



COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2017

Prepared by:
The Finance Department of the
Town of Warrenton, Virginia

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INTRODUCTORY SECTION

TOWN OF WARRENTON, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS

June 30, 2017

TOWN COUNCIL

Powell Duggan, Mayor
Linda Reynolds, Vice Mayor

Jerry Wood
Alec Burnett
Robert Kravetz
Brett Hamby
Sean Polster
Kevin Carter

APPOINTED OFFICIALS

Brannon Godfrey	Town Manager
Whitson W. Robinson.....	Town Attorney
Evelyn J. Weimer.....	Town Recorder
Stephanie Miller.....	Finance/Personnel Director
Margaret Rice.....	Director of Parks & Recreation
Brandi Schaeffer	Planning/Zoning Director
Edward B. Tucker, Jr.	Public Works/Utilities Director
Louis Battle	Chief of Police

INDEPENDENT AUDITORS

Brown, Edwards & Company, L.L.P.



TOWN OF WARRENTON

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November 30, 2017

To The Honorable Mayor, Members of Town Council And The Citizens of the Town of Warrenton

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Town of Warrenton for the fiscal year ended June 30, 2017. The *Code of Virginia* requires that localities have their accounts and records audited annually as of June 30 by an independent certified public accountant, and that a detailed written report be presented to the local governing body within six months of the close of the fiscal year.

This report has been prepared in accordance with accounting principles generally accepted in the United States (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). It consists of management's representations concerning the finances of the Town. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the data presented are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the various funds of the Town. Disclosures have been included to enable the reader to gain the maximum understanding of the Town's financial affairs.

The Town's management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town are protected from loss, theft or misuse. It is further responsible to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with GAAP. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived.

The Town's financial statements have been audited by Brown Edwards & Company, LLP, a firm of licensed certified public accountants. The audit was conducted in accordance with generally accepted auditing standards. The goal of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended June 30, 2017 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by Town management; and evaluating the overall financial statement presentation. The independent auditors' report expresses an unmodified opinion on the fair presentation of the financial statements and is presented as the first part of the Financial Section of this report.

All of the financial activities of the reporting entity are included within this report. The reporting entity is comprised solely of the primary government. Under GASB pronouncements, component units are legally separate entities for which the primary government is financially accountable. The Town of Warrenton does not have any component units.

PROFILE OF THE TOWN

The Town of Warrenton, the County Seat and the largest town in Fauquier County, is located in the Upper Piedmont region of Virginia at the foot of the Blue Ridge mountains about 45 miles southwest of Washington, DC. The Town encompasses 4.25 square miles and has a population of 9,861. Settled in the late seventeenth century, the Town of Warrenton, then known as Courthouse Village, was formally incorporated in 1810. Since 1992, Warrenton has been considered part of the Washington-Baltimore Metropolitan Statistical Area. Warrenton is easily accessible via four U.S. primary routes – 17, 15, 29 and 211. These routes provide access to Interstates 66, 64, 95 and 81 which link Warrenton to major trade routes across the Nation.

The Town is organized under the Council-Manager form of government with an elected mayor and a seven-member Council. Five members are elected by ward and two are elected at large, with staggered four year terms. The Council appoints a Town Manager who serves as the chief executive officer of the Town and is responsible to the Council for the proper administration of the Town government. The Town Manager performs the daily tasks required by the Town Council in accordance with the Town's Charter and oversees the activities of all Town departments and personnel.

The Town provides a wide range of municipal services including public safety, sanitation and recycling services, community development and planning, the construction and maintenance of highways, streets, and public works infrastructure, parks and recreation programs, and the provision of water and wastewater services. In addition, the Town contributes to cultural events, recreational activities and supports various health and welfare programs.

An annual budget is prepared for all funds, except the fiduciary funds, to include revenues, expenditures, transfers and debt service. The Town Charter requires the Town Manager to submit a balanced budget to the Town Council no later than May 1 each year. Each department prepares its own budget request for review and amendment by the Town Manager prior to inclusion in the Town's budget. After public hearings, the Town adopts an annual budget by July 1 of each year as required by 15.2-2503, Code of Virginia of 1950, as amended.

When necessary, the Town Council approves amendments to the adopted budget in accordance with 15.2-2507, Code of Virginia of 1950, as amended. The Town Manager may transfer appropriations at the department appropriation level without approval from Town Council. Budgetary compliance is monitored and reported at the department level on a monthly basis.

ECONOMIC CONDITION AND OUTLOOK

The Local Economy

Every four years, the County of Fauquier conducts a general real estate reassessment in accordance with Section 58.1-3252 of the Code of Virginia. The current assessments went into effect on January 1, 2014. The County has provided the assessment totals for the most recent reassessment, which will be effective January 1, 2018. The average increase in assessed value for properties located in the town is 9.12%. The Board of Equalization will hold hearings for taxpayers who wish to appeal their reassessment values beginning in March 2018. The primary local revenue sources for the Town continue to be Meals Tax and Business License Taxes, representing 33.7% of General Fund revenue collected in Fiscal Year 2017. Some positive indicators of the vitality of the local economy include the following:

- Sales tax revenue collected by the Town increased by 8.7 percent over Fiscal Year 2016.
- Meals Tax Revenues increased by 10.0 percent over Fiscal Year 2016. Wort Hog Brewery opened in early 2017, bringing new daytime and evening business activity to Old Town on weekdays and weekends. The second phase of Wort Hog's development includes a restaurant in the adjacent building.
- A rezoning for major mixed use commercial development was approved on 31.9 acres on Walker Drive along the Town's eastern edge.
- Revitalization of business district in the Broadview Avenue corridor is beginning with the proposed Lidl grocery, a new Popeye's restaurant, and the rehabilitation of McDonald's and several other commercial properties.

Long-term Financial Planning

Town staff develops a five-year Capital Improvement Program (CIP) annually. The CIP outlines the Town's anticipated needs for physical facilities and capital expenditures greater than \$10,000. It is approved by the Planning Commission prior to adoption by the Town Council as part of the annual budget process. This enables the Town to prioritize projects in view of the needs of the community, while remaining mindful of fiscal constraints related to debt service expenditures. The Town attempts to balance the issuance of debt with cash available to finance its operations.

Relevant Financial Policies

The Town follows a formal Investment Policy that provides for the safekeeping of the Town's financial assets. The policy requires that all investments be in accordance with those authorized by the Code of Virginia. The Town updated the Investment Policy in 2016 to authorize additional investment options in an effort to attain higher earnings while preserving capital.

The Town maintains strict adherence to its Purchasing Policy and policies regarding the capitalization of assets.

The Town follows an adopted Fund Balance Policy for the General Fund that sets a reserve requirement at 50% of the currently adopted budget expenditures. The Water and Sewer Operating Fund maintains a cash balance equivalent to 200 days of operating expenses.

Major Initiatives

In August 2016, Council adopted an update to the Mission and Values statements, and set its priorities term to be on Infrastructure, Economic Development and Effective Customer Service. It also established specific objectives for those priorities. These objectives have been substantially completed, and now serve as a list of accomplishments for this Council in Fiscal Year 2017:

- Funding for Broadview Avenue Street Improvements
- Study Old Town Parking Needs, Facilities and Traffic Flow
- Facilitate pedestrian access via sidewalk construction in several areas
- Shirley Avenue/Broadview Avenue Corridor Redevelopment
- Tax/Revenue Stabilization (Fund Balance policy)

- Potential for a Boundary Adjustment (Panhandle)
- Potential Disposition of Brentmoor-Mosby House
- Initiate a Comprehensive Plan Update
- Active business recruitment
- Financial Support for a New Library in Town
- Adopt a Code of Ethics
- Reorganization of Council Committees

Economic development is impacted greatly by community planning. In 2017, the Community Development Department awarded a contract to a consultant for a comprehensive plan update. Leading up to this project, the department utilized funding from the Virginia Office of Intermodal Planning and Investment to define Urban Development Areas, and completed other related projects, such as a walkability audit. The Farmer's Market saw an increase in customers and participation, thanks in large part to a concerted effort by the Community Development staff to facilitate communication, planning, and new programs. For example, a Fresh Bucks program was started in conjunction with a local non-profit to inspire children to eat healthy local food purchased at the Farmer's Market. Historic Old Town continues to be a focal point for both the community and tourism efforts. Town officials worked closely with the new Experience Old Town Warrenton organization to get it recertified as a Virginia Main Street Program under the State Department of Housing and Community Development.

The Town hired a new Economic Development Manager in 2017, who is working with groups of business owners to solicit their direct input on the development of an Economic Development Strategic Plan. As the Town approaches build-out, redevelopment of existing facilities along the older Broadview Avenue commercial corridor will be a renewed focus for the Departments of Economic Development and Community Development. The strategic plan will emphasize *actionable* strategies and objectives based on Warrenton's competitive advantages and the ultimate goal of bringing new wealth into Town. Such strategies will be based on recruiting target industries and grow existing businesses; attracting private capital investment; reducing retail leakage; capturing retail dollars from outside market areas; supporting "catalytic" redevelopment/infill that attracts outside consumers and makes the Town more attractive to investors, talent and companies; emphasizing quality of life and place-making attraction; and focusing on tourism and entertainment businesses.

Improving transportation safety and relieving traffic congestion continue to be top priorities for the Town, especially in light of development in neighboring Counties. A local non-profit, the PATH Foundation, has recently provided a grant to increase pedestrian safety and visibility in Old Town Warrenton by installing bump-outs at a main intersection in town. A major redesign of Broadview Avenue is currently in the design phase with VDOT. We believe that Town investment in the street infrastructure will also catalyze private reinvestment in the business properties along this important commercial corridor. In addition to ensuring that Town roads and streets are properly maintained, the impact of proposed developments on traffic is thoroughly analyzed prior to approval.

The Town issued \$5.2 million in General Obligation Bonds during 2016 to fund multiple capital projects related to the Town's water and wastewater systems. A multi-year project undertaken by the Public Utilities Department continues to focus on reclaiming sewer capacity by identifying deteriorated pipes and relining the Town's aging underground system. In 2017, a contractor conducted smoke testing of the sewer lines in town to identify areas of inflow and infiltration. Multiple projects are underway, including a new Water Treatment Plant chemical building, a Moving Bed Bio-Reactor at the wastewater treatment plant, and the activation of Well #3 as a drinking water asset.

Public Safety is always a major focus of the Town government. The Warrenton Police Department is considered to be a progressive Police Department that is deeply involved within all sectors of the community. The Department attempts to balance the need for enforcement with alternative means of resolving issues. The Department is fully accredited by the Virginia Law Enforcement Professional Standard Commission. It received its initial accreditation in October 2007 and received its third award in October 2015. Additionally, the Department was the founding member of the region's Crisis Intervention Team program and convened the region's first Coalition of Churches which meets quarterly to address issues of mutual concern within the community. The Town has twenty-seven sworn police officers, and has two full-time career firefighters stationed at the Warrenton Volunteer Fire Company (WVFC). In recent years, the Town has provided financial support to the WVFC in their efforts to procure a new ladder truck, and continues to financially support operations with two full-time firefighters and an annual contribution to operations.

The Parks and Recreation Department has continued programs such as Warrenton Town Limits (an Independence Day celebration that offers free admission and a full day of family-friendly activities, culminating in a spectacular fireworks display), Movies in the Park screenings in the summer, WARF on Wheels, Fishing Day, and Walk with Ease. In addition to maintaining the Warrenton Aquatic and Recreation Facility (WARF), a 59,738 square foot aquatic and fitness facility, the department maintains five parks throughout Town. In 2017, Warrenton received a platinum level designation as a Healthy Eating Active Lifestyle (HEAL) community from the Institute for Public Health Innovation. This program seeks to help communities to adopt policies that stem the obesity epidemic and create healthy, prosperous communities. The Town is opening a new Dog Park near the Warrenton Greenway (a Rails-to-Trails walking trail near Old Town) on November 18, 2017.

IMPLEMENTATION OF NEW ACCOUNTING REQUIREMENTS

During Fiscal Year 2018, the Town will be analyzing the impact of GASB Statements No. 75, 81, 82, 83, 84, 85, 86 and 87. More information about these statements may be found in Note 13 – New Accounting Standards.

AWARDS

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 Warrenton for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2016. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to conform to the Certificate of Achievement program requirements, and we are submitting our CAFR for the current year to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

We would like to express our sincere appreciation to each member of the Finance Department for their efforts in making this report possible on a timely basis. We would also like to thank the Town Council for their leadership and support in planning and conducting the financial operation of the Town in a responsible and progressive manner. Finally, we commend the efforts of all Town departments and staff to make Warrenton a better place to live and work.

Respectfully submitted,



Brannon Godfrey
Town Manager



Stephanie E. Miller
Director of Finance & Human Resources



Government Finance Officers Association

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

Presented to

**Town of Warrenton
Virginia**

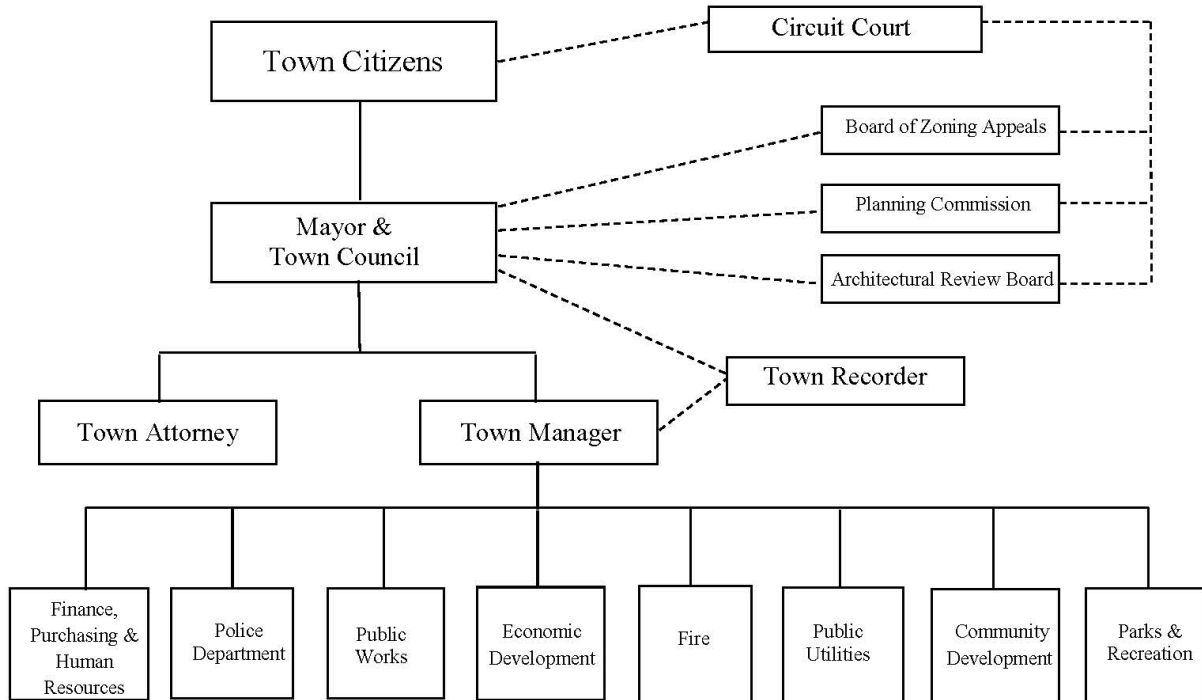
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

A handwritten signature in black ink, reading "Jeffrey R. Emer". The signature is fluid and cursive.

Executive Director/CEO

ORGANIZATIONAL CHART



FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of Town Council
Town of Warrenton, Virginia
Warrenton, 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 Warrenton, Virginia (the "Town") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Report on the Financial Statements (Continued)

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 Warrenton, Virginia, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to 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's basic financial statements. The introductory section, other supplementary section, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates 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 other supplementary information is 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 November 28, 2017 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 28, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Town of Warrenton, Virginia presents the following discussion and analysis of the Town's financial activities for the fiscal year ended June 30, 2017. This discussion and analysis is intended to be read in conjunction with the Letter of Transmittal in the Introductory Section of this report and the Financial Statements, which follow this discussion and analysis.

FISCAL YEAR 2017 FINANCIAL HIGHLIGHTS

The Town reported a positive net position at the close of the last two fiscal years. The unrestricted portion of this figure may be used to meet the Town's ongoing obligations to creditors and citizens.

		<u>June 30, 2017</u>	<u>As Restated July 1, 2016</u>
Net Position	\$	74,158,053	\$ 74,611,935
Unrestricted		15,307,432	14,200,567

Net position for Business-Type Activities is restated as of July 1, 2016, resulting in an increase in net position of \$365,456. Further details regarding the restatement are available in Note 14.

The Town's total net position decreased \$453,882 in Fiscal Year 2017. Total depreciation for the reporting entity was \$3,668,339. This was offset by increases in revenue in the areas of general property taxes and charges for services for business-type activities.

