

TOWN OF HAYMARKET, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2013

TOWN OF HAYMARKET, VIRGINIA

TOWN COUNCIL

David Leake, Mayor

Jay Tobias, Vice-Mayor

Rebecca Bare

Katherine Harnest

Mary Lou Scarbrough

Milt Kenworthy

Steve Aitken

OFFICIALS

Brian Henshaw, Town Manager

Jennifer Preli, Town Clerk

TOWN OF HAYMARKET, VIRGINIA

Financial Report
Year Ended June 30, 2013

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TOWN OF HAYMARKET, VIRGINIA

Financial Report
Year Ended June 30, 2013

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

INDEPENDENT AUDITORS' REPORT

To The Honorable Members of the Town Council
Town of Haymarket
Haymarket, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of the Town of Haymarket, Virginia, as of and for the year ended June 30, 2013, 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Town of Haymarket, Virginia, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2013, the Town adopted new accounting guidance, GASB Statement Nos. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7, budgetary comparison information, and schedules of pension funding progress 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. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Haymarket, Virginia's basic financial statements. The supporting schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supporting schedules are the responsibility of management and were 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 supporting schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2013, on our consideration of the Town of Haymarket, Virginia'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 Haymarket, Virginia's internal control over financial reporting and compliance.

Charlottesville, Virginia
September 24, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Haymarket, Virginia we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2013.

FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$4,397,164 (net position). Of this amount \$1,968,477 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year; the Town's general fund reported ending fund balance of \$1,993,239, an increase of \$178,519 in comparison with the prior year. Approximately ninety-seven percent of this total amount, \$1,922,039 is available for spending at the Town's discretion (unassigned fund balance).
- The Town's total debt decreased \$153,341 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components:

- Government-wide financial statements,
- Fund financial statements, and
- 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 of the Town's 1) assets and deferred outflows of resources and 2) liabilities and deferred inflows of resources, 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 Town's nets 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 the 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).

Overview of the Financial Statements: (Continued)

Both of the government-wide financial statements distinguish functions of the Town 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 include general government administration, public safety, public works, cultural, planning and community development.

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 Haymarket, Virginia, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of July 1, 2013, the Town only has governmental 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 statement, governmental fund financial statement focus on near-term inflows and outflows of spendable resources, as well as on balance of spendable 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 Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains one individual governmental fund - the General Fund.

The Town 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.

Overview of the Financial Statements: (Continued)

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.

Other information - In addition to the basic financial statement and accompanying notes, this report also presents certain required supplementary information for budgetary comparison schedules and presentation of combining financial statements for the discretely presented component units.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a Town's financial position. In the case of the Town, assets exceeded liabilities by \$4,397,164 at the close of the most recent fiscal year.

Town of Haymarket, Virginia's, Net Position

	Governmental Activities	
	2013	2012
Current and other assets	\$ 1,848,889	\$ 1,949,082
Capital assets	<u>4,257,472</u>	<u>4,110,360</u>
Total assets	<u>\$ 6,106,361</u>	<u>\$ 6,059,442</u>
Current liabilities	\$ 261,647	\$ 303,879
Long-term liabilities outstanding	<u>1,694,394</u>	<u>1,836,549</u>
Total liabilities	<u>\$ 1,956,041</u>	<u>\$ 2,140,428</u>
Net position:		
Invested in capital assets, net of related debt	\$ 2,428,687	\$ 2,128,234
Unrestricted	<u>1,968,477</u>	<u>1,790,780</u>
Total net position	<u>\$ 4,397,164</u>	<u>\$ 3,919,014</u>

A large part of the Town's net position, 2,428,687 or (55%) reflects its investment in capital assets (e.g., land, buildings and improvements, infrastructure, 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 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.

Government-wide Financial Analysis: (Continued)

Governmental Activities - Governmental activities increased the Town's net position by \$478,150. Key elements of these changes are as follows:

Town of Haymarket, Virginia's Changes in Net Position For the Years Ended June 30, 2013 and 2012		
	Governmental Activities	
	2013	2012
Revenues:		
Program revenues:		
Charges for services	\$ 357,015	\$ 447,283
Operating grants and contributions	32,838	56,252
Capital grants and contributions	243,456	110,990
General revenues:		
General property taxes	328,174	170,546
Other local taxes	1,137,475	1,126,255
Grants and contributions not restricted to specific programs	149,577	146,199
Other general revenues	223,634	39,231
Total revenues	\$ 2,472,169	\$ 2,096,756
Expenses:		
General government administration	\$ 610,577	\$ 492,697
Public safety	556,185	605,960
Public works	281,174	442,859
Cultural	17,145	42,294
Community development	468,340	-
Interest and other fiscal charges	60,598	39,994
Total expenses	\$ 1,994,019	\$ 1,623,804
Change in net position	\$ 478,150	\$ 472,952
Net position, July 1, 2012, as restated	3,919,014	3,446,062
Net position, June 30, 2013	\$ 4,397,164	\$ 3,919,014

Financial Analysis of the Town's Funds

As noted earlier, the Town used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$1,993,239 an increase of \$178,519 in comparison with the prior year. A large part of this total amount, \$1,922,039 constitutes unassigned fund balance, which is available for spending at the Town's discretion.

The general fund is the primary operating fund of the Town. 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 totals \$1,922,039 at year end.

