
TOWN OF HAYMARKET, VIRGINIA

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2016



TOWN OF HAYMARKET, VIRGINIA

TOWN COUNCIL

David Leake, Mayor

Joe Pasanello, Vice Mayor

Steve Aitken

John Cole

Susan Edwards

Connor Leake

Chris Morris

OFFICIALS

David Leake, Interim Town Manager

Jennifer Preli, Town Clerk

Sherrie Wilson, Treasurer

TOWN OF HAYMARKET, VIRGINIA

**Financial Report
For the Year Ended June 30, 2016**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-7
 <u>Basic Financial Statements</u>	
<i>Government-wide Financial Statements</i>	
Exhibit 1 Statement of Net Position	8
Exhibit 2 Statement of Activities	9
<i>Fund Financial Statements</i>	
Exhibit 3 Balance Sheet - Governmental Fund	10
Exhibit 4 Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	11
Exhibit 5 Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund	12
Exhibit 6 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities	13
Notes to Financial Statements	14-40
 <u>Required Supplementary Information</u>	
Exhibit 7 General Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	41
Exhibit 8 Schedule of Components of and Changes in Net Pension Liability (Asset) and Related Ratios	42
Exhibit 9 Schedule of Employer Contributions	43
Exhibit 10 Notes to Required Supplementary Information	44
 <u>Other Supplementary Information</u>	
<i>Supporting Schedules</i>	
Schedule 1 Schedule of Revenues - Budget and Actual - Governmental Fund	45-46
Schedule 2 Schedule of Expenditures - Budget and Actual - Governmental Fund.....	47-48
 <u>Compliance</u>	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	49-50

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 and each major fund of Town of Haymarket, Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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. 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Town of Haymarket, Virginia, as of June 30, 2016, 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.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2016, the Town adopted new accounting guidance, GASB Statement Nos. 72 Fair Value Measurement and Application, 79 Certain External Investment Pools and Pool Participants, 82 Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73. 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, budgetary comparison information, and schedules related to pension funding on pages 3-7, 41, and 42-44, and 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 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The supporting schedules and the schedule of expenditures of federal awards 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 and the schedule of expenditures of federal awards 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 October 17, 2016, on our consideration of 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 Town of Haymarket, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates
Charlottesville, Virginia
October 17, 2016

TOWN OF HAYMARKET, VIRGINIA

Management's Discussion and Analysis Year Ended June 30, 2016

As management of 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, 2016.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$5,843,101 (net position). Of this amount, \$1,377,740 (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 \$1,332,263, a decrease of \$770,733 in comparison with the prior year. Approximately 99% of this total amount, \$2,067,796 is available for spending at the Town's discretion (unassigned fund balance).
- The Town's debt decreased \$153,900 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 required and 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 net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in 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. Town of Haymarket, Virginia, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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 statements 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.

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 pension funding progress.

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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$5,843,101 at the close of the most recent fiscal year.

Town of Haymarket, Virginia's, Net Position			
	Governmental Activities		
	2016	2015	
Current and other assets	\$ 1,842,522	\$ 2,334,313	
Capital assets	5,844,261	5,437,302	
Total assets	<u>\$ 7,686,783</u>	<u>\$ 7,771,615</u>	
Deferred outflow of resources	\$ 37,319	\$ 28,559	
Current liabilities	\$ 442,574	\$ 338,425	
Long-term liabilities outstanding	1,405,291	1,396,394	
Total liabilities	<u>\$ 1,847,865</u>	<u>\$ 1,734,819</u>	
Deferred inflow of resources	\$ 33,136	\$ 13,258	
Net position:			
Net investment in capital assets	\$ 4,465,361	\$ 3,904,502	
Unrestricted	1,377,740	2,147,595	
Total net position	<u>\$ 5,843,101</u>	<u>\$ 6,052,097</u>	

A large part of the Town's net position, \$4,465,361 or (76%) 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 decreased the Town's net position by \$208,996. Key elements of these changes are as follows:

Town of Haymarket, Virginia's Changes in Net Position			
		Governmental Activities	
		2016	2015
Revenues			
Program revenues:			
Charges for services	\$	136,097	\$ 118,674
Operating grants and contributions		41,077	57,293
Capital grants and contributions		76,617	695,304
General revenues:			
General property taxes		304,821	293,115
Other local taxes		1,178,682	1,237,233
Grants and contributions not restricted to specific programs		147,033	150,942
Other general revenues		185,385	207,917
Total revenues	\$	<u>2,069,712</u>	\$ <u>2,760,478</u>
Expenses			
General government administration	\$	733,283	\$ 690,370
Public safety		1,001,505	766,429
Public works		367,204	319,954
Cultural		62,902	61,576
Community development		64,771	60,833
Interest and other fiscal charges		49,043	38,846
Total expenses	\$	<u>2,278,708</u>	\$ <u>1,938,008</u>
Change in net position	\$	(208,996)	\$ 822,470
Net position, beginning, as restated		<u>6,052,097</u>	<u>5,229,627</u>
Net position, ending	\$	<u><u>5,843,101</u></u>	\$ <u><u>6,052,097</u></u>

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, unassigned 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 fund reported an ending fund balance of \$1,332,263 a decrease of \$770,733 in comparison with the prior year. A large part of this total amount, \$1,326,263 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 \$1,326,263 at year end.

