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**TOWN OF HAYMARKET, VIRGINIA**  
**ANNUAL FINANCIAL REPORT**  
**YEAR ENDED JUNE 30, 2009**



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— Advisors—Accountants—Auditors—

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**INDEPENDENT AUDITORS' REPORT**

To the Mayor and Council Members  
Town of Haymarket, Virginia

We have audited the accompanying financial statements of the governmental activities, business-type activities, aggregate discretely presented component unit and remaining fund information of the Town of Haymarket, Virginia (the Town), as of and for the fiscal year then ended June 30, 2009, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes a consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component unit and remaining fund information of the Town of Haymarket, Virginia as of June 30, 2009, and the respective change in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in notes to the financial statements, the Town has implemented the financial reporting model as required by Governmental Accounting Standards Board (GASB) No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; however, the Town has not presented the management discussion and analysis and budgetary comparison schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not a required part of, the basic financial statements.

*Frye & Wolcott, CPAs*  
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November 30, 2009

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TOWN OF HAYMARKET, VIRGINIA

STATEMENT OF NET ASSETS

JUNE 30, 2009

	Primary Government		Total	Component	Total
	Governmental Activities	Business-Type Activities	Primary Government	Unit Historic Commission	Reporting Entity
<b>Assets</b>					
Cash and cash equivalents	\$ 1,147,867	\$ -	\$ 1,147,867	\$ -	\$ 1,147,867
Certificates of deposit	18,139	-	18,139	7,103	25,242
Accounts receivable:					
Taxes, fines and penalties	87,456	-	87,456	-	87,456
Rent and other receivables	68,909	2,124	71,033	-	71,033
Accounts receivable, gross	156,365	2,124	158,489	-	158,489
Allowance for uncollectibles	(24,924)	-	(24,924)	-	(24,924)
Accounts receivable, net	131,441	2,124	133,565	-	133,565
Prepaid expenses and deposits	1,486	-	1,486	-	1,486
Bond issuance cost, net	9,107	6,859	15,966	-	15,966
Capital assets:					
Land	1,000,000	600,000	1,600,000	-	1,600,000
Building and improvements	541,967	916,736	1,458,703	-	1,458,703
Infrastructure assets	869,786	-	869,786	-	869,786
Historic museum	292,852	-	292,852	-	292,852
Police vehicles	103,741	-	103,741	-	103,741
Equipment	170,002	-	170,002	-	170,002
Capital assets, at cost	2,978,348	1,516,736	4,495,084	-	4,495,084
Accumulated depreciation	(545,464)	(254,142)	(799,606)	-	(799,606)
Capital assets, net	2,432,884	1,262,594	3,695,478	-	3,695,478
<b>Total Assets</b>	<b>\$ 3,740,924</b>	<b>\$ 1,271,577</b>	<b>\$ 5,012,501</b>	<b>\$ 7,103</b>	<b>\$ 5,019,604</b>
<b>Liabilities and Net Assets</b>					
Liabilities					
Accounts payable	\$ 18,883	\$ 232	\$ 19,115	\$ 529	\$ 19,644
Accrued expenses	-	3,013	3,013	-	3,013
Accrued salaries	24,164	-	24,164	128	24,292
Accrued leave	18,427	-	18,427	-	18,427
Deferred revenue	4,725	-	4,725	-	4,725
Escrow and security deposits	17,250	10,702	27,952	-	27,952
Long-term liabilities:					
Due within one year	75,000	50,429	125,429	-	125,429
Due after one year	1,200,000	989,063	2,189,063	-	2,189,063
Total Liabilities	1,358,449	1,053,439	2,411,888	657	2,412,545
Net Assets					
Invested in capital assets, net	1,157,884	223,102	1,380,986	-	1,380,986
Restricted for capital projects	679,339	-	679,339	-	679,339
Restricted for other purposes	77,200	-	77,200	-	77,200
Unrestricted	468,052	(4,964)	463,088	6,446	469,534
Total net assets	2,382,475	218,138	2,600,613	6,446	2,607,059
<b>Total Liabilities and Net Assets</b>	<b>\$ 3,740,924</b>	<b>\$ 1,271,577</b>	<b>\$ 5,012,501</b>	<b>\$ 7,103</b>	<b>\$ 5,019,604</b>

See accompanying auditors' report and notes to financial statements.

**TOWN OF HAYMARKET, VIRGINIA**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2009**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	
<b>Primary Government</b>					
Governmental activities:					
General government	\$ 913,562	\$ 70,402	\$ 757	\$ 55,964	\$ (786,439)
Public safety	93,515	85,097	47,633	-	39,215
Public works	105,164	-	-	-	(105,164)
Council and committees	65,637	-	-	-	(65,637)
Community development	35,683	28,175	-	-	(7,508)
Total governmental activities	1,213,561	183,674	48,390	55,964	(925,533)
Business-type activities					
Property management	110,082	145,599	-	-	35,517
<b>Total Primary Government</b>	<b>\$ 1,323,643</b>	<b>\$ 329,273</b>	<b>\$ 48,390</b>	<b>\$ 55,964</b>	<b>\$ (890,016)</b>
<b>Component Unit</b>					
Historic commission	\$ 10,984	\$ 74	\$ -	\$ -	\$ (10,910)
				<b>Component Unit</b>	<b>Total Reporting Entity</b>
		<b>Primary Government</b>	<b>Total</b>	<b>Historic</b>	
		<b>Governmental</b>	<b>Primary</b>	<b>Commission</b>	
		<b>Activities</b>	<b>Government</b>		
		<b>Business-Type</b>			
		<b>Activities</b>			
<b>Change in Net Assets</b>					
Net (expense) revenue before other income (expense)	\$ (925,533)	\$ 35,517	\$ (890,016)	\$ (10,910)	\$ (900,926)
Other income (expense)					
Loss on disposition of assets	(4,428)	-	(4,428)	-	(4,428)
Net (expense) revenue	(929,961)	35,517	(894,444)	(10,910)	(905,354)
General revenues					
Taxes and assessments:					
Sales and meals tax	458,116	-	458,116	-	458,116
Real property	284,828	-	284,828	-	284,828
Utility usage	225,492	-	225,492	-	225,492
Business and franchise	177,089	-	177,089	-	177,089
Cigarette	158,466	-	158,466	-	158,466
Personal property	18,627	-	18,627	-	18,627
Other taxes and assessments	2,295	-	2,295	-	2,295
Total taxes	1,324,913	-	1,324,913	-	1,324,913
Interest income	14,028	-	14,028	84	14,112
Other miscellaneous	16,139	-	16,139	32,972	49,111
Total general revenues	1,355,080	-	1,355,080	33,056	1,388,136
<b>Change in Net Assets</b>	<b>425,119</b>	<b>35,517</b>	<b>460,636</b>	<b>22,146</b>	<b>482,782</b>
Net assets, beginning of year	1,925,637	191,921	2,117,558	6,719	2,124,277
Transfers and allocations	31,719	(9,300)	22,419	(22,419)	-
Subtotal	1,957,356	182,621	2,139,977	(15,700)	2,124,277
<b>Net Assets, End of Year</b>	<b>\$ 2,382,475</b>	<b>\$ 218,138</b>	<b>\$ 2,600,613</b>	<b>\$ 6,446</b>	<b>\$ 2,607,059</b>

See accompanying auditors' report and notes to financial statements.