General Fund Budgetary Highlights

The Town's General Fund had \$2,472,169 in revenues during the year, which was \$464,388 less than budgeted (reference Exhibit 8). The Town's General Fund expended \$2,293,650 during the year, which was \$840,715 less than budgeted (reference Exhibit 8).

Capital Asset and Debt Administration

Capital assets - The Town's investment in capital assets for its governmental funds as of June 30, 2013 totals \$4,257,472 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, infrastructure and machinery and equipment. The Town's investment in governmental capital assets for the current fiscal year compared to the prior year total of \$4,110,360 results in an increase of \$147,112. This increase is due primarily to current year additions exceeding current year depreciation expense.

Additional information on the Town's capital assets can be found in the footnotes to these financial statements.

Debt

During the year the Town's debt decreased \$153,341 as it repaid principal on general obligation debt in the General Fund, (\$132,805). Annual requirements to amortize all long-term debt and related interest and other information relative to the Town's debt can be found in the notes to the financial statements.

Contact The Town's Financial Management

This financial report is designed to provide a general overview of the Town's finances for all of those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Town of Haymarket, 15000 Washington Street, Haymarket, Virginia 20169.

Basic Financial Statements

Government-wide Financial Statements

Statement of Net Position
June 30, 2013

	<u>Governmental Activities</u>
Assets:	
Cash and cash equivalents	\$ 1,848,889
Receivables (net of allowance for uncollectibles):	
Taxes including penalties	14,372
Accounts receivable	232,472
Capital assets:	
Land	1,781,511
Other capital assets, net of accumulated depreciation	<u>2,475,961</u>
Capital assets, net	<u>\$ 4,257,472</u>
Total assets	<u>\$ 6,353,205</u>
Liabilities:	
Accounts payable	\$ 26,154
Accrued liabilities	35,171
Deposits payable	41,169
Long-term liabilities:	
Due within one year	159,153
Due in more than one year	<u>1,694,394</u>
Total liabilities	<u>\$ 1,956,041</u>
Net Position:	
Net investment in capital assets	\$ 2,428,687
Unrestricted	<u>1,968,477</u>
Total net position	<u>\$ 4,397,164</u>
Total liabilities and net position	<u><u>\$ 6,353,205</u></u>

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

TOWN OF HAYMARKET, VIRGINIA

Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government administration	\$ 610,577	\$ -	\$ -	-
Public safety	556,185	106,739	32,838	-
Public works	281,174	250,276	-	243,456
Cultural	17,145	-	-	-
Community development	468,340	-	-	-
Interest on long-term debt	60,598	-	-	-
Total primary government	\$ 1,994,019	\$ 357,015	\$ 32,838	\$ 243,456

General Revenues:

General property taxes
Meals tax
Cigarette tax
Business license tax
Consumer utility tax - electric
Other local taxes
Unrestricted revenues from the use of money and property
Grants and contributions not restricted to specific programs
Miscellaneous
Total general revenues

Change in net position

Net position, beginning of year, as restated

Net position, end of year

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-Type Activities	Total	
\$ (610,577)	\$ -	\$ (610,577)	
(416,608)	-	(416,608)	
212,558	-	212,558	
(17,145)	-	(17,145)	
(468,340)	-	(468,340)	
(60,598)	-	(60,598)	
<u>\$ (1,360,710)</u>	<u>\$ -</u>	<u>\$ (1,360,710)</u>	
\$ 328,174	\$ -	\$ 328,174	
488,073	-	488,073	
232,817	-	232,817	
191,358	-	191,358	
111,384	-	111,384	
113,843	-	113,843	
214,916	-	214,916	
149,577	-	149,577	
8,718	-	8,718	
<u>\$ 1,838,860</u>	<u>\$ -</u>	<u>\$ 1,838,860</u>	
\$ 478,150	\$ -	\$ 478,150	
<u>3,919,014</u>	<u>-</u>	<u>3,919,014</u>	
<u>\$ 4,397,164</u>	<u>\$ -</u>	<u>\$ 4,397,164</u>	

Fund Financial Statements

Balance Sheet
 Governmental Fund
 At June 30, 2013

	<u>General Fund</u>
Assets:	
Cash and cash equivalents	\$ 1,848,889
Receivables (net of allowance for uncollectibles):	
Taxes including penalties	14,372
Accounts receivable	<u>232,472</u>
Total assets	<u>\$ 2,095,733</u>
Liabilities:	
Accounts payable	\$ 26,154
Accrued liabilities	35,171
Deposits payable	<u>41,169</u>
Total liabilities	<u>\$ 102,494</u>
Fund Balance:	
Restricted:	
Proffers - Alexandras Keep - for historic resources	\$ 6,000
Proffers - Alexandras Keep - for parks, recreation, public Works	54,000
Fire funds	11,200
Unassigned	<u>1,922,039</u>
Total fund balance	<u>\$ 1,993,239</u>
Total liabilities and fund balance	<u>\$ 2,095,733</u>

Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position
At June 30, 2013

Total fund balances for governmental funds (Exhibit 3) \$ 1,982,039

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 1,781,511	
Depreciable capital assets, net of accumulated depreciation	<u>2,475,961</u>	4,257,472

