

***Martinsville, Virginia***  
**A CITY WITHOUT LIMITS**



**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**YEAR ENDED JUNE 30, 2012**



**CITY OF MARTINSVILLE, VIRGINIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**YEAR ENDED JUNE 30, 2012**

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**PREPARED BY:**

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Finance Department



**CITY OF MARTINSVILLE, VIRGINIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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**CITY OF MARTINSVILLE, VIRGINIA**

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**City Council**

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Kim Adkins, Mayor  
Kimble Reynolds, Jr., Vice-Mayor

M. Gene Teague

Mark C. Stroud, Sr.

Danny Turner

**School Board**

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Bill R. Manning, Chairman  
Robert Williams, Vice-Chairman

Craig Dietrich

Carolyn McGraw

Rev. James Richardson, Jr.

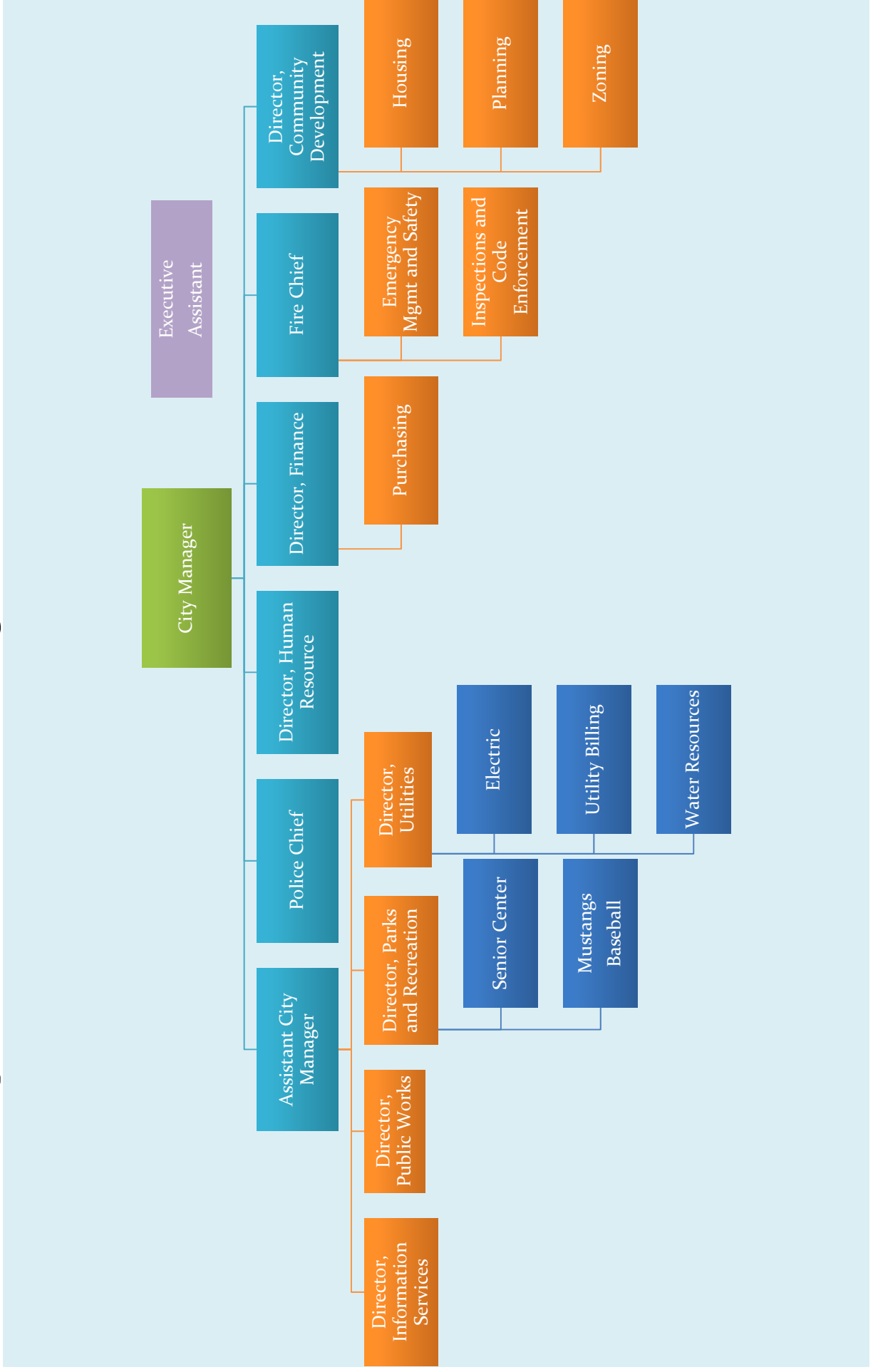
**Other Officials**

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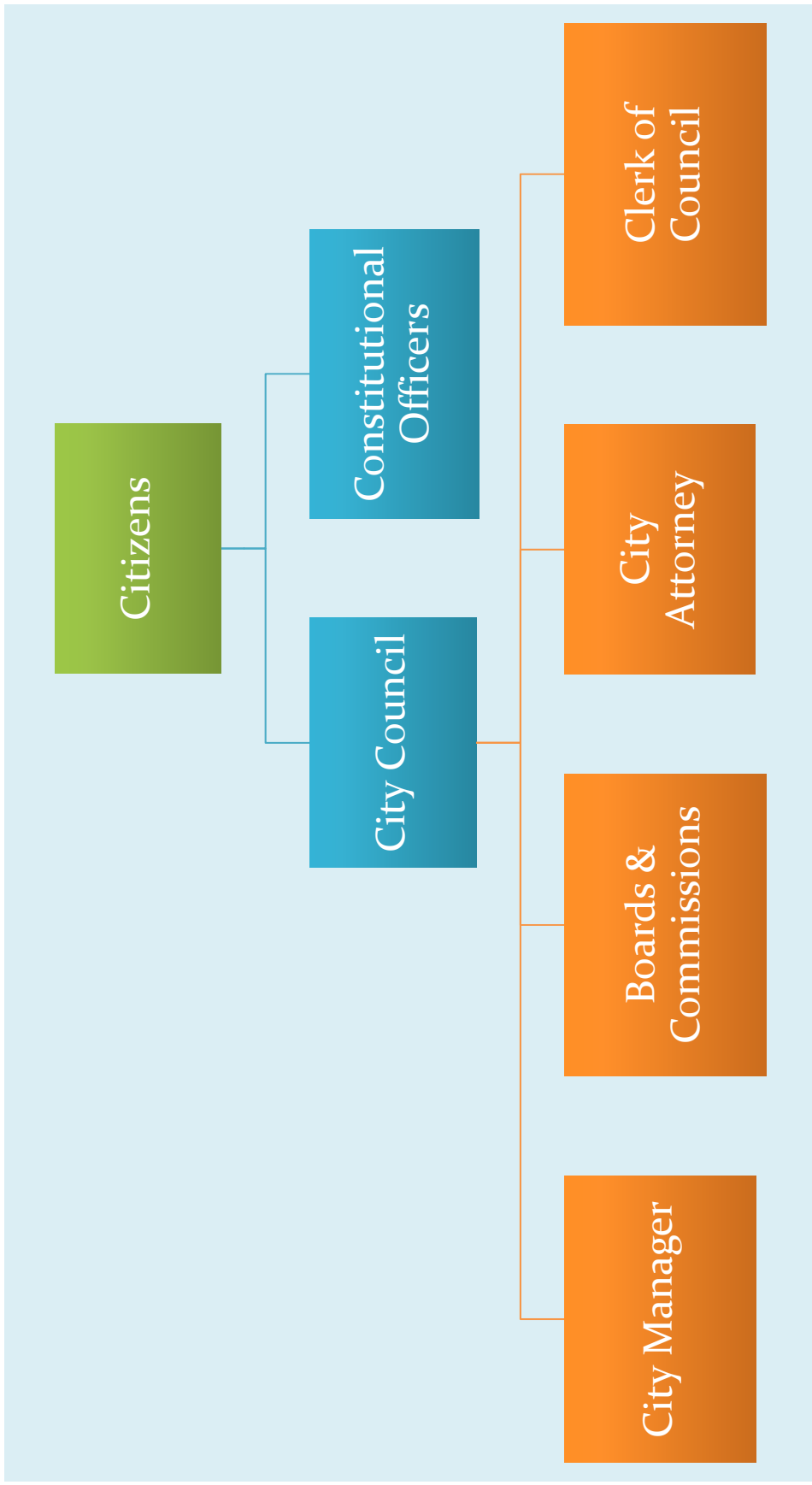
Interim City Manager .....	Leon E. Towarnicki
Clerk of the Circuit Court .....	Ashby R. Pritchett
City Attorney .....	Eric H. Monday
Commissioner of the Revenue .....	Ruth Easley
Treasurer .....	Cindy Dickerson
Police Chief .....	Michael E. Rogers
Superintendent of Schools .....	Pamela V. Heath
Clerk of the School Board .....	Lynda W. Pulliam
Director of Finance .....	Linda H. Conover
Sheriff .....	Steve M. Draper
Commonwealth's Attorney .....	Joan Ziglar
Public Works Department Director .....	Leon E. Towarnicki
Utilities Director .....	Dennis Bowles
Purchasing Agent .....	Karen H. Mays
Fire Chief .....	Kenneth Draper



# City of Martinsville Organizational Chart



# City of Martinsville Organizational Chart



January 10, 2012

**To the Honorable Members of the City Council  
To the Citizens of the City of Martinsville, Virginia  
City of Martinsville, Virginia**

We are pleased to present the Comprehensive Annual Financial Report of the City of Martinsville, Virginia, (the "City"), for the fiscal year ended June 30, 2012. This report was prepared by the City's Department of Finance. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

The management of the City is responsible for establishing and maintaining an internal control structure to ensure the protection of City assets. In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

**Budgetary Controls.** In addition to the internal accounting controls noted above, the City also maintains budgetary controls. These budgetary controls ensure compliance with provisions embodied in the annual appropriated budget approved by the City Council. Activities of the City's governmental funds are included in the annual appropriated budget.

As a recipient of federal and state financial assistance, the City is also responsible for ensuring that adequate internal controls are in place to ensure and document compliance with applicable laws and regulations. The audit for the fiscal year ended June 30, 2012 has been completed, and no material internal control weaknesses or material violations of laws and regulations have been identified.

The City adopts an annual budget by July 1 of each year as required by 15.2-2503, Code of Virginia of 1950, as amended. A budget is not required for fiduciary funds.

When necessary, the City Council approves amendments to the adopted budget in accordance with 15.2-2507, Code of Virginia of 1950, as amended. Budgetary compliance is monitored and reported at the fund level. The budget is implemented through appropriations that the Council makes annually, with supplemental appropriations made as required. These appropriations, except those to incur mandated expenditures, may be greater or less than contemplated in the budget.

## **THE REPORTING ENTITY AND ITS SERVICES**

The City of Martinsville's report includes all funds of the "primary government." In Virginia, cities and counties are distinct units of government; therefore, the City is responsible for providing all services normally provided by a local government. These services include public safety, social services, recreation and cultural activities, and community development. Additionally, the City operates an electric generation and distribution system, water and wastewater utility system and garbage collection services. For financial reporting purposes and in accordance with the Governmental Accounting Standards Board (GASB), Statement 14, "The Financial Reporting Entity," the City has identified one discrete component unit. The GASB statement establishes the criteria used in making this determination and identifies each as a blended component unit or discretely presented component unit. Blended component units, although legally separate entities, are in substance, part of the primary government's operations, and therefore are included as part of the primary government. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position and results of operations from those of this primary government. Therefore, the City School Board is reported in a discrete presentation. Based on GASB Statement 14 criteria, the School Board is a legally separate organization providing educational services to the public whose board is appointed by City Council and is fiscally dependent on the local government.

The financial statements for the Blue Ridge Regional Library and the Henry-Martinsville Social Services Board are not included in the City report. Boards separate from, and independent of, the City Council administer these organizations.

## **LOCAL ECONOMY**

Martinsville encompasses a land area of 11 square miles. The City is located in Southside Virginia, approximately midway between Roanoke, Virginia and Greensboro, North Carolina. Two U.S. primary highways (57 & 58) and one U.S Route (220) traverse the City. For decades the City's economy was dominated by the textile and furniture manufacturing. The evolution of these businesses has moved a large portion of the manufacturing process overseas. This caused several local plants to close and others to downsize. The end result has been drastic elimination of textiles in the local economy and a significant reduction in the furniture industry. The remaining manufacturing companies located in the City appear to have weathered this trend.

Based on available economic data, the local economy's growth is slow, at best. The unemployment rate for the City on June 30, 2012 was 14.3%. While this was a decrease of 15.9% from the previous year's rate of 17%, the City's unemployment rates still compares unfavorably to the state's average unemployment rate of 5.7% and the national average of 8.2% for the same time.

The City has responded to the economic declines by implementing a proactive economic development program and streamlining expenditures. The City has confidence that the economic development program will improve the local economy, which is now just beginning to slowly produce results. Present economic development efforts focus on diversification of jobs, by actively recruiting a variety of industry and business partners.

## MAJOR INITIATIVES

**For Fiscal Year 2012:** Following the goals and objectives established by the City of Martinsville Council, and with the assistance and guidance of the City Manager, City staff implemented and continued a number of specific “**programs**” designed to provide City residents with cost efficient government while enhancing their community.

Major initiatives begun, continued, or completed during this fiscal year are:

- Shared Economic Development with Henry County
- Revenue-sharing Agreements with Henry County
- Phoenix CDC (Community Development Corporation)
- Completion of ARRA (Stimulus Grant) Projects
- Rails-to-Trails Program
- Agreement with Henry County for a Regional Public Transit Service
- Comprehensive Plan for Revitalization of the Uptown Area (Central Business District)
- Commonwealth Crossing Business Center

**Shared Economic Development.** The City shares an economic development initiative with the County to combine and greatly expand the development efforts of our two communities. The Economic Development Corporation has a holistic approach to development. Instead of merely focusing on recruitment of new business, this office has resources and staff to work with existing businesses on retention and expansion, develop projects geared toward community revitalization, manage tourism programs, and foster small business development.

**Revenue-sharing Agreement.** The City and Henry County have entered into a revenue-sharing agreement for three separate industrial parks. Within the agreement, the City will receive one-third of the tax revenue generated after Henry County recovers its initial investment.

**Phoenix CDC.** The Phoenix Community Development Corporation engaged in efforts to implement parts of the City’s Comprehensive Master Plan assisting with Uptown revitalization and to manage property-related efforts as identified.

**Completion of ARRA (Stimulus Grant) Projects** - In FY10, the City received three ARRA/Stimulus grants for energy related projects – Landfill Methane/Electric project, Building Energy Retrofit project; and Turbine Rehab project at the City’s hydroelectric plant. The landfill project was completed and began operation in February, 2012, generating electricity and reducing the City’s need for purchased power. Likewise, the building energy retrofit project was completed in early FY13, reducing power consumption in City buildings and facilities. The hydroelectric project is nearing completion with an expected increase in generation efficiency in the range of 6%.

**Rails-to-Trails Program.** The 4.5 mile Dick & Willie Rail Trail project continues to be a popular attraction, widely used by many community residents. The D & W Trail connects to a 6/10 of a mile spur-trail running into the City’s central business district and a newly renovated Depot Street Parking Lot and Comfort Station. In FY12, the City partnered with private entities to add another half-mile extension – The Silverbell Spur Trail - connecting the City’s Spur Trail and the D & W Trail to the intersection of East Church Street and Church Street Extension, providing convenient access to the Virginia Museum of Natural History, the YMCA, and the City’s Frank Wilson Park. The trail system adds to the quality of life in the region and attracts walkers, joggers, and bicyclists. There are also plans for future expansion connecting locally to the Smith River Sports Complex and the Fieldale Trail, and connecting regionally to the Beaches to Blue Grass Trail, which runs from Kentucky to the Eastern Shore of Virginia.

**Regional Transit Service** – the City and County jointly launched a regional bus system that started in January 2009. This two-bus system operates from 8:00 AM – 5:30 PM, Monday through Friday. Riders pay a 50 cent fare per ride and can access the bus at stops throughout the main travel routes of the City and can even go into various parts of the County. Stops are mostly through the business district, local hospital, retail sector, and at many community organizations. Both buses were paid with funds from the CTB, and both localities pay a small portion of operational expenses. Usage of the transit service continues to increase - ridership in FY12 was up approximately 30% from FY11 - more than 22,000 rides were counted in FY12.

**Uptown Revitalization Project.** In 2005, The Harvest Foundation of the Piedmont announced a plan to revitalize the area which included a \$6M state-of-the art Soccer Complex in Henry County and a \$14M Sports Arena/Multi-Purpose Facility in the Uptown Business District. The project moved forward with the Soccer Complex being completed in FY09 with a price tag of over \$8M. The final product not only involves soccer, but additionally focuses on an outdoor venue for multiple sports and water related activities. In order to determine the best fit for Uptown and to achieve the end results desired, the Sports Arena facility concept was slowed, pending a comprehensive community review process that started in February 2009. After many stakeholder meetings, visits to other successful business districts, and expertise from facilitators, engineers, and consultants, the following has occurred:

- A) Renewed commitment from The Harvest Foundation to honor the original pledge so that the Uptown area is truly revitalized, in a sustainable manner that adds value to the region as a whole.
- B) Another grant from The Harvest Foundation to unify the community and facilitate an inclusive planning process. The end question being, “What will add the most value to transform the Uptown area into a sustainable, thriving economic engine?”
- C) More buy-in and collaboration from the community, Planning Commission, City Council, and Department of Housing and Community Development.
- D) The Comprehensive Master Plan for the Uptown area was completed February 2010. Economic restructuring strategies for the Uptown Revitalization Project include:
  - o business, retail, and education
  - o visual and performing arts
  - o recreation
  - o cultural heritage
  - o housing and uptown living
- E) The formation of Phoenix CDC (Community Development Corporation) to implement parts of the Master Plan and to manage property related efforts as identified.
- F) Grant of \$654,957 for improvements to the City’s Spur Trailhead, preplanning for enhancements to the Historic Courthouse’s North Lawn, Uptown Gateway entrances, and way finding signs. Many of these programmed improvements were either completed or saw substantial progress in FY12.

**Commonwealth Crossing Business Centre** – In FY12 efforts continued to move the Commonwealth Crossing Business Centre project forward. Permitting issues with Army Corps of Engineers have yet to be resolved which has delayed the start of site grading. The site has tremendous potential as a “mega-site” with rail access and close proximity to the Greensboro, High Point, Winston-Salem area, and continues to attract interest through marketing efforts by the EDC. The site is a revenue sharing lot and has the potential for significant economic impact to the community.

**Prospects for the Future.** In the fall of 2013, New College Institute broke ground on an approximate \$15 million building project on the Baldwin Block located in uptown Martinsville. The building will house an advanced manufacturing lab, various New College and Economic Development Corporation offices, and a “great hall” that will provide state-of-the-art meeting space not currently available in our community. The project is expected to fuel continued growth of NCI, bolstered by a renewed collaborative effort with Patrick Henry Community College. Also during 2012, an announcement was made regarding plans for development of a new medical school – The Integrative Centers for Science and Medicine – College of Henricopolis School of Medicine. Dr. Noel Boaz is spear-heading the effort with initial plans to use an existing building located at the corner of Moss and Fayette Streets, with eventual plans to expand to other sites.



Plans are also being aggressively pursued to redevelop the Henry Hotel located in uptown Martinsville to accommodate a combination of commercial and residential usages.

Other projects include completion of relocation of Depot Street and redevelopment of the Depot Street parking lot; installation of new way-finding signs directing traffic to various City features, gateway and landscaping improvements at several key intersections leading into the uptown area, opening of the Silverbell Spur trail – a new section of walking trail connecting to the City's spur trail and the Dick & Willie trail, continuation of improvements to the historic courthouse in uptown Martinsville, and façade and other improvements through a Community Development Block Grant.

#### **New Revenue Opportunities.**

With direction from City Council, staff continues to explore opportunities for revenue growth and one project that continues to show promise is the landfill methane/electric project. In FY10, the City developed a two-phased project. Phase 1, collection and flaring (burning) of methane and generation of carbon credits, with an \$800,000 price tag was completed in May, 2010, and Phase 2, electric generation using collected methane gas coupled with the same benefits of Phase 1, was completed in February, 2012 at a cost of \$1.7 million. Depending on power costs, Phase 2 could reduce purchased power costs by several hundred thousand dollars per year. The City received a \$1 million stimulus package grant to reduce capital project costs associated with Phase 2. Staff and its consultant continues to fine-tune the system to optimize power production while minimizing costs. Options regarding possible sale of carbon credits continue to be evaluated as well.

Another project being investigated is expansion/growth of the City's fiber optic system. Various options are currently being explored particularly with service to business/industrial clients that could prove significant in retaining current businesses, attracting new business opportunities, and potentially generating a revenue stream that not only supports the system, but also supports other City needs.

### **OTHER INFORMATION**

**Management's Discussion and Analysis.** Generally accepted accounting principles (GAAP) require management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Martinsville's MD&A can be found immediately following the report of the independent auditors.

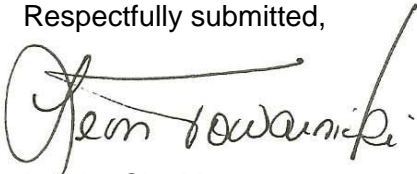
**Independent Audit.** The Commonwealth of Virginia requires an annual audit of the financial records and transactions of all departments of the City by independent certified public accountants selected by the City Council. The City is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Government and Non-Profit Organizations. Information related to this single audit, including the findings and recommendations, and auditors' reports on the internal control structure and compliance with laws and regulations, is contained in this report. These requirements have been complied with and the auditor's opinion is included in this report.

**Awards.** The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report (CAFR), whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one (1) year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA for consideration.

**Acknowledgments.** The preparation of this report on a timely basis could not have been accomplished without the dedicated services of the entire Department of Finance. We would also like to thank the City Council for their interest and support in planning and conducting the financial operation of the City in a responsible and progressive manner. We would also like to thank the employees of the Treasurer's Office, Commissioner of the Revenue, Clerk's Office and numerous other offices for their assistance in preparing this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Jim Towaniki". The signature is fluid and cursive, with a long horizontal stroke extending from the end.

Interim City Manager

A handwritten signature in black ink, appearing to read "Linda D. Connor". The signature is cursive and elegant, with a large initial "L".

Director of Finance

# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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## Independent Auditors' Report

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**To The Honorable Members of City Council  
City of Martinsville  
Martinsville, Virginia**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Martinsville, Virginia, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City of Martinsville, Virginia's management. 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 *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia; and 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, the major fund, and the aggregate remaining fund information of the City of Martinsville, Virginia, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2012, on our consideration of the City of Martinsville, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of pension and OPEB funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis and schedule of pension funding progress 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 management's discussion and analysis and schedule of pension funding progress 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Martinsville, Virginia's financial statements as a whole. The introductory section, other supplementary information, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying 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 also not a required part of the financial statements. The other supplementary information 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Robinson, Farmer, Cox Associates*  
Charlottesville, Virginia  
December 12, 2012

## **Management's Discussion and Analysis**

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### **To the Honorable Members of the City Council To the Citizens of the City of Martinsville**

The management of the City of Martinsville, Virginia, presents this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2012. We encourage you to read this discussion and analysis in conjunction with the accompanying management letter on internal controls, the basic financial statements and the notes to the financial statements.

### **Financial Highlights**

#### **Government-wide Financial Statements**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$41,142,852 (total net assets). Of this amount \$18,892,244 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The Governmental activities net assets were \$16,072,847 of the City's total, an increase of \$5,267,972 or 48.7% in comparison with net assets of \$10,804,875 at June 30, 2011.
- Net assets of the City's various business type activities totaled \$25,070,005. This is an increase of \$3,050,333 or 13.8% compared with net assets of \$22,019,672 reported on June 30, 2011.
- The School Board's assets exceeded its liabilities by \$8,360,658, a decrease of \$1,999,432 when compared to the amount on June 30, 2011. However, \$7,605,347 of this amount reflects the School Board's net investment in capital assets leaving \$755,311 in unrestricted assets available to meet ongoing obligations. This is a decrease of \$2,096,336 or 73.5% in the School Board's unrestricted assets for the fiscal year.

#### **Fund Financial Statements**

The Governmental Funds, on a current financial resource basis, reported revenues and other financing sources in excess of expenditures and other financing uses by \$13,929,127 (Exhibit 4) after making direct contributions totaling \$3,076,122 to the School Board. An additional \$1,314,821 was expended from the Meals Tax Fund used to retire School related debt. A total of \$4,390,943 was expended on School activities from Governmental Funds.

- At the close of the current fiscal year, the City's Governmental funds reported ending fund balances of \$17,830,792, which is an increase of \$13,929,127 in comparison with the prior fiscal year.
- At the close of the current fiscal year, the unassigned fund balance for the general fund was \$4,734,167 or 18.6% of total general fund expenditures.
- The combined long-term Governmental obligations increased \$9,374,378 or 87.4% during the current fiscal year.

## **Overview of the Financial Statements**

The discussion and analysis are intended to serve as an introduction to the City's basic financial statements.

These financial statements are comprised of three (3) components:

1. Government-wide financial statements.
2. Fund financial statements.
3. Notes to the financial statements.

This report also contains other information to supplement the basic financial statements.

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

Government-wide financial reporting consists of two statements: (1) The Statement of Net Assets and (2) The Statement of Activities.

The Statement of Net Assets (exhibit one) presents information on all of the City's assets and liabilities. The difference between assets and liabilities is reported as net assets. Net assets are presented in three categories: invested in capital assets net of related debt, restricted and unrestricted. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities (exhibit two) presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items which result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The Statement of Net Assets and The Statement of Activities are both divided into three types of activities:

1. Governmental Activities – Most of the City's basic services are reported in this column to include: Police, Fire, Courts, Recreation, Social Services, Economic Development, Community Development, Capital Projects, and General Administration. Governmental Activities are supported primarily by taxes, state and federal grants, and transfers from the City's Enterprise funds (Electric, Water, Sewer, and Refuse).
2. Business-Type Activities – The City has four business-type activities: Electric, Water, Sewer, and Refuse. The City recovers all or a significant portion of the costs associated with providing these services through user fees and charges to the customers receiving these services.
3. Component Unit – The City has one component unit, the Martinsville Public Schools. While the School System is a legally separate entity, the City of Martinsville is financially accountable for the School System. Financial information for the component unit is reported separately from the financial information presented for the primary government.

## **Overview of the Financial Statements: (Continued)**

**Fund financial statements** - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of these funds can be placed in either of three (3) categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds** – A *governmental fund* is used to account for essentially the same functions or services reported as governmental activities in the government-wide financial statements. However, government-wide financial statements are prepared on the accrual basis of accounting while governmental fund financial statements are prepared on the modified accrual basis of accounting. Thus, governmental fund financial statements focus on near-term inflows and outflows of financial resources and the balance of financial resources available at the end of the fiscal year. Such information is useful in evaluating the City's ability to satisfy near-term financing requirements. Since the focus of governmental funds is narrower than that of government-wide financial statements, a reconciliation between the two methods used is provided at the bottom of the governmental fund balance sheet (exhibit 3) and the governmental fund statement of revenues, expenditures and changes in fund balances (exhibit 5). By comparing the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements readers may better understand the long-term impact of the City's near-term financing decisions.

The City has one major governmental fund - the *General Fund*. The City has four funds considered Non-major funds. These are the Community Development Block Grant Fund (CDBG), the Housing Choice Fund, the Capital Reserve Fund, and the Meals Tax Fund. For reporting purposes, the CDBG Fund is called the City Grants Fund. The City Grants Fund is then combined with the Housing Choice Fund to create the Special Revenue Funds. The Capital Reserve Fund and the Meals Tax Fund are combined to form the Capital Projects Funds. Together the Special Revenue Funds and the Capital Projects Funds comprise the City's Non-major Governmental Funds. Information on these funds are contained in Exhibits twelve and thirteen. This data is then combined in a single column for the governmental fund balance sheet (exhibit 3) and the governmental fund statement of revenues, expenditures, changes in fund balances (exhibit 4).