The Town's governmental funds reported an increase of \$255,976 in combined ending fund balances for the fiscal year. Tax revenue increased by almost \$1M, while expenditures were held to a \$600,000 increase. Unassigned fund balance grew by \$349,993 and represents 87.6% of total fund balance.

		<u>June 30, 2017</u>	<u>June 30, 2016</u>
Fund balance, ending	\$	13,553,174	\$ 13,297,198
Increase (decrease) from prior year		255,976	(395,729)
Unassigned fund balance	\$	11,871,309	\$ 11,521,316
Percentage unassigned		87.6%	86.6%

OVERVIEW OF THE FINANCIAL STATEMENTS

This Comprehensive Annual Financial Report (CAFR) consists of four sections: Introductory, Financial, Statistical, and Compliance.

- The Introductory Section includes a listing of Principal Town Officials, the Letter of Transmittal, a copy of the Fiscal Year 2016 Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association, and the Town's organizational chart.

- The Financial Section includes the Independent Auditors' Report, Management's Discussion and Analysis, the basic financial statements, required supplementary information, other supplementary information, and supporting schedules.
- The Statistical Section provides selected financial and demographic data related to the Town presented on a multi-year basis.
- The Compliance Section includes the auditors' report on compliance and internal controls.

Financial Section Overview

Management's Discussion and Analysis serves as an introduction to the Financial Section of the CAFR. It is followed by four additional sections – the basic financial statements, required supplementary information, other supplementary information, and supporting schedules.

The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The government-wide financial statements and the fund financial statements present different views of the Town's financial activities. These differences are explained in more detail in the following sections.

Required supplementary information consists of this discussion and analysis and the Schedules of Changes in the Net Pension Liability and Pension Contributions.

Other supplementary information consists of combining schedules for Fiduciary and Agency Funds and the Schedule of Revenues, Expenditures – Budget and Actual – General Fund.

The supporting schedules provide detailed schedules of revenues and expenditures for governmental and proprietary funds.

Government-wide Financial Statements

The government-wide financial statements (Exhibits 1 and 2) provide financial statement users with a general overview of Town finances. These statements report the Town's net position and how the net position has changed during the fiscal year using accounting methods similar to those used in the private sector. The two financial statements that present this information are the statement of net position and the statement of activities.

The Statement of Net Position (Exhibit 1) presents all of the Town's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial condition of the Town is improving or deteriorating. Other non-financial factors will also need to be considered to determine the overall financial condition of the Town, such as changes in the Town's property tax base and the condition of Town facilities.

The Statement of Activities (Exhibit 2) utilizes the accrual basis of accounting to present information detailing how the government's net position changed during the fiscal year. The statement is focused on the gross and net cost of various government functions which are supported by general tax and other revenues. The statement of activities presents expenses before revenues, emphasizing that in government, revenues are generated for the express purpose of providing services.

Both government-wide financial statements are separated into governmental activities and business-type activities. Governmental activities are principally supported by taxes and intergovernmental revenues and include general government administration; public safety; public works; health and welfare; parks, recreation and cultural; and community development. Business-type activities recover all or a significant portion of their costs through user fees and charges. The business-type activity of the Town is the Water & Sewer Fund.

Fund Financial Statements

The fund financial statements focus on individual parts of the Town government. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. The Town's funds can be divided into three categories:

- ***Governmental Funds*** - Governmental funds are used to account for essentially the same functions, or services, reported as governmental activities in the government-wide financial statements. Whereas the government-wide financial statements are prepared on the accrual basis of accounting, the governmental fund financial statements are prepared on the modified accrual basis of accounting. 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. There are two governmental funds for the Town: the General Fund and the Perpetual Care Fund, which is a permanent fund established for the maintenance of the Warrenton Cemetery. The Town of Warrenton 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.
- ***Proprietary Funds*** - There are two types of proprietary funds: enterprise funds which are established to account for the delivery of goods and services to the general public and internal service funds which account for the delivery of goods and services to other departments or agencies of the government. Proprietary funds use the accrual basis of accounting, similar to private sector business. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Town of Warrenton has one proprietary fund: the Water & Sewer Fund. The Water & Sewer Fund accounts for all revenues and expenses related to water production, billing, and sewage treatment.
- ***Fiduciary Funds*** - Fiduciary funds account for assets held by the government as a trustee or agent for another organization or individual. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Fiduciary funds are not reflected in the government-wide financial statements because the funds are not available to support the Town's own activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As previously noted, net position may serve as a useful indicator of a government's financial condition. For the Town of Warrenton, assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources by \$74,158,053 at June 30, 2017.

The Town's net position is divided into three categories: (1) net investment in capital assets; (2) restricted; and (3) unrestricted. At the end of the fiscal year, the Town is able to report positive balances in all three categories of net position.

Table 1

Town of Warrenton Summary of Net Position						
	Governmental activities		Business-type activities		Total	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Current and other assets	\$ 14,666,276	\$ 14,131,216	\$ 12,095,272	\$ 11,073,776	\$ 26,761,548	\$ 25,204,992
Capital assets	46,841,422	48,550,115	18,815,259	19,045,696	65,656,681	67,595,811
Total assets	\$ 61,507,698	\$ 62,681,331	\$ 30,910,531	\$ 30,119,472	\$ 92,418,229	\$ 92,800,803
Deferred outflows of resources:						
Deferred charge on refunding	\$ 689,467	\$ 777,342	\$ -	\$ -	\$ 689,467	\$ 777,342
Pension-related deferred outflows	1,163,151	520,564	403,475	190,135	1,566,626	710,699
Total deferred outflows of resources	\$ 1,852,618	\$ 1,297,906	\$ 403,475	\$ 190,135	\$ 2,256,093	\$ 1,488,041
Total assets and deferred outflows of resources	\$ 63,360,316	\$ 63,979,237	\$ 31,314,006	\$ 30,309,607	\$ 94,674,322	\$ 94,288,844
Long-term liabilities	\$ 11,470,872	\$ 10,653,594	\$ 6,466,178	\$ 6,361,258	\$ 17,937,050	\$ 17,014,852
Other liabilities	1,683,024	1,386,295	643,554	539,721	2,326,578	1,926,016
Total liabilities	\$ 13,153,896	\$ 12,039,889	\$ 7,109,732	\$ 6,900,979	\$ 20,263,628	\$ 18,940,868
Deferred inflows of resources:						
Deferred revenue	\$ 670	\$ 690	\$ -	\$ -	\$ 670	\$ 690
Pension-related deferred inflows	187,077	747,197	64,894	353,610	251,971	1,100,807
Total deferred inflows of resources	\$ 187,747	\$ 747,887	\$ 64,894	\$ 353,610	\$ 252,641	\$ 1,101,497
Net position:						
Net investment in capital assets	\$ 39,510,889	\$ 40,859,457	\$ 18,022,962	\$ 18,957,111	\$ 57,533,851	\$ 59,816,568
Restricted	1,159,023	594,800	157,747	-	1,316,770	594,800
Unrestricted	9,348,761	9,737,204	5,958,671	4,097,907	15,307,432	13,835,111
Total net position	\$ 50,018,673	\$ 51,191,461	\$ 24,139,380	\$ 23,055,018	\$ 74,158,053	\$ 74,246,479
Total liabilities and deferred inflows of resources and net position	\$ 63,360,316	\$ 63,979,237	\$ 31,314,006	\$ 30,309,607	\$ 94,674,322	\$ 94,288,844

For the Town, the net investment in capital assets (i.e., land, buildings, machinery, equipment and infrastructure) represents 77.6 percent of total net position. The Town uses these capital assets to provide services to citizens; therefore, 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. Restricted net position represents resources that are subject to external restrictions on how they may be used. The restricted net position includes amounts reserved for perpetual care of the Warrenton Cemetery, which the Town maintains. The Town's restricted net position accounts for 1.8 percent of total net position. The remaining balance of unrestricted net position at June 30, 2017 is \$15,307,432, or 20.6 percent of total net position, may be used to meet the government's ongoing obligations to citizens and creditors. During Fiscal Year 2017, the net position of the government decreased by \$453,882 primarily due to depreciation expense.

CHANGE IN NET POSITION

Table 2 outlines the key elements of the change in net position for the reporting entity for the year ended June 30, 2017.

Table 2

Town of Warrenton						
Changes in Net Position						
	Governmental activities		Business-type activities		Total	
	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 1,478,785	\$ 1,558,806	\$ 5,652,278	\$ 3,948,790	\$ 7,131,063	\$ 5,507,596
Operating grants & contributions	2,034,936	1,693,950	-	-	2,034,936	1,693,950
Capital grants & contributions	7,882	136,235	-	363,519	7,882	499,754
General revenues:						
General property taxes	1,234,762	670,016	-	-	1,234,762	670,016
Other local taxes	6,931,463	6,513,879	-	-	6,931,463	6,513,879
Use of money and property	96,515	46,417	214,130	165,515	310,645	211,932
Miscellaneous	346,308	207,646	8,500	-	354,808	207,646
Grants and contributions not restricted to specific programs	1,344,815	1,342,941	-	-	1,344,815	1,342,941
Total revenues	\$ 13,475,466	\$ 12,169,890	\$ 5,874,908	\$ 4,477,824	\$ 19,350,374	\$ 16,647,714
Expenses:						
General government	\$ 1,065,479	\$ 1,753,257	\$ -	\$ -	\$ 1,065,479	\$ 1,753,257
Public safety	4,118,389	3,612,887	-	-	4,118,389	3,612,887
Public works	5,062,855	4,727,802	-	-	5,062,855	4,727,802
Health and welfare	117,164	120,505	-	-	117,164	120,505
Parks, recreation and cultural	3,155,724	2,366,743	-	-	3,155,724	2,366,743
Community development	803,021	638,788	-	-	803,021	638,788
Water and Sewer	-	-	5,086,703	5,383,099	5,086,703	5,383,099
Interest on long-term debt	269,932	286,949	124,989	109,447	394,921	396,396
Total expenses	\$ 14,592,564	\$ 13,506,931	\$ 5,211,692	\$ 5,492,546	\$ 19,804,256	\$ 18,999,477
Transfers	\$ (55,690)	\$ -	\$ 55,690	\$ -	\$ -	\$ -
Change in net position	(1,172,788)	(1,337,041)	718,906	(1,014,722)	(453,882)	(2,351,763)
Net position, beginning of year, as restated	51,191,461	52,528,502	23,420,474	24,069,740	74,611,935	76,598,242
Net position, end of year	\$ 50,018,673	\$ 51,191,461	\$ 24,139,380	\$ 23,055,018	\$ 74,158,053	\$ 74,246,479

Governmental Activities: For the year ended June 30, 2017, Governmental activities decreased net position by \$1,172,788. While revenue increased by \$1.3 million, primarily in the areas of Operating grants and contributions and Other local taxes, one-time capital expenditures and depreciation offset those gains.

Business-type Activities: Net position increased by \$718,906. Expenses for Water and Sewer decreased by about \$300,000 compared to the prior year. On the revenue side, the greatest variance was in charges for services, which increased by \$1,703,488 due to scheduled rate increases.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As mentioned earlier, the Town uses fund accounting to ensure compliance with finance-related legal requirements and to demonstrate accountability. The following highlights of the Town's funds are provided.

Governmental Funds: The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of financial resources. Such information is useful in assessing the Town's financing requirements. Unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the fiscal year, the Town's governmental funds reported ending fund balances of \$13,553,174, an increase of \$255,976 compared to the prior year. Approximately 87.6 percent, or \$11,871,309, of total fund balance is unassigned, which is available for spending at the government's discretion. The remainder of fund balance is classified as nonspendable, restricted, or committed to indicate that it is not available for new spending.

Proprietary Fund: The Town's proprietary fund provides the same type of information found in the government-wide financial statements, but in greater detail. As mentioned previously, the Town reports one proprietary fund - the Water & Sewer Fund.

For the Water & Sewer Fund, the net investment in capital assets as of June 30, 2017 is \$18,022,962. Unrestricted net position of the Water & Sewer Fund at the end of the year was \$5,958,671, or 24.7 percent, of the fund's net position. This reflects an increase in unrestricted net position from Fiscal Year 2016 of \$1,860,764.

The greatest impact year after year for the proprietary fund is depreciation expense. Depreciation expense for the fiscal year ended June 30, 2017 was \$1,227,156 for the Water and Sewer Fund. The activity of this fund is capital intensive, requiring extensive ongoing annual maintenance expenses and a proactive capital improvement program. During Fiscal Year 2016, the Town issued \$5.2 million in general obligation bonds to finance planned improvements to the Town's aging water and sewer facilities. Several large projects are currently underway.

GENERAL FUND BUDGETARY HIGHLIGHTS

The difference between the original budgeted appropriation and the final amended budgeted appropriation for the general fund was \$1,567,930, or 11.8 percent, of the total original budget. Final actual expenditures were \$1,671,719, or 11.3 percent, less than final amended appropriations. The three functional areas that realized the greatest variation with the budget were public works, community development, and capital outlay. This is mostly due to delays related to capital asset acquisitions and projects that were carried over into the next fiscal year.

Final actual revenue was \$297,145 more than final amended budget amounts. The largest variance was in the Other Local Taxes category, and specifically Business license taxes and Restaurant food taxes, which collectively were \$350,152 higher than the budgeted amounts.

CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

Capital assets

The Town's capital asset classes include land, utility plant in service, buildings, infrastructure, machinery and equipment, and construction in progress. Capital assets for the Town's governmental activities as of June 30, 2017 total \$46,841,422 (net of accumulated depreciation). As noted in Table 3, the largest class of assets for governmental activities is buildings and improvements. This asset class includes the Warrenton Aquatic and Recreation Facility (WARF), Town Hall, the Public Safety Facility and the Public Works Facility. The total net decrease in governmental activities capital assets for the current fiscal year was \$1,708,693. Depreciation expense charged for governmental activities for the period ended June 30, 2017 was \$2,441,183.

Capital asset additions during fiscal year 2017 for governmental activities totaled \$739,435. The following are some of the major additions in this category:

- 2017 Freightliner Refuse Truck - \$183,350
- Public Works equipment replacements - \$224,038
- Police Department vehicle replacements - \$100,226
- Storm sewer replacement along Shirley Avenue - \$130,625

The Town's business-type activity capital assets total \$18,815,259 (net of accumulated depreciation) which reflects a net decrease of \$230,437 from the prior year. The largest classes of assets for business-type activities are Utility plant in service and Buildings and improvements. Depreciation expense for business-type activities for the period ended June 30, 2017 was \$1,227,156.

For business-type activities, capital asset additions totaled \$1,027,387, including the following major items:

- Asphalt paver - \$110,900
- Primary Clarifier Repair - \$134,444
- Additions to Construction in progress for various bond-funded projects totaling \$760,993

Table 3

Town of Warrenton						
Capital Assets (net of depreciation)						
	Governmental activities		Business-type activities		Total	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Land	\$ 4,649,073	\$ 4,649,073	\$ 665,660	\$ 665,660	\$ 5,314,733	\$ 5,314,733
Construction in progress	57,600	34,373	956,498	337,937	1,014,098	372,310
Utility plant in service	-	-	16,157,178	17,023,668	16,157,178	17,023,668
Buildings and improvements	22,275,600	23,000,453	-	-	22,275,600	23,000,453
Infrastructure	17,049,359	18,055,679	-	-	17,049,359	18,055,679
Furniture, equipment, and vehicles	2,809,790	2,810,537	1,035,923	1,018,431	3,845,713	3,828,968
Total	\$ 46,841,422	\$ 48,550,115	\$ 18,815,259	\$ 19,045,696	\$ 65,656,681	\$ 67,595,811

Additional information on the Town's capital assets may be found in Note 6 to the financial statements.

Long-term Obligations

At the end of the fiscal year, the Town had \$18.5 million in outstanding obligations. This represents an increase of \$1.1 million from the prior year. Table 4 summarizes the outstanding debt of the Town:

Table 4

Town of Warrenton						
Long-term Obligations						
	Governmental activities		Business-type activities		Total	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
General obligation bonds	\$ 8,020,000	\$ 8,468,000	\$ 5,020,000	\$ 5,020,000	\$ 13,040,000	\$ 13,488,000
Net pension liability	3,439,432	2,168,243	1,193,075	931,689	4,632,507	3,099,932
Compensated absences	521,600	517,057	281,226	276,135	802,826	793,192
Total	\$ 11,981,032	\$ 11,153,300	\$ 6,494,301	\$ 6,227,824	\$ 18,475,333	\$ 17,381,124

Additional information on the Town's long-term debt can be found in Note 7 to the financial statements. Details regarding the Town's Net pension liability can be found in Note 8.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Economic Factors

The following economic factors were considered in the preparation of the budget for Fiscal Year 2017:

- Several large housing developments and one large mixed use development have been approved within Town limits in the past few years. While they have been slow to start, availability fees and permit revenues indicate that some of these are underway and are seen as a positive indicator of the continued stability and growth of the tax base.
- Sales tax, Meals tax and Business License tax revenues have shown steady increases over the past few years.