**TOWN OF HAYMARKET, VIRGINIA**

**BALANCE SHEET  
- GOVERNMENTAL FUNDS -**

**JUNE 30, 2009**

	<u>General Operating</u>	<u>Capital Improvement</u>	<u>Grants Management</u>	<u>Public Safety</u>	<u>Total</u>
<b>Assets</b>					
Cash and cash equivalents	\$ 405,819	\$ 742,048	\$ -	\$ -	\$ 1,147,867
Certificates of deposit	18,139	-	-	-	18,139
Accounts receivable:					
Taxes, fines and penalties	81,267	-	-	6,189	87,456
Other receivables	9,122	59,787	-	-	68,909
Accounts receivable, gross	90,389	59,787	-	6,189	156,365
Allowance for uncollectibles	(10,535)	(14,389)	-	-	(24,924)
Accounts receivable, net	79,854	45,398	-	6,189	131,441
Prepaid expenses	1,486	-	-	-	1,486
Bond issuance cost, net	9,107	-	-	-	9,107
<b>Total Assets</b>	<b>\$ 514,405</b>	<b>\$ 787,446</b>	<b>\$ -</b>	<b>\$ 6,189</b>	<b>\$ 1,308,040</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 15,019	\$ -	\$ -	\$ 3,864	\$ 18,883
Accrued salaries	9,265	-	-	14,899	24,164
Accrued leave	6,010	-	-	12,417	18,427
Deferred revenue	4,725	-	-	-	4,725
Escrow deposits	17,250	-	-	-	17,250
<b>Total liabilities</b>	52,269	-	-	31,180	83,449
<b>Fund Balances</b>					
Reserved for capital purposes	-	679,339	-	-	679,339
Reserved for other purposes	77,200	-	-	-	77,200
Unreserved	384,936	108,107	-	(24,991)	468,052
<b>Total fund balances</b>	462,136	787,446	-	(24,991)	1,224,591
<b>Total Liabilities and Fund Balances</b>	<b>\$ 514,405</b>	<b>\$ 787,446</b>	<b>\$ -</b>	<b>\$ 6,189</b>	<b>\$ 1,308,040</b>

**Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Assets**

<b>Total Governmental Fund Balances</b>	<b>\$ 1,224,591</b>
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets of \$2,978,348 net of accumulated depreciation of \$545,464 are not financial resources and, therefore, are not reported in the governmental funds above.	2,432,884
Long-term liabilities of \$1,350,000 are not due and payable in the current reporting period and are not reported in the governmental funds above.	(1,275,000)
<b>Net Assets of Governmental Activities</b>	<b>\$ 2,382,475</b>

See accompanying auditors' report and notes to financial statements.

**TOWN OF HAYMARKET, VIRGINIA**  
**STATEMENT OF REVENUE, EXPENDITURES & CHANGE IN FUND BALANCES**  
**- GOVERNMENTAL FUNDS -**  
**YEAR ENDED JUNE 30, 2009**

	<u>General Operating</u>	<u>Capital Improvement</u>	<u>Grants Management</u>	<u>Public Safety</u>	<u>Total</u>
<b>Revenue</b>					
Taxes and assessments:					
Sales and meals tax	\$ 77,381	\$ 380,735	\$ -	\$ -	\$ 458,116
Real property	284,828	-	-	-	284,828
Utility usage	225,492	-	-	-	225,492
Business and franchise	177,089	-	-	-	177,089
Cigarette	158,466	-	-	-	158,466
Personal property	18,627	-	-	-	18,627
Other taxes and assessments	2,295	-	-	-	2,295
Total tax revenue	<u>944,178</u>	<u>380,735</u>	<u>-</u>	<u>-</u>	<u>1,324,913</u>
Public safety	-	-	-	132,730	132,730
Proffers, permits and fees	70,402	-	-	-	70,402
Grants and donations	757	-	47,964	8,000	56,721
Interest income	7,054	6,974	-	-	14,028
Special events	28,175	-	-	-	28,175
Other miscellaneous	16,139	-	-	-	16,139
Total revenue	<u>1,066,705</u>	<u>387,709</u>	<u>47,964</u>	<u>140,730</u>	<u>1,643,108</u>
<b>Expenditures</b>					
Personnel costs	201,618	-	-	290,134	491,752
Operating costs	203,895	-	-	-	203,895
Public works	105,164	-	-	-	105,164
Public safety	-	-	-	93,515	93,515
Professional fees	83,128	-	-	-	83,128
Council and committees	65,637	-	-	-	65,637
Special events	35,683	-	-	-	35,683
Debt service:					
Principal	75,000	-	-	-	75,000
Interest	49,850	-	-	-	49,850
Bond amortization	561	-	-	-	561
Capital outlays	-	8,000	72,650	7,205	87,855
Total expenditures	<u>820,536</u>	<u>8,000</u>	<u>72,650</u>	<u>390,854</u>	<u>1,292,040</u>
<b>Excess (Deficiency) of Revenue Over (Under) Expenditures</b>	246,169	379,709	(24,686)	(250,124)	351,068
<b>Other Financing Sources (Uses)</b>					
Other financing sources (uses)	45,746	-	-	-	45,746
<b>Net change in fund balances</b>	291,915	379,709	(24,686)	(250,124)	396,814
Fund balances, beginning of year	416,807	436,113	-	(25,143)	827,777
Transfers and allocations	(246,586)	(28,376)	24,686	250,276	-
Subtotal	<u>170,221</u>	<u>407,737</u>	<u>24,686</u>	<u>225,133</u>	<u>827,777</u>
<b>Fund Balances, End of Year</b>	<u>\$ 462,136</u>	<u>\$ 787,446</u>	<u>\$ -</u>	<u>\$ (24,991)</u>	<u>\$ 1,224,591</u>

See accompanying auditors' report and notes to financial statements.

**TOWN OF HAYMARKET, VIRGINIA**  
**RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES & CHANGE IN**  
**FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2009**

**Reconciliation of Statement of Revenue, Expenditures & Change in Fund Balances  
of Governmental Funds to the Statement of Activities**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 396,814</b>
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while the statement of activities reports those costs as capital assets and allocates (or depreciates) them over their estimated useful lives. The amount by which capital outlays \$87,855 is more than depreciation of \$84,376 for the fiscal year.	3,479
Loss from the disposition of capital assets reported in the statement of activities but not reflected not reflected in governmental funds as capital outlays are initially reported as expenditures.	(4,428)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment of reduces long-term liabilities in the statement of net assets and is, therefore, not reported as an expense in the statement of activities. The amount of principal repayments was \$75,000.	75,000
Governmental funds report inter-agency transfers and allocations as other uses of financial resources while the statement of activities reports these amounts as transfers and allocations of net assets. Transfer and allocations to governmental activities totaled \$31,719 and other financing uses totaled \$45,746 for the fiscal year.	<u>(45,746)</u>
<b>Change in Net Assets of Governmental Activities</b>	<b><u><u>\$ 425,119</u></u></b>

See accompanying auditors' report and notes to financial statements.



