

**TOWN OF FRONT ROYAL, VIRGINIA**

*COMPREHENSIVE  
ANNUAL FINANCIAL REPORT*

**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**PREPARED BY THE  
DEPARTMENT OF FINANCE  
B.J. WILSON  
DIRECTOR OF FINANCE**

## **FOREWORD**

Front Royal is located in Warren County in Northern Virginia approximately 17 miles south of Winchester and 70 miles west of Washington, DC. The Town was founded in 1754 and chartered by the General Assembly of Virginia in 1788. U.S. Highways 522 and 340, and State Route 55 provide access to the Town. Interstate Highways 66 and 81 are located 1 mile north and 6 miles west of the Town, respectively. The Town covers an area of approximately 10.5 square miles and has a population estimated at 15,053.

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

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

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

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## **INTRODUCTORY SECTION**



**TOWN OF FRONT ROYAL**  
**TOWN MANAGERS OFFICE**  
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FRONT ROYAL, VIRGINIA 22630-1560  
(540) 635-8007  
(540) 636-7475 (Fax)

MATTHEW A. TEDERICK  
Interim Town Manager  
tederick@frontroyalva.com

November 3, 2020

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

RE: FY 2019-20 Comprehensive Annual Financial Report (CAFR)  
Letter of Transmittal

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) for the Town of Front Royal, Virginia, for the fiscal year ending June 30, 2020. The CAFR fulfills the requirement contained in both the Code of Virginia and the Town Code for completion of an annual audit of the Town's financial accounts and records by a certified public accountant. The CAFR provides informative and relevant financial data about Town operations in FY2019-2020.

Responsibility for the accuracy of the data and related disclosures, as well as the completeness of its presentation rests with the management of the Town. To the best of our knowledge and belief, the information provided in this report is accurate in all material respects and fairly presents the financial position of the Town. All disclosures necessary to enable the reader to gain an understanding of the Town's financial activities have been included. Management's 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 evaluation of the costs and benefits of a proposed internal control requires the application of best estimates and experience by management.

Based upon their audit, Mitchell & Co., P.C., a firm of licensed certified public accountants, concluded that there was a reasonable basis for rendering an unqualified opinion that the Town's financial statements for the fiscal year ending June 30, 2020, conform to the generally accepted accounting principles and standards of financial reporting as prescribed by the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association of the United States and Canada (GFOA). One of the goals of their recent audit was to provide reasonable assurance that the financial statements of the Town for the fiscal year ending June 30, 2020, are free of material misstatements. The independent audit involved examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

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

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

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

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

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

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

## **Profile of the Town**

Front Royal is located in the County of Warren in Northwestern Virginia approximately seventeen (17) miles south of Winchester and seventy (70) miles west of Washington DC. The Town was founded in 1754 and incorporated by the General Assembly of Virginia in 1788. Interstates 66 and 81 are located at the northern Town limits and west of the Town, respectively. U.S. Highways 522 and 340, and State Route 55 provide access to the Town. Major rail lines are also located along the western and northern boundaries of the Town. The Town covers approximately ten and one-half (10.5) square miles and has an estimated population of 15,006.

The Town is governed under a Council/Manager form of government. The Town Council, in its role as governing body, formulates policies for the proper administration of the Town. The Mayor, who serves a two-year term, sets the agenda, presides over the Town Council, and voting when there is a tie vote. The Town Council is comprised of six (6) members elected at large to serve four-year terms. Elections for three (3) Town Council seats and Mayor are held every two (2) years. Elections are conducted on the first Tuesday in November, with the newly elected officials taking office on January 1st.

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

In Virginia, incorporated towns are part of the county in which they are located. Accordingly, the residents of an incorporated town are required to pay certain taxes, including ad valorem taxes,

to both the town and the county. Certain services received by residents of a town are provided exclusively by the town, with other services being provided by the county.

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

### **COVID-19 & Economic Outlook**

Governor Ralph Northam declared a State of Emergency due to Novel Coronavirus (COVID-19) on March 12, 2020. The Town of Front Royal like all jurisdictions was impacted by the shutdown of our economy due to the declaration and following of Executive Orders. Several expenditure reduction adjustments were made to the FY19 Adopted Budget in anticipation of a reduction in Town revenues. On April 27, 2020, the Front Royal Town Council voted to move \$1,657,612.23 from the FY20 Adopted Budget into contingency funds. Additionally, on June 8, 2020, the Council moved \$3,052,260 in the Adopted FY21 Budget into contingency funds. The revenue shortfall from the FY20 revenue estimates were not as extensive as initially projected; therefore, on June 24, 2020 the Town Front Royal reallocated \$429,668.73 to the FY20 Adopted Budget in order to fund operations and capital projects which were placed on hold. As of the date of this letter, the Town has \$2,996,345.00 in contingency for the FY21 Adopted Budget.

The Town of Front Royal has weathered the initial impact of COVID-19 quite well. Sales tax revenues are currently 14% or \$37,904 above estimates. Lodging tax revenues have been impacted the most and are currently down 23% or \$17,931 compared to estimates. Meal tax revenues are tracking as budgeted.

Economic recovery has been a significant focus of the Town Council since the declaration of the State of Emergency. The Town rapidly created and implemented the use of the CARES Act funds to support local businesses. Over \$1M has been dispersed to approximately 107 small businesses in Town. Additionally, the Town will receive additional CARES Act funds to be used in reserve to assist the local economy should it be needed in 2021. Additionally, to help Town businesses, Main Street has been closed to vehicular traffic on weekends since June 12, 2020, as well as other alleys and streets upon request from business owners. The Town has also made significant improvements to tourism marketing to bolster the local economy. Beyond the impact of COVID-19 on the economy, the Town expects revenues to be flat until further commercial, industrial and residential development occurs in the community. The Town is focused on commercial development and redevelopment in an effort to increase economic activity.



## **Major Initiatives in FY20**

In FY20 the Town Council approved significant infrastructure projects, particularly the rehabilitation of aging and failing sewer lines allowing in inflows and infiltration (I & I) of storm water into our sewer system. Many of these infrastructure projects were needed decades ago but were never made a priority by previous administrations. Considering the large amount of surplus reserve balances and the historically low interest rate environment, the current Town Council has led the effort to improve our water and sewer systems. The following major projects were initiated, continued, or completed during the fiscal year:

- I & I Abatement – significant work has begun, and a plan of action was established for the Town to work towards becoming compliant with the DEQ consent order. The most problematic areas were identified, and corrective action has begun.
  1. The Town has made application for an \$8 million loan
  2. Manhole Rehabilitation Contract Awarded - \$206,748.00
  3. Cured In Place Pipe (C.I.P.P.) Lining Contract Awarded - \$1,074,975.99
  4. Open Cut Replacement Contract Awarded - \$887,537.24
  5. CCTV Investigation Contract Awarded - \$990,674.00
  6. Engineering Contract Awarded - \$1,0940,020.50
- Redundant Waterline – Engineering is currently underway for a \$12 million redundant waterline to serve the Rt. 522 corridor. Design is scheduled to be completed in February 2021 with construction anticipated to be completed by June 2022. This line will provide the necessary redundancy in the event of a major water line break which could cause businesses and industry to be out of water for days or weeks.
- Fairground Road Water Tank Rehabilitation – Completed a \$887,700 project that involved repainting, installing new equipment, and rehabilitating the water tank on Fairground Road.
- Stonewall Bridge Epoxy - the Town completed the re-epoxy and other repairs on the Stonewall Drive Bridge.
- Community Development Block Grant (CDBG) – In FY19, the Town was awarded the CDBG for the Front Royal District Revitalization Project which included a facade improvement program for Main Street property owners and a pavilion with bathrooms at the Village Commons/Gazebo area on Main Street. Approximately \$149,834.47 has been awarded for facade improvements and \$195,800.00 for the construction of the pavilion. The grant is scheduled to end March 2021.
- Police Department Facility – After several years of preparation, the Town completed and moved into the \$8.4M Front Royal Police Department in FY20.

- Procurement – procurement during fiscal year FY20 was much busier than previous years, for example:

	# Processed	# Processed	
	<u>FY20</u>	<u>FY19</u>	<u>Increase</u>
RFQ's	49	18	31 (172%)
IFB's	20	15	5 (33%)
Contracts	48	27	21 (78%)

- Pedestrian Safety – Developed a Safety Plan for Kerfoot Avenue and installed two crosswalks.
- Shentel Deployment – a franchise agreement with Shentel was approved for the installation of high-speed fiber and the Department of Energy Services is assisting with the installation of cabling for Shentel to allow Town residents to have another option for internet service provider.
- Town EDA – The General Assembly passed legislation that would allow the Town to create its own EDA. The Town has amended the Town Code and is in the process of accepting applications for the Town EDA Board of Directors.

### **Town Awards and Achievements**

- Certificate of Achievement for Excellence in Financial Reporting - The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Front Royal for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2019. This was the thirty second (32) consecutive year that the Town has received this prestigious award. The GFOA awards a Certificate to municipalities that exemplify excellence in financial reporting in conformity with stringent reporting requirements established by the GFOA. A Certificate of Achievement is valid for a period of one year. We believe that our current CAFR meets the Certificate of Achievement Program's requirements, and we will submit the CAFR to the GFOA to determine the Town's eligibility for continued recognition.
- 2019 Excellence in Waterworks Operations/Performance Award – The Town of Front Royal Water Treatment plant was awarded the 2019 Gold Excellence Award for achieving Virginia's optimization program goals from the Virginia Department of Health Office of Drinking Water.

### Acknowledgements

FY 2019-20 proved to be a challenging year. The Director of Finance not only prepared and adopted the FY 20-21 budget, but due to COVID-19 had to recast the FY 19-20 and FY 20-21 as previously mentioned. Additionally, the administration of CARES Act federal funds and other required recordkeeping stressed the Department of Finance to its limits. All employees of the Town rose to the challenges incurred by COVID-19 and by all observations and accounts, they greatly exceeded expectations.

In conclusion, the Town of Front Royal has established and continues to maintain a stable and strong financial position through fiscal conservative management of operations combined with accurate and transparent accounting and financial reporting practices. Tremendous credit goes to the Front Royal Town Council and the Department of Finance for their leadership and support in the management and oversight of Town finances.



Matthew Tederick  
Interim Town Manager



B.J. Wilson  
Director of Finance



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Town of Front Royal  
Virginia**

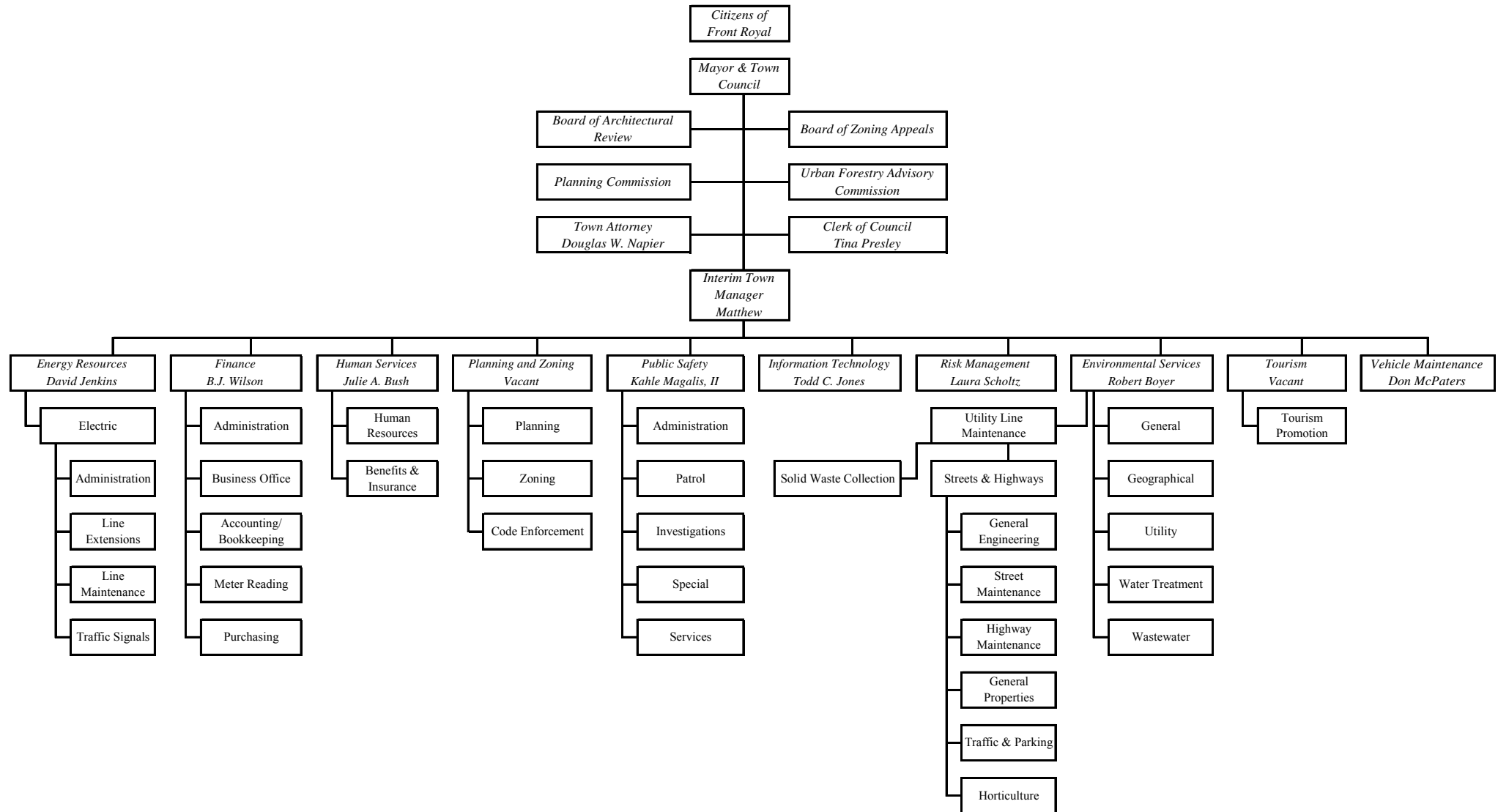
For its Comprehensive Annual  
Financial Report  
For the Fiscal Year Ended

June 30, 2019

*Christopher P. Morill*

Executive Director/CEO

**TOWN OF FRONT ROYAL  
ORGANIZATIONAL CHART  
FISCAL YEAR ENDED JUNE 30, 2020**



**TOWN OF FRONT ROYAL, VIRGINIA  
JUNE 30, 2020**

**TOWN COUNCIL**

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

**TOWN OFFICIALS**

Interim Town Manager	Matthew Tederick
Director of Planning & Zoning	Vacant
Town Attorney	Douglas W. Napier
Chief of Police	Kahle Magalis II
Director of Environmental Services	Robert Boyer
Purchasing Agent	Alisa Scott
Director of Human Resources	Julie A. Bush
Clerk of Council	Tina Presley
Director of Finance	B.J. Wilson
Director of Tourism	Felicia Hart
Director of Information Technology	Todd C. Jones
Director of Energy Services	David Jenkins
Risk Management Manager	Laura Scholtz

## **FINANCIAL SECTION**

# MITCHELL & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

KARA J. DOYLE, CPA  
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MEMBERS  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

VIRGINIA SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Front Royal, Virginia, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

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

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Front Royal, Virginia, as of June 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.



## ***Other Matters***

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

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

### ***Other Information***

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

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

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

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

In accordance with *Government Auditing Standards* we have also issued our report dated October 19, 2020 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Front Royal, Virginia's internal control over financial reporting and compliance.

October 19, 2020  
Leesburg, Virginia

*Mitchell & Co., P.C.*

## TOWN OF FRONT ROYAL, VIRGINIA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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As management of the Town of Front Royal, Virginia, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Front Royal, Virginia for the fiscal year ended June 30, 2020. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in our letter of transmittal, which can be found on pages 1 – 6 of this report.

#### Financial Highlights

- The assets and deferred outflows of the Town exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$139,502,031. Of this amount, \$33,192,892 may be used to meet the Town's ongoing obligations to its citizens and creditors.
- The Town's total net position increased by \$910,699 for fiscal year ended June 30, 2020.
- As of the close of the current fiscal year, the Town of Front Royal's governmental funds reported combined ending fund balances of \$15,130,044, an increase of \$1,481,912 in comparison with the prior year. Approximately 53% of this amount (\$8,089,237) is available for spending at the government's discretion.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$8,584,059 or 68 percent of total general fund expenditures.
- The Town's total bonded debt decreased by \$4,579,299 (10.12 percent) during the current fiscal year.

#### Overview of the Financial Statements

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

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

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

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

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

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

## TOWN OF FRONT ROYAL, VIRGINIA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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The government-wide financial statements can be found on pages 21 – 22 of this report.

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

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

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

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

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

The basic governmental fund financial statements can be found on pages 23 – 26 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 27 – 31 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31 – 86 of this report.

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

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

## TOWN OF FRONT ROYAL, VIRGINIA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Additional state required supplementary schedules follow the combining and individual fund statements and can be found on pages 109 – 111 of this report.

#### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town of Front Royal, Virginia, assets and deferred outflows exceeded liabilities and deferred inflows by \$139,502,031 at the close of the most recent fiscal year.

By far the largest portion of the Town's net position (73 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following table presents a summary of the Town's net position by type of activity as of June 30, 2020 and 2019.

TOWN OF FRONT ROYAL -- NET POSITION						
	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 17,591,931	\$ 16,562,402	\$ 36,767,644	\$ 39,073,128	\$ 54,359,575	\$ 55,635,530
Capital assets	54,560,370	58,424,571	95,851,107	95,252,733	150,411,477	153,677,304
Total Assets	72,152,301	74,986,973	132,618,751	134,325,861	204,771,052	209,312,834
Deferred Outflows of Resources	1,587,566	824,222	1,006,299	716,117	2,593,865	1,540,339
Long-term liabilities	19,177,403	18,204,382	45,104,436	49,346,459	64,281,839	67,550,841
Other liabilities	386,128	900,866	2,702,889	3,181,615	3,089,017	4,082,481
Total Liabilities	19,563,531	19,105,248	47,807,325	52,528,074	67,370,856	71,633,322
Deferred Inflows of Resources	380,669	466,708	111,361	161,811	492,030	628,519
Net investment in capital assets	45,504,940	49,299,224	56,282,332	53,014,215	101,787,272	102,313,439
Restricted	4,521,867	4,890,632	-	-	4,521,867	4,890,632
Unrestricted	3,768,860	2,049,383	29,424,032	29,337,878	33,192,892	31,387,261
Total Net Position	\$ 53,795,667	\$ 56,239,239	\$ 85,706,364	\$ 82,352,093	\$ 139,502,031	\$ 138,591,332

An additional portion of the Town of Front Royal's net position (3.13%) represents resources that are in a nonspendable form. The remaining balance of \$31,387,261 is unrestricted net position and may be used to meet the government's ongoing obligations to its citizens and creditors.

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

## TOWN OF FRONT ROYAL, VIRGINIA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The Town's net position increased by \$910,699 from fiscal year ended June 30, 2020 activities. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

**Governmental activities.** Governmental activities decreased the Town's net position by \$2,443,572. These changes are presented in column one of the following table and key elements of the increase are noted below:

TOWN OF FRONT ROYAL -- CHANGES IN NET POSITION						
	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues						
Program revenues						
Charges for services	\$ 239,359	\$ 385,611	\$ 31,624,806	\$ 32,985,997	\$ 31,864,165	\$ 33,371,608
Operating grants & contributions	2,524,909	3,008,198	-	-	2,524,909	3,008,198
Capital grants & contributions	99,175	283,281	138,904	262,563	238,079	545,844
General revenues						
Property taxes	2,183,121	2,175,076	-	-	2,183,121	2,175,076
Other taxes	6,243,086	6,053,351	-	-	6,243,086	6,053,351
Investment and other earnings	253,277	314,587	680,561	1,005,568	933,838	1,320,155
Total revenues	11,542,927	12,220,104	32,444,271	34,254,128	43,987,198	46,474,232
Expenses						
General government	4,012,539	3,591,283	-	-	4,012,539	3,591,283
Public safety	5,482,892	5,084,827	-	-	5,482,892	5,084,827
Engineering and public works	2,576,212	2,671,218	-	-	2,576,212	2,671,218
Planning and zoning	959,043	936,586	-	-	959,043	936,586
Infrastructure depreciation	4,085,813	4,052,716	-	-	4,085,813	4,052,716
Electric	-	-	16,834,919	18,681,552	16,834,919	18,681,552
Water	-	-	3,315,985	3,380,314	3,315,985	3,380,314
Sewer	-	-	4,913,811	5,307,707	4,913,811	5,307,707
Solid waste management	-	-	895,285	882,729	895,285	882,729
Total expenses	17,116,499	16,336,630	25,960,000	28,252,302	43,076,499	44,588,932
Increase (decrease) in net position before transfers	(5,573,572)	(4,116,526)	6,484,271	6,001,826	910,699	1,885,300
Transfers	3,130,000	3,131,000	(3,130,000)	(3,131,000)	-	-
Increase (decrease) in net position	(2,443,572)	(985,526)	3,354,271	2,870,826	910,699	1,885,300
Net position – beginning	56,239,239	57,224,765	82,352,093	79,481,267	138,591,332	136,706,032
Net position – ending	\$ 53,795,667	\$ 56,239,239	\$ 85,706,364	\$ 82,352,093	\$ 139,502,031	\$ 138,591,332

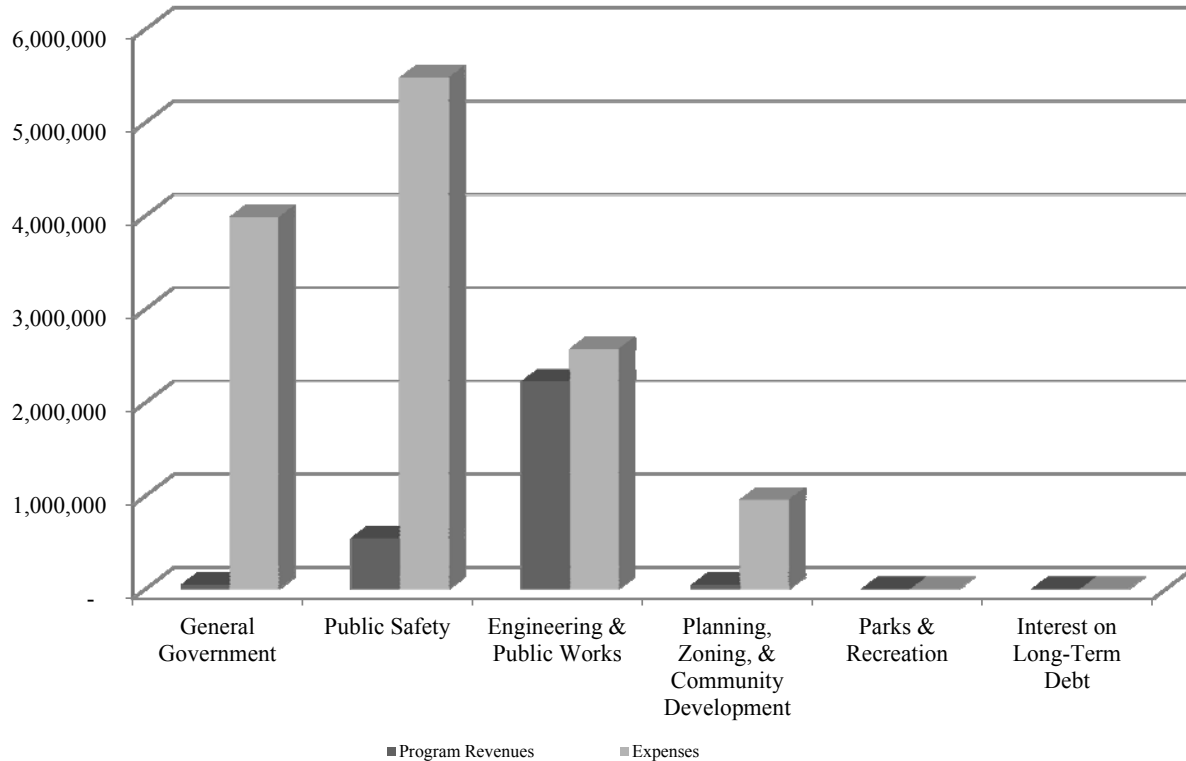
- Decrease in other local taxes (meals and lodging).
- Increase in legal and professional fees.
- Change in VRS unfunded pension valuation.