General Fund Budgetary Highlights

The Town's General Fund had \$2,069,712 in revenues during the year, which was \$570,686 less than budgeted (reference Exhibit 7). The Town's General Fund expended \$2,840,445 during the year. Overall the general fund had a decrease in fund balance of \$770,733, (reference Exhibit 5).

Capital Asset and Debt Administration

Capital assets - The Town's investment in capital assets for its governmental funds as of June 30, 2016 totals \$5,844,261 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, infrastructure and equipment.

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

Debt

During the year, the Town's debt decreased \$153,900 as it repaid and refunded existing debt principal on general obligation debt in the General Fund. 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, 2016

	Governmental Activities
Assets:	
Cash and cash equivalents	\$ 1,666,211
Receivables (net of allowance for uncollectibles):	
Taxes including penalties	3,151
Accounts receivable	41,155
Due from other governments	50,442
Net pension asset	81,563
Total current assets	<u>\$ 1,842,522</u>
Capital assets (net of depreciation):	
Land	1,781,511
Construction in progress	216,653
Buildings and improvements	1,481,508
Infrastructure assets	2,058,187
Historic museum	191,231
Police vehicles	49,340
Equipment	65,831
Capital assets, net	<u>\$ 5,844,261</u>
Total assets	<u>\$ 7,686,783</u>
Deferred Outflows of Resources:	
Pension contributions subsequent to measurement date	<u>\$ 37,319</u>
Total assets and deferred outflows of resources	<u><u>\$ 7,724,102</u></u>
Liabilities:	
Accounts payable	\$ 66,883
Accrued liabilities	8,069
Deferred revenues	57,796
Deposits payable	295,948
Interest payable	13,878
Long-term liabilities:	
Due within one year	157,639
Due in more than one year	1,247,652
Total liabilities	<u>\$ 1,847,865</u>
Deferred Inflows of Resources:	
Items related to measurement of net pension liability	<u>\$ 33,136</u>
Net Position:	
Net investment in capital assets	\$ 4,465,361
Unrestricted	1,377,740
Total net position	<u>\$ 5,843,101</u>
Total liabilities, net position and deferred inflows of resources	<u><u>\$ 7,724,102</u></u>

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

Statement of Activities
For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue & Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental activities:					
General government administration	\$ 733,283	\$ -	\$ -	\$ -	\$ (733,283)
Public safety	1,001,505	62,461	41,077	-	(897,967)
Public works	367,204	44,703	-	58,270	(264,231)
Cultural	62,902	28,933	-	-	(33,969)
Community development	64,771	-	-	18,347	(46,424)
Interest on long-term debt	49,043	-	-	-	(49,043)
Total primary government	\$ 2,278,708	\$ 136,097	\$ 41,077	\$ 76,617	\$ (2,024,917)
General Revenues:					
General property taxes				\$	304,821
Meals tax					457,125
Cigarette tax					213,740
Business license tax					175,320
Consumer utility tax - electric					140,467
Local sales and use tax					152,691
Other local taxes					39,339
Unrestricted revenues from the use of money and property					181,674
Grants and contributions not restricted to specific programs					147,033
Miscellaneous					3,711
Total general revenues				\$	1,815,921
Change in net position				\$	(208,996)
Net position, beginning of year					6,052,097
Net position, end of year				\$	5,843,101

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

- Basic Financial Statements -

Fund Financial Statements

Balance Sheet
 Governmental Fund
 June 30, 2016

	General Fund
Assets:	
Cash and cash equivalents	\$ 1,666,211
Receivables (net of allowance for uncollectibles):	
Taxes including penalties	3,151
Accounts receivable	41,155
Due from other governments	50,442
Total assets	<u>\$ 1,760,959</u>
Liabilities:	
Accounts payable	\$ 66,883
Accrued liabilities	8,069
Deposits payable	295,948
Deferred revenues	57,796
Total liabilities	<u>\$ 428,696</u>
Fund Balance:	
Restricted:	
Proffers - Alexandras Keep - for historic resources	\$ 6,000
Unassigned	1,326,263
Total fund balance	<u>\$ 1,332,263</u>
Total liabilities and fund balance	<u>\$ 1,760,959</u>

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

Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position
For the Year Ended June 30, 2016

Total fund balances for governmental funds (Exhibit 3) \$ 1,332,263

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	
Construction in progress	216,653	
Depreciable capital assets, net of accumulated depreciation	<u>3,846,097</u>	5,844,261

The net pension asset is not an available resource and, therefore, is not reported in the funds. 81,563