TOWN OF HAYMARKET, VIRGINIA

STATEMENT OF NET ASSETS  
- PROPRIETARY FUND -

JUNE 30, 2009

Business-Type Activities - Enterprise Fund

	<u>Town Hall Properties</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ -
Accounts receivable, net	2,124
Total current assets	<u>2,124</u>
Capital assets:	
Land	600,000
Building and improvements	916,736
Capital assets, at cost	<u>1,516,736</u>
Accumulated depreciation	(254,142)
Capital assets, net	<u>1,262,594</u>
Other assets:	
Bond issuance costs, net	<u>6,859</u>
Total assets	<u>1,271,577</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	232
Accrued expenses	3,013
Bonds payable, current portion	50,429
Security and other deposits	10,702
Total current liabilities	<u>64,376</u>
Long-term liabilities:	
Bonds payable, less current portion	<u>989,063</u>
Total liabilities	<u>1,053,439</u>
<b>Net Assets</b>	
Invested in capital assets, net	223,102
Unrestricted	(4,964)
Total net assets	<u>\$ 218,138</u>

See accompanying auditors' report and notes to financial statements.

**TOWN OF HAYMARKET, VIRGINIA**  
**STATEMENT OF REVENUE, EXPENSE & CHANGE IN NET ASSETS**  
**- PROPRIETARY FUND -**  
**YEAR ENDED JUNE 30, 2009**

**Business-Type Activities - Enterprise Fund**

	<u>Town Hall Properties</u>
<b>Revenue</b>	
Rental income	\$ 145,599
<b>Expense</b>	
Operating costs (repairs, utilities, etc.)	26,677
Depreciation and amortization	<u>34,230</u>
Total expense	<u>60,907</u>
<b>Operating Income (Loss)</b>	84,692
<b>Other Income (Expense)</b>	
Interest expense	(49,175)
Other expenses	<u>-</u>
Total other income (expense)	<u>(49,175)</u>
<b>Change in Net Assets</b>	35,517
Net assets, beginning of year	191,921
Transfers and allocations	<u>(9,300)</u>
Subtotal	<u>182,621</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 218,138</u></u>

See accompanying auditors' report and notes to financial statements.

**TOWN OF HAYMARKET, VIRGINIA**  
**STATEMENT OF CASH FLOWS**  
**- PROPRIETARY FUND -**  
**YEAR ENDED JUNE 30, 2009**

**Business-Type Activities - Enterprise Fund**

	<u><b>Town Hall Properties</b></u>
<b>Cash Provided (Used) by Operating Activities</b>	
Cash received from customers	\$ 147,188
Payments to supplies and vendors	(31,594)
Receipts or repayments of deposits	(942)
Net cash provided (used) by operating activities	<u>114,652</u>
<b>Cash Provided (Used) by Non-Capital Financing Activities</b>	
Operating transfers in from (out to) general fund	(9,300)
Net cash provided (used) by non-capital financing activities	<u>(9,300)</u>
<b>Cash Provided (Used) by Capital and Related Financing Activities</b>	
Purchases of capital assets and improvements	(8,000)
Principal borrowings on bonds and notes	-
Principal repayments on bonds and notes	(48,177)
Interest paid on bonds and notes payable	(49,175)
Net cash provided (used) by capital and related financing activities	<u>(105,352)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	-
Cash and cash equivalents, beginning of year	<u>-</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ -</u></u>
<b>Reconciliation of Operating Income (Loss) to Net</b>	
<b>Cash Provided (Used) by Operating Activities:</b>	
Change in net assets	\$ 35,517
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	33,765
Amortization	465
Interest expense	49,175
Change in assets and liabilities:	
Accounts receivable	1,589
Accounts payable	(4,917)
Accrued expenses	-
Security and other deposits	(942)
Total adjustments	<u>79,135</u>
Net cash provided (used) by operating activities	<u><u>\$ 114,652</u></u>

See accompanying auditors' report and notes to financial statements.

**TOWN OF HAYMARKET, VIRGINIA**

**STATEMENT OF NET ASSETS  
- COMPONENT UNIT -**

**JUNE 30, 2009**

**Haymarket Historic Commission**

**Assets**

Current assets:

Cash and savings	\$ 7,103
Total current assets	<u>7,103</u>

Non-current assets:

	<u>-</u>
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Total assets	<u>7,103</u>
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**Liabilities**

Current liabilities:

Accounts payable	529
Accrued expenses	128
Total current liabilities	<u>657</u>

Long-term liabilities:

	<u>-</u>
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Total liabilities	<u>657</u>
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**Net Assets**

Unrestricted	<u>6,446</u>
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Total net assets	<u>\$ 6,446</u>
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See accompanying auditors' report and notes to financial statements.

**TOWN OF HAYMARKET, VIRGINIA**  
**STATEMENT OF ACTIVITIES**  
**- COMPONENT UNIT -**  
**YEAR ENDED JUNE 30, 2009**

**Haymarket Historic Commission**

**Revenue**

Grants, contributions and sales of promotional items	\$	74
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**Expense**

Operating costs (personnel, utilities, repairs, etc.)		<u>10,984</u>
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Total expense		<u>10,984</u>
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<b>Operating Income (Loss)</b>		(10,910)
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**Other Income (Expense)**

Interest income		84
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Other reimbursements		<u>32,972</u>
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Total other income (expense)		<u>33,056</u>
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<b>Change in Net Assets</b>		22,146
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Net assets, beginning of year		6,719
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Transfers and allocations		<u>(22,419)</u>
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Subtotal		<u>(15,700)</u>
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<b>Net Assets, End of Year</b>		<u><u>\$ 6,446</u></u>
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See accompanying auditors' report and notes to financial statements.

**TOWN OF HAYMARKET, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2009**

**Note A – Organization and Summary of Significant Accounting Policies**

Organization: Town of Haymarket (the Town) is located in the Prince William County in the Commonwealth of Virginia and was initially chartered in 1799 and later incorporated in 1882. As an incorporated town, it has the power to levy and collect taxes, sue and be sued, implead and be impleaded, contract and be contracted with, and maintain a corporate seal. The Town covers approximately 372 acres and has a population of approximately 1,200 citizens. The activities of the Town are administered by its mayor and other elected officials, known as the council.

Reporting Entity: The accompanying financial statements present the activities of the Town (the primary government) and its component unit, the Haymarket Historic Commission, for which the Town is financially accountable. Public schools and utilities are provided primarily by Prince William County and are, therefore, not reflected in the accompanying financial statements. The accompanying financial statements include the Town's primary government and component unit over which the Town exercises significant influence, which is based primarily on operational or financial relationships.

Basis of Presentation: The basic financial statements include both government-wide financial statements which are based upon the government as a whole. While the government fund, proprietary fund, and component unit financial statements focus on individual funds within the reporting entity. Significant interfund accounts and activity have been eliminated.

*Government-Wide Financial Statements:* The government-wide financial statements report information on all non-fiduciary activities of the primary government and its component units. Government activities, which are generally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and other assessments for support. The government-wide financial statements are presented on a consolidated basis using the economic resources measurement focus and the accrual basis of accounting, which incorporates long-term assets and liabilities and debt.

*Fund Financial Statements:* Fund financial statements provide information about the Town's segregated funds with separate statements for governmental and proprietary funds. The Town segregates its governmental funds into general operating, capital improvement, grant management, and public safety.

*Governmental Funds:* Governmental fund financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting, which is more consistent with how these funds are budgeted. Since the governmental funds financial statements are presented on a different basis than the government-wide financial statements, reconciliations are presented that briefly disclose the items necessary to reconcile the governmental fund and government-wide statements.