**Proprietary funds** – *Proprietary funds* consist of enterprise funds which are established to account for the delivery of goods and services to the public. These funds use the accrual basis of accounting, similar to private businesses.

Enterprise funds are used to report the same functions as the business-type activities in the government-wide financial statements. Electric, Water, Sewer and Refuse/Landfill funds are presented on the statements individually as major funds (exhibits 6-8). Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business. The intent of the governing body is to finance these services primarily through user charges and fees.

**Notes to the financial statements** - 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 presents certain required information supplements including budgetary comparison schedules and presentation of combining financial statements for the discretely presented component unit School Board. The School Board does not issue separate financial statements.

## **Government-wide Financial Analysis**

As stated earlier in this discussion, net assets may serve as a useful indicator of a City's financial position over time. For the City in FY2012, assets exceeded liabilities by \$40,892,852 at the close of the fiscal year as presented in the Table below. This was an increase of \$8,068,305 or 24.5% over the FY2011 closing amount of \$32,824,547.

**City of Martinsville, Virginia**  
**Schedule of Assets, Liabilities and Net Assets**  
**Governmental and Business-Type Activities**  
**Schedule of Assets, Liabilities and Net Assets**  
**For the Years Ended June 30, 2012 and 2011**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Totals</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Current and other assets	\$ 22,294,975	\$ 8,108,399	\$ 13,296,317	\$ 13,238,498	\$ 35,591,292	\$ 21,346,897
Capital assets	15,855,964	15,217,370	18,752,897	16,476,429	34,608,861	31,693,799
Total assets	<u>\$ 38,150,939</u>	<u>\$ 23,325,769</u>	<u>\$ 32,049,214</u>	<u>\$ 29,714,927</u>	<u>\$ 70,200,153</u>	<u>\$ 53,040,696</u>
Long-term liabilities outstanding	\$ 18,885,160	\$ 9,469,392	\$ 5,738,490	\$ 6,298,056	\$ 24,623,650	\$ 15,767,448
Current liabilities	3,192,932	3,051,502	1,240,719	1,397,199	4,433,651	4,448,701
Total liabilities	<u>\$ 22,078,092</u>	<u>\$ 12,520,894</u>	<u>\$ 6,979,209</u>	<u>\$ 7,695,255</u>	<u>\$ 29,057,301</u>	<u>\$ 20,216,149</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 5,239,010	\$ 5,095,179	\$ 17,011,598	\$ 15,002,561	\$ 22,250,608	\$ 20,097,740
Unrestricted	10,833,837	5,709,696	8,058,407	7,017,111	18,892,244	12,726,807
Total net assets	<u>\$ 16,072,847</u>	<u>\$ 10,804,875</u>	<u>\$ 25,070,005</u>	<u>\$ 22,019,672</u>	<u>\$ 41,142,852</u>	<u>\$ 32,824,547</u>

At the end of FY2012, the City's investment in capital assets, net of related debt is \$22,250,608 and represents 54.4% of total net assets. These capital assets are used to deliver services to City residents and business; and accordingly, these assets are not available for future spending. Although the important and needed investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay such debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the current Fiscal Year, the City's Governmental Activities investment in capital assets net of related debt is \$5,239,010.

Restricted Assets represent resources subject to external restrictions on how they may be used. The City had no restricted assets at the end of the Fiscal Year. The remaining balance of unrestricted net assets in the amount of \$18,892,244, or 45.9% of total net assets, may be used to meet the government's ongoing obligations.



## **Government-wide Financial Analysis (Continued)**

**Governmental Activities** - Governmental activities increased Martinsville City's net assets by \$5,267,972. The key elements of this increase are found in exhibit 5. Among the primary reasons for this increase is that the fund balances increased by \$13,929,127 less the \$9,342,158 by which issuances of debt exceeded retirement of debt.

**City of Martinsville, Virginia**  
**Changes in Net Assets**  
**Governmental and Business-Type Activities**  
**For the Years Ended June 30, 2012 and 2011**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Totals</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Revenues:						
Program revenues:						
Charges for services	\$ 1,167,737	\$ 1,066,107	\$ 25,828,934	\$ 25,903,593	\$ 26,996,671	\$ 26,969,700
Operating grants and contributions	9,966,207	9,743,507	-	-	9,966,207	9,743,507
Capital grants and contributions	-	-	1,878,298	-	1,878,298	-
General revenues:						
General property taxes	8,667,298	8,878,758	-	-	8,667,298	8,878,758
Other local taxes	6,621,038	6,794,798	-	-	6,621,038	6,794,798
Commonwealth non-categorical aid	1,631,430	1,657,430	-	-	1,631,430	1,657,430
Other general revenues	1,236,088	1,529,039	30,599	38,698	1,266,687	1,567,737
Total revenues	<u>\$ 29,289,798</u>	<u>\$ 29,669,639</u>	<u>\$ 27,737,831</u>	<u>\$ 25,942,291</u>	<u>\$ 57,027,629</u>	<u>\$ 55,611,930</u>
Expenses:						
General government administration	\$ 3,637,285	\$ 3,814,802	\$ -	\$ -	\$ 3,637,285	\$ 3,814,802
Judicial administration	1,918,028	1,878,258	-	-	1,918,028	1,878,258
Public safety	9,228,325	8,997,810	-	-	9,228,325	8,997,810
Public works	4,011,222	4,178,766	-	-	4,011,222	4,178,766
Health and welfare	563,668	606,262	-	-	563,668	606,262
Education	3,525,833	6,400,860	-	-	3,525,833	6,400,860
Parks, recreation, and cultural	1,254,795	1,340,515	-	-	1,254,795	1,340,515
Community development	3,498,547	4,117,538	-	-	3,498,547	4,117,538
Interest on long-term debt	395,761	348,232	-	-	395,761	348,232
Electric	-	-	14,987,140	17,175,908	14,987,140	17,175,908
Water	-	-	1,713,386	1,694,197	1,713,386	1,694,197
Sewer	-	-	2,712,919	2,652,619	2,712,919	2,652,619
Refuse collection/landfill	-	-	1,262,415	1,095,958	1,262,415	1,095,958
Total expenses	<u>\$ 28,033,464</u>	<u>\$ 31,683,043</u>	<u>\$ 20,675,860</u>	<u>\$ 22,618,682</u>	<u>\$ 48,709,324</u>	<u>\$ 54,301,725</u>
Increase in net assets before transfers	\$ 1,256,334	\$ (2,013,404)	\$ 7,061,971	\$ 3,323,609	\$ 8,318,305	\$ 1,310,205
Transfers	4,011,638	2,736,292	(4,011,638)	(2,736,292)	-	-
Increase in net assets	\$ 5,267,972	\$ 722,888	\$ 3,050,333	\$ 587,317	\$ 8,318,305	\$ 1,310,205
Net assets-beginning	10,804,875	10,081,987	22,019,672	21,432,355	32,824,547	31,514,342
Net assets - ending	<u>\$ 16,072,847</u>	<u>\$ 10,804,875</u>	<u>\$ 25,070,005</u>	<u>\$ 22,019,672</u>	<u>\$ 41,142,852</u>	<u>\$ 32,824,547</u>

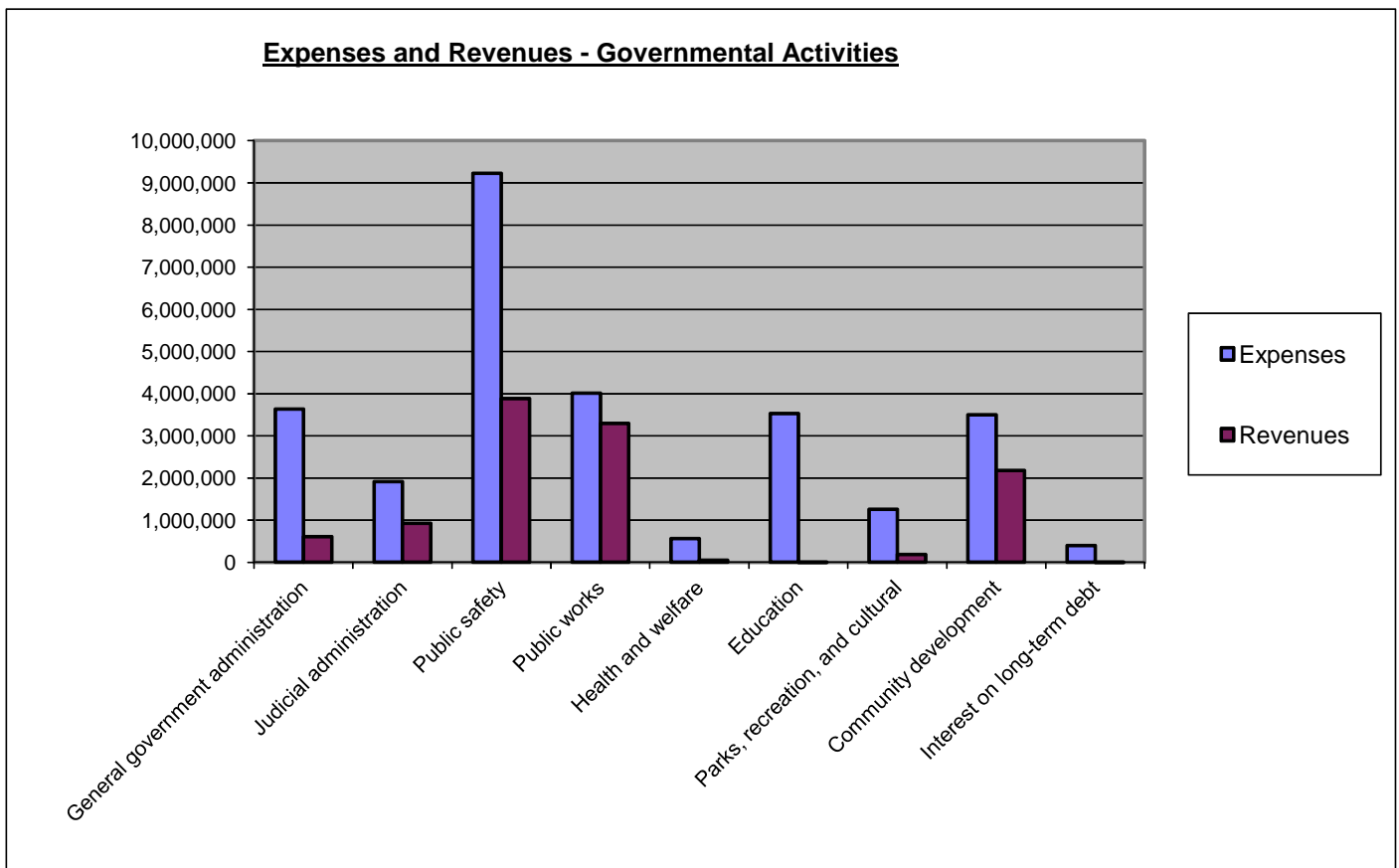
## **Government-wide Financial Analysis: (Continued)**

Revenues from governmental activities totaled \$33,301,436 with operating grants and contributions (29.9%), general property taxes (26%), and other local taxes (19.9%) comprising 75.8% of the City's revenues. Expenses for public safety (32.9%), education (12.6%), public works (14.3%), community development (12.5%), and general government administration (13%), account for 85.3% of total governmental expenses of \$28,033,464.

The chart below compares the revenues and expenses by program for governmental activities. In every category expenses outpace the revenues generated. This is common throughout the Commonwealth because most of the programs are not able to generate revenue. For those programs that can generate revenue (Recreation, Building Inspections etc.) the City has traditionally followed a policy of maintaining associated charges at a minimal level and funding the expenses from other revenue sources.

General government administration  
Judicial administration  
Public safety  
Public works  
Health and welfare  
Education  
Parks, recreation, and cultural  
Community development  
Interest on long-term debt

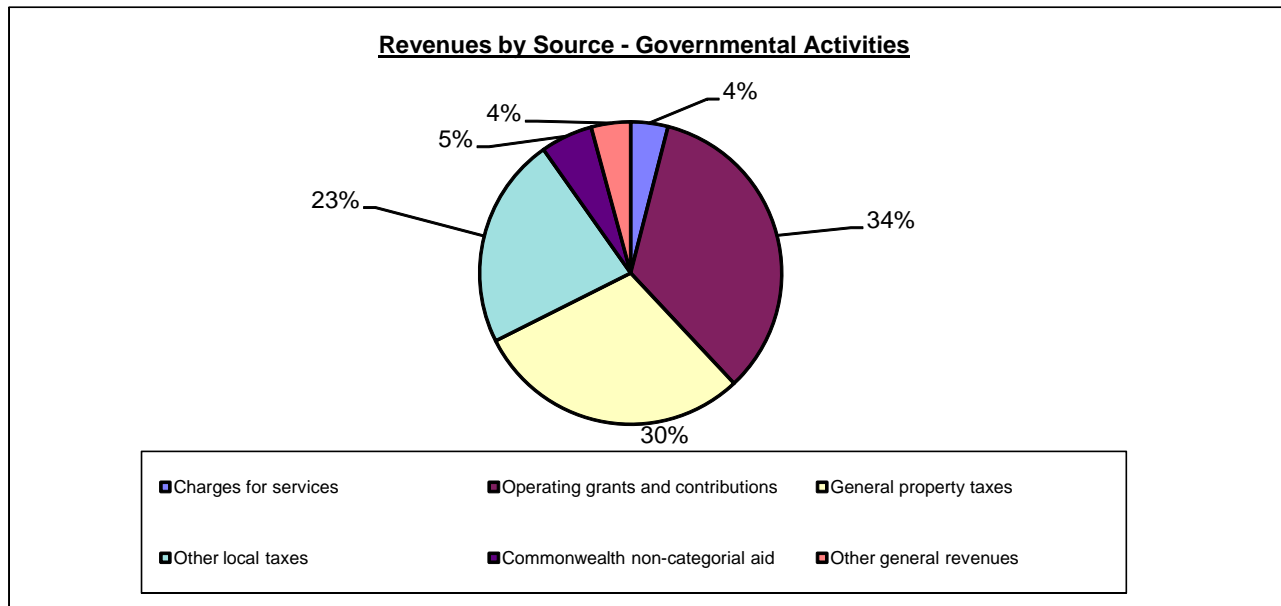
Expenses	Revenues
\$ 3,637,285	\$ 609,574
1,918,028	929,478
9,228,325	3,882,142
4,011,222	3,298,179
563,668	51,227
3,525,833	-
1,254,795	183,516
3,498,547	2,179,828
395,761	-



## **Government-wide Financial Analysis: (Continued)**

The chart below portrays the Sources of Revenue for the Governmental Activities of the City.

Charges for services	\$ 1,167,737
Operating grants and contributions	9,966,207
General property taxes	8,667,298
Other local taxes	6,621,038
Commonwealth non-categorical aid	1,631,430
Other general revenues	1,236,088



Business-type Activities increased the City's net assets by \$3,050,333 after deducting \$4,011,638 in transfers to the General and Capital Reserve Funds. Transfers increased \$1,275,346 compared to the prior fiscal year.

## **Financial Analysis of the City's Funds**

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

Governmental Funds - The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances at the end of the fiscal year can be used to measure net resources available for expenditure. Governmental Funds reported a combined ending fund balance of \$17,830,792, an increase of \$13,929,127 when compared to the prior year. Twenty-three percent (\$4,151,062) of the combined governmental fund balance is unassigned. The remaining seventy-seven percent (\$13,679,730) of the nonspendable, committed or assigned fund balance to show it is not available for spending because it has been nonspendable, committed or assigned for future projects.

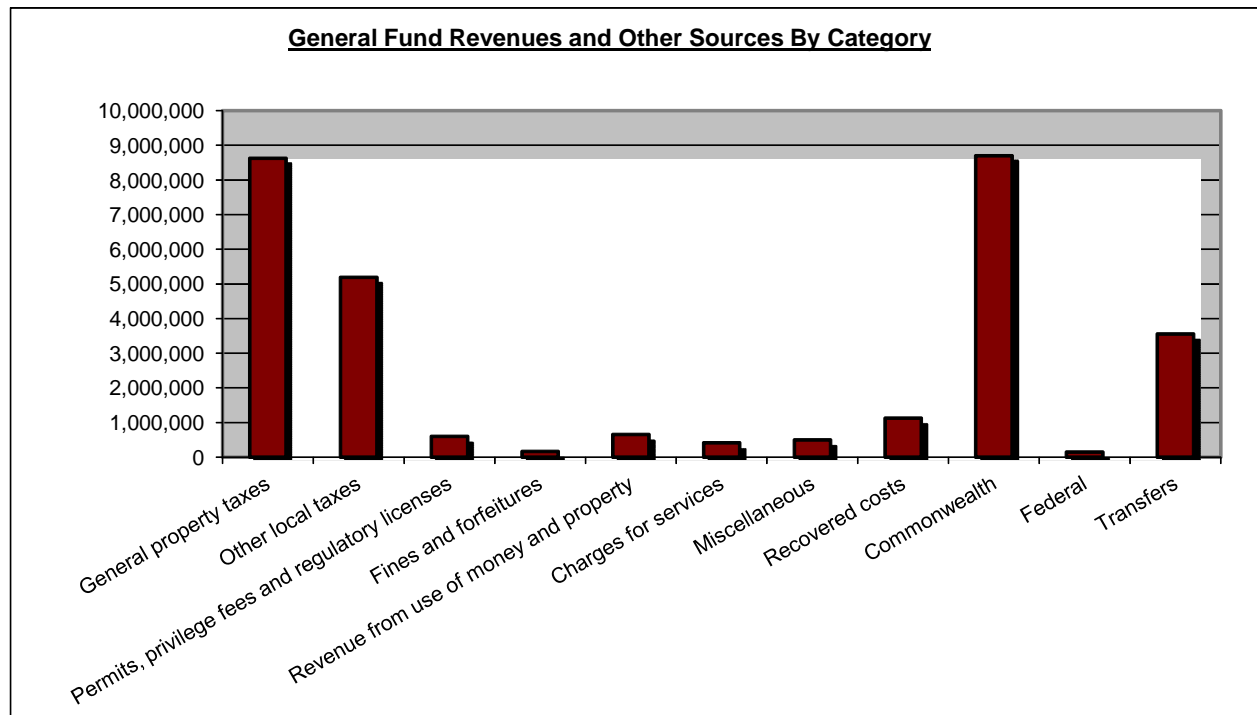
## **Financial Analysis of the City's Funds: (Continued)**

The General Fund is the operating fund of the City. The General Fund reports a fund balance at June 30, 2012 of \$7,374,285. This is an increase from the prior year of \$4,243,410. The General Fund revenues exceeded expenditures in the current year by \$691,460; whereas the revenues were deficient of expenditures in FY11 by \$1,304,813. The transfer amounts into the General Fund of \$3,551,950 increased by \$1,316,730 compared to FY11. During FY12, transfers from the Proprietary Funds were maximized to keep tax rates as low as possible, and this decrease is nominal in the grand scheme of all such funds. There were no transfers out of the General Fund. Sixty-four percent or \$4,734,167 of the total fund balance is unassigned, an increase compared to \$774,240 of unassigned fund balance from June 30, 2011. As a measure of the General Funds liquidity it is useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 18.6% of total General Fund expenditures, while total fund balance is 29% of that same amount.

### **General Fund Revenues and Other Sources by Category**

The following graph depicts General Fund revenues and other sources by categories. Total revenues and other sources are \$29,649,986 including transfers into the fund of \$3,551,950.

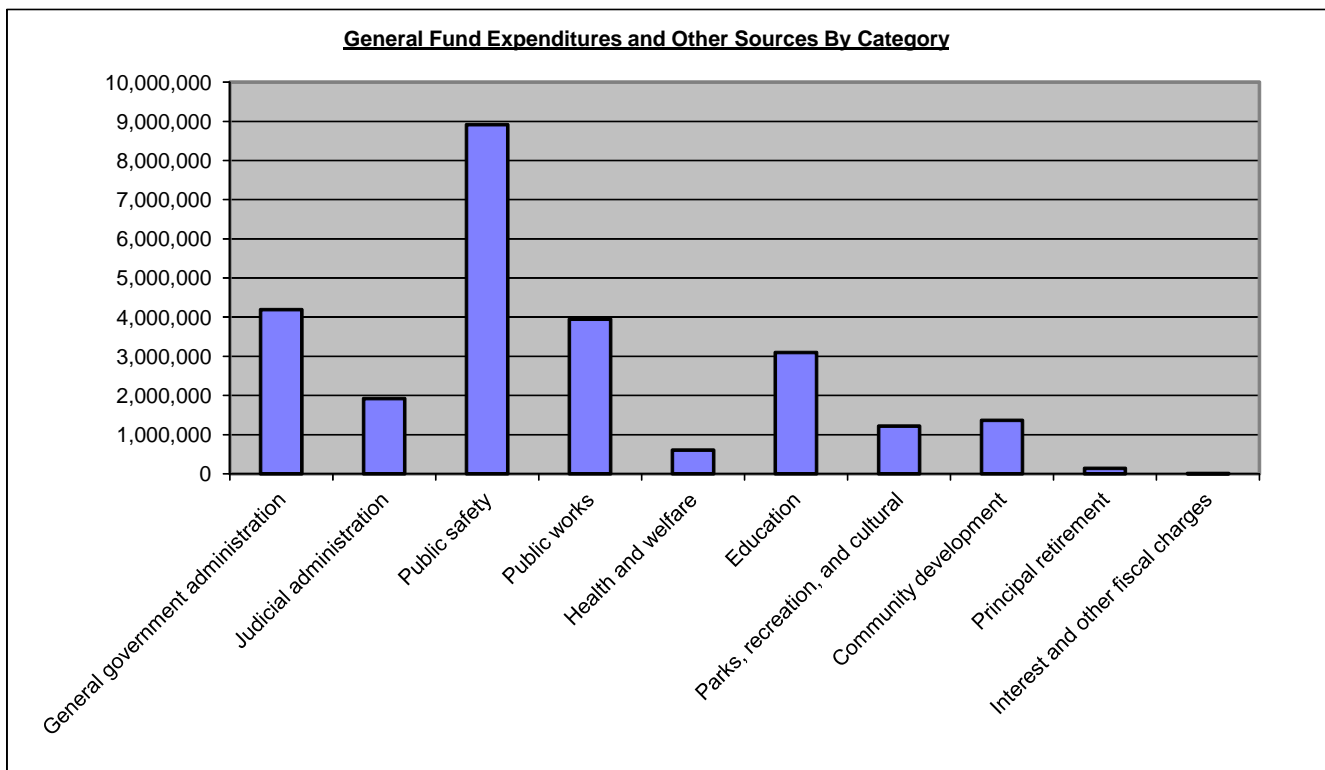
General property taxes	\$	8,622,900
Other local taxes		5,186,072
Permits, privilege fees and regulatory licenses		594,763
Fines and forfeitures		163,118
Revenue from use of money and property		653,278
Charges for services		409,856
Miscellaneous		500,596
Recovered costs		1,126,724
Commonwealth		8,699,318
Federal		141,411
Transfers		3,551,950



## **General Fund Revenues and Other Sources by Category: (Continued)**

The graph below displays General Fund expenditures and other uses by category. Total expenditures and uses are \$25,406,576.

General government administration	\$	4,194,090
Judicial administration		1,917,844
Public safety		8,918,335
Public works		3,950,355
Health and welfare		604,746
Education		3,093,842
Parks, recreation, and cultural		1,218,913
Community development		1,361,166
Principal retirement		142,160
Interest and other fiscal charges		5,125



**Proprietary funds** – reported combined ending net assets of \$25,070,005 an increase of \$3,050,333 in comparison with the amount reported on June 30, 2011. The Electric Fund increased \$1,218,664; the Refuse Fund experienced an increase of \$1,383,843; the Water Fund increased \$275,802; and the Sewer Fund increased \$172,024. The increases were due in part to methane recovery project at the closed landfill site, the reduction in the cost electric power to the City, a small sewer rate increase offset with a senior citizen discount, and the small water rate increase the previous fiscal year.

The Enterprise Funds contributed \$4,011,638 in the support of other City operations. Of that amount \$3,551,950 or 88.5% was transferred to the General Fund. The remaining \$459,688 or 11.5% was transferred to the Capital Reserve Fund.

## **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget were relatively minor. Revenues were increased by \$337,926 or 1.2% while expenditures increased by \$1,448,946 or 5.1%. The Revenue increases were as follows:

- \$600 in Charges for Services
- \$400 in Fines & Forfeitures
- \$10,128 in Miscellaneous Revenue
- \$126,252 in Recovered Costs
- \$182,111 in Intergovernmental revenues from the Commonwealth
- \$18,435 in Intergovernmental revenues from the Federal Government

The Expenditure amendments were as follows:

- \$65,213 in General government administration
- \$32,482 in Judicial administration
- \$363,626 in Public Safety
- \$266,313 in Public Works
- \$22,495 in Parks, Recreation, and Cultural
- \$698,817 in Community development

During the year, actual revenues were greater than the budget by \$852,348 or 3.2% and actual expenditures were less than the budget by \$4,502,082 or 15.1%. The result was a positive variance of \$5,354,430 to the revised budget.

## **Capital Asset and Debt Administration**

**Capital assets** – The City's investment in capital assets for its governmental and enterprise operations as of June 30, 2012, is \$34,608,861 (net of accumulated depreciation) as listed in Table 3. This investment in capital assets includes land, buildings and improvements, infrastructure, and machinery and equipment. Significant capital asset events during FY2012 were: mobile radios; patrol cars; trucks; new computer equipment; upgrade and extension of fiber optic communications network; City Hall renovations; and the methane collection/power generation project.

### **City of Martinsville, Virginia's**

#### **Capital Assets**

**June 30, 2012 and 2011**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Totals</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Land	\$ 4,379,094	\$ 4,379,094	\$ 683,624	\$ 683,624	\$ 5,062,718	\$ 5,062,718
Construction in progress	1,879,162	-	-	1,803,628	1,879,162	1,803,628
Buildings and improvements	11,769,362	12,505,144	6,016,135	3,534,495	17,785,497	16,039,639
Infrastructure	30,533,944	30,533,944	54,536,290	51,866,530	85,070,234	82,400,474
Equipment	7,704,316	7,584,453	7,471,698	7,455,581	15,176,014	15,040,034
Total	\$ 56,265,878	\$ 55,002,635	\$ 68,707,747	\$ 65,343,858	\$ 124,973,625	\$ 120,346,493
Less: accumulated depreciation	40,409,914	39,785,265	49,954,850	48,911,429	90,364,764	88,696,694
Net capital assets	<u>\$ 15,855,964</u>	<u>\$ 15,217,370</u>	<u>\$ 18,752,897</u>	<u>\$ 16,432,429</u>	<u>\$ 34,608,861</u>	<u>\$ 31,649,799</u>

Additional information on Martinsville City's capital assets can be found in Note 6 of this report.

## **Capital Asset and Debt Administration: (Continued)**

Long-term debt – At the close of FY2012, Martinsville City had total outstanding obligations of \$26,453,156. Of this amount \$21,710,962 comprises debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources, i.e., revenue bonds, landfill closure and post-closure liability, compensated absences, notes payable and capital lease obligations.

During the Fiscal Year the City increased its long-term obligations by \$8,764,956 or 49.6%. The City's obligations decreased \$1,979,979. \$10,550,000 in new debt was issued.

