenses	<u>3,369,985</u>	<u>3,299,885</u>	<u>864,785</u>	<u>842,450</u>	<u>22,741,359</u>
Operating income	<u>3,349,079</u>	<u>3,344,868</u>	<u>139,508</u>	<u>141,741</u>	<u>6,966,515</u>
Nonoperating revenues (expenses)					
Investment earnings	52,145	34,582	15,277	16,942	194,315
Interest expense	(90,250)	(87,774)	-	-	(470,525)
Capital grants	5,342,745	474,457	-	-	5,342,745
Donations	-	-	-	-	38,600
Services revaluation	(123,875)	-	-	-	(710,969)
Total nonoperating revenues (expenses)	<u>5,180,765</u>	<u>421,265</u>	<u>15,277</u>	<u>16,942</u>	<u>4,394,166</u>
Income before contributions and transfers	8,529,844	3,766,133	154,785	158,683	11,360,681
Transfers and contributions					
Transfers in (out)	<u>(850,000)</u>	<u>(750,000)</u>	<u>(33,645)</u>	<u>(67,230)</u>	<u>(3,193,645)</u>
Change in net position	7,679,844	3,016,133	121,140	91,453	8,167,036
Total net position - beginning of year	22,321,033	19,974,093	(622,224)	(263,958)	61,548,995
GASB Statement No. 68 reporting restatement	-	(669,193)	-	(449,719)	-
Total net position - end of year	<u>\$ 30,000,877</u>	<u>\$ 22,321,033</u>	<u>\$ (501,084)</u>	<u>\$ (622,224)</u>	<u>\$ 69,716,031</u>

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, 2016**

	Business-type Activities - Enterprise Funds				
	Electric	Water	Sewer	Solid Waste Management	Totals
Cash Flows from Operating Activities					
Receipts from customers and users	\$ 16,858,394	\$ 5,127,918	\$ 6,743,135	\$ 1,009,224	\$ 29,738,671
Payments to suppliers	(13,128,624)	(1,112,847)	728,654	(250,498)	(13,763,315)
Payments to employees	(1,126,162)	(1,237,183)	(1,025,059)	(628,402)	(4,016,806)
Net cash provided by operating activities	2,603,608	2,777,888	6,446,730	130,324	11,958,550
Cash Flows from Noncapital Financing Activities					
Transfers to other funds	(1,470,000)	(840,000)	(850,000)	(33,645)	(3,193,645)
Donations received	38,600	-	-	-	38,600
Interfund (advances)/repayments	150,000	-	-	-	150,000
Net cash used in noncapital financing activities	(1,281,400)	(840,000)	(850,000)	(33,645)	(3,005,045)
Cash Flows from Capital and Related Financing Activities					
Acquisition/construction of capital assets	(1,396,199)	(1,394,462)	(23,162,007)	-	(25,952,668)
Principal paid on capital debt	-	(560,000)	(120,000)	-	(680,000)
Proceeds on debt issued	-	-	16,944,341	-	16,944,341
Grants received	-	-	5,342,745	-	5,342,745
Interest paid	(4,530)	(408,670)	(95,766)	-	(508,966)
Net cash provided by (used in) capital and related financing activities	(1,400,729)	(2,363,132)	(1,090,687)	-	(4,854,548)
Cash Flows from Investing Activities					
Sales (purchases) of investments	(2,925,583)	(2,043,375)	(4,039,176)	-	(9,008,134)
Interest and dividends received	64,607	62,286	52,145	15,277	194,315
Net cash provided by (used in) investing activities	(2,860,976)	(1,981,089)	(3,987,031)	15,277	(8,813,819)
Net increase (decrease) in cash and cash eq.	(2,939,497)	(2,406,333)	519,012	111,956	(4,714,862)
Cash and cash equivalents July 1, 2015	5,352,922	6,409,804	6,797,592	(210,667)	18,349,651
Cash and cash equivalents June 30, 2016	\$ 2,413,425	\$ 4,003,471	\$ 7,316,604	\$ (98,711)	\$ 13,634,789
Reconciliation of operating income to net cash provided (used) by operating activities					
Operating income	\$ 1,265,456	\$ 2,212,472	\$ 3,349,079	\$ 139,508	\$ 6,966,515
Adjustments to reconcile operating income to net cash provided by (used in) operating activities					
Depreciation expense	443,852	828,439	908,326	10,401	2,191,018
(Increase) decrease in:					
Accounts receivable	46,131	(7,264)	21,913	5,019	65,799
Other receivables	(38,081)	1,009	2,158	(88)	(35,002)
Inventories	92,635	(3,108)	246	-	89,773
Deferred pension	(15,762)	(7,394)	(4,381)	1,218	(26,319)
Increase (decrease) in:					
Customer deposits	15,623	3,525	-	-	19,148
Accounts payable	646,334	(317,488)	2,126,105	(22,260)	2,432,691
OPEB liability	35,817	37,245	32,920	26,597	132,579
Compensated absences	25,395	18,065	19,341	10,003	72,804
Pension liability	163,394	107,636	81,812	24,282	377,124
Deferred pension	(77,186)	(95,249)	(90,789)	(64,356)	(327,580)
Total adjustments	1,338,152	565,416	3,097,651	(9,184)	4,992,035
Net cash provided by (used in) operating activities	\$ 2,603,608	\$ 2,777,888	\$ 6,446,730	\$ 130,324	\$ 11,958,550
Noncash investing, capital, and financing activities					
Capital assets contributed by developers	\$ -	\$ -	\$ -	\$ -	\$ -

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

B. Government-Wide and Fund Financial Statements

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

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

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

The government reports the following major governmental funds:

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

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

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

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The government reports the following major proprietary funds:

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

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

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

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

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

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

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

1. Deposits and Investments

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

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

2. Receivables and Payables

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

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

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

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

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

3. Inventories and Other Assets

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

4. Restricted Assets

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

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

5. Use of Estimates

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

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair value at the date of donation.

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

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

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

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

7. Compensated Absences

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

8. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

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

9. Other Postemployment Benefits

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

10. Deferred Outflows/Inflows of Resources

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

10. Deferred Outflows/Inflows of Resources (Continued)

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

11. Fund Balance

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

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

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

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

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

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

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

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

11. Fund Balance (Continued)

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

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of resources are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year-end are reported as reservations in the appropriate category of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. General fund encumbrances totaling approximately \$10,060,698 have been classified as assigned under fund balance.

8. 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.

11. Comparative Data

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

E. Pensions

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes reconciliation between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$1,854,953 are as follows:

<u>Description</u>	<u>Amount</u>
Compensated absences	\$ 747,026
OPEB liability	1,107,927
Net adjustment to reduce <i>fund balance - total governmental</i>	<u>\$ 1,854,953</u>

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

The governmental statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of the \$1,617,549 difference is as follows:

<u>Description</u>	<u>Amount</u>
Capital outlay	\$ 5,785,206
Depreciation expense	(4,167,657)
Net adjustment to decrease <i>net changes in fund balances -total governmental</i>	<u>\$ 1,617,549</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 \$13,523,953.

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, 2016, there were no general fund departments where expenditures exceeded appropriations.

C. Deficit Fund Balance

At June 30, 2016 Special Revenue Funds which had a deficit fund balance are noted below:

Fund	Deficit Fund Balance
Downtown Service District	\$ 1,512
Economic Development	479,594

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits

As of June 30, 2016 the carrying amount of the Town's deposits with bank and savings institutions was \$2,317,212 and the bank balance was \$2,739,058.

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, 2016, 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, 2016, the government had the following investments:

Investment Type	Fair Value	Maturity	
		1 Year	Over 1 Year
Marketable CDs	\$ 1,764,758	\$ 50,291	\$ 1,714,467
Governmental securities	10,437,767	1,204,960	9,232,807
Governmental securities mutual funds	3,104,062	3,104,062	-
Secure term annuity	3,016,627	3,016,627	-
VA SNAP Program issued bond funds	3,137,513	3,137,513	-
Local government investment pool (LGIP)	2,948,876	2,948,876	-
Banking account sweep investment	12,604,250	12,604,250	-
Total	\$ 37,013,853	\$ 26,066,579	\$ 10,947,274

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Deposits and Investments (Continued)

Investments (Continued)

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

Footnote Classification	Combined Balance Sheet Classifications		
	Total	Cash and Equivalents	Investments
Petty Cash	\$ 1,608	\$ 1,608	\$ -
Bank Deposits	2,317,212	2,317,212	-
Investments	37,013,853	23,438,573	13,575,280
Total	<u>\$ 39,332,673</u>	<u>\$ 25,757,393</u>	<u>\$ 13,575,280</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, 2016:

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

B. Estimated Unbilled Revenue

Proprietary fund types estimate and record utility services rendered but not yet billed at June 30, 2016. 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, 2016, unbilled service recorded was \$1,483,354.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Receivables

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

Description	General	Electric	Water	Sewer	Solid Waste	Nonmajor	Total
Receivables:							
Delinquent taxes	\$1,752,169	\$ -	\$ -	\$ -	\$ -	\$ 2,870	\$1,755,039
Accounts	-	1,778,570	336,524	421,757	136,261	-	2,673,112
Interest	-	-	-	-	-	-	-
Intergovernmental	1,714,820	-	-	-	-	-	1,714,820
Unbilled	-	775,167	318,783	333,591	55,814	-	1,483,355
Other	16,177	67,445	5,445	13,293	88	-	102,448
Less: allowance	-	(906,413)	(119,528)	(147,337)	(79,508)	-	(1,252,786)
Net receivables	<u>\$3,483,166</u>	<u>\$ 1,714,769</u>	<u>\$ 541,224</u>	<u>\$ 621,304</u>	<u>\$ 112,655</u>	<u>\$ 2,870</u>	<u>\$6,475,988</u>

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

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

Fund/Type	Unavailable	Unearned
General Fund - Property Taxes	\$ 1,718,892	\$ -
Special Revenue Fund - Property Taxes	2,870	-
	<u>\$ 1,721,762</u>	<u>\$ -</u>

D. Due from Other Governments

At June 30, 2016 amounts due from other governments were as follows:

Description/Payer	General
Commonwealth of Virginia	
2016 Personal Property Tax Relief Act	\$ 287,000
Communications Tax	14,365
VDOT - Street project	670,974
Warren County, Virginia	
Sales Tax	71,507
Street project	670,974
	<u>\$ 1,714,820</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, 2016 was as follows:

Primary Government

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 1,334,786	\$ -	\$ -	\$ 1,334,786
Construction in progress	-	5,249,748	-	5,249,748
	1,334,786	5,249,748	-	6,584,534
Capital assets being depreciated				
Buildings and improvements	9,249,052	94,690	-	9,343,742
Vehicles	1,922,382	93,846	-	2,016,228
Equipment	3,530,741	326,483	-	3,857,224
Infrastructure	109,527,139	-	-	109,527,139
Total	124,229,314	515,019	-	124,744,333
Less accumulated depreciation for				
Buildings and improvements	(1,847,363)	(253,588)	20,439	(2,080,512)
Vehicles	(1,631,502)	(90,532)	-	(1,722,034)
Equipment	(2,937,573)	(232,483)	-	(3,170,056)
Infrastructure	(71,676,669)	(3,591,054)	-	(75,267,723)
Total	(78,093,107)	(4,167,657)	20,439	(82,240,325)
Net capital assets being depreciated	46,136,207	(3,652,638)	20,439	42,504,008
Governmental capital assets, net	\$ 47,470,993	\$ 1,597,110	\$ 20,439	\$ 49,088,542

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

Activity	Depreciation
Governmental activities:	
General government	\$ 125,011
Public safety	149,791
Public works	266,547
Planning, zoning, and community development	35,253
Infrastructure depreciation	3,591,055
Total depreciation expense - governmental activities	\$ 4,167,657

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	34,252,468	25,365,080	-	59,617,548
Utility distribution systems	53,507,679	429,623	-	53,937,302
Vehicles	3,627,474	29,864	-	3,657,338
Equipment	3,727,223	128,101	-	3,855,324
Total	<u>95,114,844</u>	<u>25,952,668</u>	<u>-</u>	<u>121,067,512</u>
Less accumulated depreciation for				
Buildings and improvements	(6,894,156)	(768,816)	-	(7,662,972)
Utility distribution systems	(30,194,780)	(1,070,155)	-	(31,264,935)
Vehicles	(3,090,679)	(186,896)	-	(3,277,575)
Equipment	(3,100,450)	(165,151)	-	(3,265,601)
Total	<u>(43,280,065)</u>	<u>(2,191,018)</u>	<u>-</u>	<u>(45,471,083)</u>
Net capital assets being depreciated	<u>51,834,779</u>	<u>23,761,650</u>	<u>-</u>	<u>75,596,429</u>
Business-type capital assets, net	<u>\$ 53,323,601</u>	<u>\$ 23,761,650</u>	<u>\$ -</u>	<u>\$ 77,085,251</u>

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

Activity	Depreciation
Business-type activities:	
Electric	\$ 443,852
Water	828,439
Sewer	908,326
Solid Waste Management	10,401
Total depreciation expense - business-type activities	<u>\$ 2,191,018</u>

There were no significant intangible asset acquisitions during the fiscal year ended June 30, 2016.

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, 2016 is as follows:

Advanced to	From	Amount
General Fund	Electric Fund	\$ 937,734
General Fund	Sewer Fund	102,492
General Fund	Water Fund	200,409
General Fund	Town Facilities Fund	388
Special Projects	Sewer Fund	48,515
Special Projects	Water Fund	48,515
Special Revenue	General Fund	49,915
Sewer Fund	Economic Development Fund	2,250
Sewer Fund	Water Fund	506,397
Water Fund	Economic Development Fund	2,250
Water Fund	Electric Fund	14,747
Solid Waste Management	Electric Fund	18,182
		<u>\$ 1,931,794</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 2016 is as follows:

Transferred to	From	Amount
General Fund	Electric Fund	\$ 1,470,000
General Fund	Water Fund	840,000
General Fund	Sewer Fund	850,000
General Fund	Solid Waste Management Fund	33,645
		<u>\$ 3,193,645</u>

G. Long-Term Liabilities

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

G. Long-Term Liabilities (Continued)

General obligation bonds outstanding at June 30, 2016 are as follows:

Description	Amount
\$6,110,000, 2014 series General Obligation Bonds, issued May 21, 2014 due in increasing annual maturities starting with \$15,000 in 2014 and increasing to \$740,000 in 2026, with interest at 3.13% to 4.83%.	\$ 6,090,000
\$10,315,000 2006 series General Obligation Bonds, issued June 8, 2006 due in increasing annual maturities starting with \$330,000 in 2008 and increasing to \$780,000 in 2026, with interest at 3.63% to 4.95%. \$6,325,000 of the outstanding debt was refinanced in May, 2014.	480,000
\$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%.	2,740,000
\$2,735,000, 2010 series Recovery Act Bonds, issued March 15, 2010, due in increasing annual maturities starting with \$115,000 in 2013 and increasing to \$600,000 in 2030, with interest at 2.00% to 6.57%.	2,265,000
\$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.	18,644,582
Total General Obligation Debt	<u><u>\$ 30,219,582</u></u>

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

Year ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2017	\$ -	\$ -	\$ 705,000	\$ 826,989
2018	-	-	1,679,440	485,575
2019	-	-	2,738,880	451,425
2020			2,763,880	420,174
2021			2,793,880	389,964
2021-2025			14,549,400	1,348,990
2026-2030			4,229,102	360,543
2031-2035	-	-	760,000	58,752
Total	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 30,219,582</u></u>	<u><u>\$ 4,342,412</u></u>

The legal debt limit mandated by the Commonwealth of Virginia is \$117,540,445.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

G. Long-Term Liabilities (Continued)

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

Long-term liability activity for the year ended June 30, 2016 was as follows:

	June 30, 2015	Additions	Retirements	June 30, 2016	One Year
Governmental activities:					
Compensated absences	\$ 718,232	\$ 747,026	\$ (718,232)	\$ 747,026	\$ 747,026
Other post-employment benefits	832,566	275,361	-	1,107,927	-
Unfunded pension liability	4,017,071	626,028	-	4,643,099	-
Governmental activity					
Long-term liabilities	\$ 5,567,869	\$ 1,648,415	\$ (718,232)	\$ 6,498,052	\$ 747,026

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

	June 30, 2015	Additions	Retirements	June 30, 2016	One Year
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 13,955,241	\$16,944,341	\$ (680,000)	\$ 30,219,582	\$ 705,000
Unamortized premium	1,038,113	-	(84,269)	953,844	-
Compensated absences	366,217	439,021	(366,217)	439,021	219,512
Other post-employment benefits	400,865	132,577	-	533,442	-
Unfunded pension liability	2,052,426	377,124	-	2,429,550	-
Business-type activity					
Long-term liabilities	\$ 17,812,862	\$17,893,063	\$ (1,130,486)	\$ 34,575,439	\$ 924,512

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

G. Long-Term Liabilities (Continued)

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

Individual Fund	Due Within	
	1 Year	Long-term
General	\$ 747,026	\$ -
Electric	\$ 55,663	\$ 55,662
Water	70,510	70,509
Sewer	71,148	71,147
Solid Waste Management	22,191	22,191
	<u>\$ 219,512</u>	<u>\$ 219,509</u>

V. OTHER INFORMATION

A. Risk Management

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

VMGSIA: The Town has workers' compensation coverage with the Virginia Municipal Group Self Insurance Association (VMGSIA). During the fiscal year 2016 the Town paid premiums of approximately \$155,602 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 2016, the Town paid contributions of approximately \$280,200 to the VMLP.

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

B. Surety Bonds

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

C. Commitments and Contingent Liabilities

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

IDA Bond Debt Support Agreement: The Industrial Development Authority (IDA) of Warren County issued \$4,125,000 series 1996 bonds dated November 1, 1996. The IDA issued the bonds to develop a water/sewer project along U.S. Route 340/522. March 1, 2005 the IDA issued Refunding Bonds to provide resources to pay off the 1996 bond issue by placing funds in an irrevocable trust to meet all future debt service and payoff. As a result, the 1996 bond series is considered to be defeased. The advance refunding was undertaken to reduce total debt service payments over the next 12 years by \$270,019 and resulted in an economic gain of \$97,615.

The Town of Front Royal, Virginia and the County of Warren, Virginia have agreed to provide the funds to repay the debt and interest expense obligation and have each executed a support agreement. The County has agreed to provide funding to support 80% of the debt and interest, subject to annual appropriation, and the Town of Front Royal, Virginia has agreed to fund 20% of the debt and interest. The Town’s support agreement is backed by the full faith and credit and taxing power of the Town.

Details of the IDA bond with the Town’s related support obligation are as follows:

Description	Balance
\$3,300,000 2005 Series Industrial Development Authority Revenue Refunding Bond issued March 1, 2005 in increasing annual maturities starting with \$225,000 in 2005 and increasing to \$330,000 in 2016 with interest at 3.59%	\$ 330,000
Town of Front Royal support agreement obligation – 20%	\$ 66,000

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, 2016 the Town by budget appropriation supported the following EDA projects and intends to continue annual support payments through the project completion:

Project	FYE 6/30/2016 Support
Happy Creek Technology Park	\$ 10,082
Success Industrial Park	10,368
Stephens Industrial Park	11,725
Baugh Drive Extension	6,532
Leach Run Parkway	115,883
	\$ 154,590

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

E. Post-Employment Benefits Other Than Pensions

Plan Description: The Town of Front Royal Virginia retiree health insurance coverage policy extends the benefits to employees hired before July 1, 2015. The policy states that the Town will provide healthcare insurance premium cost benefits for eligible retirees up to 25% of actual premium costs. The plan is provided through the Town's group health insurance plan which covers both retirees and active employees. The premium payment cost benefits are earned at 1% per year of employment, coverage is extended from retirement to age 65 and the benefit is earned only upon retirement from Town employment.

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

Funding Policy: Payments are made monthly to cover the Town's portion of the retiree health insurance premiums. For fiscal year 2016, 23 retirees had a benefit under this policy with a total cost to the Town of \$55,631.

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

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.

<u>Component</u>	<u>FYE 6/30/15</u>
Annual required contribution	\$ 266,400
Interest on Net OPEB obligations	47,155
Adjustment to annual required contribution	<u>(49,819)</u>
Annual OPEB cost (expense)	263,736
Contributions made	<u>(55,631)</u>
Increase in net OPEB obligation	208,105
Net unfunded OPEB obligation - Beginning of year	<u>1,433,264</u>
Net unfunded OPEB obligation - End of year	<u>\$ 1,641,369</u>

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

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

The Town’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation the five years 2012 to 2016 is as follows:

FYE June 30,	Annual OPEB Cost	Percentage of Cost Contributed	Net OPEB Obligation
2016	\$ 263,736	18.93%	\$ 1,641,369
2015	254,861	18.93%	1,433,263
2014	241,858	15.12%	1,224,197
2013	231,918	15.93%	1,028,133
2012	222,464	16.78%	833,160

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

At June 30, 2016 the Town has recorded a liability of \$1,641,369 on the Statement of Net Position for the governmental and business-type activities.