Fiscal Year 2018 Budget and Rates

- There were no tax rate increases included in the Fiscal Year 2018 Adopted Budget. The total appropriation for all funds is \$24,428,526.
- The adopted General Fund budget for Fiscal Year 2018 is \$14,829,064, an increase of \$1,124,585, or 8.2 percent, from the adopted budget for Fiscal Year 2017. The budget added three new full-time positions and upgraded four part-time positions to full-time. The budgeted transfer from the General Fund to the Capital Projects Fund is \$1,804,785.
- The largest revenue categories for the General Fund are the Other local taxes category at 46.4 percent, which includes the Town's two largest revenue sources - Business license taxes and Meals taxes; State revenue at 19.8 percent, which consists primarily of funding for the maintenance of Town streets and roads; and Charges for services at 9.1 percent, which consists primarily of user fees for the Warrenton Aquatic and Recreation Facility (WARF). General property taxes comprise 8.6 percent of General Fund revenue.

- The largest functional expenditure areas for the General Fund are Public Safety at 25.4 percent and Public Works at 24.5 percent.
- The fiscal year 2018 budget general fund deficit is covered by the use of fund balance in the amount of \$1,725,374, or 11.6 percent of the total budget.
- The Fiscal Year 2018 Adopted Budget includes water and sewer rate increases effective July 1, 2017 consistent with a rate study conducted by Municipal Financial Services Group in 2015.
- The budget includes a large capital program totaling \$4,790,000 for the Town's Water and Sewer operations. These projects are funded by a bond that was issued in 2016.

REQUESTS FOR INFORMATION

This financial report is designed to provide readers with a general overview of the Town of Warrenton's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, P.O. Box 341, Warrenton, Virginia 20188.

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BASIC FINANCIAL STATEMENTS

TOWN OF WARRENTON, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents (Note 2)	\$ 9,444,252	\$ 6,432,597	\$ 15,876,849
Cash and cash equivalents, restricted (Note 2)	559,987	4,534,340	5,094,327
Investments (Note 2)	3,512,055	-	3,512,055
Receivables, net (Note 3)	729,411	911,989	1,641,400
Due from other governmental units (Note 5)	268,180	-	268,180
Inventories	144,471	215,733	360,204
Prepays	7,920	613	8,533
Capital assets: (Note 6)			
Nondepreciable	4,706,673	1,622,158	6,328,831
Depreciable, net	42,134,749	17,193,101	59,327,850
Total assets	61,507,698	30,910,531	92,418,229
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	689,467	-	689,467
Pension-related deferred outflows (Note 8)	1,163,151	403,475	1,566,626
Total deferred outflows of resources	1,852,618	403,475	2,256,093
LIABILITIES			
Accounts payable	819,506	251,937	1,071,443
Accrued payroll and related liabilities	278,170	93,225	371,395
Customer deposits	-	62,352	62,352
Accrued interest payable	75,188	59,027	134,215
Unearned revenue	-	148,890	148,890
Long-term liabilities:			
Net pension liability (Note 8)	3,439,432	1,193,075	4,632,507
Due within one year (Note 7)	510,160	28,123	538,283
Due in more than one year (Note 7)	8,031,440	5,273,103	13,304,543
Total liabilities	13,153,896	7,109,732	20,263,628
DEFERRED INFLOWS OF RESOURCES			
Unearned property taxes	670	-	670
Pension-related deferred inflows (Note 8)	187,077	64,894	251,971
Total deferred inflows of resources	187,747	64,894	252,641
NET POSITION			
Net investment in capital assets	39,510,889	18,022,962	57,533,851
Restricted:			
Unspent maintenance funds	-	157,747	157,747
Capital outlay	559,987	-	559,987
Perpetual Care – nonexpendable	599,036	-	599,036
Unrestricted	9,348,761	5,958,671	15,307,432
Total net position	\$ 50,018,673	\$ 24,139,380	\$ 74,158,053

TOWN OF WARRENTON, VIRGINIA

STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental activities							
General government administration	\$ 1,065,479	\$ 166,562	\$ -	\$ -	\$ (898,917)		\$ (898,917)
Public safety	4,118,389	125,169	310,422	-	(3,682,798)		(3,682,798)
Public works	5,062,855	-	1,719,514	7,882	(3,335,459)		(3,335,459)
Health and welfare	117,164	-	-	-	(117,164)		(117,164)
Parks, recreation, and cultural	3,155,724	1,187,054	-	-	(1,968,670)		(1,968,670)
Community development	803,021	-	5,000	-	(798,021)		(798,021)
Interest on long-term debt	269,932	-	-	-	(269,932)		(269,932)
Total governmental activities	14,592,564	1,478,785	2,034,936	7,882	(11,070,961)		(11,070,961)
Business-type activities							
Water and sewer	5,211,692	5,652,278	-	-		440,586	440,586
Total business-type activities	5,211,692	5,652,278	-	-	-	440,586	440,586
Total primary government	\$ 19,804,256	\$ 7,131,063	\$ 2,034,936	\$ 7,882	(11,070,961)	440,586	(10,630,375)
General revenues:							
Property taxes					1,234,762	-	1,234,762
Sales and use taxes					732,197	-	732,197
Consumers’ utility taxes					503,001	-	503,001
Business license taxes					1,918,233	-	1,918,233
Meals taxes					2,621,782	-	2,621,782
Bank stock taxes					690,566	-	690,566
Other local taxes					465,684	-	465,684
Unrestricted revenues from use of money and property					96,515	214,130	310,645
Miscellaneous					346,308	8,500	354,808
Grants and contributions not restricted to specific programs					1,344,815	-	1,344,815
Transfers (Note 4)					(55,690)	55,690	-
Total general revenues					9,898,173	278,320	10,176,493
Change in net position					(1,172,788)	718,906	(453,882)
NET POSITION AT JULY 1, as restated (Note 14)					51,191,461	23,420,474	74,611,935
NET POSITION AT JUNE 30					\$ 50,018,673	\$ 24,139,380	\$ 74,158,053

The Notes to Financial Statements are an integral part of this statement.

TOWN OF WARRENTON, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	<u>General Fund</u>	<u>Permanent Perpetual Care Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents (Note 2)	\$ 8,845,216	\$ 599,036	\$ 9,444,252
Cash and cash equivalents, restricted (Note 2)	559,987	-	559,987
Investments (Note 2)	3,512,055	-	3,512,055
Receivables, net (Note 3)	729,411	-	729,411
Due from other governmental units (Note 5)	268,180	-	268,180
Inventories	144,471	-	144,471
Prepays	7,920	-	7,920
	<u>\$ 14,067,240</u>	<u>\$ 599,036</u>	<u>\$ 14,666,276</u>
Total assets			
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 819,506	\$ -	\$ 819,506
Accrued payroll and related liabilities	278,170	-	278,170
	<u>1,097,676</u>	<u>-</u>	<u>1,097,676</u>
Total liabilities			
Deferred inflows of resources:			
Unavailable and unearned revenue	15,426	-	15,426
	<u>15,426</u>	<u>-</u>	<u>15,426</u>
Fund balances: (Note 11)			
Nonspendable	152,391	599,036	751,427
Restricted	559,987	-	559,987
Committed	370,451	-	370,451
Unassigned	11,871,309	-	11,871,309
	<u>12,954,138</u>	<u>599,036</u>	<u>13,553,174</u>
Total fund balances			
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 14,067,240</u>	<u>\$ 599,036</u>	<u>\$ 14,666,276</u>

TOWN OF WARRENTON, VIRGINIA

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2017**

Ending fund balance – governmental funds **\$ 13,553,174**

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.

Governmental capital assets	\$ 82,533,077	
Less: accumulated depreciation	(35,691,655)	
		46,841,422

Certain receivables are not available to pay for current period expenditures and therefore are deferred in the funds.

14,756

Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows of resources related to pension	1,163,151	
Deferred inflows of resources related to pension	(187,077)	
Net pension liability	(3,439,432)	
		(2,463,358)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

General obligation bonds, including unamortized deferred amounts	(7,330,533)	
Accrued interest payable	(75,188)	
Compensated absences	(521,600)	
		(7,927,321)

Total net position – governmental activities **\$ 50,018,673**

TOWN OF WARRENTON, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year Ended June 30, 2017**

	General Fund	Permanent Perpetual Care Fund	Total
REVENUES			
General property taxes	\$ 1,248,466	\$ -	\$ 1,248,466
Other local taxes	6,931,463	-	6,931,463
Permits, privilege fees, and regulatory licenses	166,562	-	166,562
Fines and forfeitures	125,169	-	125,169
Revenue from use of money and property	92,279	4,236	96,515
Charges for services	1,187,054	-	1,187,054
Miscellaneous	346,308	-	346,308
Intergovernmental			
Commonwealth	2,993,657	-	2,993,657
Federal	393,976	-	393,976
	<hr/>	<hr/>	<hr/>
Total revenues	13,484,934	4,236	13,489,170
	<hr/>	<hr/>	<hr/>
EXPENDITURES			
Current			
General government administration	957,937	-	957,937
Public safety	3,647,869	-	3,647,869
Public works	3,991,747	-	3,991,747
Health and welfare	117,164	-	117,164
Parks, recreation, and cultural	2,068,860	-	2,068,860
Community development	806,044	-	806,044
Capital projects	951,293	-	951,293
Debt service			
Principal retirement	448,000	-	448,000
Interest and other fiscal charges	188,590	-	188,590
	<hr/>	<hr/>	<hr/>
Total expenditures	13,177,504	-	13,177,504
	<hr/>	<hr/>	<hr/>
Excess of revenues over expenditures	307,430	4,236	311,666
	<hr/>	<hr/>	<hr/>
OTHER FINANCING USES			
Transfers out	(55,690)	-	(55,690)
	<hr/>	<hr/>	<hr/>
Net change in fund balance	251,740	4,236	255,976
FUND BALANCES AT JULY 1	12,702,398	594,800	13,297,198
	<hr/>	<hr/>	<hr/>
FUND BALANCES AT JUNE 30	\$ 12,954,138	\$ 599,036	\$ 13,553,174
	<hr/>	<hr/>	<hr/>

TOWN OF WARRENTON, VIRGINIA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2017**

Net change in fund balance – total governmental funds \$ 255,976

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

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.

Capital outlays	\$ 739,435	
Depreciation expense	(2,441,183)	
		(1,701,748)

The net effect of gain or loss on disposition of assets involving capital assets that do not provide or use current financial resources and are not reported as revenue or expenditures in the governmental funds.		(6,945)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(13,704)
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Governmental funds report employer contributions as expenditures. However, in the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense.

Employer pension contributions	453,933	
Pension expense	(522,415)	
		(68,482)

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

Details supporting this adjustment are as follows:

Amortization of deferred amounts	(87,875)	
Principal retired on general obligation bonds	448,000	
		360,125

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds. This adjustment combines the net changes of the following:

Change in compensated absences	(4,543)	
Change in accrued interest payable	6,533	
		1,990

Change in net position of governmental activities		\$ (1,172,788)
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TOWN OF WARRENTON, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND (BUDGETARY BASIS)
Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 1,229,450	\$ 1,229,450	\$ 1,248,466	\$ 19,016
Other local taxes	6,380,263	6,380,263	6,931,463	551,200
Permits, privilege fees, and regulatory licenses	187,900	187,900	166,562	(21,338)
Fines and forfeitures	180,000	180,000	125,169	(54,831)
Revenue from use of money and property	22,500	22,500	92,279	69,779
Charges for services	1,286,588	1,286,588	1,187,054	(99,534)
Miscellaneous	165,100	265,668	346,308	80,640
Intergovernmental				
Commonwealth	3,199,642	3,299,538	2,993,657	(305,881)
Federal	24,000	335,882	393,976	58,094
Total revenues	12,675,443	13,187,789	13,484,934	297,145
EXPENDITURES				
Current				
General government administration	1,738,933	1,757,932	1,709,426	48,506
Public safety	3,513,156	3,547,188	3,400,644	146,544
Public works	3,072,686	3,777,855	3,576,399	201,456
Health and welfare	116,937	116,937	117,164	(227)
Parks, recreation, and cultural	2,019,339	2,081,736	1,996,774	84,962
Community development	910,499	992,994	789,214	203,780
Capital outlay	1,273,153	1,937,991	951,293	986,698
Debt service				
Principal retirement	448,000	448,000	448,000	-
Interest and other fiscal charges	188,590	188,590	188,590	-
Total expenditures	13,281,293	14,849,223	13,177,504	1,671,719
Excess (deficiency) of revenues over expenditures	(605,850)	(1,661,434)	307,430	(1,374,574)
OTHER FINANCING USES				
Transfers out	-	-	55,690	(55,690)
Net change in fund balance	\$ (605,850)	\$ (1,661,434)	\$ 363,120	\$ (1,430,264)

TOWN OF WARRENTON, VIRGINIA

STATEMENT OF NET POSITION –
PROPRIETARY FUND

June 30, 2017

	Business-Type Activities Enterprise Fund Water and Sewer
ASSETS	
Current assets	
Cash and cash equivalents (Note 2)	\$ 6,432,597
Cash and cash equivalents, restricted (Note 2)	4,534,340
Receivable, net (Note 3)	911,989
Inventories	215,733
Prepaid items	613
Total current assets	<u>12,095,272</u>
Noncurrent assets	
Capital assets: (Note 6)	
Non-depreciable	1,622,158
Depreciable, net	<u>17,193,101</u>
Total noncurrent assets	<u>18,815,259</u>
Total assets	<u>30,910,531</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension-related deferred outflows (Note 8)	<u>403,475</u>
LIABILITIES	
Current liabilities	
Accounts payable	251,937
Accrued payroll and related liabilities	93,225
Customer deposits	62,352
Accrued interest payable	59,027
Current portion of unearned revenue (Note 1)	12,125
Long-term liabilities – due within one year (Note 7)	<u>28,123</u>
Total current liabilities	<u>506,789</u>
Noncurrent liabilities	
Unearned revenue – net of current portion (Note 1)	136,765
Net pension liability (Note 8)	1,193,075
Long-term liabilities – due in more than one year (Note 7)	<u>5,273,103</u>
Total noncurrent liabilities	<u>6,602,943</u>
Total liabilities	<u>7,109,732</u>
DEFERRED INFLOWS OF RESOURCES	
Pension-related deferred inflows (Note 8)	<u>64,894</u>
NET POSITION	
Net investment in capital assets	18,022,962
Restricted	157,747
Unrestricted	<u>5,958,671</u>
Total net position	<u><u>\$ 24,139,380</u></u>

TOWN OF WARRENTON, VIRGINIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION – PROPRIETARY FUND

Year Ended June 30, 2017

	Business-Type Activities Enterprise Fund Water and Sewer
OPERATING REVENUES	
Charges for services:	
Sale of water	\$ 1,968,800
Sewer service charges	3,101,692
Connection fees	433,417
Other fees	148,369
	<hr/>
Total operating revenues	5,652,278
	<hr/>
OPERATING EXPENSES	
Source of supply	966,506
Transmission and distribution	589,557
Meter reading	220,758
Wastewater treatment operation	1,370,600
Public utilities administration	692,027
Maintenance and repairs	20,099
Depreciation	1,227,156
	<hr/>
Total operating expenses	5,086,703
	<hr/>
Operating income	565,575
	<hr/>
NON-OPERATING REVENUES (EXPENSES)	
Interest revenue	63,957
Rental revenue	150,173
Interest expense	(124,989)
Other revenue	8,500
	<hr/>
Net non-operating revenues	97,641
	<hr/>
Income before transfers	663,216
	<hr/>
Transfers in (Note 4)	55,690
	<hr/>
Change in net position	718,906
	<hr/>
NET POSITION AT JULY 1, AS RESTATED (Note 14)	23,420,474
	<hr/>
NET POSITION AT JUNE 30	\$ 24,139,380
	<hr/> <hr/>

TOWN OF WARRENTON, VIRGINIA

STATEMENT OF CASH FLOWS – PROPRIETARY FUND
Year Ended June 30, 2017

	Business-Type Activities Enterprise Fund Water and Sewer
OPERATING ACTIVITIES	
Receipts from customers	\$ 5,394,422
Payments to employees	(2,234,046)
Payments to suppliers	(2,078,568)
Other receipts	148,369
	<hr/>
Net cash provided by operating activities	1,230,177
	<hr/>
NON-CAPITAL AND RELATED FINANCING ACTIVITIES	
Interfund borrowing	55,690
	<hr/>
CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(816,036)
Interest paid on capital debt	(103,119)
	<hr/>
Net cash used in capital and related financing activities	(919,155)
	<hr/>
INVESTING ACTIVITIES	
Interest revenue	63,957
Rental and other income	158,673
	<hr/>
Net cash provided by investing activities	222,630
	<hr/>
Net increase in cash and cash equivalents	589,342
	<hr/>
CASH AND CASH EQUIVALENTS	
Beginning at July 1	10,377,595
	<hr/>
Ending at June 30	\$ 10,966,937
	<hr/> <hr/>
RECONCILIATION TO EXHIBIT 8	
Cash and cash equivalents	\$ 6,432,597
Cash and cash equivalent, restricted	4,534,340
	<hr/>
	\$ 10,966,937
	<hr/> <hr/>

TOWN OF WARRENTON, VIRGINIA

STATEMENT OF CASH FLOWS – PROPRIETARY FUND
Year Ended June 30, 2017

	<u>Business-Type Activities Enterprise Fund Water and Sewer</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 565,575
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,227,156
Pension expense net of employer contribution	(240,670)
Change in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable, net	(103,254)
Inventories	16,258
Prepaid items	20,298
Increase (decrease) in:	
Accounts payable	(257,559)
Accrued payroll and related liabilities	3,515
Customer deposits	18,402
Unearned revenue	(24,635)
Compensated absences	5,091
	<u>1,230,177</u>
Net cash provided by operating activities	<u>\$ 1,230,177</u>
SCHEDULE OF NON-CASH ACTIVITIES	
Capital asset additions financed by accounts payable	<u>\$ 164,387</u>
Capitalized interest	<u>\$ 16,296</u>

TOWN OF WARRENTON, VIRGINIA
STATEMENT OF FIDUCIARY NET POSITION –
FIDUCIARY FUNDS
June 30, 2017

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 261,700
	<u>261,700</u>
LIABILITIES	
Amounts held for others	\$ 261,700
	<u>261,700</u>

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

The Town of Warrenton, Virginia (the “Town”) was established in 1810. It is a political subdivision of the Commonwealth of Virginia operating under the Council-Manager form of government. The Town Council consists of an elected Mayor and seven-member Council. The Town has no component units.