The Commonwealth of Virginia imposes a legal limit of 10% of the assessed valuation of taxable real property on the amount of general obligation borrowing which a City may issue. On June 30, 2012 the City's ratio of Net General Obligation Debt to Assessed Value was 2.76%. This was an increase from the previous fiscal year.

Additional information on the Martinsville City's long-term debt can be found in Note No. 8 of this report.

## **Economic Factors Influencing FY2012 Budgets and Tax Rates**

With continued weak economic growth, diminishing population, continued but improving national recessionary factors, and a strategy of maintaining current levels of City services, the FY12 budget continued the strategy of streamlining expenses, funding essential capital expenditures, reducing personnel through attrition wherever possible, and evaluating all vacancies on a case-by-case basis.

In FY12, the Commonwealth of Virginia continued the reduction in aid-to-localities that occurred in FY09, FY10, and FY11. The sum of such budgetary adjustments over these budget years has totaled almost \$800,000 in various categories including HB 599 Funds (state aid for localities with police departments) and reduced funding for constitutional offices.

## **Outlook for FY2013 - Opportunities and Challenges**

The City faces opportunities and challenges in FY13, including the following issues:

1. **Continued high levels of unemployment** – Martinsville continues to consistently have one of the highest unemployment rates in the state - the unemployment rate for the City on June 30, 2012 was 14.3%. While this was a decrease of 15.9% from the previous year's rate of 17%, the City's unemployment rates still compares unfavorably to the state's average unemployment rate of 5.7% and the national average of 8.2% for the same time. While the need for jobs for a wide ranging level of skills continues to be an issue, a growing concern is an inadequately prepared workforce for emerging advanced manufacturing jobs.

## **FY2013 Opportunities and Challenges: (Continued)**

2. **Reductions in state aid** – Again, In FY 13, the Commonwealth of Virginia continued the reduction in aid-to-localities that occurred in FY09 through FY12. The sum of the City's budgetary reductions over this five year period will total \$924,678. An encouraging sign, however, is due to improving state revenue it is possible that reductions in state aid to localities will be eliminated in FY14.
3. **Personnel Costs** – FY13 marked the 5<sup>th</sup> consecutive year the City's budget did not provide a general cost of living pay increase for employees. City Council members have noted this cannot continue indefinitely and efforts will continue through FY13 and into FY14 to develop options for funding employee salary adjustments. Additionally, in FY13 and beyond, the rising cost of employee health care coupled with state required increases in Virginia Retirement System contributions will place an additional burden on an already-stretched budget.
4. **Policy** - The City Council approves the annual budget following staff recommendations, its own analysis of the needs of the City, the City's overall financial position, economic conditions, and after careful consideration of input and comments from the citizens. This methodical process has led to the development of budget principles of minimizing increases in taxes and fees and the continuation of offering the same levels of service that citizens are accustomed to receiving. Increasing costs coupled lack of revenue growth necessitated the need for increases in the meals tax rate in FY13 as well as significant adjustments in both water and sewer rates. Management realizes that the trend of providing current levels of services cannot continue without increasing revenues/fees for service and/or without making changes in the manner at which local funds are expended. Since 2006, the policy of reducing staffing has cut the City workforce by 43 net FTE positions.
5. **Exploration of new revenue opportunities** – With direction from City Council, staff continues to explore opportunities for revenue growth and one project that continues to show promise is the landfill methane/electric project. The City operated a municipal landfill until 2006, at which time changes in landfill regulations led the City to close the operation. Deteriorating landfill wastes yield methane gas, and the City's disposal of sewer wastes adds even more of a prosperous environment for more methane gas as compared to residential garbage alone. In FY10, the City developed a two-phased project. Phase 1, collection and flaring (burning) of methane and generation of carbon credits, with an \$800,000 price tag was completed in May, 2010, and Phase 2, electric generation using collected methane gas coupled with the same benefits of Phase 1, was completed in February, 2012 at a cost of \$1.7 million. Depending on power costs, Phase 2 could reduce purchased power costs by several hundred thousand dollars per year. The City received a \$1 million stimulus package grant to reduce capital project costs associated with Phase 2. Staff and its consultant continues to fine-tune the system to optimize power production while minimizing costs. Options regarding possible sale of carbon credits continue to be evaluated as well.

Another project being investigated is expansion/growth of the City's fiber optic system. Various options are currently being explored particularly with service to business/industrial clients that could prove significant in retaining current businesses as well as attracting new business opportunities.



## **FY2013 Opportunities and Challenges: (Continued)**

6. **Uptown Revitalization Projects** –In the fall of 2013, New College Institute broke ground on an approximate \$15 million building project on the Baldwin Block located in uptown Martinsville. The building will house an advanced manufacturing lab, various New College and Economic Development Corporation offices, and a “great hall” that will provide state-of-the-art meeting space not currently available in our community. The project is expected to fuel continued growth of NCI, bolstered by a renewed collaborative effort with Patrick Henry Community College.

During 2012, an announcement was made regarding plans for development of a new medical school – The Integrative Centers for Science and Medicine – College of Henricopolis School of Medicine. Dr. Noel Boaz is spear-heading the effort with initial plans to use an existing building located at the corner of Moss and Fayette Streets, with eventual plans to expand to other sites.

Plans are also being aggressively pursued to redevelop the Henry Hotel. Purchased in 2009 by the City, the four-story Henry Hotel is located in uptown Martinsville and could potentially house a combination of commercial space on the first floor, and market-rate apartments on floors 2 through 4.

Other projects occurring in FY13 include completion of relocation of Depot Street and redevelopment of the Depot Street parking lot; installation of new way-finding signs directing traffic to various City features, gateway and landscaping improvements at several key intersections leading into the uptown area, opening of the Silverbell Spur trail – a new section of walking trail connecting to the City’s spur trail and the Dick & Willie trail, continuation of improvements to the historic courthouse in uptown Martinsville, and façade and other improvements through a Community Development Block Grant.

7. **Energy Efficiency Grants**—In FY10, the City received two federal grants aimed at decreasing energy expense – one for \$400,000 for the purchase of equipment/enhancements to lighting, heating/cooling, etc. within City government buildings, and also a grant for \$506,681 to renovate turbines and generating equipment at the City’s hydroelectric facility that will improve plant efficiency as well as to automate the plant for 24/7 operation. These projects will be completed in FY 13 and will reduce the City’s electric costs in buildings and yield an approximate 6% increase in the efficiency of hydro-electricity generation.
8. **Job Creation**—The City continues to partner with Henry County in economic development. In FY13, efforts will continue to retain current business and industry, provide an atmosphere conducive to expansion, as well as to attract new business and industry.
9. **One-Time Capital Expenditures**—In FY13, Council approved one major capital expenditure - the purchase of a new fire truck, replacing an older unit that was becoming unreliable and costly to repair. Cost of the new truck is \$472,583, financed over five years with debt service beginning in FY14.

## **FY2013 Opportunities and Challenges: (Continued)**

**10. Industrial Park Development**—The City and Henry County partner in economic development through joint funding of the Martinsville-Henry County Economic Development Corporation and also through a revenue sharing agreement for three separate industrial parks. Under the agreement, the City is to receive one-third of the tax revenue generated after Henry County recoups its initial investment. One particular industrial park, Commonwealth Crossing Business Centre, approximately 600 acres in size, has become the focus of aggressive development efforts projected to continue into FY13 and beyond. Various funding sources were secured, including a City contribution of \$292,400 for installation of water and sewer infrastructure and a City commitment of \$1,700,000 for the grading of the site. Although local officials are still optimistic for a positive outcome, In FY13, efforts have stalled to begin grading of the site due to permitting issues through the Army Corps of Engineers. The City must plan for its share of the grading costs in subsequent budgets.

All these factors were considered in preparing the City's budgets for the 2012 and 2013 fiscal years.

For fiscal year 2013, City Council approved a General Fund Budget of \$28,459,712. The fiscal year 2013 budget maintains the real estate tax rate at \$1.018 per \$100 of assessed value, provides for an increase in the meals tax from 6% to 6.5%; an increase in the water rate of \$2.50 per month, from \$19.81 to \$22.31 for minimum bills; and an increase in the sewer rate of \$2.50 per month, from \$18.14 to \$20.64 for minimum bills.

### **Requests for Information**

This financial report is designed to provide a general overview of the City of Martinsville's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Martinsville, Finance Department, 55 West Church Street, Martinsville, Virginia 24112.

## **Basic Financial Statements**

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## **Government-wide Financial Statements**

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Statement of Net Assets  
June 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	School Board
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 8,242,730	\$ 8,035,423	\$ 16,278,153	\$ 1,850,326
Cash and cash equivalents - restricted	10,053,594	-	10,053,594	-
Receivables (net of allowance for uncollectibles):				
Property taxes	451,165	-	451,165	-
Accounts receivable	157,786	3,542,157	3,699,943	49,381
Inventory	3,101,503	921,469	4,022,972	-
Internal balances	(773,232)	773,232	-	-
Due from other governments	1,058,379	24,036	1,082,415	713,687
Prepaid items	3,050	-	3,050	-
Total Current Assets	\$ 22,294,975	\$ 13,296,317	\$ 35,591,292	\$ 2,613,394
Noncurrent Assets:				
Capital assets (net of accumulated depreciation):				
Land and land improvements	\$ 4,379,094	\$ 683,624	\$ 5,062,718	\$ 47,172
Buildings and improvements	6,786,670	3,463,928	10,250,598	6,850,352
Equipment	1,247,083	1,950,731	3,197,814	707,823
Construction in progress	1,879,162	-	1,879,162	-
Infrastructure	1,563,955	12,654,614	14,218,569	-
Total Capital Assets	\$ 15,855,964	\$ 18,752,897	\$ 34,608,861	\$ 7,605,347
Total Assets	\$ 38,150,939	\$ 32,049,214	\$ 70,200,153	\$ 10,218,741
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable and other current liabilities	\$ 1,790,881	\$ 598,772	\$ 2,389,653	\$ 1,609,541
Accrued interest payable	185,705	28,787	214,492	-
Unearned revenue	-	-	-	120,542
Current portion of long-term obligations	1,216,346	613,160	1,829,506	-
Total Current Liabilities	\$ 3,192,932	\$ 1,240,719	\$ 4,433,651	\$ 1,730,083
Noncurrent Liabilities:				
Noncurrent portion of long-term obligations	18,885,160	5,738,490	24,623,650	128,000
Total Liabilities	\$ 22,078,092	\$ 6,979,209	\$ 29,057,301	\$ 1,858,083
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 5,239,010	\$ 17,011,598	\$ 22,250,608	\$ 7,605,347
Unrestricted assets	10,833,837	8,058,407	18,892,244	755,311
Total Net Assets	\$ 16,072,847	\$ 25,070,005	\$ 41,142,852	\$ 8,360,658
Total Liabilities and Net Assets	\$ 38,150,939	\$ 32,049,214	\$ 70,200,153	\$ 10,218,741

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

**CITY OF MARTINSVILLE, VIRGINIA**

Statement of Activities  
Year Ended June 30, 2012

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government administration	\$ 3,637,285	\$ 186,019	\$ 423,555	\$ -
Judicial administration	1,918,028	209,709	719,769	-
Public safety	9,228,325	599,126	3,283,016	-
Public works	4,011,222	24,000	3,274,179	-
Health and welfare	563,668	-	51,227	-
Education	3,525,833	-	-	-
Parks, recreation, and cultural	1,254,795	148,883	34,633	-
Community development	3,498,547	-	2,179,828	-
Interest on long-term debt	395,761	-	-	-
Total governmental activities	\$ 28,033,464	\$ 1,167,737	\$ 9,966,207	\$ -
Business-type activities:				
Electric	\$ 14,987,140	\$ 17,005,502	\$ -	\$ 755,705
Water	1,713,386	3,108,345	-	122,593
Sewer	2,712,919	4,036,668	-	-
Refuse collection / landfill	1,262,415	1,678,419	-	1,000,000
Total business-type activities	\$ 20,675,860	\$ 25,828,934	\$ -	\$ 1,878,298
Total primary government	\$ 48,709,324	\$ 26,996,671	\$ 9,966,207	\$ 1,878,298
COMPONENT UNIT:				
School Board	\$ 23,830,450	\$ 450,930	\$ 18,160,323	\$ -
General revenues:				
General property taxes				
Local sales tax				
Business license tax				
Meals tax				
Consumer utility tax				
Other local taxes				
Unrestricted revenues from use of money and property				
Miscellaneous				
Commonwealth of Virginia non-categorical aid				
City contribution to the school board, unrestricted				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

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



Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Unit	
Governmental Activities	Business Type Activities	Total	School Board	Functions/Programs
PRIMARY GOVERNMENT:				
Governmental activities:				
\$ (3,027,711)	\$ -	\$ (3,027,711)	\$ -	General government administration
(988,550)	-	(988,550)	-	Judicial administration
(5,346,183)	-	(5,346,183)	-	Public safety
(713,043)	-	(713,043)	-	Public works
(512,441)	-	(512,441)	-	Health and welfare
(3,525,833)	-	(3,525,833)	-	Education
(1,071,279)	-	(1,071,279)	-	Parks, recreation, and cultural
(1,318,719)	-	(1,318,719)	-	Community development
(395,761)	-	(395,761)	-	Interest on long-term debt
<u>\$ (16,899,520)</u>	<u>\$ -</u>	<u>\$ (16,899,520)</u>	<u>\$ -</u>	Total government activities
Business-type activities:				
\$ -	\$ 2,774,067	\$ 2,774,067	\$ -	Electric
-	1,517,552	1,517,552	-	Water
-	1,323,749	1,323,749	-	Sewer
-	1,416,004	1,416,004	-	Refuse collection / landfill
<u>\$ -</u>	<u>\$ 7,031,372</u>	<u>\$ 7,031,372</u>	<u>\$ -</u>	Total business-type activities
<u>\$ (16,899,520)</u>	<u>\$ 7,031,372</u>	<u>\$ (9,868,148)</u>	<u>\$ -</u>	Total primary government
COMPONENT UNIT:				
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,219,197)</u>	School Board
General revenues:				
\$ 8,667,298	\$ -	\$ 8,667,298	\$ -	General property taxes
1,891,909	-	1,891,909	-	Local sales tax
1,720,315	-	1,720,315	-	Business license tax
1,434,966	-	1,434,966	-	Meals tax
695,041	-	695,041	-	Consumer utility tax
878,807	-	878,807	-	Other local taxes
725,358	30,599	755,957	46,213	Unrestricted revenues from use of money and property
510,730	-	510,730	97,430	Miscellaneous
1,631,430	-	1,631,430	-	Commonwealth of Virginia non-categorical aid
-	-	-	3,076,122	City contribution to the school board, unrestricted
4,011,638	(4,011,638)	-	-	Transfers
<u>\$ 22,167,492</u>	<u>\$ (3,981,039)</u>	<u>\$ 18,186,453</u>	<u>\$ 3,219,765</u>	Total general revenues and transfers
<u>\$ 5,267,972</u>	<u>\$ 3,050,333</u>	<u>\$ 8,318,305</u>	<u>\$ (1,999,432)</u>	Change in net assets
10,804,875	22,019,672	32,824,547	10,360,090	Net assets - beginning
<u>\$ 16,072,847</u>	<u>\$ 25,070,005</u>	<u>\$ 41,142,852</u>	<u>\$ 8,360,658</u>	Net assets - ending

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## **Fund Financial Statements**

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Balance Sheet - Governmental Funds  
At June 30, 2012

	General	Meals Tax Fund	Nonmajor Governmental Funds	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 6,571,957	\$ 699,851	\$ 970,922	\$ 8,242,730
Cash and cash equivalents - restricted	-	8,847,395	1,206,199	10,053,594
Receivables (net of allowance for uncollectibles):				
Taxes, including penalties	451,165	-	-	451,165
Accounts	157,161	625	-	157,786
Inventory	792,569	-	-	792,569
Due from other governmental units	1,058,379	-	-	1,058,379
Prepaid items	3,050	-	-	3,050
Total assets	<u>\$ 9,034,281</u>	<u>\$ 9,547,871</u>	<u>\$ 2,177,121</u>	<u>\$ 20,759,273</u>
<b>LIABILITIES</b>				
Accounts payable and other current liabilities	\$ 1,295,628	\$ 27,958	\$ 467,295	\$ 1,790,881
Due to other funds	-	-	773,232	773,232
Deferred revenue	364,368	-	-	364,368
Total liabilities	<u>\$ 1,659,996</u>	<u>\$ 27,958</u>	<u>\$ 1,240,527</u>	<u>\$ 2,928,481</u>
<b>FUND BALANCES</b>				
Nonspendable:				
Inventory	\$ 792,569	\$ -	\$ -	\$ 792,569
Prepaid items	3,050	-	-	3,050
Restricted for:				
Capital projects	-	8,847,395	1,206,199	10,053,594
Committed to:				
Centre Infrastructure project	1,666,700	-	-	1,666,700
Piedmont Area Regional Transit	23,700	-	-	23,700
Housing Choice program	-	-	280,061	280,061
Assigned to:				
Thoroughfare construction	154,099	-	-	154,099
Capital reserve fund	-	-	33,439	33,439
Meals tax fund	-	672,518	-	672,518
Unassigned	4,734,167	-	(583,105)	4,151,062
Total fund balances	<u>\$ 7,374,285</u>	<u>\$ 9,519,913</u>	<u>\$ 936,594</u>	<u>\$ 17,830,792</u>
Total liabilities and fund balances	<u>\$ 9,034,281</u>	<u>\$ 9,547,871</u>	<u>\$ 2,177,121</u>	<u>\$ 20,759,273</u>

Detailed explanation of adjustments from fund statements to government-wide Statement of Net Assets:

Total fund balances per exhibit 3 - Balance Sheet - Governmental Funds	17,830,792
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.	15,855,964
Inventory of land and buildings held for resale	2,308,934
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(185,705)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in the fund balance.	364,368
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds. All liabilities--both current and long-term--are reported in the statement of net assets.	(20,101,506)
Net assets of General Government Activities	<u>\$ 16,072,847</u>

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

Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Governmental Funds  
 Year Ended June 30, 2012

	General	Meals Tax Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
General property taxes	\$ 8,622,900	\$ -	\$ -	\$ 8,622,900
Other local taxes	5,186,072	1,434,966	-	6,621,038
Permits, privilege fees and regulatory licenses	594,763	-	-	594,763
Fines and forfeitures	163,118	-	-	163,118
Revenue from use of money and property	653,278	15,041	57,039	725,358
Charges for services	409,856	-	-	409,856
Miscellaneous	500,596	-	10,134	510,730
Recovered costs	1,126,724	-	-	1,126,724
Intergovernmental:				
Commonwealth	8,699,318	-	141,360	8,840,678
Federal	141,411	182,254	2,615,548	2,939,213
Total revenues	<u>\$ 26,098,036</u>	<u>\$ 1,632,261</u>	<u>\$ 2,824,081</u>	<u>\$ 30,554,378</u>
Expenditures:				
Current:				
General government administration	\$ 4,194,090	\$ 35,190	\$ 1,272,051	\$ 5,501,331
Judicial administration	1,917,844	-	-	1,917,844
Public safety	8,918,335	-	128,475	9,046,810
Public works	3,950,355	-	43,197	3,993,552
Health and welfare	604,746	-	-	604,746
Education	3,093,842	544,740	-	3,638,582
Parks, recreation, and cultural	1,218,913	-	-	1,218,913
Planning and community development	1,361,166	-	2,113,707	3,474,873
Debt service:				
Principal retirement	142,160	828,984	236,698	1,207,842
Interest and other fiscal charges	5,125	485,837	91,434	582,396
Total expenditures	<u>\$ 25,406,576</u>	<u>\$ 1,894,751</u>	<u>\$ 3,885,562</u>	<u>\$ 31,186,889</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 691,460</u>	<u>\$ (262,490)</u>	<u>\$ (1,061,481)</u>	<u>\$ (632,511)</u>
Other financing sources (uses):				
Issuance of debt	\$ -	\$ 9,300,000	\$ 1,250,000	\$ 10,550,000
Transfers in	3,551,950	-	704,252	4,256,202
Transfers (out)	-	(244,564)	-	(244,564)
Total other financing sources	<u>\$ 3,551,950</u>	<u>\$ 9,055,436</u>	<u>\$ 1,954,252</u>	<u>\$ 14,561,638</u>
Changes in fund balances	\$ 4,243,410	\$ 8,792,946	\$ 892,771	\$ 13,929,127
Fund balances at beginning of year	<u>3,130,875</u>	<u>726,967</u>	<u>43,823</u>	<u>3,901,665</u>
Fund balances at end of year	<u>\$ 7,374,285</u>	<u>\$ 9,519,913</u>	<u>\$ 936,594</u>	<u>\$ 17,830,792</u>

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

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances  
to the Statement of Activities - Governmental Funds  
For the Year Ended June 30, 2012

		<u>Primary Government Governmental Funds</u>
Amounts reported for governmental activities in the Statement of Activities are different because:		
Net change in fund balances - total governmental funds	\$	13,929,127
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 the capital outlays exceeded depreciation in the current year.		
Capital outlays	\$ 2,017,817	
Depreciation expense	<u>(865,794)</u>	1,152,023
Inventory of land and buildings purchased during the year and held for resale		25,850
Transfer of joint tenancy assets from Primary Government to the Component Unit		(513,429)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. Details of this item consist of the change in deferred taxes.		44,398
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.		
Details supporting this adjustment are as follows:		
Principal retired on debt on literary fund loans	\$ 625,000	
Principal retired on general obligation bonds	243,500	
Principal retired on capital lease obligations	228,560	
Principal retired on VPA subsidy bonds	110,782	
Proceeds from indebtedness	<u>(10,550,000)</u>	(9,342,158)
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 accrued leave	\$ 12,780	
Change in other post employment benefits	(45,000)	
Change in interest payable	<u>4,381</u>	<u>(27,839)</u>
Change in net assets of governmental activities	\$	<u><u>5,267,972</u></u>

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

Proprietary Funds  
Statement of Net Assets  
At June 30, 2012

	Electric Fund	Water Fund	Sewer Fund	Refuse Collection/ Landfill Fund	Total
<b>ASSETS</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 1,794,602	\$ 11,863	\$ 540,223	\$ 5,688,735	\$ 8,035,423
Receivables (net of allowance for uncollectibles):	2,426,681	440,180	420,453	254,843	3,542,157
Due from other governments	-	24,036	-	-	24,036
Due from other funds	-	-	-	782,222	782,222
Inventory	771,425	150,044	-	-	921,469
Total current assets	\$ 4,992,708	\$ 626,123	\$ 960,676	\$ 6,725,800	\$ 13,305,307
<b>Noncurrent Assets</b>					
Capital assets:					
Land	\$ -	\$ 658,224	\$ 25,400	\$ -	\$ 683,624
Buildings and improvements	586,744	1,572,636	1,069,859	2,786,896	6,016,135
Equipment	2,397,731	1,440,516	2,119,892	1,513,559	7,471,698
Infrastructure	27,361,433	11,386,617	15,788,240	-	54,536,290
Less accumulated depreciation	(22,029,884)	(10,705,614)	(15,588,054)	(1,631,298)	(49,954,850)
Total capital assets (net of accumulated depreciation)	\$ 8,316,024	\$ 4,352,379	\$ 3,415,337	\$ 2,669,157	\$ 18,752,897
Total assets	\$ 13,308,732	\$ 4,978,502	\$ 4,376,013	\$ 9,394,957	\$ 32,058,204
<b>LIABILITIES</b>					
<b>Current liabilities:</b>					
Accounts payable	\$ 75,312	\$ 43,888	\$ 81,096	\$ 73,023	\$ 273,319
Customers' deposits payable	285,013	40,440	-	-	325,453
Due to other funds	-	8,990	-	-	8,990
Interest payable	2,133	-	153	26,501	28,787
Current portion of long-term obligations	20,483	3,615	87,204	501,858	613,160
Total current liabilities	\$ 382,941	\$ 96,933	\$ 168,453	\$ 601,382	\$ 1,249,709
<b>Noncurrent liabilities:</b>					
Noncurrent portion of long-term obligations	168,547	32,536	197,942	5,339,465	5,738,490
Total liabilities	\$ 551,488	\$ 129,469	\$ 366,395	\$ 5,940,847	\$ 6,988,199
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	\$ 8,172,824	\$ 4,352,379	\$ 3,195,664	\$ 1,290,731	\$ 17,011,598
Unrestricted assets	4,584,420	496,654	813,954	2,163,379	8,058,407
Total Net Assets	\$ 12,757,244	\$ 4,849,033	\$ 4,009,618	\$ 3,454,110	\$ 25,070,005
Total Liabilities and Net Assets	\$ 13,308,732	\$ 4,978,502	\$ 4,376,013	\$ 9,394,957	\$ 32,058,204

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



## Proprietary Funds

## Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2012

	<b>Electric Fund</b>	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Refuse Collection/ Landfill Fund</b>	<b>Total</b>
<b>Operating revenues:</b>					
Charges for services	\$ 16,944,974	\$ 2,962,956	\$ 4,022,419	\$ 1,533,156	\$ 25,463,505
Miscellaneous	<u>60,528</u>	<u>145,389</u>	<u>14,249</u>	<u>145,263</u>	<u>365,429</u>
Total operating revenues	<u>\$ 17,005,502</u>	<u>\$ 3,108,345</u>	<u>\$ 4,036,668</u>	<u>\$ 1,678,419</u>	<u>\$ 25,828,934</u>
<b>Operating expenses:</b>					
Personnel services	\$ 470,688	\$ 537,199	\$ 824,680	\$ 146,490	\$ 1,979,057
Fringe benefits	158,233	196,023	321,048	56,507	731,811
Contractual services	148,780	25,054	22,006	153,925	349,765
Other charges	13,833,501	725,865	1,261,839	613,370	16,434,575
Depreciation	<u>371,264</u>	<u>229,245</u>	<u>264,861</u>	<u>178,051</u>	<u>1,043,421</u>
Total operating expenses	<u>\$ 14,982,466</u>	<u>\$ 1,713,386</u>	<u>\$ 2,694,434</u>	<u>\$ 1,148,343</u>	<u>\$ 20,538,629</u>
<b>Operating income (loss)</b>	<u>\$ 2,023,036</u>	<u>\$ 1,394,959</u>	<u>\$ 1,342,234</u>	<u>\$ 530,076</u>	<u>\$ 5,290,305</u>
<b>Non-operating revenues (expenses):</b>					
State grants	\$ 249,024	\$ 122,593	\$ -	\$ -	\$ 371,617
Federal grants	506,681	-	-	1,000,000	1,506,681
Interest income	-	-	27,638	2,961	30,599
Interest expense	<u>(4,674)</u>	<u>-</u>	<u>(18,485)</u>	<u>(114,072)</u>	<u>(137,231)</u>
Total non-operating revenues (expenses)	<u>\$ 751,031</u>	<u>\$ 122,593</u>	<u>\$ 9,153</u>	<u>\$ 888,889</u>	<u>\$ 1,771,666</u>
<b>Income (loss) before transfers</b>	<u>\$ 2,774,067</u>	<u>\$ 1,517,552</u>	<u>\$ 1,351,387</u>	<u>\$ 1,418,965</u>	<u>\$ 7,061,971</u>
<b>Transfers:</b>					
Transfers (out)	<u>(1,555,403)</u>	<u>(1,241,750)</u>	<u>(1,179,363)</u>	<u>(35,122)</u>	<u>(4,011,638)</u>
<b>Changes in net assets</b>	<u>\$ 1,218,664</u>	<u>\$ 275,802</u>	<u>\$ 172,024</u>	<u>\$ 1,383,843</u>	<u>\$ 3,050,333</u>
<b>Net assets at beginning of year</b>	<u>11,538,580</u>	<u>4,573,231</u>	<u>3,837,594</u>	<u>2,070,267</u>	<u>22,019,672</u>
<b>Net assets at end of year</b>	<u><u>\$ 12,757,244</u></u>	<u><u>\$ 4,849,033</u></u>	<u><u>\$ 4,009,618</u></u>	<u><u>\$ 3,454,110</u></u>	<u><u>\$ 25,070,005</u></u>