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

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

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.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

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

June 30, 2014 actuarial valuation methods and assumption are as follows:

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

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

Schedule of Funding Progress

Actuarial Valuation Date June 30,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	\$ -	\$ 2,774,100	\$2,774,100	0%	\$ 6,623,100	41.89%
2011	-	2,484,600	2,484,600	0%	6,153,700	40.38%
2014	-	2,946,300	2,946,300	0%	7,404,500	39.79%

Schedule of Employer Contributions

FYE June 30,	Annual Required Contribution	Amount Contributed	Percentage Contributed
2016	\$ 266,400	\$ 55,631	20.88%
2015	257,300	45,794	18.93%
2014	238,300	36,561	15.34%
2013	228,800	36,945	16.15%
2012	219,800	37,340	16.99%

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

F. Defined Benefit Pension Plan

Plan Description

Name of Plan: Virginia Retirement System (VRS)
Identification of Plan: Agent 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 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> 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 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> Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> 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</u>	<u>Exceptions to COLA Effective</u>	<u>Exceptions to COLA Effective</u>
<p><u>Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <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. 	<p><u>Dates:</u> Same as Plan 1</p>	<p><u>Dates:</u> Same as Plan 1 and Plan 2.</p>

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, 2013 and 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	June 30,	
	2013	2015
	Number	
Inactive members or their beneficiaries currently receiving benefits	123	150
Inactive members:		
Vested inactive members	25	29
Non-vested inactive members	53	46
Inactive members active elsewhere in VRS	54	41
Total inactive members	132	116
Active members	152	157
Total covered employees	407	423

Contributions

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

The Town’s contractually required contribution rate for the year ended June 30, 2016 was 14.25% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

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 \$959,136 and \$896,506 for the years ended June 30, 2016 and June 30, 2015, respectively.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

F. Defined Benefit Pension Plan (Continued)

Net Pension Liability

The Town's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

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, 2013, 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, 2015:

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

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

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

F. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

Actuarial Assumptions – Public Safety Employees

The total pension liability for public safety employees in the Town Retirement Plan was based on an actuarial valuation as of June 30, 2014, 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, 2015.

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)

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

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

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

F. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – Public Safety Employees (Continued)

The actuarial assumptions used in the June 30, 2104 valuation were based on the results of an actuarial experience study for the period from July 1, 2009 through June 30, 2013. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – LEOS:

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

F. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return

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

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

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

F. Defined Benefit Pension Plan (Continued)

Discount Rate

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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2014	\$ 34,536,972	\$ 28,467,477	\$ 6,069,495
Changes for the year:			
Service cost	763,448	-	763,448
Interest	2,348,782	-	2,348,782
Differences between expected and actual experience	503,756	-	503,756
Contributions - employer	-	964,775	(964,775)
Contributions - employee	-	375,118	(375,118)
Net investment income	-	1,291,269	(1,291,269)
Benefit payments, including refunds of employee contributions	(1,965,892)	(1,965,892)	-
Administrative expenses	-	(18,055)	18,055
Other changes	-	(275)	275
Net changes	<u>1,650,094</u>	<u>646,940</u>	<u>1,003,154</u>
Balances at June 30, 2015	<u>\$ 36,187,066</u>	<u>\$ 29,114,417</u>	<u>\$ 7,072,649</u>

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:

	<u>(6.00%)</u>	<u>Rate (7.00%)</u>	<u>(8.00%)</u>
Town's Net Pension Liability	<u>\$ 11,612,259</u>	<u>\$ 7,072,649</u>	<u>\$ 3,301,930</u>

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

For the year ended June 30, 2016, the Town recognized pension expense of \$639,679. At June 30, 2016 the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 347,310	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	770,332
Employer contributions subsequent to the measurement date	-	-
Total	<u>\$ 347,310</u>	<u>\$ 770,332</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:

<u>Year ended June 30,</u>	<u>Amortization</u>
2017	\$ (145,592)
2018	(145,592)
2019	(267,620)
2020	135,782
2021	-
Thereafter	-

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

F. Defined Benefit Pension Plan (Continued)

Schedule of Changes in Net Pension Liability and Related Ratios

	<u>2015</u>
Total pension liability	
Service cost	\$ 763,448
Interest	2,348,782
Changes of benefit terms	-
Differences between expected and actual experience	503,756
Changes in assumptions	-
Benefit payments, including refunds of employee contributions	(1,965,892)
Net change in total pension liability	<u>1,650,094</u>
Total pension liability - beginning	<u>34,536,972</u>
Total pension liability - ending (a)	<u><u>\$ 36,187,066</u></u>
 Plan fiduciary net position	
Contributions - employer	\$ 964,775
Contributions - employee	375,118
Net investment income	1,291,269
Benefit payments, including refunds of employee contributions	(1,965,892)
Administrative expense	(18,055)
Other	(275)
Net change in total pension liability	<u>646,940</u>
Total pension liability - beginning	<u>28,467,477</u>
Total pension liability - ending (b)	<u><u>\$ 29,114,417</u></u>
 Town's net pension liability - ending (a) - (b)	<u><u>\$ 7,072,649</u></u>
 Plan fiduciary net position as a percentage of the total pension liability	<u><u>80.46%</u></u>
 Covered-employee payroll	<u><u>\$ 6,898,938</u></u>
 Town's net pension liability as a percentage of covered-employee payroll	<u><u>102.52%</u></u>

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

F. Defined Benefit Pension Plan (Continued)

Schedule of Employer Contributions

FYE June 30,	Contractual Required Contribution	Amount Contributed	Deficiency (Excess)	Covered Payroll	Percentage of Covered Payroll
2016	\$ 959,136	\$ 959,136	\$ -	\$ 6,898,938	13.90%
2015	896,506	896,506	-	6,804,987	13.17%
Prior to GASB Statement No. 68 and 2015:					
2014	1,123,315	1,123,315	-	6,772,842	16.59%
2013	1,312,258	1,312,258	-	6,464,264	20.30%
2012	1,092,670	1,092,670	-	6,268,877	17.43%

Schedule of Funding Progress

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

Changes of benefit terms – There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2014 and the impact on the liabilities as of the measurement date of June 30, 2015 are minimal.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

V. OTHER INFORMATION (CONTINUED)

G. Deferred Compensation Plan

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

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

H. Subsequent Events

The Town has evaluated events and transactions subsequent to June 30, 2016 through October 17, 2016, 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, 2016.

TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES-BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual Revenues	Variance Positive (Negative)
Source of Revenues				
General Property Taxes				
Real estate taxes				
Current taxes, including penalties	\$ 970,000	\$ 970,000	\$ 962,571	\$ (7,429)
Delinquent taxes, including penalties	13,000	13,000	10,091	(2,909)
Personal property taxes				
Current taxes, including penalties	300,000	300,000	217,340	(82,660)
Public service corporation taxes	16,230	16,230	21,846	5,616
Interest on delinquent taxes	13,000	13,000	20,267	7,267
Total General Property Taxes	<u>1,312,230</u>	<u>1,312,230</u>	<u>1,232,115</u>	<u>(80,115)</u>
Other Local Taxes				
Warren County sales tax	850,000	850,000	794,164	(55,836)
Business and occupational taxes and penalties	662,000	662,000	804,677	142,677
Franchise taxes	70,000	70,000	74,743	4,743
Consumer taxes - electric deregulation	200,000	200,000	181,034	(18,966)
Vehicle licenses	357,000	357,000	368,894	11,894
Bank stock taxes	215,000	215,000	214,201	(799)
Lodging taxes	325,000	325,000	315,910	(9,090)
Meal taxes	1,420,000	1,420,000	1,536,311	116,311
Payment in lieu of taxes	420,000	420,000	403,582	(16,418)
Total Other Local Taxes	<u>4,519,000</u>	<u>4,519,000</u>	<u>4,693,516</u>	<u>174,516</u>
Permits, Fees and Licenses				
Zoning income	28,000	28,000	29,622	1,622
Public ROW use fees	5,000	5,000	1,117	(3,883)
Total Permits, Fees and Licenses	<u>33,000</u>	<u>33,000</u>	<u>30,739</u>	<u>(2,261)</u>
Fines and Forfeitures				
Fines and forfeitures - county	135,000	135,000	158,298	23,298
Fines and forfeitures - town	15,000	15,000	1,749	(13,251)
Total Fines and Forfeitures	<u>150,000</u>	<u>150,000</u>	<u>160,047</u>	<u>10,047</u>
Revenues from Use of Money and Property				
Interest on bank deposits	68,000	68,000	53,552	(14,448)
Interest on accounts receivable	2,780	2,780	375	(2,405)
Rental - Comcast property	10,250	10,250	11,530	1,280
Total Revenues from Use of Money and Property	<u>81,030</u>	<u>81,030</u>	<u>65,457</u>	<u>(15,573)</u>
Charges for Services				
Curb and gutter charges	1,000	1,000	2,038	1,038
Street & walk assessment	1,000	1,000	1,210	210
Credit card fees	-	-	22,232	22,232
Sales at Visitors' Center	22,000	22,000	16,777	(5,223)
Sales of publications	500	500	-	(500)
Total Charges for Services	<u>24,500</u>	<u>24,500</u>	<u>42,257</u>	<u>17,757</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, 2016**

	Original Budget	Final Budget	Actual Revenues	Variance Positive (Negative)
Miscellaneous Revenue				
Miscellaneous	\$ 45,000	\$ 81,790	\$ 62,886	\$ (18,904)
Intergovernmental				
Rolling stock tax	20,000	20,000	17,932	(2,068)
Virginia personal property tax reduction	287,000	287,000	287,000	-
Communication tax	170,000	170,000	165,738	(4,262)
Rental tax vehicles	55,000	55,000	66,832	11,832
State aid for police and fire	338,350	338,350	338,352	2
Highway maintenance	1,760,000	1,760,000	1,826,072	66,072
Grants	32,000	63,096	39,154	(23,942)
Road construction and improvements	400,000	6,639,316	5,275,958	(1,363,358)
Total Intergovernmental	3,062,350	9,332,762	8,017,038	(1,315,724)
Total General Fund Revenues	9,227,110	15,534,312	14,304,055	(1,230,257)
Other Financing Sources				
Transfers from other funds	3,193,645	3,193,645	3,193,645	-
Bond proceeds	-	6,156,291	-	(6,156,291)
Total Other Financing Sources	3,193,645	9,349,936	3,193,645	(6,156,291)
Total General Fund Revenues and Other Financing Sources	\$12,420,755	\$24,884,248	\$17,497,700	\$ (7,386,548)

TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
Legislative				
Town Council				
Personal service	\$ 101,255	\$ 61,255	\$ 60,539	\$ 716
Contractual service	66,000	232,200	60,259	171,941
Materials and supplies	17,000	17,000	13,045	3,955
Travel and communications	9,000	9,000	7,152	1,848
Joint operations	-	-	-	-
Capital outlays	117,500	117,500	115,218	2,282
Total Town Council	<u>310,755</u>	<u>436,955</u>	<u>256,213</u>	<u>180,742</u>
Clerk of Council				
Personal service	46,055	46,555	54,657	(8,102)
Materials and supplies	250	250	395	(145)
Travel and communications	3,225	3,225	2,023	1,202
Dues and memberships	310	310	190	120
Total Clerk of Council	<u>49,840</u>	<u>50,340</u>	<u>57,265</u>	<u>(6,925)</u>
Total Legislative	<u>360,595</u>	<u>487,295</u>	<u>313,478</u>	<u>173,817</u>
Executive				
Town Manager				
Personal service	240,710	243,885	242,159	1,726
Contractual service	500	500	524	(24)
Materials and supplies	8,500	12,350	154,734	(142,384)
Travel and communications	6,500	6,200	4,973	1,227
Dues and memberships	2,500	3,050	3,047	3
Capital outlays	-	-	-	-
Total Town Manager	<u>258,710</u>	<u>265,985</u>	<u>405,437</u>	<u>(139,452)</u>
Management Services				
Personal service	231,090	231,090	253,089	(21,999)
Contractual service	150	150	-	150
Materials and supplies	33,000	38,100	27,900	10,200
Travel and communications	4,100	3,000	2,671	329
Dues and memberships	350	350	190	160
Total Management Services	<u>268,690</u>	<u>272,690</u>	<u>283,850</u>	<u>(11,160)</u>
Auto/Motorpool				
Personal service	341,410	341,410	334,683	6,727
Contractual service	3,500	10,500	10,464	36
Materials and supplies	61,950	58,868	32,917	25,951
Travel and communications	3,900	3,300	2,816	484
Utilities	2,000	1,000	922	78
Capital outlays	83,335	114,962	56,627	58,335
Total Auto/Motorpool	<u>496,095</u>	<u>530,040</u>	<u>438,429</u>	<u>91,611</u>

(Continued)

TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
Office of Information Technology				
Personal service	\$ 154,495	\$ 154,245	\$ 149,889	\$ 4,356
Contractual service	214,000	219,700	186,540	33,160
Materials and supplies	69,500	52,500	24,164	28,336
Travel and communications	74,200	78,100	69,666	8,434
Dues and memberships	100	100	-	100
Capital outlays	203,750	306,195	241,627	64,568
Total Office of Information Technology	<u>716,045</u>	<u>810,840</u>	<u>671,886</u>	<u>138,954</u>
Office of Tourism				
Personal service	148,005	148,005	138,622	9,383
Contractual service	8,400	7,737	5,445	2,292
Materials and supplies	138,705	167,586	162,049	5,537
Utilities	200	200	123	77
Travel and communications	7,000	7,000	4,297	2,703
Dues and memberships	1,000	1,375	1,750	(375)
Cultural Activities	10,000	20,000	10,000	10,000
Capital outlays	-	-	-	-
Total Office of Tourism	<u>313,310</u>	<u>351,903</u>	<u>322,286</u>	<u>29,617</u>
Board of Elections				
Contractual service	-	-	-	-
Total Executive	<u>2,052,850</u>	<u>2,231,458</u>	<u>2,121,888</u>	<u>109,570</u>
Legal				
Town Attorney				
Personal service	368,785	368,785	310,677	58,108
Contractual service	20,000	43,000	12,746	30,254
Materials and supplies	12,050	17,050	10,956	6,094
Travel and communications	6,500	6,500	5,169	1,331
Dues and memberships	1,000	1,000	695	305
Capital outlays	5,000	5,000	4,037	963
Total Legal	<u>413,335</u>	<u>441,335</u>	<u>344,280</u>	<u>97,055</u>
Finance				
Finance Department				
Personal service	755,875	756,125	712,999	43,126
Contractual service	1,000	1,000	1,050	(50)
Materials and supplies	107,050	107,050	109,817	(2,767)
Travel and communications	7,100	6,745	4,926	1,819
Dues and memberships	385	740	739	1
Total Finance Department	<u>871,410</u>	<u>871,660</u>	<u>829,531</u>	<u>42,129</u>
Total General Government	<u>3,698,190</u>	<u>4,031,748</u>	<u>3,609,177</u>	<u>422,571</u>

(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
Planning, Zoning and Community Development				
Planning and Zoning				
Personal service	\$ 363,685	\$ 363,435	\$ 339,437	\$ 23,998
Contractual service	10,000	20,000	5,010	14,990
Materials and supplies	9,475	25,950	9,268	16,682
Travel and communications	5,400	5,400	3,677	1,723
Dues and memberships	500	500	595	(95)
Capital outlays	22,500	83,661	24,163	59,498
Cultural activities	5,000	29,809	-	29,809
Total Planning and Zoning	<u>416,560</u>	<u>528,755</u>	<u>382,150</u>	<u>146,605</u>
Economic Development				
Contributions to other entities	8,600	8,600	8,598	2
Total Economic Development	<u>8,600</u>	<u>8,600</u>	<u>8,598</u>	<u>2</u>
Boards and Commissions				
Personal service	18,300	18,300	12,154	6,146
Contractual service	1,000	1,000	385	615
Materials and supplies	4,225	4,225	3,750	475
Travel and communications	3,500	3,500	2,665	835
Dues and memberships	100	100	-	100
Joint operations	9,000	9,000	8,641	359
Total Boards and Commissions	<u>36,125</u>	<u>36,125</u>	<u>27,595</u>	<u>8,530</u>
Total Planning, Zoning and Community Development	<u>461,285</u>	<u>573,480</u>	<u>418,343</u>	<u>155,137</u>
Police				
Police Department				
Personal service	3,908,465	3,911,849	3,838,766	73,083
Contractual service	7,675	13,175	10,142	3,033
Materials and supplies	277,220	261,504	200,193	61,311
Travel and communications	60,500	83,990	56,013	27,977
Dues and memberships	3,855	2,600	1,596	1,004
Joint operations	26,760	28,360	23,443	4,917
Capital outlays	86,850	100,165	82,791	17,374
Total Police Department	<u>4,371,325</u>	<u>4,401,643</u>	<u>4,212,944</u>	<u>188,699</u>
Engineering and Public Works				
Engineering				
Personal service	54,420	54,420	50,698	3,722
Contractual service	1,500	1,500	-	1,500
Materials and supplies	22,850	24,900	17,624	7,276
Travel and communications	6,000	6,450	4,260	2,190
Dues and memberships	2,000	2,000	1,842	158
Capital outlays	-	58,210	-	58,210
Total Engineering	<u>86,770</u>	<u>147,480</u>	<u>74,424</u>	<u>73,056</u>

(Continued)

TOWN OF FRONT ROYAL, VIRGINIA
GENERAL FUND
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
Streets and Sidewalks				
Personal service	\$ 805,090	\$ 805,090	\$ 742,103	\$ 62,987
Contractual service	6,000	6,000	1,404	4,596
Materials and supplies	638,000	514,111	424,307	89,804
Travel and communications	8,500	8,440	7,594	846
Utilities	30,000	30,000	19,869	10,131
Dues and memberships	50	110	107	3
Capital outlays	961,810	14,006,426	5,893,526	8,112,900
Total Streets and Sidewalks	<u>2,449,450</u>	<u>15,370,177</u>	<u>7,088,910</u>	<u>8,281,267</u>
General Properties				
Personal service	137,255	137,255	124,676	12,579
Contractual service	10,000	14,350	10,937	3,413
Materials and supplies	54,900	67,200	42,112	25,088
Travel and communications	2,000	1,200	1,166	34
Utilities	65,000	66,100	68,859	(2,759)
Capital outlays	9,500	43,315	7,816	35,499
Total General Properties	<u>278,655</u>	<u>329,420</u>	<u>255,566</u>	<u>73,854</u>
Horticulture				
Personal service	254,505	254,755	228,545	26,210
Contractual service	6,000	6,000	4,155	1,845
Materials and supplies	32,300	57,743	42,464	15,279
Travel and communications	1,900	1,357	999	358
Utilities	175	275	299	(24)
Capital outlays	19,000	9,430	-	9,430
Total Horticulture	<u>313,880</u>	<u>329,560</u>	<u>276,462</u>	<u>53,098</u>
Total Engineering and Public Works	<u>3,128,755</u>	<u>16,176,637</u>	<u>7,695,362</u>	<u>8,481,275</u>
Nondepartmental				
Fringe Benefits	258,200	258,200	218,230	39,970
Insurance	353,000	353,000	280,200	72,800
Reserves	-	-	-	-
Total Nondepartmental	<u>611,200</u>	<u>611,200</u>	<u>498,430</u>	<u>112,770</u>
Subtotal	<u>12,270,755</u>	<u>25,794,708</u>	<u>16,434,256</u>	<u>9,360,452</u>
Transfers to Other Funds				
Economic Development Fund	-	-	-	-
Total Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total General Fund Expenditures	<u>\$ 12,270,755</u>	<u>\$ 25,794,708</u>	<u>\$ 16,434,256</u>	<u>\$ 9,360,452</u>

**TOWN OF FRONT ROYAL, VIRGINIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016**

	Special Revenue					Capital Project		Total Nonmajor Governmental Funds
	Downtown Service District	Asset Forfeitures	Economic Development	Community/ Neighborhood	Total	Town Facilities		
Assets								
Cash and cash equivalents	\$ -	\$ 57,007	\$ -	\$ 1,096,096	\$ 1,153,103	\$ -	\$ -	\$ 1,153,103
Accounts receivable - real estate taxes	2,870	-	-	-	2,870	-	-	2,870
Interfund advances	-	-	4,500	-	4,500	388	-	4,888
Total Assets	\$ 2,870	\$ 57,007	\$ 4,500	\$ 1,096,096	\$ 1,160,473	\$ 388	\$ -	\$ 1,160,861
Liabilities								
Bank advances	\$ 1,512	\$ -	\$ 484,094	\$ -	\$ 485,606	\$ -	\$ -	\$ 485,606
Accounts payable	-	-	-	74,042	74,042	-	-	74,042
Deferred revenue	2,870	-	-	-	2,870	-	-	2,870
Interfund advances	-	49,915	-	97,031	146,946	-	-	146,946
Total Liabilities	4,382	49,915	484,094	171,073	709,464	-	-	709,464
Fund Balances								
Restricted for:								
Capital outlays	-	7,092	-	-	7,092	-	-	7,092
Community development	-	-	-	925,023	925,023	-	-	925,023
Assigned for capital projects	-	-	-	-	-	388	-	388
Unassigned	(1,512)	-	(479,594)	-	(481,106)	-	-	(481,106)
Total Fund Balances	(1,512)	7,092	(479,594)	925,023	451,009	388	-	451,397
Total Liabilities and Fund Balances	\$ 2,870	\$ 57,007	\$ 4,500	\$ 1,096,096	\$ 1,160,473	\$ 388	\$ -	\$ 1,160,861