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

General obligation bonds	\$ (1,798,603)	
Capital lease obligations	(30,182)	
Compensated absences	<u>(24,762)</u>	<u>(1,853,547)</u>

Total net position of governmental activities		\$ <u><u>4,385,964</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

Statement of Revenues, Expenditures and Changes In Fund Balances
 Governmental Fund
 Year Ended June 30, 2013

	General Fund	Capital Improvements	Total Governmental Funds
Revenues:			
General property taxes	\$ 328,174	\$ -	\$ 328,174
Other local taxes	1,137,475	-	1,137,475
Permits, privilege fees and regulatory licenses	250,276	-	250,276
Revenue from use of money and property	214,916	-	214,916
Charges for services	106,739	-	106,739
Miscellaneous	8,718	-	8,718
Intergovernmental revenues:			
Commonwealth	179,915	-	179,915
Federal	245,956	-	245,956
Total revenues	<u>\$ 2,472,169</u>	<u>\$ -</u>	<u>\$ 2,472,169</u>
Expenditures:			
General government administration	\$ 619,651	\$ -	\$ 619,651
Public safety	558,797	-	558,797
Public works	424,526	-	424,526
Cultural	8,397	-	8,397
Community development	468,340	-	468,340
Debt service:			
Principal retirement	153,341	-	153,341
Interest and fiscal charges	60,598	-	60,598
Total expenditures	<u>\$ 2,293,650</u>	<u>\$ -</u>	<u>\$ 2,293,650</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 178,519</u>	<u>\$ -</u>	<u>\$ 178,519</u>
Changes in fund balances	\$ 178,519	\$ -	\$ 178,519
Fund balances at beginning of year, as restated	<u>1,814,720</u>	-	<u>1,814,720</u>
Fund balances at end of year	<u><u>\$ 1,993,239</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,993,239</u></u>

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

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Fund to the Statement of Activities
Year Ended June 30, 2013

Net change in fund balances - total governmental funds (Exhibit 5) \$ 178,519

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

Capital outlay	\$ 273,622	
Depreciation expense	<u>(126,510)</u>	147,112

The issuance of long-term obligations (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on net position.

Details supporting this adjustment are as follows:

Principal retired on general obligation bonds	\$ 132,805	
Principal retired on capital leases	<u>20,536</u>	153,341

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds. The following is a summary of items supporting this adjustment:

Change in compensated absences		<u>(822)</u>
Change in net position of governmental activities	\$	<u><u>478,150</u></u>

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

Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
Year Ended June 30, 2013

	Town Hall Properties
Operating revenues	\$ -
Operating expenses	-
Change in net position	\$ -
Net position, beginning of year, as restated	-
Net position, end of year	\$ -

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

TOWN OF HAYMARKET, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Narrative Profile:

The Town of Haymarket, located in Prince William County, Virginia, approximately 35 miles west of Washington, D.C. was initially chartered in 1799 and later incorporated in 1882. The town has a population of approximately 1,850 and a land area of approximately 372 acres.

The Town is governed under the Mayor-Council form of government. The Town government engages in wide ranges of municipal services including general government administration, public safety, public works, and cultural events. Judicial administration, education, fire, library, health and welfare services are provided by Prince William County.

The financial statements of the Town of Haymarket, Virginia have been prepared in conformity with specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, and the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

Management's Discussion and Analysis - GASB Statement No. 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "Management's Discussion and Analysis" (MD&A).

Government-Wide Financial Statements: The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

Statement of Net Position: The Statement of Net Position is designed to display the financial position of the primary government (government and business-type activities). Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Position and report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net position of a government will be broken down into three categories: 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

Statement of Activities: The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expenses of individual functions are compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

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

TOWN OF HAYMARKET, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

A. Financial Reporting Entity (Continued)

Budgetary Comparison Schedules: Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The Town and many other governments revise their original budgets over the course of the year for a variety of reasons. The budgetary comparison schedules present the government's original budget as well as a current comparison of final budget and actual results for its major funds.

Accounting principles generally accepted in the United States require financial statements to present the primary government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The Town has no component units that meet the requirements for blending. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide statements to emphasize that they are legally separate from the primary government. The Town does not have any discretely presented component units.

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the Town as a whole) and fund financial statements. The focus is on both the Town as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, (by category) and the component units, if applicable. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information. The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, community development, etc.) that are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

The program revenues must be directly associated with the function (public safety, public works, community development, etc.) or a business-type activity. 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, 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 as general revenues. The Town does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. Internal service charges, if applicable, are eliminated and the net income or loss from internal service activities are allocated to the various functional expense categories based on the internal charges to each function.

In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statement's governmental column, a reconciliation is presented, which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental column of the government-wide financial statement.

Proprietary fund operating revenues consist of charges for services and related revenues. Nonoperating revenues consist of contributions, grants, investment earnings and other revenues not directly derived from the providing of services.

The following is a brief description of the funds used by the Town in FY 2013.

1. *Governmental Funds* - Governmental Funds account for and report the expendable financial resources, other than those accounted for in Proprietary and Fiduciary Funds. The Governmental Funds utilize the modified accrual basis of accounting where the measurement focus is upon determination of financial position and changes in financial position, rather than upon net income determination as would apply to a commercial enterprise. The individual Governmental Fund is:

General Fund - The General Fund is the primary operating fund of the Town. This fund is used to account for and report all financial resources except those required to be accounted for and reported in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service and interest income. The General Fund is considered a major fund for reporting purposes.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position.