**TOWN OF HAYMARKET, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2009**

**Note A – Organization and Summary of Significant Accounting Policies – Continued**

Basis of Presentation: *Fund Financial Statements – Continued:*

*Proprietary Funds:* Proprietary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish between operating, which result from providing goods or services, and non-operating revenue and expense. The Town's sole proprietary fund is the operation of the Town Center Properties, which consist of land and several office buildings that are rented to local businesses. Since proprietary fund financial statements are prepared on a basis consistent with the government-wide financial statements, no reconciling items were noted.

*Component Unit:* Component unit financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The Town's sole component unit is the Haymarket Historic Commission, which is dedicated to preserving the Town's history and heritage. As with proprietary funds, component units generally distinguish between operating and non-operating revenue and expense, and there were no significant reconciling items with the government-wide financial statements.

Basis of Accounting: The basis of accounting refers to the point in which revenues and expenses or expenditures are recognized in the underlying financial statements. Under the accrual basis of accounting, revenue is recognized when earned and expenses when incurred. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, that is when they are both measurable, determinable and available in the current period or soon enough to pay liabilities of the current period. Accordingly, real and personal property taxes are recorded as revenue and receivables when levied. Derived tax revenues, such as sales, cigarette and utility taxes, are collected by third-parties and remitted to the Commonwealth of Virginia or the Town and are recognized when the underlying transactions occur. Intergovernmental revenues, consisting primarily of Federal, State and local grants, are recognized when earned or at the time of expenditure or during the fiscal year in which the grant award applies. Fines, penalties, assessments, licenses and permits fees are recorded as revenue when received.

The government-wide, proprietary and component unit financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenue is recognized when earned and expenses are when liabilities are incurred, regardless of when the actual cash flow occurs. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recognized when measurable, determinable and available, and expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which is recognized when due. Capital assets acquisitions and principal debt reductions are recorded as expenditures in governmental funds.

**TOWN OF HAYMARKET, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2009**

**Note A – Organization and Summary of Significant Accounting Policies – Continued**

Income Tax Status: The Town as a governmental instrumentality is generally not subject to income taxation given that its income is derived from the exercise of essential governmental functions and accrued to a State or political subdivision thereof. Additionally, as a governmental instrumentality, the Town is also eligible to receive charitable contributions.

Cash and Cash Equivalents: For financial statement presentation purposes, the Town considers highly liquid debt instruments with maturities of three months or less, including money market funds, to be cash equivalents. As of June 30, 2009, the Town's bank accounts were collateralized in accordance with the Virginia Security for Public Deposits Act (the Act) or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of federal insurance must pledge collateral in the amount of 50% of the excess deposits to a collateral pool in the name of the State's Treasury Board. The State's Treasury Board is responsible for monitoring compliance with the Act and required collateralization. The State's Treasury Board also assumes responsibility for any excess not collateralized by the banks.

Certificates of Deposit: The Town maintains a portion of its savings and reserves in certificates of deposit with a regional financial institution. The certificates cost basis approximate their fair value as interest is credited to the Town on a periodic basis. The certificates have original maturities of 6 to 12 months and earn interest at annual rates less than 1% as of June 30, 2009.

Accounts Receivable: Accounts receivable consist principally of outstanding taxes, assessments, office rental and other amounts due to the Town. Real and personal property taxes are assessed annually by the Town based upon assessed values determined by Prince William County. Property taxes are due and payable by March 1<sup>st</sup> of each fiscal year. Gross receipts and business property taxes are assessed annually by businesses in the Town and are due by April 30<sup>th</sup> and October 30<sup>th</sup>, respectively. Sales, cigarette and utilities taxes are collected by third parties and remitted to the Commonwealth of Virginia or Town. Meals tax is also collected and remitted monthly by local restaurants and eateries in the Town. The Town estimates an allowance for uncollectible receivables based upon the nature of its receivables, its historical collection activity, and management's periodic review and analysis of its aged accounts receivable. The allowance for uncollectible receivables was approximately \$24,900 as of June 30, 2009, and no significant debts expense was recognized during the fiscal year then ended. Town reserves the right to place liens or other legal measures when necessary to collect unpaid taxes.

Prepaid Expenses: The Town's prepaid expenses consist primarily of prepaid insurances, service and rental agreement paid in advance of the applicable service or performance period.

Bond Issuance Costs: Costs the Town incurs associated with issuing bonds and raising capital are capitalized and amortized over the respective terms of the underlying debt. Bond issuance costs are reported net of accumulated amortization in the government-wide financial statements.



**TOWN OF HAYMARKET, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2009**

**Note A – Organization and Summary of Significant Accounting Policies – Continued**

Capital Assets: The costs of capital assets are reflected as an asset in the government-wide financial statements to the extent that the Town's capitalization threshold is met and are reflected as expenditures in the governmental funds financial statements as further described under the basis of accounting. Capital assets acquired by proprietary funds are recorded as assets in both the government-wide and proprietary fund financial statements to the extent the Town's capitalization threshold is met. The component unit also capitalizes capital asset expenditures. Expenditures for repairs and maintenance which do not materially extend the useful life of a capital asset, supplies and small items are expensed as incurred. All purchased capital assets, including infrastructure assets, are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated items are recorded at estimated fair value as of the date of donation. Capital assets of the primary government and component units are depreciated over estimated useful lives of 40 years for buildings, 30 years for infrastructure assets, 7 – 15 years for building improvements, 3 – 7 years for software and equipment, and 3 – 5 years for vehicles. Leasehold improvements are amortized over the shorter of the term of the underlying lease agreement or life of the respective asset.

Accrued Leave: The Town's policy is that accrued vacation and compensatory time is paid upon termination up to a maximum of 80 hours, with no more than 120 hours of vacation is allowed to be carried over to the next fiscal year without authorization from the Town Council. Sick leave is not paid upon termination and is, therefore, not included in the accrued leave liability. Given the limitation on the number of hours of vacation allowed to be carried over, accrued leave is presumed to be a current liability and liquidated with available resources and reflected as an expenditure and liability in the governmental fund financial statements. The Haymarket Police Department also follows the same leave policy except that sworn officers, who are required to work weekends, evenings and holidays, earn compensatory time that may be carried over with authorization from the Town Council. Accordingly, only unused leave and compensatory time authorized by the Town Council are included in the accrued leave liability.

Capital Leases: Capital leases are reflected as capital assets and long-term liability and debt in the government-wide financial statements, with the underlying assets depreciated over their estimated useful lives. In the governmental fund financial statements, acquisition costs are recorded as expenditures with offsetting entries to the other financing sources.

Long-Term Debt and Bond Issuance Cost: In the government-wide, proprietary and component unit financial statements, outstanding debt is reported as a long-term liability, and bond issuance costs are capitalized and amortized over the life the related bonds. The governmental fund financial statements recognize the proceeds of debt as other financing sources in the period of issuance and debt principal and interest payments as expenditures when due. Bond issuance costs are reported net of accumulated amortization in the government-wide financial statements and as expenditures in the governmental fund financial statements, where applicable.

**TOWN OF HAYMARKET, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2009**

**Note A – Organization and Summary of Significant Accounting Policies – Continued**

Net Assets and Fund Balances: In the government-wide financial statements, net assets are classified as either invested in capital assets net of related debt, restricted by creditors, grantors, contributors or laws and regulations, or unrestricted and available at the discretion of the Town Council. The governmental fund financial statements report fund balance reserves for amounts not readily available for appropriation or legally restricted for specific purposes or unreserved for amounts available for general operations at the discretion of the Town Council. Encumbrances, which do not constitute liabilities or expenditures, are internal reservations of fund balances that result from purchase orders, contracts and other commitments of the Town and may be re-appropriated by actions of the Town Council.