**TOWN OF FRONT ROYAL, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	Special Revenue					Capital Project		Total Nonmajor Governmental Funds
	Downtown Service District	Asset Forfeitures	Economic Development	Community/ Neighborhood	Total	Town Facilities		
Revenues								
Real estate taxes	\$ -	\$ -	\$ 188,130	\$ 364,142	\$ 552,272	\$ -	\$ -	\$ 552,272
Asset forfeitures	-	28,606	-	-	28,606	-	-	28,606
Total revenues	-	28,606	188,130	364,142	580,878	-	-	580,878
Expenditures								
Current								
Support payment of EDA/IDA debt issue	-	-	67,518	-	67,518	-	-	67,518
Contractual service	-	-	-	377,297	377,297	-	-	377,297
Contributions to EDA in support of projects	-	-	154,590	-	154,590	-	-	154,590
Capital outlays	-	111,612	-	-	111,612	-	-	111,612
Debt Service	-	-	-	-	-	-	-	-
Total expenditures	-	111,612	222,108	377,297	711,017	-	-	711,017
Deficiency of revenues under expenditures	-	(83,006)	(33,978)	(13,155)	(130,139)	-	-	(130,139)
Other Financing Uses								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Total other financing uses	-	-	-	-	-	-	-	-
Net change in fund balances	-	(83,006)	(33,978)	(13,155)	(130,139)	-	-	(130,139)
Fund balances - beginning	(1,512)	90,098	(445,616)	938,178	581,148	388	388	581,536
Fund balances - ending	\$ (1,512)	\$ 7,092	\$ (479,594)	\$ 925,023	\$ 451,009	\$ 388	\$ 388	\$ 451,397

**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, 2016**

	Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues			
Asset forfeitures	\$ 12,000	\$ 28,606	\$ 16,606
Expenditures			
Capital outlays	134,575	111,612	22,963
Deficiency of revenues under expenditures	(122,575)	(83,006)	39,569
Fund balances - beginning	90,098	90,098	-
Fund balances - ending	<u>\$ (32,477)</u>	<u>\$ 7,092</u>	<u>\$ 39,569</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, 2016**

	Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues			
Real estate taxes	\$ 193,740	\$ 188,130	\$ (5,610)
Expenditures			
Payments in support of EDA debt issue	68,000	67,518	482
Contributions to other entities	125,740	154,590	(28,850)
Debt Service	-	-	-
Total Expenditures	<u>193,740</u>	<u>222,108</u>	<u>(28,368)</u>
Deficiency of revenues under expenditures	-	(33,978)	(33,978)
Other Financing Uses			
Transfers in - Debt Service	-	-	-
Net change in fund balances	-	(33,978)	(33,978)
Fund balances - beginning	<u>(445,616)</u>	<u>(445,616)</u>	<u>-</u>
Fund balances - ending	<u>\$ (445,616)</u>	<u>\$ (479,594)</u>	<u>\$ (33,978)</u>

**TOWN OF FRONT ROYAL, VIRGINIA
COMMUNITY/NEIGHBORHOOD REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016**

	Final Budget	Actual Amounts	Variance Positive (Negative)
Revenues			
Real estate taxes	\$ 375,000	\$ 364,142	\$ (10,858)
Expenditures			
Contractual services	1,040,107	377,297	662,810
Total Expenditures	1,040,107	377,297	662,810
Deficiency of revenues under expenditures	(665,107)	(13,155)	651,952
Fund balances - beginning	938,178	938,178	-
Fund balances - ending	\$ 273,071	\$ 925,023	\$ 651,952

TOWN OF FRONT ROYAL, VIRGINIA
SCHEDULE OF DIRECTOR OF FINANCE'S ACCOUNTABILITY
JUNE 30, 2016

Assets held by the Director of Finance

Cash on hand		\$	1,608
Cash in banks			
Union First Market Bank - checking			(385,001)
Certificates of deposit			
BB&T	\$	350,000	
Sonabank		123,870	
Union First Market Bank		2,120,181	
Wells Fargo		84,516	
City National Bank		23,644	
Total certificates of deposit			<u>2,702,211</u>
VA SNAP Fund			3,016,627
Wells Fargo - government securities mutual funds			2,508,981
Virginia Local Government Investment Pool			2,948,876
Union First Market Bank - banking sweep account			12,604,250
Union Investment Services - fixed income securities			1,590,333
Union Investment Services - fixed income securities			11,207,275
Union Investment Services - fixed secure term annuity			<u>3,137,513</u>
Total Assets			<u><u>\$ 39,332,673</u></u>

**TOWN OF FRONT ROYAL, VIRGINIA
SCHEDULE OF DIRECTOR OF FINANCE'S ACCOUNTABILITY TO THE TOWN
FOR THE YEAR ENDED JUNE 30, 2016**

	Governmental Funds			2016 Totals (Memorandum Only)	2015 Totals (Memorandum Only)
	General	Special Revenue	Proprietary Funds		
Balance July 1, 2015	\$ 10,175,809	\$ 723,594	\$ 22,916,797	\$ 33,816,200	\$ 31,320,335
Receipts (net)					
Proceed on bond debt issued	-	-	16,944,341	16,944,341	1,700,241
Interfund advances/receipts	-	-	150,000	150,000	150,000
General property taxes	1,230,256	552,272	-	1,782,528	1,787,071
Other local taxes	4,344,311	-	-	4,344,311	4,122,609
Permits, fees and licenses	30,739	-	-	30,739	25,410
Fines and forfeitures	160,047	-	-	160,047	172,406
Revenues from use of money and property	65,457	-	194,315	259,772	184,771
Charges for services	42,257	-	29,738,671	29,780,928	30,087,343
Miscellaneous	62,886	-	5,381,345	5,444,231	608,842
Recovered costs	-	28,606	-	28,606	7,320
Payment in lieu of taxes	403,582	-	-	403,582	389,041
Intergovernmental	16,699,794	-	-	16,699,794	2,638,267
Total Receipts	23,039,329	580,878	52,408,672	76,028,879	41,873,321
Total Available	33,215,138	1,304,472	75,325,469	109,845,079	73,193,656
Disbursements (net)					
Warrants (checks) issued	14,803,676	636,975	43,732,789	59,173,440	38,120,634
Retirement of indebtedness	-	-	680,000	680,000	580,000
Intergovernmental	10,000,000	-	-	10,000,000	-
Interfund advance payments	150,000	-	-	150,000	170,635
Interest on debt costs	-	-	508,966	508,966	506,187
Total Disbursements	24,953,676	636,975	44,921,755	70,512,406	39,377,456
Transfers in	3,193,645	-	-	3,193,645	2,980,075
Transfers (out)	-	-	(3,193,645)	(3,193,645)	(2,980,075)
Total Transfers In (Out)	3,193,645	-	(3,193,645)	-	-
Balance June 30, 2016	\$ 11,455,107	\$ 667,497	\$ 27,210,069	\$ 39,332,673	\$ 33,816,200

**TOWN OF FRONT ROYAL, VIRGINIA
COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2016**

Taxable assessed value of real property	<u>\$ 1,175,404,450</u>
Debt limit (10 percent of assessed value)	\$ 117,540,445
Amount of debt applicable to debt limit	
Gross bonded debt	<u>-</u>
Legal debt margin	<u>\$ 117,540,445</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>	90
Revenue Capacity <i>These schedules contain information to help the reader assess the Town's most significant local revenue source, the property tax.</i>	96
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>	100
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>	105
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>	107

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									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Governmental Activities										
Net investment in capital assets	\$ 71,455,350	\$ 67,935,246	\$ 64,423,422	\$ 62,087,906	\$ 58,899,411	\$ 56,769,628	\$ 53,782,076	\$ 50,772,052	\$ 47,470,993	\$ 49,088,542
Restricted	-	-	-	-	1,136,560	1,313,146	1,975,178	2,830,559	3,239,409	3,394,680
Unrestricted	7,580,388	7,344,504	6,033,299	5,953,428	5,125,795	4,934,496	5,453,676	5,714,134	2,159,166	2,755,805
Total Governmental Activities Net Position	\$ 79,035,738	\$ 75,279,750	\$ 70,456,721	\$ 68,041,334	\$ 65,161,766	\$ 63,017,270	\$ 61,210,930	\$ 59,316,745	\$ 52,869,568	\$ 55,239,027
Business-type Activities										
Net investment in capital assets	\$ 24,625,302	\$ 31,350,568	\$ 34,365,817	\$ 33,201,151	\$ 33,459,029	\$ 34,064,137	\$ 36,419,933	\$ 35,385,515	\$ 44,159,747	\$ 51,693,830
Unrestricted	23,052,300	19,679,106	18,511,327	17,843,447	16,659,513	16,446,498	19,440,318	22,940,690	17,389,248	18,022,201
Total Business-type Activities Net Position	\$ 47,677,602	\$ 51,029,674	\$ 52,877,144	\$ 51,044,598	\$ 50,118,542	\$ 50,510,635	\$ 55,860,251	\$ 58,326,205	\$ 61,548,995	\$ 69,716,031
Primary Government										
Net investment in capital assets	\$ 96,080,652	\$ 99,285,814	\$ 98,789,239	\$ 92,582,592	\$ 92,358,440	\$ 90,833,765	\$ 90,202,009	\$ 86,157,567	\$ 91,630,740	\$ 100,782,372
Restricted	-	-	-	-	1,136,560	1,313,146	1,975,178	2,830,559	3,239,409	3,394,680
Unrestricted	30,632,688	27,023,610	24,544,626	26,503,340	21,785,308	21,380,994	24,893,994	28,654,824	19,548,414	20,778,006
Total Primary Government Net Position	\$ 126,713,340	\$ 126,309,424	\$ 123,333,865	\$ 119,085,932	\$ 115,280,308	\$ 113,527,905	\$ 117,071,181	\$ 117,642,950	\$ 114,418,563	\$ 124,955,058