## TOWN OF FRONT ROYAL, VIRGINIA

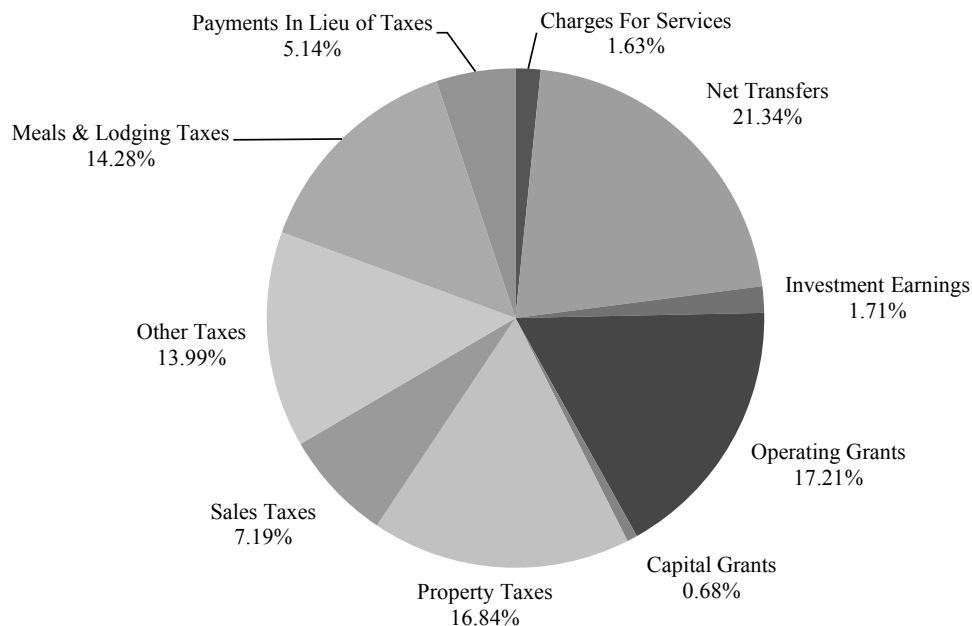
### MANAGEMENT'S DISCUSSION AND ANALYSIS

The following charts present a graphic representation of the Town's governmental activities and the related revenue structure for fiscal year 2020.

#### EXPENSES AND PROGRAM REVENUES – GOVERNMENTAL ACTIVITIES



#### REVENUES BY SOURCE – GOVERNMENTAL ACTIVITIES



## TOWN OF FRONT ROYAL, VIRGINIA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

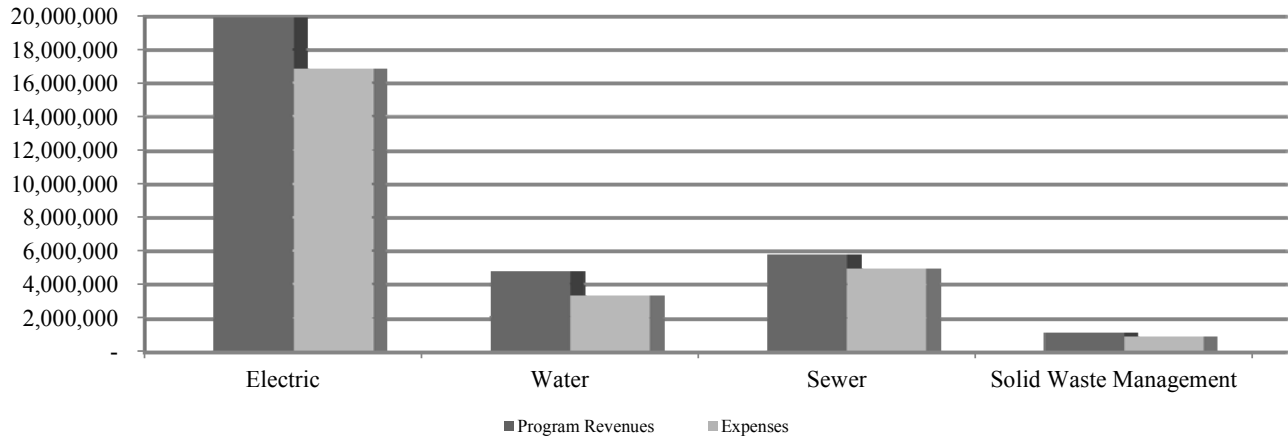
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**Business-type activities.** Business-type activities increased the Town of Front Royal, Virginia's net position by \$3,354,271. Key elements of this increase are as follows:

- Decrease in operating expenses.

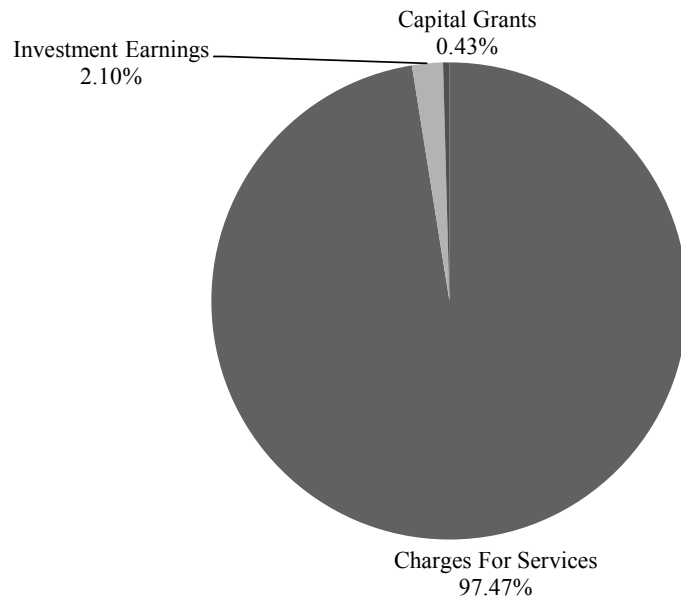
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#### EXPENSES AND PROGRAM REVENUES – BUSINESS-TYPE ACTIVITIES



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



## TOWN OF FRONT ROYAL, VIRGINIA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

As of the end of the current fiscal year, the Town of Front Royal, Virginia's governmental funds reported combined ending fund balances of \$15,130,044, an increase of \$1,481,912 in comparison with the prior year. Approximately 54.5% of this total amount, \$8,089,237 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance represents funds in nonspendable form (\$534,395), assigned for future use (\$1,984,545), and restricted by third parties (\$4,521,867).

The general fund is the chief operating fund of the Town of Front Royal, Virginia. At the end of the current fiscal year, unassigned fund balance of the general fund was \$8,584,059, while total fund balance reached \$14,609,672. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 67.6 percent of total general fund expenditures, while total fund balance represents 115.1 percent of that same amount.

The fund balance of the Town's general fund increased by \$1,596,331 during the current fiscal year. Key factors in this increase are as follows:

- Public work projects not started

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

Net position of the water, sewer and solid waste management functions at the end of the year amounted to \$68,761,969 and those for the electric function amounted to \$16,944,395. The total increase in net position for all enterprise funds was \$3,354,271. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

#### General Fund Budgetary Highlights

Additional net appropriations increases between the original budget and the final amended budget totaled \$2,443,822 and are noted as follows: a \$35,463 decrease in Legislative; a \$308,766 increase in Executive; a \$366,300 increase in Legal; a \$608,772 increase in General Government; a \$94,897 increase in Planning, Zoning and Community Development; a \$481,161 increase in Police Department; a \$1,000,588 increase in Public Works and Engineering; and, a \$218,404 increase in Nondepartmental.

Actual general fund revenues were greater than budgeted revenues by \$212,460. The variance relates primarily to investment earnings and fund transfers. Actual general fund expenditures were less than the budgeted expenditures by \$2,935,758.



## TOWN OF FRONT ROYAL, VIRGINIA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Capital Asset and Debt Administration

**Capital assets.** The Town of Front Royal, Virginia's investment in capital assets for its governmental and business-type activities as of June 30, 2020, amounts to \$150,411,477 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, roads, highways, and bridges. The total decrease in capital assets for the current fiscal year was approximately 2.13%. Major capital assets events during the current fiscal year included the following:

- Water line upgrades and paving of \$1,355,944
- Vehicle purchased for \$453,283
- Police station completion costing \$123,939

The table below summarizes the capital assets of the Town at June 30, 2020 and 2019.

TOWN OF FRONT ROYAL - CAPITAL ASSETS (NET OF DEPRECIATION)						
	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 1,304,316	\$ 1,304,316	\$ 1,488,822	\$ 1,488,822	\$ 2,793,138	\$ 2,793,138
Construction in progress	-	8,967,827	-	-	-	8,967,827
Buildings and Improvements	17,823,950	8,519,327	71,398,711	70,454,626	89,222,661	78,973,953
Utility distribution systems	-	-	22,000,144	22,247,051	22,000,144	22,247,051
Vehicles	609,761	502,556	372,746	338,833	982,507	841,389
Machinery and Equipment	793,418	1,015,807	590,684	723,401	1,384,102	1,739,208
Infrastructure	34,028,925	38,114,738	-	-	34,028,925	38,114,738
Total	\$ 54,560,370	\$ 58,424,571	\$ 95,851,107	\$ 95,252,733	\$ 150,411,477	\$ 153,677,304

Additional information on the Town of Front Royal's capital assets can be found in Note IV. E. on pages 47 – 48 of this report.

**Long-term debt.** At the end of the current fiscal year, the Town of Front Royal, Virginia had total bonded debt outstanding of \$40,051,474. All of this amount comprises debt backed by the full faith and credit of the government even though all bonded debt will be repaid from enterprise fund revenue.

TOWN OF FRONT ROYAL -- OUTSTANDING DEBT (GENERAL OBLIGATION BONDS)						
	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
General Obligation Bonds	\$ -	\$ -	\$ 40,051,474	\$ 44,550,354	\$ 40,051,474	\$ 44,550,354

The Town of Front Royal's total bonded debt decreased by \$4,498,880 (10.1 percent) during the current fiscal year. The majority of the debt is \$33,176,474 in general obligation bonds in the Sewer Fund. The reason for the increase is the issuance of new debt for the waste water treatment plant improvement.

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

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

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

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State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total taxable assessed valuation. The current debt limitation for the Town of Front Royal is \$123,909,639 which is significantly in excess of the Town's outstanding general obligation debt.

Additional information on the Town of Front Royal's long-term debt can be found in note IV. G. on pages 49 – 52 of this report.

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

- The unemployment rate for the Town of Front Royal is currently 7.5 percent, which is an increase from the prior year of 3.1 percent.
- This compares to the state's average unemployment rate of 8.5 percent and favorably to the national average rate of 11.2 percent.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the Town of Front Royal, Virginia's budget for the 2020 fiscal year.

During the current fiscal year, unassigned fund balance in the general fund was \$8,584,059. Town of Front Royal has not appropriated any of this amount for spending in the 2020 fiscal year budget. It is available to offset the need for additional resources to be generated by the general fund.

#### **Requests for Information**

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

**TOWN OF FRONT ROYAL, VIRGINIA**  
**GOVERNMENT WIDE STATEMENT OF NET POSITION**  
**JUNE 30, 2020**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 15,138,365	\$ 15,368,497	\$ 30,506,862
Investments	-	13,939,634	13,939,634
Receivables (net of allowance for uncollectibles, where applicable)			
Delinquent taxes, including penalties	2,199,819	-	2,199,819
Accounts	-	3,253,052	3,253,052
Other	50,384	145,590	195,974
Internal balances	(733,165)	733,165	-
Due from other governments	402,133	-	402,133
Inventories and other assets	534,395	1,874,414	2,408,809
Temporarily restricted assets - cash and cash equivalents			
Customer deposits	-	593,126	593,126
Bond funds	-	860,166	860,166
Capital assets (net of accumulated depreciation)			
Land	1,304,316	1,488,822	2,793,138
Buildings and improvements	17,823,950	71,398,711	89,222,661
Utility distribution systems	-	22,000,144	22,000,144
Vehicles	609,761	372,746	982,507
Machinery and equipment	793,418	590,684	1,384,102
Infrastructure	34,028,925	-	34,028,925
<b>Total Assets</b>	<b>72,152,301</b>	<b>132,618,751</b>	<b>204,771,052</b>
<b>Deferred Outflows of Resources</b>			
Deferred charge on refunded debt	-	372,032	372,032
Deferred pension, GLI and LODA obligations	1,587,566	634,267	2,221,833
<b>Total Deferred Outflows</b>	<b>1,587,566</b>	<b>1,006,299</b>	<b>2,593,865</b>
<b>Liabilities</b>			
Accounts payable	386,128	2,036,063	2,422,191
Accrued interest payable	-	73,700	73,700
Liabilities payable with restricted assets	-	593,126	593,126
Noncurrent liabilities			
Due within one year	1,019,727	2,873,023	3,892,750
Due in more than one year	18,157,676	42,231,413	60,389,089
<b>Total Liabilities</b>	<b>19,563,531</b>	<b>47,807,325</b>	<b>67,370,856</b>
<b>Deferred Inflows of Resources</b>			
Deferred pension, GLI and LODA inflows	380,669	111,361	492,030
<b>Net Position</b>			
Net investment in capital assets	45,504,940	56,282,332	101,787,272
Restricted for:			
Streets and highways	3,506,673	-	3,506,673
Capital outlays	15,576	-	15,576
Community development	999,618	-	999,618
Unrestricted	3,768,860	29,424,032	33,192,892
<b>Total Net Position</b>	<b>\$ 53,795,667</b>	<b>\$ 85,706,364</b>	<b>\$ 139,502,031</b>

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

**TOWN OF FRONT ROYAL, VIRGINIA**  
**GOVERNMENT WIDE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2020**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
Governmental activities							
General government	\$ 3,987,202	\$ 24,889	\$ -	\$ 23,678	\$ (3,938,635)	\$ -	\$ (3,938,635)
Public safety	5,482,892	171,240	376,296	-	(4,935,356)	-	(4,935,356)
Engineering and public works	2,576,212	-	2,148,613	75,497	(352,102)	-	(352,102)
Planning, zoning, and community development	959,043	43,230	-	-	(915,813)	-	(915,813)
Interest	25,337	-	-	-	(25,337)	-	(25,337)
Infrastructure depreciation	4,085,813	-	-	-	(4,085,813)	-	(4,085,813)
Total governmental activities	17,116,499	239,359	2,524,909	99,175	(14,253,056)	-	(14,253,056)
Business-type activities							
Electric	16,834,919	19,892,677	-	12,404	-	3,070,162	3,070,162
Water	3,315,985	4,827,497	-	-	-	1,511,512	1,511,512
Sewer	4,913,811	5,794,938	-	126,500	-	1,007,627	1,007,627
Solid Waste Mangement	895,285	1,109,694	-	-	-	214,409	214,409
Total business-type activities	25,960,000	31,624,806	-	138,904	-	5,803,710	5,803,710
Total primary government	\$ 43,076,499	\$ 31,864,165	\$ 2,524,909	\$ 238,079	(14,253,056)	5,803,710	(8,449,346)
General Revenues							
Property taxes					2,183,121	-	2,183,121
Sales taxes					1,054,716	-	1,054,716
Business and occupational taxes					812,015	-	812,015
Franchise and bank stock taxes					372,784	-	372,784
Communication taxes					140,543	-	140,543
Consumer taxes					227,433	-	227,433
Meals and lodging taxes					2,095,034	-	2,095,034
Virginia personal property tax reduction					287,863	-	287,863
Payment in lieu of taxes					753,655	-	753,655
Motor vehicle tax					390,178	-	390,178
Other general taxes					108,865	-	108,865
Unrestricted investment earnings					250,609	680,561	931,170
Sale of equipment					2,668	-	2,668
Transfers					3,130,000	(3,130,000)	-
Total general revenues and transfers					11,809,484	(2,449,439)	9,360,045
Change in net position					(2,443,572)	3,354,271	910,699
Net position - beginning					56,239,239	82,352,093	138,591,332
Net position - ending					\$ 53,795,667	\$ 85,706,364	\$ 139,502,031

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

**TOWN OF FRONT ROYAL, VIRGINIA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2020**

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 14,473,801	\$ 664,564	\$ 15,138,365
Receivables (net of allowance for uncollectibles, where applicable)			
Delinquent taxes, including penalties	2,199,819	-	2,199,819
Other	50,384	-	50,384
Due from other governments	402,133	-	402,133
Interfund advances	49,915	4,500	54,415
Inventories and other assets	534,395	-	534,395
<b>Total Assets</b>	<b>\$ 17,710,447</b>	<b>\$ 669,064</b>	<b>\$ 18,379,511</b>
<b>Liabilities, Deferred Inflows and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 212,658	\$ 1,746	\$ 214,404
Accrued liabilities	171,723	-	171,723
Interfund advances	640,634	146,946	787,580
<b>Total Liabilities</b>	<b>1,025,015</b>	<b>148,692</b>	<b>1,173,707</b>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue	2,075,760	-	2,075,760
<b>Fund balances</b>			
Nonspendable:			
Inventory	4,036	-	4,036
Prepaid items	530,359	-	530,359
Restricted for:			
Streets and highways	3,506,673	-	3,506,673
Capital outlays	-	15,576	15,576
Community development	-	999,618	999,618
Assigned for:			
Expenditures designated for future years	1,984,545	-	1,984,545
Unassigned	8,584,059	(494,822)	8,089,237
<b>Total Fund Balances</b>	<b>14,609,672</b>	<b>520,372</b>	<b>15,130,044</b>
<b>Total Liabilities, Deferred Inflows and Fund Balances</b>	<b>\$ 17,710,447</b>	<b>\$ 669,064</b>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	54,560,370
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	2,075,760
Long-term liabilities, including bonds, notes, advances and other post employment benefits payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(12,574,518)
Pension, life and line of duty obligations and funding requirement reporting is not due in the current period and, therefore, not reported in the funds.	(5,395,989)
Net position of governmental activities	<b>\$ 53,795,667</b>

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

**TOWN OF FRONT ROYAL, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Taxes			
Property	\$ 1,316,715	\$ 804,050	\$ 2,120,765
Sales	1,054,716	-	1,054,716
Business and occupational	812,015	-	812,015
Franchise	121,306	-	121,306
Consumer	227,433	-	227,433
Vehicle taxes	390,178	-	390,178
Bank stock	251,478	-	251,478
Meals and lodging	2,095,034	-	2,095,034
Payment in lieu of taxes	753,655	-	753,655
Permits, fees, and licenses	43,230	-	43,230
Fines and forfeitures	161,939	-	161,939
Revenues from use of money & property	250,609	-	250,609
Charges for services	3,341	-	3,341
Miscellaneous	21,548	-	21,548
Recovered costs	-	9,301	9,301
Intergovernmental	2,984,120	177,235	3,161,355
Total revenues	<u>10,487,317</u>	<u>990,586</u>	<u>11,477,903</u>
<b>Expenditures</b>			
General government			
Legislative	199,262	-	199,262
Executive	2,022,343	-	2,022,343
Legal	513,870	-	513,870
Finance	881,457	-	881,457
Public safety - Police	5,103,063	-	5,103,063
Planning, zoning, and community development	466,966	413,580	880,546
Engineering and public works	2,948,834	18,445	2,967,279
Nondepartmental	560,839	-	560,839
Total expenditures	<u>12,696,634</u>	<u>432,025</u>	<u>13,128,659</u>
Deficiency of revenues under expenditures	<u>(2,209,317)</u>	<u>558,561</u>	<u>(1,650,756)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	3,802,980	-	3,802,980
Transfers (out)	-	(672,980)	(672,980)
Sale of equipment	2,668	-	2,668
Total other financing sources and uses	<u>3,805,648</u>	<u>(672,980)</u>	<u>3,132,668</u>
<b>Net change in fund balances</b>	<u>1,596,331</u>	<u>(114,419)</u>	<u>1,481,912</u>
<b>Fund balances - beginning</b>	<u>13,013,341</u>	<u>634,791</u>	<u>13,648,132</u>
<b>Fund balances - ending</b>	<u>\$ 14,609,672</u>	<u>\$ 520,372</u>	<u>\$ 15,130,044</u>

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

**TOWN OF FRONT ROYAL, VIRGINIA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2020**

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

Net change in fund balances - total governmental funds \$ 1,481,912

Governmental funds report capital outlays as expenditures. However, in the Government Wide Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Expenditure for capital assets	903,657	
Less depreciation and amortization expense	(4,767,858)	
Excess of capital outlay over depreciation and amortization		(3,864,201)

Revenues in the Government Wide Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Change in deferred revenue		62,356
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The issuance of long-term debt (i.e. advances, bonds, notes, leases) provides current financial resources to governmental funds, but in the Government Wide Statement of Net Position is reported as a liability.