Grants, Contributions and Donations: Contributions are recognized in the period in which they are pledged or received, at the earliest point they are determinable and measurable by the Town. Restricted contributions are reflected as restricted net assets until such time that the Town satisfies the donor's stipulations by its actions and use of the funds or by the passage of time.

Contributed Services and In-Kind Donations: Contributed services are recognized at fair value if they create or enhance a non-financial asset or require specialized skills, are performed by those possessing such skills, and would otherwise be purchased by the Town. In-kind donations are recorded at their estimated fair value when received by the Town. No significant amounts of contributed services or in-kind donations are reflected in the accompanying financial statements.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates and the difference could be material.

Fair Value of Financial Instruments: Disclosures about estimated fair values of the Town's financial instruments were determined by management and based upon pertinent information available to management as of June 30, 2009. Considerable judgment is necessary to interpret market and financial data and to develop estimated fair values. Although management is not aware of any factors that would significantly affect their estimates of fair value, the actual disposition of certain assets or liabilities could differ from management's estimates and management's estimates of fair value may not necessarily be indicative of amounts realized at disposition. The accompanying financial statements reflect management's best estimates and assumptions in regards to fair value measurements. As such, the Town first attempts to measure financial instruments based upon fair value based upon quoted prices for securities traded in active markets. For financial instruments not traded on an active market, the Town would consider observable market inputs for similar type securities. For securities not actively traded or where observable market inputs are not available, the Town would generally use other fair value estimates including present value and other valuation techniques to determine fair value.

**TOWN OF HAYMARKET, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2009**

**Note B – Concentrations of Risk and Risk Management**

Cash and Cash Equivalents: All of the Town's depository accounts are held at one financial institution. In accordance with the Virginia Security for Public Deposits Act, financial institutions are required to collateralize public funds. As of June 30, 2009, the Town received notification that all of its depository accounts were collateralized as required by the Act.

Credit Risk – Bonds and Notes Payable: The Town's assets are subject to credit risk associated with the certain financing arrangements, including bonds and notes payable issued to finance the acquisition and renovation of Town properties. The Town issued certain general obligation bonds and promissory notes through a local bank which are secured by deeds of trust on the Town Center Properties and are backed by the full and irrevocable faith and credit of the Town and all of its assets. The Town also represents that the bonds were issued in compliance with the Constitution and statutes of the Commonwealth of Virginia, including the Public Finance Act of 1991 of the Code of Virginia of 1950, as amended. As such, the Commonwealth of Virginia also guarantees the Town's debt, which is limited by statute to 10% of the assessed value of taxable real estate located in the Town. The Town's bonds are also subject to restrictive covenants.

Risk Management: The Town is exposed to various losses related to torts, theft, damage and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Town participates in the Virginia Municipal Group Liability Pool and Self Insurance Association administered by the Commonwealth of Virginia for general liability, property and automobile insurance, excess liability and workers compensation insurances. Additional insurance coverage, surety and fidelity bonds are purchased when warranted. The Town is owner of certain historic properties which may have unknown environment concerns. As such, no assurance can be given regarding the adequacy of insurance coverage for all potential losses, claims or assessments.

**Note C – Capital Assets**

The cost of capital assets is reflected as an asset in the government-wide financial statements to the extent that the Town's capitalization threshold is met and is reflected as expenditures in the governmental funds financial statements as prescribe by the Town's basis of accounting. Capital assets acquired by proprietary funds are recorded as assets in both the government-wide and proprietary fund financial statements to the extent the Town's capitalization threshold is met. The component unit also capitalizes capital assets in accordance with the Town's capitalization policy. Expenditures for repairs and maintenance which do not improve or materially extend the useful life of the respective assets and small items are expensed as incurred. All purchased capital assets are valued at cost where historical records are available and at estimated historical costs where no historical records exist. Donated assets are recorded at estimated fair value at the time of donation. Depreciation is recognized on a straight-line basis in the accompanying financial statements.

**TOWN OF HAYMARKET, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2009**

**Note C – Capital Assets – Continued**

Capital assets of the primary government and component units are depreciated over estimated useful lives of 40 years for buildings, 30 years for infrastructure assets, 7 – 15 years for building improvements, 5 - 7 years for software and equipment, and 3 – 5 years for vehicles. Leasehold improvements are amortized over the shorter of the term of the underlying lease agreement or life of the respective asset. For the fiscal year ended June 30, 2009, depreciation expense of approximately \$118,100 was reflected in the government-wide financial statements, with approximately \$84,400 charged to governmental activities, with approximately \$24,400 charged to public safety in the government fund financial statements, and approximately \$33,700 charged to business-type activities.

**Governmental Activities:** For the fiscal year ended June 30, 2009, the capital asset activity of the Town’s governmental and business-type activities is summarized as follows:

	2008	Additions	Deletions	2009
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
Capital assets being depreciated:				
Building and improvements	541,967	-	-	541,967
Infrastructure assets	797,136	72,650	-	869,786
Historic museum	292,852	-	-	292,852
Police vehicles	98,905	4,836	-	103,741
Equipment	203,358	2,370	(35,726)	170,002
Total capital assets being depreciated	1,934,218	79,856	(35,726)	1,978,348
Less accumulated depreciation:				
Building and improvements	(38,263)	(15,028)	-	(53,291)
Infrastructure assets	(179,205)	(27,782)	-	(206,987)
Historic museum	(43,886)	(8,748)	-	(52,634)
Police vehicles	(79,666)	(8,582)	-	(88,248)
Equipment	(145,339)	(24,236)	25,271	(144,304)
Total accumulated depreciation	(486,359)	(84,376)	25,271	(545,464)
Total capital assets being depreciated, net	1,447,859	(4,520)	(10,455)	1,432,884
Governmental activities capital assets, net	\$ 2,447,859	\$ (4,520)	\$ (10,455)	\$ 2,432,884

**TOWN OF HAYMARKET, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2009**

**Note C – Capital Assets – Continued**

**Business-Type Activities:** The capital asset activity of the Town’s business-type activities is summarized as follows for the fiscal year ended June 30, 2009:

	<u>2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>2009</u>
<b>Business-Type Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 600,000	\$ -	\$ -	\$ 600,000
Capital assets being depreciated:				
Building	650,000	-	-	650,000
Building improvements	258,736	8,000	-	266,736
Total capital assets being depreciated	<u>908,736</u>	<u>8,000</u>	<u>-</u>	<u>916,736</u>
Less accumulated depreciation:				
Building	(132,708)	(16,250)	-	(148,958)
Building improvements	(87,669)	(17,515)	-	(105,184)
Total accumulated depreciation	<u>(220,377)</u>	<u>(33,765)</u>	<u>-</u>	<u>(254,142)</u>
Total capital assets being depreciated, net	<u>688,359</u>	<u>(25,765)</u>	<u>-</u>	<u>662,594</u>
Business-type activities capital assets, net	<u>\$ 1,288,359</u>	<u>\$ (25,765)</u>	<u>\$ -</u>	<u>\$ 1,262,594</u>

**Note D – Long-Term Liabilities**

The Town has financed the purchase, construction, reconstruction and rehabilitation of certain real properties and related improvements through the issuance of various series of general obligation bonds and promissory notes payable. The bonds are secured by the full and irrevocable faith and credit of the Town and all of its assets. The Town also represents that the bonds were issued in compliance with the Constitution and statutes of the Commonwealth of Virginia, including the Public Finance Act of 1991 of the Code of Virginia of 1950, as amended. As such, the Commonwealth of Virginia also guarantees the Town’s debt, which is limited by statute to 10% of the assessed value of taxable real estate located in the Town. The Town’s bonds are also subject to restrictive covenants. The bonds are generally payable over 20 years and contain restricted redemption clauses and prepayment penalties where the Town may be assessed a premium if the bonds are redeemed or liquidated prior to maturity. Some of the bonds require monthly payments of principal and interest and others require monthly interest payments and annual principal reductions. The interest rates on the bonds are generally fixed for the first ten years of repayment at annual rates of approximately 4% - 6%. At the end of the first ten years of repayment, the bank underwriter may, at its sole discretion, re-negotiate the fixed interest rate. If the Town does not agree with the adjustment, the bank may call the bonds or require redemption.