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 Town. For the most part, the effect of interfund 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, are 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 government funds and enterprise funds are reported as separate columns in the fund financial statements.

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

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

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 collected 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 60 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.

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Summary of Significant Accounting Policies (Continued)

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

Property taxes, sales and other local 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental funds:

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

The *perpetual care fund* which is used to account for funds received for the Town's cemetery. The interest income is to be used to maintain the cemetery.

The Town reports the following major proprietary fund:

The *water and sewer fund* accounts for the financing of services to the general public where all or most of the operating expenses involved are intended to be recovered in the form of user charges. The water and sewer enterprise fund consists of the activities relating to providing water and sewer services to the Town's residents, businesses, and other organizations.

Additionally, the Town reports the following fund type:

The *fiduciary funds* account for assets held by the Town in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units or other funds. Agency funds include the Town's agency fund and retirement fund. The Town's agency fund accounts for funds held for other entities and the retirement fund accounts for amounts held for employees for payment to the Virginia Retirement System.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's proprietary funds 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.

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 fund are charges to customers for sales and services. Operating expenses of the water and sewer fund 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 nonoperating revenues and expenses.

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgets and Budgetary Accounting

The following procedures are used by the Town in establishing the budgetary data reflected in the financial statements:

1. Prior to May 1st, the Town Manager submits to Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1st. This budget includes proposed expenditures and the means of financing them. There is no legally adopted budget for the perpetual care fund.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to July 1st, the budget is legally enacted through passage of an appropriations resolution. Town Council may, from time to time, amend the budget, providing for additional expenditures and the means for financing them. The appropriations ordinance places legal restrictions on expenditures at the department level.
4. The appropriations resolution places legal restrictions on expenditures at the department or category level. The appropriation for each department or category can be revised only by Town Council. The Town Manager is authorized to transfer budgeted amounts within departments.
5. Formal budgetary integration is employed as a management control device during the year.
6. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
7. Appropriations lapse on June 30th for all Town funds, unless they are carried forward by a resolution of Town Council.
8. All budget data presented in the accompanying financial statements includes the original and revised budgets as of June 30th.

Certain functions of the primary government provide services, such as information technology and fleet services, to all functions of the Town. For financial reporting purposes, the cost of these services are allocated to all the functions within the General Fund. For budget presentation, these costs are presented in their entirety within the general government administration function.

E. Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term highly liquid investments with an original maturity of three months or less when purchased. Certificates of deposit with a maturity greater than three months are considered investments.

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Summary of Significant Accounting Policies (Continued)

F. Investments and Fair Value Measurement

Investments in the Virginia Investment Pool is invested in high-quality corporate and government securities and the Town's investment is reported at fair value using its net asset value per share in the pool.

G. Inventories

Inventories are stated at cost (first-in, first-out) and are expensed when used. Inventories consist of parts and materials held for consumption, which are recorded as an expenditure or expense when used.

H. Prepaid Items

Prepaid items consist primarily of membership dues incurred for periods in a subsequent fiscal year. Prepaid items are accounted for using the consumption method. The payments are recorded as expenditures in the fiscal year related to the coverage period.

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are assets with an initial, individual cost of more than \$5,000 and a useful life of more than one year. Infrastructure assets capitalized have an original cost of \$25,000 or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at 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 asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	50 years
Utility plant in service	50 years
Furniture, equipment, vehicles	5-10 years
Infrastructure	30-50 years

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Summary of Significant Accounting Policies (Continued)

J. Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and specific account analysis. The allowance is comprised of the following:

Real estate taxes – general fund	\$ 13,894
Personal property taxes – general fund	1,822
Water and sewer fund receivables – water and sewer fund	<u>19,692</u>
	<u><u>\$ 35,408</u></u>

K. Capitalization of Interest

The Town follows the policy of capitalizing net interest costs on funds borrowed to finance the construction of proprietary capital assets. Interest is not capitalized on the construction of assets used in governmental activities. The Town capitalized \$16,296 in the current year in the water and sewer fund.

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statements that present net position report a separate section for deferred outflows of resources. These items represent a consumption of net position that applies to future periods and so will *not* be recognized as an outflow of resources (expenses/expenditure) until then. The Town has the following items that qualify for reporting in this category:

- Deferred loss on refunding. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Due to the relationship with outstanding debt, these deferred outflows are included in the calculation of net position, net investment in capital assets.
- Contributions subsequent to the measurement date for pensions; this will be applied to the net pension liability in the next fiscal year.
- Differences between projected and actual earnings on pension plan investments. This difference will be recognized in pension expense over a closed five year period.
- Differences between expected and actual experience for economic/demographic factors in the measurement of the total pension liability. This difference will be recognized in pension expense over the closed five year period.

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Summary of Significant Accounting Policies (Continued)

L. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statements that presents financial position reports a separate section for deferred inflows of resources. These items represent an acquisition of net position that applies to future periods and so will *not* be recognized as an inflow of resources (revenue) until that time. The Town has the following items that qualify for reporting in this category:

- Differences between expected and actual experience for economic/demographic factors in the measurement of the total pension liability. This difference will be recognized in pension expense over the closed five year period.
- The governmental funds report unavailable revenue from delinquent property taxes not collected within 60 days of year end. These amounts are deferred and recognized in the period that the amounts become available.
- On the government-wide statements, amounts prepaid on the 2nd half installment of property taxes. These amounts are deferred and recognized in the following period.

M. 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.

N. Compensated Absences

The Town has policies which allow for the accumulation and vesting of limited amounts of paid time off until termination or retirement. Amounts of such absences are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds when the leave is due and payable.

O. Long-Term Obligations

In the government-wide financial statements, and proprietary fund type financial statements, *long-term debt* and other long-term obligations are reported as liabilities in the applicable fund-type statements 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.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the period of debt issuance. The face amount of debt issued and premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Summary of Significant Accounting Policies (Continued)

P. Unearned/Unavailable Revenue

In the statement of net position, unearned revenue arises when assets are received or recognized before revenue recognition criteria is satisfied and which consists of amounts received for maintaining the Warrenton Training Center in future years.

In the balance sheet of the governmental funds, unearned/unavailable revenue arises when assets are recognized but are not available to finance expenditures of the current fiscal period or when assets are recognized before revenue recognition criteria is satisfied as described.

Unearned/unavailable revenue consists of property taxes.

Q. Net Position/Fund Balance

Net position in the government-wide and proprietary financial statements is classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through state statute. Net investment in capital assets represents capital assets net of debt related to it.

Fund balance is divided into five classifications based primarily on the extent to which the Town is bound to observe constraints imposed upon the use of the resources in the governmental fund.

The classifications are as follows:

- **Nonspendable** – Amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash such as prepaid expenses and inventories.
- **Restricted** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** – Amounts constrained to specific purposes by the Town, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purposes unless the same highest level of action is taken to remove or change the constraint.
- **Assigned** – Amounts the Town intends to use for a specified purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- **Unassigned** – Amounts that are available for any purpose; positive amounts are reported only in the general fund.

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Summary of Significant Accounting Policies (Continued)

Q. Net Position/Fund Balance (Continued)

Council establishes fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. Assigned fund balance is established by Council through adoption or amendment of the budget as intended for a specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

R. Restricted Resources

The Town applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

S. Minimum Fund Balance Policy

The General Fund unassigned fund balance is targeted at no less than 50% of the current annual operating expenditure budget.

T. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Significant encumbrances as of June 30th total \$54,954 in the general fund.

U. Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and reported revenues, expenditures, and expenses. Actual results could differ from those estimates.

Note 2. Deposits and Investments

Deposits

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.

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 2. Deposits and Investments (Continued)

Investments

Investment Policy:

Statutes authorize the Town 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; the Virginia Investment Pool (VIP); the Virginia State Non-Arbitrage Program (SNAP); and the State Treasurer's Local Government Investment Pool (LGIP). The VIP, LGIP, and SNAP are not registered with the SEC but are overseen by the Treasurer of Virginia and the State Treasury Board. The fair value of the Town's position in the pools is the same as the value of the pool shares and is reported within the guidelines of GASB Statement 79.

As of June 30th, the Town had the following deposits and investments:

<u>Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Weighted Average Maturity*</u>	<u>Percent of Portfolio</u>
Demand deposits	\$ 4,448,444	N/A	N/A	18.17 %
LGIP	12,293,019	AAAm	0.08	50.21
SNAP	4,227,703	AAAm	1 day	17.27
Virginia Investment Pool	3,512,055	AAAm	1.86	14.34
Cash on hand	2,010	N/A	N/A	0.01
	<u>\$ 24,483,231</u>			<u>100.00 %</u>

*Average maturity in years

Reconciliation of deposits and investments to Exhibit 1:

Cash and cash equivalents	\$ 15,876,849
Cash and cash equivalents, restricted	5,094,327
Investments	<u>3,512,055</u>
Total deposits and investments	<u>\$ 24,483,231</u>

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Credit Risk:

As required by state statute or by the Town, the policy requires that commercial paper must have a short-term debt rating of no less than “A-1” (or its equivalent) from at least two of the following; Moody’s Investors Service, Standard & Poor’s, and Fitch Investor’s Service, provided that the issuing corporation has a net worth of \$50 million and its long term debt is rated A or better by Moody’s and Standard & Poor’s. Bankers acceptances and certificates of deposit maturing in less than one year must have a short-term debt rating of at least “A-1” by Standard & Poor’s and “P-1” by Moody’s Investor Service. Open-end investment funds must be 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. Commonwealth of Virginia and Virginia Local Government Obligations secured by debt service reserve funds not subject to annual appropriation must be rated AA or higher by Moody’s or Standard & Poor’s. Repurchase agreements require that the counterparty be rated “A” or better by Moody’s and Standard & Poor’s.

Concentration of Credit Risk:

Although the intent of the Policy is for the Town to diversify its investment portfolio to avoid incurring unreasonable risks regarding (i) security type, (ii) individual financial institution or issuing entity, and (iii) maturity, the Policy places no limit on the amount the Town may invest in any one issuer.

Interest Rate Risk:

In accordance with its investment policy, the Town manages its exposure to declines in fair values by limiting its weighted average maturity of its investment portfolio to less than five years.

Custodial Credit Risk:

The policy requires that all investment securities purchased be held in safekeeping by a third party and evidenced by safekeeping receipts. As required by the Code of Virginia, all security holdings with maturities over 30 days may not be held in safekeeping with the “counterparty” to the investment transaction. As of June 30, investments are held in a bank’s trust department in the Town’s name.

Restricted Cash and Cash Equivalents:

The water and sewer fund has restricted cash that consists of \$306,637 to maintain water lines for the Warrenton Training Center and \$4,227,703 in unspent bond proceeds. Restricted cash in the general fund consists of \$559,987 in funds for designated capital outlay.

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 3. Receivables

Receivables are as follows:

	<u>General</u>	<u>Water and Sewer</u>	<u>Total</u>
Receivables:			
Property taxes	\$ 53,282	\$ -	\$ 53,282
Other local taxes	691,845	-	691,845
Accounts	<u>-</u>	<u>931,681</u>	<u>931,681</u>
Gross receivables	745,127	535,878	1,676,808
Less: allowance for uncollectibles	<u>(15,716)</u>	<u>(19,692)</u>	<u>(35,408)</u>
Net receivables	<u><u>\$ 729,411</u></u>	<u><u>\$ 911,989</u></u>	<u><u>\$ 1,641,400</u></u>

Note 4. Transfers

The \$55,690 transfer from the general fund to the water and sewer fund relates to the shared purchase of capital equipment.

Note 5. Due from Other Governmental Units

Amounts due from other governmental units are as follows:

Commonwealth of Virginia:	
Sales tax	\$ 126,138
Communications tax	83,587
Motor vehicle tax	21,444
Miscellaneous grants	9,569
County of Fauquier, Virginia	<u>27,442</u>
	<u><u>\$ 268,180</u></u>

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 6. Capital Assets

Capital asset activity for the year was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	\$ 4,649,073	\$ -	\$ -	\$ 4,649,073
Construction in progress	34,373	23,227	-	57,600
Total capital assets, not depreciated	4,683,446	23,227	-	4,706,673
Capital assets, depreciated:				
Buildings and improvements	29,671,955	14,963	-	29,686,918
Infrastructure	40,923,559	138,825	-	41,062,384
Furniture, equipment, and vehicles	7,637,327	562,420	(1,122,645)	7,077,102
Total capital assets, depreciated	78,232,841	716,208	(1,122,645)	77,826,404
Less accumulated depreciation for:				
Buildings and improvements	6,671,502	739,816	-	7,411,318
Infrastructure	22,867,880	1,145,145	-	24,013,025
Furniture, equipment, and vehicles	4,826,790	556,222	(1,115,700)	4,267,312
Total accumulated, depreciation	34,366,172	2,441,183	(1,115,700)	35,691,655
Total capital assets, depreciated, net	43,866,669	(1,724,975)	(6,945)	42,134,749
Governmental activities capital assets, net	\$ 48,550,115	\$ (1,701,748)	\$ (6,945)	\$ 46,841,422

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 6. Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 665,660	\$ -	\$ -	\$ 665,660
Construction in progress	337,937	649,229	(30,668)	956,498
Total capital assets, not depreciated	<u>1,003,597</u>	<u>649,229</u>	<u>(30,668)</u>	<u>1,622,158</u>
Utility plant in service	41,184,588	223,830	(10,928)	41,397,490
Furniture, equipment, and vehicles	3,314,513	154,328	(520,411)	2,948,430
Total capital assets, depreciated	<u>44,499,101</u>	<u>378,158</u>	<u>(531,339)</u>	<u>44,345,920</u>
Less accumulated depreciation for:				
Utility plant in service	\$ 24,160,920	\$ 1,090,320	\$ (10,928)	\$ 25,240,312
Machinery and equipment	2,296,082	136,836	(520,411)	1,912,507
Total accumulated depreciation	<u>26,457,002</u>	<u>1,227,156</u>	<u>(531,339)</u>	<u>27,152,819</u>
Total capital assets, depreciated, net	<u>18,042,099</u>	<u>(848,998)</u>	<u>-</u>	<u>17,193,101</u>
Business-type activities capital assets, net	<u>\$ 19,045,696</u>	<u>\$ (199,769)</u>	<u>\$ (30,668)</u>	<u>\$ 18,815,259</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
Public works	\$ 1,367,769
Public safety	262,308
Parks, recreation, and cultural	717,285
General government administration	85,368
Community development	8,453
Total depreciation expense – governmental activities	<u>\$ 2,441,183</u>
Business-type activities	
Water and sewer	<u>\$ 1,227,156</u>

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 7. Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 8,468,000	\$ -	\$ 448,000	\$ 8,020,000	\$ 458,000
Compensated absences	517,057	36,057	31,514	521,600	52,160
	<u>\$ 8,985,057</u>	<u>\$ 36,057</u>	<u>\$ 479,514</u>	<u>\$ 8,541,600</u>	<u>\$ 510,160</u>
Business-type activities:					
General obligation bond	\$ 5,020,000	\$ -	\$ -	\$ 5,020,000	\$ -
Compensated absences	276,135	34,298	29,207	281,226	28,123
	<u>\$ 5,296,135</u>	<u>\$ 34,298</u>	<u>\$ 29,207</u>	<u>\$ 5,301,226</u>	<u>\$ 28,123</u>

The annual requirements to amortize long-term debt and related interest are as follows:

Fiscal Year	Governmental Activities		Business-Type Activities	
	General Obligation Bond		General Obligation Bond	
	Principal	Interest	Principal	Interest
2018	\$ 458,000	\$ 175,298	\$ -	\$ 128,010
2019	463,000	164,936	173,000	128,010
2020	476,000	154,373	177,000	123,599
2021	489,000	143,516	182,000	119,085
2022	500,000	132,390	187,000	114,444
2023-2027	2,664,000	486,562	1,007,000	498,321
2028-2032	2,970,000	170,033	1,141,000	363,273
2033-2037	-	-	1,295,000	210,094
2038-2040	-	-	858,000	44,115
	<u>\$ 8,020,000</u>	<u>\$ 1,427,108</u>	<u>\$ 5,020,000</u>	<u>\$ 1,728,951</u>

Details of long-term indebtedness are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Governmental Activities	Business-Type Activities
General obligation bonds:						
Refunding Series 2012	2.25%	10/3/12	08/01/31	\$ 8,517,000	<u>\$ 8,020,000</u>	<u>\$ -</u>
Series 2016	2.55%	3/25/16	01/15/40	\$ 5,020,000	<u>\$ -</u>	<u>\$ 5,020,000</u>

(Continued)

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 8. Defined Benefit Pension Plan

Plan Description

All full-time, salaried permanent employees of the Town of Warrenton, Virginia, (the “Political Subdivision”) 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 pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as 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 as follows:

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.