Advanced project funding from EDA	-	
Equipment purchase loans	69,917	
		69,917

Some expenses reported in the Government Wide Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	(67,199)	
Other post employment benefits		
Pension obligation	(1,249,584)	
Health insurance	336,864	
Group life insurance and LODA	(63,020)	
		(1,042,939)

Governmental funds do not report the deferred outflows and inflows in the Balance Sheet and in the Statement of Revenues, Expenditures and Changes in Fund Balance. However, in the Government Wide statements the deferred outflows and deferred inflows of resources are recorded.

Deferred outflows	763,344	
Deferred inflows	86,039	
		849,383

Change in net position of governmental activities		\$ (2,443,572)
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The notes to the financial statements are an integral part of this statement.

**TOWN OF FRONT ROYAL, VIRGINIA**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Positive (Negative)</b>
<b>Revenues</b>				
General property taxes	\$ 1,357,275	\$ 1,357,275	\$ 1,316,715	\$ (40,560)
Other local taxes	5,420,120	5,645,947	5,705,815	59,868
Permits, fees, and licenses	35,100	35,100	43,230	8,130
Fines and forfeitures	267,000	267,000	161,939	(105,061)
Revenues from use of money & property	78,545	78,545	250,609	172,064
Charges for services	65,050	65,050	3,341	(61,709)
Miscellaneous	4,060	4,810	21,548	16,738
Intergovernmental	2,969,420	3,201,978	2,984,120	(217,858)
Total revenues	10,196,570	10,655,705	10,487,317	(168,388)
<b>Expenditures</b>				
General government				
Legislative	235,875	200,412	199,262	1,150
Executive	2,134,325	2,443,091	2,022,343	420,748
Legal	369,205	735,505	513,870	221,635
Finance	910,780	879,949	881,457	(1,508)
Total general government	3,650,185	4,258,957	3,616,932	642,025
Public safety - police	5,264,960	5,746,121	5,103,063	643,058
Planning and zoning	531,300	626,197	466,966	159,231
Public works and engineering	3,153,125	4,153,713	2,948,834	1,204,879
Non-departmental	589,000	807,404	560,839	246,565
Total expenditures	13,188,570	15,592,392	12,696,634	2,895,758
<b>Deficiency of revenues under expenditures</b>	(2,992,000)	(4,936,687)	(2,209,317)	2,727,370
<b>Other Financing Sources</b>				
Transfers in	3,130,000	3,412,800	3,802,980	390,180
Transfers out	-	(40,000)	-	40,000
Sale of equipment	10,000	10,000	2,668	(7,332)
Insurance recoveries	2,000	2,000	-	(2,000)
	3,142,000	3,384,800	3,805,648	420,848
<b>Net change in fund balances</b>	150,000	(1,551,887)	1,596,331	3,148,218
<b>Fund balances - beginning</b>	13,013,341	13,013,341	13,013,341	-
<b>Fund balances - ending</b>	\$ 13,163,341	\$ 11,461,454	\$ 14,609,672	\$ 3,148,218

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



**TOWN OF FRONT ROYAL, VIRGINIA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2020**

	Business-type Activities - Enterprise Funds			
	Electric Current Year	Electric Prior Year	Water Current Year	Water Prior Year
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 255,479	\$ -	\$ 5,229,994	\$ 5,297,119
Investments	3,340,807	2,984,030	4,059,522	4,268,052
Due from other funds	370,663	520,663	877,859	877,859
Accounts receivable (net of allowance for uncollectibles)	1,914,153	1,959,886	567,327	544,924
Other receivables	127,115	67,946	3,000	3,000
Inventories	1,122,238	1,178,118	376,088	277,530
Total current assets	7,130,455	6,710,643	11,113,790	11,268,484
Noncurrent assets				
Restricted cash and cash equivalents				
Customer deposits	538,951	480,159	54,175	39,380
Bond funds	-	-	-	-
	538,951	480,159	54,175	39,380
Capital assets				
Land, buildings and structures	8,733,488	8,733,488	19,674,337	18,227,125
Utility distribution systems	11,400,515	10,654,888	23,060,828	22,989,023
Vehicles	1,404,092	1,404,092	428,354	428,354
Equipment	1,504,410	1,490,910	901,309	858,200
Less accumulated depreciation	(10,450,363)	(9,863,029)	(18,988,159)	(18,094,219)
Total capital assets (net of accumulated depreciation)	12,592,142	12,420,349	25,076,669	24,408,483
Total noncurrent assets	13,131,093	12,900,508	25,130,844	24,447,863
<b>Total Assets</b>	20,261,548	19,611,151	36,244,634	35,716,347
<b>Deferred Outflows of Resources</b>				
Deferred charge on refunded debt	-	-	372,032	419,526
Deferred pension and GLI obligation	221,316	107,607	181,593	93,807
<b>Total Deferred Outflows</b>	221,316	107,607	553,625	513,333
<b>Liabilities</b>				
Current liabilities				
Accounts payable	1,541,112	1,532,953	125,429	77,361
Accrued interest payable	-	-	73,700	78,180
Bank advances	-	855,390	-	-
Compensated absences - current	71,855	64,645	49,559	61,713
General obligation bonds - current	-	-	680,000	635,000
Loan payable - current	-	-	-	-
Total current liabilities	1,612,967	2,452,988	928,688	852,254
Noncurrent liabilities				
Customer deposits payable	538,951	480,159	54,175	39,380
Compensated absences	71,854	64,645	49,558	61,713
OPEB liability	339,053	379,011	348,913	394,120
General obligation bonds payable	-	-	6,820,913	7,601,332
Loan payable	-	-	-	-
Unfunded pension and GLI liability	936,787	669,221	761,464	633,133
Total noncurrent liabilities	1,886,645	1,593,036	8,035,023	8,729,678
<b>Total Liabilities</b>	3,499,612	4,046,024	8,963,711	9,581,932
<b>Deferred Inflows of Resources</b>				
Deferred pension and GLI inflow	38,857	50,903	31,170	48,158
<b>Net Position</b>				
Net investment in capital assets	12,592,142	12,420,349	17,947,388	16,591,677
Unrestricted	4,352,253	3,201,482	9,855,990	10,007,913
<b>Total Net Position</b>	\$ 16,944,395	\$ 15,621,831	\$ 27,803,378	\$ 26,599,590

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

(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2020**

	Business-type Activities - Enterprise Funds				
	Sewer Current Year	Sewer Prior Year	Solid Waste Management Current Year	Solid Waste Management Prior Year	Totals Current Year
<b>Assets</b>					
Current assets					
Cash and cash equivalents	\$ 9,015,084	\$ 7,385,472	\$ 867,940	\$ 814,125	\$ 15,368,497
Investments	6,539,305	9,252,986	-	-	13,939,634
Due from other funds	(357,640)	(357,640)	(157,717)	(157,717)	733,165
Accounts receivable (net of allowance for uncollectibles)	637,105	620,806	134,467	131,170	3,253,052
Other receivables	15,475	9,000	-	88	145,590
Inventories	376,088	277,530	-	-	1,874,414
Total current assets	16,225,417	17,188,154	844,690	787,666	35,314,352
Noncurrent assets					
Restricted cash and cash equivalents					
Customer deposits	-	-	-	-	593,126
Bond funds	860,166	2,598,642	-	-	860,166
	860,166	2,598,642	-	-	1,453,292
Capital assets					
Land, buildings and structures	59,490,832	57,977,430	54,941	54,941	87,953,598
Utility distribution systems	23,235,113	23,163,308	-	-	57,696,456
Vehicles	762,022	762,022	1,128,495	951,567	3,722,963
Equipment	1,746,795	1,706,949	639,227	639,227	4,791,741
Less accumulated depreciation	(27,338,260)	(25,353,625)	(1,536,869)	(1,477,918)	(58,313,651)
Total capital assets (net of accumulated depreciation)	57,896,502	58,256,084	285,794	167,817	95,851,107
Total noncurrent assets	58,756,668	60,854,726	285,794	167,817	97,304,399
<b>Total Assets</b>	<b>74,982,085</b>	<b>78,042,880</b>	<b>1,130,484</b>	<b>955,483</b>	<b>132,618,751</b>
<b>Deferred Outflows of Resources</b>					
Deferred charge on refunded debt	-	-	-	-	372,032
Deferred pension and GLI obligation	137,404	66,306	93,954	28,871	634,267
<b>Total Deferred Outflows</b>	<b>137,404</b>	<b>66,306</b>	<b>93,954</b>	<b>28,871</b>	<b>1,006,299</b>
<b>Liabilities</b>					
Current liabilities					
Accounts payable	353,034	79,248	16,488	9,251	2,036,063
Accrued interest payable	-	29,693	-	-	73,700
Bank advances	-	-	-	-	-
Compensated absences - current	47,650	60,869	17,736	13,221	186,800
General obligation bonds - current	1,968,880	2,103,880	-	-	2,648,880
Loan payable - current	-	-	37,343	35,945	37,343
Total current liabilities	2,369,564	2,273,690	71,567	58,417	4,982,786
Noncurrent liabilities					
Customer deposits payable	-	-	-	-	593,126
Compensated absences	47,650	60,869	17,735	13,221	186,797
OPEB liability	308,404	348,362	249,169	281,452	1,245,539
General obligation bonds payable	31,207,594	34,916,474	-	-	38,028,507
Loan payable	-	-	85,843	122,661	85,843
Unfunded pension and GLI liability	588,790	533,731	397,686	291,241	2,684,727
Total noncurrent liabilities	32,152,438	35,859,436	750,433	708,575	42,824,539
<b>Total Liabilities</b>	<b>34,522,002</b>	<b>38,133,126</b>	<b>822,000</b>	<b>766,992</b>	<b>47,807,325</b>
<b>Deferred Inflows of Resources</b>					
Deferred pension and GLI inflow	24,838	40,597	16,496	22,153	111,361
<b>Net Position</b>					
Net investment in capital assets	25,580,194	23,834,372	162,608	9,211	56,282,332
Unrestricted	14,992,455	16,101,091	223,334	185,998	29,424,032
<b>Total Net Position</b>	<b>\$ 40,572,649</b>	<b>\$ 39,935,463</b>	<b>\$ 385,942</b>	<b>\$ 195,209</b>	<b>\$ 85,706,364</b>

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

**TOWN OF FRONT ROYAL, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Electric Current Year</b>	<b>Electric Prior Year</b>	<b>Water Current Year</b>	<b>Water Prior Year</b>
<b>Operating revenues</b>				
Charges for sales and services				
Electric sales	\$ 19,424,404	\$ 20,185,657	\$ -	\$ -
Water and sewer sales	-	-	4,486,655	4,508,739
Installation and connection charges	430,231	130,883	195,897	421,839
Refuse service fees	-	-	-	-
Miscellaneous revenues	38,042	28,133	37,628	40,013
Total operating revenues	<u>19,892,677</u>	<u>20,344,673</u>	<u>4,720,180</u>	<u>4,970,591</u>
<b>Operating expenses</b>				
Personal service	1,497,927	1,218,874	1,118,776	1,220,181
Contractual service	75,635	77,477	247,584	243,782
Electric power	14,409,136	16,255,699	-	-
Depreciation	587,334	594,792	893,940	885,239
Other charges	951,388	948,780	861,136	1,034,761
Operating expenses capitalized	(689,747)	(417,642)	(71,805)	(284,789)
Total operating expenses	<u>16,831,673</u>	<u>18,677,980</u>	<u>3,049,631</u>	<u>3,099,174</u>
Operating income	<u>3,061,004</u>	<u>1,666,693</u>	<u>1,670,549</u>	<u>1,871,417</u>
<b>Nonoperating revenues (expenses)</b>				
Investment earnings	207,402	267,547	182,276	245,066
Interest expense	(3,246)	(3,572)	(266,354)	(281,140)
Lease income	-	-	107,317	102,969
Insurance recoveries	-	130,462	-	-
Gain on sale of capital assets	-	1,695	-	-
Total nonoperating revenue (expenses)	<u>204,156</u>	<u>396,132</u>	<u>23,239</u>	<u>66,895</u>
Income before contributions and transfers	3,265,160	2,062,825	1,693,788	1,938,312
<b>Transfers and contributions</b>				
Capital grants	12,404	17,699	-	-
Transfers in (out)	<u>(1,955,000)</u>	<u>(1,950,000)</u>	<u>(490,000)</u>	<u>(509,000)</u>
Change in net position	1,322,564	130,524	1,203,788	1,429,312
Total net position - beginning of year	<u>15,621,831</u>	<u>15,491,307</u>	<u>26,599,590</u>	<u>25,170,278</u>
Total net position - end of year	<u>\$ 16,944,395</u>	<u>\$ 15,621,831</u>	<u>\$ 27,803,378</u>	<u>\$ 26,599,590</u>

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

(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Business-type Activities - Enterprise Funds				
	Sewer Current Year	Sewer Prior Year	Solid Waste Management Current Year	Solid Waste Management Prior Year	Totals Current Year
<b>Operating revenues</b>					
Charges for sales and services					
Electric sales	\$ -	\$ -	\$ -	\$ -	\$ 19,424,404
Water and sewer sales	5,426,407	5,531,658	-	-	9,913,062
Installation and connection charges	365,789	941,374	-	-	991,917
Refuse service fees	-	-	1,107,026	1,080,021	1,107,026
Miscellaneous revenues	2,742	600	2,668	14,111	81,080
Total operating revenues	<u>5,794,938</u>	<u>6,473,632</u>	<u>1,109,694</u>	<u>1,094,132</u>	<u>31,517,489</u>
<b>Operating expenses</b>					
Personal service	810,251	888,772	607,141	531,177	4,034,095
Contractual service	386,205	369,555	-	56,262	709,424
Electric power	-	-	-	-	14,409,136
Depreciation	1,984,635	2,040,325	58,951	44,012	3,524,860
Other charges	1,716,651	1,955,525	225,386	248,111	3,754,561
Operating expenses capitalized	(71,805)	(29,537)	-	-	(833,357)
Total operating expenses	<u>4,825,937</u>	<u>5,224,640</u>	<u>891,478</u>	<u>879,562</u>	<u>25,598,719</u>
Operating income	<u>969,001</u>	<u>1,248,992</u>	<u>218,216</u>	<u>214,570</u>	<u>5,918,770</u>
<b>Nonoperating revenues (expenses)</b>					
Investment earnings	219,559	298,180	71,324	62,618	680,561
Interest expense	(87,874)	(83,067)	(3,807)	(3,167)	(361,281)
Lease income	-	-	-	-	107,317
Insurance recoveries	-	-	-	-	-
Gain on sale of capital assets	-	-	-	-	-
Total nonoperating revenues (expenses)	<u>131,685</u>	<u>215,113</u>	<u>67,517</u>	<u>59,451</u>	<u>426,597</u>
Income before contributions and transfers	<u>1,100,686</u>	<u>1,464,105</u>	<u>285,733</u>	<u>274,021</u>	<u>6,345,367</u>
<b>Transfers and contributions</b>					
Capital grants	126,500	244,864	-	-	138,904
Transfers in (out)	(590,000)	(587,000)	(95,000)	(85,000)	(3,130,000)
Change in net position	<u>637,186</u>	<u>1,121,969</u>	<u>190,733</u>	<u>189,021</u>	<u>3,354,271</u>
Total net position - beginning of year	<u>39,935,463</u>	<u>38,813,494</u>	<u>195,209</u>	<u>6,188</u>	<u>82,352,093</u>
Total net position - end of year	<u>\$ 40,572,649</u>	<u>\$ 39,935,463</u>	<u>\$ 385,942</u>	<u>\$ 195,209</u>	<u>\$ 85,706,364</u>

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

**TOWN OF FRONT ROYAL, VIRGINIA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Business-type Activities - Enterprise Funds				
	Electric	Water	Sewer	Solid Waste Management	Totals
<b>Cash Flows from Operating Activities</b>					
Receipts from customers and users	\$ 19,879,241	\$ 4,697,777	\$ 5,772,164	\$ 1,106,485	\$ 31,455,667
Payments to suppliers	(14,654,522)	(1,113,379)	(1,891,603)	(260,063)	(17,919,567)
Payments to employees	(1,350,714)	(1,123,966)	(872,665)	(552,776)	(3,900,121)
Net cash provided by operating activities	3,874,005	2,460,432	3,007,896	293,646	9,635,979
<b>Cash Flows from Noncapital Financing Activities</b>					
Transfers to other funds	(1,955,000)	(490,000)	(590,000)	(95,000)	(3,130,000)
Lease income	-	107,317	-	-	107,317
Interfund (advances)/repayments	150,000	-	-	-	150,000
Net cash used in noncapital financing activities	(1,805,000)	(382,683)	(590,000)	(95,000)	(2,872,683)
<b>Cash Flows from Capital and Related Financing Activities</b>					
Acquisition/construction of capital assets	(759,127)	(1,562,126)	(1,625,053)	(176,928)	(4,123,234)
Principal paid on capital debt	-	(655,000)	(3,843,880)	(35,420)	(4,534,300)
Grants received	12,404	-	126,500	-	138,904
Interest paid	(3,246)	(303,759)	(117,567)	(3,807)	(428,379)
Net cash provided by (used in) capital and related financing activities	(749,969)	(2,520,885)	(5,460,000)	(216,155)	(8,947,009)
<b>Cash Flows from Investing Activities</b>					
Sales (purchases) of investments	(356,777)	208,530	2,713,681	-	2,565,434
Interest and dividends received	207,402	182,276	219,559	71,324	680,561
Net cash provided by (used in) investing activities	(149,375)	390,806	2,933,240	71,324	3,245,995
Net increase (decrease) in cash and cash eq.	1,169,661	(52,330)	(108,864)	53,815	1,062,282
Cash and cash equivalents July 1, 2019	(375,231)	5,336,499	9,984,114	814,125	15,759,507
Cash and cash equivalents June 30, 2020	\$ 794,430	\$ 5,284,169	\$ 9,875,250	\$ 867,940	\$ 16,821,789
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>					
Operating income	\$ 3,061,004	\$ 1,670,549	\$ 969,001	\$ 218,216	\$ 5,918,770
Adjustments to reconcile operating income to net cash provided by (used in) operating activities					
Depreciation expense	587,334	893,940	1,984,635	58,951	3,524,860
(Increase) decrease in:					
Accounts receivable	45,733	(22,403)	(16,299)	(3,297)	3,734
Other receivables	(59,169)	-	(6,475)	88	(65,556)
Inventories	55,880	(98,558)	(98,558)	-	(141,236)
Deferred pension	(122,726)	(92,224)	(75,276)	(55,452)	(345,678)
Customer deposits	58,792	14,795	-	-	73,587
Increase (decrease) in:					
Accounts payable	17,176	52,506	277,964	(2,394)	345,252
OPEB liability	(39,958)	(45,207)	(39,958)	(32,283)	(157,406)
Compensated absences	14,419	(24,309)	(26,438)	9,029	(27,299)
Pension liability	267,566	128,331	55,059	106,445	557,401
Deferred pension	(12,046)	(16,988)	(15,759)	(5,657)	(50,450)
Total adjustments	813,001	789,883	2,038,895	75,430	3,717,209
Net cash provided by (used in) operating activities	\$ 3,874,005	\$ 2,460,432	\$ 3,007,896	\$ 293,646	\$ 9,635,979
<b>Noncash investing, capital, and financing activities</b>					
Capital assets contributed by developers	\$ -	\$ -	\$ -	\$ -	\$ -

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

##### A. Reporting Entity

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

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

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

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

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

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

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

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

The government reports the following major governmental funds:

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

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

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

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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

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

The government reports the following major proprietary funds:

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

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

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

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

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

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

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

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

###### 1. Deposits and Investments

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

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



## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

4. Restricted Assets

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

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

5. Use of Estimates

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

6. Capital Assets

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

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

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

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

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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

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

###### **7. Compensated Absences**

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

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

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

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

###### **9. Other Postemployment Benefits (OPEB)**

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

###### 11. Fund Balance

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

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

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

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of resources are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year-end are reported as reservations in the appropriate category of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. General fund encumbrances totaling approximately \$2,306,399 have been classified as assigned under fund balance.

###### 12. Net Position

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

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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

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

###### 13. Comparative Data

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

##### E. Pensions

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

##### F. Recently Issued Accounting Standards

During the fiscal year ended June 30, 2020 the Town implemented where applicable the following new accounting pronouncements and guides issued by the Government Accounting Standards Board (GASB):

- GASB Statement No. 83, "Certain Asset Retirement Obligations."
- GASB Statement No. 88, "Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements."
- GASB Implementation Guide No. 2018-1, "Implementation Guidance Update – 2018."

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

- GASB Statement No. 84, "Fiduciary Activities." The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends December 31, 2020.
- GASB Statement No. 90, "Majority Equity Interests – an amendment of GASB Statement No. 14 and No. 61." The requirements of this statement will take effect for financial statements starting with the fiscal year that ends December 31, 2020.
- GASB Implementation Guide No. 2019-2, "Fiduciary Activities." The requirements of this Implementation Guide will take effect for financial statements starting with the fiscal year that ends December 31, 2020.
- GASB Statement No. 87, "Leases." The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends June 30, 2022.
- GASB Statement No. 89, "Accounting for Interest Cost Incurred before the End of a Construction Period." The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends December 31, 2021.
- GASB Statement No. 91, "Conduit Debt Obligations." The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends December 31, 2022.