**TOWN OF HAYMARKET, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2009**

**Note D – Long-Term Liabilities – Continued**

General Obligation Bonds: As of June 30, 2009, the Town had the following outstanding general obligation bonds, with all being tax-exempt except for the taxable Series 2004B:

<u>Series</u>	<u>Issued Date</u>	<u>Initial Principal</u>	<u>Principal Repayments</u>	<u>Maturity Date</u>
2005	September 2005	\$ 1,500,000	Annually	September 2025
2004A	March 2004	\$ 262,568	Monthly	March 2024
2004B	March 2004	\$ 372,426	Monthly	March 2024
2004C	March 2004	\$ 634,131	Monthly	March 2024

The Town incurred bond issuance costs of \$11,200 on the 2006 Series and bond issuance costs of \$9,300 on the 2004 Series which are being amortized over the terms of the underlying bonds, which is 20 years. For the fiscal year ended June 30, 2009, bond amortization of approximately \$600 was charged to governmental activities and \$500 was charged to business-type activities.

**Governmental Activities:** The long-term liabilities of the Town’s governmental activities consist of the following general obligation bonds and other promissory notes payable:

Bonds Payable: The general obligation bonds associated with the Town’s governmental activities consist of the tax-exempt Series 2005 with an original principal balance of \$1,500,000. The bonds are amortized over 20 years ending in September 2025. The bonds require monthly payments of interest only and annual principal curtailments of \$75,000 due each September. Interest accrues at a fixed annual rate of approximately 4%. The outstanding principal balance on the general obligation bonds totaled approximately \$1,275,000 as of June 30, 2009. Interest expense incurred on the Town’s governmental activities bonds was approximately \$49,900 for the fiscal year ended June 30, 2009. The bonds are subject to certain prepayment penalties and restrictive covenants.

Bond Issuance Cost: During the fiscal year ended June 30, 2006, the Town incurred bond issuance cost of \$11,200, which was capitalized in the government-wide financial statements and is being amortized on a straight-line basis over the initial term of the bonds, which is 20 years. Amortization expense charged to governmental activities was approximately \$600 for the fiscal year ended June 30, 2009.

**TOWN OF HAYMARKET, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2009**

**Note D – Long-Term Liabilities – Continued**

Governmental Activities Long-Term Liabilities: A summary of the Town’s long-term liabilities of its governmental activities is as follows for the fiscal year ended June 30, 2009:

	<u>2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>2009</u>
<b>Governmental Activities:</b>				
General obligation bonds	\$ 1,350,000	\$ -	\$ (75,000)	\$ 1,275,000
Other promissory notes	-	-	-	-
	<u>\$ 1,350,000</u>	<u>\$ -</u>	<u>\$ (75,000)</u>	<u>\$ 1,275,000</u>

Debt Service Requirements: Annual debt service requirements on the Town’s governmental activities long-term liabilities, including interest, are as follows for the fiscal years ended June 30:

<b>Governmental Activities</b>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Debt service requirements			
2010	\$ 75,000	\$ 49,343	\$ 124,343
2011	75,000	46,440	121,440
2012	75,000	43,538	118,538
2013	75,000	40,635	115,635
2014	75,000	37,733	112,733
2015 - 2025	900,000	226,393	1,126,393
	<u>\$ 1,275,000</u>	<u>\$ 444,082</u>	<u>\$ 1,719,082</u>

Interest Expense: Total interest expense incurred by the Town on its governmental activities long-term liabilities was approximately \$49,900 for the fiscal year ended June 30, 2009.

**Business-Type Activities:** The long-term liabilities of the Town’s business-type activities consist of the following general obligation bonds and other promissory notes payable:

Bonds Payable: The general obligation bonds associated with the Town’s business-type activities consist of tax-exempt Series 2004A with an original principal balance of approximately \$262,600, taxable Series 2004B with an original principal balance of approximately \$372,400, and tax-exempt Series 2004C with an original principal balance of approximately \$634,100. The cumulative original principal balances totaled approximately \$1,269,100. The bonds are amortized over 20 years ending in March 2024. The bonds require monthly payments of principal and interest totaling approximately \$8,100. Interest accrues at fixed annual rates ranging from 4% - 6%.

**TOWN OF HAYMARKET, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2009**

**Note D – Long-Term Liabilities – Continued**

Bonds Payable – Continued: The outstanding principal balance on the general obligation bonds totaled approximately \$1,039,500 as of June 30, 2009. Interest expense incurred on the Town's business-type activities bonds was approximately \$49,200 for the fiscal year ended June 30, 2009. The bonds are subject to certain prepayment penalties and restrictive covenants.

Bond Issuance Cost: During the fiscal year ended June 30, 2004, the Town incurred bond issuance cost of \$9,300, which was capitalized in the government-wide financial statements and is being amortized on a straight-line basis over the term of the bonds, which is 20 years. Amortization expense charged to business-type activities was approximately \$500 for the fiscal year ended June 30, 2009. The bonds were used to finance the purchase the Town Center Properties.

Business-Type Long-Term Liabilities: A summary of the Town's long-term liabilities of its business-type activities is as follows for the fiscal year ended June 30, 2009:

	<u>2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>2009</u>
<b>Business-Type Activities:</b>				
General obligation bonds	\$ 1,087,669	\$ -	\$ (48,177)	\$ 1,039,492
Other promissory notes	-	-	-	-
	<u>\$ 1,087,669</u>	<u>\$ -</u>	<u>\$ (48,177)</u>	<u>\$ 1,039,492</u>

Debt Service Requirements: Annual debt service requirements on the Town's business-type activities long-term liabilities, including interest, are as follows for the fiscal years ended June 30:

<b>Business-Type Activities</b>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Debt service requirements			
2010	\$ 50,429	\$ 46,924	\$ 97,353
2011	52,772	44,581	97,353
2012	55,229	42,124	97,353
2013	57,805	39,547	97,352
2014	60,507	36,845	97,352
2015 - 2024	762,750	187,201	949,951
	<u>\$ 1,039,492</u>	<u>\$ 397,222</u>	<u>\$ 1,436,714</u>

Interest Expense: Total interest expense incurred by the Town on its business-type activities long-term liabilities was approximately \$49,200 for the fiscal year ended June 30, 2009. Total interest expense incurred by the Town in the government-wide financial statements was \$99,000.