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

Items related to measurement of net pension liability	(33,136)
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Pension contributions subsequent to the measurement date will be a reduction to/increase in the net pension liability/asset in the next fiscal year and, therefore, are not reported in the funds. 37,319

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

General obligation bonds	\$ (1,378,900)	
Interest payable	(13,878)	
Compensated absences	<u>(26,391)</u>	<u>(1,419,169)</u>

Total net position of governmental activities	\$ <u>5,843,101</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 Balance
 Governmental Fund
 For the Year Ended June 30, 2016

	General Fund
Revenues:	
General property taxes	\$ 304,821
Other local taxes	1,178,682
Permits, privilege fees and regulatory licenses	44,703
Revenue from use of money and property	181,674
Charges for services	91,394
Miscellaneous	3,711
Intergovernmental	
Commonwealth	185,950
Federal	78,777
Total revenues	<u>\$ 2,069,712</u>
Expenditures:	
General government administration	\$ 744,985
Public safety	822,345
Public works	254,202
Cultural	55,372
Community development	774,476
Debt service:	
Principal retirement	153,900
Interest and fiscal charges	35,165
Total expenditures	<u>\$ 2,840,445</u>
Excess (deficiency) of revenues over (under) expenditures	\$ (770,733)
Fund balance at beginning of year	<u>2,102,996</u>
Fund balance at end of year	<u><u>\$ 1,332,263</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 Balance
of Governmental Fund to the Statement of Activities
For the Year Ended June 30, 2016

Net change in fund balances - total governmental funds (Exhibit 5) \$ (770,733)

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	\$ 792,454	
Depreciation expense	<u>(195,665)</u>	596,789

The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to decrease net position

Loss on disposal	(189,830)
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Increase (decrease) in deferred inflows related to the measurement of the net pension asset	(33,136)
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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	153,900
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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 net pension liability / asset	17,402
Decrease (increase) in deferred outflows related to pension payments subsequent to the measurement date	37,443
Change in interest payable	(13,878)
Change in compensated absences	<u>(6,953)</u>

Change in net position of governmental activities	\$ <u>(208,996)</u>
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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, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Narrative Profile:

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 the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board and specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia. 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 (governmental 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.

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 categories. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as governmental. In the government-wide Statement of Net Position, the governmental activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource measurement focus, 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.

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.

Notes to Financial Statements
As of June 30, 2016 (continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

B. Government-wide and Fund Financial Statements (continued)

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 measurement focus 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 governmental fund financial statements to the governmental column of the government-wide financial statement.

The following is a brief description of the funds used by the Town in FY 2016.

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.

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.

The government reports unavailable revenue on its balance sheet. Unavailable revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unavailable 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. Basis of Accounting (continued)

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 unavailable 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.

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.

TOWN OF HAYMARKET, VIRGINIA

Notes to Financial Statements As of June 30, 2016 (continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

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. 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 \$97,931 at June 30, 2016 and consists of general receivables.

G. Capital Assets

Capital outlays are recorded as expenditures of the governmental funds of the Town and as assets in the government-wide financial statements. The Town's capitalization threshold is \$1,500 with a useful life of more than one year.

Property, plant and equipment and infrastructure purchased are stated at cost or estimated cost. Donated property is recorded at acquisition 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

H. 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.

I. 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.

J. Fund Equity

The Town reports fund balance in accordance with GASB Statement 54, *Fund Balance Reporting and Government Fund Type Definitions*.

Notes to Financial Statements
As of June 30, 2016 (continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

J. 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 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).

K. 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 (expenditure) until then. The Town has one item that qualifies for reporting in this category which is comprised of contributions to the pension plan made during the current year and subsequent to the net pension asset or liability measurement date, which will be recognized as a reduction of the net pension asset or liability next fiscal year. For more detailed information on these items, reference the pension note.

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 has a certain item related to the measurement of the net pension liability. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. For more detailed information on these items, reference the pension note.

Notes to Financial Statements
As of June 30, 2016 (continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

L. 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.

M. 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. It is the Town's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

N. Pensions

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

O. Adoption of Accounting Principles

Governmental Accounting Standards Board Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73

The Town early implemented provisions of the above Statement during the fiscal year ended June 30, 2016. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. No restatement was required as a result of this implementation.

TOWN OF HAYMARKET, VIRGINIA

Notes to Financial Statements As of June 30, 2016 (continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

P. Upcoming Pronouncements

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2017.

Statement No. 77, *Tax Abatement Disclosures*, will increase the disclosure of tax abatement agreements to disclose information about the agreements. The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015.