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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

##### F. Recently Issued Accounting Standards (Continued)

- GASB Implementation Guide No. 2019-1, "Implementation Guidance Update – 2019." The requirements of this Implementation Guide will take effect for financial statements starting with the fiscal year that ends June 30, 2021.
- GASB Implementation Guide No. 2019-3, "Leases." The requirements of this Implementation Guide will take effect for financial statements starting with the fiscal year that ends June 30, 2022.

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

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

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

The governmental fund balance sheet includes reconciliation between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that "long-term liabilities, including bonds, notes, advances, and other post-employment benefits payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$12,574,518 are as follows:

Description	Amount
Compensated absences	\$ 947,630
OPEB liability - health insurance benefit	2,571,459
Equipment purchase loan	649,281
Advance from EDA (construction of police station)	8,406,148
Net adjustment to reduce <i>fund balance - total governmental</i>	<u>\$ 12,574,518</u>

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

The governmental statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the Government Wide Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of the \$3,864,201 difference is as follows:

Description	Amount
Capital outlay	\$ 903,657
Depreciation expense	(4,767,858)
Net adjustment to increase <i>net changes in fund balances -total governmental</i>	<u>\$ (3,864,201)</u>

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

##### A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the downtown service district, capital project and debt service funds. All annual appropriations lapse at fiscal year-end.

On or before April 1 of each year, all agencies of the government submit requests for appropriations to the government's manager so that a budget may be prepared. Before June 1 the proposed budget is presented to the government's council for review. The council holds public hearings and a final budget must be prepared and adopted no later than June 30.

The appropriated budget is prepared by fund, function, and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. The council made several general fund budgetary appropriations throughout the year, totaling \$2,443,822.

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

##### B. Excess of Expenditures over Appropriations

For the year ended June 30, 2020, the finance department department of the general fund had expenditures which exceeded appropriations by \$1,508.

##### C. Deficit Fund Balance

At June 30, 2020 Special Revenue Funds which had a deficit fund balance are noted below:

Fund	Deficit Fund Balance
Economic Development	\$ 494,822

#### IV. DETAILED NOTES ON ALL FUNDS

##### A. Deposits and Investments

###### Deposits

As of June 30, 2020 the carrying amount of the Town's deposits with bank and savings institutions was \$2,597,787 and the bank balance was \$2,840,948.



## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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

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

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”), Section 2.2-4400 et., seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

*Custodial credit risk.* This is the risk that in the event of a bank failure, the Town’s deposits may not be returned to the Town. The Town requires deposits to comply with the Virginia Security for Public Deposits Act. At year-end, none of the Town’s deposits are exposed to custodial credit risk.

##### Investments

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

*Investment policy.* The Town’s investment policy targets the following objectives, in order of priority, legality, safety, liquidity, and yield. The Director of Finance for the Town is responsible for administering its investments and ensuring compliance with the Town’s policies and statutory requirements.

In accordance with the laws of the Commonwealth and Town policy, investments authorized to be held by the Town are: 1. *Treasury Securities* - Bonds, notes, and bills issued by the United States Treasury maturing within five years of the date of purchase, or certificates representing ownership of treasury bond principal or coupons payable with five years; 2. *Agency Securities* - Fixed rate obligation issued and guaranteed as to principal and interest by the Federal Home Loan Bank, the Federal National Mortgage Associate, the Federal Farm Credit Bank, or the Federal Loan Mortgage Corporation, maturing within five years of the date of purchase; 3. *Prime Commercial Paper* - Commercial paper maturing within 270 days of the day of purchase rated P-1 or higher by Moody’s and A-1 or higher by Standard & Poor’s, provided that the issuing corporation has a net worth of at least \$50 million and its long-term debt is rated A or better by Moody’s and Standard & Poor’s; 4. *Certificates of Deposit* - Certificates of deposit maturing within one year and issued by domestic banks rated P-1 by Moody’s and A-1 by Standard & Poor’s; 5. *Bankers’ Acceptances* - Bankers’ acceptances maturing within 180 days rated P-1 or higher by Moody’s and A-1 or higher by Standard & Poor’s, provided the issuer is a major domestic bank or the domestic office of an international bank rated AA or higher by Moody’s and Standard & Poor’s; 6. *Commonwealth of Virginia and Virginia Local Government Obligations* - General obligations, insured obligations, or revenue bonds secured by debt service reserve funds not subject to annual appropriation rated AA or higher by Moody’s or Standard & Poor’s;

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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

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

###### Investments (Continued)

7. *Repurchase Agreements* - Repurchase agreements collateralized by securities provided for investment herein, provided that the counterparty is rated A or better by Moody's and Standard & Poor's and the collateral is held by an independent third party; 8. *Open-End Investment Funds* - Open-end investment funds registered under the Securities Act of the Commonwealth or the Federal Investment Company Act of 1940, provided that they invest only in securities approved for investment herein; 9. *Virginia Local Government Investment Pool (LGIP)* - The LGIP is a professionally managed money market fund which invests in qualifying obligations and securities as permitted by Virginia statutes. Pursuant to Section 2.2-4605 *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings. The fair value of the position of the LGIP is the same as the value of the pool shares. i.e., the LGIP maintains a stable net asset value of \$1 per share. The LGIP has been assigned an "AAAm" rating by Standard & Poor's; 10. *Virginia State Non-Arbitrage Program (SNAP)* - Investment in the Virginia State Non-Arbitrage Program (SNAP) is used to assist in avoiding arbitrage penalties enacted with the Tax Reform Act of 1986. Section 2.2-4700 through 2.2-4705 of the *Code of Virginia*, the Government Non-Arbitrage Investment Act authorizes the Virginia Treasury Board to provide assistance to the Commonwealth of Virginia, counties, cities, and towns in the Commonwealth, and to their agencies, institutions and authorities of any combination of the foregoing ("Virginia governments") in the management of and accounting for their bond funds, including, without limitation, bond proceeds, reserves, and sinking funds, and the investment thereof. The Virginia SNAP has been assigned an "AAAm" rating by Standard & Poor's; 11. *Federally Insured Certificates of Deposit (CDARS)* - Federally insured certificates of deposit issued through the Certificates of Deposit Account Registry Service (CDARS) by financial institutions located in the United States, provided that: a. The funds are initially invested by the Town through a financial institution that is participating in CDARS and that is located and doing business in Virginia; b. The financial institution in Virginia receives reciprocal deposits from customers of other financial institutions in an amount equal to the funds initially invested by the Town; and c. Each such certificate of deposit is issued in an amount that is eligible for full FDIC insurance coverage for up to a maximum total of \$50 million in qualified investments held.

*Credit risk.* Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2020, all of the Town's investments were invested in "AA+" or better rated securities. All credit ratings presented in this paragraph are Standard & Poor's ratings.

*Interest rate risk.* Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting exposure to fair value losses arising from rising interest rates and to comply with the laws of the Commonwealth, the Town's policy limits the investment of funds to investments with a stated maturity of no more than five years from the date of purchase.

**TOWN OF FRONT ROYAL, VIRGINIA****NOTES TO FINANCIAL STATEMENTS****IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)****A. Deposits and Investments (Continued)****Investments (Continued)**

As of June 30, 2020, the government had the following investments:

Investment Type	Fair Value	Maturity	
		1 Year	Over 1 Year
Marketable CDs	\$ 4,902,725	\$ 1,717,893	\$ 3,184,832
Money market cash accounts	5,623,477	5,623,477	-
Governmental securities mutual funds	865,022	865,022	-
Governmental securities	13,939,634	6,640,738	7,298,896
Local government investment pool (LGIP)	3,138,192	3,138,192	-
Banking account sweep investment	14,830,755	14,830,755	-
Total	<u>\$ 43,299,805</u>	<u>\$ 32,816,077</u>	<u>\$ 10,483,728</u>

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

Footnote Classification	Combined Balance Sheet Classifications		
	Total	Cash and Equivalents	Investments
Petty Cash	\$ 2,196	\$ 2,196	\$ -
Bank Deposits	2,597,787	2,597,787	-
Investments	43,299,805	29,360,171	13,939,634
Total	<u>\$ 45,899,788</u>	<u>\$ 31,960,154</u>	<u>\$ 13,939,634</u>

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

The Town has the following recurring fair value measurements as of June 30, 2020:

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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

##### B. Estimated Unbilled Revenue

Proprietary fund types estimate and record utility services rendered but not yet billed at June 30, 2020. The amounts are determined by reviewing the Town's utility billing rendered prior to year-end and estimated the unbilled service to year-end. At June 30, 2020, unbilled service recorded was \$1,675,204.

##### C. Receivables

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

Description	General	Electric	Water	Sewer	Solid Waste	Nonmajor	Total
Receivables:							
Delinquent taxes	\$ 2,199,819	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,199,819
Accounts	-	1,283,819	257,723	324,449	105,829	-	1,971,820
Intergovernmental	402,133	-	-	-	-	-	402,133
Unbilled	-	917,037	342,911	361,238	54,018	-	1,675,204
Other	50,384	156,773	3,000	18,501	-	-	228,658
Less: allowance	-	(316,361)	(33,307)	(51,608)	(25,380)	-	(426,656)
Net receivables	\$ 2,652,336	\$ 2,041,268	\$ 570,327	\$ 652,580	\$ 134,467	\$ -	\$ 6,050,978

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

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

Fund/Type	Unavailable	Unearned
General Fund - Property Taxes	\$ 2,075,760	\$ -
Special Revenue Fund - Property Taxes	-	-
	\$ 2,075,760	\$ -

##### D. Due from Other Governments

At June 30, 2020 amounts due from other governments were as follows:

Description/Payer	General
Commonwealth of Virginia	
Personal Property Tax Relief Act	\$ 287,000
Communications Tax	11,480
Warren County, Virginia - Sales Tax	103,653
	\$ 402,133

# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

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

#### E. Capital Assets

Capital asset activity for the year ended June 30, 2020 was as follows:

##### Primary Government

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not depreciated				
Land	\$ 1,304,316	\$ -	\$ -	\$ 1,304,316
Construction in progress	8,967,827	123,772	(9,091,599)	-
	<u>10,272,143</u>	<u>123,772</u>	<u>(9,091,599)</u>	<u>1,304,316</u>
Capital assets being depreciated				
Buildings and improvements	11,179,598	9,587,274	-	20,766,872
Vehicles	2,269,077	276,355	-	2,545,432
Equipment	4,728,373	7,855	-	4,736,228
Infrastructure	124,617,285	-	-	124,617,285
Total	<u>142,794,333</u>	<u>9,871,484</u>	<u>-</u>	<u>152,665,817</u>
Less accumulated depreciation for				
Buildings and improvements	(2,660,271)	(282,651)	-	(2,942,922)
Vehicles	(1,766,521)	(169,150)	-	(1,935,671)
Equipment	(3,712,566)	(230,244)	-	(3,942,810)
Infrastructure	(86,502,547)	(4,085,813)	-	(90,588,360)
Total	<u>(94,641,905)</u>	<u>(4,767,858)</u>	<u>-</u>	<u>(99,409,763)</u>
Net capital assets being depreciated	<u>48,152,428</u>	<u>5,103,626</u>	<u>-</u>	<u>53,256,054</u>
Governmental capital assets, net	<u>\$ 58,424,571</u>	<u>\$ 5,227,398</u>	<u>\$ (9,091,599)</u>	<u>\$ 54,560,370</u>

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

<b>Activity</b>	<b>Depreciation</b>
Governmental activities:	
General government	\$ 196,288
Public safety	276,939
Public works	161,032
Planning, zoning, and community development	47,786
Infrastructure depreciation	<u>4,085,813</u>
Total depreciation expense - governmental activities	<u>\$ 4,767,858</u>

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

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

**E. Capital Assets (Continued)**

<b>Business-Type Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets not being depreciated				
Land	\$ 1,488,822	\$ -	\$ -	\$ 1,488,822
Construction in process	-	-	-	-
	<u>1,488,822</u>	<u>-</u>	<u>-</u>	<u>1,488,822</u>
Capital assets being depreciated				
Buildings and improvements	83,504,162	2,960,614	-	86,464,776
Utility distribution systems	56,807,219	889,237	-	57,696,456
Vehicles	3,546,035	176,928	-	3,722,963
Equipment	4,695,286	96,455	-	4,791,741
Total	<u>148,552,702</u>	<u>4,123,234</u>	<u>-</u>	<u>152,675,936</u>
Less accumulated depreciation for				
Buildings and improvements	(13,049,536)	(2,016,529)	-	(15,066,065)
Utility distribution systems	(34,560,168)	(1,136,144)	-	(35,696,312)
Vehicles	(3,207,202)	(143,015)	-	(3,350,217)
Equipment	(3,971,885)	(229,172)	-	(4,201,057)
Total	<u>(54,788,791)</u>	<u>(3,524,860)</u>	<u>-</u>	<u>(58,313,651)</u>
Net capital assets being depreciated	<u>93,763,911</u>	<u>598,374</u>	<u>-</u>	<u>94,362,285</u>
Business-type capital assets, net	<u>\$ 95,252,733</u>	<u>\$ 598,374</u>	<u>\$ -</u>	<u>\$ 95,851,107</u>

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

<b>Activity</b>	<b>Depreciation</b>
Business-type activities:	
Electric	\$ 587,334
Water	893,940
Sewer	1,984,635
Solid Waste Management	58,951
Total depreciation expense - business-type activities	<u>\$ 3,524,860</u>

There were no significant intangible asset acquisitions during the fiscal year ended June 30, 2020.

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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

##### F. Interfund Advances/Transfers

Interfund advances are for reimbursement for debt payments made for other funds. Advance to the General Fund from the Electric Funds was for the purchase of a town administration building. The composition of interfund advances at June 30, 2020 is as follows:

Advanced to	From	Amount
General Fund	Electric Fund	\$ 337,734
General Fund	Sewer Fund	102,492
General Fund	Water Fund	200,409
Special Projects	Sewer Fund	48,515
Special Projects	Water Fund	48,515
Special Revenue	General Fund	49,915
Sewer Fund	Economic Development Fund	2,250
Sewer Fund	Water Fund	506,397
Water Fund	Economic Development Fund	2,250
Water Fund	Electric Fund	14,747
Solid Waste Management	Electric Fund	18,182
		<u>\$ 1,331,406</u>

Transfers to the General Fund from the Electric, Water, Sewer and Solid Waste Management Funds are for administrative services performed by the general government. The composition of inter-fund transfers during 2020 is as follows:

Transferred to	From	Amount
General Fund	Electric Fund	\$ 1,955,000
General Fund	Water Fund	490,000
General Fund	Sewer Fund	590,000
General Fund	Solid Waste Management Fund	95,000
		<u>\$ 3,130,000</u>

##### G. Long-Term Liabilities

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

# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

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

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

General obligation bonds and other debt outstanding at June 30, 2020 are as follows:

Description	Amount
<i>General Obligation Bonds:</i>	
\$6,110,000, 2014 series General Obligation Bonds, issued May 21, 2014 due in increasing annual maturities starting with \$15,000 in 2014 and increasing to \$740,000 in 2026, with interest at 3.13% to 4.83%.	\$ 4,545,000
\$2,835,000, 2014 series General Obligation Bonds, issued May 21, 2014 due in increasing annual maturities starting with \$95,000 in 2015 and increasing to \$200,000 in 2034, with interest at 3.13% to 4.84%.	2,330,000
\$2,735,000, 2010 series Recovery Act Bonds, issued March 15, 2010, due in increasing annual maturities starting with \$115,000 in 2013 and increasing to \$600,000 in 2030, with interest at 2.00% to 6.57%.	-
\$39,377,600 2014C series General Obligation Bonds, issued December 17, 2014, no state interest payable, 2015 - 2016 draws \$16,944,341, due in semi-annual payments of \$984,440 starting March, 2018.	33,176,474
<b>Total bonded debt</b>	<b>40,051,474</b>
<i>Notes Payable:</i>	
\$235,284 loan dated April 27, 2017 with Bank Banking and Trust Company, with semi annual payments of \$13,330 and annual interest rate of 2.46%, due April 27, 2027.	170,473
\$550,000 equipment financing with U.S. Bancorp Government Leasing and Finance, Inc., with semi annual payments of \$32,653 and annual interest rate of 3.39%, due November 8, 2028.	478,808
\$176,298 loan dated November 29, 2018 with Union Bank Trust, with semi annual payments of \$20,859 and annual interest rate of 3.850%, due November 16, 2023.	123,186
<b>Total notes payable</b>	<b>772,467</b>
<b>Total long-term debt</b>	<b>\$ 40,823,941</b>



# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

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

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

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

Year ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2021	\$ 72,098	\$ 19,866	\$ 2,648,880	\$ 280,776
2022	74,349	17,615	2,683,880	254,505
2023	76,672	15,293	2,708,880	224,419
2024	79,069	12,896	2,743,880	190,596
2025	81,542	10,423	2,778,880	155,065
2026-2030	265,551	16,337	12,064,400	314,859
2031-2035	-	-	10,779,400	90,061
2036-2038	-	-	3,766,460	-
Total	\$ 649,281	\$ 92,430	\$ 40,174,660	\$ 1,510,281

The legal debt limit mandated by the Commonwealth of Virginia is \$123,909,639.

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

Long-term liability activity for the year ended June 30, 2020 was as follows:

	June 30, 2019	Additions	Retirements	June 30, 2020	One Year
<b>Governmental activities:</b>					
Compensated absences	\$ 880,430	\$ 947,629	\$ (880,430)	\$ 947,629	\$ 947,629
OPEB - Health	2,908,323	-	(336,864)	2,571,459	-
Advance from EDA	8,406,148	-	-	8,406,148	-
Equipment note payable	719,199	-	(69,918)	649,281	72,098
Unfunded pension, GLI and LODA	4,204,002	2,398,884	-	6,602,886	-
Governmental activity					
Long-term liabilities	\$ 17,118,102	\$ 3,346,513	\$ (1,287,212)	\$ 19,177,403	\$1,019,727

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

# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

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

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

	June 30, 2019	Additions	Retirements	June 30, 2020	One Year
<b>Business-type activities:</b>					
Bonds payable:					
General obligation bonds	\$ 44,550,354	\$ -	\$ (4,498,880)	\$ 40,051,474	\$2,648,880
Unamortized premium	706,332	-	(80,419)	625,913	-
Loans payable	158,606	-	(35,420)	123,186	37,343
Compensated absences	400,896	373,597	(400,896)	373,597	186,800
OPEB - Health	1,402,945	-	(157,406)	1,245,539	-
Unfunded pension and GLI	2,127,326	557,401	-	2,684,727	-
Business-type activity					
Long-term liabilities	\$ 49,346,459	\$ 930,998	\$ (5,173,021)	\$ 45,104,436	\$2,873,023

*Advance from EDA.:* The Industrial Development Authority of the Town of Front Royal and the County of Warren, Virginia BDA Economic Development Authority (EDA) provided advanced funding for the construction of a new police department facility. It is anticipated that the construction and permanent financing will be complete in fiscal year 2021.

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

Individual Fund	Due Within	
	1 Year	Long-term
General	\$ 947,629	\$ -
Electric	\$ 71,855	\$ 71,854
Water	49,559	49,558
Sewer	47,650	47,650
Solid Waste Management	17,736	17,735
	\$ 186,800	\$ 186,797

### V. OTHER INFORMATION

#### A. Risk Management

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### V. OTHER INFORMATION (CONTINUED)

##### A. Risk Management (Continued)

VMGSIA: The Town has workers' compensation coverage with the Virginia Municipal Group Self Insurance Association (VMGSIA). During the fiscal year 2020 the Town paid premiums of approximately \$138,061 to VMGSIA.

VMLP: The Town has general and excess liability, automobile, property, boiler and machinery, law enforcement liability, public officials, legal liability, and commercial crime insurance with the Virginia Municipal Liability Pool (VMLP). During the fiscal year 2020, the Town paid contributions of approximately \$303,007 to the VMLP.

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

##### B. Surety Bonds

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

##### C. Commitments and Contingent Liabilities

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

EDA Project Support: The Front Royal Warren County, Virginia Economic Development Authority (EDA) sponsors and develops commercial activity throughout the Town of Front Royal and Warren County. By agreement and by annual appropriation, the Town and County have agreed to support various economic development projects. During the year ended June 30, 2020 the Town by budget adoption suspended EDA project support payments.

Construction Commitment: At June 30, 2020 the Town is contractually obligated to construct and complete a police department facility. The funds for the construction project are anticipated to come from general fund balance reserve and general debt borrowing. A summary of this construction project is as follows:

Description	Amount
Construction contract price	\$ 9,091,600
Paid - completed to June 30, 2020	(9,091,600)
Remaining outstanding obligation	<u>\$ -</u>
Estimated total police department facility cost	<u>\$ 9,091,600</u>

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### V. OTHER INFORMATION (CONTINUED)

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

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

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

*Funding Policy:* Payments are made monthly to cover the Town's portion of the retiree health insurance premiums. For fiscal year 2020, 25 retirees had a benefit under this policy with a total cost to the Town of \$50,730.

*Annual OPEB Cost and Net OPEB Obligation:* The Town's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 75. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

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

Component	FYE 6/30/20
Annual required contribution	\$ 177,554
Interest on Net OPEB obligations	143,687
Adjustment to annual required contribution (deferred inflows)	(88,873)
Annual OPEB cost (expense)	232,368
Contributions made	(50,730)
Change in assumptions	(675,908)
Increase in net OPEB obligation	(494,270)
Net unfunded OPEB obligation - Beginning of year	4,311,268
Net unfunded OPEB obligation - End of year	<u><u>\$ 3,816,998</u></u>

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### V. OTHER INFORMATION (CONTINUED)

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

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation the five years 2016 to 2020 is as follows:

FYE June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2020	\$ 232,368	28.57%	\$ 3,816,998
2019	296,198	15.50%	4,311,268
2018	267,644	19.68%	4,061,011
2017 Restated	-	0.00%	3,843,406
2017 Restatement adjustment	-	0.00%	1,994,556
2017	272,438	23.84%	1,848,850
2016	263,736	21.09%	1,641,369

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

At June 30, 2020 the Town has recorded a liability of \$3,814,357 on the Statement of Net Position for the governmental and business-type activities.