**TOWN OF HAYMARKET, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2009**

**Note E – Operating Leases**

Lease Revenue: The Town leases certain commercial buildings and office suites in its Town Center Properties, which is considered a business-type activity. The non-cancelable operating lease agreements expire at various times through the fiscal years ending June 30, 2012. 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 \$145,600 for the fiscal year ended June 30, 2009. 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:

**Business-Type Activities**

Years ending June 30:

2010	\$ 125,800
2011	101,500
2012	<u>8,000</u>
	<u>\$ 235,300</u>

Lease Expense: The Town leases a motorcycle from one of its officers and office and computer equipment under various non-cancelable operating lease agreements expiring at various dates through July 2011. The lease agreements required total monthly rentals of approximately \$300 during the fiscal year ended June 30, 2009, and rent expense was approximately \$3,700 for the fiscal year then ended. The approximate future minimum lease commitments to be charged against governmental activities under the operating leases are as follows for the fiscal years ended June 30:

**Governmental Activities**

Years ending June 30:

2010	\$ 3,300
2011	<u>600</u>
	<u>\$ 3,900</u>

**Note F – Retirement Plan**

The Town maintains a SIMPLE-IRA retirement plan covering substantially all employees meeting certain minimum requirements. The Town makes matching contributions equaling employee contributions up to 3% of eligible compensation. The Town’s matching contributions and plan expenses totaled approximately \$6,700 for the fiscal year ended June 30, 2009.

**TOWN OF HAYMARKET, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2009**

**Note G – Deferred Revenue**

Deferred revenue represents cash received in advance of the applicable period of availability, which are unearned and not available for expenditure in accordance with the Town's basis of accounting. As of June 30, 2009, deferred revenue pertained solely to exhibits deposits and registrations for Haymarket Day which is a Town event annual held subsequent to June 30<sup>th</sup>.

**Note H – Restricted Net Assets and Reserved Fund Balances**

The Town's restricted or reserved net assets represents amount set aside for certain capital projects, escrow deposit funds, restricted grants and contributions, and insurance reimbursements for capital repairs and replacements. The Town's restricted net assets as reflected in the government-wide financial statement and reserved net assets as reflected in the governmental fund financial statements consist approximately of the following as of June 30, 2009:

Restricted for capital improvement projects	\$ 679,300
Restricted escrow and deposit funds	18,100
Restricted grant and reimbursement funds	30,000
Restricted for repairs or replacements	<u>29,100</u>
	<u>\$ 756,500</u>

**Note I – Contingencies and Other Significant Matters**

Grant Programs: The Town is receipt of certain Federal and State grant awards. Disbursement of these funds is generally subject to strict compliance requirements as specified by the awarding agency and governmental regulations. These awards are also subject to audit by the grantor agency or duly appointed representative. Any cost disallowance would become a liability to the Town's general fund or other applicable funds; however, management does not anticipate any significant disallowances. No assurances can be given regarding the outcome of future compliance audits.

Environment Concerns and Deferred Maintenance: Given that certain Town properties are historical landmarks and others were condemned or demolished, there may be environmental concerns for which the Town's management is currently unaware. Should any environmental matters arise, the Town may incur significant costs to remedy the matters. Any known or anticipated losses are accrued at the earliest point they are determinable and measurable. Additionally, many of the Town's properties are historical landmarks or aged properties in need of repair and others are condemned. The Town's policy is to accrue a liability when it is probable that an obligation has been incurred and the amount of the obligation can be reasonably estimated.

**TOWN OF HAYMARKET, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2009**

**Note I – Contingencies and Other Significant Matters – Continued**

Environment Concerns and Deferred Maintenance – Continued: As of June 30, 2009, the Town was unaware of any significant environmental concerns or contingency that would require accrual or disclosure in the accompanying financial statements.

Litigation, Claims, and Assessments: The Town is party to various legal actions, claims, and disputes that result from the normal course of operation. The Town is contingently liable for any action not covered by insurance. Currently, management is unaware of any matter that would require accrual or disclosure in the accompanying financial statements. No assurances can be given regarding the outcome of future legal proceedings.

Pending Sale: During the fiscal year ended June 30, 2008, the Town entered into sales contract to sale certain properties, known as the Town Center Properties, for approximately \$2,300,000. The sales contract allows for a study period and for the purchase to obtain the requisite preliminary site approval. Given the current economic situation, the purchaser had difficulty obtaining financing and the Town has extended the settlement due date on several occasions.

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**TOWN OF HAYMARKET, VIRGINIA**

**MANAGEMENT LETTER**

**YEAR ENDED JUNE 30, 2009**



# Frye & Wolcott, CPAs

Advisors Accountants Auditors

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November 30, 2009

To the Mayor and Council Members  
Town of Haymarket, Virginia

We have completed our audit of the financial statements of the Town of Haymarket, Virginia (the Town) as of and for the fiscal year ended June 30, 2009. In planning and performing our audit, we considered the internal controls of the Town in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal controls. Hence, our consideration of the Town's controls was more limited than would be necessary to express an opinion on the internal controls taken as a whole. Accordingly, we do *not* express such an opinion.

The Town's management, including its Mayor and Council, is responsible for establishing and maintaining effective internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal controls are to provide management with reasonable, *not* absolute, assurance in regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations and contractual agreements.

Internal controls, no matter how well designed and operating, can provide only reasonable assurance to the achievements of an entity's control objectives. The likelihood of achievement is affected by the inherent limitation of internal control, such as human errors or mistakes in judgment, circumvention of controls by management, or collusion of employees to override controls.

Our consideration of Town's controls would not necessarily disclose all matters that might be a control deficiency under standards established by the American Institute of Certified Public Accountants (AICPA). A control deficiency is a condition in which the design or operation of internal control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

As a result of our audit we noted certain matters involving internal control and its operation that will help the Town to make improvements and achieve operational efficiencies. Our comments and recommendations reflect our professional commitment to provide our clients with practical solutions and we hope they are taken in a spirit of cooperation.

## **COMMENTS & RECOMMENDATIONS**

### *Stale Dated Items & Authorizations*

During the audit we noticed several stale dated checks and deposits that had not cleared the bank statements. We also noted several checks clearing without the required dual signatures as called for in the Town's financial policies. As such, we highly recommend that the Town ensure that bank reconciliations are independently and timely reviewed and that stale dated items and all disbursements, including wire and electronic fund transfers, are reviewed for propriety.

### *QuickBooks Data Backup*

During the prior fiscal year, we were requested to provide the Town with a backup of the QuickBooks file in our possession from the last audit. We also noticed during the audit several instances where transactions were entered twice. These situations occurred because the Town's computer system had crashed and there was not off line recent backup available. As such, we highly recommend that the Town ensure that timely and routine backups of sensitive data, especially the QuickBooks accounting file, are stored offline and offsite.

### *Segregation of Duties*

A fundamental element of a good system of internal controls is the segregation of duties, which is based upon the premise that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. Although the size and nature of the Town's staff may prohibit complete adherence with this principle, we believe the Town should remain mindful of the limited segregation of duties over the processing of cash receipts and payroll. Currently, based upon management's representation of the Town's accounting processing, there is inadequate segregation of duties over cash receipts and payroll processing. Currently, the Town's Deputy Clerk handles incoming mail and the processing of cash receipts, the Town Clerk is solely responsible for payroll processing without adequate mitigating controls. As such, we recommend that the Town review its internal controls to ensure adequate segregation of duties and control and authorization of cash receipts and payroll administration.