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

Proprietary Funds  
Statement of Cash Flows  
Year Ended June 30, 2012

	Electric Fund	Water Fund	Sewer Fund	Refuse Collection/ Landfill Fund	Total
<b>Cash Flows From Operating Activities:</b>					
Receipts from customers and users	\$ 16,888,955	\$ 3,066,534	\$ 3,990,350	\$ 1,669,278	\$ 25,615,117
Payments to suppliers and other operating expenses	(13,952,433)	(789,999)	(1,272,418)	(923,912)	(16,938,762)
Payments to employees (including fringe benefits)	(636,110)	(742,822)	(1,138,975)	(208,953)	(2,726,860)
Net cash provided by (used for) operating activities	\$ 2,300,412	\$ 1,533,713	\$ 1,578,957	\$ 536,413	\$ 5,949,495
<b>Cash Flows From Capital and Related Financing Activities:</b>					
Acquisition and construction of capital assets	\$ (1,389,743)	\$ (394,070)	\$ (121,565)	\$ (1,458,511)	\$ (3,363,889)
Federal and state grants	755,705	98,557	-	1,000,000	1,854,262
Interest paid on debt	(4,904)	-	(18,784)	(117,743)	(141,431)
Net cash provided by (used for) capital and related financing activities	\$ (638,942)	\$ (295,513)	\$ (140,349)	\$ (576,254)	\$ (1,651,058)
<b>Cash Flows From Noncapital Financing Activities:</b>					
Transfers	\$ (1,555,403)	\$ (1,241,750)	\$ (1,179,363)	\$ (35,122)	\$ (4,011,638)
Retirements of general obligation bonds	(15,401)	-	(13,641)	(362,358)	(391,400)
Retirements of capital leases	-	-	(128,246)	-	(128,246)
Due from other funds	-	-	-	21,856	21,856
Due to other funds	-	8,990	-	-	8,990
Net cash provided by (used for) noncapital financing activities	\$ (1,570,804)	\$ (1,232,760)	\$ (1,321,250)	\$ (375,624)	\$ (4,500,438)
<b>Cash Flows From Investing Activities:</b>					
Interest income	\$ -	\$ -	\$ 27,638	\$ 2,961	\$ 30,599
<b>Net Increase (decrease) in cash and cash equivalents</b>	\$ 90,666	\$ 5,440	\$ 144,996	\$ (412,504)	\$ (171,402)
<b>Cash and cash equivalents at beginning of year</b>	1,703,936	6,423	395,227	6,101,239	8,206,825
<b>Cash and cash equivalents at end of year</b>	\$ 1,794,602	\$ 11,863	\$ 540,223	\$ 5,688,735	\$ 8,035,423
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>					
Operating income (loss)	\$ 2,023,036	\$ 1,394,959	\$ 1,342,234	\$ 530,076	\$ 5,290,305
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	\$ 371,264	\$ 229,245	\$ 264,861	\$ 178,051	\$ 1,043,421
Changes in operating assets and liabilities:					
(Increase) in accounts receivable	(137,253)	(43,319)	(46,318)	(9,141)	(236,031)
Increase (decrease) in:					
Accounts payable	29,848	(39,080)	1,873	(117,279)	(124,638)
Accrued leave	(7,189)	(9,600)	6,753	(5,956)	(15,992)
Bond issuance costs	-	-	9,554	34,446	44,000
Landfill closure and post-closure liability	-	-	-	(73,784)	(73,784)
Customer deposits	20,706	1,508	-	-	22,214
Total adjustments	\$ 277,376	\$ 138,754	\$ 236,723	\$ 6,337	\$ 659,190
Net cash provided by (used for) operating activities	\$ 2,300,412	\$ 1,533,713	\$ 1,578,957	\$ 536,413	\$ 5,949,495

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

Statement of Fiduciary Net Assets --  
Agency Funds  
At June 30, 2012

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ <u>1,258,700</u>
Total assets	\$ <u><u>1,258,700</u></u>
<b>LIABILITIES</b>	
Accounts payable	\$ 28,736
Amounts held for others	<u>1,229,964</u>
Total liabilities	\$ <u><u>1,258,700</u></u>

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

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## CITY OF MARTINSVILLE, VIRGINIA

### Notes to Financial Statements As of June 30, 2012

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#### **Note 1—Summary of Significant Accounting Policies:**

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The City of Martinsville, Virginia (the "City") was incorporated in 1940 and its current Charter was granted in 1942. The City operates under a Council/Manager form of government. The Council consists of a Mayor and four (4) council members. The Council is responsible for appointing the City Manager. The City provides a full range of services as authorized by its Charter. These services include police and fire protection; sanitation services; the construction and maintenance of highways, streets, and infrastructure; recreational activities, cultural events, education, social services, water and sewer and electric.

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

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 and Fund Financial Statements

Government-wide financial statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government activities. This approach includes not just current assets and liabilities but also capital assets and long-term liabilities (such as buildings and general obligation debt).

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Statement of Net Assets - The Statement of Net Assets is designed to display financial position of the primary government (government and business-type activities) and its discretely presented component unit. Governments will report all capital assets, in the government-wide Statement of Net Assets and will report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net assets of a government will be broken down into three categories - 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

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### **Note 1—Summary of Significant Accounting Policies: (Continued)**

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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 expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

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

Fund Financial Statements - Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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 one way or another 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. Many governments revise their original budgets over the course of the year for a variety of reasons. Under the GASB 34 reporting model, governments provide budgetary comparison information in their annual reports, including the government's original budget, final budget and actual results.

#### **A. Financial Reporting Entity**

The basic criterion for determining whether a governmental department, agency, institution, commission, public authority, or other governmental organization should be included in a primary governmental unit's reporting entity for the basic financial statements is financial accountability. Financial accountability includes the appointment of a voting majority of the organization's governing body and the ability of the primary government to impose its will on the organization or if there is a financial benefit/burden relationship. In addition, an organization which is fiscally dependent on the primary government should be included in its reporting entity. These financial statements present the City of Martinsville (the primary government) and its component units. 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. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government.

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

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### **Note 1—Summary of Significant Accounting Policies: (Continued)**

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#### **A. Individual Component Unit Disclosures**

*Blended Component Unit.* The City has no blended component units at June 30, 2012.

*Discretely Presented Component Unit School Board.* The School Board members are appointed by the City Council and are responsible for the operations of the City's School System within the City boundaries. The School Board is fiscally dependent on the City. The City has the ability to approve its budget and any amendments. The primary funding is from the General Fund of the City. The School Fund does not issue a separate financial report. The financial statements of the School Board are presented as a discrete presentation of the City financial statements for the fiscal year ended June 30, 2012.

#### **C. Other Related Organizations**

Included in the City's Financial Report

None

Excluded from the City's Financial Report

Blue Ridge Regional Library — The Blue Ridge Regional Library is considered an intergovernmental (joint) venture and therefore its operations are not included in the City's financial statements. The counties of Henry and Patrick and the City provide the financial support for the Library and appoint its governing Board, in which is vested the ability to execute contracts and to budget and expend funds. No one locality contributes more than 50% of the Library's funding or has oversight responsibility over its operations.

Henry-Martinsville Social Services Board — The Henry-Martinsville Social Services Board is considered a component unit of Henry County and therefore its operations are not included in the City's financial statements. Henry County and the City provide the financial support for the Board and appoint its governing Board. Henry County appoints 6 members of the Board and the City appoints 3 members.

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

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

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### **Note 1—Summary of Significant Accounting Policies: (Continued)**

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#### **D. Measurement Focus, Basis of Accounting and Financial Statement Presentation:** **(Continued)**

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

The government-wide statement of activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) which 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, health and welfare, etc.) or a business-type activity.

Generally the effect of interfund activity has been eliminated from the City's government-wide financial statements for internal service funds. Exceptions to our general rule are payments-in-lieu of taxes where the amounts are equivalent to interfund services provided and other charges between the government's proprietary funds and various other functions of government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as deferred revenues. Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the City, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the City.



# CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

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## **Note 1—Summary of Significant Accounting Policies: (Continued)**

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### **D. Measurement Focus, Basis of Accounting and Financial Statement Presentation:** **(Continued)**

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

In the fund financial statements, financial transactions and accounts of the City 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.

#### **1. Governmental Funds**

Governmental Funds are those through which most governmental functions typically are financed. The City reports the following major governmental funds.

The General Fund is the primary operating fund of the City. 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. A significant part of the General Fund's revenues is used principally to finance the operations of the Component Unit School Board.

The Meals Tax fund is a Capital Projects Fund of the City. This fund accounts for and reports financial resources that are restricted, committed or assigned to expenditure for the acquisition or construction of major capital facilities.

The City reports the following non-major governmental funds:

**Special Revenue Funds:** Special Revenue Funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Special Revenue Funds consist of the City Grants Fund and the Housing Choice Fund.

**Capital Projects Funds** - The Capital Projects Funds account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, except for those financed by proprietary funds or for assets held in trust for individuals, private organizations, or other governments. The only non-major Capital Projects Fund is the Capital Reserve Fund.

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

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### **Note 1—Summary of Significant Accounting Policies: (Continued)**

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#### **D. Measurement Focus, Basis of Accounting and Financial Statement Presentation:** **(Continued)**

2. Proprietary Funds – account for operations that are financed in a manner similar to private business enterprises. The Proprietary Fund measurement focus is upon determination of net income, financial position, and changes in financial position. Proprietary Funds consist of Enterprise Funds.

The City reports the electric, water, sewer and refuse collection/landfill funds as major enterprise funds.

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

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

Fiduciary Funds – (Trust and Agency Funds) – account for assets held by the City unit in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. These funds include Agency Funds. Agency funds utilize the accrual basis of accounting to recognize receivables and payables. Fiduciary funds are not included in the government-wide financial statements. Agency funds include the Insurance Fund, Sheriff's Fund, West Piedmont Business Development Center Fund (WPBDC), Police Academy Fund, and the Southern Virginia Recreation Facility Authority Fund.

The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's Electric, Water, Sewer, and Refuse Collection/Landfill funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various funds concerned.

#### **E. Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government.

# CITY OF MARTINSVILLE, VIRGINIA

## Notes to Financial Statements As of June 30, 2012 (Continued)

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### **Note 1—Summary of Significant Accounting Policies: (Continued)**

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#### **E. Cash and Cash Equivalents: (Continued)**

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements.

Investments for the government, as well as for its component units, are reported at fair value. The Local Government Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

#### **F. Investments**

Investments are stated at fair value which approximates market; no investments are valued at cost. Certificates of deposit and short-term repurchase agreements are reported in the accompanying financial statements as cash and cash equivalents.

#### **G. Receivables and payables**

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (i.e. the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown net of an allowance for uncollectibles. The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$2,353,964 at June 30, 2012 is composed solely of the following:

##### General Fund

Allowance for uncollectible property taxes	\$ <u>593,245</u>
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##### Enterprise Funds

Allowance for uncollectible accounts:

Electric Fund	\$ 1,186,495
Water Fund	216,936
Sewer Fund	212,487
Refuse Collection/Landfill Fund	<u>144,801</u>
Total allowance for uncollectible accounts – Enterprise funds	\$ <u>1,760,719</u>
Total allowance for uncollectible accounts	\$ <u><u>2,353,964</u></u>

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

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### **Note 1—Summary of Significant Accounting Policies: (Continued)**

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#### **G. Receivables and payables: (Continued)**

##### Real and Personal Property Tax Data:

The tax calendars for real and personal property taxes are summarized below.

	<u>Real Property</u>	<u>Personal Property</u>
Levy	January 1	January 1
Due Date	December 5/June 5 (50% each date)	December 5th
Lien Date	January 1	January 1

The City bills and collects its own property taxes.

#### **H. Inventory**

Inventory consists of expendable supplies held for consumption and commercial and residential property held for resale. Inventories are valued at cost or weighted average cost for the supplies held for consumption.

#### **I. Prepaid Items**

Payments made for services that will benefit periods beyond June 30 are reported as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

#### **J. Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the City as land, buildings, road registered vehicles, and equipment with an initial individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Interest attributable to capitalized assets as of June 30, 2012 was immaterial.

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

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### **Note 1—Summary of Significant Accounting Policies: (Continued)**

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#### **J. Capital Assets: (Continued)**

Property, plant and equipment of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives.

<u>Assets</u>	<u>Years</u>
Buildings	40-50
Building improvements	20-40
Furniture, Vehicles, Office and Computer Equipment	4-10
Buses	12
Utility plant in service	40-50
Infrastructure	30

#### **K. Compensated Absences**

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as an expense in the statement of activities and a long-term obligation in the Statement of Net Assets. In accordance with the provisions of *Government Accounting Standards No. 16, Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that is estimated will be taken as "terminal leave" prior to retirement. A liability for these amounts is recorded in the governmental funds only if they have matured, for example, as a result of employee retirement.

#### **L. Retirement Plan**

Retirement plan contributions are actuarially determined and consist of current service costs and amortization of prior service cost over a 30-year period. The City's policy is to fund pension cost as it accrues.

#### **M. Unbilled Revenue**

The City bills service charges to customers on a monthly basis. Service charges earned but unbilled are accrued based on the last billing and reported in the financial statements as billed receivables and revenues.

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

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### **Note 1—Summary of Significant Accounting Policies: (Continued)**

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#### **N. Use of Estimates**

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

#### **O. Fund Equity**

Beginning with fiscal year 2011, the City implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. 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 balance – 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 City's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

City 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 City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

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### **Note 1—Summary of Significant Accounting Policies: (Continued)**

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#### **P. Net Assets**

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets.

#### **Q. Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bonds payable are reported net of the applicable bond premium or discount.

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

#### **R. Component Unit—School board Capital Asset and Debt Presentation**

By law, the School Board does not have taxing authority and, therefore, it cannot incur debt through general obligation bonds to fund the acquisition, construction or improvement of its capital assets. That responsibility lies with the City who issues the debt on behalf of the School Board. However, the Code of Virginia requires the School Board to hold title to the capital assets (buildings and equipment) due to their responsibility for maintaining the asset.

In the Statement of Net assets, this scenario presents a dilemma for the City. Debt issued on behalf of the School Board is reported as a liability of the primary government, thereby reducing the net assets of the City. The corresponding capital assets are reported as assets of the Component Unit-School Board (title holder), thereby increasing its net assets.

The Virginia General Assembly amended the Code of Virginia to allow a tenancy in common with the School Board whenever the locality incurs a financial obligation which is payable over more than one fiscal year for any school property. The tenancy in common terminates when the associated debt has been paid in full. For financial reporting purposes, the legislation permits the locality to report the portion of the school property related to any outstanding financial obligation, thus eliminating a potential deficit from financing capital assets with debt.

## CITY OF MARTINSVILLE, VIRGINIA

### Notes to Financial Statements As of June 30, 2012 (Continued)

#### **Note 2—Stewardship, Compliance, and Accounting:**

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

1. On or before April 30th, the City Manager submits to the City 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 Ordinance.
4. The Appropriations Ordinance places legal restrictions on expenditures at the Fund level. The appropriation for each Fund can be revised only by the City Council. The City Manager is authorized to transfer budgeted amounts within a specific Fund; however, the School Board is authorized to transfer budgeted amounts within the school system's categories.
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 City units.
8. All budget data presented in the accompanying financial statements is the original to the current comparison of the final budget and actual results.

#### Expenditures and Appropriations

Expenditures exceed appropriations as follows for the fiscal year ended June 30, 2012:

<u>Fund/ Function</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess of Expenditures Over Appropriations</u>
School Cafeteria Fund	\$ 1,319,661	\$ 1,377,471	\$ (57,810)
School Grants Fund	<u>-</u>	<u>2,574,615</u>	<u>(2,574,615)</u>
	<u>\$ 1,319,661</u>	<u>\$ 3,952,086</u>	<u>\$ (2,632,425)</u>

#### Fund Deficits

The following funds had deficit balances at June 30, 2012:

City Grants Fund	\$ 583,105
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## CITY OF MARTINSVILLE, VIRGINIA

### Notes to Financial Statements As of June 30, 2012 (Continued)

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#### **Note 3—Deposits:**

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##### 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.

The City did not have any investments at year-end.

The component unit school board is part of the City’s pooled cash and has a net balance in the amount of \$2,100,326 at June 30, 2012.

#### **Note 4—Due from Other Governments:**

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At June 30, 2012 the City has receivables from other governments as follows:

	<b>Primary Government</b>	<b>Component Unit School Board</b>
Commonwealth of Virginia:		
Local Sales Tax	\$ 144,734	\$ -
State Sales Tax	-	150,617
Constitutional officer reimbursements	243,978	-
Armory reimbursement	4,456	-
Miscellaneous grants	28,845	10,189
Comprehensive service	16,519	-
Communication taxes	77,107	-
Federal Government:		
School fund grants	-	552,881
Other federal grants	24,182	-
Other Governmental Entities:		
Blue Ridge Regional Airport	518,558	-
Total due from other governments	\$ 1,058,379	\$ 713,687

# CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

## Note 5—Inventory:

At June 30, 2012 the City has inventory recorded in the various funds as follows:

	<b>Governmental Funds</b>	<b>Enterprise Funds</b>
Expendable supplies	\$ 792,569	\$ 921,469
Land and building inventory held for resale:		
97 Commercial residential lots held for resale	1,688,198	-
6 Commercial buildings held for resale	620,736	-
Totals	<u>\$ 3,101,503</u>	<u>\$ 921,469</u>

## Note 6—Capital Assets:

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2012:

### Primary Government:

#### Governmental Activities:

	<b>Balance July 1, 2011</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2012</b>
Capital assets, not being depreciated:				
Land	\$ 4,379,094	\$ -	\$ -	\$ 4,379,094
Construction in progress	<u>-</u>	<u>1,879,162</u>	<u>-</u>	<u>1,879,162</u>
Total capital assets not being depreciated	<u>\$ 4,379,094</u>	<u>\$ 1,879,162</u>	<u>\$ -</u>	<u>\$ 6,258,256</u>
Capital assets being depreciated:				
Buildings	\$ 5,522,400	\$ -	\$ -	\$ 5,522,400
Equipment	7,584,453	138,655	18,792	7,704,316
Infrastructure	30,533,944	-	-	30,533,944
Jointly owned assets	<u>6,982,744</u>	<u>-</u>	<u>735,782</u>	<u>6,246,962</u>
Total capital assets being depreciated	<u>\$ 50,623,541</u>	<u>\$ 138,655</u>	<u>\$ 754,574</u>	<u>\$ 50,007,622</u>
Less accumulated depreciation for:				
Buildings	\$ 3,186,532	\$ 105,264	\$ -	\$ 3,291,796
Equipment	6,019,862	456,163	18,792	6,457,233
Infrastructure	28,821,796	148,193	-	28,969,989
Jointly owned assets	<u>1,757,075</u>	<u>156,174</u>	<u>222,353</u>	<u>1,690,896</u>
Total accumulated depreciation	<u>\$ 39,785,265</u>	<u>\$ 865,794</u>	<u>\$ 241,145</u>	<u>\$ 40,409,914</u>
Total capital assets being depreciated, net	<u>\$ 10,838,276</u>	<u>\$ (727,139)</u>	<u>\$ 513,429</u>	<u>\$ 9,597,708</u>
Governmental capital assets, net	<u>\$ 15,217,370</u>	<u>\$ 1,152,023</u>	<u>\$ 513,429</u>	<u>\$ 15,855,964</u>

# CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

## Note 6—Capital Assets: (Continued)

### Primary Government:

### Business-Type Activities:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
<b>Electric Fund:</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ 780,499	\$ 479,103	\$ 1,259,602	\$ -
Capital assets being depreciated:				
Buildings and improvements	\$ 586,744	\$ -	\$ -	\$ 586,744
Equipment	2,397,731	-	-	2,397,731
Infrastructure	25,191,191	2,170,242	-	27,361,433
Total capital assets being depreciated	\$ 28,175,666	\$ 2,170,242	\$ -	\$ 30,345,908
Less accumulated depreciation for:				
Buildings and improvements	\$ 586,229	\$ 129	\$ -	\$ 586,358
Equipment	1,706,644	120,255	-	1,826,899
Infrastructure	19,365,747	250,880	-	19,616,627
Total accumulated depreciation	\$ 21,658,620	\$ 371,264	\$ -	\$ 22,029,884
Total capital assets being depreciated, net	\$ 6,517,046	\$ 1,798,978	\$ -	\$ 8,316,024
Electric fund capital assets, net	\$ 7,297,545	\$ 2,278,081	\$ 1,259,602	\$ 8,316,024

# CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

## Note 6—Capital Assets: (Continued)

### Primary Government: (Continued)

### Business-Type Activities: (Continued)

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
<b>Water Fund:</b>				
Capital assets, not being depreciated:				
Land and land improvements	\$ <u>658,224</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>658,224</u>
Capital assets being depreciated:				
Buildings and improvements	\$ <u>1,572,636</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,572,636</u>
Equipment	<u>1,438,201</u>	<u>2,315</u>	<u>-</u>	<u>1,440,516</u>
Infrastructure	<u>10,994,862</u>	<u>391,755</u>	<u>-</u>	<u>11,386,617</u>
Total capital assets being depreciated	\$ <u>14,005,699</u>	\$ <u>394,070</u>	\$ <u>-</u>	\$ <u>14,399,769</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ <u>991,114</u>	\$ <u>35,716</u>	\$ <u>-</u>	\$ <u>1,026,830</u>
Equipment	<u>906,450</u>	<u>46,007</u>	<u>-</u>	<u>952,457</u>
Infrastructure	<u>8,578,805</u>	<u>147,522</u>	<u>-</u>	<u>8,726,327</u>
Total accumulated depreciation	\$ <u>10,476,369</u>	\$ <u>229,245</u>	\$ <u>-</u>	\$ <u>10,705,614</u>
Total capital assets being depreciated, net	\$ <u>3,529,330</u>	\$ <u>164,825</u>	\$ <u>-</u>	\$ <u>3,694,155</u>
Water fund capital assets, net	\$ <u><u>4,187,554</u></u>	\$ <u><u>164,825</u></u>	\$ <u><u>-</u></u>	\$ <u><u>4,352,379</u></u>

# CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

## Note 6—Capital Assets: (Continued)

### Primary Government: (Continued)

### Business-Type Activities: (Continued)

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
<b>Sewer Fund:</b>				
Capital assets, not being depreciated:				
Land and land improvements	\$ 25,400	\$ -	\$ -	\$ 25,400
Capital assets being depreciated:				
Buildings and improvements	\$ 1,069,859	\$ -	\$ -	\$ 1,069,859
Equipment	2,106,090	13,802		2,119,892
Infrastructure	15,680,477	107,763	-	15,788,240
Total capital assets being depreciated	\$ 18,856,426	\$ 121,565	\$ -	\$ 18,977,991
Less accumulated depreciation for:				
Buildings and improvements	\$ 806,406	\$ 20,031	\$ -	\$ 826,437
Equipment	1,156,407	66,488		1,222,895
Infrastructure	13,360,380	178,342	-	13,538,722
Total accumulated depreciation	\$ 15,323,193	\$ 264,861	\$ -	\$ 15,588,054
Total capital assets being depreciated, net	\$ 3,533,233	\$ (143,296)	\$ -	\$ 3,389,937
Sewer fund capital asset, net	\$ 3,558,633	\$ (143,296)	\$ -	\$ 3,415,337

# CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

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## **Note 6—Capital Assets: (Continued)**

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### **Primary Government: (Continued)**

### **Business-Type Activities: (Continued)**

	<b><u>Balance</u></b> <b><u>July 1, 2011</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>Balance</u></b> <b><u>June 30, 2012</u></b>
<b>Refuse Collection/Landfill Fund:</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ <u>1,023,129</u>	\$ <u>1,458,511</u>	\$ <u>2,481,640</u>	\$ <u>-</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ <u>305,256</u>	\$ <u>2,481,640</u>	\$ <u>-</u>	\$ <u>2,786,896</u>
Equipment	<u>1,513,559</u>	<u>-</u>	<u>-</u>	<u>1,513,559</u>
Total capital assets being depreciated	\$ <u>1,818,815</u>	\$ <u>2,481,640</u>	\$ <u>-</u>	\$ <u>4,300,455</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ <u>102,903</u>	\$ <u>9,679</u>	\$ <u>-</u>	\$ <u>112,582</u>
Equipment	<u>1,350,344</u>	<u>168,372</u>	<u>-</u>	<u>1,518,716</u>
Total accumulated depreciation	\$ <u>1,453,247</u>	\$ <u>178,051</u>	\$ <u>-</u>	\$ <u>1,631,298</u>
Total capital assets being depreciated, net	\$ <u>365,568</u>	\$ <u>2,303,589</u>	\$ <u>-</u>	\$ <u>2,669,157</u>
Refuse collection/landfill fund capital assets, net	\$ <u><u>1,388,697</u></u>	\$ <u><u>3,762,100</u></u>	\$ <u><u>2,481,640</u></u>	\$ <u><u>2,669,157</u></u>

# CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

## Note 6—Capital Assets: (Continued)

### Primary Government: (Continued)

### Business-Type Activities: (Continued)

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
<b>Total Business-Type Activities:</b>				
Capital assets, not being depreciated:				
Land and land improvements	\$ 683,624	\$ -	\$ -	\$ 683,624
Construction in progress	<u>1,803,628</u>	<u>1,937,614</u>	<u>3,741,242</u>	<u>-</u>
Total capital assets not being depreciated	<u>\$ 2,487,252</u>	<u>\$ 1,937,614</u>	<u>\$ 3,741,242</u>	<u>\$ 683,624</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 3,534,495	\$ 2,481,640	\$ -	\$ 6,016,135
Equipment	7,455,581	16,117	-	7,471,698
Infrastructure	<u>51,866,530</u>	<u>2,669,760</u>	<u>-</u>	<u>54,536,290</u>
Total capital assets being depreciated	<u>\$ 62,856,606</u>	<u>\$ 5,167,517</u>	<u>\$ -</u>	<u>\$ 68,024,123</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 2,486,652	\$ 65,555	\$ -	\$ 2,552,207
Equipment	5,119,845	401,122	-	5,520,967
Infrastructure	<u>41,304,932</u>	<u>576,744</u>	<u>-</u>	<u>41,881,676</u>
Total accumulated depreciation	<u>\$ 48,911,429</u>	<u>\$ 1,043,421</u>	<u>\$ -</u>	<u>\$ 49,954,850</u>
Total capital assets being depreciated, net	<u>\$ 13,945,177</u>	<u>\$ 4,124,096</u>	<u>\$ -</u>	<u>\$ 18,069,273</u>
Total Business-Type capital assets, net	<u><u>\$ 16,432,429</u></u>	<u><u>\$ 6,061,710</u></u>	<u><u>\$ 3,741,242</u></u>	<u><u>\$ 18,752,897</u></u>

# CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

## Note 6—Capital Assets: (Continued)

### Discretely Presented Component Unit—School Board:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
<b>Discretely Presented</b>				
<b>Component Unit-School Board:</b>				
Capital assets, not being depreciated:				
Land	\$ 47,172	\$ -	\$ -	\$ 47,172
Capital assets being depreciated:				
Buildings	\$ 7,922,195	\$ -	\$ -	\$ 7,922,195
Equipment	2,525,376	23,088	-	2,548,464
Jointly owned assets	6,910,215	735,782	-	7,645,997
Total capital assets being depreciated	\$ 17,357,786	\$ 758,870	\$ -	\$ 18,116,656
Less accumulated depreciation for:				
Buildings	\$ 6,808,444	\$ 282,255	\$ -	\$ 7,090,699
Equipment	1,683,283	157,358	-	1,840,641
Jointly owned assets	1,404,788	222,353	-	1,627,141
Total accumulated depreciation	\$ 9,896,515	\$ 661,966	\$ -	\$ 10,558,481
Total capital assets being depreciated, net	\$ 7,461,271	\$ 96,904	\$ -	\$ 7,558,175
School Board capital assets, net	\$ 7,508,443	\$ 96,904	\$ -	\$ 7,605,347



## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

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### **Note 6—Capital Assets: (Continued)**

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The following is a summary of depreciation expense for the year ended June 30, 2012:

Governmental activities:

General government	\$	70,469
Judicial administration		1,119
Public safety		268,315
Public works		267,226
Health and welfare		9,596
Education		156,174
Parks, recreation and cultural		42,087
Community development		<u>50,808</u>
Total Governmental activities	\$	<u><u>865,794</u></u>

Business-type activities:

Electric	\$	371,264
Water		229,245
Sewer		264,861
Refuse collection / landfill		<u>178,051</u>
Total Enterprise activities	\$	<u><u>1,043,421</u></u>

Component Unit School Board	\$	<u><u>439,613</u></u> *
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\* Note accumulated depreciation transferred from the Primary Government to the Component Unit School Board on Jointly owned assets totals \$222,353 for the year ending June 30, 2012 when added to depreciation expense above totals \$661,966 accumulated depreciation per the previous page.