*Funding Status and Funding Progress:* As of June 30, 2019, the most recent actuarial valuation date, the unfunded actuarial accrued liability (UAAL) was \$3,472,067. The covered payroll (annual payroll of active employees covered by the plan) was \$8,324,014, and the ratio of the UAAL to the covered payroll was 41.71%.

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

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

*Actuarial Methods and Assumptions:* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

TOWN OF FRONT ROYAL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

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V. OTHER INFORMATION (CONTINUED)

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

June 30, 2019 actuarial valuation methods and assumption are as follows:

Valuation Date:	June 30, 2019
Measurement Date:	June 30, 2020
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Percent of Payroll
Amortization Period:	30 years open periods
Asset Valuation Method:	N/A
Actuarial Assumptions:	
Investment Rate of Return:	2.21%
Healthcare Cost Trend Rate:	Getzen Trend Model
Payroll Growth:	2.5% per year

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

F. Defined Benefit Pension Plan

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

**Plan Description**

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

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

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

# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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

## NOTES TO FINANCIAL STATEMENTS

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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

## NOTES TO FINANCIAL STATEMENTS

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

# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

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

# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

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

### NOTES TO FINANCIAL STATEMENTS

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

# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### V. OTHER INFORMATION (CONTINUED)

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

###### Employees Covered by Benefit Terms

As of the June 30, 2019 actuarial valuation measurement date, the following employees were covered by the benefit terms of the pension plan:

	June 30, 2018 Number
Inactive members or their beneficiaries currently receiving benefits	145
Inactive members:	
Vested inactive members	29
Non-vested inactive members	60
Inactive members active elsewhere in VRS	60
Total inactive members	149
Active members	163
Total covered employees	457

###### Contributions

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

The Town's contractually required contribution rate for the year ended June 30, 2020 was 12.81% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the pension plan from the Town were \$902,333 and \$920,853 for the years ended June 30, 2020 and 2019.

###### Net Pension Liability

The Town's net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2019, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019.



**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

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**V. OTHER INFORMATION (CONTINUED)**

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

**Actuarial Assumptions – General Employees**

The total pension liability for General Employees in the Town’s Retirement Plan was based on an actuarial valuation as of June 30, 2019, 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, 2019:

Inflation	2.5 percent
Salary increases, including inflation	3.0 percent
Investment rate of return	6.75 percent, net of pension plan investment expense, including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of pension liabilities.

**Mortality Rates:**

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

**Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

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

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### V. OTHER INFORMATION (CONTINUED)

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

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

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

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

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

The total pension liability for public safety employees in the Town Retirement Plan was based on an actuarial valuation as of June 30, 2019, 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, 2019.

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

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### V. OTHER INFORMATION (CONTINUED)

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

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

Mortality rates:

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

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2015 through June 30, 2019. Changes to the actuarial assumptions as a result of the experience study are as follows:

All Others (Non 10 Largest) – Hazardous Duty:

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

# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

### V. OTHER INFORMATION (CONTINUED)

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

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

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

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS - Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP - Private Investment Partnership	3.00%	6.29%	0.19%
Total	100.00%		5.13%

Inflation 2.50%

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

**TOWN OF FRONT ROYAL, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**V. OTHER INFORMATION (CONTINUED)**

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

**Discount Rate**

The discount rate used to measure the total pension liability was 6.75%. 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, 2020, the rate contributed by the employer for the Town Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the Long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability</b>
	<b>(a)</b>	<b>(b)</b>	<b>(a) - (b)</b>
Balances at June 30, 2018	\$ 39,152,135	\$ 32,820,806	\$ 6,331,329
Changes for the year:			
Service cost	855,832	-	855,832
Interest	2,661,052	-	2,661,052
Changes of assumptions	1,171,848	-	1,171,848
Differences between expected and actual experience	368,346	-	368,346
Contributions - employer	-	952,791	(952,791)
Contributions - employee	-	382,999	(382,999)
Net investment income	-	2,160,207	(2,160,207)
Benefit payments, including refunds of employee contributions	(2,274,225)	(2,274,225)	-
Administrative expenses	-	(21,868)	21,868
Other changes	-	(1,358)	1,358
Net changes	2,782,853	1,198,546	1,584,307
Balances at June 30, 2019	\$ 41,934,988	\$ 34,019,352	\$ 7,915,636

# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

### V. OTHER INFORMATION (CONTINUED)

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

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

The following presents the net pension liability of the Town using the discount rate of 6.75%, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Town's Net Pension Liability	\$ 13,183,289	\$ 7,915,636	\$ 3,722,995

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

For the year ended June 30, 2020, the Town recognized pension expense of \$1,339,886. At June 30, 2020 the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 248,364	\$ 12,382
Change in assumptions	790,139	10,271
Net difference between projected and actual earnings on pension plan investments	-	288,377
Employer contributions subsequent to the measurement date	902,330	-
Total	\$ 1,940,833	\$ 311,030

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

Year ended June 30,	Amortization
2020	\$ 479,877
2021	198,392
2022	28,485
2023	20,719
2024	-
Thereafter	-

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### V. OTHER INFORMATION (CONTINUED)

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

###### Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2019-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

##### G. Deferred Compensation Plan

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

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

##### H. Line of Duty Act Program

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### V. OTHER INFORMATION (CONTINUED)

##### H. Line of Duty Act Program (Continued)

###### Plan Description

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

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

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

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

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



## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### V. OTHER INFORMATION (CONTINUED)

##### H. Line of Duty Act Program (Continued)

###### Contributions

The contribution requirements for the Line of Duty Act Program (LODA) are governed by §9.1-400.1 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the Line of Duty Act Program (LODA) for the year ended June 30, 2019 was \$705.77 per covered full-time-equivalent employee. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017 and represents the pay-as-you-go funding rate and not the full actuarial cost of the benefits under the program. The actuarially determined pay-as-you-go rate was expected to finance the costs and related expenses of benefits payable during the year. Contributions to the Line of Duty Act Program (LODA) from the entity were \$26,819 and \$23,262 for the years ended June 30, 2019 and June 30, 2018, respectively.

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

At June 30, 2019, the measurement date for fiscal year ended June 30, 2020, the entity reported a liability of \$717,000 for its proportionate share of the Net LODA OPEB Liability. The Net LODA OPEB Liability was measured as of June 30, 2019 and the total LODA OPEB liability used to calculate the Net LODA OPEB Liability was determined by an actuarial valuation as of that date. The entity's proportion of the Net LODA OPEB Liability was based on the entity's actuarially determined pay-as-you-go employer contributions to the LODA OPEB plan for the year ended June 30, 2019 relative to the total of the actuarially determined pay-as-you-go employer contributions for all participating employers. At June 30, 2019, the entity's proportion was 0.19983% as compared to 0.21840% at June 30, 2018.

For the fiscal year ended June 30, 2020, the entity recognized LODA OPEB expense of \$57,000. Since there was a change in proportionate share between measurement dates, a portion of the LODA OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2019, the agency reported deferred outflows of resources and deferred inflows of resources related to the LODA OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 104,000	\$ 1,000
Net difference between projected and actual earnings	-	1,000
Change in assumptions	34,000	62,000
Changes in proportion	53,000	74,000
Employer contributions subsequent to the measurement date	-	-
Total	<u>\$ 191,000</u>	<u>\$ 138,000</u>

Employer contributions subsequent to the measurement date of \$29,819 were expensed for the fiscal year ended June 30, 2020.

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### V. OTHER INFORMATION (CONTINUED)

##### H. Line of Duty Act Program (Continued)

There were no amounts reported as deferred outflows of resources related to the LODA OPEB resulting from the entity's contributions subsequent to the measurement date will be recognized as a reduction of the Net LODA OPEB Liability in the Fiscal Year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the LODA OPEB will be recognized in LODA OPEB expense in future reporting periods as follows:

Year ended June 30,	Amortization
2020	\$ (6,463)
2021	(6,463)
2022	(6,617)
2023	(6,786)
2024	(6,836)
Thereafter	(19,835)

##### Actuarial Assumptions

The total LODA OPEB liability was based on an actuarial valuation as of June 30, 2019, 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, 2019.

Inflation	2.5 percent
Salary increases, including inflation -	
General state employees	N/A
SPORS employees	N/A
VaLORS employees	N/A
Locality employees	N/A
Medical cost trend rate assumption -	
Under age 65	7.25 percent - 4.75 percent
Ages 65 and older	5.50 percent - 4.75 percent
Investment rate of return	3.50 percent, net of pension plan investment expense, including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 3.50%. However, since the difference was minimal, a more conservative 3.50% investment return assumption has been used. Since LODA is funded on a current-disbursement basis, the assumed annual rate of return of 3.50% was used since it approximates the risk-free rate of return.

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### V. OTHER INFORMATION (CONTINUED)

##### H. Line of Duty Act Program (Continued)

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

###### Pre-Retirement:

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

###### Post-Retirement:

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

###### Post-Disablement:

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

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

The following changes were made to the LODA Program as a result of legislation in 2016 and 2017, but were specifically not considered in the June 30, 2018 actuarial valuation results which were rolled forward to the measurement date of June 30, 2019. There was no current actuarial experience on which to base the adjustments and the combined impact of the changes was not considered to be material to the final results. These changes will be factored into future actuarial valuations for the LODA Program.

- The discontinuance of spouse health care coverage, if a covered spouse divorces a disabled employee or a covered surviving spouse remarries.
- The potential for VRS's periodic review of the disability status of a disabled employee.
- For those beneficiaries who become eligible for health care benefits as the result of a disability occurring after June 30, 2019, the suspension of health care benefits in years when VRS certifies current income exceeds salary at the time of the disability, indexed for inflation.
- The extension of health care benefits for dependent children to age 26.
- The expansion of the definition of presumption of death or disability to include infectious diseases.

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### V. OTHER INFORMATION (CONTINUED)

##### H. Line of Duty Act Program (Continued)

###### Net LODA OPEB Liability

The net OPEB liability (NOL) for the Line of Duty Act Program (LODA) represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2019, NOL amounts for the Line of Duty Act Program (LODA) is as follows (amounts expressed in thousands):

Description	LODA
Total LODA OPEB Liability	\$ 361,626
Plan Fiduciary Net Position	2,839
Employers' Net OPEB Liability (Asset)	<u>\$ 358,787</u>
Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability	<u>0.79%</u>

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

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

The long-term expected rate of return on LODA OPEB Program's investments was set at 3.50% for this valuation. Since LODA is funded on a current-disbursement basis, it is not able to use the VRS Pooled Investments 7.00% assumption. Instead, the assumed annual rate of return of 3.50% was used since it approximates the risk-free rate of return. This Single Equivalent Interest Rate (SEIR) is the applicable municipal bond index rate based on the Bond Buyer General Obligation 20-year Municipal Bond Index published monthly by the Board of Governors of the Federal Reserve System as of the measurement date of June 30, 2019.

###### Discount Rate

The discount rate used to measure the total LODA OPEB liability was 3.50%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2020, the rate contributed by participating employers to the LODA OPEB Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly.

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### V. OTHER INFORMATION (CONTINUED)

##### H. Line of Duty Act Program (Continued)

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

The following presents the covered employer's proportionate share of the net LODA OPEB liability using the discount rate of 3.50%, as well as what the covered employer's proportionate share of the net LODA OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.50%) or one percentage point higher (4.50%) than the current rate:

	1.00% Decrease (2.50%)	Current Discount Rate (3.50%)	1.00% Increase (4.50%)
Covered employer's proportionate share of the total LODA Net OPEB Liability	<u>\$ 831,774</u>	<u>\$ 717,000</u>	<u>\$ 626,225</u>

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

Because the Line of Duty Act Program (LODA) contains a provisions for the payment of health insurance premiums, the liabilities are also impacted by the health care trend rates. The following presents the covered employer's proportionate share of the net LODA OPEB liability using health care trend rate of 7.75% decreasing to 4.75%, as well as what the covered employer's proportionate share of the net LODA OPEB liability would be if it were calculated using a health care trend rate that is one percentage point lower (6.75% decreasing to 3.75%) or one percentage point higher (8.75% decreasing to 5.75%) than the current rate:

	1.00% Decrease (6.75% decreasing to 3.75%)	Health Care Trend Rates (7.75% decreasing to 4.75%)	1.00% Increase (8.75% decreasing to 5.75%)
Covered employer's proportionate share of the total LODA Net OPEB Liability	<u>\$ 606,219</u>	<u>\$ 717,000</u>	<u>\$ 856,710</u>

###### **LODA OPEB Plan Fiduciary Net Position**

Detailed information about the Line of Duty Act Program (LODA) Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### V. OTHER INFORMATION (CONTINUED)

##### I. Group Life Insurance

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

##### Plan Description

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

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

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

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

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

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### V. OTHER INFORMATION (CONTINUED)

##### I. Group Life Insurance (Continued)

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

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

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

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

##### Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2019 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the Group Life Insurance Program from the entity were \$41,038 and \$39,572 for the years ended June 30, 2019 and June 30, 2018, respectively.

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### V. OTHER INFORMATION (CONTINUED)

##### I. Group Life Insurance (Continued)

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

At June 30, 2019, the measurement date for the fiscal year ended June 30, 2020, the entities reported a liability of \$655,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2019 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the participating employer's proportion was 0.040026% as compared to 0.04002 % at June 30, 2018.

For the fiscal year ended June 30, 2020, the participating employer recognized GLI OPEB expense of \$16,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2019, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 44,000	\$ 8,000
Net difference between projected and actual earnings	-	13,000
Change in assumptions	41,000	20,000
Changes in proportion	5,000	2,000
Employer contributions subsequent to the measurement date		-
Total	<u>\$ 90,000</u>	<u>\$ 43,000</u>

Employer contributions subsequent to the measurement date of \$41,038 were expensed for the fiscal year ended June 30, 2020.



## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### V. OTHER INFORMATION (CONTINUED)

##### I. Group Life Insurance (Continued)

\$35,000 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year ended June 30,	Amortization
2020	\$ (2,552)
2021	(2,553)
2022	(8,750)
2023	(14,407)
2024	(14,658)
Thereafter	(4,080)

##### Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2018, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019.

Inflation	2.5 percent
Salary increases, including inflation -	
General state employees	3.5 percent - 5.35 percent
Teachers	3.5 percent - 5.95 percent
SPORS employees	3.5 percent - 4.75 percent
VaLORS employees	3.5 percent - 4.75 percent
JRS employees	4.5 percent
Locality - General employees	3.5 percent - 5.35 percent
Locality - Hazardous Duty employees	3.5 percent - 4.75 percent
Investment rate of return	6.75 percent, net of pension plan investment expense, including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of the OPEB liabilities.

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### V. OTHER INFORMATION (CONTINUED)

##### I. Group Life Insurance (Continued)

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

###### Pre-Retirement:

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

###### Post-Retirement:

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

###### Post-Disablement:

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

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

###### Pre-Retirement:

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

###### Post-Retirement:

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

###### Post-Disablement:

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### V. OTHER INFORMATION (CONTINUED)

##### I. Group Life Insurance (Continued)

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

##### Net GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2019, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

Description	GLI OPEB Program
Total GLI OPEB Liability	\$ 3,390,238
Plan Fiduciary Net Position	1,762,972
Employers' Net GLI OPEB Liability (Asset)	<u>\$ 1,627,266</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	<u>52.00%</u>

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

# TOWN OF FRONT ROYAL, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

### V. OTHER INFORMATION (CONTINUED)

#### I. Group Life Insurance (Continued)

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

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS - Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP - Private Investment Partnership	3.00%	6.29%	0.19%
Total	100.00%		5.13%
		Inflation	2.50%
		* Expected arithmetic normal return	7.63%

\* The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%.

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

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#### V. OTHER INFORMATION (CONTINUED)

##### I. Group Life Insurance (Continued)

###### Discount Rate

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

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

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 6.75%, as well as what the employer's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Employer's proportionate share of the total GLI Net OPEB Liability	\$ 860,489	\$ 655,000	\$ 488,355

###### Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

##### J. Subsequent Events

The Town has evaluated events and transactions subsequent to June 30, 2020 through October 19, 2020, the date these financial statements were available to be issued, and determined that there were no material subsequent events requiring adjustment to, or disclosure in, the basic financial statements for the year ended June 30, 2020.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF FRONT ROYAL, VIRGINIA**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Plan Year					
	2019	2018	2017	2016	2015	2014
<b>Total pension liability</b>						
Service cost	\$ 855,832	\$ 817,668	\$ 839,589	\$ 838,443	\$ 763,448	\$ 772,812
Interest	2,661,052	2,577,315	2,534,294	2,452,835	2,348,782	2,265,421
Changes of assumptions	1,171,848	-	(318,380)	-	-	-
Differences between expected and actual experience	368,346	(7,181)	(304,814)	100,624	503,756	-
Changes in assumptions	-	-	-	-	-	-
Benefit payments, including refunds of employee contributions	(2,274,225)	(2,108,908)	(2,163,295)	(2,293,121)	(1,965,892)	(1,728,823)
<b>Net change in total pension liability</b>	<b>2,782,853</b>	<b>1,278,894</b>	<b>587,394</b>	<b>1,098,781</b>	<b>1,650,094</b>	<b>1,309,410</b>
<b>Total pension liability - beginning</b>	<b>39,152,135</b>	<b>37,873,241</b>	<b>37,285,847</b>	<b>36,187,066</b>	<b>34,536,972</b>	<b>33,227,562</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 41,934,988</b>	<b>\$ 39,152,135</b>	<b>\$ 37,873,241</b>	<b>\$ 37,285,847</b>	<b>\$ 36,187,066</b>	<b>\$ 34,536,972</b>
<b>Plan fiduciary net position</b>						
Contributions - employer	\$ 952,791	\$ 1,003,374	\$ 983,818	\$ 1,011,174	\$ 964,775	\$ 1,028,333
Contributions - employee	382,999	377,390	364,069	351,767	375,118	336,567
Net investment income	2,160,207	2,299,527	3,458,423	486,430	1,291,269	3,920,829
Benefit payments, including refunds of employee contributions	(2,274,225)	(2,108,908)	(2,163,295)	(2,293,121)	(1,965,892)	(1,728,823)
Administrative expense	(21,868)	(20,098)	(20,391)	(18,467)	(18,055)	(21,238)
Other	(1,358)	(2,037)	(3,056)	(210)	(275)	207
<b>Net change in total net pension position</b>	<b>1,198,546</b>	<b>1,549,248</b>	<b>2,619,568</b>	<b>(462,427)</b>	<b>646,940</b>	<b>3,535,875</b>
<b>Total net pension position - beginning</b>	<b>32,820,806</b>	<b>31,271,558</b>	<b>28,651,990</b>	<b>29,114,417</b>	<b>28,467,477</b>	<b>24,931,602</b>
<b>Total net pension position - ending (b)</b>	<b>\$ 34,019,352</b>	<b>\$ 32,820,806</b>	<b>\$ 31,271,558</b>	<b>\$ 28,651,990</b>	<b>\$ 29,114,417</b>	<b>\$ 28,467,477</b>
<b>Town's net pension liability - ending (a) - (b)</b>	<b>\$ 7,915,636</b>	<b>\$ 6,331,329</b>	<b>\$ 6,601,683</b>	<b>\$ 8,633,857</b>	<b>\$ 7,072,649</b>	<b>\$ 6,069,495</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>81.12%</b>	<b>83.83%</b>	<b>82.57%</b>	<b>76.84%</b>	<b>80.46%</b>	<b>82.43%</b>
<b>Covered payroll</b>	<b>\$ 8,072,144</b>	<b>\$ 7,703,337</b>	<b>\$ 7,425,456</b>	<b>\$ 7,181,524</b>	<b>\$ 6,898,938</b>	<b>\$ 6,804,987</b>
<b>Town's net pension liability as a percentage of covered-employee payroll</b>	<b>98.06%</b>	<b>82.19%</b>	<b>88.91%</b>	<b>120.22%</b>	<b>102.52%</b>	<b>89.19%</b>

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO THE SUPPLEMENTAL PENSION SCHEDULES

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**Changes of benefit terms** – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on liabilities as of the measurement date of June 30, 2019 are not material.