### *Chart of Accounts & Cost Allocations*

During last year's audit, we noted the problem with the manner in which the Town's chart of accounts, customer, and vendor list were designed and are being maintained. Given the Town's response to our prior year recommendation, we may have not been as clear as necessary to affect

To the Mayor and Council Members  
November 30, 2009  
Page 3

change to ensure a chart of accounts that meets the entire Town's reporting needs. The Town's accounting system and in particular the chart of accounts needs to be designed to facilitate identification of assets, liabilities, revenue and expenses for the governmental, business-type and component unit activities. Currently, the Town must review the details of these accounts to ensure identification of the various financial accounts and transactions required for financial reporting purposes. Additionally, the chart of accounts should be developed to facilitate presenting the expenses on a functional basis in the government-wide statement of activities.

### **Petty Cash Controls**

The Town currently maintains a petty cash fund which is used to process miscellaneous cash receipts from the Town citizenry. As such, we want to recommend that the Town has adequate physical control and requires at least monthly reconciliation of the petty cash funds. We noted during the audit that one of the petty cash funds was located in an unsecured manner where visitors to the Town Hall could potentially access the fund. We also want to encourage the Town to ensure that its accounting records and documentation are stored in a secured manner.

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This letter is intended solely for the use of the Town's Mayor, Council and management team. We appreciate the opportunity to present these comments for your consideration and will be glad to discuss our recommendations further, if necessary. We hope that our comments are received in the spirit of cooperation with which they are offered and that we can continue to work together to improve the Town and its financial management.

We also hope to realize efficiencies in our approach to audit engagements through our experience with the Town and any feedback on our audit would be greatly appreciated. Also, we would like to thank the Town Manager, Treasurer, Clerk and Deputy Clerk for the cooperation and support demonstrated to us during the audit. If we can be of any further assistance, please feel free to contact us anytime.

Very truly,



*Frye & Wolcott, CPAs*

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**TOWN OF HAYMARKET, VIRGINIA**

**COUNCIL DISCLOSURE LETTER**

**YEAR ENDED JUNE 30, 2009**





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November 30, 2009

To the Mayor and Council Members  
Town of Haymarket, Virginia

We have audited the financial statements of the Town of Haymarket, Virginia (the Town) as of and for the fiscal year ended June 30, 2009 and have issued our report thereon also dated November 30, 2009. Consistent with our professional standards, the policy of our firm, and our personal commitment to communicate issues with the Town's Mayor and Council Members, we wish to share with you the following:

***Our Responsibility Under Generally Accepted Auditing Standards***

We strictly adhere to the professional auditing standards as promulgated by the American Institute of Certified Public Accountants (AICPA). These standards state that it is our responsibility, as your independent auditors, to design and conduct audits that provide reasonable, rather than absolute, assurance that the financial statements are free of material error or misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and since an audit does not include detailed examination of *all* transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected. However, we are committed to using our specialized experience in serving governmental entities to ensure that our audit approach provides management useful, pertinent feedback and reasonable assurance. While we work cooperatively with the Town's management and staff, we must maintain our independence by deciding which audit procedures to perform, their timing and frequency, and the type of audit evidence necessary.

***Significant Accounting Policies***

Management has the responsibility for the selection and application of appropriate accounting policies. Significant accounting policies are described in the notes to the financial statements. As is the case with most organizations, the Town has alternatives under generally accepted accounting principles from which to choose. These choices include matters relating to the Town's revenue recognition, fixed asset capitalization and depreciation methodology, deferral and accrual methodologies, etc. Currently, the Town's significant accounting policies, as disclosed in the notes to the financial statements, are acceptable under accounting principles generally accepted in the United States of America, appropriate under the circumstances, and similar to those used by other local municipalities.

### *Management's Accounting Estimates*

The preparation of financial statements requires management to make judgments and decisions in relation to the use of accounting estimates to report certain amounts. Management makes these decisions based upon their knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimates may differ significantly from management's assumption. Estimates are made in regard to the presentation and classification of financial data, allocation of expenses to Town programs or functions, determination of accounts receivable collectibility, accrual of certain revenues and expenses and loss contingencies, estimated useful lives capital assets, etc.

The most sensitive accounting estimate affecting the financial statements involved historic properties owned by the Town. Given the age and condition of some of these properties, there may be unknown environmental issues and concerns. Management is currently unaware of any specific conditions that would require accrual or disclosure in the comprehensive annual report; however, no assurances can be given regarding the uncertainty of potential environment concerns. Management's other estimates and judgments in regard to the financial statements are appropriate given the circumstances and are reasonable with those made by other similar governmental organizations.

### *Significant Audit Adjustments*

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Town's financial reporting process (that is, cause future financial statements to be materially misstated). Given the modified cash basis of accounting employed by the Town as a governmental entity, several significant audit adjustments were proposed to management to adjust the financial reports to the accrual basis of accounting. The following adjustments as provided to management, in our judgment, indicate matters that could have a significant effect upon the Town's financial reporting:

- an adjustment to reclassify petty cash fund in the general ledger	\$ -0-
- an adjustment to record additional interest on certificates of deposits	\$ 1,717.44
- an adjustment to correct duplicate invoices entered into QuickBooks	\$ (4,031.66)
- an adjustment to accrue additional workers comp insurance premium	\$ (897.00)
- an adjustment to record depreciation expense and asset disposals	\$(122,569.00)
- an adjustment to record additional payables and accrued expenses	\$ (4,651.50)
- an adjustment to reconcile accrued payroll per year-end cut-off	\$ (6,406.22)
- an adjustment to reconcile accrued payroll per year-end balance	\$ (3,440.75)
- an adjustment to reconcile deferred revenue and sponsorships	\$ (7,700.00)
- an adjustment to reconcile restricted net assets for fiscal year	\$ -0-

The cumulative effect of the audit adjustments was to decrease change in net assets by approximately \$148,000. No other significant differences were noted during the audit.

#### *Disagreements With Management*

Our professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or auditors' report. We are pleased that no such disagreements or significant difficulties with management arose during our audit.

#### *Consultations With Other Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves the application of an accounting principle to the audited financial statements or a determination of the type of auditors' opinion that may be expressed upon those statements, our professional standards require the consulting accountant to communicate with us to ensure that all relevant facts are communicated. To our knowledge, there were no such consultations or communications with other accountants.

#### *Discussions With Independent Auditors*

We periodically discuss accounting and audit matters with our clients, including the application of new accounting principles or auditing standards. These discussions occur in the normal course of our professional relationship and our responses were not a condition of our retention as independent auditors. Additionally, our engagement to perform the annual audit of the Town's financial statements was not conditioned upon our willingness to allow certain accounting treatments that are not in accordance with generally accepted accounting principles.

#### *Audit Access and Resolution*

We were given access to accounting records and supporting documentation and were provided adequate information and explanations that were necessary to complete the audit. Management and staff of the Town fully cooperated with the audit staff and no material matters or disagreements were left unresolved by the time of issuance of the audited financial statements.


#### *Other Matters*

This information is intended solely for the use of the Town Mayor, Council and management team and is not intended to be and should not be used by any other parties without our consent.

To the Mayor and Council Members  
November 30, 2009  
Page 4

We appreciate the cooperation and courtesies extended to us by the Town's Clerk and Deputy Clerk, and we look forward to serving the Town in the future. Should you need additional clarification on these or any other matters please feel free to contact us at your convenience.

Very truly,

  
*Frye & Wolcott, CPAs*