## CITY OF MARTINSVILLE, VIRGINIA

### Notes to Financial Statements As of June 30, 2012 (Continued)

#### **Note 7—Interfund Transfers/Obligations:**

Interfund transfers for the year ended June 30, 2012, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ 3,551,950	\$ -
Meals tax	-	244,564
Non-Major governmental funds:		
Capital reserve	704,252	-
Proprietary funds:		
Electric	-	1,555,403
Water	-	1,241,750
Sewer	-	1,179,363
Refuse Collection/Landfill	-	35,122
Total	\$ <u>4,256,202</u>	\$ <u>4,256,202</u>

Interfund receivables and payable balances relative to working capital loans at June 30, 2012 are presented below:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
Primary Government:		
City Grants	\$ -	\$ 543,072
Housing Choice	-	230,160
Water	-	8,990
Refuse Collection Landfill	<u>782,222</u>	<u>-</u>
Total	\$ <u>782,222</u>	\$ <u>782,222</u>
Component Unit - School Board:		
School Fund	\$ 162,264	\$ -
School Grants	<u>-</u>	<u>162,264</u>
Total	\$ <u>162,264</u>	\$ <u>162,264</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgeting authorization.

# CITY OF MARTINSVILLE, VIRGINIA

## Notes to Financial Statements As of June 30, 2012 (Continued)

### Note 8—Long-Term Obligations:

#### Primary Government:

The following is a summary of change in long-term obligations for the fiscal year ended June 30, 2012:

	<u>Amounts Payable at July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Amounts Payable at June 30, 2012</u>	<u>Amounts Due Within One Year</u>
Governmental Obligations:					
Incurred by City					
Compensated absences	\$ 498,937	\$ 128,484	\$ 141,264	\$ 486,157	\$ 48,616
G.O. Bonds	2,473,800	1,250,000	243,500	3,480,300	319,100
G.O. Notes	340,000	-	-	340,000	-
Other post employment benefits	106,000	45,000	-	151,000	-
Capital lease obligations	173,630	-	114,948	58,682	58,682
Total incurred by City	<u>\$ 3,592,367</u>	<u>\$ 1,423,484</u>	<u>\$ 499,712</u>	<u>\$ 4,516,139</u>	<u>\$ 426,398</u>
Incurred by School Board:					
State Literary Fund Loans	\$ 5,250,000	\$ -	\$ 625,000	\$ 4,625,000	\$ 625,000
G.O. Bonds	1,732,744	9,300,000	110,782	10,921,962	126,543
Capital lease	152,017	-	113,612	38,405	38,405
Total incurred by School Board	<u>\$ 7,134,761</u>	<u>\$ 9,300,000</u>	<u>\$ 849,394</u>	<u>\$ 15,585,367</u>	<u>\$ 789,948</u>
Total Governmental Obligations	<u>\$ 10,727,128</u>	<u>\$ 10,723,484</u>	<u>\$ 1,349,106</u>	<u>\$ 20,101,506</u>	<u>\$ 1,216,346</u>
Business-type Obligations:					
Compensated absences	\$ 178,959	\$ 21,451	\$ 37,444	\$ 162,966	\$ 16,297
General obligation bond	3,075,100	-	391,400	2,683,700	404,000
Capital lease obligations	193,719	-	128,245	65,474	65,474
Landfill closure and post-closure costs	3,513,294	-	73,784	3,439,510	127,389
Total Business-type Obligations	<u>\$ 6,961,072</u>	<u>\$ 21,451</u>	<u>\$ 630,873</u>	<u>\$ 6,351,650</u>	<u>\$ 613,160</u>
Total Primary Government	<u>\$ 17,688,200</u>	<u>\$ 10,744,935</u>	<u>\$ 1,979,979</u>	<u>\$ 26,453,156</u>	<u>\$ 1,829,506</u>

The City's General Fund and meals tax fund are responsible for repaying the City's long-term obligation amounts.

# CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

## Note 8—Long-Term Obligations: (Continued)

### Primary Government: (Continued)

Annual requirements to amortize city governments long-term obligations are as follows:

Year Ending June 30,	City Obligations						Business-type Obligations			
	General Obligation Bonds		General Obligation Notes		Capital Leases		General Obligation Bonds		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 319,100	\$ 103,351	\$ -	\$ 10,200	\$ 58,682	\$ 822	\$ 404,000	\$ 79,405	\$ 65,474	\$ 917
2014	328,900	92,628	-	10,200	-	-	414,900	68,408	-	-
2015	337,700	82,179	-	10,200	-	-	427,200	57,102	-	-
2016	346,200	71,459	-	10,200	-	-	284,900	47,373	-	-
2017	359,300	60,399	-	10,200	-	-	138,900	41,214	-	-
2018	371,800	48,934	-	10,200	-	-	144,000	36,793	-	-
2019	379,200	37,158	-	10,200	-	-	148,200	32,204	-	-
2020	391,100	25,079	-	10,200	-	-	152,400	27,471	-	-
2021	85,100	17,793	-	10,200	-	-	137,100	22,925	-	-
2022	87,400	15,452	-	10,200	-	-	39,800	18,549	-	-
2023	89,800	13,049	-	10,200	-	-	41,600	16,718	-	-
2024	92,300	10,579	-	10,200	-	-	43,600	14,801	-	-
2025	94,800	8,041	-	10,200	-	-	45,600	12,794	-	-
2026	97,500	5,434	-	10,200	-	-	47,700	10,694	-	-
2027	100,100	2,753	-	10,200	-	-	49,900	8,498	-	-
2028	-	-	-	10,200	-	-	52,200	6,201	-	-
2029	-	-	-	10,200	-	-	54,600	3,798	-	-
2030	-	-	340,000	1,700	-	-	57,100	1,285	-	-
Total	\$ 3,480,300	\$ 594,288	\$ 340,000	\$ 175,100	\$ 58,682	\$ 822	\$ 2,683,700	\$ 506,232	\$ 65,474	\$ 917

# CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

## Note 8—Long-Term Obligations: (Continued)

### Primary Government: (Continued)

Year Ending June 30,	City School Obligations				School Board	
	State Literary Fund Loans		General Obligation Bonds		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 625,000	\$ 138,750	\$ 126,543	\$ 475,028	\$ 38,405	331
2014	625,000	120,000	150,114	470,698	-	-
2015	625,000	101,250	174,096	466,273	-	-
2016	625,000	82,500	198,486	461,748	-	-
2017	625,000	63,750	220,827	457,116	-	-
2018	375,000	45,000	493,803	452,373	-	-
2019	375,000	33,750	512,124	447,512	-	-
2020	375,000	22,500	528,439	442,528	-	-
2021	375,000	11,250	701,458	437,414	-	-
2022	-	-	1,092,959	432,163	-	-
2023	-	-	777,465	427,179	-	-
2024	-	-	780,079	422,065	-	-
2025	-	-	783,241	416,403	-	-
2026	-	-	786,569	410,575	-	-
2027	-	-	790,070	404,574	-	-
2028	-	-	793,755	398,389	-	-
2029	-	-	670,644	395,250	-	-
2030	-	-	670,644	395,250	-	-
2031	-	-	670,644	197,625	-	-
Total	\$ 4,625,000	\$ 618,750	\$ 10,921,960	\$ 8,010,163	\$ 38,405	331

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

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### Note 8—Long-Term Obligations: (Continued)

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#### Primary Government: (Continued)

##### Incurred by City:

###### General Obligation Bonds:

\$2,523,900 general obligation refunding series 2009A bonds maturing in various annual installments of \$21,000 to \$308,300 through July 15, 2019, interest payable semi-annually at 3.25%	\$ 2,230,300
\$1,250,000 general obligation bond, Series 2012 maturing in various annual installments of \$67,900 to \$100,100 through February 1, 2027, interest payable semi-annually at 2.75%	<u>1,250,000</u>
Total general obligation bonds	\$ <u>3,480,300</u>

###### General Obligation Note:

\$340,000 payable in interest monthly installments of \$850 beginning August 1, 2010 through August 2029, with the entire principal balance due in August 2029; interest payable at 3.00%	\$ <u>340,000</u>
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###### Capital Lease Obligations:

The City has entered into a lease agreement as lessee for financing the acquisition of a street sweeper. The street sweeper cost \$127,000 and was acquired with lease financing. Accumulated depreciation amounted to \$114,300 at June 30, 2012. Annual requirements to amortize City long-term lease obligations are disclosed within this note. Details of this lease are as follows:

\$448,153 obligation for the purchase of a street sweeper, payable in semi-annual installments of \$59,505 through December 1, 2012, interest at 2.8%	\$ <u>58,682</u>
Compensated absences	\$ 486,157
Other post employment benefits	<u>151,000</u>
Total Incurred by City	\$ <u>4,516,139</u>

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

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### **Note 8—Long-Term Obligations: (Continued)**

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#### **Primary Government: (Continued)**

##### **Incurred by School Board:**

###### State Literary Fund Loans:

\$5,000,000 State Literary Fund loan issued January 28, 1997, due in annual principal installments of \$250,000 through 2017, interest payable annually at 3%	\$ 1,250,000
\$7,500,000 State Literary Fund Loan issued September 1, 2000, due in annual principal installments of \$375,000 through 2021; interest payable annually at 3%	<u>3,375,000</u>
Total State Literary Fund Loans	\$ <u>4,625,000</u>

###### Virginia Public Authority Subsidy Bonds:

\$1,936,758 Virginia Public Authority Subsidy Bonds issued in 2007, due in annual installments of varying amounts through 2028; interest payable semi-annually at 5.10%	\$ 1,621,962
\$9,300,000 Qualified School Construction Bonds issued December 15, 2011, due in annual installments of varying amounts through December 1, 2030 interest free as a federal tax credit is provided to bondholders	<u>9,300,000</u>
Total Virginia Public Authority Subsidy Bonds	\$ <u>10,921,962</u>

###### Capital Lease Obligations:

The School Board entered into a lease agreement for the purchase of school buses. This lease agreement qualifies as a capital lease for accounting purposes and; therefore, has been recorded at the present value of future minimum lease payments as of the inception date. The cost of the school buses is \$527,694 and accumulated depreciation amounted to \$263,847 at June 30, 2012.

	\$ <u>38,405</u>
Total Incurred by the School Board	\$ <u>15,585,367</u>
Total Governmental Obligations	\$ <u><u>20,101,506</u></u>

# CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

## Note 8—Long-Term Obligations: (Continued)

### Primary Government: (Continued)

#### Business-type Obligations:

##### General Obligation Bonds:

\$1,782,700 noncapital-related general obligation refunding series 2009B bonds maturing in various annual installments of \$149,900 to \$296,100 through July 15, 2015, interest payable semi-annually at 2.50%	\$ 1,016,100
\$190,000 capital-related general obligation series 2009A bonds maturing in various annual installments of \$14,900 to \$20,000 through July 15, 2019, interest payable semi-annually at 3.25%	143,200
\$770,100 capital-related general obligation series 2009B bonds maturing in various annual installments of \$24,300 to \$57,100 through July 15, 2029, interest payable semi-annually at 4.50%	720,400
\$880,000 capital-related general obligation series 2010 bonds maturing in various annual installments of \$76,000 to \$99,000 through February 1, 2021, interest payable semi-annually at 2.65%	<u>804,000</u>
Total general obligation bonds	\$ <u>2,683,700</u>

##### Capital Lease Obligations:

The City entered into a lease agreement for the purchase of a sludge press. This lease agreement qualifies as a capital lease for accounting purposes and; therefore, has been recorded at the present value of future minimum lease payments as of the inception date. The cost of the sludge press is \$548,720 and accumulated depreciation amounted to \$460,925 at June 30, 2012.	\$ <u>65,474</u>
Compensated absences	\$ 162,966
Landfill closure and postclosure costs	<u>3,439,510</u>
Total enterprise obligations	\$ <u><u>6,351,650</u></u>

### Discretely Presented Component Unit-School Board

The following is a summary of changes in long-term obligations of the Discretely Presented Component Unit-School Board for the fiscal year ended June 30, 2012:

	Amounts Payable at July 1, 2011	Increases	Decreases	Amounts Payable at June 30, 2012	Amounts Due Within One Year
Other post employment benefits	\$ <u>115,000</u>	\$ <u>13,000</u>	\$ <u>-</u>	\$ <u>128,000</u>	\$ <u>-</u>



## CITY OF MARTINSVILLE, VIRGINIA

### Notes to Financial Statements As of June 30, 2012 (Continued)

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#### **Note 9—Landfill Closure and Postclosure Costs:**

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State and federal laws and regulations require the City to place a final cover on each phase of its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste. In accordance with Statement 18 of the Governmental Accounting Standards Board entitled *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, the City reported a liability for a portion of these closure and postclosure care costs based on landfill capacity used. The \$3,439,510 reported as landfill closure and postclosure care liability at June 30, 2012 is based on 100% of the estimated capacity used to date. These amounts are based on what it would cost to perform all closure and postclosure care in 2012. Actual closure and postclosure care costs may be higher due to inflation, changes in technology, or changes in regulations.

The City plans to meet all federal laws, regulations and test of financial assurance related to the financing of closure and postclosure care when they become effective.

#### **Note 10—Deferred Revenue:**

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Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Deferred revenue totaling \$484,910 is comprised of the following:

Deferred Property Tax Revenue - Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$364,368 at June 30, 2012.

Discretely Presented School Board – Deferred revenue represented unexpended NASA and Harvest Foundation grant funds totaling \$120,542 at June 30, 2012.

#### **Note 11—Contingent Liabilities:**

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Federal programs in which the City and all discretely presented component units participate were audited in accordance with the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements.

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 disallowance of current grant program expenditures, if any, would be immaterial.

#### **Note 12—Litigation:**

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At June 30, 2012, there were no matters of litigation involving the City or which would materially affect the City's financial position should any court decisions on pending matters not be favorable to such entities.

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

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### **Note 13—Risk Management:**

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The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the government carries insurance.

The City is a member of the Virginia Municipal Group Self Insurance Association for workers' compensation. This program is administered by a servicing contractor, which furnishes claims review and processing.

Each Association member jointly and severally agrees to assume, pay and discharge any liability. The City pays Virginia Municipal Group contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Association and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Association may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The City continues to carry commercial insurance for all other risks of losses. During the last three fiscal years, settled claims from these risks have not exceeded commercial coverage.

### **Note 14—Defined Benefit Pension Plan:**

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#### **A. Plan Description**

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

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

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

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least five years of service credit or age 50 with at least ten years of service credit.

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

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### Note 14—Defined Benefit Pension Plan:

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#### A. Plan Description: (Continued)

- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

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

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

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2011-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

### Note 14—Defined Benefit Pension Plan: (Continued)

#### B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their compensation toward their retirement. All or part of the 5% member contribution may be assumed by the employer. In addition, the City and School Board are required to contribute the remaining amounts necessary to fund participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City's and School's non-professional employee contribution rates for the fiscal year ended 2012 were 15.92% and 17.00% of annual covered payroll, respectively.

The School Board's contributions for professional employees were \$735,293, \$1,094,073 and \$845,047, to the teacher cost-sharing pool for the fiscal years ended June 30, 2012, 2011 and 2010, respectively and these contributions represented 6.33%, 3.93% and 8.81%, respectively, of current covered payroll.

#### C. Annual Pension Cost

For fiscal year 2012, the City's annual pension cost of \$2,010,693 was equal to the City's required and actual contributions.

For fiscal year 2012, the City School Board's annual pension cost for the Board's non-professional employees was \$87,135 which was equal to the Board's required and actual contributions.

Three-Year Trend Information for the City and School Board				
Fiscal Year Ending		Annual Pension Cost (APC) (1)	Percentage of APC Contributed	Net Pension Obligation
City:				
June 30, 2012	\$	2,010,693	100%	\$ -
June 30, 2011		2,016,179	100%	-
June 30, 2010		1,945,802	100%	-
School Board:				
Non-Professional:				
June 30, 2012	\$	87,135	100%	\$ -
June 30, 2011		87,198	100%	-
June 30, 2010		101,918	100%	-

(1) Employer portion only

## CITY OF MARTINSVILLE, VIRGINIA

### Notes to Financial Statements As of June 30, 2012 (Continued)

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#### **Note 14—Defined Benefit Pension Plan: (Continued)**

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##### **C. Annual Pension Cost: (Continued)**

The FY 2012 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the City's and School Board's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. City and School Board's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

##### **D. Funded Status and Funding Progress**

As of June 30, 2011, the most recent actuarial valuation date, the City's plan was 69.11% funded. The actuarial accrued liability for benefits was \$88,139,122, and the actuarial value of assets was \$60,909,280, resulting in an unfunded actuarial accrued liability (UAAL) of \$27,229,842. The covered payroll (annual payroll of active employees covered by the plan) was \$12,705,075, and ratio of the UAAL to the covered payroll was 214.32%.

As of June 30, 2011, the most recent actuarial valuation date, the School Board's plan was 64.88% funded. The actuarial accrued liability for benefits was \$4,271,583, and the actuarial value of assets was \$2,771,280, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,500,303. The covered payroll (annual payroll of active employees covered by the plan) was \$508,005, and ratio of the UAAL to the covered payroll was 295.33%.

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

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

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### **Note 15—Surety Bonds:**

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	<u>Amount</u>
Fidelity and Deposit Company of Maryland - Surety	
Faithful Performance of Duty Schedule Position Bond:	
Commonwealth Funds	
Ashby R. Pritchett, Clerk of the Circuit Court	\$ 25,000
Cindy Dickerson, Treasurer and/or Clarence Monday, Director of Finance	200,000
Ruth Easley, Commissioner of the Revenue	3,000
Steve M. Draper, Sheriff	30,000
The above constitutional officers and subordinate employees - blanket bond	50,000
Lumberman's Mutual Casualty Company - Surety City funds	
Cindy Dickerson, Treasurer	250,000
Travelers Indemnity Company - Surety	
All School Board employees - blanket bond	
The Aetna Casualty and Surety Company - Surety	
All City employees - blanket bond	
Honesty	100,000
Faithful performance	1,000,000

### **Note 16—Other Post-Employment Benefits Program:**

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#### **Primary Government:**

##### **A. Plan Description**

The City of Martinsville post-retirement medical plan (CMPRMP) is a single-employer defined benefit healthcare plan which offers health insurance for retired employees. The plan is administered by the City Council. Retired employees, who were hired before July 1, 2005, who participated in the City's medical program with at least 15 years of continuous service and who retire under the VRS plan are eligible to elect post-retirement coverage in the CMPRMP. The CMPRMP has no separate financial report.

##### **B. Funding Policy**

The City Council establishes employer contribution rates for plan participants as part of the budgetary process each year. Council also determines how the plan will be funded each year whether it will partially fund the plan or fully fund the plan. Again this is determined annually as part of the budgetary process. For retirees retired prior to July 1, 2000 the City pays between \$232 and \$252 per month towards the monthly premium and the retiree contributes remaining funds towards the monthly premium. For retirees retired subsequent to July 1, 2000 the retiree pays 25% of the City Contribution and the remaining funds towards the premium. Retirees pay 100% of spousal premiums. Coverage ceases when retirees reach the age of 65. Surviving spouses are not allowed access to the plan.

# CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

## Note 16—Other Post-Employment Benefits Program: (Continued)

### Primary Government: (Continued)

#### C. Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost (expenses) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the plan:

Annual required contribution	\$ 237,000
Interest on net OPEB obligation	4,000
Adjustment to annual required contribution	<u>(5,000)</u>
Annual OPEB cost (expense)	236,000
Contributions made	<u>(191,000)</u>
Increase (decrease) in net OPEB obligation	\$ 45,000
Net OPEB obligation - beginning of year	<u>106,000</u>
Net OPEB obligation - end of year	<u><u>\$ 151,000</u></u>

For 2012, the City's expected cash payment of \$191,000 is less than the OPEB cost (expense) of \$237,000 and was \$45,000 short of the ARC. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the preceding two years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$ 289,000	98.6%	\$ 49,000
June 30, 2011	233,000	75.5%	106,000
June 30, 2012	237,000	80.9%	151,000

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

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### **Note 16—Other Post-Employment Benefits Program: (Continued)**

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#### **Primary Government: (Continued)**

##### **C. Annual OPEB Cost and Net OPEB Obligation: (Continued)**

*Funded Status and Funding Progress.* The funded status of the plan as of June 30, 2012 is as follows:

Actuarial accrued liability (AAL)	\$ 3,515,000
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	3,515,000
Funded ratio (actuarial value of plan assets/AAL)	n/a
Covered payroll (active plan members)	11,208,000
UAAL as a percentage of covered payroll	31.36%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

#### *Actuarial Methods and Assumptions.*

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

In the July 1, 2009, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.50% average investment rate of return (net of administrative expenses) and 2.50% payroll growth rate. Both rates include a 4.50% inflation assumption. The actuarial assumptions also included a 10.00% healthcare cost trend rate. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012, was twenty-three years.



## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

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### **Note 16—Other Post-Employment Benefits Program: (Continued)**

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#### **Discretely Presented Component Unit-School Board:**

##### **A. Plan Description**

The City of Martinsville School Board post-retirement medical plan (CMSBPRMP) is a single-employer defined benefit healthcare plan which offers health insurance for retired employees. The plan is administered by the School Board. Retired employees, who were hired before July 1, 2005, who participated in the School Board's medical program with at least 15 years of continuous service and who retire under the VRS plan are eligible to elect post-retirement coverage in the CMSBPRMP. The CMSBPRMP has no separate financial report.

##### **B. Funding Policy**

The School Board establishes employer contribution rates for plan participants as part of the budgetary process each year. Council also determines how the plan will be funded each year whether it will partially fund the plan or fully fund the plan. Again this is determined annually as part of the budgetary process. For retirees retired prior to July 1, 2000 the City pays between \$232 and \$252 per month towards the monthly premium and the retiree contributes remaining funds towards the monthly premium. For retirees retired subsequent to July 1, 2000 the retiree pays 25% of the School Board contribution and the remaining funds towards the premium. Retirees pay 100% of spousal premiums. Coverage ceases when retirees reach the age of 65. Surviving spouses are not allowed access to the plan.

##### **C. Annual OPEB Cost and Net OPEB Obligation**

The School Board's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the School Board's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the School Board's net OPEB obligation to the plan:

Annual required contribution	\$ 153,000
Interest on net OPEB obligation	5,000
Adjustment to annual required contribution	<u>(5,000)</u>
Annual OPEB cost (expense)	153,000
Contributions made	<u>(140,000)</u>
Increase (decrease) in net OPEB obligation	\$ 13,000
Net OPEB obligation - beginning of year	<u>115,000</u>
Net OPEB obligation - end of year	<u><u>\$ 128,000</u></u>

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

### Note 16—Other Post-Employment Benefits Program: (Continued)

#### Discretely Presented Component Unit-School Board: (Continued)

##### C. Annual OPEB Cost and Net OPEB Obligation: (Continued)

The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the preceding two years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$ 266,000	82.3%	\$ 97,000
June 30, 2011	151,000	88.1%	115,000
June 30, 2012	153,000	91.5%	128,000

*Funded Status and Funding Progress.* The funded status of the plan as of June 30, 2012 is as follows:

Actuarial accrued liability (AAL)	\$ 2,151,000
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	2,151,000
Funded ratio (actuarial value of plan assets/AAL)	n/a
Covered payroll (active plan members)	9,354,000
UAAL as a percentage of covered payroll	23.00%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

#### *Actuarial Methods and Assumptions.*

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

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2012 (Continued)

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### **Note 16—Other Post-Employment Benefits Program: (Continued)**

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#### **Discretely Presented Component Unit-School Board: (Continued)**

##### **C. Annual OPEB Cost and Net OPEB Obligation: (Continued)**

###### *Actuarial Methods and Assumptions. (Continued)*

In the July 1, 2009, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.25% average investment rate of return (net of administrative expenses) and a 2.50% payroll growth rate. Both rates include a 4.50% inflation assumption. The actuarial assumptions also included a 10.00% healthcare cost trend rate. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011, was thirty years.

### **Note 17—VRS Health Insurance Credit Other Post-Employment Benefits (OPEB):**

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#### **A. Plan Description**

The School Board participates in the Health Insurance Credit Program, a plan designed to assist retirees with the cost of health insurance coverage. This program is a cost sharing, multiple-employer defined benefit plan administered by the Virginia Retirement System (VRS). The Virginia General Assembly establishes the dollar amount of the health insurance credit for each year of creditable service. The credit amount and eligibility differs for state, school division, political subdivision, local officer, local social services department and general registrar retirees.

A teacher, who retires under VRS with at least 15 years of total creditable service under the System and is enrolled in a health insurance plan, is eligible to receive a monthly health insurance credit of \$4 per year of creditable service. However, such credit shall not exceed the health insurance premium for the retiree. Disabled retirees automatically receive a monthly health insurance credit of \$4 multiplied by the smaller of (i) twice the amount of their creditable service or (ii) the amount of creditable service they would have completed at age 60 if they had remained in service to that age.

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the Code of Virginia. The VRS actuarially determines the amount necessary to fund all credits provided, reflects the cost of such credits in the applicable employer contribution rate pursuant to §51.1-145, and prescribes such terms and conditions as are necessary to carry out the provisions of the health insurance credit program. VRS issues separate financial statements as previously discussed in Note 14.

#### **B. Funding Policy**

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is 0.6% of annual covered payroll. The School Board's contributions to VRS for the years ended June 30, 2012, 2011, and 2010 were \$69,696, \$73,331, and \$99,756, respectively and equaled the required contributions for each year.

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### **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.