**Changes of assumptions** – The following changes in actuarial assumptions were made effective June 30, 2019 based on the most recent experience study of the System for the four-year period ending June 30, 2019:

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

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

All Others (Non 10 Largest) – Hazardous Duty:

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



**TOWN OF FRONT ROYAL, VIRGINIA**  
**SCHEDULE OF CHANGES IN NET OPEB HEALTH INSURANCE LIABILITY**  
**AND RELATED RATIOS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Entity Fiscal Year					
	2020	2019	2018	2017	2016	2015
<b>Total OPEB liability</b>						
Service cost	\$ 177,554	\$ 144,630	\$ 149,146	\$ 275,300	\$ 266,400	\$ 238,300
Interest	143,687	148,984	136,420	50,663	47,155	34,618
Change of assumptions	(768,297)	2,583	(17,922)	(53,525)	(49,819)	(31,060)
Benefit payments, including refunds of employee contributions	(50,730)	(45,940)	(52,681)	(64,956)	(55,631)	(45,794)
<b>Net change in total OPEB liability</b>	<b>(497,786)</b>	<b>250,257</b>	<b>214,963</b>	<b>207,482</b>	<b>208,105</b>	<b>196,064</b>
OPEB Liability Beginning	4,311,268	4,061,011	1,848,850	1,641,368	1,433,264	1,233,430
Restatement - 2017	-	-	1,994,556	-	-	-
Adjustment 2015 and 2018	3,516	-	2,642	-	-	3,770
Total OPEB liability - beginning	4,314,784	4,061,011	3,846,048	1,641,368	1,433,264	1,237,200
<b>Total OPEB liability - ending (a)</b>	<b>\$ 3,816,998</b>	<b>\$ 4,311,268</b>	<b>\$ 4,061,011</b>	<b>\$ 1,848,850</b>	<b>\$ 1,641,369</b>	<b>\$ 1,433,264</b>
<b>Plan fiduciary net position</b>						
Contributions - employer	\$ 50,730	\$ 45,940	\$ 52,681	\$ 64,956	\$ 55,631	\$ 45,794
Benefit payments, including refunds of employee contributions	(50,730)	(45,940)	(52,681)	(64,956)	(55,631)	(45,794)
<b>Net change in total net OPEB position</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total net OPEB position - beginning</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total net OPEB position - ending (b)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Town's net OPEB liability - ending (a) - (b)</b>	<b>\$ 3,816,998</b>	<b>\$ 4,311,268</b>	<b>\$ 4,061,011</b>	<b>\$ 1,848,850</b>	<b>\$ 1,641,369</b>	<b>\$ 1,433,264</b>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>
<b>Covered payroll</b>	<b>\$ 8,324,014</b>	<b>\$ 7,384,438</b>	<b>\$ 7,384,438</b>	<b>\$ 7,404,500</b>	<b>\$ 7,404,500</b>	<b>\$ 6,153,700</b>
<b>Town's net OPEB liability as a percentage of covered-employee payroll</b>	<b>45.86%</b>	<b>58.38%</b>	<b>54.99%</b>	<b>24.97%</b>	<b>22.17%</b>	<b>23.29%</b>

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO THE REQUIRED SUPPLEMENTARY HEALTH INSURANCE SCHEDULES

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

Assumption	Description
Valuation Date:	June 30, 2019
Measurement Date:	June 30, 2020
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Percent of Payroll
Amortization Period:	30 years open periods
Asset Valuation Method:	N/A
Actuarial Assumptions:	
Investment Rate of Return:	2.21%
Healthcare Cost Trend Rate:	Getzen Trend Model
Payroll Growth:	2.50% per year

**TOWN OF FRONT ROYAL, VIRGINIA  
SCHEDULE OF EMPLOYER'S SHARE OF NET LODA OPEB LIABILITY  
FOR THE YEAR ENDED JUNE 30, 2020**

	Plan Year		
	2019	2018	2017
Employer's Proportion of the Net LODA OPEB Liability (Asset)	0.19983%	0.21840%	0.19464%
Employer's Proportionate Share of the Net LODA OPEB Liability (Asset)	717,000	685,000	511,000
Covered Payroll	** 1,623,007	1,453,570	1,249,881
Employer's Proportionate Share of the Net LODA OPEB Liability (Asset) as a Percentage of its Covered-Employee Payroll	** 44.18%	47.13%	40.88%
Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability	0.79%	0.60%	1.30%

*Schedule is intended to show information for 10 years. Since plan year 2017 is the first year for this presentation, limited data is available. However, additional years will be included as they become available.*

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

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

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

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Entity Fiscal Year	Contractually Required Contribution (a)	Contributions in Relation to Contractually Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered- Employee Payroll (c)	Contributions as a % of Covered- Employee Payroll (b/c)
2020	\$ 26,819	\$ 26,819	\$ -	\$ 2,934,834 *	0.91% *
2019	23,262	23,262	-	1,623,007 *	1.43% *
2018	20,993	20,993	-	1,453,570 *	1.44% *
2017	7,499	7,499	-	1,249,881 *	0.60% *
2016	5,714	5,714	-	952,401 *	0.60% *
2015	2,961	2,961	-	493,546 *	0.60% *
2014	325	325	-	54,186 *	0.60% *

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

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

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO THE REQUIRED LODA SUPPLEMENTARY SCHEDULES

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

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

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

**TOWN OF FRONT ROYAL, VIRGINIA**  
**SCHEDULE OF EMPLOYER'S SHARE OF NET GLI OPEB LIABILITY**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Plan Year		
	2019	2018	2017
Employer's Proportion of the Net GLI OPEB Liability (Asset)	0.04026%	0.04002%	0.04027%
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset)	655,000	608,000	606,000
Covered Payroll	** 8,072,144	7,703,337	7,425,456
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered-Employee Payroll	** 8.11%	7.89%	8.16%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	52.00%	51.22%	48.86%

*Schedule is intended to show information for 10 years. Since plan year 2017 is the first year for this presentation, limited data is available. However, additional years will be included as they become available.*

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

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

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Entity Fiscal Year	Contractually Required Contribution (a)	Contributions in Relation to Contractually Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered- Employee Payroll (c)	Contributions as a % of Covered- Employee Payroll (b/c)
2020	\$ 41,038	\$ 41,038	\$ -	\$ 8,474,580	0.48%
2019	39,572	39,572	-	8,072,144	0.49%
2018	34,542	34,542	-	7,703,337	0.45%
2017	38,621	38,621	-	7,425,456	0.52%
2016	34,542	38,140	(3,598)	7,181,524	0.53%
2015	32,687	36,092	(3,405)	6,898,938	0.52%
2014	32,294	35,658	(3,364)	6,804,987	0.52%
2013	31,089	34,326	(3,237)	6,476,778	0.53%
2012	17,406	27,352	(9,946)	6,216,382	0.44%
2011	17,431	27,392	(9,961)	6,225,389	0.44%

## TOWN OF FRONT ROYAL, VIRGINIA

### NOTES TO THE REQUIRED GLI SUPPLEMENTARY SCHEDULES

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

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

#### Non-Largest Ten Locality Employers – General Employees

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

#### Non-Largest Ten Locality Employers – Hazardous Duty Employees

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



**SUPPLEMENTARY INFORMATION  
SECTION**

**TOWN OF FRONT ROYAL, VIRGINIA****GENERAL FUND****SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES-BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2020**

	Original Budget	Final Budget	Actual Revenues	Variance Positive (Negative)
<b>Source of Revenues</b>				
<b>General Property Taxes</b>				
Real estate taxes				
Current taxes, including penalties	\$ 998,775	\$ 998,775	\$ 942,717	\$ (56,058)
Delinquent taxes, including penalties	17,000	17,000	10,756	(6,244)
Personal property taxes				
Current taxes, including penalties	298,000	298,000	319,006	21,006
Public service corporation taxes	25,500	25,500	22,065	(3,435)
Interest on delinquent taxes	18,000	18,000	22,171	4,171
Total General Property Taxes	<u>1,357,275</u>	<u>1,357,275</u>	<u>1,316,715</u>	<u>(40,560)</u>
<b>Other Local Taxes</b>				
Warren County sales tax	923,000	973,500	1,054,716	81,216
Business and occupational taxes and penalties	738,775	768,089	812,015	43,926
Franchise taxes	57,000	152,513	121,306	(31,207)
Consumer taxes - electric deregulation	227,800	227,800	227,433	(367)
Vehicle licenses	382,600	382,600	390,178	7,578
Bank stock taxes	252,000	252,000	251,478	(522)
Lodging taxes	322,000	322,000	270,799	(51,201)
Meal taxes	1,790,720	1,841,220	1,824,235	(16,985)
Payment in lieu of taxes	726,225	726,225	753,655	27,430
Total Other Local Taxes	<u>5,420,120</u>	<u>5,645,947</u>	<u>5,705,815</u>	<u>59,868</u>
<b>Permits, Fees and Licenses</b>				
Zoning income	34,000	34,000	41,155	7,155
Public ROW use fees	1,100	1,100	2,075	975
Total Permits, Fees and Licenses	<u>35,100</u>	<u>35,100</u>	<u>43,230</u>	<u>8,130</u>
<b>Fines and Forfeitures</b>				
Fines and forfeitures - county	262,000	262,000	147,928	(114,072)
Fines and forfeitures - town	5,000	5,000	14,011	9,011
Total Fines and Forfeitures	<u>267,000</u>	<u>267,000</u>	<u>161,939</u>	<u>(105,061)</u>
<b>Revenues from Use of Money and Property</b>				
Interest on bank deposits	66,000	66,000	242,496	176,496
Interest on accounts receivable	500	500	179	(321)
Rental - Comcast property	12,045	12,045	7,934	(4,111)
Total Revenues from Use of Money and Property	<u>78,545</u>	<u>78,545</u>	<u>250,609</u>	<u>172,064</u>

(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA****GENERAL FUND****SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES-BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2020**

	Original Budget	Final Budget	Actual Revenues	Variance Positive (Negative)
<b>Charges for Services</b>				
Curb and gutter charges	1,000	1,000	(832)	(1,832)
Street & walk assessment	2,000	2,000	-	(2,000)
Credit card fees	34,000	34,000	(1,696)	(35,696)
Sales at Visitors' Center	28,000	28,000	5,712	(22,288)
Sales of publications	50	50	157	107
Total Charges for Services	65,050	65,050	3,341	(61,709)
<b>Miscellaneous Revenue</b>				
Miscellaneous	\$ 4,060	\$ 4,810	\$ 21,548	\$ 16,738
<b>Intergovernmental</b>				
Rolling stock tax	19,000	19,000	16,075	(2,925)
Virginia personal property tax reduction	287,000	287,000	287,863	863
Communication tax	148,100	148,100	140,543	(7,557)
Rental tax vehicles	92,000	92,000	92,790	790
State aid for police and fire	367,170	367,170	376,296	9,126
Highway maintenance	2,020,650	2,020,650	1,971,378	(49,272)
Grants	9,500	27,558	16,315	(11,243)
Other reimbursements	6,000	99,500	7,363	(92,137)
Road construction and improvements	20,000	141,000	75,497	(65,503)
Total Intergovernmental	2,969,420	3,201,978	2,984,120	(217,858)
Total General Fund Revenues	10,196,570	10,655,705	10,487,317	(168,388)
<b>Other Financing Sources</b>				
Transfers from other funds	3,130,000	3,412,800	3,802,980	390,180
Sale of equipment	10,000	10,000	2,668	(7,332)
Insurance recoveries	2,000	2,000	-	(2,000)
Total Other Financing Sources	3,142,000	3,424,800	3,805,648	380,848
<b>Total General Fund Revenues and Other Financing Sources</b>	<u>\$ 13,338,570</u>	<u>\$ 14,080,505</u>	<u>\$ 14,292,965</u>	<u>\$ 212,460</u>

**TOWN OF FRONT ROYAL, VIRGINIA**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
<b>Legislative</b>				
Town Council				
Personal service	\$ 61,255	\$ 61,255	\$ 59,941	\$ 1,314
Contractual service	59,000	60,250	60,227	23
Materials and supplies	18,850	12,100	13,508	(1,408)
Travel and communications	9,000	6,041	6,041	-
Total Town Council	148,105	139,646	139,717	(71)
Clerk of Council				
Personal service	84,045	59,302	57,926	1,376
Materials and supplies	800	354	384	(30)
Travel and communications	2,600	940	1,065	(125)
Dues and memberships	325	170	170	-
Total Clerk of Council	87,770	60,766	59,545	1,221
Total Legislative	235,875	200,412	199,262	1,150
<b>Executive</b>				
Town Manager				
Personal service	246,960	246,960	252,815	(5,855)
Contractual service	500	500	415	85
Materials and supplies	8,600	8,600	11,597	(2,997)
Travel and communications	5,910	1,532	1,688	(156)
Dues and memberships	2,500	170	625	(455)
Total Town Manager	264,470	257,762	267,140	(9,378)
Management Services				
Personal service	243,330	231,953	220,261	11,692
Contractual service	-	55,000	48,172	6,828
Materials and supplies	38,600	29,400	28,971	429
Travel and communications	3,000	3,000	2,365	635
Dues and memberships	700	700	594	106
Total Management Services	285,630	320,053	300,363	19,690
Auto/Motorpool				
Personal service	442,475	423,204	370,700	52,504
Contractual service	6,000	10,000	10,167	(167)
Materials and supplies	47,850	28,950	35,618	(6,668)
Travel and communications	5,500	1,705	1,920	(215)
Utilities	2,500	1,000	511	489
Capital outlays	-	93,619	30,550	63,069
Total Auto/Motorpool	504,325	558,478	449,466	109,012

(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
Office of Information Technology				
Personal service	\$ 177,585	\$ 187,235	\$ 193,729	\$ (6,494)
Contractual service	265,800	321,240	218,305	102,935
Materials and supplies	77,750	68,626	57,684	10,942
Travel and communications	62,600	65,400	72,653	(7,253)
Utilities	5,000	5,000	4,613	387
Capital outlays	81,525	208,376	99,341	109,035
Total Office of Information Technology	670,260	855,877	646,325	209,552
Office of Tourism				
Personal service	234,090	207,090	201,855	5,235
Contractual service	64,200	87,500	57,366	30,134
Materials and supplies	95,350	140,522	83,139	57,383
Travel and communications	4,000	2,834	2,964	(130)
Dues and memberships	2,500	3,475	3,225	250
Cultural Activities	9,500	9,500	10,500	(1,000)
Total Office of Tourism	409,640	450,921	359,049	91,872
Board of Elections				
Contractual service	-	-	-	-
Total Executive	2,134,325	2,443,091	2,022,343	420,748
<b>Legal</b>				
Town Attorney				
Personal service	339,205	339,205	330,620	8,585
Contractual service	15,000	383,800	174,583	209,217
Materials and supplies	7,700	6,200	4,028	2,172
Travel and communications	5,600	4,600	3,654	946
Dues and memberships	1,700	1,700	985	715
Total Legal	369,205	735,505	513,870	221,635
<b>Finance</b>				
Finance Department				
Personal service	778,515	749,343	750,726	(1,383)
Contractual service	1,550	1,550	1,057	493
Materials and supplies	121,605	121,606	125,547	(3,941)
Travel and communications	8,080	6,020	3,250	2,770
Dues and memberships	1,030	1,030	524	506
Capital outlays	-	400	353	47
Total Finance Department	910,780	879,949	881,457	(1,508)
Total General Government	3,650,185	4,258,957	3,616,932	642,025

(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
<b>Planning, Zoning and Community Development</b>				
Planning and Zoning				
Personal service	\$ 408,760	\$ 408,760	\$ 368,137	\$ 40,623
Contractual service	53,500	139,500	35,335	104,165
Materials and supplies	11,175	11,175	4,188	6,987
Travel and communications	5,950	5,950	3,310	2,640
Dues and memberships	625	625	584	41
Total Planning and Zoning	480,010	566,010	411,554	154,456
Economic Development				
Contractual service	-	5,182	5,182	-
Materials and supplies	-	1,301	1,324	(23)
Travel and communications	-	2,264	2,264	-
Dues and memberships	-	150	150	-
Contributions to other entities	9,265	9,265	17,758	(8,493)
Total Economic Development	9,265	18,162	26,678	(8,516)
Boards and Commissions				
Personal service	18,300	18,300	11,089	7,211
Contractual service	1,000	1,250	360	890
Materials and supplies	4,225	3,975	964	3,011
Travel and communications	3,500	2,220	-	2,220
Dues and memberships	-	-	45	(45)
Joint operations	15,000	16,280	16,276	4
Total Boards and Commissions	42,025	42,025	28,734	13,291
Total Planning, Zoning and Community Development	531,300	626,197	466,966	159,231
<b>Police</b>				
Police Department				
Personal service	4,685,285	4,650,059	4,523,668	126,391
Contractual service	7,500	11,850	11,465	385
Materials and supplies	253,255	247,988	229,083	18,905
Travel and communications	66,300	60,690	47,088	13,602
Dues and memberships	1,850	2,150	1,215	935
Joint operations	26,760	25,535	25,715	(180)
Capital outlays	224,010	747,849	264,829	483,020
Total Police Department	5,264,960	5,746,121	5,103,063	643,058
<b>Engineering and Public Works</b>				
Engineering				
Personal service	178,665	158,439	141,191	17,248
Materials and supplies	27,825	7,534	5,127	2,407
Travel and communications	6,900	3,099	2,830	269
Dues and memberships	2,700	1,902	1,842	60
Capital outlays	10,000	10,000	1,818	8,182
Total Engineering	226,090	180,974	152,808	28,166

(Continued)

**TOWN OF FRONT ROYAL, VIRGINIA**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Original Budget	Final Budget	Actual Expenditures	Variance Positive (Negative)
<b>Streets and Sidewalks</b>				
Personal service	\$ 986,435	\$ 965,939	\$ 835,752	\$ 130,187
Contractual service	1,500	1,440	1,170	270
Materials and supplies	645,400	296,550	316,421	(19,871)
Travel and communications	8,150	7,610	7,697	(87)
Utilities	34,800	27,100	25,911	1,189
Dues and memberships	300	300	119	181
Capital outlays	530,125	1,928,021	935,279	992,742
Total Streets and Sidewalks	2,206,710	3,226,960	2,122,349	1,104,611
<b>General Properties</b>				
Personal service	141,780	141,780	137,269	4,511
Contractual service	13,000	14,300	12,010	2,290
Materials and supplies	59,700	46,980	46,103	877
Travel and communications	1,600	1,320	1,375	(55)
Utilities	100,000	126,700	140,953	(14,253)
Capital outlays	-	16,223	16,223	-
Total General Properties	316,080	347,303	353,933	(6,630)
<b>Horticulture</b>				
Personal service	262,170	235,279	208,617	26,662
Contractual service	48,000	78,690	31,964	46,726
Materials and supplies	33,775	48,528	43,193	5,335
Travel and communications	1,500	620	673	(53)
Utilities	300	300	238	62
Capital outlays	58,500	35,059	35,059	-
Total Horticulture	404,245	398,476	319,744	78,732
Total Engineering and Public Works	3,153,125	4,153,713	2,948,834	1,204,879
<b>Nondepartmental</b>				
Fringe benefits	276,000	180,090	162,377	17,713
Insurance	313,000	303,260	303,208	52
Debt service				
Principal	-	-	69,917	(69,917)
Interest	-	-	25,337	(25,337)
Reserve for contingencies	-	324,054	-	324,054
Total Nondepartmental	589,000	807,404	560,839	246,565
Subtotal	13,188,570	15,592,392	12,696,634	2,895,758
<b>Transfers to Other Funds</b>				
Economic Development Fund	-	40,000	-	40,000
Total Transfers	-	40,000	-	40,000
<b>Total General Fund Expenditures</b>	<b>\$ 13,188,570</b>	<b>\$ 15,632,392</b>	<b>\$ 12,696,634</b>	<b>\$ 2,935,758</b>

**TOWN OF FRONT ROYAL, VIRGINIA**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2020**

	<b>Asset Forfeitures</b>	<b>Economic Development</b>	<b>Community/ Neighborhood</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 65,491	\$ (499,322)	\$ 1,098,395	\$ 664,564
Interfund advances	-	4,500	-	4,500
<b>Total Assets</b>	<b>\$ 65,491</b>	<b>\$ (494,822)</b>	<b>\$ 1,098,395</b>	<b>\$ 669,064</b>
<b>Liabilities</b>				
Bank advances	\$ -	\$ -	\$ -	\$ -
Accounts payable	-	-	1,746	1,746
Interfund advances	49,915	-	97,031	146,946
<b>Total Liabilities</b>	<b>49,915</b>	<b>-</b>	<b>98,777</b>	<b>148,692</b>
<b>Fund Balances</b>				
Restricted for:				
Capital outlays	15,576	-	-	15,576
Community development	-	-	999,618	999,618
Assigned for capital projects	-	-	-	-
Unassigned		(494,822)		(494,822)
<b>Total Fund Balances</b>	<b>15,576</b>	<b>(494,822)</b>	<b>999,618</b>	<b>520,372</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 65,491</b>	<b>\$ (494,822)</b>	<b>\$ 1,098,395</b>	<b>\$ 669,064</b>



**TOWN OF FRONT ROYAL, VIRGINIA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	<b>Asset Forfeitures</b>	<b>Economic Development</b>	<b>Community/ Neighborhood</b>	<b>Nonmajor Governmental Funds</b>
<b>Revenues</b>				
Real estate taxes	\$ -	\$ 141,000	\$ 663,050	\$ 804,050
Asset forfeitures	9,301	-	-	9,301
Intergovernmental	-	-	177,235	177,235
Total revenues	<u>9,301</u>	<u>141,000</u>	<u>840,285</u>	<u>990,586</u>
<b>Expenditures</b>				
Current				
Contractual service	-	-	413,580	413,580
Capital outlays	2,480	-	15,965	18,445
Total expenditures	<u>2,480</u>	<u>-</u>	<u>429,545</u>	<u>432,025</u>
<b>Excess of revenues over expenditures</b>	6,821	141,000	410,740	558,561
<b>Other Financing Uses</b>				
Transfers in	-	-	-	-
Transfers out	-	(282,800)	(390,180)	(672,980)
Total other financing uses	<u>-</u>	<u>(282,800)</u>	<u>(390,180)</u>	<u>(672,980)</u>
Net change in fund balances	6,821	(141,800)	20,560	(114,419)
Fund balances - beginning	<u>8,755</u>	<u>(353,022)</u>	<u>979,058</u>	<u>634,791</u>
Fund balances - ending	<u>\$ 15,576</u>	<u>\$ (494,822)</u>	<u>\$ 999,618</u>	<u>\$ 520,372</u>

**TOWN OF FRONT ROYAL, VIRGINIA**  
**ASSET FORFEITURES SPECIAL REVENUE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Final Budget	Actual Amounts	Variance Positive (Negative)
<b>Revenues</b>			
Asset forfeitures	\$ 12,000	\$ 9,301	\$ (2,699)
<b>Expenditures</b>			
Contract services	-	-	-
Capital outlays	12,000	2,480	9,520
	<u>12,000</u>	<u>2,480</u>	<u>9,520</u>
<b>Excess of revenues over expenditures</b>	-	6,821	6,821
Fund balances - beginning	<u>8,755</u>	<u>8,755</u>	<u>-</u>
Fund balances - ending	<u><u>\$ 8,755</u></u>	<u><u>\$ 15,576</u></u>	<u><u>\$ 6,821</u></u>