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Expenses										
Governmental Activities:										
General government and administration	\$ 2,646,597	\$ 2,832,009	\$ 3,172,642	\$ 3,340,772	\$ 3,161,198	\$ 3,003,366	\$ 3,404,737	\$ 3,610,966	\$ 3,356,075	\$ 3,866,401
Public safety	3,513,253	3,658,646	3,686,304	3,873,965	3,821,530	3,890,462	4,226,075	4,256,684	4,071,072	4,401,137
Public works	2,206,629	3,149,846	3,901,830	2,467,186	2,440,880	2,167,403	2,200,764	2,152,085	2,351,087	2,832,612
Planning, zoning, and community development	567,708	693,455	1,024,574	636,471	596,574	641,552	617,998	720,592	700,053	1,077,032
Culture and recreation	62,456	66,250	74,044	91,004	105,720	105,801	53,548	22,344	-	-
Interest on long term debt	26,549	23,257	19,812	16,205	12,431	8,480	4,345	-	-	-
Infrastructure depreciation	3,591,054	3,591,054	3,591,054	3,591,054	3,591,054	3,591,054	3,591,054	3,591,054	3,591,055	3,591,055
Total Governmental Activities Expenses	12,614,246	14,014,517	15,470,260	14,016,657	13,729,387	13,408,118	14,098,521	14,353,725	14,069,342	15,768,237
Business-Type Activities:										
Electric	16,250,138	12,600,249	13,535,201	14,119,794	16,888,252	14,466,632	13,293,934	15,469,985	14,906,428	15,869,418
Water	2,343,905	2,471,839	2,231,532	3,023,196	2,742,241	2,799,552	2,953,064	3,075,201	3,042,885	3,604,540
Sewer	2,752,915	2,691,398	2,659,873	3,550,177	2,680,077	3,036,433	2,966,184	3,186,205	3,387,659	3,584,110
Refuse	876,481	856,529	963,068	1,301,649	931,697	968,124	924,107	929,685	842,450	864,785
Total Business-Type Activities Expenses	22,223,439	18,620,015	19,389,674	21,994,816	23,242,267	21,270,741	20,137,289	22,661,076	22,179,422	23,922,853
Total Primary Government Expenses	34,837,685	32,634,532	34,859,934	36,011,473	36,971,654	34,678,859	34,235,810	37,014,801	36,248,764	39,691,090
Program Revenues										
Governmental Activities:										
Charges for services:										
General government	141,719	111,776	95,947	227,814	155,527	96,447	146,989	142,191	168,283	101,895
Public safety	361,844	283,200	295,958	272,406	276,409	244,888	196,412	357,460	179,726	188,653
Public works	27,757	10,919	18,172	6,366	3,848	2,932	1,458	3,848	817	3,248
Planning, zoning, and community development	101,763	103,277	92,660	93,419	18,182	74,588	25,921	26,251	25,410	30,739
Operating grants and contributions	1,858,205	1,872,998	1,912,511	1,870,222	1,960,551	1,967,288	1,998,364	2,047,240	2,094,216	2,164,424
Capital grants and contributions	170,526	115,062	121,767	93,087	133,154	113,971	10,249	32,554	29,357	53,151,112
Total Governmental Program Revenues	2,661,814	2,497,232	2,537,015	2,563,314	2,547,671	2,500,114	2,379,393	2,609,544	2,497,809	7,804,071
Business-Type Activities:										
Charges for services:										
Electric	15,454,130	15,460,426	15,125,811	15,462,065	16,544,552	15,561,410	16,832,900	17,389,372	17,435,092	16,850,344
Water	3,695,001	3,115,794	3,145,958	2,758,853	3,161,942	3,231,718	4,344,296	4,549,414	5,170,326	5,134,173
Sewer	3,645,537	2,846,667	2,774,605	2,723,871	3,452,860	4,204,653	6,303,357	4,984,234	6,644,753	6,719,064
Refuse	801,974	934,936	918,611	951,731	927,160	867,388	887,694	994,255	984,191	1,004,293
Capital grants and contributions	1,094,499	646,430	798,530	-	-	-	-	-	474,457	5,381,345
Total Business-Type Program Revenues	24,691,141	23,004,253	22,763,515	21,896,520	24,086,514	23,865,169	58,076,121	27,917,275	30,708,819	35,089,219
Total Primary Government Program Revenues	27,352,955	25,501,485	25,300,530	24,459,834	26,634,185	26,365,283	60,453,514	30,526,819	33,206,628	42,893,290

(Continued)

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net (Expense) Revenue										
Governmental Activities	\$ (9,952,432)	\$ (11,517,285)	\$ (12,933,245)	\$ (11,453,343)	\$ (11,181,716)	\$ (10,908,004)	\$ (11,719,128)	\$ (11,744,181)	\$ (11,571,533)	\$ (7,964,166)
Business-Type Activities	2,467,702	4,384,238	3,373,841	(98,296)	844,247	2,594,428	8,230,958	5,256,199	8,529,397	11,166,366
Total Primary Gov't Net Expense	(7,484,730)	(7,133,047)	(9,559,404)	(11,551,639)	(10,337,469)	(8,313,576)	(3,488,170)	(6,487,982)	(3,042,136)	3,202,200
General Revenues and Other Changes in Net Position										
Governmental Activities:										
Property taxes	1,335,686	1,330,595	1,303,327	2,563,604	1,685,744	1,544,123	1,549,507	1,788,416	1,846,740	1,843,505
Sales taxes	613,495	683,974	690,993	684,300	707,328	726,745	1,418,512	943,728	852,134	794,164
Business and occupational taxes	721,486	708,018	620,567	613,273	633,938	612,660	656,935	672,494	682,756	804,677
Franchise and bank stock taxes (*)	206,989	150,318	1,500	24,167	119,434	254,686	280,149	284,714	303,207	288,944
Communication taxes	-	-	177,556	178,294	177,411	157,940	162,826	169,927	170,799	165,738
Consumer taxes	240,682	228,828	181,779	190,188	242,677	228,374	221,576	164,137	222,783	181,034
Alcoholic beverage taxes	16,316	16,316	-	-	-	-	-	-	-	-
Meals and lodging taxes	1,633,723	1,622,217	1,472,392	1,330,656	1,450,203	1,547,442	1,648,350	1,750,295	1,751,540	1,852,221
Virginia pers. prop. tax reduction	287,878	287,863	287,863	575,726	287,863	287,000	287,000	287,000	287,000	287,000
Payment in lieu of taxes	-	229,098	1,046,893	307,158	337,469	372,920	401,492	407,661	389,041	403,582
Vehicle licenses (*)	-	-	-	-	-	350,500	354,605	357,359	362,923	368,894
Other general taxes (*)	541,073	438,560	426,139	472,388	615,452	53,344	71,263	86,720	81,598	84,764
Unrestricted investment earnings	284,273	283,610	119,307	109,480	56,357	123,824	12,113	77,835	65,337	65,457
Gain on sale of capital assets and other recoveries	146,990	-	-	-	-	-	-	-	-	-
Transfers	1,643,617	1,781,900	1,781,900	1,988,722	1,988,272	2,503,950	2,848,460	2,859,710	2,951,585	3,193,645
Total Governmental Activities	7,672,208	7,761,297	8,110,216	9,037,956	8,302,148	8,763,508	9,912,788	9,849,996	9,967,443	10,333,625
Business-Type Activities:										
Unrestricted investment earnings	1,097,679	749,734	255,529	254,472	217,969	301,615	(32,882)	174,807	119,434	194,315
Transfers	(1,643,617)	(1,781,900)	(1,781,900)	(1,988,722)	(1,988,272)	(2,503,950)	(2,848,460)	(2,859,710)	(2,951,585)	(3,193,645)
Total Business-Type Activities	(545,938)	(1,032,166)	(1,526,371)	(1,734,250)	(1,770,303)	(2,202,335)	(2,881,342)	(2,684,903)	(2,832,151)	(2,999,330)
Total Primary Government	7,126,270	6,729,131	6,583,845	7,303,706	6,531,845	6,561,173	7,031,446	7,165,093	7,135,292	7,334,295
Change in Net Position										
Governmental Activities	(2,280,224)	(3,755,988)	(4,823,029)	(2,415,387)	(2,879,568)	(2,144,496)	(1,806,340)	(1,894,185)	(1,604,090)	2,369,459
Business-Type Activities	1,921,764	3,352,072	1,847,470	(1,832,546)	(926,056)	392,093	5,349,616	2,571,296	5,697,246	8,167,036
Total Primary Government	(358,460)	(403,916)	(2,975,559)	(4,247,933)	(3,805,624)	(1,752,403)	3,543,276	677,111	4,093,156	10,536,495

* Bank stock tax and vehicle licenses were reclassified effective 2012

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

Fiscal Year	Property	Sales	Business and Occupational	Bank stock, Comm. and Franchise (*)	Consumer	Alcohol Beverage	Meals and Lodging	Virginia PPTR	In Lieu of Taxes	Vehicle License (*)	Other General (*)	Total
2007	1,335,686	613,495	721,486	206,989	240,682	16,316	1,633,723	287,878	-	-	541,073	5,597,328
2008	1,330,595	683,974	708,018	150,318	228,828	16,316	1,622,217	287,863	229,098	-	438,560	5,695,787
2009	1,303,327	690,993	620,567	179,056	181,779	-	1,472,392	287,863	1,046,893	-	426,139	6,209,009
2010	2,563,604	684,300	613,273	202,461	190,188	-	1,330,656	575,726	307,158	-	472,388	6,939,754
2011	1,685,744	707,328	633,938	296,845	242,677	-	1,450,203	287,863	337,469	-	615,452	6,257,519
2012	1,544,123	726,745	612,660	177,325	228,374	-	1,547,442	287,000	372,920	350,500	639,145	6,486,234
2013	1,549,507	1,418,512	656,935	442,975	221,576	-	1,648,350	287,000	401,492	354,605	71,263	7,052,215
2014	1,788,416	943,728	672,494	454,641	164,137	-	1,750,295	287,000	407,661	357,359	86,720	6,912,451
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

* 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									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Fund										
Nonspendable	\$ 100,975	\$ 100,975	\$ 60,975	\$ 60,975	\$ 180,487	\$ 207,520	\$ 196,260	\$ 207,823	\$ 241,290	\$ 141,487
Restricted	-	-	-	-	766,933	766,933	1,300,989	1,900,281	2,211,133	2,462,565
Assigned	-	-	-	-	-	-	-	-	1,250,000	-
Unassigned	6,407,631	6,147,170	5,486,609	5,803,554	5,300,035	5,248,533	5,728,824	6,022,406	5,585,564	7,747,379
Total General Fund	\$ 6,508,606	\$ 6,248,145	\$ 5,547,584	\$ 5,864,529	\$ 6,247,455	\$ 6,222,986	\$ 7,226,073	\$ 8,130,510	\$ 9,287,987	\$ 10,351,431
All Other Governmental Funds										
Restricted	\$ -	\$ -	\$ -	\$ -	\$ 369,627	\$ 546,213	\$ 674,189	\$ 930,278	\$ 1,028,276	\$ 932,115
Assigned - capital funds	388	388	388	388	388	388	388	388	388	388
Unassigned, reported in:										
Special revenue funds	1,447,323	1,483,394	919,779	142,836	(331,973)	(405,413)	(312,447)	(380,375)	(447,128)	(481,106)
Total all other governmental funds	\$ 1,447,323	\$ 1,483,394	\$ 919,779	\$ 143,224	\$ 38,042	\$ 141,188	\$ 362,130	\$ 550,291	\$ 581,536	\$ 451,397