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## General Fund

## Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual

Year Ended June 30, 2012

	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Revenues:				
General property taxes	\$ 8,570,267	\$ 8,570,267	\$ 8,622,900	\$ 52,633
Other local taxes	5,009,830	5,009,830	5,186,072	176,242
Permits, privilege fees and regulatory licenses	508,700	508,700	594,763	86,063
Fines and forfeitures	152,000	152,400	163,118	10,718
Revenue from use of money and property	684,816	684,816	653,278	(31,538)
Charges for services	410,845	411,445	409,856	(1,589)
Miscellaneous	164,421	174,549	500,596	326,047
Recovered costs	962,094	1,088,346	1,126,724	38,378
Intergovernmental:				
Commonwealth	8,424,789	8,606,900	8,699,318	92,418
Federal	20,000	38,435	141,411	102,976
Total revenues	\$ 24,907,762	\$ 25,245,688	\$ 26,098,036	\$ 852,348
Expenditures:				
Current:				
General government administration	\$ 4,276,418	\$ 4,341,631	\$ 4,194,090	\$ 147,541
Judicial administration	2,006,902	2,039,384	1,917,844	121,540
Public safety	9,118,895	9,482,521	8,918,335	564,186
Public works	4,091,175	4,357,488	3,950,355	407,133
Health and welfare	567,837	567,837	604,746	(36,909)
Education	5,696,328	5,696,328	3,093,842	2,602,486
Parks, recreation, and cultural	1,358,930	1,381,425	1,218,913	162,512
Community development	1,195,441	1,894,258	1,361,166	533,092
Debt service:				
Principal retirement	142,160	142,160	142,160	-
Interest and other fiscal charges	5,626	5,626	5,125	501
Total expenditures	\$ 28,459,712	\$ 29,908,658	\$ 25,406,576	\$ 4,502,082
Excess (deficiency) of revenues over expenditures	\$ (3,551,950)	\$ (4,662,970)	\$ 691,460	\$ 5,354,430
Other financing sources (uses):				
Transfers in	\$ 3,551,950	\$ 3,551,950	\$ 3,551,950	\$ -
Total other financing sources (uses)	\$ 3,551,950	\$ 3,551,950	\$ 3,551,950	\$ -
Changes in fund balances	\$ -	\$ (1,111,020)	\$ 4,243,410	\$ 5,354,430
Fund balances at beginning of year	-	1,111,020	3,130,875	2,019,855
Fund balances at end of year	\$ -	\$ -	\$ 7,374,285	\$ 7,374,285

## Meals Tax Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual  
Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Budget As Amended</u>	<u>Actual</u>	<u>Variance From Final Budget Positive (Negative)</u>
Revenues:				
Other local taxes	\$ 1,388,475	\$ 1,388,475	\$ 1,434,966	\$ 46,491
Revenue from use of money and property	-	-	15,041	15,041
Intergovernmental:				
Federal	-	-	182,254	182,254
Total revenues	<u>\$ 1,388,475</u>	<u>\$ 1,388,475</u>	<u>\$ 1,632,261</u>	<u>\$ 243,786</u>
Expenditures:				
Current:				
General government administration	\$ 35,190	\$ 35,190	\$ 35,190	\$ -
Education	-	9,276,156	544,740	8,731,416
Debt service:				
Principal retirement	828,984	828,984	828,984	-
Interest and other fiscal charges	<u>279,737</u>	<u>303,581</u>	<u>485,837</u>	<u>(182,256)</u>
Total expenditures	<u>\$ 1,143,911</u>	<u>\$ 10,443,911</u>	<u>\$ 1,894,751</u>	<u>\$ 8,549,160</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 244,564</u>	<u>\$ (9,055,436)</u>	<u>\$ (262,490)</u>	<u>\$ 8,792,946</u>
Other financing sources (uses):				
Issuance of debt	\$ -	\$ 9,300,000	\$ 9,300,000	\$ -
Transfers (out)	<u>(244,564)</u>	<u>(244,564)</u>	<u>(244,564)</u>	<u>-</u>
Total other financing sources (uses)	<u>\$ (244,564)</u>	<u>\$ 9,055,436</u>	<u>\$ 9,055,436</u>	<u>\$ -</u>
Changes in fund balances	\$ -	\$ -	\$ 8,792,946	\$ 8,792,946
Fund balances at beginning of year	<u>-</u>	<u>-</u>	<u>726,967</u>	<u>726,967</u>
Fund balances at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,519,913</u>	<u>\$ 9,519,913</u>



Required Supplementary Information  
Schedule of Funding Progress for the Virginia Retirement System  
Last Three Fiscal Years

**City**

<b>Valuation Date</b>	<b>Actuarial Value of Assets (AVA)</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded (Excess Funded) Actuarial Accrued Liability</b>	<b>Funded Ratio (2)/(3)</b>	<b>Annual Covered Payroll</b>	<b>UAAL as % of Payroll (4)/(6)</b>
<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>	<b>(5)</b>	<b>(6)</b>	<b>(7)</b>
6/30/2011	\$ 60,909,280	\$ 88,139,122	\$ 27,229,842	69.11%	\$ 12,705,075	214.32%
6/30/2010	60,665,180	86,662,667	25,997,487	70.00%	12,860,060	202.16%
6/30/2009	61,619,651	81,304,623	19,684,972	75.79%	13,771,266	142.94%

**Discretely Presented Component Unit - School Board**  
**School Board Non-Professional:**

<b>Valuation Date</b>	<b>Actuarial Value of Assets (AVA)</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded (Excess Funded) Actuarial Accrued Liability</b>	<b>Funded Ratio (2)/(3)</b>	<b>Annual Covered Payroll</b>	<b>UAAL as % of Payroll (4)/(6)</b>
<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>	<b>(5)</b>	<b>(6)</b>	<b>(7)</b>
6/30/2011	\$ 2,771,280	\$ 4,271,583	\$ 1,500,303	64.88%	\$ 508,005	295.33%
6/30/2010	2,970,367	4,288,461	1,318,094	69.26%	613,431	214.87%
6/30/2009	3,122,252	4,100,275	978,023	76.15%	697,677	140.18%

Required Supplementary Information  
Schedule of OPEB Funding Progress  
Last Two Fiscal Years

**City**

<b>Valuation Date</b>	<b>Actuarial Value of Assets (AVA)</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded (Excess Funded) Actuarial Accrued Liability</b>	<b>Funded Ratio (2)/(3)</b>	<b>Annual Covered Payroll</b>	<b>UAAL as % of Payroll (4)/(6)</b>
<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>	<b>(5)</b>	<b>(6)</b>	<b>(7)</b>
7/1/2009	\$ -	\$ 3,515,000	\$ 3,515,000	0.00%	\$ 11,208,000	31.36%
7/1/2007	-	4,112,000	4,112,000	0.00%	13,386,000	30.72%

**Discretely Presented Component Unit - School Board**

<b>Valuation Date</b>	<b>Actuarial Value of Assets (AVA)</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded (Excess Funded) Actuarial Accrued Liability</b>	<b>Funded Ratio (2)/(3)</b>	<b>Annual Covered Payroll</b>	<b>UAAL as % of Payroll (4)/(6)</b>
<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>	<b>(5)</b>	<b>(6)</b>	<b>(7)</b>
7/1/2009	\$ -	\$ 2,136,000	\$ 2,136,000	0.00%	\$ 9,354,000	22.84%
7/1/2007	-	2,491,000	2,491,000	0.00%	16,271,000	15.31%

## **Other Supplementary Information**

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## **Combining and Individual Fund Statements and Schedules**

Nonmajor Governmental Funds  
Combining Balance Sheet  
At June 30, 2012

	<b>Special Revenue Funds</b>		<b>Capital Projects Fund</b>	
	<b>City Grants Fund</b>	<b>Housing Choice Fund</b>	<b>Capital Reserve Fund</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 38,226	\$ 515,808	\$ 416,888	\$ 970,922
Cash and cash equivalents - restricted	-	-	1,206,199	1,206,199
Total assets	<u>\$ 38,226</u>	<u>\$ 515,808</u>	<u>\$ 1,623,087</u>	<u>\$ 2,177,121</u>
<b>LIABILITIES</b>				
Accounts payable and other current liabilities	\$ 78,259	\$ 5,587	\$ 383,449	\$ 467,295
Due to other funds	543,072	230,160	-	773,232
Total liabilities	<u>\$ 621,331</u>	<u>\$ 235,747</u>	<u>\$ 383,449</u>	<u>\$ 1,240,527</u>
<b>FUND BALANCES</b>				
Fund balances:				
Resticted for:				
Capital projects	\$ -	\$ -	\$ 1,206,199	\$ 1,206,199
Committed to:				
Housing Choice program	-	280,061	-	280,061
Assigned to:				
Capital reserve fund	-	-	33,439	33,439
Unassigned	(583,105)	-	-	(583,105)
Total fund balances	<u>\$ (583,105)</u>	<u>\$ 280,061</u>	<u>\$ 1,239,638</u>	<u>\$ 936,594</u>
Total liabilities and fund balances	<u>\$ 38,226</u>	<u>\$ 515,808</u>	<u>\$ 1,623,087</u>	<u>\$ 2,177,121</u>

## Nonmajor Governmental Funds

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year Ended June 30, 2012

	<b>Special Revenue Funds</b>		<b>Capital Projects Fund</b>	
	<b>City Grants Fund</b>	<b>Housing Choice Fund</b>	<b>Capital Reserve Fund</b>	<b>Total</b>
<b>Revenues:</b>				
Revenue from use of money and property	\$ 33,388	\$ 18,302	\$ 5,349	\$ 57,039
Miscellaneous	-	5,134	5,000	10,134
Intergovernmental:				
Commonwealth	-	-	141,360	141,360
Federal	133,546	2,046,282	435,720	2,615,548
<b>Total revenues</b>	<b>\$ 166,934</b>	<b>\$ 2,069,718</b>	<b>\$ 587,429</b>	<b>\$ 2,824,081</b>
<b>Expenditures:</b>				
General government administration	\$ -	\$ -	\$ 1,272,051	\$ 1,272,051
Public safety	-	-	128,475	128,475
Public works	-	-	43,197	43,197
Planning and community development	162,068	1,951,639	-	2,113,707
Debt service:				
Principal retired on debt	-	-	236,698	236,698
Interest and fiscal charges	-	-	91,434	91,434
<b>Total expenditures</b>	<b>\$ 162,068</b>	<b>\$ 1,951,639</b>	<b>\$ 1,771,855</b>	<b>\$ 3,885,562</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>\$ 4,866</b>	<b>\$ 118,079</b>	<b>\$ (1,184,426)</b>	<b>\$ (1,061,481)</b>
<b>Other financing sources:</b>				
Issuance of debt	\$ -	\$ -	\$ 1,250,000	\$ 1,250,000
Transfers in	-	-	704,252	704,252
<b>Total other financing sources</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,954,252</b>	<b>\$ 1,954,252</b>
<b>Changes in fund balances</b>	<b>\$ 4,866</b>	<b>\$ 118,079</b>	<b>\$ 769,826</b>	<b>\$ 892,771</b>
<b>Fund balances at beginning of year</b>	<b>(587,971)</b>	<b>161,982</b>	<b>469,812</b>	<b>43,823</b>
<b>Fund balances at end of year</b>	<b>\$ (583,105)</b>	<b>\$ 280,061</b>	<b>\$ 1,239,638</b>	<b>\$ 936,594</b>

**CITY OF MARTINSVILLE, VIRGINIA**

Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual  
 Year Ended June 30, 2012

	Special Revenues Funds							
	City Grants Fund				Housing Choice Fund			
	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
<b>Revenues:</b>								
Revenue from use of money and property	\$ 31,110	\$ 31,110	\$ 33,388	\$ 2,278	\$ 17,600	\$ 17,600	\$ 18,302	\$ 702
Miscellaneous	-	-	-	-	5,500	5,500	5,134	(366)
Intergovernmental:								
Commonwealth	-	-	-	-	-	-	-	-
Federal	-	27,243	133,546	106,303	2,094,264	2,094,264	2,046,282	(47,982)
<b>Total revenues</b>	<b>\$ 31,110</b>	<b>\$ 58,353</b>	<b>\$ 166,934</b>	<b>\$ 108,581</b>	<b>\$ 2,117,364</b>	<b>\$ 2,117,364</b>	<b>\$ 2,069,718</b>	<b>\$ (47,646)</b>
<b>Expenditures:</b>								
General government administration	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-	-	-	-	-
Public works	-	-	-	-	-	-	-	-
Planning and community development	160,314	188,223	162,068	26,155	2,207,175	2,250,575	1,951,639	298,936
Debt service:								
Principal retired on debt	-	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-	-
<b>Total expenditures</b>	<b>\$ 160,314</b>	<b>\$ 188,223</b>	<b>\$ 162,068</b>	<b>\$ 26,155</b>	<b>\$ 2,207,175</b>	<b>\$ 2,250,575</b>	<b>\$ 1,951,639</b>	<b>\$ 298,936</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>\$ (129,204)</b>	<b>\$ (129,870)</b>	<b>\$ 4,866</b>	<b>\$ 134,736</b>	<b>\$ (89,811)</b>	<b>\$ (133,211)</b>	<b>\$ 118,079</b>	<b>\$ 251,290</b>
<b>Other financing sources (uses):</b>								
Issuance of debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers in	-	-	-	-	-	-	-	-
Transfers (out)	-	-	-	-	(1,555)	(1,555)	-	1,555
<b>Total other financing sources (uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,555)</b>	<b>\$ (1,555)</b>	<b>\$ -</b>	<b>\$ 1,555</b>
<b>Changes in fund balances</b>	<b>\$ (129,204)</b>	<b>\$ (129,870)</b>	<b>\$ 4,866</b>	<b>\$ 134,736</b>	<b>\$ (91,366)</b>	<b>\$ (134,766)</b>	<b>\$ 118,079</b>	<b>\$ 252,845</b>
<b>Fund balances at beginning of year</b>	<b>129,204</b>	<b>129,870</b>	<b>(587,971)</b>	<b>(717,841)</b>	<b>91,366</b>	<b>134,766</b>	<b>161,982</b>	<b>27,216</b>
<b>Fund balances at end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (583,105)</b>	<b>\$ (583,105)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 280,061</b>	<b>\$ 280,061</b>



Exhibit 16

Capital Projects Fund			
Capital Reserve Fund			
Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
\$ -	\$ -	\$ 5,349	\$ 5,349
-	5,000	5,000	-
141,360	141,360	141,360	-
-	404,464	435,720	31,256
\$ 141,360	\$ 550,824	\$ 587,429	\$ 36,605
\$ 221,100	\$ 1,835,750	\$ 1,272,051	\$ 563,699
310,530	353,776	128,475	225,301
35,000	46,400	43,197	3,203
-	-	-	-
236,698	236,698	236,698	-
42,284	91,434	91,434	-
\$ 845,612	\$ 2,564,058	\$ 1,771,855	\$ 792,203
\$ (704,252)	\$ (2,013,234)	\$ (1,184,426)	\$ 828,808
\$ -	\$ 1,250,000	\$ 1,250,000	\$ -
704,252	704,252	704,252	-
-	-	-	-
\$ 704,252	\$ 1,954,252	\$ 1,954,252	\$ -
\$ -	\$ (58,982)	\$ 769,826	\$ 828,808
-	58,982	469,812	410,830
\$ -	\$ -	\$ 1,239,638	\$ 1,239,638

Combining Schedule of Fiduciary Net Assets -  
 Agency Funds  
 At June 30, 2012

	<u>Insurance Fund</u>	<u>Sheriff's Fund</u>	<u>West Piedmont Business Development Center Fund</u>	<u>Police Academy Fund</u>	<u>Southern Virginia Recreation Facility Authority</u>	<u>Total</u>
<b>ASSETS</b>						
Cash and cash equivalents	\$ <u>467,908</u>	\$ <u>97,474</u>	\$ <u>88,738</u>	\$ <u>508,963</u>	\$ <u>95,617</u>	\$ <u>1,258,700</u>
Total assets	\$ <u><u>467,908</u></u>	\$ <u><u>97,474</u></u>	\$ <u><u>88,738</u></u>	\$ <u><u>508,963</u></u>	\$ <u><u>95,617</u></u>	\$ <u><u>1,258,700</u></u>
<b>LIABILITIES</b>						
Accounts payable	\$ -	\$ 134	\$ 7,689	\$ 6,321	\$ 14,592	\$ 28,736
Amounts held for others	<u>467,908</u>	<u>97,340</u>	<u>81,049</u>	<u>502,642</u>	<u>81,025</u>	<u>1,229,964</u>
Total liabilities	\$ <u><u>467,908</u></u>	\$ <u><u>97,474</u></u>	\$ <u><u>88,738</u></u>	\$ <u><u>508,963</u></u>	\$ <u><u>95,617</u></u>	\$ <u><u>1,258,700</u></u>

Agency Funds  
Statement of Changes in Assets and Liabilities  
Year Ended June 30, 2012

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
<b>Insurance Fund:</b>				
Assets:				
Cash and cash equivalents	\$ 524,076	\$ 3,803,325	\$ 3,859,493	\$ 467,908
Total assets	<u>\$ 524,076</u>	<u>\$ 3,803,325</u>	<u>\$ 3,859,493</u>	<u>\$ 467,908</u>
Liabilities:				
Amounts held for others	\$ 524,076	\$ 3,803,325	\$ 3,859,493	\$ 467,908
Total liabilities	<u>\$ 524,076</u>	<u>\$ 3,803,325</u>	<u>\$ 3,859,493</u>	<u>\$ 467,908</u>
<b>Sheriff's Fund:</b>				
Assets:				
Cash and cash equivalents	\$ 102,453	\$ 29,311	\$ 34,290	\$ 97,474
Total assets	<u>\$ 102,453</u>	<u>\$ 29,311</u>	<u>\$ 34,290</u>	<u>\$ 97,474</u>
Liabilities:				
Accounts payable	\$ 116	\$ 134	\$ 116	\$ 134
Amounts held for others	102,337	29,177	34,174	97,340
Total liabilities	<u>\$ 102,453</u>	<u>\$ 29,311</u>	<u>\$ 34,290</u>	<u>\$ 97,474</u>
<b>WPBDC Fund:</b>				
Assets:				
Cash and cash equivalents	\$ 130,901	\$ 111,380	\$ 153,543	\$ 88,738
Total assets	<u>\$ 130,901</u>	<u>\$ 111,380</u>	<u>\$ 153,543</u>	<u>\$ 88,738</u>
Liabilities:				
Accounts payable	\$ 7,720	\$ 7,689	\$ 7,720	\$ 7,689
Amounts held for others	123,181	103,691	145,823	81,049
Total liabilities	<u>\$ 130,901</u>	<u>\$ 111,380</u>	<u>\$ 153,543</u>	<u>\$ 88,738</u>
<b>Police Academy Fund:</b>				
Assets:				
Cash and cash equivalents	\$ 495,757	\$ 268,332	\$ 255,126	\$ 508,963
Total assets	<u>\$ 495,757</u>	<u>\$ 268,332</u>	<u>\$ 255,126</u>	<u>\$ 508,963</u>
Liabilities:				
Accounts payable	\$ 6,167	\$ 6,321	\$ 6,167	\$ 6,321
Amounts held for others	489,590	262,011	248,959	502,642
Total liabilities	<u>\$ 495,757</u>	<u>\$ 268,332</u>	<u>\$ 255,126</u>	<u>\$ 508,963</u>
<b>Southern Virginia Recreation Facilities Authority:</b>				
Assets:				
Cash and cash equivalents	\$ 77,554	\$ 506,489	\$ 488,426	\$ 95,617
Total assets	<u>\$ 77,554</u>	<u>\$ 506,489</u>	<u>\$ 488,426</u>	<u>\$ 95,617</u>
Liabilities:				
Accounts payable	\$ 26,647	\$ 14,592	\$ 26,647	\$ 14,592
Amounts held for others	50,907	491,897	461,779	81,025
Total liabilities	<u>\$ 77,554</u>	<u>\$ 506,489</u>	<u>\$ 488,426</u>	<u>\$ 95,617</u>
<b>Total -- All Agency Funds</b>				
Assets:				
Cash and cash equivalents	\$ 1,330,741	\$ 4,718,837	\$ 4,790,878	\$ 1,258,700
Total assets	<u>\$ 1,330,741</u>	<u>\$ 4,718,837</u>	<u>\$ 4,790,878</u>	<u>\$ 1,258,700</u>
Liabilities:				
Accounts payable	\$ 40,650	\$ 28,736	\$ 40,650	\$ 28,736
Amounts held for others	1,290,091	4,690,101	4,750,228	1,229,964
Total liabilities	<u>\$ 1,330,741</u>	<u>\$ 4,718,837</u>	<u>\$ 4,790,878</u>	<u>\$ 1,258,700</u>

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**Discretely Presented Component Unit—School Board**

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Combining Balance Sheet  
Discretely Presented Component Unit -- School Board  
At June 30, 2012

	<b>School Operating Fund</b>	<b>School Cafeteria Fund</b>	<b>School Grants Fund</b>	<b>Totals</b>
<b>ASSETS</b>				
Assets:				
Cash and cash equivalents	\$ 953,968	\$ 896,358	\$ -	\$ 1,850,326
Accounts receivable	38,240	11,141	-	49,381
Due from other governmental units	376,477	2,921	334,289	713,687
Due from other funds	162,264	-	-	162,264
Total assets	<u>\$ 1,530,949</u>	<u>\$ 910,420</u>	<u>\$ 334,289</u>	<u>\$ 2,775,658</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 495,040	\$ 21,737	\$ 52,029	\$ 568,806
Deferred revenue	120,542	-	-	120,542
Accrued liabilities	915,367	28,432	96,936	1,040,735
Due to other funds	-	-	162,264	162,264
Total liabilities	<u>\$ 1,530,949</u>	<u>\$ 50,169</u>	<u>\$ 311,229</u>	<u>\$ 1,892,347</u>
<b>FUND BALANCES</b>				
Committed to:				
School food program	\$ -	\$ 860,251	\$ -	\$ 860,251
Education	-	-	23,060	23,060
Unassigned	-	-	-	-
Total fund balances	<u>\$ -</u>	<u>\$ 860,251</u>	<u>\$ 23,060</u>	<u>\$ 883,311</u>
Total liabilities and fund balances	<u>\$ 1,530,949</u>	<u>\$ 910,420</u>	<u>\$ 334,289</u>	<u>\$ 2,775,658</u>

Detailed explanation of adjustments from fund statements to government-wide Statement of Net Assets:

Total Fund balances, above 883,311

Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds. 7,605,347

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

Details supporting this adjustment are as follows:

Other post employment benefits	(128,000)
Net assets of General Government Activities	<u>\$ 8,360,658</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Governmental Funds - Discretely Presented Component Unit - School Board  
 Year Ended June 30, 2012

	<u>School Operating Fund</u>	<u>School Cafeteria Fund</u>	<u>School Grants Fund</u>	<u>Total</u>
<b>Revenues:</b>				
Revenue from use of money and property	\$ 45,848	\$ 365	\$ -	\$ 46,213
Charges for services	8,750	442,180	-	450,930
Miscellaneous	97,430	-	-	97,430
Recovered costs	551,788	-	-	551,788
Intergovernmental:				
Local government	3,076,122	-	-	3,076,122
Commonwealth	13,385,894	26,188	-	13,412,082
Federal	<u>1,094,144</u>	<u>1,079,026</u>	<u>2,575,071</u>	<u>4,748,241</u>
Total revenues	\$ <u>18,259,976</u>	\$ <u>1,547,759</u>	\$ <u>2,575,071</u>	\$ <u>22,382,806</u>
<b>Expenditures:</b>				
Current:				
Education	\$ <u>20,514,056</u>	\$ <u>1,377,471</u>	\$ <u>2,574,615</u>	\$ <u>24,466,142</u>
Total expenditures	\$ <u>20,514,056</u>	\$ <u>1,377,471</u>	\$ <u>2,574,615</u>	\$ <u>24,466,142</u>
<b>Changes in fund balances</b>	\$ (2,254,080)	\$ 170,288	\$ 456	\$ (2,083,336)
<b>Fund balances at beginning of year</b>	<u>2,254,080</u>	<u>689,963</u>	<u>22,604</u>	<u>2,966,647</u>
<b>Fund balances at end of year</b>	\$ <u><u>-</u></u>	\$ <u><u>860,251</u></u>	\$ <u><u>23,060</u></u>	\$ <u><u>883,311</u></u>



Discretely Presented Component Unit - School Board  
 Reconciliation of the Statement of Revenues, Expenditures,  
 and Changes in Fund Balances of Governmental Funds to the Statement of Activities  
 Year Ended June 30, 2012

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Net changes in fund balances - total governmental funds \$ (2,083,336)

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 depreciation exceeded capital outlays in the current period computed as follows:

Capital outlays	23,088
Depreciation expense	(439,613)

School Board capital assets are jointly owned by the City and School Board. The City share of School Board capital assets is in proportion to the debt owed on such by the City. The transfers to the School Board are affected by the relationship of the debt to assets on a year to year basis. The net transfer resulting from this relationship reduced the transfers to the School Board. 513,429

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

Details supporting this adjustment are as follows:

Other post employment benefits	<u>(13,000)</u>
Changes in net assets of governmental activities	\$ <u><u>(1,999,432)</u></u>

**CITY OF MARTINSVILLE, VIRGINIA**

Schedule of Revenues, Expenditures and Changes in Fund Balances --  
 Budget and Actual -- Discretely Presented Component Unit - School Board  
 Year Ended June 30, 2012

	<b>School Operating Fund</b>			<b>Variance From Final Budget Positive (Negative)</b>
	<b>Original Budget</b>	<b>Budget As Amended</b>	<b>Actual</b>	
<b>Revenues:</b>				
Revenue from use of money and property	\$ 35,000	\$ 35,000	\$ 45,848	\$ 10,848
Charges for services	5,000	5,000	8,750	3,750
Miscellaneous	-	140,000	97,430	(42,570)
Recovered costs	307,451	307,451	551,788	244,337
Intergovernmental:				
Local government	5,678,608	5,678,608	3,076,122	(2,602,486)
Commonwealth	13,718,680	13,718,680	13,385,894	(332,786)
Federal	982,966	982,966	1,094,144	111,178
Total revenues	\$ 20,727,705	\$ 20,867,705	\$ 18,259,976	\$ (2,607,729)
<b>Expenditures:</b>				
Current:				
Education	\$ 20,727,705	\$ 21,006,234	\$ 20,514,056	\$ 492,178
Total expenditures	\$ 20,727,705	\$ 21,006,234	\$ 20,514,056	\$ 492,178
<b>Changes in fund balances</b>	\$ -	\$ (138,529)	\$ (2,254,080)	\$ (2,115,551)
<b>Fund balances at beginning of year</b>	-	138,529	2,254,080	2,115,551
<b>Fund balances at end of year</b>	\$ -	\$ -	\$ -	\$ -

School Cafeteria Fund				School Grants Fund			
Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)	Original Budget	Budget As Amended	Actual	Variance From Amended Budget Positive (Negative)
\$ 2,300	\$ 2,300	\$ 365	\$ (1,935)	\$ -	\$ -	\$ -	\$ -
548,400	548,400	442,180	(106,220)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
34,984	34,984	26,188	(8,796)	-	-	-	-
733,977	733,977	1,079,026	345,049	-	-	2,575,071	2,575,071
\$ 1,319,661	\$ 1,319,661	\$ 1,547,759	\$ 228,098	\$ -	\$ -	\$ 2,575,071	\$ 2,575,071
\$ 1,319,661	\$ 1,319,661	\$ 1,377,471	\$ (57,810)	\$ -	\$ -	\$ 2,574,615	\$ (2,574,615)
\$ 1,319,661	\$ 1,319,661	\$ 1,377,471	\$ (57,810)	\$ -	\$ -	\$ 2,574,615	\$ (2,574,615)
\$ -	\$ -	\$ 170,288	\$ 170,288	\$ -	\$ -	\$ 456	\$ 456
-	-	689,963	689,963	-	-	22,604	22,604
\$ -	\$ -	\$ 860,251	\$ 860,251	\$ -	\$ -	\$ 23,060	\$ 23,060

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## **Supporting Schedules**

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Governmental Funds and Discretely Presented Component Unit - School Board  
 Schedule of Revenues -- Budget and Actual  
 Year Ended June 30, 2012