**TOWN OF FRONT ROYAL, VIRGINIA**  
**ECONOMIC DEVELOPMENT SPECIAL REVENUE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Final Budget	Actual Amounts	Variance Positive (Negative)
<b>Revenues</b>			
Real estate taxes	\$ 141,400	\$ 141,000	\$ (400)
<b>Expenditures</b>			
Contributions to other entities	40,000	-	40,000
Debt Service	-	-	-
Total Expenditures	40,000	-	40,000
<b>Excess of revenues over expenditures</b>	101,400	141,000	39,600
<b>Other Financing Uses</b>			
Transfers out	(282,800)	(282,800)	-
Net change in fund balances	(181,400)	(141,800)	39,600
Fund balances - beginning	(353,022)	(353,022)	-
Fund balances - ending	<u>\$ (534,422)</u>	<u>\$ (494,822)</u>	<u>\$ 39,600</u>

**TOWN OF FRONT ROYAL, VIRGINIA  
COMMUNITY/NEIGHBORHOOD REVENUE FUND  
SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2020**

	Final Budget	Actual Amounts	Variance Positive (Negative)
<b>Revenues</b>			
Real estate taxes	\$ 663,050	\$ 663,050	\$ -
Meals taxes	-	-	-
CDBG grant	2,823	177,235	174,412
Total Revenues	665,873	840,285	174,412
<b>Expenditures</b>			
Contractual services	2,089,502	413,580	1,675,922
Capital outlays	75,690	15,965	59,725
Total Expenditures	2,165,192	429,545	1,735,647
<b>Excess of revenues over expenditures</b>	(1,499,319)	410,740	(1,910,059)
<b>Other Financing Uses</b>			
Transfers out	-	(390,180)	(390,180)
Net change in fund balances	(1,499,319)	20,560	1,519,879
Fund balances - beginning	979,058	979,058	-
Fund balances - ending	\$ (520,261)	\$ 999,618	\$ 1,519,879

**TOWN OF FRONT ROYAL, VIRGINIA**  
**SCHEDULE OF DIRECTOR OF FINANCE'S ACCOUNTABILITY**  
**JUNE 30, 2020**

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**Assets held by the Director of Finance**

Cash on hand		\$	2,196
Cash in banks			
Union Bank & Trust - checking			(243,161)
Certificates of deposit			
BB&T	\$	350,000	
Sonabank		128,605	
Atlantic Union Bank		2,253,449	
Wells Fargo		84,534	
City National Bank		24,360	
			<u>2,840,948</u>
Wells Fargo - government money market			865,022
Virginia Local Government Investment Pool			3,138,192
Union Bank & Trust - banking sweep account			14,830,755
Middleburg Financial Trust - fixed income securities			1,680,532
Middleburg Financial Trust - fixed income securities			<u>22,785,304</u>
<b>Total Assets</b>		<b>\$</b>	<b><u><u>45,899,788</u></u></b>

**TOWN OF FRONT ROYAL, VIRGINIA**  
**SCHEDULE OF DIRECTOR OF FINANCE'S ACCOUNTABILITY TO THE TOWN**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Governmental Funds			2020 Totals (Memorandum Only)	2019 Totals (Memorandum Only)
	General	Special Revenue	Proprietary Funds		
Balance July 1, 2019	\$ 14,010,974	\$ 780,729	\$ 32,264,575	\$ 47,056,278	\$ 44,985,698
Receipts (net)					
Proceed on bond debt issued	-	-	-	-	541,509
Proceeds on loans issued	-	-	-	-	726,298
Interfund advances/receipts	-	-	150,000	150,000	150,000
General property taxes	1,229,741	804,050	-	2,033,791	1,991,187
Other local taxes	5,050,082	-	-	5,050,082	4,630,543
Permits, fees and licenses	43,230	-	-	43,230	31,695
Fines and forfeitures	161,939	-	-	161,939	290,829
Revenues from use of money and property	250,609	-	787,878	1,038,487	1,403,797
Charges for services	3,341	-	31,455,667	31,459,008	32,612,542
Grants	-	-	138,904	138,904	262,563
Miscellaneous	21,548	177,235	-	198,783	678,289
Recovered costs	-	9,301	-	9,301	7,383
Payment in lieu of taxes	753,655	-	-	753,655	730,871
Intergovernmental	2,969,379	-	-	2,969,379	8,572,453
Sale of real estate	-	-	-	-	18,018
Insurance recoveries	2,668	-	-	2,668	1,309
Total Receipts	10,486,192	990,586	32,532,449	44,009,227	52,649,286
Total Available	24,497,166	1,771,315	64,797,024	91,065,505	97,634,984
Disbursements (net)					
Warrants (checks) issued	13,676,345	433,771	25,942,922	40,053,038	47,255,568
Retirement of indebtedness	-	-	4,534,300	4,534,300	2,756,573
Interfund advance payments	150,000	-	-	150,000	150,000
Interest on debt costs	-	-	428,379	428,379	416,565
Total Disbursements	13,826,345	433,771	30,905,601	45,165,717	50,578,706
Transfers in	3,802,980	-	-	3,802,980	3,131,000
Transfers (out)	-	(672,980)	(3,130,000)	(3,802,980)	(3,131,000)
Total Transfers In (Out)	3,802,980	(672,980)	(3,130,000)	-	-
Balance June 30, 2020	\$ 14,473,801	\$ 664,564	\$ 30,761,423	\$ 45,899,788	\$ 47,056,278

**TOWN OF FRONT ROYAL, VIRGINIA**  
**COMPUTATION OF LEGAL DEBT MARGIN**  
**JUNE 30, 2020**

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Taxable assessed value of real property	<u>\$ 1,329,650,680</u>
Debt limit (10 percent of assessed value)	\$ 132,965,068
Amount of debt applicable to debt limit	
Advances from Economic Development Authority	8,406,148
Equipment note payable obligation	<u>649,281</u>
	<u>9,055,429</u>
Legal debt margin	<u>\$ 123,909,639</u>

Note: Section 15.1-176 of 1950 Code of Virginia, as amended, limits to 10% of the assessed valuation of the real estate subject to taxation as the amount of debt which can be issued by the Town. Debt includes any bonds or other interest bearing obligations including existing indebtedness. Excluded from debt margin calculation are bonds payable from Enterprise Funds issued under Article VII Section 10(a)(2) of the Constitution of Virginia (formerly Clause (B) of Section 127 of the Constitution Virginia).

## STATISTICAL SECTION

This part of the Town of Front Royal's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the Financial Statements, Notes to Financial Statements, and Required Supplementary Information says about the Town's overall financial health.

CONTENTS	PAGE
Financial Trends <i>These schedules contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.</i>	112
Revenue Capacity <i>These schedules contain information to help the reader assess the Town's most significant local revenue source, the property tax.</i>	118
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's ability to issue additional debt in the future.</i>	122
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place.</i>	127
Operating Information <i>These schedules contain service and infrastructure data to help the reader understand how the information in the Town's financial report relates to the services the Town provides and the activities it performs.</i>	129

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



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

	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Governmental Activities										
Net investment in										
capital assets	\$ 58,899,411	\$ 56,769,628	\$ 53,782,076	\$ 50,772,052	\$ 47,470,993	\$ 49,088,542	\$ 53,926,594	\$ 51,389,043	\$ 49,299,224	\$ 45,504,940
Restricted	1,136,560	1,313,146	1,975,178	2,830,559	3,239,409	3,394,680	3,528,117	4,133,610	4,890,632	4,521,867
Unrestricted	5,125,795	4,934,496	5,453,676	5,714,134	2,159,166	2,755,805	3,165,636	1,702,112	2,049,383	3,768,860
Total Governmental										
Activities Net Position	\$ 65,161,766	\$ 63,017,270	\$ 61,210,930	\$ 59,316,745	\$ 52,869,568	\$ 55,239,027	\$ 60,620,347	\$ 57,224,765	\$ 56,239,239	\$ 53,795,667
Business-type Activities										
Net investment in										
capital assets	\$ 33,459,029	\$ 34,064,137	\$ 36,419,933	\$ 35,385,515	\$ 44,159,747	\$ 51,693,830	\$ 50,846,302	\$ 53,624,361	\$ 53,014,215	\$ 56,282,332
Unrestricted	16,659,513	16,446,498	19,440,318	22,940,690	17,389,248	18,022,201	26,239,996	25,856,906	29,337,878	29,424,032
Total Business-type										
Activities Net Position	\$ 50,118,542	\$ 50,510,635	\$ 55,860,251	\$ 58,326,205	\$ 61,548,995	\$ 69,716,031	\$ 77,086,298	\$ 79,481,267	\$ 82,352,093	\$ 85,706,364
Primary Government										
Net investment in										
capital assets	\$ 92,358,440	\$ 90,833,765	\$ 90,202,009	\$ 86,157,567	\$ 91,630,740	\$ 100,782,372	\$ 104,772,896	\$ 105,013,404	\$ 102,313,439	\$ 101,787,272
Restricted	1,136,560	1,313,146	1,975,178	2,830,559	3,239,409	3,394,680	3,528,117	4,133,610	4,890,632	4,521,867
Unrestricted	21,785,308	21,380,994	24,893,994	28,654,824	19,548,414	20,778,006	29,405,632	27,559,018	31,387,261	33,192,892
Total Primary										
Government Net Position	\$ 115,280,308	\$ 113,527,905	\$ 117,071,181	\$ 117,642,950	\$ 114,418,563	\$ 124,955,058	\$ 137,706,645	\$ 136,706,032	\$ 138,591,332	\$ 139,502,031

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

Expenses	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Governmental Activities:										
General government and administration	\$ 3,161,198	\$ 3,003,366	\$ 3,404,737	\$ 3,610,966	\$ 3,356,075	\$ 3,866,401	\$ 3,371,036	\$ 3,688,420	\$ 3,580,318	\$ 3,987,202
Public safety	3,821,530	3,890,462	4,226,075	4,256,684	4,071,072	4,401,137	4,626,250	5,137,009	5,084,827	5,482,892
Public works	2,440,880	2,167,403	2,200,764	2,152,085	2,351,087	2,832,612	2,971,237	2,661,967	2,671,218	2,576,212
Planning, zoning, and community development	596,574	641,552	617,998	720,592	700,053	1,077,032	1,246,737	1,078,310	936,586	959,043
Culture and recreation	105,720	105,801	53,548	22,344	-	-	-	-	-	-
Interest on long term debt	12,431	8,480	4,345	-	-	-	-	-	10,965	25,337
Infrastructure depreciation	3,591,054	3,591,054	3,591,054	3,591,054	3,591,055	3,591,055	3,591,054	3,591,054	4,052,716	4,085,813
Total Governmental Activities Expenses	13,729,387	13,408,118	14,098,521	14,353,725	14,069,342	15,768,237	15,806,314	16,156,760	16,336,630	17,116,499
Business-Type Activities:										
Electric	16,888,252	14,466,632	13,293,934	15,469,985	14,906,428	15,869,418	15,515,533	18,153,934	18,681,552	16,834,919
Water	2,742,241	2,799,552	2,953,064	3,075,201	3,042,885	3,604,540	3,444,027	3,583,833	3,380,314	3,315,985
Sewer	2,680,077	3,036,433	2,966,184	3,186,205	3,387,659	3,584,110	4,106,234	5,003,086	5,307,707	4,913,811
Refuse	931,697	968,124	924,107	929,685	842,450	864,785	837,128	898,003	882,729	895,285
Total Business-Type Activities Expenses	23,242,267	21,270,741	20,137,289	22,661,076	22,179,422	23,922,853	23,902,922	27,638,856	28,252,302	25,960,000
Total Primary Government Expenses	36,971,654	34,678,859	34,235,810	37,014,801	36,248,764	39,691,090	39,709,236	43,795,616	44,588,932	43,076,499
<b>Program Revenues</b>										
Governmental Activities:										
Charges for services:										
General government	155,527	96,447	146,989	142,191	168,283	101,895	82,552	76,402	55,704	24,889
Public safety	276,409	244,888	196,412	357,460	179,726	188,653	167,355	247,586	298,212	171,240
Public works	3,848	2,932	1,458	3,848	817	3,248	-	-	-	-
Planning, zoning, and community development	18,182	74,588	25,921	26,251	25,410	30,739	29,534	40,747	31,695	43,230
Operating grants and contributions	1,960,551	1,967,288	1,998,364	2,047,240	2,094,216	2,164,424	2,231,968	2,263,456	3,008,198	2,524,909
Capital grants and contributions	133,154	113,971	10,249	32,554	29,357	5,315,112	7,760,114	1,296,492	283,281	99,175
Total Governmental Program Revenues	2,547,671	2,500,114	2,379,393	2,609,544	2,497,809	7,804,071	10,271,523	3,924,683	3,677,090	2,863,443
Business-Type Activities:										
Charges for services:										
Electric	16,544,552	15,561,410	16,832,900	17,389,372	17,435,092	16,850,344	16,427,093	18,794,719	20,344,673	19,892,677
Water	3,161,942	3,231,718	4,344,296	4,549,414	5,170,326	5,134,173	5,405,199	5,258,361	5,073,560	4,827,497
Sewer	3,452,860	4,204,653	6,303,357	4,984,234	6,644,753	6,719,064	7,077,220	6,672,143	6,473,632	5,794,938
Refuse	927,160	867,388	887,694	994,255	984,191	1,004,293	1,099,451	1,125,850	1,094,132	1,109,694
Capital grants and contributions	-	-	25,960,000	-	474,457	5,381,345	4,358,919	1,841,670	262,563	138,904
Total Business-Type Program Revenues	24,086,514	23,865,169	#REF!	27,917,275	30,708,819	35,089,219	34,367,882	33,692,743	33,248,560	31,763,710
Total Primary Government Program Revenues	26,634,185	26,365,283	#REF!	30,526,819	33,206,628	42,893,290	44,639,405	37,617,426	36,925,650	34,627,153

(Continued)

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

	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Net (Expense) Revenue</b>										
Governmental Activities	\$ (11,181,716)	\$ (10,908,004)	\$ (11,719,128)	\$ (11,744,181)	\$ (11,571,533)	\$ (7,964,166)	\$ (5,534,791)	\$ (12,232,077)	\$ (12,659,540)	\$ (14,253,056)
Business-Type Activities	844,247	2,594,428	8,230,958	5,256,199	8,529,397	11,166,366	10,464,960	6,053,887	4,996,258	5,803,710
Total Primary Gov't Net Expense	(10,337,469)	(8,313,576)	(3,488,170)	(6,487,982)	(3,042,136)	3,202,200	4,930,169	(6,178,190)	(7,663,282)	(8,449,346)
<b>General Revenues and Other</b>										
<b>Changes in Net Position</b>										
Governmental Activities:										
Property taxes	1,685,744	1,544,123	1,549,507	1,788,416	1,846,740	1,843,505	1,935,993	1,960,007	2,175,076	2,183,121
Sales taxes	707,328	726,745	1,418,512	943,728	852,134	794,164	930,123	905,904	951,020	1,054,716
Business and occupational taxes	633,938	612,660	656,935	672,494	682,756	804,677	735,679	719,089	763,876	812,015
Franchise and bank stock taxes (*)	119,434	254,686	280,149	284,714	303,207	288,944	286,165	372,811	368,735	372,784
Communication taxes	177,411	157,940	162,826	169,927	170,799	165,738	160,990	157,125	145,928	140,543
Consumer taxes	242,677	228,374	221,576	164,137	222,783	181,034	225,029	183,832	232,517	227,433
Meals and lodging taxes	1,450,203	1,547,442	1,648,350	1,750,295	1,751,540	1,852,221	1,926,177	1,996,490	2,071,821	2,095,034
Virginia pers. prop. tax reduction	287,863	287,000	287,000	287,000	287,000	287,000	287,000	287,863	287,863	287,863
Payment in lieu of taxes	337,469	372,920	401,492	407,661	389,041	403,582	516,858	651,780	730,871	753,655
Vehicle licenses (*)		350,500	354,605	357,359	362,923	368,894	365,261	375,976	377,554	390,178
Other general taxes (*)	615,452	53,344	71,263	86,720	81,598	84,764	90,552	105,457	123,166	108,865
Unrestricted investment earnings	56,357	123,824	12,113	77,835	65,337	65,457	33,784	63,053	295,260	250,609
Gain on sale of capital assets and other recoveries	-	-	-	-	-	-	-	240,464	19,327	2,668
Transfers	1,988,272	2,503,950	2,848,460	2,859,710	2,951,585	3,193,645	3,422,500	3,155,000	3,131,000	3,130,000
Total Governmental Activities	8,302,148	8,763,508	9,912,788	9,849,996	9,967,443	10,333,625	10,916,111	11,174,851	11,674,014	11,809,484
Business-Type Activities:										
Unrestricted investment earnings	217,969	301,615	(32,882)	174,807	119,434	194,315	62,459	144,313	873,411	680,561
Asset sales and insurance recoveries	-	-	-	-	-	-	265,348	-	132,157	-
Transfers	(1,988,272)	(2,503,950)	(2,848,460)	(2,859,710)	(2,951,585)	(3,193,645)	(3,422,500)	(3,155,000)	(3,131,000)	(3,130,000)
Total Business-Type Activities	(1,770,303)	(2,202,335)	(2,881,342)	(2,684,903)	(2,832,151)	(2,999,330)	(3,094,693)	(3,010,687)	(2,125,432)	(2,449,439)
Total Primary Government	6,531,845	6,561,173	7,031,446	7,165,093	7,135,292	7,334,295	7,821,418	8,164,164	9,548,582	9,360,045
<b>Change in Net Position</b>										
Governmental Activities	(2,879,568)	(2,144,496)	(1,806,340)	(1,894,185)	(1,604,090)	2,369,459	5,381,320	(1,057,226)	(985,526)	(2,443,572)
Business-Type Activities	(926,056)	392,093	5,349,616	2,571,296	5,697,246	8,167,036	7,370,267	3,043,200	2,870,826	3,354,271
Total Primary Government	\$ (3,805,624)	\$ (1,752,403)	\$ 3,543,276	\$ 677,111	\$ 4,093,156	\$ 10,536,495	\$ 12,751,587	\$ 1,985,974	\$ 1,885,300	\$ 910,699

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

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

Fiscal Year	Property	Sales	Business and Occupational	Bank stock., Comm. and Franchise (*)	Consumer	Meals and Lodging	Virginia PPTR	In Lieu of Taxes	Vehicle Taxes	Other General (*)	Total
2011	1,685,744	707,328	633,938	296,845	242,677	1,450,203	287,863	337,469		615,452	6,257,519
2012	1,544,123	726,745	612,660	177,325	228,374	1,547,442	287,000	372,920	350,500	639,145	6,486,234
2013	1,549,507	1,418,512	656,935	442,975	221,576	1,648,350	287,000	401,492	354,605	71,263	7,052,215
2014	1,788,416	943,728	672,494	454,641	164,137	1,750,295	287,000	407,661	357,359	86,720	6,912,451
2015	1,846,740	852,134	682,756	474,006	222,783	1,751,540	287,000	389,041	362,923	81,598	6,950,521
2016	1,843,505	794,164	804,677	454,682	181,034	1,852,221	287,000	403,582	368,894	84,764	7,074,523
2017	1,843,122	930,123	735,679	447,155	225,029	1,926,177	287,000	516,858	365,261	90,552	7,366,956
2018	1,960,007	905,904	719,089	529,936	183,832	1,996,490	287,863	651,780	375,976	105,457	7,716,334
2019	2,175,076	951,020	763,876	514,663	232,517	2,071,821	287,863	730,871	377,554	123,166	8,228,427
2020	2,183,121	1,054,716	812,015	513,327	227,433	2,095,034	287,863	753,655	390,178	108,865	8,426,207

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

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

	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
General Fund										
Nonspendable	\$ 180,487	\$ 207,520	\$ 196,260	\$ 207,823	\$ 241,290	\$ 141,487	\$ 117,862	\$ 94,008	\$ 67,677	\$ 534,395
Restricted	766,933	766,933	1,300,989	1,900,281	2,211,133	2,462,565	2,776,030	3,224,305	3,902,819	3,506,673
Assigned	-	-	-	-	1,250,000	-	-	2,306,399	1,873,841	1,984,545
Unassigned	5,300,035	5,248,533	5,728,824	6,022,406	5,585,564	7,747,379	8,127,236	6,814,073	7,169,004	8,584,059
Total General Fund	<u>\$ 6,247,455</u>	<u>\$ 6,222,986</u>	<u>\$ 7,226,073</u>	<u>\$ 8,130,510</u>	<u>\$ 9,287,987</u>	<u>\$ 10,351,431</u>	<u>\$ 11,021,128</u>	<u>\$ 12,438,785</u>	<u>\$ 13,013,341</u>	<u>\$ 14,609,672</u>
All Other Governmental Funds										
Restricted	\$ 369,627	\$ 546,213	\$ 674,189	\$ 930,278	\$ 1,028,276	\$ 932,115	\$ 752,087	\$ 909,305	\$ 987,813	\$ 1,015,194
Assigned - capital funds	388	388	388	388	388	388	-	-	-	-
Unassigned, reported in:										
Special revenue funds	(331,973)	(405,413)	(312,447)	(380,375)	(447,128)	(481,106)	(494,429)	(494,422)	(353,022)	(494,822)
Total all other governmental funds	<u>\$ 38,042</u>	<u>\$ 141,188</u>	<u>\$ 362,130</u>	<u>\$ 550,291</u>	<u>\$ 581,536</u>	<u>\$ 451,397</u>	<u>\$ 257,658</u>	<u>\$ 414,883</u>	<u>\$ 634,791</u>	<u>\$ 520,372</u>