The government reports unearned revenue on its combined balance sheet. Unearned revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurring of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

1. *Governmental Funds* - Governmental funds utilize the modified accrual basis of accounting under which revenues and related assets are recorded when measurable and available to finance operations during the year. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts, except that property taxes not collected within 45 days after year-end are reflected as deferred revenues. Sales and utility taxes, which are collected by the State or utilities and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the State or utility, which is generally in the month preceding receipt by the Town.

Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of State and other grants for the purpose of funding specific expenditures, are recognized when measurable and available or at the time of the specific expenditure.

Expenditures, other than interest on long-term debt, are recorded as the related fund liabilities are incurred. Principal and interest on long-term debt is recognized when due except for amounts due on July 1, which are accrued.

2. *Proprietary Funds* - The accrual basis of accounting is used for the Enterprise Fund. Under the accrual method, revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the accounting period in which the related liability is incurred.

TOWN OF HAYMARKET, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

D. Budgets and Budgetary Accounting

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

1. Prior to May 1, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the department or category level. The appropriation for each department or category can be revised only by the Town Council. The Town Administrator is authorized to transfer budgeted amounts within departments.
5. Formal budgetary integration is employed as a management control device during the year for all funds.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, for all Town funds unless they are carried forward by a resolution of Town Council.
8. All budgetary data presented in the accompanying financial statements reflect budget revisions as of June 30.

E. Cash and Cash Equivalents

For purposes of cash flows, cash and cash equivalents include all cash on hand and in banks, certificates of deposit, and highly liquid investments with original maturities of three months or less from the date of acquisition.

F. Receivables and Payables

Activity 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" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). 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 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 account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

TOWN OF HAYMARKET, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

G. Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$87,572 at June 30, 2013 and is comprised solely of general and capital improvement receivables.

H. Capital Assets

Capital outlays are recorded as expenditures of the governmental funds of the Town and as assets in the government-wide financial statements.

Property, plant and equipment and infrastructure purchased are stated at cost or estimated cost. Donated property is recorded at market value prevailing at date of donation. Depreciation is recorded on capital assets on a government-wide basis or in the Proprietary Fund using the straight-line method and the following estimated useful lives:

Building and historic museum	40 years
Building improvements	15 years
Infrastructure	30 years
Equipment	3-7 years
Vehicles	5 years

I. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. Compensated absences

The Town accrues vacation leave benefits when vested. The amounts include all balances earned by employees that would be paid upon employee terminations, resignations or retirements.

K. Fund Equity

Beginning with fiscal year 2011, the Town implemented GASB Statement 54, *Fund Balance Reporting and Government Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

K. Fund Equity (Continued)

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balances - amounts that are available for any purpose; positive amounts are only reported are only reported in the general fund.

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 a resolution. 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 purposes (such as the purchase of capital assets, construction, debt service, or for other purposes).

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position 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 does not have any deferred outflows of resources as of June 30, 2013.

In addition to liabilities, the statement of financial position 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 does not have any deferred inflows of resources as of June 30, 2013.

TOWN OF HAYMARKET, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

M. Net Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

N. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

NOTE 2—PROPERTY TAXES RECEIVABLE:

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Taxes are payable March 1. The Town bills and collects its own property taxes. The Town does not record an allowance for uncollectible receivables as all receivables are deemed collectible.

NOTE 3—DEPOSITS:

Deposits:

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by 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 amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

TOWN OF HAYMARKET, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 4—CAPITAL ASSETS:

The following is summary of changes in capital assets during the fiscal year:

Governmental Activities:	Restated Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets not being depreciated:				
Land	\$ 1,768,492	\$ 13,019	\$ -	\$ 1,781,511
Construction in progress	188,464	218,677	407,141	-
Total capital assets not being depreciated	<u>\$ 1,956,956</u>	<u>\$ 231,696</u>	<u>\$ 407,141</u>	<u>\$ 1,781,511</u>
Other capital assets:				
Buildings and improvements	\$ 1,549,118	\$ 407,141	\$ -	\$ 1,956,259
Infrastructure assets	1,065,427	-	-	1,065,427
Historic museum	292,852	-	-	292,852
Police vehicles	198,797	35,526	-	234,323
Equipment	174,388	6,400	-	180,788
Total other capital assets	<u>\$ 3,280,582</u>	<u>\$ 449,067</u>	<u>\$ -</u>	<u>\$ 3,729,649</u>
Accumulated depreciation:				
Buildings and improvements	\$ 467,547	\$ 55,088	\$ -	\$ 522,635
Infrastructure assets	295,887	35,514	-	331,401
Historic museum	78,878	8,748	-	87,626
Police vehicles	141,145	7,489	-	148,634
Equipment	143,721	19,671	-	163,392
Total accumulated depreciation	<u>\$ 1,127,178</u>	<u>\$ 126,510</u>	<u>\$ -</u>	<u>\$ 1,253,688</u>
Other capital assets, net	<u>\$ 2,153,404</u>	<u>\$ 322,557</u>	<u>\$ -</u>	<u>\$ 2,475,961</u>
Net capital assets	<u>\$ 4,110,360</u>	<u>\$ 554,253</u>	<u>\$ 407,141</u>	<u>\$ 4,257,472</u>
Depreciation expense has been allocated as follows:				
General government administration		\$ 13,819		
Public safety		28,618		
Public works		75,325		
Cultural		<u>8,748</u>		
Total depreciation expense		<u>\$ 126,510</u>		