- **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. The Hybrid Retirement Plan’s effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. 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.
- **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% 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.
- **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.

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **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. Members are always 100% vested in the contributions that they make.
- **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. 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.
- **Average Final Compensation** – A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier** – 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%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.
- **Normal Retirement Age** – Age 65 or age 60 for hazardous duty employees.
- **Earliest Unreduced Retirement Eligibility** – Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service for hazardous duty employees.
- **Earliest Reduced Retirement Eligibility** – Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. Age 50 with at least five years of creditable service for hazardous duty employees.
- **Cost-of-Living Adjustment (COLA) in Retirement** – The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.
 - **Eligibility** – 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. 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.

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **Cost-of-Living Adjustment (COLA) in Retirement (Continued)**
 - **Exceptions to COLA Effective Dates** – The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:
 - The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
 - The member retires on disability.
 - **Exceptions to COLA Effective Dates (Continued)**
 - 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.
- **Disability Coverage** – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
- **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.

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.

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 2 (Continued)

- **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. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. 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.
- **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016.
- **Creditable Service** – Same as Plan 1.
- **Vesting** – Same as Plan 1.
- **Calculating the Benefit** – See definition under Plan 1.
- **Average Final Compensation** – A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier** – 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. Sheriffs, regional jail superintendents, and hazardous duty employees are same as Plan 1.
- **Normal Retirement Age** – Normal Social Security retirement age. Hazardous duty employees are the same as Plan 1.
- **Earliest Unreduced Retirement Eligibility** – Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty employees are the same as Plan 1.
- **Earliest Reduced Retirement Eligibility** – Age 60 with at least five years (60 months) of creditable service. Hazardous duty employees are the same as Plan 1.
- **Cost-of-Living Adjustment (COLA) in Retirement** – The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.
 - **Eligibility** – Same as Plan 1.
- **Cost-of-Living Adjustment (COLA) in Retirement (Continued)**
 - **Exceptions to COLA Effective Dates** – Same as Plan 1.
- **Disability Coverage** – Same as Plan 1 except that the retirement multiplier is 1.65%.
- **Purchase of Prior Service** – Same as Plan 1.

(Continued)

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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. 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.

- **Eligible Members** – Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes political subdivision employees; members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.
- **Non-Eligible Members** – Some employees are not eligible to participate in the Hybrid Retirement Plan. They include political subdivision employees who are covered by enhanced benefits for hazardous duty employees. 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.
- **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.
- **Creditable Service** –
 - **Defined Benefit Component** – 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.
 - **Defined Contributions Component** – Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Vesting –**
 - **Defined Benefit Component** – 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.
 - **Defined Contributions Component** – 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. Members are always 100% vested in the contributions that they make. 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. 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. Distribution is not required by law until age 70½.
- **Calculating the Benefit –**
 - **Defined Benefit Component** – See definition under Plan 1.
 - **Defined Contribution Component** – 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.
- **Average Final Compensation** – Same as Plan 2 for the defined benefit component of the plan.
- **Service Retirement Multiplier** – The retirement multiplier for the defined benefit component is 1.00%. 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. This is not applicable to sheriffs, regional jail superintendents, or hazardous duty employees.
- **Normal Retirement Age –**
 - **Defined Benefit Component** – Same as Plan 2, however, not applicable for hazardous duty employees.
 - **Defined Contribution Component** – Members are eligible to receive distributions upon leaving employment, subject to restrictions.

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 8. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Earliest Unreduced Retirement Eligibility –**
 - **Defined Benefit Component** – Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. This is not applicable to hazardous duty employees.
 - **Defined Contribution Component** – Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Reduced Retirement Eligibility –**
 - **Defined Benefit Component** – Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. This is not applicable to hazardous duty employees.
 - **Defined Contribution Component** – Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Cost-of-Living Adjustment (COLA) in Retirement –**
 - **Defined Benefit Component** – Same as Plan 2.
 - **Defined Contribution Component** – Not Applicable.
 - **Eligibility** – Same as Plan 1 and 2.
 - **Exceptions to COLA Effective Dates** – Same as Plan 1 and 2.
- **Disability Coverage** – Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. 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.
- **Purchase of Prior Service –**
 - **Defined Benefit Component** – Same as Plan 1, with the following exceptions:
 - Hybrid Retirement Plan members are ineligible for ported service.
 - The cost for purchasing refunded service is the higher or 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 one-year period, the rate for most categories of service will change to actuarial cost.
 - **Defined Contribution Component** – Not Applicable.

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 8. Defined Benefit Pension Plan (Continued)

Employees Covered by Benefit Terms

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

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	72
Inactive members:	
Vested inactive members	12
Non-vested inactive members	27
Inactive members active elsewhere in VRS	41
Total inactive members	80
Active members	90
Total covered employees	242

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 political subdivisions 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 5.00% 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 political subdivision's contractually required contribution rate for the year ended June 30, 2017 was 10.79% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$611,395 and \$679,851 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability

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

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 8. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions

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

Inflation	2.50%
General Employees – Salary increases, including inflation	3.50 – 5.35%
Public Safety Employees – Salary increases, including inflation	3.50 – 4.75%
Investment rate of return	7.00%, 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 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: General employees – 14% of deaths are assumed to be service related. Public Safety Employees – 60% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2000 Mortality Table Projected to 2020 with various set backs or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees – Largest 10 – Non-LEOS and All Others (Non 10 Largest): Update mortality table; decrease in rates of service retirement; decrease in rates of disability retirement; and reduce rates of salary increase by 0.25% per year.

Public Safety Employees – Largest 10 – Non-LEOS and All Others (Non 10 Largest): Update mortality table; adjustment to rates of service retirement for females (Non 10 Largest); decrease in rates of male disability (Largest 10, only); decrease in male and female rates of disability (Non 10 Largest) and increase in rates of withdrawal.

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 8. 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:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
U.S. Equity	19.50 %	6.46 %	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 %		<u>5.83 %</u>
	Inflation		<u>2.50 %</u>
	*Expected arithmetic nominal return		<u>8.33 %</u>

- * 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 WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 8. 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 Political Subdivision 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.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2015	\$ 25,812,921	\$ 22,712,989	\$ 3,099,932
Changes for the year:			
Service cost	549,156	-	549,156
Interest	1,757,379	-	1,757,379
Differences between expected and actual experience	546,204	-	546,204
Contributions – employer	-	674,647	(674,647)
Contributions – employee	-	272,659	(272,659)
Net investment income	-	387,291	(387,291)
Benefit payments, including refunds of employee contributions	(1,415,015)	(1,415,015)	-
Administrative expenses	-	(14,267)	14,267
Other changes	-	(166)	166
Net changes	1,437,724	(94,851)	1,532,575
Balances at June 30, 2016	\$ 27,250,645	\$ 22,618,138	\$ 4,632,507

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 8. 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 political subdivision using the discount rate of 7.00%, as well as what the political subdivision'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>1.00% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1.00% Increase (8.00%)</u>
Political subdivision's net pension liability	\$ 8,045,277	\$ 4,632,507	\$ 1,772,436

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

For the year ended June 30, 2017, the political subdivision recognized pension expense of \$434,003. At June 30, 2017, the political subdivision 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	\$ 362,914	\$ 251,971
Net difference between projected and actual earnings on pension plan investments	592,317	-
Employer contributions subsequent to the measurement date	<u>611,395</u>	<u>-</u>
Total	<u>\$ 1,566,626</u>	<u>\$ 251,971</u>

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 8. Defined Benefit Pension Plan (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The \$611,395 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2018	\$ (41,272)
2019	165,423
2020	341,962
2021	237,147
2022	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 9. Property Taxes

The town collects real property taxes semi-annually and personal property taxes annually. Assessments are the responsibility of Fauquier County, while billing and collection are the Town's responsibilities. Town Council adopts tax rates in April of each year as part of the budget process. Real property taxes are levied as of January 1st and July 1st and are due on June 15th and December 15th each year. Penalties accrue on unpaid balances at this date. Interest is charged on unpaid balances beginning December 16th and June 16th. Unpaid real property taxes constitute a lien against the property.

The effective tax rates per \$100 of assessed value for the year ended June 30, 2017 were as follows:

Real estate	\$ 0.05
Personal property	1.00

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 10. 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 for which the Town carries commercial insurance. The Town also provides a risk management program for workers' compensation. Premiums are paid by the general fund and all other funds and are available to pay claims, claim reserves, and administrative costs of the program.

The Town is a member of the Virginia Association of Counties Group Self Insurance Risk Pool (VACORP) for workers' compensation. This program is administered by a servicing contractor, which furnishes claims review and processing.

Each Association member jointly and severally agrees to assume, pay, and discharge any liability. The Town pays VACORP contributions and assessments based upon classification and rates into a designated cash reserve fund out of which expenses of the Association and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Association may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years.

Note 11. Fund Balance

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the Town is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balances are presented below:

	General Fund	Perpetual Care Fund
	<hr/>	<hr/>
Nonspendable:		
Inventories	\$ 144,471	\$ -
Prepays	7,920	-
Permanent fund principal	-	599,036
	<hr/>	<hr/>
Total nonspendable	152,391	599,036
	<hr/>	<hr/>
Restricted for:		
General government administration	44,007	-
Public safety	20,854	-
Public works	287,287	-
Parks, recreation, and cultural	207,839	-
	<hr/>	<hr/>
Total restricted	559,987	-
	<hr/>	<hr/>

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 11. Fund Balance (Continued)

	General Fund	Perpetual Care Fund
Committed to:		
General government administration	\$ 11,100	\$ -
Public safety	17,383	-
Public works	133,468	-
Parks, recreation, and cultural	118,500	-
Community development	90,000	-
	<hr/>	<hr/>
Total committed	370,451	-
	<hr/>	<hr/>
Unassigned	11,871,309	-
	<hr/>	<hr/>
Total fund balance	\$ 12,954,138	\$ 599,036
	<hr/>	<hr/>

Note 12. Commitments and Contingencies

The Town entered an agreement the County of Fauquier, Virginia to contribute \$1 million dollars in three equal annual installments beginning in fiscal year 2017 to assist with the construction of a new library.

The Town has also entered a construction contract at year end with future amounts due under this agreement at approximately \$738,000.

Note 13. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 45 and No. 57 and establishes new accounting requirements for OPEB plans. This Statement will be effective for the year ending June 30, 2018.

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 13. New Accounting Standards (Continued)

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* provides recognition and measurement guidance for situations in which a government is a beneficiary of an irrevocable split-interest agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding the presentation of payroll related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for Asset Retirement Obligations (AROs). This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. This Statement will be effective for the year ending June 30, 2019.

GASB Statement No. 84, *Fiduciary Activities* establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement will be effective for the year ending June 30, 2020.

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 13. New Accounting Standards (Continued)

GASB Statement No. 85, *Omnibus 2017* addresses practice issues that have been identified during implementation and application of certain GASB Statements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation.
- Reporting amounts previously reported as goodwill and “negative” goodwill.
- Classifying real estate held by insurance entities.
- Measuring certain money market investments and participating interest earning investment contracts at amortized cost.
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements.
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
- Classifying employer-paid member contributions for OPEB.
- Simplifying certain aspects of the alternative measurement method for OPEB.
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 87, *Leases* establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement will be effective for the year ending June 30, 2021.

TOWN OF WARRENTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 14. Net Position Restatement

Net position was restated for the year ended June 30, 2016 for an understatement of unbilled receivables:

	<u>Business-Type Activities</u>	<u>Water and Sewer Fund</u>
Net Position as previously reported at June 30, 2016	\$ 23,055,018	\$ 23,055,018
Unbilled water and sewer receivables previously not recorded	<u>365,456</u>	<u>365,456</u>
Net Position as restated at June 30, 2016	<u><u>\$ 23,420,474</u></u>	<u><u>\$ 23,420,474</u></u>

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**REQUIRED
SUPPLEMENTARY INFORMATION**

TOWN OF WARRENTON, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
June 30, 2017

	Plan Year		
	2016	2015	2014
Total Pension Liability			
Service cost	\$ 549,156	\$ 554,234	\$ 547,287
Interest on total pension liability	1,757,379	1,735,822	1,655,265
Difference between expected and actual experience	546,204	(714,305)	-
Benefit payments, including refunds of employee contributions	(1,415,015)	(1,120,580)	(982,889)
Net change in total pension liability	1,437,724	455,171	1,219,663
Total pension liability – beginning	<u>25,812,921</u>	<u>25,357,750</u>	<u>24,138,087</u>
Total pension liability – ending	<u>27,250,645</u>	<u>25,812,921</u>	<u>25,357,750</u>
Plan Fiduciary Net Position			
Contributions – employer	674,647	626,449	613,537
Contributions – employee	272,659	244,243	241,581
Net investment income	387,291	1,004,740	3,009,233
Benefit payments, including refunds of employee contributions	(1,415,015)	(1,120,580)	(982,889)
Administrative expenses	(14,267)	(13,787)	(16,182)
Other	(166)	(211)	159
Net change in plan fiduciary net position	(94,851)	740,854	2,865,439
Plan fiduciary net position – beginning	<u>22,712,989</u>	<u>21,972,135</u>	<u>19,106,696</u>
Plan fiduciary net position – ending	<u>22,618,138</u>	<u>22,712,989</u>	<u>21,972,135</u>
Net pension liability – ending	<u>\$ 4,632,507</u>	<u>\$ 3,099,932</u>	<u>\$ 3,385,615</u>
Plan fiduciary net position as a percentage of total pension liability	<u>83.00%</u>	<u>87.99%</u>	<u>86.65%</u>
Covered payroll	<u>\$ 5,278,343</u>	<u>\$ 4,878,431</u>	<u>\$ 4,785,081</u>
Net pension liability (asset) as a percentage of covered payroll	<u>87.76%</u>	<u>63.54%</u>	<u>70.75%</u>

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year – i.e., plan year 2014 information was presented in the entity's fiscal year 2015 financial report.

This schedule is intended to show information for 10 years. Since fiscal year 2015 (plan year 2014) was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

TOWN OF WARRENTON, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
June 30, 2017**

Entity Fiscal Year Ended June 30,	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
2017	\$ 611,395	\$ 611,395	\$ -	\$ 5,666,307	10.79 %
2016	679,851	679,851	-	5,278,343	12.88
2015	628,342	628,342	-	4,878,431	12.88

Schedule is intended to show information for 10 years. Since 2015 was the first year for this presentation, only three years of data is available. Additional years will be included as they become available.

The covered payroll amounts above are for the entity's fiscal year - i.e. the covered payroll on which required contributions were based for the same year.

TOWN OF WARRENTON, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2017

Note 1. Changes of Benefit Terms

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 are not material.