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
REVENUES:										
Taxes:										
Property	\$ 1,356,387	\$ 1,291,255	\$ 1,298,909	\$ 1,896,461	\$ 1,463,695	\$ 1,476,410	\$ 1,452,321	\$ 1,592,285	\$ 1,748,623	\$ 1,784,387
Sales	613,495	683,974	690,993	684,300	707,328	726,745	1,418,512	943,728	852,134	794,164
Business and occupational	721,486	708,018	620,567	613,273	633,938	612,660	656,935	672,494	682,756	804,677
Franchise	206,989	150,318	1,500	24,167	119,434	19,385	87,213	67,191	60,797	74,743
Consumer	240,682	228,828	181,779	190,188	242,677	228,374	221,576	164,137	222,783	181,034
Vehicle licenses	239,854	226,689	223,417	174,686	296,784	350,500	354,605	357,359	362,923	368,894
Bank stock	159,285	160,640	152,245	239,686	259,987	235,301	192,936	217,523	242,410	214,201
Meals and lodging	1,633,723	1,622,217	1,472,392	1,330,656	1,450,203	1,547,442	1,648,350	1,750,295	1,751,540	1,852,221
Permits, fees, and licenses	101,763	103,277	92,660	93,419	18,182	74,588	25,921	26,251	25,410	30,739
Fines and forfeitures	356,631	246,650	252,484	238,363	249,598	213,721	179,666	157,767	172,406	160,047
Revenues from use of money and property	284,273	283,610	119,307	109,480	56,357	123,824	12,113	77,835	65,337	65,457
Charges for services	100,909	73,114	45,165	20,237	16,257	25,811	35,841	37,924	34,715	42,257
Miscellaneous	68,567	49,581	68,954	213,943	143,118	73,568	112,606	108,115	134,385	62,886
Recovered costs	5,213	36,550	43,474	34,043	26,811	31,167	16,746	199,693	7,320	28,606
Payment in lieu of taxes	90,215	229,098	1,046,893	307,158	337,469	372,920	401,492	407,661	389,041	403,582
Intergovernmental	2,384,644	2,343,470	2,550,174	2,775,345	2,617,660	2,579,543	2,529,702	2,623,441	2,662,970	8,017,038
Total Revenues	8,564,116	8,437,289	8,860,913	8,945,405	8,639,498	8,691,959	9,346,535	9,403,699	9,415,550	14,884,933
EXPENDITURES:										
General government										
Legislative	156,788	175,717	173,189	166,884	175,142	155,176	169,241	171,338	176,283	313,478
Executive	1,243,995	1,401,822	1,605,219	1,588,909	1,556,528	1,520,025	1,731,960	2,049,108	1,881,985	2,121,888
Legal	248,934	257,621	416,400	517,295	347,940	342,144	362,854	362,454	369,080	344,280
Finance	748,380	801,115	828,300	790,675	803,686	732,352	811,980	811,502	811,792	829,531
Public Safety										
Police	3,153,821	3,439,362	3,467,748	3,560,512	3,546,263	3,598,674	3,881,352	3,973,290	4,245,126	4,324,556
Fire protection	105,403	18,139	-	-	-	-	-	-	-	-
Planning, zoning, and community development	514,404	640,684	953,740	1,193,007	536,085	590,660	556,094	647,358	663,734	1,017,748
Engineering and public works	2,493,932	3,033,398	3,776,368	2,878,813	2,712,420	3,421,997	2,681,719	2,565,474	2,456,560	7,695,362
Parks and recreation	56,594	61,208	68,924	82,000	95,000	95,000	47,500	20,000	-	-
Nondepartmental	532,993	513,067	520,070	518,999	479,931	564,173	630,878	570,287	573,853	498,430
Debt Service										
Principal	70,483	73,774	77,219	80,826	84,600	88,551	93,043	-	-	-
Interest	26,549	23,257	19,812	16,205	12,431	8,480	4,345	-	-	-
Capital outlay	-	4,415	-	-	-	-	-	-	-	-
Total Expenditures	9,352,276	10,443,579	11,906,989	11,394,125	10,350,026	11,117,232	10,970,966	11,170,811	11,178,413	17,145,273
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(788,160)	(2,006,290)	(3,046,076)	(2,448,720)	(1,710,528)	(2,425,273)	(1,624,431)	(1,767,112)	(1,762,863)	(2,260,340)
OTHER FINANCING SOURCES (USES):										
Transfers in	1,740,649	1,878,931	1,878,931	2,085,753	2,085,303	2,503,950	3,007,971	2,859,710	2,980,075	3,193,645
Transfers (out)	(97,032)	(97,031)	(97,031)	(97,031)	(97,031)	-	(159,511)	-	(28,490)	-
Other sources	146,990	-	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	1,790,607	1,781,900	1,781,900	1,988,722	1,988,272	2,503,950	2,848,460	2,859,710	2,951,585	3,193,645
NET CHANGE IN FUND BALANCES	\$ 1,002,447	\$ (224,390)	\$ (1,264,176)	\$ (459,998)	\$ 277,744	\$ 78,677	\$ 1,224,029	\$ 1,092,598	\$ 1,188,722	\$ 933,305
Debt service as a percentage of noncapital expenditures	1.06%	0.99%	0.83%	0.87%	1.10%	0.94%	1.05%	0.98%	0.00%	0.00%

Additional years will be added as information is available.

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

Fiscal Year	Real Property					Personal Property				
	Commercial Residential Property	Public Service	Total Assessed Value	Direct Tax Rate	Motor Vehicles	Business Equipment	Other	Total Assessed Value	Direct Tax Rate	
2007	768,759,200	15,358,932	784,118,132	0.13	103,206,048	-	965,665	104,171,713	0.60	
2008	1,409,727,643	14,984,060	1,424,711,703	0.07	106,118,951	19,346,220	2,170,520	127,635,691	0.60	
2009	1,429,456,286	14,984,060	1,444,440,346	0.07	103,750,195	16,769,150	2,082,305	122,601,650	0.60	
2010	1,418,723,500	15,826,250	1,434,549,750	0.07	77,266,939	17,878,066	1,850,545	96,995,550	0.60	
2011	1,104,745,864	15,826,250	1,120,572,114	0.11	79,013,475	17,575,885	1,575,270	98,164,630	0.64	
2012	1,118,318,200	16,425,250	1,134,743,450	0.11	82,719,086	16,645,415	1,534,520	100,899,021	0.64	
2013	1,127,434,400	17,274,880	1,144,709,280	0.11	85,157,320	18,291,765	1,545,035	104,994,120	0.64	
2014	1,129,575,300	16,808,640	1,146,383,940	0.13	86,666,340	19,232,980	1,557,485	107,456,805	0.64	
2015	1,156,264,300	16,841,840	1,173,106,140	0.13	89,785,695	17,204,725	1,311,870	108,302,290	0.64	
2016	1,158,897,600	16,506,850	1,175,404,450	0.13	94,765,055	17,492,560	2,108,235	114,365,850	0.64	

Source: Warren County Property Assessor's Office

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

Fiscal Year	Town Direct Rates				Overlapping Rates				Total Direct and Overlapping Rates			
	Real Estate	Personal Property	Machinery and Tools	Mobile Homes	Real Estate	Personal Property	Machinery Tools	Mobile Homes	Real Estate	Personal Property	Machinery and Tools	Mobile Homes
2007	0.13	0.60	0.60	0.13	0.82	3.15	1.30	0.82	0.95	3.75	1.90	0.95
2008	0.07	0.60	0.60	0.07	0.68	3.25	2.00	0.68	0.75	3.85	2.60	0.75
2009	0.07	0.60	0.60	0.07	0.46	4.00	1.30	0.46	0.53	4.60	1.90	0.53
2010	0.07	0.60	0.60	0.07	0.46	4.00	1.30	0.46	0.53	4.60	1.90	0.53
2011	0.11	0.64	0.64	0.11	0.59	4.00	1.30	0.59	0.70	4.64	1.94	0.70
2012	0.11	0.64	0.64	0.11	0.59	4.00	1.30	0.59	0.70	4.64	1.94	0.70
2013	0.11	0.64	0.64	0.11	0.59	4.00	1.30	0.59	0.70	4.64	1.94	0.70
2014	0.13	0.64	0.64	0.13	0.61	4.00	1.30	0.61	0.74	4.64	1.94	0.74
2015	0.13	0.64	0.64	0.13	0.60	4.00	1.95	0.60	0.73	4.64	2.59	0.73
2016	0.13	0.64	0.64	0.13	0.62	4.00	1.95	0.60	0.75	4.64	2.59	0.73

Source: Town of Front Royal and Warren County

**TOWN OF FRONT ROYAL, VIRGINIA
PRINCIPAL PROPERTY TAX PAYERS
CURRENT YEAR AND 2007**

2016			2007		
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	\$ 18,333,700	1.56%	Boisseau Family, L.C.	\$ 15,019,100	1.05%
Gateway Plaza Shopping Center	8,313,500	0.71%	Gateway Plaza Shopping Center	6,271,300	0.44%
Shenandoah Square LP	7,948,200	0.68%	Shenandoah Square, L.P.	5,722,900	0.40%
Royal Arms Associates	7,050,000	0.60%	Ramsey, Inc.	5,287,300	0.37%
HWA Enterprises	6,216,600	0.53%	Corr Family	3,522,900	0.25%
HLI Endowment Inc	6,148,600	0.52%	Royal Arms Association	3,340,100	0.23%
Ramsey Inc	5,308,900	0.45%	Cogil Corporation (including Roya	3,220,200	0.22%
F&R Limited Partnership	4,837,900	0.41%	CCC Enterprises Inc. of VA	3,029,900	0.21%
MCAP Southerlands LLC	4,747,900	0.40%	Richmond Homes	2,731,000	0.19%
Corry Family Real Estate LLC	4,698,900	0.40%	Shenandoah Properties II	2,142,900	0.15%
Total	<u>\$ 73,604,200</u>	<u>6.26%</u>		<u>\$ 50,287,600</u>	<u>3.51%</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
2007	1,644,061	1,537,604	93.52%	103,102	1,640,706	99.80%
2008	1,631,281	1,531,421	93.88%	95,038	1,626,459	99.70%
2009	1,655,680	1,539,151	92.96%	108,831	1,647,982	99.54%
2010	3,131,608	2,332,404	74.48%	736,688	3,069,092	98.00%
2011	1,802,507	968,065	53.71%	748,940	1,717,005	95.26%
2012	1,833,691	683,918	37.30%	1,055,784	1,739,702	94.87%
2013	1,840,648	928,189	50.43%	802,129	1,730,318	94.01%
2014	2,084,048	1,042,874	50.04%	902,318	1,945,192	93.34%
2015	2,153,232	1,096,456	50.92%	874,095	1,970,551	91.52%
2016	2,119,854	1,067,015	50.33%	-	1,067,015	50.33%