TOWN OF HAYMARKET, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 5—LONG-TERM OBLIGATIONS:

The following is a summary of long-term obligations for the fiscal year ended June 30, 2013:

	Restated Balance July 1, 2012	Issuances/ Increases	Retirements/ Decreases	Balance June 30, 2013	Amounts Due Within One Year
Governmental Obligations:					
General obligation bonds	\$ 1,931,408	\$ -	\$ 132,805	\$ 1,798,603	\$ 135,507
Compensated absences	23,940	3,141	2,319	24,762	2,476
Capital lease obligations	50,718	-	20,536	30,182	21,170
Total Governmental Obligations	<u>\$ 2,006,066</u>	<u>\$ 3,141</u>	<u>\$ 155,660</u>	<u>\$ 1,853,547</u>	<u>\$ 159,153</u>

Annual requirements to amortize the Town's long-term obligations are as follows:

Year Ending June 30,	Town Obligations			
	General Obligation Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2014	\$ 135,507	\$ 72,401	\$ 21,170	\$ 625
2015	138,342	66,664	9,012	69
2016	141,315	60,789	-	-
2017	144,434	54,767	-	-
2018	147,707	48,591	-	-
2019	151,141	42,255	-	-
2020	154,746	35,748	-	-
2021	158,528	29,062	-	-
2022	162,499	22,189	-	-
2023	166,668	15,118	-	-
2024	147,716	7,934	-	-
2025	75,000	3,628	-	-
2026	75,000	726	-	-
Total	<u>\$ 1,798,603</u>	<u>\$ 459,872</u>	<u>\$ 30,182</u>	<u>\$ 694</u>

TOWN OF HAYMARKET, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 5—LONG-TERM OBLIGATIONS: (Continued)

Details of the Town's long-term obligations are as follows:

General Obligation Bonds:

\$4,145,000 payable in monthly interest installments ranging from \$4,838 to \$242 beginning October 14, 2005 through September 14, 2025 and annual principal installments of \$75,000 beginning September 14, 2006 through September 14, 2025, interest payable at 4.00%	\$ 975,000
\$262,568 capital-related general obligation series 2004A bonds maturing in monthly installments of \$1,564 through March 18, 2024, interest payable monthly at 3.80%	165,672
\$372,426 capital-related general obligation series 2004B bonds maturing in monthly installments of \$2,670 through March 18, 2024, interest payable monthly at 6.10%	254,025
\$634,131 capital-related general obligation series 2004C bonds maturing in monthly installments of \$3,859 through March 18, 2024, interest payable monthly at 4.05%	<u>403,906</u>
Total general obligation bonds	\$ 1,798,603

Capital Lease Obligations:

The Town has entered into a lease agreement as lessee for financing the purchase of three police cruisers. The police cruisers cost \$98,356 and were acquired with lease financing. Details of this lease is as follows:

\$62,413 obligation for the purchase of three police cruisers, payable in monthly installments of \$1,816 through November 16, 2014, interest at 3.00%	\$ <u>30,182</u>
Compensated absences	\$ <u>24,762</u>
Total long-term obligations	\$ <u><u>1,853,547</u></u>

TOWN OF HAYMARKET, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 6—COMPENSATED ABSENCES:

The Town has accrued the liability arising from outstanding compensated absences. Town employees earn vacation leave based upon length of service. The Town has outstanding accrued vacation pay totaling \$24,762.

NOTE 7—DEFINED BENEFIT PENSION PLAN:

A. Plan Description

Name of Plan: Virginia Retirement System (VRS)

Identification of Plan: Agent Multiple-Employer Defined Benefit Pension Plan

Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent (professional) employees of participating employers of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

VRS administers two defined benefit plans for local government employees - Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

TOWN OF HAYMARKET, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 7—DEFINED BENEFIT PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2012-annual-report.pdf> or obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be 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% member contribution. This could be phased in over a period 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. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2013 was 8.57% of annual covered payroll.

C. Annual Pension Cost

For fiscal year 2013, Town's annual pension cost of \$38,863 was equal to the Town's required and actual contributions.

TOWN OF HAYMARKET, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 7–DEFINED BENEFIT PENSION PLAN: (CONTINUED)

C. Annual Pension Cost (Continued)

<u>Fiscal Year Ending</u>	<u>Three Year Trend Information</u>		
	<u>Annual Pension Cost (APC) (1)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2013	\$ 38,863	100%	\$ -
June 30, 2012	35,501	100%	-
June 30, 2011	13,828	100%	-

(1) Employer portion only

The FY2013 required contributions were determined as a part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Town’s assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town’s unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis.

D. Funding Status and Funding Programs

As of June 30, 2012, the most recent actuarial valuation date, the plan was 124.82% funded. The actuarial accrued liability for benefits was \$71,926 and the actuarial value of assets was \$89,777 resulting in an unfunded actuarial accrued liability (UAAL) of (\$17,851). The covered payroll (annual payroll of active employees covered by the plan) was \$453,408 and ratio of the UAAL to the covered payroll was (3.94%).