Note 2. Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

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

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – LEOS:

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

**OTHER
SUPPLEMENTARY INFORMATION**

TOWN OF WARRENTON, VIRGINIA

**COMBINING STATEMENT OF FIDUCIARY NET POSITION –
FIDUCIARY FUNDS
June 30, 2017**

	<u>Agency Fund</u>	<u>Retirement Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 251,947	\$ 9,753	\$ 261,700
LIABILITIES			
Amounts held for others	\$ 251,947	\$ 9,753	\$ 261,700

TOWN OF WARRENTON, VIRGINIA

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES –
FIDUCIARY FUNDS
Year Ended June 30, 2017**

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
Agency Fund				
Assets				
Cash and cash equivalents	\$ 247,109	\$ 5,735	\$ 897	\$ 251,947
Liabilities				
Accounts payable	\$ 897	\$ -	\$ 897	\$ -
Amounts held for others	246,212	5,735	-	251,947
	<u>\$ 247,109</u>	<u>\$ 5,735</u>	<u>\$ 897</u>	<u>\$ 251,947</u>
Retirement Fund				
Assets				
Cash and cash equivalents	\$ 9,680	\$ 73	\$ -	\$ 9,753
Liabilities				
Amounts held for others	\$ 9,680	\$ 73	\$ -	\$ 9,753
Total All Agency Funds				
Assets				
Cash and cash equivalents	\$ 256,789	\$ 5,808	\$ 897	\$ 261,700
Liabilities				
Accounts payable	\$ 897	\$ -	\$ 897	\$ -
Amounts held for others	255,892	5,808	-	261,700
	<u>\$ 256,789</u>	<u>\$ 5,808</u>	<u>\$ 897</u>	<u>\$ 261,700</u>

TOWN OF WARRENTON, VIRGINIA

SCHEDULE OF REVENUES – BUDGET AND ACTUAL –
GENERAL FUND (BUDGETARY BASIS)

Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 740,600	\$ 740,600	\$ 785,209	\$ 44,609
Real and personal public service corporation taxes	8,850	8,850	13,393	4,543
Personal property taxes	470,000	470,000	437,168	(32,832)
Penalties	7,000	7,000	8,734	1,734
Interest	3,000	3,000	3,962	962
Total general property taxes	1,229,450	1,229,450	1,248,466	19,016
Other local taxes:				
Local sales and use taxes	686,000	686,000	732,197	46,197
Consumers' utility taxes	503,000	503,000	503,001	1
Business license taxes	1,767,863	1,767,863	1,918,233	150,370
Consumption taxes	71,600	71,600	69,787	(1,813)
Motor vehicle licenses	5,000	5,000	4,479	(521)
Bank stock taxes	550,000	550,000	690,566	140,566
Hotel and motel room taxes	203,800	203,800	232,629	28,829
Restaurant food tax	2,422,000	2,422,000	2,621,782	199,782
Cigarette tax	171,000	171,000	158,789	(12,211)
Total other local taxes	6,380,263	6,380,263	6,931,463	551,200
Permits, privilege fees, and regulatory licenses:				
Permits and other licenses	187,900	187,900	166,562	(21,338)
Fines and forfeitures:				
Court fines and forfeitures	180,000	180,000	125,169	(54,831)
Revenue from use of money and property:				
Revenue from use of money	14,000	14,000	85,654	71,654
Revenue from use of property	8,500	8,500	6,625	(1,875)
Total revenue from use of money and property	22,500	22,500	92,279	69,779
Charges for services:				
Warf – recreation	1,286,588	1,286,588	1,187,054	(99,534)
Total charges for services	1,286,588	1,286,588	1,187,054	(99,534)

(Continued)

TOWN OF WARRENTON, VIRGINIA

SCHEDULE OF REVENUES – BUDGET AND ACTUAL –
GENERAL FUND (BUDGETARY BASIS)

Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Other local taxes: (Continued)				
Miscellaneous revenue:				
Miscellaneous	\$ 165,100	\$ 265,668	\$ 346,308	\$ 80,640
Total revenue from local sources	9,451,801	9,552,369	10,097,301	544,932
Revenue from the Commonwealth:				
Non-categorical aid:				
Motor vehicle rental tax	90,000	90,000	117,460	27,460
Rolling stock tax	100	100	428	328
Communications tax	590,000	590,000	508,436	(81,564)
Personal property tax relief funds	718,492	718,492	718,492	-
Total non-categorical aid	1,398,592	1,398,592	1,344,816	(53,776)
Categorical aid:				
Other categorical aid:				
Litter control grant	3,500	3,500	3,560	60
DCJS grants for law enforcement	203,871	203,871	203,872	1
Bluemont series grant	5,000	5,000	5,000	-
Street and highway maintenance	1,346,679	1,346,679	1,397,339	50,660
VDOT revenue sharing	217,000	316,896	7,881	(309,015)
Fire program	25,000	25,000	31,189	6,189
Total categorical aid	1,801,050	1,900,946	1,648,841	(252,105)
Total revenue from the Commonwealth	3,199,642	3,299,538	2,993,657	(305,881)
Revenue from the Federal Government:				
Categorical aid:				
Department of justice grant	2,000	2,000	7,053	5,053
Transportation safety grant	2,000	2,000	2,221	221
VDOT STIP funding	-	311,882	316,394	4,512
Other federal categorical aid	20,000	20,000	68,308	48,308
Total revenue from the Federal Government	24,000	335,882	393,976	58,094
Total governmental fund	\$ 12,675,443	\$ 13,187,789	\$ 13,484,934	\$ 297,145

TOWN OF WARRENTON, VIRGINIA

SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL –
GENERAL FUND (BUDGETARY BASIS)

Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
General government administration:				
Legislative	\$ 144,209	\$ 147,607	\$ 127,271	\$ 20,336
Executive	205,294	205,294	198,096	7,198
Legal services	187,376	187,376	145,797	41,579
Finance	491,701	510,417	436,573	73,844
Memberships and dues	10,040	10,040	10,040	-
Data processing	284,839	289,912	263,439	26,473
Motor pool	415,474	407,286	528,210	(120,924)
Total general government administration	1,738,933	1,757,932	1,709,426	48,506
Public safety:				
Department of police	2,945,059	2,979,091	2,811,658	167,433
Fire and rescue services	265,350	265,350	300,213	(34,863)
Bureau of building inspections	302,747	302,747	288,773	13,974
Total public safety	3,513,156	3,547,188	3,400,644	146,544
Public works:				
Public works administration	520,661	510,661	494,329	16,332
Bureau of street maintenance	747,116	1,140,403	1,071,087	69,316
Arterial street maintenance	435,868	744,550	715,873	28,677
Collector street maintenance	400,726	413,926	424,660	(10,734)
Refuse collection	406,074	406,074	360,112	45,962
Cemetery maintenance	131,133	131,133	118,046	13,087
Recycling program	130,576	130,576	120,221	10,355
Maintenance, buildings, and grounds	300,532	300,532	272,071	28,461
Total public works	3,072,686	3,777,855	3,576,399	201,456
Health and welfare:				
Welfare/social services	116,937	116,937	117,164	(227)
Parks, recreation, and cultural:				
Parks and recreation – fields	37,290	45,340	33,784	11,556
Aquatic center	1,594,505	1,603,530	1,577,006	26,524
Parks	199,129	237,829	194,535	43,294
Parks and recreation – administration	121,415	121,724	118,136	3,588
Cultural enrichment	67,000	73,313	73,313	-
Total parks, recreation, and cultural	2,019,339	2,081,736	1,996,774	84,962

(Continued)

TOWN OF WARRENTON, VIRGINIA

**SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL –
GENERAL FUND (BUDGETARY BASIS)
Year Ended June 30, 2017**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Community development:				
Planning and zoning	\$ 648,515	\$ 651,480	\$ 499,392	\$ 152,088
Visitor's center	86,135	86,135	75,599	10,536
Zoning appeals board	500	500	422	78
Economic development	173,849	253,379	213,777	39,602
Architectural review board	1,500	1,500	24	1,476
Total community development	<u>910,499</u>	<u>992,994</u>	<u>789,214</u>	<u>203,780</u>
Capital outlay:				
Capital outlay	<u>1,273,153</u>	<u>1,937,991</u>	<u>951,293</u>	<u>986,698</u>
Debt service:				
Principal	448,000	448,000	448,000	-
Interest	<u>188,590</u>	<u>188,590</u>	<u>188,590</u>	<u>-</u>
Total debt service	<u>636,590</u>	<u>636,590</u>	<u>636,590</u>	<u>-</u>
Total governmental fund	<u>\$ 13,281,293</u>	<u>\$ 14,849,223</u>	<u>\$ 13,177,504</u>	<u>\$ 1,671,719</u>

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STATISTICAL SECTION

This part of the Town of Warrenton’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Town’s overall financial health.

<u>Contents</u>	<u>Table</u>
Financial Trends These tables contain trend information to help the reader understand how the Town’s financial performance and well-being have changed over time.	1-4
Revenue Capacity These tables contain information to help the reader assess the factors affecting the Town’s ability to generate its property and sales taxes.	5-12
Debt Capacity These tables 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.	13-16
Demographic and Economic Information These tables offer demographic and economic indicators to help the reader understand the environment within which the Town’s financial activities take place and to help make comparisons over time and with other governments.	17-18
Operating Information These schedules contain information about the Town’s operations and resources to help the reader understand how the Town’s financial information relates to the services it provides and the activities it performs.	19-21

Sources: Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year.

TABLE 1

TOWN OF WARRENTON, VIRGINIA

**NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(Accrual Basis of Accounting)**

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental activities										
Net investment in capital assets	\$ 28,706,827	\$ 29,729,797	\$ 28,743,572	\$ 28,082,545	\$ 27,226,044	\$ 25,993,382	\$ 25,272,376	\$ 42,200,589	\$ 40,859,457	\$ 39,510,889
Restricted	2,091,437	1,979,763	588,890	590,042	590,889	591,797	592,370	592,995	594,800	1,159,023
Unrestricted	4,355,709	6,279,976	6,896,905	8,216,674	8,753,021	9,716,926	11,120,437	9,734,918	9,737,204	9,348,761
Total governmental activities net position	<u>\$ 35,153,973</u>	<u>\$ 37,989,536</u>	<u>\$ 36,229,367</u>	<u>\$ 36,889,261</u>	<u>\$ 36,569,954</u>	<u>\$ 36,302,105</u>	<u>\$ 36,985,183</u>	<u>\$ 52,528,502</u>	<u>\$ 51,191,461</u>	<u>\$ 50,018,673</u>
Business-type activities										
Net investment in capital assets	\$ 37,819,911	\$ 41,495,789	\$ 40,943,440	\$ 41,761,645	\$ 41,182,941	\$ 39,058,157	\$ 38,898,827	\$ 19,807,462	\$ 18,957,111	\$ 18,022,962
Restricted	6,313,531	4,824,596	-	-	-	-	-	-	-	157,747
Unrestricted	8,042,010	5,872,394	12,281,685	9,234,096	9,016,421	8,853,470	7,141,893	4,262,278	4,097,907	5,958,671
Total business-type activities net position	<u>\$ 52,175,452</u>	<u>\$ 52,192,779</u>	<u>\$ 53,225,125</u>	<u>\$ 50,995,741</u>	<u>\$ 50,199,362</u>	<u>\$ 47,911,627</u>	<u>\$ 46,040,720</u>	<u>\$ 24,069,740</u>	<u>\$ 23,055,018</u>	<u>\$ 24,139,380</u>
Primary government										
Net investment in capital assets	\$ 66,526,738	\$ 71,225,586	\$ 69,687,012	\$ 69,844,190	\$ 68,408,985	\$ 65,051,539	\$ 64,171,203	\$ 62,008,051	\$ 59,816,568	\$ 57,533,851
Restricted	8,404,968	6,804,359	588,890	590,042	590,889	591,797	592,370	592,995	594,800	1,316,770
Unrestricted	12,397,719	12,152,370	19,178,590	17,450,770	17,769,442	18,570,396	18,262,330	13,997,196	13,835,111	15,307,432
Total primary government net position	<u>\$ 87,329,425</u>	<u>\$ 90,182,315</u>	<u>\$ 89,454,492</u>	<u>\$ 87,885,002</u>	<u>\$ 86,769,316</u>	<u>\$ 84,213,732</u>	<u>\$ 83,025,903</u>	<u>\$ 76,598,242</u>	<u>\$ 74,246,479</u>	<u>\$ 74,158,053</u>

TABLE 2

TOWN OF WARRENTON, VIRGINIA

**CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(Accrual Basis of Accounting)**

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expenses										
Governmental activities:										
General government	\$ 853,933	\$ 926,615	\$ 1,794,610	\$ 1,545,922	\$ 1,581,008	\$ 1,591,497	\$ 1,741,519	\$ 1,670,785	\$ 1,753,257	\$ 1,065,479
Public safety	2,856,414	2,731,817	2,894,544	2,848,144	2,761,692	2,760,751	2,887,360	2,950,483	3,612,887	4,118,389
Public works	1,813,751	1,742,009	3,927,356	4,188,005	3,319,070	4,253,156	3,621,458	4,101,334	4,727,802	5,062,855
Heath and welfare	101,427	95,851	100,441	100,391	98,159	88,278	88,400	89,291	120,505	117,164
Parks, recreation, and cultural	380,447	147,141	145,439	123,954	142,429	134,279	124,834	2,867,135	2,366,743	3,155,724
Community development	561,837	552,783	446,757	422,623	403,217	432,674	408,615	447,025	638,788	803,021
Interest on long-term debt	-	-	-	-	-	4,766	4,572	3,656	286,949	269,932
Total governmental activities expenses	6,567,809	6,196,216	9,309,147	9,229,039	8,305,575	9,265,401	8,876,758	12,129,709	13,506,931	14,592,564
Business-type activities:										
Water and sewer	4,570,230	4,912,376	4,741,236	5,020,796	5,194,404	5,479,541	5,300,755	5,514,237	5,492,546	5,211,692
Parks and recreation	1,772,884	2,034,786	2,602,184	2,648,084	2,694,855	2,811,590	2,675,844	-	-	-
Total business-type activities expenses	6,343,114	6,947,162	7,343,420	7,668,880	7,889,259	8,291,131	7,976,599	5,514,237	5,492,546	5,211,692
Total primary government expenses	\$ 12,910,923	\$ 13,143,378	\$ 16,652,567	\$ 16,897,919	\$ 16,194,834	\$ 17,556,532	\$ 16,853,357	\$ 17,643,946	\$ 18,999,477	\$ 19,804,256
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ -	\$ -	\$ 635,896	\$ 548,591	\$ 130,911	\$ 136,496	\$ 170,563	\$ 354,325	\$ 292,415	\$ 166,562
Public safety	119,517	196,490	167,156	257,075	307,479	280,842	387,684	185,186	128,499	125,169
Public works	-	-	142,677	139,576	423,787	182,847	-	-	-	-
Parks, recreation, and cultural	-	-	-	-	-	-	-	1,191,345	1,137,892	1,187,054
Community development	153,220	150,781	-	-	-	-	-	-	-	-
Operating grants and contributions	1,476,243	1,516,783	1,550,847	1,436,300	1,729,107	1,485,397	1,531,049	1,585,610	1,693,950	2,034,936
Capital grants and contributions	-	-	-	-	-	-	199,425	51,617	136,235	7,882
Total governmental activities program revenues	1,748,980	1,864,054	2,496,576	2,381,542	2,591,284	2,085,582	2,288,721	3,368,083	3,388,991	3,521,603
Business-type activities:										
Charges for services:										
Water and sewer	3,928,840	3,683,359	3,753,934	3,740,589	3,676,434	3,627,141	3,638,503	3,588,448	3,948,790	5,652,278
Parks and recreation	623,608	877,634	1,003,989	1,057,900	1,129,496	1,216,343	1,203,153	-	-	-
Capital grants and contributions	1,250,165	2,202,277	981,035	501,921	271,973	345,066	123,914	175,350	363,519	-
Total business-type activities program revenues	5,802,613	6,763,270	5,738,958	5,300,410	5,077,903	5,188,550	4,965,570	3,763,798	4,312,309	5,652,278
Total primary government program revenues	\$ 7,551,593	\$ 8,627,324	\$ 8,235,534	\$ 7,681,952	\$ 7,669,187	\$ 7,274,132	\$ 7,254,291	\$ 7,131,881	\$ 7,701,300	\$ 9,173,881

(Continued)