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

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 December 5. 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, 2016 (continued)**

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS:

At June 30, 2016 the Town has receivables from other governments as follows:

Commonwealth of Virginia:		
Sales tax	\$	27,102
Communication tax		10,054
Federal Government:		
Virginia Department of Transportation		13,286
Total	\$	<u>50,442</u>

NOTE 5 - CAPITAL ASSETS:

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

Governmental Activities:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets not being depreciated:				
Land	\$ 1,781,511	\$ -	\$ -	\$ 1,781,511
Construction in progress	116,573	737,059	636,979	216,653
Total capital assets not being depreciated	<u>\$ 1,898,084</u>	<u>\$ 737,059</u>	<u>\$ 636,979</u>	<u>\$ 1,998,164</u>
Other capital assets:				
Buildings and improvements	\$ 1,998,984	\$ 427,581	\$ 263,474	\$ 2,163,091
Infrastructure assets	2,348,484	209,398	-	2,557,882
Historic museum	302,807	-	-	302,807
Equipment	200,980	22,535	-	223,515
Police vehicles	89,811	32,860	-	122,671
Total other capital assets	<u>\$ 4,941,066</u>	<u>\$ 692,374</u>	<u>\$ 263,474</u>	<u>\$ 5,369,966</u>
Accumulated depreciation:				
Buildings and improvements	\$ 676,513	\$ 78,714	\$ 73,644	\$ 681,583
Infrastructure assets	420,249	79,446	-	499,695
Historic museum	104,046	7,530	-	111,576
Equipment	144,751	12,933	-	157,684
Police vehicles	56,289	17,042	-	73,331
Total accumulated depreciation	<u>\$ 1,401,848</u>	<u>\$ 195,665</u>	<u>\$ 73,644</u>	<u>\$ 1,523,869</u>
Other capital assets, net	<u>\$ 3,539,218</u>	<u>\$ 496,709</u>	<u>\$ 189,830</u>	<u>\$ 3,846,097</u>
Net capital assets	<u>\$ 5,437,302</u>	<u>\$ 1,233,768</u>	<u>\$ 826,809</u>	<u>\$ 5,844,261</u>

Depreciation expense has been allocated as follows:

General government administration	\$ 15,127
Public safety	32,652
Public works	140,356
Cultural	7,530
Total depreciation expense	<u>\$ 195,665</u>

TOWN OF HAYMARKET, VIRGINIA

**Notes to Financial Statements
As of June 30, 2016 (continued)**

NOTE 6 - LONG-TERM OBLIGATIONS:

The following is a summary of long-term obligations for the fiscal year ended June 30, 2016:

	<u>Balance July 1, 2015</u>	<u>Issuances/ Increases</u>	<u>Retirements/ Decreases</u>	<u>Balance June 30, 2016</u>	<u>Amounts Due Within One Year</u>
Governmental Obligations:					
General obligation bonds	\$ 1,532,800	\$ -	\$ 153,900	\$ 1,378,900	\$ 155,000
Compensated absences	19,438	8,458	1,505	26,391	2,639
Total Governmental Obligations	<u>\$ 1,552,238</u>	<u>\$ 8,458</u>	<u>\$ 155,405</u>	<u>\$ 1,405,291</u>	<u>\$ 157,639</u>

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

<u>Year Ending June 30,</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 155,000	\$ 31,436
2018	155,700	27,682
2019	156,600	23,904
2020	157,300	20,103
2021	158,300	16,377
2022	159,200	12,424
2023	160,100	8,544
2024	136,600	4,945
2025	70,700	2,462
2026	69,400	815
Total	<u>\$ 1,378,900</u>	<u>\$ 148,692</u>

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

General Obligation Bonds:

\$1,458,000 2014 A General Obligation Refunding Bond Series 2014A, payable in semi-annual installments ranging from \$144,300 to \$69,400 beginning August 1, 2014 through August 1, 2025, interest payable at 2.28%	\$ 1,181,900
\$243,500 2014 B Taxable General Obligation Refunding Bond Series 2014B, payable in semi-annual installments ranging from \$24,400 to \$20,400 beginning August 1, 2014 through August 1, 2023, interest payable at 3.25%	<u>197,000</u>
Total general obligation bonds	\$ 1,378,900
Compensated absences	<u>26,391</u>
Total long-term obligations	<u>\$ 1,405,291</u>

TOWN OF HAYMARKET, VIRGINIA

Notes to Financial Statements As of June 30, 2016 (continued)

NOTE 7 - 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 \$26,391.

NOTE 8 - PENSION PLAN:

Plan Description

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

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

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

Notes to Financial Statements
As of June 30, 2016 (continued)

NOTE 8 - PENSION PLAN: (continued)*Plan Description (continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 (Cont.)	About Plan 2 (Cont.)	About the Hybrid Retirement Plan (Cont.) • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. *Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

Notes to Financial Statements
As of June 30, 2016 (continued)

NOTE 8 - PENSION PLAN: (continued)*Plan Description (continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	*Non-Eligible Members (Cont.) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.	Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Notes to Financial Statements
As of June 30, 2016 (continued)

NOTE 8 - PENSION PLAN: (continued)*Plan Description (continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	Creditable Service Same as Plan 1.	Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. <u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Notes to Financial Statements
As of June 30, 2016 (continued)

NOTE 8 - PENSION PLAN: (continued)*Plan Description (continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	Vesting Same as Plan 1.	Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. <u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make.