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

	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>REVENUES:</b>										
Taxes:										
Property	\$ 1,463,695	\$ 1,476,410	\$ 1,452,321	\$ 1,592,285	\$ 1,748,623	\$ 1,784,387	\$ 1,860,940	\$ 1,900,224	\$ 2,018,270	\$ 2,120,765
Sales	707,328	726,745	1,418,512	943,728	852,134	794,164	930,123	905,904	951,020	1,054,716
Business and occupational	633,938	612,660	656,935	672,494	682,756	804,677	735,679	719,089	763,876	812,015
Franchise	119,434	19,385	87,213	67,191	60,797	74,743	48,750	51,205	49,029	121,306
Consumer	242,677	228,374	221,576	164,137	222,783	181,034	225,029	183,832	232,517	227,433
Vehicle licenses	296,784	350,500	354,605	357,359	362,923	368,894	365,261	375,976	377,554	390,178
Bank stock	259,987	235,301	192,936	217,523	242,410	214,201	237,415	321,606	319,706	251,478
Meals and lodging	1,450,203	1,547,442	1,648,350	1,750,295	1,751,540	1,852,221	1,926,177	1,996,490	2,071,821	2,095,034
Permits, fees, and licenses	18,182	74,588	25,921	26,251	25,410	30,739	29,534	40,747	31,695	43,230
Fines and forfeitures	249,598	213,721	179,666	157,767	172,406	160,047	160,643	238,207	290,829	161,939
Revenues from use of money and property	56,357	123,824	12,113	77,835	65,337	65,457	33,784	63,053	295,260	250,609
Charges for services	16,257	25,811	35,841	37,924	34,715	42,257	41,280	55,599	52,077	3,341
Miscellaneous	143,118	73,568	112,606	108,115	134,385	62,886	41,272	20,803	3,627	21,548
Recovered costs	26,811	31,167	16,746	199,693	7,320	28,606	6,712	9,379	7,383	9,301
Payment in lieu of taxes	337,469	372,920	401,492	407,661	389,041	403,582	516,858	651,780	730,871	753,655
Intergovernmental	2,617,660	2,579,543	2,529,702	2,623,441	2,662,970	8,017,038	10,530,624	7,103,343	9,261,634	3,161,355
Total Revenues	8,639,498	8,691,959	9,346,535	9,403,699	9,415,550	14,884,933	17,690,081	14,637,237	17,457,169	11,477,903
<b>EXPENDITURES:</b>										
General government										
Legislative	175,142	155,176	169,241	171,338	176,283	313,478	252,619	220,857	235,441	199,262
Executive	1,556,528	1,520,025	1,731,960	2,049,108	1,881,985	2,121,888	1,999,411	2,117,328	2,066,390	2,022,343
Legal	347,940	342,144	362,854	362,454	369,080	344,280	333,082	366,770	347,002	513,870
Finance	803,686	732,352	811,980	811,502	811,792	829,531	713,821	825,740	837,058	881,457
Public Safety										
Police	3,546,263	3,598,674	3,881,352	3,973,290	4,245,126	4,324,556	4,551,997	7,725,090	10,857,703	5,103,063
Planning, zoning, and community development	536,085	590,660	556,094	647,358	663,734	1,017,748	1,190,229	998,714	891,646	880,546
Engineering and public works	2,712,420	3,421,997	2,681,719	2,565,474	2,456,560	7,695,362	11,042,304	3,952,129	4,516,195	2,967,279
Parks and recreation	95,000	95,000	47,500	20,000	-	-	-	-	-	-
Nondepartmental	479,931	564,173	630,878	570,287	573,853	498,430	553,160	553,102	552,285	465,585
Debt Service										
Principal	84,600	88,551	93,043	-	-	-	-	-	44,858	69,917
Interest	12,431	8,480	4,345	-	-	-	-	-	14,454	25,337
Total Expenditures	10,350,026	11,117,232	10,970,966	11,170,811	11,178,413	17,145,273	20,636,623	16,759,730	20,363,032	13,128,659
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>										
	(1,710,528)	(2,425,273)	(1,624,431)	(1,767,112)	(1,762,863)	(2,260,340)	(2,946,542)	(2,122,493)	(2,905,863)	(1,650,756)
<b>OTHER FINANCING SOURCES (USES):</b>										
Transfers in	2,085,303	2,503,950	3,007,971	2,859,710	2,980,075	3,193,645	3,422,500	3,155,000	3,131,000	3,802,980
Transfers (out)	(97,031)	-	(159,511)	-	(28,490)	-	-	-	-	(672,980)
Other sources	-	-	-	-	-	-	-	542,375	569,327	2,668
Total Other Financing Sources (Uses)	1,988,272	2,503,950	2,848,460	2,859,710	2,951,585	3,193,645	3,422,500	3,697,375	3,700,327	3,132,668
<b>NET CHANGE IN FUND BALANCES</b>										
	\$ 277,744	\$ 78,677	\$ 1,224,029	\$ 1,092,598	\$ 1,188,722	\$ 933,305	\$ 475,958	\$ 1,574,882	\$ 794,464	\$ 1,481,912
Debt service as a percentage of noncapital expenditures	1.10%	0.94%	1.05%	0.98%	0.00%	0.00%	0.00%	0.00%	0.00%	0.78%

Additional years will be added as information is available.

TABLE VI

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

Fiscal Year	Real Property					Personal Property				
	Commercial Residential Property	Public Service	Total Assessed Value	Estimated Actual Value	Direct Tax Rate	Motor Vehicles	Business Equipment	Other	Total Assessed Value	Direct Tax Rate
2011	1,104,745,864	15,826,250	1,120,572,114	1,120,572,114	0.110	79,013,475	17,575,885	1,575,270	98,164,630	0.640
2012	1,118,318,200	16,425,250	1,134,743,450	1,134,743,450	0.110	82,719,086	16,645,415	1,534,520	100,899,021	0.640
2013	1,127,434,400	17,274,880	1,144,709,280	1,144,709,280	0.110	85,157,320	18,291,765	1,545,035	104,994,120	0.640
2014	1,129,575,300	16,808,640	1,146,383,940	1,146,383,940	0.130	86,666,340	19,232,980	1,557,485	107,456,805	0.640
2015	1,156,264,300	16,841,840	1,173,106,140	1,173,106,140	0.130	89,785,695	17,204,725	1,311,870	108,302,290	0.640
2016	1,158,897,600	16,506,850	1,175,404,450	1,175,404,450	0.130	94,765,055	17,492,560	2,108,235	114,365,850	0.640
2017	1,164,489,300	15,107,880	1,179,597,180	1,179,597,180	0.135	95,158,655	17,429,905	3,412,700	116,001,260	0.640
2018	1,168,609,100	15,861,850	1,184,470,950	1,184,470,950	0.135	97,468,645	19,249,730	3,196,990	119,915,365	0.640
2019	1,306,118,700	14,571,700	1,320,690,400	1,320,690,400	0.135	103,831,560	19,120,860	3,221,465	126,173,885	0.640
2020	1,314,249,800	15,400,880	1,329,650,680	1,329,650,680	0.130	104,788,430	19,223,250	3,148,270	127,159,950	0.640

Source: Warren County Property Assessor's Office

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

Fiscal Year	Town Direct Rates					Overlapping Rates				Total Direct and Overlapping Rates			
	Real Estate	Personal Property	Machinery and Tools	Mobile Homes	Total Direct	Real Estate	Personal Property	Machinery Tools	Mobile Homes	Real Estate	Personal Property	Machinery and Tools	Mobile Homes
2011	0.110	0.640	0.640	0.110	0.750	0.590	4.000	1.300	0.590	0.700	4.640	1.940	0.700
2012	0.110	0.640	0.640	0.110	0.750	0.590	4.000	1.300	0.590	0.700	4.640	1.940	0.700
2013	0.110	0.640	0.640	0.110	0.750	0.590	4.000	1.300	0.590	0.700	4.640	1.940	0.700
2014	0.130	0.640	0.640	0.130	0.770	0.610	4.000	1.300	0.610	0.740	4.640	1.940	0.740
2015	0.130	0.640	0.640	0.130	0.770	0.600	4.000	1.950	0.600	0.730	4.640	2.590	0.730
2016	0.130	0.640	0.640	0.130	0.770	0.620	4.000	1.950	0.595	0.750	4.640	2.590	0.725
2017	0.135	0.640	0.640	0.135	0.775	0.650	4.000	1.950	0.650	0.785	4.640	2.590	0.785
2018	0.135	0.640	0.640	0.135	0.775	0.660	4.000	2.050	0.660	0.795	4.640	2.690	0.795
2019	0.135	0.640	0.640	0.135	0.775	0.655	4.000	2.050	0.655	0.790	4.640	2.690	0.790
2020	0.130	0.640	0.640	0.130	0.770	0.655	4.000	2.050	0.655	0.790	4.640	2.690	0.790

Source: Town of Front Royal and Warren County



**TOWN OF FRONT ROYAL, VIRGINIA  
PRINCIPAL PROPERTY TAX PAYERS  
CURRENT YEAR AND 2011**

2020			2011		
Taxpayer	Taxable Assessed Value	Percentage of Total Town Taxable Assessed Value	Taxpayer	Taxable Assessed Value	Percentage of Total Town Taxable Assessed Value
Boisseau Family LC	\$ 18,354,000	1.38%	Boisseau Family, L.C.	\$ 20,391,600	1.42%
Shenandoah Commons Appartmen	8,427,900	0.63%	Ramsey, Inc.	8,389,600	0.58%
MCAP Southerlands LLC	7,961,300	0.60%	Gateway Plaza Shopping Center	8,124,600	0.57%
Gateway Plaza Shopping Center	7,794,200	0.59%	Shenandoah Square LP	7,759,600	0.54%
Royal Arms Associates	7,563,400	0.57%	HLI Endowment Inc	7,159,200	0.50%
HLI Endowment Inc	6,501,100	0.49%	William Land Co, Inc.	6,754,400	0.47%
F & R Limited Partnership	6,393,600	0.48%	Cogil Corporation	5,796,800	0.40%
HWA Enterprises	6,239,200	0.47%	Corry Family Real Estate LLC	4,256,100	0.30%
Ramsey, Inc.	6,110,100	0.46%	Royal Arms Associates	3,737,400	0.26%
Fairfield Lynn Limited	4,482,600	0.34%	Puja Properties	2,715,000	0.19%
Total	<u>\$ 79,827,400</u>	<u>6.00%</u>		<u>\$ 75,084,300</u>	<u>5.23%</u>

Source: Warren County Property Assessor's Office

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

<b>Fiscal Year</b>	<b>Total Tax Levy</b>	<b>Current Tax Collections</b>	<b>Percent of Levy Collected</b>	<b>Subsequent Tax Collections</b>	<b>Total Tax Collections</b>	<b>Total Collection as Percent of Current Levy</b>
2011	1,802,507	968,065	53.71%	828,976	1,797,041	99.70%
2012	1,833,691	683,918	37.30%	1,144,139	1,828,057	99.69%
2013	1,840,648	928,189	50.43%	905,849	1,834,038	99.64%
2014	2,084,048	1,042,874	50.04%	960,543	2,003,417	96.13%
2015	2,153,232	1,096,456	50.92%	960,139	2,056,595	95.51%
2016	2,119,854	1,067,015	50.33%	938,509	2,005,524	94.61%
2017	2,253,175	1,158,124	51.40%	953,377	2,111,501	93.71%
2018	2,342,677	1,243,129	53.06%	931,728	2,174,857	92.84%
2019	2,544,157	1,299,343	51.07%	1,001,965	2,301,308	90.45%
2020	2,482,110	1,161,873	46.81%	-	1,161,873	46.81%

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

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

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

TABLE X

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

Fiscal Year	Governmental Activities		Business Type Activities		Total Primary Government	Personal Income (in \$000's)	Percentage of Personal Income	Population	Per Capita
	Advances and Notes Payable	General Obligation Bonds	Notes Payable	General Obligation Bonds					
2011	-	181,594	-	12,945,796	13,127,390	547,521	2.36%	14,440	894
2012	-	93,043	-	11,970,892	12,063,935	553,967	2.14%	14,610	812
2013	-	-	-	10,936,627	10,936,627	663,896	1.62%	14,666	733
2014	-	-	-	13,957,382	13,957,382	700,492	1.83%	15,127	848
2015	-	-	-	16,021,362	16,021,362	702,210	2.14%	15,545	965
2016	-	-	-	32,121,015	32,121,015	723,276	4.31%	14,709	2,199
2017	-	-	-	46,677,491	46,677,491	727,056	6.42%	15,153	3,080
2018	3,224,745	-	-	47,534,476	50,759,221	729,179	6.96%	15,006	3,383
2019	9,125,347	-	158,606	45,256,686	54,540,639	755,433	7.22%	15,221	3,583
2020	9,055,429	-	123,186	40,677,387	49,856,002	778,096	6.41%	15,053	3,312

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

Fiscal Year	General Obligation Bonds		Total Primary Government	Assessed Value in \$000's	Percentage of Actual Taxable Value of Property	Population	Per Capita
	Governmental Activities	Business-Type Activities					
2011	181,594	12,945,796	13,127,390	1,218,737	1.08%	14,440	909
2012	93,043	11,970,892	12,063,935	1,235,642	0.98%	14,610	826
2013	-	10,936,627	10,936,627	1,249,703	0.88%	14,666	746
2014	-	13,957,382	13,957,382	1,253,841	1.11%	15,127	923
2015	-	16,021,362	16,021,362	1,281,408	1.25%	15,545	1,031
2016	-	32,121,015	32,121,015	1,289,770	2.49%	14,709	2,184
2017	-	46,677,491	46,677,491	1,295,598	3.60%	15,153	3,080
2018	-	47,534,476	47,534,476	1,304,386	3.64%	15,006	3,168
2019	-	45,256,686	45,256,686	1,446,864	3.13%	15,221	2,973
2020	-	40,677,387	40,677,387	1,456,811	2.79%	15,053	2,702

**TOWN OF FRONT ROYAL, VIRGINIA**  
**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT**  
**AS OF JUNE 30, 2020**

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
<b>Debt repaid with property taxes</b>			
Warren County	\$ 123,661,332		
Warren County School Board	7,644,000		
Subtotal, overlapping debt	<u>131,305,332</u>	49%	64,339,613
<b>Town of Front Royal (direct debt)</b>	<u>9,055,429</u>	100%	<u>9,055,429</u>
<b>Total direct and overlapping debt</b>			<u><u>\$ 73,395,042</u></u>

Note: Overlapping governments are those that coincide, at least in part, which the geographic boundaries of the town. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the Town of Front Royal. This process recognizes that, when considering the town's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is resident, and therefore responsible for repaying the debt, of each overlapping government.

**TOWN OF FRONT ROYAL, VIRGINIA**  
**LEGAL DEBT MARGIN INFORMATION**  
**LAST TEN FISCAL YEARS**

	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Debt limit	\$ 114,501,165	\$ 114,459,425	\$ 114,460,908	\$ 114,638,394	\$ 117,310,614	\$ 117,540,445	\$ 117,959,718	\$ 118,447,095	\$ 132,069,040	\$ 132,965,068
Net debt applicable to limit	12,907,581	11,860,717	10,750,000	12,835,000	13,955,241	-	-	3,224,745	9,125,347	9,055,429
Legal debt margin	\$ 101,593,584	\$ 102,598,708	\$ 103,710,908	\$ 101,803,394	\$ 103,355,373	\$ 117,540,445	\$ 117,959,718	\$ 115,222,350	\$ 122,943,693	\$ 123,909,639
Net debt applicable to the limit as a percent of debt limit	11%	10%	9%	11%	12%	0%	0%	3%	7%	7%

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

Fiscal Year	Gross Revenue <sup>1</sup>	Operating Expenses <sup>2</sup>	Net Revenue Available for Debt Service	Debt Service Requirements			
				Principal	Interest	Total	Coverage
2011	24,304,483	20,868,331	3,436,152	955,679	593,798	1,549,477	2.22
2012	24,166,784	18,870,789	5,295,995	974,906	631,396	1,606,302	3.30
2013	28,335,365	17,772,057	10,563,308	1,034,264	564,878	1,599,142	6.61
2014	28,092,082	20,376,968	7,715,114	535,000	537,563	1,072,563	7.19
2015	30,353,796	19,830,467	10,523,329	580,000	506,187	1,086,187	9.69
2016	29,902,189	20,550,341	9,351,848	680,000	508,966	1,188,966	7.87
2017	30,071,422	20,578,114	9,493,308	665,000	484,321	1,149,321	8.26
2018	31,995,386	23,716,216	8,279,170	1,719,440	448,525	2,167,965	3.82
2019	33,859,408	24,316,988	9,542,420	2,756,573	416,565	3,173,138	3.01
2020	32,305,367	22,073,859	10,231,508	4,534,300	428,379	4,962,679	2.06

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

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

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

<b>Year</b>	<b>Estimated Population</b>	<b>Personal Income (thousands of dollars)</b>	<b>Household Median Income</b>	<b>Per Capita Personal Income</b>	<b>Median Age</b>	<b>Education Level in Years of Formal Schooling</b>	<b>School Enrollment</b>	<b>Unemployment Rate</b>
2011	14,440	547,521	37,917	DNA	38	DNA	5,317	6.7%
2012	14,610	553,967	37,917	DNA	DNA	DNA	5,325	5.5%
2013	14,666	663,896	45,268	DNA	DNA	DNA	5,394	5.7%
2014	15,127	700,492	46,307	26,129	DNA	DNA	5,493	5.6%
2015	15,545	702,210	46,421	DNA	DNA	DNA	5,318	4.8%
2016	14,709	723,276	46,609	DNA	DNA	DNA	5,325	4.8%
2017	15,153	727,056	47,981	24,733	40	DNA	5,433	3.8%
2018	15,006	729,179	48,270	17,907	39	12	5,136	3.8%
2019	15,221	755,433	49,631	25,361	38	12	5,385	3.1%
2020	15,053	778,096	52,717	26,051	37	12	5,298	7.5%

\*Median age and education level only available in census years

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

DNA - Data not available



**TOWN OF FRONT ROYAL, VIRGINIA**  
**PRINCIPAL EMPLOYERS**  
**CURRENT YEAR AND 2011**

2020			2011		
Employer	Employees	% of Total	Employer	Employees	% of Total
Warren County School Board	750-1000	13%	Warren County School Board	796	10%
Valley Health System	500-750	10%	Family Dollar Stores Distribution Center	503	7%
Warren County	500-600	6%	Valley Health System	400	5%
Walmart	300-450	6%	E.I. Dupont De Nemours & Co.	400	5%
Ferguson Enterprises, Inc.	300-600	3%	Warren County	326	4%
Interbake Foods, LLC	100-350	5%	FDR Services	317	4%
Family Dollar Services	300-600	5%	Town of Front Royal	313	4%
Sysco	300-450	4%	Martin's Food Market	234	3%
Axalta	300-600	3%	Randolph-Macon Academy	222	3%
Christiandom College	250-499	2%	VIA Satellite	171	2%

Source: Estimates from Warren County Economic Development Authority

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

<u>Function/Program</u>	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
General Government	38	33	37	37	38	38	38	39	44	44
Police Protection	47	47	48	49	49	51	52	53	52	52
Highway - Streets	17	16	17	16	16	16	16	15	15	15
Sanitation	13	14	15	14	14	14	12	15	13	13
Water	15	18	15	15	18	18	18	18	17	18
Sewer	14	17	16	16	16	17	17	17	16	17
Electrical	13	15	15	15	15	17	17	17	17	17
	157	160	163	162	166	171	170	174	174	176

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

Function/Program	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Public Safety										
Police										
Physical arrests	1,361	1,777	1,183	1,217	947	837	952	1,414	1,067	1,030
Parking violations	462	222	364	190	12	64	154	133	158	212
Traffic violations	3,423	2,666	1,808	1,676	2,632	2,239	2,394	3,922	3,854	2,547
Wastewater										
New service connections	17	17	14	8	30	52	80	75	45	31
Average daily treatment in gallons	3,598,000	3,426,000	3,531,000	3,665,000	3,936,000	4,265,000	4,000,000	4,504,000	4,481,480	3,882,750
Water System										
New connections	16	20	16	9	34	51	78	75	45	30
Average daily consumption	2,065,043	1,453,000	1,875,000	1,875,000	1,875,000	1,868,000	1,736,000	1,783,000	1,965,000	1,873,000
Electric Distribution										
New Connections	12	18	20	20	27	26	23	26	26	28
Average daily KWH consumption	538,679	487,033	528,398	516,708	517,114	523,681	535,984	568,064	554,085	511,463
Sanitation										
Refuse collected (tons/day)	20	20	22	23	24	24	46	56	42	22
Recyclables collected (tons/day)	2.45	1.98	1.46	1.61	1.62	1.73	1.73	1.65	1.82	2.36
Highway and Streets										
Repair services	210	366	398	253	151	176	272	226	252	217
Street resurfacing (miles)	1.44	12.80	1.20	15.61	5.00	3.00	1.40	1.03	1.30	0.91

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

Function/Program	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Public Safety										
Police										
Stations	2	2	2	2	2	2	2	2	1	1
Patrol Units	12	12	12	20	26	25	26	26	38	38
Fire Stations	1	1	1	1	1	1	1	1	1	1
Highways and Streets										
Streets (miles)	133	133	133	138	132	132	132	137	137	138
Streetlights	1,450	1,450	1,450	1,470	1,505	1,871	1,969	1,975	1,977	1,976
Traffic signals	14	14	14	14	14	14	16	16	15	16
Culture and Recreation										
Community centers	1	1	1	1	2	2	2	2	2	2
Parks	13	13	12	12	20	20	23	23	23	20
Park acreage	165	165	125	125	400	400	400	400	400	400
Swimming pools	1	1	1	1	1	1	1	1	1	1
Tennis courts	9	9	2	2	6	6	6	6	6	6
Sewer System										
Sanitary sewers (miles)	198	198	198	198	198	198	124	124	124	124
Storm sewers (miles)	92	92	92	92	92	92	92	92	92	92
Treatment plants	1	1	1	1	1	1	1	1	1	1
Max daily capacity	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	5,000,000	6,520,000	5,300,000	5,300,000	5,300,000
Water System										
Facilities	1	1	1	1	1	1	1	1	1	1
Fire Hydrants	668	672	672	672	672	687	712	712	722	724
Max daily capacity	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Electric System										
Service lines (miles)	141	141	143	143	143	145	151	152	152	159
Distribution stations	4	4	4	4	5	5	5	5	5	5
Sanitation										
Collection Trucks	5	7	5	5	8	8	8	8	6	6

## **COMPLIANCE SECTION**

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

### INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Front Royal, Virginia, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town of Front Royal, Virginia's basic financial statements, and have issued our report thereon dated October 19, 2020.

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

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

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

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

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

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

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

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

October 19, 2020  
Leesburg, Virginia

*Mitchell & Co., P.C.*