TABLE 2

TOWN OF WARRENTON, VIRGINIA

**CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(Accrual Basis of Accounting)**

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net (expense)/revenue										
Governmental activities	\$ (4,818,829)	\$ (4,332,162)	\$ (6,812,571)	\$ (6,847,497)	\$ (5,714,291)	\$ (7,179,819)	\$ (6,588,037)	\$ (8,761,626)	\$ (10,117,940)	\$ (11,070,961)
Business-type activities	(540,501)	(183,892)	(1,604,462)	(2,368,470)	(2,811,356)	(3,102,581)	(3,011,029)	(1,750,439)	(1,180,237)	440,586
Total primary government net expense	<u>\$ (5,359,330)</u>	<u>\$ (4,516,054)</u>	<u>\$ (8,417,033)</u>	<u>\$ (9,215,967)</u>	<u>\$ (8,525,647)</u>	<u>\$ (10,282,400)</u>	<u>\$ (9,599,066)</u>	<u>\$ (10,512,065)</u>	<u>\$ (11,298,177)</u>	<u>\$ (10,630,375)</u>
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes	\$ 663,543	\$ 620,168	\$ 562,348	\$ 577,941	\$ 558,908	\$ 513,896	\$ 605,047	\$ 678,228	\$ 670,016	\$ 1,234,762
Sales and use taxes	509,630	461,030	448,227	484,640	508,741	530,836	561,084	595,653	673,700	732,197
Consumer's utility taxes	462,750	458,357	511,347	488,018	492,636	493,720	500,111	498,312	512,780	503,001
Business license taxes	1,338,059	1,248,770	1,405,894	1,528,085	1,363,590	1,366,360	1,914,525	1,656,923	1,851,067	1,918,233
Meals taxes	1,749,075	1,816,416	1,767,095	1,901,261	2,062,342	2,152,237	2,191,572	2,265,639	2,383,067	2,621,782
Communications taxes	618,169	561,660	-	-	-	-	-	-	-	-
Bank stock taxes	354,680	355,391	457,211	437,022	448,600	463,135	496,445	581,150	521,997	690,566
Other local taxes	536,333	568,191	547,318	525,748	547,166	545,009	549,569	535,802	571,268	465,684
Unrestricted revenues from use of money and property	432,507	255,025	50,696	37,421	29,029	30,021	21,663	21,392	46,417	96,515
Miscellaneous	109,047	27,049	148,285	120,425	199,056	128,931	96,910	110,473	207,646	346,308
Unrestricted grants and contributions	786,652	795,668	1,366,476	1,406,830	1,373,853	1,358,220	1,310,350	1,407,566	1,342,941	1,344,815
Transfers	-	-	(1,331,819)	-	-	(670,395)	(976,161)	-	-	(55,690)
Total governmental activities	<u>7,560,445</u>	<u>7,167,725</u>	<u>5,933,078</u>	<u>7,507,391</u>	<u>7,583,921</u>	<u>6,911,970</u>	<u>7,271,115</u>	<u>8,351,138</u>	<u>8,780,899</u>	<u>9,898,173</u>
Business-type activities:										
Unrestricted revenues from use of money and property	497,567	76,032	15,701	13,907	141,838	144,451	163,961	151,120	165,515	214,130
Miscellaneous	128,891	125,187	130,113	125,179	-	-	-	-	-	8,500
Transfers	-	-	1,331,819	-	-	670,395	976,161	-	-	55,690
Total business-type activities	<u>626,458</u>	<u>201,219</u>	<u>1,477,633</u>	<u>139,086</u>	<u>141,838</u>	<u>814,846</u>	<u>1,140,122</u>	<u>151,120</u>	<u>165,515</u>	<u>278,320</u>
Total primary government	<u>\$ 8,186,903</u>	<u>\$ 7,368,944</u>	<u>\$ 7,410,711</u>	<u>\$ 7,646,477</u>	<u>\$ 7,725,759</u>	<u>\$ 7,726,816</u>	<u>\$ 8,411,237</u>	<u>\$ 8,502,258</u>	<u>\$ 8,946,414</u>	<u>\$ 10,176,493</u>
Change in Net Position										
Governmental activities	\$ 2,741,616	\$ 2,835,563	\$ (879,493)	\$ 659,894	\$ 1,869,630	\$ (267,849)	\$ 683,078	\$ (410,488)	\$ (1,337,041)	\$ (1,172,788)
Business-type activities	<u>85,957</u>	<u>17,327</u>	<u>(126,829)</u>	<u>(2,229,384)</u>	<u>(2,669,518)</u>	<u>(2,287,735)</u>	<u>(1,870,907)</u>	<u>(1,599,319)</u>	<u>(1,014,722)</u>	<u>718,906</u>
Total primary government	<u>\$ 2,827,573</u>	<u>\$ 2,852,890</u>	<u>\$ (1,006,322)</u>	<u>\$ (1,569,490)</u>	<u>\$ (799,888)</u>	<u>\$ (2,555,584)</u>	<u>\$ (1,187,829)</u>	<u>\$ (2,009,807)</u>	<u>\$ (2,351,763)</u>	<u>\$ (453,882)</u>

TABLE 3

TOWN OF WARRENTON, VIRGINIA

**FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Modified Accrual Basis of Accounting)**

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Fund										
Reserved	\$ 1,361,700	\$ 1,392,537	\$ 1,748,454	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	4,720,859	6,522,659	5,141,861	-	-	-	-	-	-	-
Nonspendable	-	-	-	183,407	148,259	103,517	125,799	210,061	204,273	152,391
Restricted	-	-	-	-	-	-	-	-	-	559,987
Committed	-	-	-	1,301,762	369,174	302,662	828,454	493,043	976,809	370,451
Unassigned	-	-	-	6,756,426	8,511,933	9,909,063	10,593,545	11,914,259	11,521,316	11,871,309
Total general fund	<u>\$ 6,082,559</u>	<u>\$ 7,915,196</u>	<u>\$ 6,890,315</u>	<u>\$ 8,241,595</u>	<u>\$ 9,029,366</u>	<u>\$ 10,315,242</u>	<u>\$ 11,547,798</u>	<u>\$ 12,617,363</u>	<u>\$ 12,702,398</u>	<u>\$ 12,954,138</u>
All other governmental funds										
Unreserved, reported in:										
Permanent funds	\$ 577,886	\$ 587,226	\$ 588,890	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Nonspendable, reported in:										
Permanent funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>590,042</u>	<u>590,889</u>	<u>591,797</u>	<u>592,370</u>	<u>592,995</u>	<u>592,995</u>	<u>599,036</u>
Total all other governmental funds	<u>\$ 577,886</u>	<u>\$ 587,226</u>	<u>\$ 588,890</u>	<u>\$ 590,042</u>	<u>\$ 590,889</u>	<u>\$ 591,797</u>	<u>\$ 592,370</u>	<u>\$ 592,995</u>	<u>\$ 592,995</u>	<u>\$ 599,036</u>

Note: 2011 was the first year of implementing GASB 54 which revised fund balance classifications.

TABLE 4

TOWN OF WARRENTON, VIRGINIA

**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Modified Accrual Basis of Accounting)**

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues										
General property taxes	\$ 624,841	\$ 628,812	\$ 576,328	\$ 555,233	\$ 567,694	\$ 539,313	\$ 589,341	\$ 674,372	\$ 677,081	\$ 1,248,466
Other local taxes	5,568,696	5,469,815	5,137,092	5,294,029	5,423,075	5,551,297	6,213,306	6,133,479	6,513,879	6,931,463
Permits, privilege fees, and regulatory licenses	153,220	196,490	142,677	139,576	423,787	182,847	128,220	203,476	177,739	166,562
Fines and forfeitures	119,517	150,781	167,156	257,075	307,479	280,842	259,464	185,186	128,499	125,169
Revenue from use of money and property	432,507	255,025	50,696	37,421	29,029	30,021	21,663	21,392	46,417	96,515
Charges for services	-	-	-	-	130,911	136,496	170,563	1,342,194	1,252,568	1,187,054
Miscellaneous	109,047	27,049	148,285	120,425	199,056	128,931	96,910	110,473	207,646	346,308
Recovered costs	108,530	-	-	-	-	-	-	-	-	-
Intergovernmental										
Commonwealth	2,220,020	2,309,451	2,914,059	2,825,505	2,913,744	2,829,793	2,991,893	3,042,804	3,081,912	2,993,657
Federal	42,875	3,000	3,264	17,625	189,216	13,824	48,931	1,989	91,214	393,976
Total revenues	9,379,253	9,040,423	9,139,557	9,246,889	10,183,991	9,693,364	10,520,291	11,715,365	12,176,955	13,489,170
Expenditures										
General government administration	918,002	946,907	1,128,769	936,694	1,517,470	1,528,394	1,724,504	1,625,564	1,782,114	957,937
Public safety	2,722,646	2,620,108	2,777,763	2,749,926	2,663,568	2,666,012	2,586,897	2,915,874	3,485,482	3,647,869
Public works	2,378,910	2,668,694	2,868,026	2,993,992	2,209,299	2,754,566	2,387,155	2,765,710	3,296,769	3,991,747
Health and welfare	101,427	95,851	100,441	100,391	98,159	88,278	88,400	89,291	120,505	117,164
Parks, recreation, and cultural	382,002	142,506	144,807	121,616	143,106	133,755	120,826	1,848,203	1,899,681	2,068,860
Community development	539,165	524,919	426,009	392,305	352,128	411,295	401,399	451,940	656,908	806,044
Capital projects	457,419	199,461	231,128	670,278	464,528	591,719	821,485	238,836	606,109	951,293
Debt service										
Principal	-	-	-	-	-	86,808	174,880	594,679	521,158	448,000
Interest and other fiscal charges	-	-	-	-	-	3,883	5,455	222,390	203,958	188,590
Total expenditures	7,499,571	7,198,446	7,676,943	7,965,202	7,448,258	8,264,710	8,311,001	10,752,487	12,572,684	13,177,504
Excess of revenues over (under) expenditures	1,879,682	1,841,977	1,462,614	1,281,687	2,735,733	1,428,654	2,209,290	962,878	(395,729)	311,666
Other financing sources (uses)										
Transfers in	-	-	-	-	60,000	-	-	-	-	-
Transfers out	-	-	(1,331,819)	(984,737)	(936,208)	(670,395)	(976,161)	-	-	(55,690)
Proceeds from indebtedness	-	-	-	-	-	528,525	-	-	-	-
Total other financing sources (uses)	-	-	(1,331,819)	(984,737)	(876,208)	(141,870)	(976,161)	-	-	(55,690)
Net change in fund balances	\$ 1,879,682	\$ 1,841,977	\$ 130,795	\$ 296,950	\$ 1,859,525	\$ 1,286,784	\$ 1,233,129	\$ 962,878	\$ (395,729)	\$ 255,976
Debt service as a percentage of noncapital expenditures	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.47%	8.43%	6.04%	4.83%

TABLE 5

TOWN OF WARRENTON, VIRGINIA

**ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS**

Calendar Year	Real Estate	Personal Property	Machinery and Tools	Public Service	Total Taxable Assessed Value	Direct Tax Rate (1)
2017	\$ 1,555,378,500	\$ 111,836,351	\$ 350,166	\$ 26,222,252	\$ 1,693,787,269	0.113
2016	1,559,784,700	110,382,101	362,252	26,233,712	1,696,762,765	0.079
2015	1,548,458,500	110,060,306	379,240	26,169,523	1,685,067,569	0.080
2014	1,554,110,600	99,076,256	362,438	26,004,347	1,679,553,641	0.073
2013	1,388,763,400	93,279,002	366,978	26,002,462	1,508,411,842	0.076
2012	1,380,231,600	91,617,748	364,903	27,948,051	1,500,162,302	0.075
2011	1,376,203,000	88,172,640	407,578	28,221,981	1,493,005,199	0.073
2010	1,376,237,100	85,698,058	630,921	28,612,897	1,491,178,976	0.072
2009	1,767,638,600	93,472,804	587,884	28,291,208	1,889,990,496	0.064
2008	1,758,591,700	94,289,760	625,632	27,784,639	1,881,291,731	0.065

- (1) The total direct tax rate is calculated using the weighted average method.
Assessed value is 100% of actual value for all tax types.

Source: Commissioner of the Revenue

TABLE 6

TOWN OF WARRENTON, VIRGINIA

PROPERTY TAX RATES (1)
DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS

Calendar Year	Direct Rates			Direct Tax Rate	Overlapping Rates County of Fauquier	
	Real Estate	Personal Property	Machinery and Tools		Real Estate	Personal Property
2017	\$ 0.050	\$ 1.00	\$ 1.00	\$ 0.113	\$ 1.039	\$ 4.65
2016	0.015	1.00	1.00	0.079	0.999	4.65
2015	0.015	1.00	1.00	0.080	0.999	4.65
2014	0.015	1.00	1.00	0.073	0.992	4.65
2013	0.015	1.00	1.00	0.076	0.980	4.65
2012	0.015	1.00	1.00	0.750	0.970	4.65
2011	0.015	1.00	1.00	0.073	0.970	4.65
2010	0.015	1.00	1.00	0.072	0.970	4.65
2009	0.015	1.00	1.00	0.064	0.765	4.65
2008	0.015	1.00	1.00	0.065	0.645	4.65

(1) Per \$100 of assessed value.

TABLE 7

TOWN OF WARRENTON, VIRGINIA

GENERAL GOVERNMENT TAX REVENUES BY SOURCE

LAST TEN FISCAL YEARS

Fiscal Year	Property Taxes	Sales Taxes	Utility Taxes	Franchise Taxes	Communi- cations Taxes (2)	Meals Taxes	Transient Occupancy Taxes	Business Licenses	Motor Vehicle Licenses	Other Taxes	Cigarette Taxes	Total
2017	\$ 1,248,466	\$ 732,197	\$ 503,001	\$ 690,566	\$ -	\$ 2,621,782	\$ 232,629	\$ 1,918,233	\$ 4,479	\$ 69,787	\$ 158,789	\$ 8,179,929
2016	677,081	673,700	512,780	521,997	-	2,383,067	238,418	1,851,067	95,652	72,938	164,260	7,190,960
2015	678,228	595,653	498,312	581,150	-	2,265,639	190,005	1,656,923	102,855	72,152	170,790	6,811,707
2014	605,047	561,084	500,111	496,445	-	2,191,572	190,233	1,914,525	101,969	75,647	181,720	6,818,353
2013	539,313	530,836	541,096	479,590	-	2,152,237	187,263	1,366,360	104,047	-	189,868	6,090,610
2012	567,694	508,741	540,413	467,392	-	2,062,342	195,419	1,363,590	102,358	-	182,820	5,990,769
2011	555,233	484,640	538,512	464,428	-	1,901,261	169,364	1,528,085	100,710	-	177,774	5,920,007
2010	576,328	448,227	562,803	494,251	-	1,767,095	159,647	1,405,894	99,051	-	200,124	5,713,420
2009	628,812	461,030	504,906	417,266	561,660	1,816,416	174,398	1,248,770	96,245	-	189,124	6,098,627
2008	624,841	509,630	519,509	369,113	618,169	1,749,075	151,272	1,338,059	91,454	-	222,415	6,193,537

(1) Includes general fund and special revenue funds.

(2) 2008 was the first year the communications tax was collected; in 2010 these taxes were reclassified as noncategorical aid from the Commonwealth of Virginia.

TABLE 8

TOWN OF WARRENTON, VIRGINIA

MEALS TAX REVENUES
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Tax Rate</u>	<u>Gross Receipts</u>	<u>Meals Tax Revenue</u>
2017	\$ 0.04	\$ 65,544,550	\$ 2,621,782
2016	0.04	59,576,675	2,383,067
2015	0.04	56,640,975	2,265,639
2014	0.04	54,789,300	2,191,572
2013	0.04	53,805,925	2,152,237
2012	0.04	51,558,550	2,062,342
2011	0.04	47,531,525	1,901,261
2010	0.04	44,177,375	1,767,095
2009	0.04	45,410,400	1,816,416
2008	0.04	43,726,875	1,749,075

Source: Town of Warrenton Department of Finance and Human Resources.

TABLE 9

TOWN OF WARRENTON, VIRGINIA

PRINCIPAL PROPERTY TAXPAYERS

CURRENT YEAR AND NINE YEARS AGO

Taxpayer	Type Business	2017		2008	
		2017 Total Assessed Value	Percentage of Total Assessed Value	2008 Total Assessed Value	Percentage of Total Assessed Value
Fauquier Medical Center LLC	Medical Center	\$ 75,693,400	30.54 %	\$ -	- %
Warrenton Center LLC	Shopping Center	34,170,600	13.79	27,714,500	18.97
Northrock Center LLC	Office Center Complex	19,118,800	7.71	-	-
Jefferson Associates	Office Center Complex	16,710,800	6.74	-	-
Warrenton Development Company	Developer	16,580,300	6.69	21,008,800	14.38
Walmart	Retail Store	16,309,000	6.58	14,559,700	9.97
Warrenton Village LLC	Shopping Center	13,053,400	5.27	15,854,771	10.85
Seritage SRC Finance (Sears)	Retail Store	10,421,400	4.21	-	-
Warrenton Professional Center	Shopping Center	10,340,900	4.17	11,667,369	7.99
Fauquier Long Term Care	Health Care Provider	9,834,500	3.97	-	-
Kalis Holdings Inc.	Shopping Center	9,130,600	3.68	10,372,800	7.10
Home Depot USA Inc.	Retail Store	8,942,700	3.61	-	-
Highland Commons LP	Developer	7,511,500	3.04	-	-
Sears Roebuck and Co	Retail Store	-	-	12,666,900	8.67
Saul Holdings	Shopping Center	-	-	10,710,500	7.33
Verizon	Utility	-	-	11,404,259	7.81
Virginia Electric	Utility	-	-	10,141,719	6.93
		<u>\$ 247,817,900</u>	<u>100.00 %</u>	<u>\$ 146,101,318</u>	<u>100.00 %</u>

Source: Fauquier County Commissioner of the Revenue.