TOWN OF HAYMARKET, VIRGINIA

Notes to Financial Statements
As of June 30, 2016 (continued)

NOTE 8 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting (Cont.)	Vesting (Cont.)	Vesting (Cont.) <u>Defined Contributions Component: (Cont.)</u> Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.	Calculating the Benefit See definition under Plan 1.	Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1

Notes to Financial Statements
As of June 30, 2016 (continued)

NOTE 8 - PENSION PLAN: (continued)*Plan Description (continued)*

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

Notes to Financial Statements
As of June 30, 2016 (continued)

NOTE 8 - PENSION PLAN: (continued)*Plan Description (continued)*

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

TOWN OF HAYMARKET, VIRGINIA

Notes to Financial Statements
As of June 30, 2016 (continued)

NOTE 8 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Earliest Reduced Retirement Eligibility (Cont.) Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.	Earliest Reduced Retirement Eligibility (Cont.) Political subdivisions hazardous duty employees: Same as Plan 1.	Earliest Reduced Retirement Eligibility (Cont.) Political subdivisions hazardous duty employees: Not applicable. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. <u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. <u>Eligibility:</u> Same as Plan 1.	Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2. <u>Defined Contribution Component:</u> Not applicable. <u>Eligibility:</u> Same as Plan 1 and Plan 2.

TOWN OF HAYMARKET, VIRGINIA

**Notes to Financial Statements
As of June 30, 2016 (continued)**

NOTE 8 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement (Cont.) <u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	Cost-of-Living Adjustment (COLA) in Retirement (Cont.) <u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.	Cost-of-Living Adjustment (COLA) in Retirement (Cont.) <u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.

Notes to Financial Statements
As of June 30, 2016 (continued)

NOTE 8 - PENSION PLAN: (continued)*Plan Description (continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	Disability Coverage Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	Purchase of Prior Service Same as Plan 1.	Purchase of Prior Service Defined Benefit Component: Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. Defined Contribution Component: Not applicable.

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/2015-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

TOWN OF HAYMARKET, VIRGINIA

Notes to Financial Statements As of June 30, 2016 (continued)

NOTE 8 - PENSION PLAN: (continued)

Employees Covered by Benefit Terms

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	-
Inactive members:	
Vested inactive members	-
Non-vested inactive members	-
Inactive members active elsewhere in VRS	1
Total inactive members	<u>1</u>
Active members	<u>11</u>
Total covered employees	<u><u>12</u></u>

Contributions

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

The Town's contractually required contribution rate for the year ended June 30, 2016 was 6.06% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2014.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$37,319 and \$29,383 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability (Asset)

The Town's net pension liability (asset) was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

TOWN OF HAYMARKET, VIRGINIA

Notes to Financial Statements As of June 30, 2016 (continued)

NOTE 8 - PENSION PLAN: (continued)

Actuarial Assumptions – General Employees (Continued)

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

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

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

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

TOWN OF HAYMARKET, VIRGINIA

**Notes to Financial Statements
As of June 30, 2016 (continued)**

NOTE 8 - PENSION PLAN: (continued)

Actuarial Assumptions – General Employees (Continued)

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

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

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
		Inflation	2.50%
		*Expected arithmetic nominal return	8.33%

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

TOWN OF HAYMARKET, VIRGINIA

**Notes to Financial Statements
As of June 30, 2016 (continued)**

NOTE 8 - PENSION PLAN: (continued)

Discount Rate

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

Changes in Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2014	\$ 189,144	\$ 253,305	\$ (64,161)
Changes for the year:			
Service cost	\$ 65,618	\$ -	\$ 65,618
Interest	12,655	-	12,655
Differences between expected and actual experience	(29,814)	-	(29,814)
Contributions - employer	-	29,383	(29,383)
Contributions - employee	-	24,216	(24,216)
Net investment income	-	12,395	(12,395)
Benefit payments, including refunds of employee contributions	(16,721)	(16,721)	-
Administrative expenses	-	(130)	130
Other changes	-	(3)	3
Net changes	\$ 31,738	\$ 49,140	\$ (17,402)
Balances at June 30, 2015	\$ 220,882	\$ 302,445	\$ (81,563)

TOWN OF HAYMARKET, VIRGINIA

**Notes to Financial Statements
As of June 30, 2016 (continued)**

NOTE 8 - PENSION PLAN: (continued)

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

The following presents the net pension asset of the Town using the discount rate of 7.00%, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	(6.00%)	(7.00%)	(8.00%)
Authority			
Net Pension Liability	(34,370)	(81,563)	(119,116)

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

For the year ended June 30, 2016, the Town recognized pension expense of \$30,015. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Differences between expected and actual experience	\$	-	\$	26,646
Change in assumptions		-		-
Net difference between projected and actual earnings on pension plan investments		-		4,646
Employer contributions subsequent to the measurement date		37,319		-
Total	\$	37,319	\$	31,292

\$37,319 reported as deferred outflows of resources related to pensions resulting from the Town's contributions subsequent to the measurement date will be recognized as a component of the Net Pension Asset in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30</u>	
2017	\$ (5,158)
2018	(5,158)
2019	(5,160)
2020	(1,842)
2021	(3,168)
Thereafter	(3,168)

TOWN OF HAYMARKET, VIRGINIA

Notes to Financial Statements As of June 30, 2016 (continued)

NOTE 9 - LITIGATION:

At June 30, 2016 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.