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

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

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

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

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

Fiscal Year	Governmental	Business Type	Total Primary Government	Personal Income (in \$000's)	Percentage of Personal Income	Population	Per Capita
	Activities General	Activities General					
	Obligation Bonds	Obligation Bonds					
2007	498,013	13,643,291	14,141,304	DNA	DNA	14,377	984
2008	424,239	12,756,102	13,180,341	461,432	2.86%	14,475	911
2009	347,020	11,850,070	12,197,090	483,029	2.53%	14,616	835
2010	266,194	13,665,076	13,931,270	466,320	2.99%	14,573	956
2011	181,594	12,725,987	12,907,581	547,521	2.36%	14,440	894
2012	93,043	11,767,674	11,860,717	553,967	2.14%	14,610	812
2013	-	10,750,000	10,750,000	663,896	1.62%	14,666	733
2014	-	12,835,000	12,835,000	700,492	1.83%	15,127	848
2015	-	14,993,354	14,993,354	702,210	2.14%	15,545	965
2016	-	31,173,426	31,173,426	723,276	4.31%	14,709	2,119

DNA - Data Not Available

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

Fiscal Year	General Obligation Bonds	Debt Payable from Enterprise Revenues	Net Bonded Debt	Assessed Value in \$000's	Percentage of Actual Taxable Value of Property	Population	Per Capita
2007	14,141,304	13,643,291	498,013	888,290	1.59%	14,377	984
2008	13,180,341	12,756,102	424,239	1,552,347	0.85%	14,475	911
2009	12,197,090	11,850,070	347,020	1,567,042	0.78%	14,616	835
2010	13,931,270	13,665,076	266,194	1,531,545	0.91%	14,573	956
2011	12,907,581	12,725,987	181,594	1,218,737	1.06%	14,440	894
2012	11,860,717	11,767,674	93,043	1,235,642	0.96%	14,610	812
2013	10,750,000	10,750,000	-	1,249,703	0.86%	14,666	733
2014	12,835,000	12,835,000	-	1,253,841	1.02%	15,127	848
2015	14,993,354	14,993,354	-	1,281,408	1.17%	15,545	965
2016	31,173,426	31,173,426	-	1,289,770	2.42%	14,709	2,119

**TOWN OF FRONT ROYAL, VIRGINIA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2016**

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Debt repaid with property taxes			
Warren County	\$ 2,203,700		
Warren County School Board	-		
Subtotal, overlapping debt	2,203,700	49%	1,079,813
Town of Front Royal (direct debt)	-	100%	-
Total direct and overlapping debt			\$ 1,079,813

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									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Debt limit	\$ 143,323,827	\$ 145,212,163	\$ 145,266,886	\$ 145,073,555	\$ 114,501,165	\$ 114,459,425	\$ 114,460,908	\$ 114,638,394	\$ 117,310,614	\$ 117,540,445
Net debt applicable to limit	14,141,304	13,180,341	12,197,090	13,931,270	12,907,581	11,860,717	10,750,000	12,835,000	13,955,241	-
Legal debt margin	\$ 129,182,523	\$ 132,031,822	\$ 133,069,796	\$ 131,142,285	\$ 101,593,584	\$ 102,598,708	\$ 103,710,908	\$ 101,803,394	\$ 103,355,373	\$ 117,540,445
Net debt applicable to the limit as a percent of debt limit	10%	9%	8%	10%	11%	10%	9%	11%	12%	0%

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

Fiscal Year	Gross Revenue ¹	Operating Expenses ²	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2007	24,694,321	19,960,695	4,733,626	553,465	553,525	1,106,990	4.28
2008	23,107,557	16,528,362	6,579,195	887,189	578,849	1,466,038	4.49
2009	22,220,514	17,417,903	4,802,611	906,030	531,927	1,437,957	3.34
2010	22,150,992	18,008,335	4,142,657	919,994	506,962	1,426,956	2.90
2011	24,304,483	20,868,331	3,436,152	955,679	593,798	1,549,477	2.22
2012	24,166,784	18,870,789	5,295,995	974,906	631,396	1,606,302	3.30
2013	28,335,365	17,772,057	10,563,308	1,034,264	564,878	1,599,142	6.61
2014	28,092,082	20,376,968	7,715,114	535,000	537,563	1,072,563	7.19
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

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
2007	14,377	458,296	31,877	*	*	*	5,257	3.0%
2008	14,475	461,420	31,877	*	*	*	5,252	3.4%
2009	14,616	483,029	33,048	*	*	*	5,240	7.0%
2010	14,573	466,320	31,999	*	*	*	5,720	6.7%
2011	14,440	547,521	37,917	*	38	*	5,317	6.7%
2012	14,610	553,967	37,917	*	*	*	5,325	5.5%
2013	14,666	663,896	45,268	*	*	*	5,394	5.7%
2014	15,127	700,492	46,307	26,129	*	*	5,493	5.6%
2015	15,545	702,210	46,421	*	*	*	5,318	4.8%
2016	14,709	723,276	46,609	*	*	*	5,325	4.8%

*Median age and education level only available in census years

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

**TOWN OF FRONT ROYAL, VIRGINIA
PRINCIPAL EMPLOYERS
CURRENT YEAR AND 2007**

2016			2007		
Employer	Employees	% of Total	Employer	Employees	% of Total
Warren County School Board	1,000	13%	Warren County School Board	1,105	14%
Valley Health System	750	10%	Valley Health System	500	6%
Warren County	500	6%	Town of Front Royal	155	2%
Walmart	450	6%	Warren County	150	2%
Ferguson Enterprises, Inc.	250	3%	Martin's Food Market	140	2%
Interbake Foods, LLC	350	5%	Randolph - Macon Academy	120	2%
Family Dollar Services	350	5%	United Parcel Services, Inc.	100	1%
Baugh Northeast	300	4%	VIA Satellite	95	1%
Axalta	250	3%	Northwest Community Mental Health	90	1%
Town of Front Royal	175	2%	Kmart Corporation	80	1%

Source: Estimates from Warren County Economic Development Authority

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

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
General Government	29	41	40	38	38	33	37	37	38	38
Fire Protection	1	0	0	0	0	0	0	0	0	0
Police Protection	45	47	47	47	47	47	48	49	49	51
Highway - Streets	22	17	17	17	17	16	17	16	16	16
Sanitation	14	15	13	13	13	14	15	14	14	14
Water	12	13	14	15	15	18	15	15	18	18
Sewer	17	15	15	14	14	17	16	16	16	17
Electrical	14	11	12	13	13	15	15	15	15	17
Culture and Recreation	1	0	0	0	0	0	0	0	0	0
	155	159	158	157	157	160	163	162	166	171

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

Function/Program	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Public Safety										
Police										
Physical arrests	1,443	1,436	1,108	1,943	1,361	1,777	1,183	1,217	947	837
Parking violations	1,063	678	752	841	462	222	364	190	12	64
Traffic violations	3,844	3,560	4,379	3,770	3,423	2,666	1,808	1,676	2,632	2,239
Wastewater										
New service connections	320	48	33	14	17	17	14	8	30	52
Average daily treatment in gallons	3,069,310	2,988,613	3,399,715	3,764,984	3,598,000	3,426,000	3,531,000	3,665,000	3,936,000	4,265,000
Water System										
New connections	320	52	32	13	16	20	16	9	34	51
Average daily consumption	1,708,000	1,976,953	2,143,041	2,182,274	2,065,043	1,453,000	1,875,000	1,875,000	1,875,000	1,868,000
Electric Distribution										
New Connections	320	25	16	4	12	18	20	20	27	26
Average daily KWH consumption	493,095	576,589	545,482	552,178	538,679	487,033	528,398	516,708	517,114	523,681
Sanitation										
Refuse collected (tons/day)	40	22	15	14	20	20	22	23	24	24
Recyclables collected (tons/day)	0.25	2.00	2.00	1.20	2.45	1.98	1.46	1.61	1.62	1.73
Highway and Streets										
Repair services	60	65	55	28	210	366	398	253	151	176
Street resurfacing (miles)	27.00	35.00	5.00	11.75	1.44	12.80	1.20	15.61	5.00	3.00

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

Function/Program	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Public Safety										
Police										
Stations	2	2	2	2	2	2	2	2	2	2
Patrol Units	12	12	12	12	12	12	12	20	26	25
Fire Stations	1	1	1	1	1	1	1	1	1	1
Highways and Streets										
Streets (miles)	143	133	133	133	133	133	133	138	132	132
Streetlights	1,430	1,430	1,450	1,450	1,450	1,450	1,450	1,470	1,505	1,871
Traffic signals	15	15	14	14	14	14	14	14	14	14
Culture and Recreation										
Community centers	1	1	1	1	1	1	1	1	2	2
Parks	13	13	13	13	13	13	12	12	20	20
Park acreage	165	165	165	165	165	165	125	125	400	400
Swimming pools	1	1	1	1	1	1	1	1	1	1
Tennis courts	9	9	9	9	9	9	2	2	6	6
Sewer System										
Sanitary sewers (miles)	196	198	198	198	198	198	198	198	198	198
Storm sewers (miles)	90	92	92	92	92	92	92	92	92	92
Treatment plants	1	1	1	1	1	1	1	1	1	1
Max daily capacity	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	5,000,000
Water System										
Facilities	1	1	1	1	1	1	1	1	1	1
Fire Hydrants	560	582	618	618	668	672	672	672	672	687
Max daily capacity	3,000,000	3,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Electric System										
Service lines (miles)	140	140	140	140	141	141	143	143	143	145
Distribution stations	3	3	4	4	4	4	4	4	5	5
Sanitation										
Collection Trucks	5	5	5	5	5	7	5	5	8	8

COMPLIANCE SECTION

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Front Royal, Virginia, as of and for the year ended June 30, 2016, 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 17, 2016.

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 17, 2016
Leesburg, Virginia

Mitchell & Co., P.C.