TABLE 10

TOWN OF WARRENTON, VIRGINIA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

Fiscal Year	Total Tax Levy for Fiscal Year	Collected within the Year of Levy	Percentage of Levy Collected in Year of Levy	Collections in Subsequent Years	Total Collections to Date	Percentage of Total Collection to Date of Levy
2017	\$ 1,896,053	\$ 1,865,815	98.41 %	\$ 15,903	\$ 1,881,718	99.24 %
2016	1,277,669	1,126,746	88.19	3,455	1,130,201	88.46
2015	1,267,260	1,246,135	98.33	3,625	1,249,760	98.62
2014	1,223,273	1,139,748	93.17	7,605	1,147,353	93.79
2013	1,122,476	1,074,859	95.76	4,430	1,079,289	96.15
2012	1,099,738	1,058,965	99.01	8,729	1,067,694	97.09
2011	1,085,040	1,037,948	95.66	9,923	1,047,871	96.57
2010	1,283,322	1,250,045	97.41	10,215	1,260,260	98.20
2009	1,346,551	1,305,936	96.98	16,183	1,322,119	98.19
2008	1,330,126	1,298,822	97.65	15,903	1,314,725	98.84

Source: Town of Warrenton Department of Finance and Human Resources.

TABLE 11

TOWN OF WARRENTON, VIRGINIA

**MEALS TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS**

Fiscal Year	Direct Rates	Overlapping Rates
	County of Fauquier (1)	
	Meals Tax Percent of Gross	Meals Tax Percent of Gross
2017	4.00 %	0.00 %
2016	4.00	0.00
2015	4.00	0.00
2014	4.00	0.00
2013	4.00	0.00
2012	4.00	0.00
2011	4.00	0.00
2010	4.00	0.00
2009	4.00	0.00
2008	4.00	0.00

Source: Town of Warrenton Department of Finance and Human Resources.

(1) Fauquier County does not have meals tax.

TABLE 12

TOWN OF WARRENTON, VIRGINIA

PRINCIPAL MEALS TAXPAYERS

CURRENT YEAR AND NINE YEARS AGO

Type of Establishment	2017		2008*	
	Total Assessed Value	Percentage of Total Assessed Value	Total Assessed Value	Percentage of Total Assessed Value
Fast Food Restaurants	\$ 26,095,371	40.13 %	\$ -	- %
Sit-Down Restaurants	33,700,060	51.83	-	-
Convenience Stores	5,225,526	8.04	-	-
	<u>\$ 65,020,957</u>	<u>100.00 %</u>	<u>\$ -</u>	<u>- %</u>

Source: Town of Warrenton Department of Finance and Human Resources.

* Data not available for fiscal year 2008.

TABLE 13

TOWN OF WARRENTON, VIRGINIA

RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities		Business-Type Activities		Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)
	Capital Leases	General Obligation Bonds	General Obligation Bonds	Premium on Bond Issue			
2017	\$ -	\$ 8,020,000	\$ 5,020,000	\$ -	\$ 13,040,000	3.31 %	\$ 1,110
2016	-	8,468,000	5,020,000	-	13,488,000	3.34	1,363
2015	90,158	8,899,000	-	-	8,989,158	2.27	907
2014	266,837	-	9,317,000	-	9,583,837	2.77	980
2013	441,717	-	9,717,000	-	10,158,717	2.68	1,036
2012	-	-	8,575,000	245,897	8,820,897	2.43	906
2011	-	-	8,835,000	266,590	9,101,590	2.43	947
2010	-	-	9,085,000	287,781	9,372,781	2.92	1,003
2009	-	-	9,325,000	309,451	9,634,451	2.13	1,050
2008	-	-	9,555,000	331,580	9,886,580	2.35	1,110

Note: Details regarding the Town's outstanding debt can be found in the Notes to Financial Statements.

(1) See the Schedule of Demographic and Economic Statistics – Table 17.

TABLE 14

TOWN OF WARRENTON, VIRGINIA

**RATIO OF NET GENERAL BONDED DEBT TO ASSESSED VALUES AND NET BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30,	Gross Bonded Debt	Less: Amounts Reserved for Debt Service	Net Bonded Debt (3)	Ratio of Net General Obligation Debt to Assessed Value (2)	Net Bonded Debt Per Capita (1)
2017	\$ 8,020,000	\$ -	\$ 8,020,000	0.47 %	\$ 813
2016	8,468,000	-	8,468,000	0.50	856
2015	8,899,000	-	8,899,000	0.53	898
2014	9,317,000	-	9,317,000	0.55	953
2013	9,717,000	-	9,717,000	0.64	991
2012	8,820,897	-	8,820,897	0.59	906
2011	9,101,590	-	8,835,000	0.59	919
2010	9,372,781	-	9,085,000	0.61	1,003
2009	9,634,451	-	9,325,000	0.49	1,050
2008	9,886,580	-	9,555,000	0.51	1,110

(1) Population data can be found in the Schedule of Demographic and Economic Statistics – Table 17.

(2) See the Schedule of Assessed Value and estimated Actual Value of Taxable Property – Table 5.

(3) Includes all long-term general obligation bonded debt, literary fund loans, excludes revenue bonds, capital leases, and compensated absences.

TABLE 15

TOWN OF WARRENTON, VIRGINIA

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
YEAR ENDED JUNE 30, 2017

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable (1)</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes: Town of Warrenton	\$ 88,401,308	14.2 %	\$ 12,510,552
Subtotal, overlapping debt			
Town of Warrenton, direct debt			<u>13,040,000</u>
Total direct and overlapping debt			<u><u>\$ 25,550,552</u></u>

Source: County of Fauquier June 30, 2017 Comprehensive annual Financial Report.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the Town. This table estimates the portion of the outstanding debt of those overlapping government's that is borne by the residents and businesses of the Town. This process recognized 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 a resident and therefore responsible for repaying the debt of each overlapping government.

(1) The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the Town's taxable assessed value that is within the County government's boundaries and dividing it by the County's total taxable assessed value.

TABLE 16

TOWN OF WARRENTON, VIRGINIA

LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(Unaudited)

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Debt limit	\$ 188,129,173	\$ 188,999,050	\$ 149,303,930	\$ 149,300,520	\$ 141,441,230	\$ 151,876,864	\$ 169,176,644	\$ 169,555,067	\$ 170,785,097	\$ 169,871,947
Total net debt applicable to limit	9,555,000	9,325,000	9,085,000	8,835,000	8,820,897	9,717,000	9,317,000	8,899,000	13,488,000	13,040,000
Legal debt margin	<u>\$ 178,574,173</u>	<u>\$ 179,674,050</u>	<u>\$ 140,218,930</u>	<u>\$ 140,465,520</u>	<u>\$ 132,620,333</u>	<u>\$ 142,159,864</u>	<u>\$ 159,859,644</u>	<u>\$ 160,656,067</u>	<u>\$ 157,297,097</u>	<u>\$ 156,831,947</u>
Total net debt applicable to the limit as a percentage of debt limit	5.08%	4.93%	6.08%	5.92%	6.24%	6.40%	5.51%	5.25%	7.90%	7.68%

Legal debt margin calculation for fiscal year 2017

Assessed value	\$ 1,693,787,269
Add back: exempt real property	<u>4,932,200</u>
Total assessed value	<u>\$ 1,698,719,469</u>
Debt limit (10% of total assessed value)	\$ 169,871,947
Net debt applicable to limit	<u>13,040,000</u>
Legal debt margin	<u>\$ 156,831,947</u>

TABLE 17

TOWN OF WARRENTON, VIRGINIA
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS

Year	Population	Personal Income	Per Capita Personal Income	Median Age	School Enrollment	Unemployment Rate
2017	9,861	\$ 394,026,784	39,958	43	1,633	3.4 %
2016	9,897	403,781,098	40,366	41	1,560	3.4
2015	9,907	395,170,416	39,888	40	2,138	4.4
2014	9,775	346,044,775	35,401	41	2,008	4.7
2013	9,803	379,474,130	38,710	38	2,008	4.8
2012	9,735	362,297,760	37,216	40	1,572	4.8
2011	9,611	375,126,941	39,031	39	1,584	5.2
2010	9,059	321,223,081	35,459	40	1,581	5.6
2009	8,877	451,430,958	50,854	38	1,535	5.4
2008	8,606	\$ 421,169,034	48,939	38	1,501	3.5

Source: Weldon Cooper Center, Virginia Employment Commission, US Census Bureau.
Fauquier County Schoolboard.

TABLE 18

TOWN OF WARRENTON, VIRGINIA

PRINCIPAL EMPLOYERS

CURRENT YEAR AND NINE YEARS AGO

Employer	Fiscal Year 2017		Fiscal Year 2008	
	Rank	Employees	Rank	Employees
Fauquier County School Board	1	1,000 and over	1	1,000 and over
Fauquier Health System	2	500 to 999	2	1,000 and over
County of Fauquier	3	500 to 999	3	500 to 999
Walmart	4	250 to 499	4	250 to 499
Town of Warrenton	5	100 to 249	10	50 to 99
Food Lion	6	100 to 249		
Brookside Rehabilitation & Nursing Center (formerly Oak Springs)	7	100 to 249		
Country Chevrolet	8	100 to 249		
Blue Ridge Orthopaedic Associates	9	100 to 249		
The Home Depot	10	100 to 249	9	100 to 249
Warrenton Overlook Health Center			5	100 to 249
The Fauquier Bank			6	100 to 249
Giant			7	100 to 249
Safeway			8	100 to 249

(1) The Town is prohibited from publishing the actual number of employees per the *Confidential Information Protection and Statistical Efficiency Act of 2002* – Title V of Public Law 107-347.

Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages.

TABLE 19

TOWN OF WARRENTON, VIRGINIA

**FULL-TIME EQUIVALENT TOWN GOVERNMENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS**

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General and financial administration	6	6	6	6	6	6	6	6	6	6
Legislative	1	1	1	1	1	1	1	1	1	1
Public safety										
Police department	27	25	27	27	27	25	25	25	26	28
Fire and rescue	1	1	1	1	1	1	1	2	2	2
Building inspections	2	2	2	2	2	2	2	2	2	3
Public works										
General maintenance	23	23	23	23	23	23	23	23	23	22
Administration	5	5	5	4	4	5	5	5	5	5
Culture and recreation	3	3	3	3	3	3	3	3	4	6
Planning and community development	5	5	4	3	3	3	3	4	5	6
Water and sewer										
Water	16	16	15	14	14	14	14	14	14	14
Wastewater	9	8	8	7	7	7	7	7	7	7
Administration	7	4	7	6	6	6	6	6	6	6
Motor pool	2	2	2	3	3	3	3	3	3	3
Information technology	0	0	0	0	0	0	0	0	1	1
	<u>107</u>	<u>101</u>	<u>104</u>	<u>100</u>	<u>100</u>	<u>99</u>	<u>99</u>	<u>101</u>	<u>105</u>	<u>110</u>

Source: Department of Finance and Humane Resources.

TABLE 20

TOWN OF WARRENTON, VIRGINIA
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Public safety:										
Police department:										
Physical arrests	172	358	430	397	371	390	248	295	194	164
Traffic violations	1,848	2,696	5,360	6,243	3,989	6,557	5,355	3,317	3,375	2,022
Fire and rescue:										
Number of calls answered	1,840	3,972	2,435	2,416	2,643	2,100	2,601	2,819	2,811	2,982
Building inspections:										
Permits issued	607	676	382	333	700	671	585	649	745	622
Public works:										
Refuse collected (tons/year)	4,138	4,138	3,825	3,920	3,844	3,746	3,761	3,822	361	3,709
Recycling (tons/year)	728	728	783	881	919	4,539	1,244	1,253	963	994
Community development:										
Planning:										
Zoning permits issued	267	267	155	166	159	150	170	180	174	202

Source: Individual Town departments.

TABLE 21

TOWN OF WARRENTON, VIRGINIA

CAPITAL ASSET STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General government:										
Administration buildings	1	1	1	1	1	1	1	1	1	1
Public safety:										
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	18	18	18	17	19	21	21	21	21	21
Fire stations	1	1	1	1	1	1	1	1	1	1
Sanitation:										
Collection trucks	2	2	2	2	2	2	3	3	3	4
Highway and streets:										
Streets (miles)	86.76	86.37	86.49	86.49	86.49	94.52	94.52	93.47	93.47	93.47
Streetlights	770	770	770	772	772	795	810	810	810	810
Traffic signals	8	8	10	10	10	11	12	12	12	12
Culture and recreation:										
Parks acreage	88.69	88.69	88.69	88.69	88.69	88.69	88.69	88.69	88.69	88.69
Parks	5	5	5	5	5	5	5	5	5	5
Water:										
Water mains (miles)	82.40	82.40	84.00	84.00	84.00	86.00	86.00	86.00	86.00	86.00
Fire hydrants	681	681	690	716	717	725	725	725	731	731.00
Sewer:										
Sanitary sewers	63.20	63.20	63.20	66.00	66.00	66.00	66.00	66.00	68.00	68.00
Storm sewers (miles)	15.44	15.44	15.44	15.44	15.44	15.44	15.44	15.44	38.00	39.70

Source: Individual Town departments.

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COMPLIANCE SECTION

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Members of Town Council
Town of Warrenton, Virginia
Warrenton, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Warrenton, Virginia (the "Town"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 28, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. **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. We did identify a deficiency in internal control that we consider to be a significant deficiency in internal control. We consider the deficiency in the accompanying schedule of findings and responses as Item 2017-001 to be a significant deficiency.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which are described in the accompanying schedule of findings and responses as Items 2017-002 through 2017-005.**

Town of Warrenton, Virginia's Response to Findings

The Town's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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 Town'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 Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 28, 2017

TOWN OF WARRENTON, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2017

As more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the Town's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia:

- Budget and Appropriation Laws
- Cash and Investment Laws
- Conflicts of Interest Act
- Local Retirement Systems
- Debt Provisions
- Procurement Laws
- Uniform Disposition of Unclaimed Property Act
- Highway Maintenance

LOCAL COMPLIANCE MATTERS

Town Charter

TOWN OF WARRENTON, VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2017

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2017-001: Segregation of Duties (Significant Deficiency)

Condition:

One of the most important aspects of any internal control system is the segregation of duties. In an ideal system of internal controls, no individual would perform more than one duty in connection with any transaction or series of transactions. In particular, no one individual should have access to both physical assets and the related accounting records. Such access may allow errors or irregularities to occur and either be concealed or remain undetected. A proper segregation of duties has not been established in functions related to accounts payable, payroll, accounts receivable, journal entries, and administrative system rights.

Recommendation:

We recommend that proper segregation of duties be implemented wherever possible.

Management's Response:

Management is evaluating options to segregate duties while considering staffing limitations.

B. FINDINGS – COMMONWEALTH OF VIRGINIA

2017-002: Tax Abatement Calculation

Condition:

One tax abatement out of two tested was recorded at the incorrect amount as it was calculated based on the original assessment value instead of adjusted value.

Recommendation:

We recommend that all abatements calculations are reviewed for accuracy.

Management's Response:

All tax abatements will be prepared by the Tax Administrator, reviewed by the Accounting Supervisor, and approved by the Finance Director.

2017-003: Tax Abatement Approval

Condition:

One tax abatement out of two tested did not contain approval by the Commissioner of Revenue.

Recommendation:

We recommend that the Commissioner of Revenue approve all abatements.

Management's Response:

The Commissioner of the Revenue's office has not signed abatements in the past that only affected the Town assessment and not the County. We will request that the Commissioner of the Revenue sign to indicate approval of these abatements.

TOWN OF WARRENTON, VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2017

B. FINDINGS – COMMONWEALTH OF VIRGINIA (Continued)

2017-004: Highway Maintenance

Condition:

In two highway maintenance work orders out of two tested, we noted instances where the daily calculation method that is part of the weekly determination was unclear, calculations for labor costs did not agree to approved labor costs, calculations for equipment costs did not agree to approved costs, there was unclear documentation on the street where work was performed, and one instance of working on an unapproved road.

Recommendation:

We recommend revisiting procedures around monitoring highway maintenance.

Management's Response:

Management is examining methods to restructure reporting by the crew leaders at the end of each work day to accurately report eligible maintenance activities.

2017-005: Budget Compliance

Condition:

The Town exceeded its final budget in motor pool, fire and rescue services, collector street maintenance, and welfare/social services. It is a violation of Virginia State Code to spend amounts in excess of appropriations. It was noted that the Town did not exceed their budget at the fund level, and the only function that was exceeded was health and welfare.

Recommendation:

The Town should implement a policy to prevent expenditures in excess of final amended budget amounts.

Management's Response:

The Town Manager has approval authority to transfer appropriations between departments within the same fund. We monitor compliance within functional areas and monthly reports are provided to department heads for their functional areas. We typically go through a year-end budget exercise to cover deficits by transferring funds according to policy. Due to staffing limitations, this final review did not occur for fiscal year 2017. In fiscal year 2018, the Town intends to create a comprehensive set of financial policies and will review amending the budget policy to require compliance at the line item level throughout the year.