NOTE 10 - 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, 2017 through 2021. 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 \$163,790 for the fiscal year ended June 30, 2016. 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:	
2017	\$ 168,704
2018	173,765
2019	178,978
2020	184,347
2021	189,878
	<u>\$ 895,672</u>

NOTE 11 - COMMITMENTS AND CONTINGENCIES:

Federal programs in which the Town participates are subject to audit in accordance with the provisions of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

NOTE 12 - RISK MANAGEMENT:

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town carries commercial insurance for all of these risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

- 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 Balance - Budget and Actual

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
General property taxes	\$ 302,915	\$ 302,915	\$ 304,821	\$ 1,906
Other local taxes	1,097,000	1,097,000	1,178,682	81,682
Permits, privilege fees and regulatory licenses	39,100	39,100	44,703	5,603
Revenue from use of money and property	207,215	207,215	181,674	(25,541)
Charges for services	86,000	89,891	91,394	1,503
Miscellaneous	500	2,500	3,711	1,211
Intergovernmental:				
Commonwealth	181,998	181,998	185,950	3,952
Federal	719,779	719,779	78,777	(641,002)
Total revenues	\$ 2,634,507	\$ 2,640,398	\$ 2,069,712	\$ (570,686)
Expenditures				
General government administration	\$ 614,743	\$ 622,718	\$ 744,985	\$ (122,267)
Public safety	691,398	707,298	822,345	(115,047)
Public works	196,800	237,800	254,202	(16,402)
Cultural	59,420	70,811	55,372	15,439
Community development	1,517,010	1,517,010	774,476	742,534
Debt service:				
Principal retirement	168,700	168,700	153,900	14,800
Interest and fiscal charges	28,118	28,118	35,165	(7,047)
Total expenditures	\$ 3,276,189	\$ 3,352,455	\$ 2,840,445	\$ 512,010
Excess (deficiency) of revenues over (under) expenditures	\$ (641,682)	\$ (712,057)	\$ (770,733)	\$ (58,676)
Fund balance at beginning of year	641,682	712,057	2,102,996	1,390,939
Fund balance at end of year	\$ -	\$ -	\$ 1,332,263	\$ 1,332,263

Schedule of Components of and Changes in Net Pension Liability (Asset) and Related Ratios

For the Year Ended June 30, 2016

	2015	2014
Total pension liability		
Service cost	\$ 65,618	\$ 60,633
Interest	12,655	8,407
Net change in total pension liability	\$ 78,273	\$ 69,040
Total pension liability - beginning	189,144	120,104
Total pension liability - ending (a)	<u>\$ 267,417</u>	<u>\$ 189,144</u>
Plan fiduciary net position		
Contributions - employer	\$ 29,383	\$ 42,203
Contributions - employee	24,216	24,622
Net investment income	12,395	29,876
Benefit payments, including refunds of employee contributions	(16,721)	-
Administrative expense	(130)	(103)
Other	(3)	2
Net change in plan fiduciary net position	\$ 49,140	\$ 96,600
Plan fiduciary net position - beginning	253,305	156,705
Plan fiduciary net position - ending (b)	<u>\$ 302,445</u>	<u>\$ 253,305</u>
Political subdivision's net pension liability (asset) - ending (a) - (b)	\$ (35,028)	\$ (64,161)
Plan fiduciary net position as a percentage of the total pension liability	113.10%	133.92%
Covered payroll	\$ 487,282	\$ 492,446
Political subdivision's net pension liability as a percentage of covered payroll	-7.19%	-13.03%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

Schedule of Employer Contributions

For the Year Ended June 30, 2016

Date	Contributions in Relation to				Contributions as a % of Covered Payroll (5)
	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	
2016	\$ 37,319	\$ 37,319	\$ -	\$ 615,832	6.06%
2015	29,383	29,383	-	487,282	6.06%
2014	42,203	42,203	-	492,446	8.57%
2013	39,185	39,185	-	457,229	8.57%
2012	35,501	35,501	-	452,824	7.84%
2011	13,570	13,570	-	173,086	7.84%

Current year contributions are from the Town's records and prior year contributions are from the VRS actuarial valuation performed each year.