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

NOTE 8–LITIGATION:

At June 30, 2013 there were no matters of litigation involving the Town which would materially affect the Town’s financial position should any court decisions on pending matters not be favorable to the Town.

TOWN OF HAYMARKET, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 9—OPERATING LEASES:

Lease Revenue: The Town leases certain commercial buildings and office suites in its Town Hall Properties. The non-cancelable operating lease agreements expire at various times throughout the fiscal years ending June 30, 2014 through 2018. Most of the leases are for one year with annual renewals of two to five years from inception. Rental income from these non-cancelable operating leases was approximately \$279,271 for the fiscal year ended June 30, 2013. The approximate future minimum lease rentals to be received by the Town's business-type activities are as follows for the fiscal years ending June 30:

Year ending June 30:	
2014	\$ 210,504
2015	158,019
2016	165,916
2017	47,738
2018	19,295
	<hr/>
	\$ 601,472
	<hr/> <hr/>

NOTE 10—ADOPTION OF ACCOUNTING PRINCIPLES:

Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, Statement No. 63 of the Governmental Accounting Standards Board

The Town implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement provides guidance for reporting deferred inflows and deferred outflows of resources. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on an entity's net position. With the implementation of this Statement, certain terminology has changed and financial statement descriptions have changed from "net assets" to "net position." The net equity reported in the financial statements was not changed as a result of implementing this Statement and no restatement of prior balances is required.

Items Previously Reported as Assets and Liabilities, Statement No. 65 of the Governmental Accounting Standards Board

The Town implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

TOWN OF HAYMARKET, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 11—FUND BALANCE/NET POSITION RESTATEMENTS:

Fund balances and net position were restated as of July 1, 2012 as follows:

	Fund Balances		Net Position	
	General Fund	Capital Improvements	Governmental Funds	Business-Type Activities
Net position/fund balances as previously reported	\$ 1,171,853	\$ 655,615	\$ 3,397,128	\$ 534,775
Adjustment to reclassify Town Hall Properties fund into the general fund	534,775	-	534,775	(534,775)
Adjustment to reclassify Capital Improvements fund into the general fund	655,615	(655,615)	-	-
Adjustment to remove unamortized bond issuance costs	(5,464)	-	(12,889)	-
Adjustment to reclassify capital asset previously included in the Town Hall Properties to Governmental funds	(1,423,467)	-	-	-
Adjustment to reclassify long-term obligations previously included in the Town Hall Properties to Governmental funds	881,408	-	-	-
Totals as restated	<u>\$ 1,814,720</u>	<u>\$ -</u>	<u>\$ 3,919,014</u>	<u>\$ -</u>

Required Supplementary Information

Note to Required Supplementary Information:

Presented Budgets were prepared in accordance with Accounting Principles Generally Accepted in the United States of America.

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
General property taxes	\$ 339,163	\$ 339,163	\$ 328,174	\$ (10,989)
Other local taxes	1,021,353	1,021,353	1,137,475	116,122
Permits, privilege fees and regulatory licenses	30,562	230,674	250,276	19,602
Revenue from use of money and property	266,956	266,956	214,916	(52,040)
Charges for services	115,262	115,262	106,739	(8,523)
Miscellaneous	-	-	8,718	8,718
Intergovernmental revenues:				
Commonwealth	180,649	180,649	179,915	(734)
Federal	782,500	782,500	245,956	(536,544)
Total revenues	<u>\$ 2,736,445</u>	<u>\$ 2,936,557</u>	<u>\$ 2,472,169</u>	<u>\$ (464,388)</u>
Expenditures				
General government administration	\$ 763,077	\$ 743,328	\$ 619,651	\$ 123,677
Public safety	534,940	607,060	558,797	48,263
Public works	259,390	497,719	424,526	73,193
Cultural	18,265	24,265	8,397	15,868
Community development	1,370,000	1,046,220	468,340	577,880
Debt service:				
Principal retirement	153,341	153,341	153,341	-
Interest and fiscal charges	62,432	62,432	60,598	1,834
Total expenditures	<u>\$ 3,161,445</u>	<u>\$ 3,134,365</u>	<u>\$ 2,293,650</u>	<u>\$ 840,715</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (425,000)</u>	<u>\$ (197,808)</u>	<u>\$ 178,519</u>	<u>\$ 376,327</u>
Changes in fund balances	\$ (425,000)	\$ (197,808)	\$ 178,519	\$ 376,327
Fund balances at beginning of year, as restated	<u>425,000</u>	<u>197,808</u>	<u>1,814,720</u>	<u>1,616,912</u>
Fund balances at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,993,239</u>	<u>\$ 1,993,239</u>

Virginia Retirement System
 Schedule of Pension Funding Progress
 Last Two Fiscal Years

Valuation as of (1)	Actuarial Value of Assets (AVA) (2)	Actuarial Accrued Liability (AAL) (3)	Unfunded AAL (UAAL) (3) - (2) (4)	Funded Ratio Assets as % of AAL (2)/(3) (5)	Annual Covered Payroll (6)	UAAL as a % of Covered Payroll (4)/(6) (7)
6/30/2012	\$ 89,777	\$ 71,926	(17,851)	124.82%	\$ 453,408	-3.94%
6/30/2011	22,710	-	(22,710)	N/A	415,407	-5.47%