<b>Fund, Major and Minor Revenue Source</b>	<b>Original Budget</b>	<b>Budget As Amended</b>	<b>Actual</b>	<b>Variance From Final Budget Positive (Negative)</b>
<b>Primary Government:</b>				
<b>General Fund:</b>				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 7,040,000	\$ 7,040,000	\$ 6,838,926	\$ (201,074)
Personal property taxes	545,000	545,000	626,436	81,436
Business equipment	747,267	747,267	845,450	98,183
Machinery and tools taxes	97,000	97,000	133,880	36,880
Penalties	86,000	86,000	111,375	25,375
Interest and costs	55,000	55,000	66,833	11,833
Total general property taxes	\$ 8,570,267	\$ 8,570,267	\$ 8,622,900	\$ 52,633
Other local taxes:				
Local sales and use taxes	\$ 1,900,000	\$ 1,900,000	\$ 1,891,909	\$ (8,091)
Consumers' utility taxes	725,500	725,500	695,041	(30,459)
Business license tax	1,638,700	1,638,700	1,720,315	81,615
Franchise license taxes	15,000	15,000	15,000	-
Motor vehicle licenses	290,000	290,000	331,072	41,072
Bank franchise tax	246,630	246,630	257,434	10,804
Taxes on recordation and wills	42,000	42,000	77,002	35,002
Grantor tax	12,000	12,000	24,213	12,213
Cigarette tax	123,000	123,000	156,355	33,355
Rental tax	1,000	1,000	459	(541)
Transient room tax	16,000	16,000	17,272	1,272
Total other local taxes	\$ 5,009,830	\$ 5,009,830	\$ 5,186,072	\$ 176,242
Permits, privilege fees and regulatory licenses:				
Animal licenses	\$ 4,500	\$ 4,500	\$ 4,693	\$ 193
Ambulance Fees	400,000	400,000	501,265	101,265
Other permits and licenses	104,200	104,200	88,805	(15,395)
Total permits, privilege fees and regulatory licenses	\$ 508,700	\$ 508,700	\$ 594,763	\$ 86,063
Fines and Forfeitures:				
Court fines and forfeitures	\$ 150,000	\$ 150,000	\$ 155,902	\$ 5,902
Other fines and forfeitures	2,000	2,400	7,216	4,816
Total fines and forfeitures	\$ 152,000	\$ 152,400	\$ 163,118	\$ 10,718

Governmental Funds and Discretely Presented Component Unit - School Board  
 Schedule of Revenues -- Budget and Actual  
 Year Ended June 30, 2012 (Continued)

<b>Fund, Major and Minor Revenue Source</b>	<b>Original Budget</b>	<b>Budget As Amended</b>	<b>Actual</b>	<b>Variance From Final Budget Positive (Negative)</b>
<b>Primary Government: (Continued)</b>				
<b>General Fund: (Continued)</b>				
Revenue from use of money and property:				
Revenue from use of money	\$ 25,015	\$ 25,015	\$ 17,694	\$ (7,321)
Revenue from use of property	659,801	659,801	635,584	(24,217)
Total revenue from use of money and property	\$ 684,816	\$ 684,816	\$ 653,278	\$ (31,538)
Charges for services:				
Sheriff fees	\$ 3,624	\$ 3,624	\$ 4,363	\$ 739
Courthouse maintenance fees	12,000	12,000	9,635	(2,365)
Court appointed attorney fees	7,000	7,000	3,786	(3,214)
Court house security fees	24,000	24,000	23,588	(412)
Document reproduction fee	3,000	3,000	3,234	234
Remote access fee	3,200	3,200	1,965	(1,235)
Commonwealth attorney fees	1,500	1,500	3,125	1,625
Other public safety fees	7,100	7,100	6,457	(643)
Recreation fees	20,400	20,400	10,383	(10,017)
Prison farm labor / street maintenance	24,000	24,000	24,000	-
Martinsville mustangs fees	146,625	146,625	138,500	(8,125)
Other charges for services	158,396	158,996	180,820	21,824
Total charges for services	\$ 410,845	\$ 411,445	\$ 409,856	\$ (1,589)
Miscellaneous revenue:				
Payment in lieu of tax	\$ 137,921	\$ 137,921	\$ 137,921	\$ -
Other miscellaneous revenue	26,500	36,628	362,675	326,047
Total miscellaneous revenue	\$ 164,421	\$ 174,549	\$ 500,596	\$ 326,047
Recovered costs:				
Boarding of prisoners	\$ 13,000	\$ 13,000	\$ -	\$ (13,000)
WW Moore	20,000	20,000	35,527	15,527
SSI / LIDS	3,000	3,000	2,000	(1,000)
Juvenile and domestic relations court	1,000	1,000	935	(65)
Meals tax administration	35,190	35,190	35,190	-
Street maintenance overhead	160,000	160,000	186,072	26,072
Demolition	2,000	2,000	4,404	2,404
Advance / recovered cost	60,000	173,870	192,907	19,037
Health department	2,000	2,000	-	(2,000)
Juror and witness	12,000	12,000	10,320	(1,680)
Medical co-pay reimbursement	5,000	5,000	9,261	4,261
Treasurer	7,000	7,000	15,075	8,075
Project lifesaver	1,500	1,500	1,595	95



Governmental Funds and Discretely Presented Component Unit - School Board  
 Schedule of Revenues -- Budget and Actual  
 Year Ended June 30, 2012 (Continued)

<b>Fund, Major and Minor Revenue Source</b>	<b>Original Budget</b>	<b>Budget As Amended</b>	<b>Actual</b>	<b>Variance From Final Budget Positive (Negative)</b>
<b>Primary Government: (Continued)</b>				
<b>General Fund: (Continued)</b>				
Recovered costs: (Continued)				
DUI reimbursement	\$ 2,000	\$ 2,000	\$ 5,486	\$ 3,486
Collection expense	9,000	9,000	9,000	-
Billing expense	446,114	446,114	422,254	(23,860)
Safety expense	90,980	90,980	90,980	-
Communication	16,832	16,832	16,832	-
Central garage	30,320	30,640	31,090	450
Engineering	20,000	20,000	-	(20,000)
Senior citizens	6,440	18,502	17,783	(719)
Social services	10,918	10,918	32,934	22,016
Program income	1,000	1,000	1,142	142
Senior citizens - transportation	3,200	3,200	2,337	(863)
Fiscal agent fees - regional library	3,600	3,600	3,600	-
Total recovered costs	\$ 962,094	\$ 1,088,346	\$ 1,126,724	\$ 38,378
Total revenue from local sources	\$ 16,462,973	\$ 16,600,353	\$ 17,257,307	\$ 656,954
Revenue from the Commonwealth:				
Noncategorical aid:				
Rolling stock tax	\$ 8,000	\$ 8,000	\$ 7,927	\$ (73)
Recordation tax	15,000	15,000	29,431	14,431
PPTRA	626,428	626,428	626,428	-
Communications tax	948,925	948,925	911,484	(37,441)
Auto rental tax	44,500	44,500	56,160	11,660
Total noncategorical aid	\$ 1,642,853	\$ 1,642,853	\$ 1,631,430	\$ (11,423)
Categorical aid:				
Shared expenses:				
Commonwealth's attorney	\$ 445,964	\$ 445,964	\$ 444,579	\$ (1,385)
Sheriff	1,773,290	1,773,290	1,812,098	38,808
Commissioner of the Revenue	96,176	96,176	96,213	37
Treasurer	73,330	73,330	72,891	(439)
Registrar/electoral board	35,645	35,645	43,623	7,978
Clerk of the circuit court	260,720	260,720	275,190	14,470
Total shared expenses	\$ 2,685,125	\$ 2,685,125	\$ 2,744,594	\$ 59,469

Governmental Funds and Discretely Presented Component Unit - School Board  
 Schedule of Revenues -- Budget and Actual  
 Year Ended June 30, 2012 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
<b>Primary Government: (Continued)</b>				
Revenue from the Commonwealth: (Continued)				
Other categorical aid:				
Senior citizens	\$ 11,000	\$ 11,000	\$ 13,000	\$ 2,000
Confiscated assets	-	13,559	13,559	-
Victim witness	69,677	69,677	17,768	(51,909)
House Bill # 599 - police	872,180	872,180	841,560	(30,620)
EMS two for life	10,000	11,590	11,590	-
Fire grant	40,000	45,221	36,947	(8,274)
Street maintenance	2,775,457	2,775,457	2,822,058	46,601
Jail per diem	303,497	303,497	304,757	1,260
Comprehensive services	-	-	51,227	51,227
Other categorical aid	15,000	176,741	210,828	34,087
Total other categorical aid	\$ 4,096,811	\$ 4,278,922	\$ 4,323,294	\$ 44,372
Total categorical aid	\$ 6,781,936	\$ 6,964,047	\$ 7,067,888	\$ 103,841
Total revenue from the Commonwealth	\$ 8,424,789	\$ 8,606,900	\$ 8,699,318	\$ 92,418
Revenue from the federal government:				
Categorical aid:				
Victim witness	\$ -	\$ -	\$ 53,303	\$ 53,303
Confiscated assets	-	1,525	1,524	(1)
DMV grant - police	-	-	29,785	29,785
Senior citizens	20,000	20,000	21,123	1,123
SCAAP funds	-	510	510	-
Viper overtime grant	-	-	6,882	6,882
Safe Routes to Schools grant	-	16,400	16,401	1
COPS technology grant	-	-	8,500	8,500
Other categorical aid	-	-	3,383	3,383
Total categorical aid	\$ 20,000	\$ 38,435	\$ 141,411	\$ 102,976
Total revenue from the Federal Government	\$ 20,000	\$ 38,435	\$ 141,411	\$ 102,976
<b>Total General Fund</b>	<b>\$ 24,907,762</b>	<b>\$ 25,245,688</b>	<b>\$ 26,098,036</b>	<b>\$ 852,348</b>
<b>Special Revenue Funds:</b>				
<b>City Grants Fund:</b>				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ 2,585	\$ 2,585	\$ 2,359	\$ (226)
Revenue from use of property	28,525	28,525	31,029	2,504
Total revenue from use of money and property	\$ 31,110	\$ 31,110	\$ 33,388	\$ 2,278

Governmental Funds and Discretely Presented Component Unit - School Board

Schedule of Revenues -- Budget and Actual

Year Ended June 30, 2012 (Continued)

<b>Fund, Major and Minor Revenue Source</b>	<b>Original Budget</b>	<b>Budget As Amended</b>	<b>Actual</b>	<b>Variance From Final Budget Positive (Negative)</b>
<b>Primary Government: (Continued)</b>				
<b>Special Revenue Funds: (Continued)</b>				
<b>City Grants Fund: (Continued)</b>				
Revenue from the federal government:				
Categorical aid:				
Uptown planning grant	\$ -	\$ 27,243	\$ 38,921	\$ 11,678
Cherry street planning grant	-	-	94,625	94,625
Total revenue from the Federal Government	\$ -	\$ 27,243	\$ 133,546	\$ 106,303
<b>Total City Grants Fund</b>	<b>\$ 31,110</b>	<b>\$ 58,353</b>	<b>\$ 166,934</b>	<b>\$ 108,581</b>
<b>Housing Choice Fund:</b>				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ 500	\$ 500	\$ 302	\$ (198)
Revenue from use of property	17,100	17,100	18,000	900
Total revenue from use of money and property	\$ 17,600	\$ 17,600	\$ 18,302	\$ 702
Miscellaneous revenue:				
Fraud recoveries	\$ 5,000	\$ 5,000	\$ 5,088	\$ 88
Other recovered costs	500	500	-	(500)
Other miscellaneous revenue	-	-	46	46
Total miscellaneous revenue	\$ 5,500	\$ 5,500	\$ 5,134	\$ (366)
Total revenue from local sources	\$ 23,100	\$ 23,100	\$ 23,436	\$ 336
Revenue from the federal government:				
Categorical aid:				
Housing assistance	\$ 1,815,348	\$ 1,815,348	\$ 1,789,866	\$ (25,482)
Moderate rehab. assistance	27,696	27,696	48,851	21,155
Other federal assistance	251,220	251,220	207,565	(43,655)
Total revenue from the Federal Government	\$ 2,094,264	\$ 2,094,264	\$ 2,046,282	\$ (47,982)
<b>Total Housing Choice Fund</b>	<b>\$ 2,117,364</b>	<b>\$ 2,117,364</b>	<b>\$ 2,069,718</b>	<b>\$ (47,646)</b>
<b>Total Special Revenue Funds</b>	<b>\$ 2,148,474</b>	<b>\$ 2,175,717</b>	<b>\$ 2,236,652</b>	<b>\$ 60,935</b>

Governmental Funds and Discretely Presented Component Unit - School Board  
 Schedule of Revenues -- Budget and Actual  
 Year Ended June 30, 2012 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
<b>Primary Government: (Continued)</b>				
<b>Capital Projects Funds:</b>				
<b>Capital Reserve Fund:</b>				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ -	\$ -	\$ 5,349	\$ 5,349
Miscellaneous revenue:				
Miscellaneous	\$ -	\$ 5,000	\$ 5,000	\$ -
Total revenue from local sources	\$ -	\$ 5,000	\$ 10,349	\$ 5,349
Revenue from the Commonwealth:				
Categorical aid:				
Rescue squad assistance fund	\$ 141,360	\$ 141,360	\$ 141,360	\$ -
Revenue from the federal government:				
Categorical aid:				
VDEM homeland security program	\$ -	\$ 4,464	\$ 35,720	\$ 31,256
USDA Grant	-	400,000	400,000	-
Total revenue from the Federal Government	\$ -	\$ 404,464	\$ 435,720	\$ 31,256
<b>Total Capital Reserve Fund</b>	<b>\$ 141,360</b>	<b>\$ 550,824</b>	<b>\$ 587,429</b>	<b>\$ 36,605</b>
<b>Meals Tax Fund:</b>				
Revenue from local sources:				
Other local taxes:				
Meals taxes	\$ 1,388,475	\$ 1,388,475	\$ 1,434,966	\$ 46,491
Revenue from use of money and property:				
Revenue from use of money	\$ -	\$ -	\$ 15,041	\$ 15,041
Total revenue from local sources	\$ 1,388,475	\$ 1,388,475	\$ 1,450,007	\$ 61,532
Revenue from the Federal Government				
Categorical aid:				
QSCB tax credit	\$ -	\$ -	\$ 182,254	\$ 182,254
<b>Total Meals Tax Fund</b>	<b>\$ 1,388,475</b>	<b>\$ 1,388,475</b>	<b>\$ 1,632,261</b>	<b>\$ 243,786</b>
<b>Total Capital Projects Funds</b>	<b>\$ 1,529,835</b>	<b>\$ 1,939,299</b>	<b>\$ 2,219,690</b>	<b>\$ 280,391</b>
<b>Grand Total Revenues -- Primary Government</b>	<b>\$ 28,586,071</b>	<b>\$ 29,360,704</b>	<b>\$ 30,554,378</b>	<b>\$ 1,193,674</b>
<b>Component Unit-School Board:</b>				
<b>Governmental Funds:</b>				
<b>School Operating Fund:</b>				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of property	\$ 35,000	\$ 35,000	\$ 45,848	\$ 10,848
Charges for services:				
Tuition and other charges for services	\$ 5,000	\$ 5,000	\$ 8,750	\$ 3,750
Miscellaneous revenue:				
Miscellaneous revenue	\$ -	\$ 140,000	\$ 97,430	\$ (42,570)
Recovered costs:				
Recovered costs	\$ 307,451	\$ 307,451	\$ 551,788	\$ 244,337
Total revenue from local sources	\$ 347,451	\$ 487,451	\$ 703,816	\$ 216,365

Governmental Funds and Discretely Presented Component Unit - School Board  
 Schedule of Revenues -- Budget and Actual  
 Year Ended June 30, 2012 (Continued)

<b>Fund, Major and Minor Revenue Source</b>	<b>Original Budget</b>	<b>Budget As Amended</b>	<b>Actual</b>	<b>Variance From Final Budget Positive (Negative)</b>
<b>Component Unit-School Board: (Continued)</b>				
<b>Governmental Funds: (Continued)</b>				
<b>School Operating Fund: (Continued)</b>				
Intergovernmental revenue:				
Revenues from local governments:				
Contribution from City of Martinsville, Virginia	\$ 5,678,608	\$ 5,678,608	\$ 3,076,122	\$ (2,602,486)
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 2,690,042	\$ 2,690,042	\$ 2,637,655	\$ (52,387)
Basic school aid	6,300,999	6,300,999	6,102,241	(198,758)
Share of fringe benefits - Fica	457,777	457,777	447,382	(10,395)
Share of fringe benefits - VRS	414,914	414,914	405,492	(9,422)
English as a second language	63,047	63,047	70,865	7,818
Group life insurance benefits	17,145	17,145	16,756	(389)
Regional tuition special education	75,141	75,141	61,924	(13,217)
Early reading intervention	44,665	44,665	47,016	2,351
Vocational SOQ payments	248,605	248,605	242,960	(5,645)
Special education - basic	890,184	890,184	872,793	(17,391)
At risk students	524,703	524,703	512,889	(11,814)
Homebound education	23,630	23,630	23,248	(382)
Remedial education	142,805	142,805	117,646	(25,159)
Remediation SOQ payments	382,338	382,338	373,656	(8,682)
Reduced K-3	529,937	529,937	550,385	20,448
Preschool initiative	246,037	246,037	246,037	-
Textbooks	69,541	69,541	67,962	(1,579)
Technology	165,563	165,563	164,043	(1,520)
Other state funds	431,607	431,607	424,944	(6,663)
Total revenue from the Commonwealth	\$ 13,718,680	\$ 13,718,680	\$ 13,385,894	\$ (332,786)
Revenue from the federal government:				
Categorical aid:				
Vocational education - Carl Perkins	\$ 64,255	\$ 64,255	\$ 69,141	\$ 4,886
State fiscal stabilization funds	661,170	661,170	592,713	(68,457)
NASA program	125,000	125,000	274,139	149,139
Workforce investment act	36,414	36,414	47,846	11,432
Other federal categorical aid	96,127	96,127	110,305	14,178
Total categorical aid	\$ 982,966	\$ 982,966	\$ 1,094,144	\$ 111,178
Total revenue from the federal government	\$ 982,966	\$ 982,966	\$ 1,094,144	\$ 111,178
<b>Total School Operating Fund</b>	<b>\$ 20,727,705</b>	<b>\$ 20,867,705</b>	<b>\$ 18,259,976</b>	<b>\$ (2,607,729)</b>

Governmental Funds and Discretely Presented Component Unit - School Board  
 Schedule of Revenues -- Budget and Actual  
 Year Ended June 30, 2012 (Continued)

<b>Fund, Major and Minor Revenue Source</b>	<b>Original Budget</b>	<b>Budget As Amended</b>	<b>Actual</b>	<b>Variance From Final Budget Positive (Negative)</b>
<b>Component Unit-School Board: (Continued)</b>				
<b>Governmental Funds: (Continued)</b>				
<b>School Cafeteria Fund:</b>				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ 2,300	\$ 2,300	\$ 365	\$ (1,935)
Charges for services:				
Cafeteria sales	\$ 548,400	\$ 548,400	\$ 442,180	\$ (106,220)
Revenue from the Commonwealth:				
Categorical aid:				
School food	\$ 34,984	\$ 34,984	\$ 26,188	\$ (8,796)
Revenue from the federal government:				
Categorical aid:				
School food	\$ 733,977	\$ 733,977	\$ 1,079,026	\$ 345,049
<b>Total School Cafeteria Fund</b>	<b>\$ 1,319,661</b>	<b>\$ 1,319,661</b>	<b>\$ 1,547,759</b>	<b>\$ 228,098</b>
<b>School Grants Fund:</b>				
Revenue from the federal government:				
Categorical aid:				
Title I	\$ -	\$ -	\$ 1,123,011	\$ 1,123,011
Title II - teacher quality	-	-	185,360	185,360
Title VI - rural education	-	-	288,142	288,142
Drug free schools	-	-	20,788	20,788
Special education - flow through	-	-	537,970	537,970
21st Century Title IV-B	-	-	419,800	419,800
Total revenue from the federal government	\$ -	\$ -	\$ 2,575,071	\$ 2,575,071
<b>Total School Grants Fund</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,575,071</b>	<b>\$ 2,575,071</b>
<b>Grand Total Revenues--Component Unit - School Board</b>	<b>\$ 22,047,366</b>	<b>\$ 22,187,366</b>	<b>\$ 22,382,806</b>	<b>\$ 195,440</b>

Governmental Funds and Discretely Presented Component Unit - School Board  
 Schedule of Expenditures - Budget and Actual  
 Year Ended June 30, 2012

<b>Fund, Function, Activity and Elements</b>	<b>Original Budget</b>	<b>Budget As Amended</b>	<b>Actual</b>	<b>Variance From Final Budget Positive (Negative)</b>
<b>Primary Government:</b>				
<b>General Fund:</b>				
General Government Administration:				
Legislative:				
City council	\$ 40,030	\$ 40,030	\$ 39,485	\$ 545
General and Financial Administration:				
Clerk of council	\$ 1,844	\$ 1,909	\$ 1,413	\$ 496
City attorney	93,837	93,837	90,258	3,579
City manager's office	237,373	237,373	178,782	58,591
Assistant city manager	64,493	64,493	63,062	1,431
Legal services	15,500	15,500	-	15,500
Human resources	142,474	143,550	155,807	(12,257)
Employment services	344,365	347,237	250,610	96,627
Communications	16,831	16,831	6,948	9,883
Commissioner of the Revenue	390,828	393,850	389,945	3,905
Assessor	215	215	151	64
Treasurer	254,762	254,956	252,781	2,175
Finance director	53,358	53,358	74,156	(20,798)
Accounting	226,878	226,878	163,226	63,652
Utility billing	444,990	444,990	425,653	19,337
Information services	341,068	341,068	338,767	2,301
Central garage	478,405	481,592	477,959	3,633
Purchasing	237,664	306,465	329,223	(22,758)
Risk management	252,000	252,000	237,322	14,678
General expenses	498,992	469,640	581,376	(111,736)
Total general and financial administration	\$ 4,095,877	\$ 4,145,742	\$ 4,017,439	\$ 128,303
Board of Elections:				
Electoral board and officials	\$ 19,937	\$ 19,937	\$ 22,145	\$ (2,208)
Registrar	120,574	135,922	115,021	20,901
Total board of elections	\$ 140,511	\$ 155,859	\$ 137,166	\$ 18,693
Total general government administration	\$ 4,276,418	\$ 4,341,631	\$ 4,194,090	\$ 147,541
Judicial Administration:				
Courts:				
Circuit court	\$ 88,891	\$ 91,897	\$ 83,655	\$ 8,242
General district court	31,875	31,875	24,700	7,175
Juvenile and domestic relations court	7,580	7,580	7,345	235
Clerk of the circuit court	365,349	368,270	361,928	6,342
Sheriff - courts	849,993	863,326	787,549	75,777
Total Courts	\$ 1,343,688	\$ 1,362,948	\$ 1,265,177	\$ 97,771

Governmental Funds and Discretely Presented Component Unit - School Board

Schedule of Expenditures - Budget and Actual

Year Ended June 30, 2012 (Continued)

<b>Fund, Function, Activity and Elements</b>	<b>Original Budget</b>	<b>Budget As Amended</b>	<b>Actual</b>	<b>Variance From Final Budget Positive (Negative)</b>
<b>Primary Government: (Continued)</b>				
<b>General Fund: (Continued)</b>				
Commonwealth Attorney:				
Commonwealth attorney	\$ 593,537	\$ 606,145	\$ 580,800	\$ 25,345
Victim witness program	69,677	70,291	71,867	(1,576)
Total Commonwealth attorney	\$ 663,214	\$ 676,436	\$ 652,667	\$ 23,769
Total judicial administration	\$ 2,006,902	\$ 2,039,384	\$ 1,917,844	\$ 121,540
Public Safety:				
Law Enforcement and Traffic Control:				
Police department	\$ 3,776,911	\$ 3,934,977	\$ 3,685,626	\$ 249,351
Transportation safety commission	1,500	1,500	1,293	207
Total law enforcement and traffic control	\$ 3,778,411	\$ 3,936,477	\$ 3,686,919	\$ 249,558
Fire and Rescue Services:				
Fire services	\$ 1,916,675	\$ 2,027,747	\$ 1,942,467	\$ 85,280
Emergency medical services	180,120	183,653	164,968	18,685
Total fire and rescue services	\$ 2,096,795	\$ 2,211,400	\$ 2,107,435	\$ 103,965
Correction and Detention:				
Sheriff -corrections	\$ 2,415,157	\$ 2,503,130	\$ 2,367,306	\$ 135,824
Sheriff -jail annex	169,655	170,944	158,739	12,205
Probation office	312,222	312,222	308,202	4,020
Total correction and detention	\$ 2,897,034	\$ 2,986,296	\$ 2,834,247	\$ 152,049
Inspections:				
Building and other	\$ 256,127	\$ 257,431	\$ 204,937	\$ 52,494
Other Protection:				
Safety	\$ 90,528	\$ 90,917	\$ 84,797	\$ 6,120
Total public safety	\$ 9,118,895	\$ 9,482,521	\$ 8,918,335	\$ 564,186
Public Works:				
Maintenance of highways, streets, bridges and sidewalks:				
Director of public works	\$ 97,726	\$ 97,726	\$ 90,788	\$ 6,938



Governmental Funds and Discretely Presented Component Unit - School Board

Schedule of Expenditures - Budget and Actual

Year Ended June 30, 2012 (Continued)

<b>Fund, Function, Activity and Elements</b>	<b>Original Budget</b>	<b>Budget As Amended</b>	<b>Actual</b>	<b>Variance From Final Budget Positive (Negative)</b>
<b>Primary Government: (Continued)</b>				
<b>General Fund: (Continued)</b>				
Maintenance of highways, streets, bridges and sidewalks: (Continued)				
Engineering	\$ 125,802	\$ 128,356	\$ 128,290	\$ 66
Street maintenance	1,688,888	1,792,377	1,543,840	248,537
Street marking and signs	197,788	215,116	202,835	12,281
Traffic signals	436,287	436,287	388,914	47,373
Street cleaning	452,494	452,494	452,837	(343)
VDOT reserve	30,000	30,000	2,841	27,159
Street construction	406,479	407,800	403,402	4,398
Thoroughfare construction	20,000	159,595	158,644	951
Total maintenance of highways, streets, bridges and sidewalks	<u>\$ 3,455,464</u>	<u>\$ 3,719,751</u>	<u>\$ 3,372,391</u>	<u>\$ 347,360</u>
Maintenance of buildings and grounds:				
Uptown maintenance	\$ 45,055	\$ 45,055	\$ 46,317	\$ (1,262)
City hall maintenance	417,280	418,706	426,903	(8,197)
Social services building maintenance	2,000	2,000	78	1,922
Indoor Plumbing	4,056	4,056	53	4,003
WPBDC building	10,000	10,000	5,936	4,064
Fiber optic network	139,000	139,600	94,629	44,971
Housing services building	8,320	8,320	4,033	4,287
Public health center	10,000	10,000	15	9,985
Total maintenance of buildings and grounds	<u>\$ 635,711</u>	<u>\$ 637,737</u>	<u>\$ 577,964</u>	<u>\$ 59,773</u>
Total public works	<u>\$ 4,091,175</u>	<u>\$ 4,357,488</u>	<u>\$ 3,950,355</u>	<u>\$ 407,133</u>
Health and Welfare				
Health:				
Comprehensive services	\$ -	\$ -	\$ 68,901	\$ (68,901)
Contribution to local health department	187,902	187,902	201,615	(13,713)
Mental Health and Mental Retardation:				
Chapter X board	<u>\$ 55,432</u>	<u>\$ 55,432</u>	<u>\$ 55,432</u>	<u>\$ -</u>
Welfare/Social Services:				
Regional social services board	<u>\$ 324,503</u>	<u>\$ 324,503</u>	<u>\$ 278,798</u>	<u>\$ 45,705</u>
Total welfare/social services	<u>\$ 324,503</u>	<u>\$ 324,503</u>	<u>\$ 278,798</u>	<u>\$ 45,705</u>
Total health and welfare	<u>\$ 567,837</u>	<u>\$ 567,837</u>	<u>\$ 604,746</u>	<u>\$ (36,909)</u>