Notes to Required Supplementary Information
For the Year Ended June 30, 2016

In 2015, Covered Employee Payroll (as defined by GASB 68) included the total payroll for employees covered under the pension plan whether that payroll is subject to pension coverage or not. This definition was modified in GASB Statement No. 82 and now is the payroll on which contributions to a pension plan are based. The ratios presented use the same measure.

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

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

Largest 10 – Non-LEOS:

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

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) – LEOS:

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

- Other Supplementary Information -

Supporting Schedules

Governmental Fund

Schedule of Revenues - Budget and Actual
For the Year Ended June 30, 2016

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	\$ 292,415	\$ 292,415	\$ 287,862	\$ (4,553)
Public service corporation taxes:				
Real property	9,000	9,000	10,080	1,080
Business personal property taxes	-	-	305	305
Penalties and interest	1,500	1,500	6,574	5,074
Total general property taxes	\$ 302,915	\$ 302,915	\$ 304,821	\$ 1,906
Other local taxes:				
Local sales and use taxes	\$ 85,000	\$ 85,000	\$ 152,691	\$ 67,691
Cigarette tax	250,000	250,000	213,740	(36,260)
Business license tax	140,000	140,000	175,320	35,320
Bank franchise taxes	22,000	22,000	39,339	17,339
Consumer utility tax - electric	100,000	100,000	140,467	40,467
Meals tax	500,000	500,000	457,125	(42,875)
Total other local taxes	\$ 1,097,000	\$ 1,097,000	\$ 1,178,682	\$ 81,682
Permits, privilege fees and regulatory licenses:				
Application fees	\$ 2,500	\$ 2,500	\$ 2,625	\$ 125
Motor vehicle licenses	1,000	1,000	-	(1,000)
Inspections	10,000	10,000	13,380	3,380
Occupancy permits	600	600	550	(50)
Other planning and permits	25,000	25,000	28,148	3,148
Total permits, privilege fees and regulatory licenses	\$ 39,100	\$ 39,100	\$ 44,703	\$ 5,603
Revenue from use of money and property:				
Revenue from use of money	\$ -	\$ -	\$ 17,884	\$ 17,884
Revenue from use of property	207,215	207,215	163,790	(43,425)
Total revenue from use of money and property	\$ 207,215	\$ 207,215	\$ 181,674	\$ (25,541)
Charges for services:				
Recovered costs - events	\$ 10,000	\$ 13,891	\$ 28,933	\$ 15,042
Public safety fees	76,000	76,000	62,461	(13,539)
Total charges for services	\$ 86,000	\$ 89,891	\$ 91,394	\$ 1,503

Governmental Fund

Schedule of Revenues - Budget and Actual
For the Year Ended June 30, 2016 (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:				
Miscellaneous income	\$ 500	\$ 2,500	\$ 3,711	\$ 1,211
Total revenue from local sources	\$ 1,732,730	\$ 1,738,621	\$ 1,804,985	\$ 66,364
Intergovernmental:				
Revenue from the Commonwealth:				
Non-categorical aid:				
PPTRA	\$ 18,630	\$ 18,630	\$ 18,627	\$ (3)
Communications tax	120,000	120,000	121,902	1,902
Car rental tax	4,500	4,500	4,989	489
Rolling stock tax	1,500	1,500	1,515	15
Total non-categorical aid	\$ 144,630	\$ 144,630	\$ 147,033	\$ 2,403
Categorical aid:				
Law enforcement grants	\$ 28,368	\$ 28,368	\$ 28,368	\$ -
Fire funds	8,000	8,000	10,000	2,000
DEQ state grant	1,000	1,000	-	(1,000)
Other	-	-	549	549
Total categorical aid	\$ 37,368	\$ 37,368	\$ 38,917	\$ 1,549
Total revenue from the Commonwealth	\$ 181,998	\$ 181,998	\$ 185,950	\$ 3,952
Revenue from the federal government:				
Categorical aid:				
Emergency services grant	\$ -	\$ -	\$ -	\$ -
Caboose enhancement grant	30,800	30,800	18,347	(12,453)
Connolley grant	90,000	90,000	-	(90,000)
Pedestrian improvement grant	-	-	58,270	58,270
Ground transportation safety grant	8,500	8,500	2,160	(6,340)
VDOT - highway construction grant	590,479	590,479	-	(590,479)
Total categorical aid	\$ 719,779	\$ 719,779	\$ 78,777	\$ (641,002)
Total revenue from the federal government	\$ 719,779	\$ 719,779	\$ 78,777	\$ (641,002)
Total General Fund	\$ 2,634,507	\$ 2,640,398	\$ 2,069,712	\$ (570,686)