Fiscal year 2011 was the first year the Town participated in the Virginia Retirement System, which is why only two years worth of valuations are included in the schedule

Supporting Schedules

GOVERNMENTAL FUND

Schedule of Revenues - Budget and Actual
Year Ended June 30, 2013

Fund, Major and Minor Revenue Source	Original Budget	Budget as Amended	Actual	Variance from Final Budget Positive (Negative)
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 300,000	\$ 300,000	\$ 289,372	\$ (10,628)
Public service corporation taxes:				
Real property	9,119	9,119	8,980	(139)
Business personal property taxes	24,615	24,615	23,119	(1,496)
Penalties and interest	5,429	5,429	6,703	1,274
Total general property taxes	<u>\$ 339,163</u>	<u>\$ 339,163</u>	<u>\$ 328,174</u>	<u>\$ (10,989)</u>
Other local taxes:				
Local sales and use taxes	\$ 79,500	\$ 79,500	\$ 94,752	\$ 15,252
Cigarette tax	250,000	250,000	232,817	(17,183)
Business license tax	146,970	146,970	191,358	44,388
Bank franchise taxes	17,652	17,652	19,091	1,439
Consumer utility tax - electric	83,970	83,970	111,384	27,414
Meals tax	442,736	442,736	488,073	45,337
Motor vehicle licenses	525	525	-	(525)
Total other local taxes	<u>\$ 1,021,353</u>	<u>\$ 1,021,353</u>	<u>\$ 1,137,475</u>	<u>\$ 116,122</u>
Permits, privilege fees and regulatory licenses:				
Application fees	\$ 10,000	\$ 10,000	\$ 7,400	\$ (2,600)
Inspections	19,800	19,800	56,792	36,992
Occupancy permits	-	-	3,100	3,100
Other planning and permits	762	200,874	182,984	(17,890)
Total permits, privilege fees and regulatory licenses	<u>\$ 30,562</u>	<u>\$ 230,674</u>	<u>\$ 250,276</u>	<u>\$ 19,602</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 1,956	\$ 1,956	\$ 3,688	\$ 1,732
Revenue from use of property	265,000	265,000	211,228	(53,772)
Total revenue from use of money and property	<u>\$ 266,956</u>	<u>\$ 266,956</u>	<u>\$ 214,916</u>	<u>\$ (52,040)</u>
Charges for services:				
Haymarket Day Booth and Sponsor Fees	\$ 10,500	\$ 10,500	\$ -	\$ (10,500)
Public safety fees	104,762	104,762	106,739	1,977
Total charges for services	<u>\$ 115,262</u>	<u>\$ 115,262</u>	<u>\$ 106,739</u>	<u>\$ (8,523)</u>

GOVERNMENTAL FUND

Schedule of Revenues - Budget and Actual
Year Ended June 30, 2013 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget as Amended	Actual	Variance from Final Budget Positive (Negative)
<u>General Fund: (Continued)</u>				
Revenue from local sources: (Continued)				
Miscellaneous revenue:				
Miscellaneous income	\$ -	\$ -	\$ 8,718	\$ 8,718
Total revenue from local sources	<u>\$ 1,773,296</u>	<u>\$ 1,973,408</u>	<u>\$ 2,046,298</u>	<u>\$ 72,890</u>
Intergovernmental revenues:				
Revenue from the Commonwealth:				
Non-categorical aid:				
PPTRA	\$ 18,627	\$ 18,627	\$ 18,627	\$ -
Telecommunications tax	129,484	129,484	129,484	-
Rolling stock tax	1,438	1,438	1,466	28
Total non-categorical aid	<u>\$ 149,549</u>	<u>\$ 149,549</u>	<u>\$ 149,577</u>	<u>\$ 28</u>
Categorical aid:				
Law enforcement grants	\$ 31,100	\$ 31,100	\$ 29,538	\$ (1,562)
Fire funds	-	-	800	800
Total Categorical aid	<u>\$ 31,100</u>	<u>\$ 31,100</u>	<u>\$ 30,338</u>	<u>\$ (762)</u>
Total revenue from the Commonwealth	<u>\$ 180,649</u>	<u>\$ 180,649</u>	<u>\$ 179,915</u>	<u>\$ (734)</u>
Revenue from the federal government:				
Categorical aid:				
Law enforcement grants	\$ 2,500	\$ 2,500	\$ 2,500	\$ -
VDOT ISTEAA/SAFETY-LU grant	\$ 780,000	\$ 780,000	\$ 243,456	\$ (536,544)
Total Categorical aid	<u>\$ 782,500</u>	<u>\$ 782,500</u>	<u>\$ 245,956</u>	<u>\$ (536,544)</u>
Total revenue from the federal government	<u>\$ 782,500</u>	<u>\$ 782,500</u>	<u>\$ 245,956</u>	<u>\$ (536,544)</u>
Total General Fund	<u><u>\$ 2,736,445</u></u>	<u><u>\$ 2,936,557</u></u>	<u><u>\$ 2,472,169</u></u>	<u><u>\$ (464,388)</u></u>