Governmental Fund

Schedule of Expenditures - Budget and Actual
For the Year Ended June 30, 2016

Fund, Function, Activity and Elements	Original Budget	Budget as Amended	Actual	Variance from Final Budget Positive (Negative)
<u>General Fund:</u>				
General government administration:				
Mayor and Town Council	\$ 31,350	\$ 31,350	\$ 33,280	\$ (1,930)
Salary - general	243,480	287,080	338,239	(51,159)
Fringe benefits - general	47,425	47,425	72,701	(25,276)
Payroll taxes	18,788	18,788	25,817	(7,029)
Accounting	55,000	15,000	11,695	3,305
Cigarette tax administration	6,000	6,000	5,712	288
Advertising	10,000	10,000	10,649	(649)
Miscellaneous	-	-	15	(15)
Professional services	34,400	34,400	34,970	(570)
Training	4,000	4,000	12,797	(8,797)
Travel	4,500	4,500	5,887	(1,387)
Legal services	110,000	110,000	138,384	(28,384)
Office expenses	19,800	24,175	34,153	(9,978)
Insurance	9,000	9,000	10,689	(1,689)
Capital outlays	21,000	21,000	9,997	11,003
Total general government administration	\$ 614,743	\$ 622,718	\$ 744,985	\$ (122,267)
Public safety:				
Salary - law enforcement	\$ 364,044	\$ 377,944	\$ 425,600	\$ (47,656)
Fringe benefits	123,654	123,654	142,997	(19,343)
Repairs and maintenance	2,000	2,000	7,643	(5,643)
Legal services	15,500	15,500	14,307	1,193
Miscellaneous	18,000	18,000	4,000	14,000
Travel	1,250	1,250	2,839	(1,589)
Office expenses	16,950	26,950	23,543	3,407
Insurance	10,000	10,000	11,202	(1,202)
Vehicle fuel	25,000	20,000	14,377	5,623
Vehicle supplies	32,000	27,000	19,235	7,765
Uniforms	8,000	12,000	7,825	4,175
Capital outlay	10,000	8,000	45,398	(37,398)
Building official	65,000	65,000	64,578	422
Contributions to other governments	-	-	38,801	(38,801)
Total public safety	\$ 691,398	\$ 707,298	\$ 822,345	\$ (115,047)

Governmental Fund

Schedule of Expenditures - Budget and Actual
For the Year Ended June 30, 2016 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget as Amended	Actual	Variance from Final Budget Positive (Negative)
<u>General Fund: (Continued)</u>				
Public works:				
Maintenance of buildings and grounds	\$ 95,300	\$ 136,300	\$ 147,203	\$ (10,903)
Trash removal	71,000	71,000	78,145	(7,145)
Rental property - Suite 110	7,150	7,150	-	7,150
Rental property - Suite 200	6,400	6,400	-	6,400
Rental property - Suite 204	5,550	5,550	-	5,550
Rental property - Hulfish House	2,400	2,400	-	2,400
Rental property - 14710 Washington Street	4,000	4,000	-	4,000
Rental property - 14740 Washington Street	2,000	2,000	-	2,000
Rental property - 15000 Washington Street	-	-	28,854	(28,854)
Rental property - 15020 Washington Street	3,000	3,000	-	3,000
Total public works	<u>\$ 196,800</u>	<u>\$ 237,800</u>	<u>\$ 254,202</u>	<u>\$ (16,402)</u>
Parks, recreation and cultural:				
Museum	\$ 51,920	\$ 56,420	\$ 4,823	\$ 51,597
Special events	7,500	14,391	50,549	(36,158)
Total parks, recreation and cultural	<u>\$ 59,420</u>	<u>\$ 70,811</u>	<u>\$ 55,372</u>	<u>\$ 15,439</u>
Community development:				
Planning commission	\$ 40,550	\$ 70,550	\$ 10,945	\$ 59,605
Architectural review board	7,550	7,550	51,243	(43,693)
Caboose enhance project	38,500	38,500	24,685	13,815
Streetscape project	782,410	782,410	211,980	570,430
Pedestrian improvement project	90,000	90,000	58,270	31,730
Harrover master plan	50,000	20,000	37,993	(17,993)
Town center master plan	500,000	500,000	379,360	120,640
Contributions to other entities	8,000	8,000	-	8,000
Total community development	<u>\$ 1,517,010</u>	<u>\$ 1,517,010</u>	<u>\$ 774,476</u>	<u>\$ 742,534</u>
Debt service:				
Principal retirement	\$ 168,700	\$ 168,700	\$ 153,900	\$ 14,800
Interest and fiscal charges	28,118	28,118	35,165	(7,047)
Total debt service	<u>\$ 196,818</u>	<u>\$ 196,818</u>	<u>\$ 189,065</u>	<u>\$ 7,753</u>
Total General Fund	<u><u>\$ 3,276,189</u></u>	<u><u>\$ 3,352,455</u></u>	<u><u>\$ 2,840,445</u></u>	<u><u>\$ 512,010</u></u>

- Compliance -

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' 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; the financial statements of the governmental activities and each major fund of Town of Haymarket, Virginia as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated October 17, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of 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 our opinions 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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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
October 17, 2016