GOVERNMENTAL FUND

Schedule of Expenditures--Budget and Actual
Year Ended June 30, 2013

Fund, Function, Activity and Elements	Original Budget	Budget as Amended	Actual	Variance from Final Budget Positive (Negative)
General Fund:				
General government administration:				
Mayor and Town Council	\$ 25,000	\$ 25,000	\$ 25,150	\$ (150)
Salary - general	213,455	207,455	222,657	(15,202)
Fringe benefits - general	152,467	152,467	146,170	6,297
Payroll taxes	56,450	56,450	53,674	2,776
Accounting	18,150	14,150	25,745	(11,595)
Cigarette tax administration	7,500	7,500	7,479	21
Advertising	13,000	17,000	9,101	7,899
Miscellaneous	20,100	14,057	5,524	8,533
Professional services	56,697	61,292	43,095	18,197
Training	1,375	5,375	3,119	2,256
Travel	3,500	4,500	4,401	99
Legal services	80,000	41,200	31,933	9,267
Office expenses	18,604	22,427	16,473	5,954
Insurance	29,710	25,566	18,730	6,836
Capital improvements	67,069	88,889	6,400	82,489
	<u>763,077</u>	<u>743,328</u>	<u>619,651</u>	<u>123,677</u>
Total general government administration				
	<u>\$ 763,077</u>	<u>\$ 743,328</u>	<u>\$ 619,651</u>	<u>\$ 123,677</u>
Public safety:				
Salary - law enforcement	\$ 354,606	\$ 364,606	\$ 351,023	\$ 13,583
Workers compensation	8,300	8,300	8,197	103
Legal services	12,000	12,000	9,023	2,977
Miscellaneous	39,461	39,461	20,710	18,751
Travel	500	500	626	(126)
Office expenses	5,806	3,983	4,207	(224)
Insurance	7,622	9,766	9,845	(79)
Vehicle fuel	30,000	25,000	21,059	3,941
Vehicle supplies	15,000	20,000	14,872	5,128
Uniforms	8,850	8,850	5,983	2,867
Police cruiser	34,795	57,794	57,321	473
Building official	18,000	56,800	55,931	869
	<u>534,940</u>	<u>607,060</u>	<u>558,797</u>	<u>48,263</u>
	<u>\$ 534,940</u>	<u>\$ 607,060</u>	<u>\$ 558,797</u>	<u>\$ 48,263</u>
Total public safety				

GOVERNMENTAL FUND

Schedule of Expenditures--Budget and Actual
Year Ended June 30, 2013 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget as Amended	Actual	Variance from Final Budget Positive (Negative)
General Fund: (Continued)				
Public works:				
Maintenance of buildings and grounds	\$ 34,244	\$ 61,540	\$ 52,728	\$ 8,812
Trash removal	88,000	74,500	68,196	6,304
Rental property - Suite 110	-	-	465	(465)
Rental property - Suite 200	-	-	664	(664)
Rental property - Suite 204	-	-	326	(326)
Rental property - Hulfish House	2,500	4,700	1,284	3,416
Rental property - 14710 Washington Street	22,862	17,022	11,550	5,472
Rental property - 14740 Washington Street	2,500	2,500	-	2,500
Rental property - 15026 Washington Street	-	28,025	24,840	3,185
Rental property - 15000 Washington Street	53,274	36,541	32,734	3,807
Rental property - 15020 Washington Street	2,500	2,500	-	2,500
Rental property - 15025 Washington Street	46,265	48,265	7,568	40,697
Maintenance contracts	7,245	7,245	4,333	2,912
Capital improvements	-	214,881	219,838	(4,957)
Total public works	<u>\$ 259,390</u>	<u>\$ 497,719</u>	<u>\$ 424,526</u>	<u>\$ 73,193</u>
Cultural:				
Museum	\$ 10,765	\$ 16,765	\$ 3,530	\$ 13,235
Special events	7,500	7,500	4,867	2,633
Total cultural	<u>\$ 18,265</u>	<u>\$ 24,265</u>	<u>\$ 8,397</u>	<u>\$ 15,868</u>
Community development:				
Planning commission	\$ 5,000	\$ 5,000	\$ 4,395	\$ 605
Architectural review board	4,000	4,000	2,580	1,420
Streetscape project	1,361,000	936,000	360,145	575,855
Contributions to other entities	-	101,220	101,220	-
Total community development	<u>\$ 1,370,000</u>	<u>\$ 1,046,220</u>	<u>\$ 468,340</u>	<u>\$ 577,880</u>
Debt service:				
Principal retirement	\$ 153,341	\$ 153,341	\$ 153,341	\$ -
Interest and other debt costs	62,432	62,432	60,598	1,834
Total debt service	<u>\$ 215,773</u>	<u>\$ 215,773</u>	<u>\$ 213,939</u>	<u>\$ 1,834</u>
Total General Fund	<u><u>\$ 3,161,445</u></u>	<u><u>\$ 3,134,365</u></u>	<u><u>\$ 2,293,650</u></u>	<u><u>\$ 840,715</u></u>

Compliance

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

To The Honorable Members of the Town Council
Town of Haymarket
Haymarket, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Specifications for Audits of Counties, Cities, and Towns, issued by the Auditor of Public Accounts of the Commonwealth of Virginia; the financial statements of the governmental activities of the Town of Haymarket, Virginia as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated September 24, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Haymarket, 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 an opinion on the effectiveness of Town of Haymarket, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Haymarket, Virginia'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 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 Haymarket, Virginia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
September 24, 2013