## Governmental Funds and Discretely Presented Component Unit - School Board

## Schedule of Expenditures - Budget and Actual

Year Ended June 30, 2012 (Continued)

<b>Fund, Function, Activity and Elements</b>	<b>Original Budget</b>	<b>Budget As Amended</b>	<b>Actual</b>	<b>Variance From Final Budget Positive (Negative)</b>
<b>Primary Government: (Continued)</b>				
<b>General Fund: (Continued)</b>				
Education:				
Contributions to community colleges	\$ 17,720	\$ 17,720	\$ 17,720	\$ -
Contributions to School Board Component Unit	5,678,608	5,678,608	3,076,122	2,602,486
Total education	\$ 5,696,328	\$ 5,696,328	\$ 3,093,842	\$ 2,602,486
Parks, Recreation, and Cultural:				
Parks and recreation:				
Parks & Recreation	\$ 156,242	\$ 158,685	\$ 119,362	\$ 39,323
Park maintenance	320,808	320,808	238,056	82,752
Hooker field	257,740	261,990	269,000	(7,010)
Senior center	213,549	229,151	198,559	30,592
Armory	89,448	89,648	72,793	16,855
Total parks and recreation	\$ 1,037,787	\$ 1,060,282	\$ 897,770	\$ 162,512
Library:				
Regional library	\$ 321,143	\$ 321,143	\$ 321,143	\$ -
Total parks, recreation and cultural	\$ 1,358,930	\$ 1,381,425	\$ 1,218,913	\$ 162,512
Community Development:				
Planning and Community Development:				
Housing / community development	\$ 209,140	\$ 898,976	\$ 409,240	\$ 489,736
Planning and zoning	118,273	119,069	104,405	14,664
Contributions to local organizations	861,103	869,288	840,596	28,692
Total planning and community development	\$ 1,188,516	\$ 1,887,333	\$ 1,354,241	\$ 533,092
Cooperative Extension Program:				
Horticulture and family resources	\$ 6,925	\$ 6,925	\$ 6,925	\$ -
Total community development	\$ 1,195,441	\$ 1,894,258	\$ 1,361,166	\$ 533,092
Debt service:				
Principal retirement	\$ 142,160	\$ 142,160	\$ 142,160	\$ -
Interest and other debt costs	5,626	5,626	5,125	501
Total debt service	\$ 147,786	\$ 147,786	\$ 147,285	\$ 501
<b>Total General Fund</b>	<b>\$ 28,459,712</b>	<b>\$ 29,908,658</b>	<b>\$ 25,406,576</b>	<b>\$ 4,502,082</b>

Governmental Funds and Discretely Presented Component Unit - School Board

Schedule of Expenditures - Budget and Actual

Year Ended June 30, 2012 (Continued)

<b>Fund, Function, Activity and Elements</b>	<b>Original Budget</b>	<b>Budget As Amended</b>	<b>Actual</b>	<b>Variance From Final Budget Positive (Negative)</b>
<b>Primary Government: (Continued)</b>				
<b>Special Revenue Funds:</b>				
<b>City Grants Fund:</b>				
Planning and Community Development:				
Community development block grant	\$ 160,314	\$ 188,223	\$ 162,068	\$ 26,155
<b>Total City Grants Fund</b>	<u>\$ 160,314</u>	<u>\$ 188,223</u>	<u>\$ 162,068</u>	<u>\$ 26,155</u>
<b>Housing Choice Fund:</b>				
Planning and Community Development:				
Housing choice voucher program	\$ 2,207,175	\$ 2,250,575	\$ 1,951,639	\$ 298,936
<b>Total Housing Choice Fund</b>	<u>\$ 2,207,175</u>	<u>\$ 2,250,575</u>	<u>\$ 1,951,639</u>	<u>\$ 298,936</u>
<b>Total Special Revenue Funds</b>	<u>\$ 2,367,489</u>	<u>\$ 2,438,798</u>	<u>\$ 2,113,707</u>	<u>\$ 325,091</u>
<b>Capital Project Funds:</b>				
<b>Capital Reserve Fund:</b>				
General Government Administration:				
Communications equipment	\$ 2,500	\$ 2,500	\$ 2,428	\$ 72
ADP equipment - information services	125,000	125,000	123,504	1,496
Fiber optic network	59,600	59,600	64,837	(5,237)
City hall	-	1,605,850	1,022,637	583,213
Stores	-	8,800	6,041	2,759
Minet - phone system	34,000	34,000	52,604	(18,604)
<b>Total general government administration</b>	<u>\$ 221,100</u>	<u>\$ 1,835,750</u>	<u>\$ 1,272,051</u>	<u>\$ 563,699</u>
Public Safety:				
Law Enforcement and Traffic Control:				
Police department - equipment	\$ 21,200	\$ 35,720	\$ 33,479	\$ 2,241
Police department - motor vehicles	30,000	30,000	28,941	1,059
EMS - motor vehicles	200,000	200,000	-	200,000
Jail - motor vehicles	35,000	63,726	63,828	(102)
Jail expansion	24,330	24,330	2,227	22,103
<b>Total public safety</b>	<u>\$ 310,530</u>	<u>\$ 353,776</u>	<u>\$ 128,475</u>	<u>\$ 225,301</u>

Governmental Funds and Discretely Presented Component Unit - School Board

Schedule of Expenditures - Budget and Actual

Year Ended June 30, 2012 (Continued)

<b>Fund, Function, Activity and Elements</b>	<b>Original Budget</b>	<b>Budget As Amended</b>	<b>Actual</b>	<b>Variance From Final Budget Positive (Negative)</b>
<b>Primary Government: (Continued)</b>				
<b>Capital Projects Funds: (Continued)</b>				
<b>Capital Reserve Fund: (Continued)</b>				
Public Works:				
Highways, streets, bridges and sidewalks:				
Street construction - motor vehicles	\$ 35,000	\$ 46,400	\$ 43,197	\$ 3,203
Total public works	\$ 35,000	\$ 46,400	\$ 43,197	\$ 3,203
Debt service:				
Principal retirement	\$ 236,698	\$ 236,698	\$ 236,698	\$ -
Interest and other debt costs	42,284	91,434	91,434	-
Total debt service	\$ 278,982	\$ 328,132	\$ 328,132	\$ -
<b>Total Capital Reserve Fund</b>	<b>\$ 845,612</b>	<b>\$ 2,564,058</b>	<b>\$ 1,771,855</b>	<b>\$ 792,203</b>
<b>Meals Tax Fund:</b>				
General Government Administration:				
Meals tax administration	\$ 35,190	\$ 35,190	\$ 35,190	\$ -
Education:				
High School improvements	\$ -	\$ 9,276,156	\$ 544,740	\$ 8,731,416
Debt service:				
Principal retirement	\$ 828,984	\$ 828,984	\$ 828,984	\$ -
Interest and other debt costs	279,737	303,581	485,837	(182,256)
Total debt service	\$ 1,108,721	\$ 1,132,565	\$ 1,314,821	\$ (182,256)
<b>Total Meals Tax Fund</b>	<b>\$ 1,143,911</b>	<b>\$ 10,443,911</b>	<b>\$ 1,894,751</b>	<b>\$ 8,549,160</b>
<b>Total Capital Project Funds</b>	<b>\$ 1,989,523</b>	<b>\$ 13,007,969</b>	<b>\$ 3,666,606</b>	<b>\$ 9,341,363</b>
<b>Grand Total Expenditures - Primary Government</b>	<b>\$ 32,816,724</b>	<b>\$ 45,355,425</b>	<b>\$ 31,186,889</b>	<b>\$ 14,168,536</b>

## Governmental Funds and Discretely Presented Component Unit - School Board

## Schedule of Expenditures - Budget and Actual

Year Ended June 30, 2012 (Continued)

<b>Fund, Function, Activity and Elements</b>	<b>Original Budget</b>	<b>Budget As Amended</b>	<b>Actual</b>	<b>Variance From Final Budget Positive (Negative)</b>
<b>Component Unit - School Board</b>				
<b>School Operating Fund:</b>				
Education:				
Instruction	\$ 16,195,539	\$ 16,474,068	\$ 16,034,094	\$ 439,974
Administration, attendance and health	1,289,923	1,289,923	1,333,783	(43,860)
Pupil transportation	853,016	853,016	898,948	(45,932)
Operation and maintenance of school plant	<u>2,389,227</u>	<u>2,389,227</u>	<u>2,247,231</u>	<u>141,996</u>
Total operating costs	<u>\$ 20,727,705</u>	<u>\$ 21,006,234</u>	<u>\$ 20,514,056</u>	<u>\$ 492,178</u>
Total School Operating Fund	<u><u>\$ 20,727,705</u></u>	<u><u>\$ 21,006,234</u></u>	<u><u>\$ 20,514,056</u></u>	<u><u>\$ 492,178</u></u>
<b>School Cafeteria Fund:</b>				
Education:				
School food services	<u>\$ 1,319,661</u>	<u>\$ 1,319,661</u>	<u>\$ 1,377,471</u>	<u>\$ (57,810)</u>
<b>School Grants Fund:</b>				
Education:				
Instruction costs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,574,615</u>	<u>\$ (2,574,615)</u>
Grand Total Expenditures - Component Unit - School Board	<u><u>\$ 22,047,366</u></u>	<u><u>\$ 22,325,895</u></u>	<u><u>\$ 24,466,142</u></u>	<u><u>\$ (2,140,247)</u></u>

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<u>Section</u>	<u>Description / Table Name</u>	<u>Table Number</u>
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Financial Trends

These tables contain trend information to help the reader understand how the the City's financial performance and well-being have changed over time.

Net Assets by Component	1
Changes in Net Assets	2
Governmental Activities Tax Revenues by Source--(Accrual Basis of Accounting)	3
Fund Balances of Governmental Funds	4
Changes in Fund Balances of Governmental Funds	5
Governmental Activities Tax Revenues by Source (Modified Accrual Basis of Accounting)	6

Revenue Capacity

These tables contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.

Assessed Value of Taxable Property	7
Property Tax Levies and Collections	8

Debt Capacity

These tables present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue debt in the future.

Ratios of Outstanding Debt by Type	9
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita	10
Computation of Direct and Overlapping Bonded Debt	11

Demographic and Economic Information

These tables offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.

Operating Information

These tables contain information about the City's operations and resources to help the reader understand how the City's financial information relate to the services the City provides and the activities it performs.

Principal Employers--Current year and nine years ago	13
Full-time Equivalent City Government Employees by Function--Last Seven Fiscal Years	14
Operating Indicators by Function--Last Three Fiscal Years	15
Capital Asset Statistics by Function--Last Three Fiscal Years	16

Sources:

Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in fiscal year 2003; schedules presenting government-wide information include information beginning in that year.

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Net Assets by Component  
Last Seven Fiscal Years  
(Accrual Basis of Accounting)

	2006	2007	2008	2009	2010	2011	2012
Governmental activities:							
Invested in capital assets, net of related debt	\$ (123,200)	\$ 5,142,385	\$ 5,319,803	\$ 5,351,713	\$ 4,986,603	\$ 5,095,179	\$ 5,239,010
Unrestricted	<u>2,152,087</u>	<u>4,734,923</u>	<u>6,512,958</u>	<u>5,938,838</u>	<u>5,095,384</u>	<u>5,709,696</u>	<u>10,833,837</u>
Total governmental activities net assets	<u>\$ 2,028,887</u>	<u>\$ 9,877,308</u>	<u>\$ 11,832,761</u>	<u>\$ 11,290,551</u>	<u>\$ 10,081,987</u>	<u>\$ 10,804,875</u>	<u>\$ 16,072,847</u>
Business-type activities:							
Invested in capital assets, net of related debt	\$ 14,161,621	\$ 14,643,741	\$ 14,934,394	\$ 15,210,773	\$ 14,419,532	\$ 15,002,561	\$ 17,011,598
Unrestricted	<u>8,413,648</u>	<u>8,031,456</u>	<u>8,389,158</u>	<u>6,452,916</u>	<u>7,012,823</u>	<u>7,017,111</u>	<u>8,058,407</u>
Total business-type activities net assets	<u>\$ 22,575,269</u>	<u>\$ 22,675,197</u>	<u>\$ 23,323,552</u>	<u>\$ 21,663,689</u>	<u>\$ 21,432,355</u>	<u>\$ 22,019,672</u>	<u>\$ 25,070,005</u>
Primary government							
Invested in capital assets, net of related debt	\$ 14,038,421	\$ 19,786,126	\$ 20,254,197	\$ 20,562,486	\$ 19,406,135	\$ 20,097,740	\$ 22,250,608
Unrestricted	<u>10,565,735</u>	<u>12,766,379</u>	<u>14,902,116</u>	<u>12,391,754</u>	<u>12,108,207</u>	<u>12,726,807</u>	<u>18,892,244</u>
Total primary government	<u>\$ 24,604,156</u>	<u>\$ 32,552,505</u>	<u>\$ 35,156,313</u>	<u>\$ 32,954,240</u>	<u>\$ 31,514,342</u>	<u>\$ 32,824,547</u>	<u>\$ 41,142,852</u>

Note: Accrual-basis financial information is available back to fiscal year 2003 when the City implemented GASB 34.

Changes in Net Assets  
Last Seven Fiscal Years  
(Accrual Basis of Accounting)

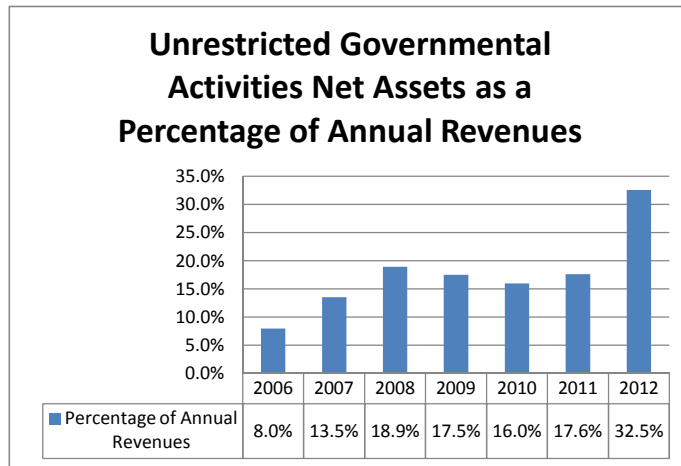
	Fiscal Year						
	2006	2007	2008	2009	2010	2011	2012
<b>Expenses:</b>							
Governmental activities:							
General government administration	\$ 3,368,586	\$ 3,163,344	\$ 3,632,533	\$ 4,276,071	\$ 4,093,661	\$ 3,814,802	\$ 3,637,285
Judicial administration	1,565,300	1,767,723	1,907,359	2,000,159	1,885,494	1,878,258	1,918,028
Public safety	9,145,017	9,048,222	9,397,114	9,696,451	9,472,187	8,997,810	9,228,325
Public works	3,544,843	4,399,867	4,210,661	4,692,221	4,304,621	4,178,766	4,011,222
Health and welfare	630,735	577,782	502,245	582,129	1,292,705	606,262	563,668
Education	7,609,659	7,418,547	7,834,905	7,679,809	6,778,437	6,400,860	3,525,833
Parks, recreation, and cultural	1,472,756	1,486,711	1,740,767	1,096,975	1,149,286	1,340,515	1,254,795
Community development	3,544,537	4,303,337	3,005,045	3,954,587	3,755,520	4,117,538	3,498,547
Interest and other fiscal charges	757,926	511,628	313,246	514,838	402,996	348,232	395,761
Total governmental activities expenses	\$ 31,639,359	\$ 32,677,161	\$ 32,543,875	\$ 34,493,240	\$ 33,134,907	\$ 31,683,043	\$ 28,033,464
Business-type activities:							
Electric	11,533,301	14,000,303	14,386,289	15,660,263	16,432,597	17,175,908	\$ 14,987,140
Water	1,819,844	1,873,437	2,014,138	2,135,742	1,874,519	1,694,197	1,713,386
Sewer	2,552,257	2,775,866	2,818,953	3,105,291	2,996,728	2,652,619	2,712,919
Refuse collection / landfill	1,563,843	1,289,533	2,957,901	2,368,403	1,138,147	1,095,958	1,262,415
Total business-type activities expenses	\$ 17,469,245	\$ 19,939,139	\$ 22,177,281	\$ 23,269,699	\$ 22,441,991	\$ 22,618,682	\$ 20,675,860
Total primary government expenses	\$ 49,108,604	\$ 52,616,300	\$ 54,721,156	\$ 57,762,939	\$ 55,576,898	\$ 54,301,725	\$ 48,709,324
<b>Program revenues:</b>							
Governmental activities:							
Charges for services:							
General government administration	\$ 57,777	\$ 80,019	\$ 91,900	\$ 113,848	\$ 143,120	\$ 191,123	\$ 186,019
Judicial administration	276,702	260,975	234,672	252,763	273,737	202,053	209,709
Public safety	339,337	334,052	325,242	361,662	421,844	509,000	599,126
Public works	90,364	90,002	90,879	92,071	109,045	24,000	24,000
Parks, recreation, and cultural	126,146	142,074	135,477	141,895	162,368	139,931	148,883
Operating grants and contributions:							
General government administration	242,419	272,402	276,647	267,032	234,313	277,056	423,555
Judicial administration	645,010	786,710	866,548	780,735	736,621	713,051	719,769
Public safety	3,083,108	3,535,245	3,940,060	3,955,895	3,397,090	3,239,401	3,283,016
Public works	2,337,755	2,431,846	2,591,437	2,642,578	2,625,314	3,395,752	3,274,179
Health and welfare	277,439	360,404	13,996	12,258	23,973	-	51,227
Parks, recreation, and cultural	18,964	18,227	21,953	17,467	21,545	36,342	34,633
Community development	2,168,303	2,426,624	2,715,790	2,378,903	2,280,439	2,081,905	2,179,828
Capital grants and contributions	139,368	834,435	647,121	138,691	590,000	-	-
Total governmental activities program revenues	\$ 9,802,692	\$ 11,573,015	\$ 11,951,722	\$ 11,155,798	\$ 11,019,409	\$ 10,809,614	\$ 11,133,944

Changes in Net Assets  
Last Six Fiscal Years  
(Accrual Basis of Accounting)

	Fiscal Year						
	2006	2007	2008	2009	2010	2011	2012
Business-type activities:							
Charges for services:							
Electric	\$ 15,356,098	\$ 16,499,732	\$ 17,357,449	\$ 16,728,961	\$ 16,624,330	\$ 17,549,813	\$ 17,005,502
Water	2,575,303	2,998,529	3,639,981	3,216,234	2,912,964	3,090,420	3,108,345
Sewer	2,735,337	3,300,744	3,815,476	3,876,929	3,763,519	3,611,687	4,036,668
Refuse collection / landfill	2,533,568	1,396,947	1,370,624	1,431,649	1,698,501	1,651,673	1,678,419
Operating grants and contributions	-	48,003	-	-	-	-	-
Total business-type activities program revenues	\$ 23,200,306	\$ 24,243,955	\$ 26,183,530	\$ 25,253,773	\$ 24,999,314	\$ 25,903,593	\$ 25,828,934
Total primary government program revenues	\$ 33,002,998	\$ 35,816,970	\$ 38,135,252	\$ 36,409,571	\$ 36,018,723	\$ 36,713,207	\$ 36,962,878
Net (expense) / revenue							
Governmental activities	\$ (21,836,667)	\$ (21,104,147)	\$ (20,592,153)	\$ (23,337,441)	\$ (22,115,498)	\$ (20,873,429)	\$ (16,899,520)
Business-type activities	5,731,061	4,304,816	4,006,249	1,984,074	2,557,323	3,284,911	7,031,372
Total primary government net expense	\$ (16,105,606)	\$ (16,799,331)	\$ (16,585,904)	\$ (21,353,367)	\$ (19,558,175)	\$ (17,588,518)	\$ (9,868,148)
<b>General Revenues and Other Changes in Net Assets</b>							
Governmental activities:							
General property taxes	\$ 7,677,907	\$ 8,759,342	\$ 9,202,010	\$ 9,443,548	\$ 9,036,094	\$ 8,878,758	\$ 8,667,298
Local sales and use taxes	2,145,605	2,279,517	2,054,229	2,015,151	1,759,239	1,911,276	1,891,909
Consumer utility taxes	768,590	758,582	749,579	735,458	718,563	710,361	695,041
Business license taxes	1,713,541	1,757,733	1,837,209	1,849,974	1,676,826	1,947,085	1,720,315
Meals tax	1,155,170	1,368,860	1,403,131	1,430,326	1,390,907	1,409,442	1,434,966
Telephone taxes	559,954	267,252	-	-	-	-	-
Other local taxes	1,223,340	1,428,376	1,803,565	1,792,617	1,738,173	816,634	878,807
Commonwealth of Virginia non-categorical aid	732,396	734,180	724,000	704,371	695,066	1,657,430	1,631,430
Unrestricted revenues from use of money and property	965,674	1,460,400	1,006,575	732,669	714,804	612,256	725,358
Miscellaneous	246,894	320,679	283,529	441,675	374,241	916,783	510,730
Transfers	4,550,493	4,392,215	3,483,779	3,649,442	2,803,021	2,736,292	4,011,638
Total governmental activities	\$ 21,739,564	\$ 23,527,136	\$ 22,547,606	\$ 22,795,231	\$ 20,906,934	\$ 21,596,317	\$ 22,167,492
Business-type activities:							
Transfers	\$ (4,550,493)	\$ (4,392,215)	\$ (3,483,779)	\$ (3,649,442)	\$ (2,803,021)	\$ (2,736,292)	\$ (4,011,638)
Unrestricted revenues from use of money and property	108,482	187,327	125,885	5,505	14,364	38,698	30,599
Total business-type activities	\$ (4,442,011)	\$ (4,204,888)	\$ (3,357,894)	\$ (3,643,937)	\$ (2,788,657)	\$ (2,697,594)	\$ (3,981,039)
Total primary government	\$ 17,297,553	\$ 19,322,248	\$ 19,189,712	\$ 19,151,294	\$ 18,118,277	\$ 18,898,723	\$ 18,186,453
<b>Change in Net Assets</b>							
Governmental activities	\$ (97,103)	\$ 2,422,989	\$ 1,955,453	\$ (542,210)	\$ (1,208,565)	\$ 722,888	\$ 5,267,972
Business-type activities	1,289,050	99,928	648,355	(1,659,863)	(231,334)	587,317	3,050,333
Total primary government	\$ 1,191,947	\$ 2,522,917	\$ 2,603,808	\$ (2,202,073)	\$ (1,439,899)	\$ 1,310,205	\$ 8,318,305

Note: Accrual-basis financial information is available back to fiscal year 2003 when the City implemented GASB 34.

Level of Unrestricted Net Assets  
Last Seven Fiscal Years  
(Accrual Basis of Accounting)



Unrestricted net assets represent the resources that are neither invested in capital assets or whose use is constrained to a particular purpose. These net assets can be used for any purpose, though they are not necessarily liquid.

For the year ended June 30, 2012, the City's total unrestricted net assets approximated \$10.8 million or 32.5% of annual total revenues. This represents an increase of approximately \$5,124,141 or 89.7% compared to the year ended June 30, 2011.

Governmental Activities Tax Revenues by Source  
 Last Eight Fiscal Years  
 (Accrual Basis of Accounting)

<b>Fiscal Year</b>	<b>General Property Taxes</b>	<b>Local Sales and Use Taxes</b>	<b>Consumer Utility Taxes</b>	<b>Business License Taxes</b>	<b>Meals Taxes</b>	<b>Telephone Taxes</b>	<b>Other Local Taxes</b>	<b>Total</b>
2012	\$ 8,667,298	\$ 1,891,909	\$ 695,041	\$ 1,720,315	\$ 1,434,966	\$ -	\$ 878,807	\$ 15,288,336
2011	8,878,758	1,911,276	710,361	1,947,085	1,409,442	-	816,634	15,673,556
2010	9,036,094	1,759,239	718,563	1,676,826	1,390,907	-	1,738,173	16,319,802
2009	9,443,548	2,015,151	735,458	1,849,974	1,430,326	-	1,792,617	17,267,074
2008	9,202,010	2,054,229	749,579	1,837,209	1,403,131	-	1,803,565	17,049,723
2007	8,759,342	2,279,517	758,582	1,757,733	1,368,860	267,252	1,428,376	16,619,662
2006	7,677,907	2,145,605	768,590	1,713,541	1,155,170	559,954	1,223,340	15,244,107
2005	7,460,249	2,020,464	769,307	1,750,980	1,119,338	598,640	1,094,081	14,813,059

Note: Accrual-basis financial information is available back to fiscal year 2003 when the City implemented GASB 34.

**CITY OF MARTINSVILLE, VIRGINIA**

Fund Balances of Governmental Funds

Last Ten Fiscal Years

(Modified accrual basis of accounting)

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
General fund					
Unreserved, designated	\$ 156,694	\$ 154,099	154,099	\$ 154,099	\$ 154,099
Unreserved, undesignated	635,008	659,306	354,406	954,031	2,081,470
Nonspendable	-	-	-	-	-
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total general fund	<u>\$ 791,702</u>	<u>\$ 813,405</u>	<u>508,505</u>	<u>\$ 1,108,130</u>	<u>\$ 2,235,569</u>
All other governmental funds					
Unreserved, reported in:					
Special revenue funds (deficit)	\$ 175,600	\$ 420,396	1,127,266	\$ (459,576)	\$ 54,241
Capital projects funds	(225,378)	(170,780)	(347,663)	169,943	1,070,070
Restricted for:					
Capital projects	-	-	-	-	-
Committed, reported in:					
Special revenue funds	-	-	-	-	-
Assigned, reported in:					
Capital projects funds	-	-	-	-	-
Unassigned, reported in:					
Special revenue funds (deficit)	-	-	-	-	-
Total all other governmental funds	<u>\$ (49,778)</u>	<u>\$ 249,616</u>	<u>779,603</u>	<u>\$ (289,633)</u>	<u>\$ 1,124,311</u>

Note: Fund balance classifications changed starting in fiscal year 2011 when the Town implemented GASB 54.

Table 5

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 154,099	\$ 154,099	\$ 154,099	\$ -	\$ -
3,666,122	2,959,209	2,090,139	-	-
-	-	-	512,136	795,619
-	-	-	1,690,400	1,690,400
-	-	-	154,099	154,099
-	-	-	774,240	4,734,167
<u>\$ 3,820,221</u>	<u>\$ 3,113,308</u>	<u>\$ 2,244,238</u>	<u>\$ 3,130,875</u>	<u>\$ 7,374,285</u>
\$ 516,890	\$ 116,818	\$ (230,984)	\$ -	\$ -
834,781	1,177,707	1,171,520	-	-
-	-	-	-	10,053,594
-	-	-	161,982	280,061
-	-	-	1,196,779	705,957
-	-	-	(587,971)	(583,105)
<u>\$ 1,351,671</u>	<u>\$ 1,294,525</u>	<u>\$ 940,536</u>	<u>\$ 770,790</u>	<u>\$ 10,456,507</u>

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Fund Balance Summary  
Year Ended June 30, 2012  
(Modified accrual basis of accounting)

Beginning with the fiscal year 2011, the City implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. 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 purposes unless the government takes the same highest level action to remove or change the constraints;
- 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 balance - amounts that are available for any purpose; positive amounts are only reported in the general fund.

	<b>General Fund</b>	<b>City Grants Fund</b>	<b>Housing Choice Fund</b>	<b>Capital Reserve Fund</b>	<b>Meals Tax Fund</b>	<b>Total</b>
Nonspendable:						
Inventory	\$ 792,569	\$ -	\$ -	\$ -	\$ -	\$ 792,569
Prepaid items	3,050	-	-	-	-	3,050
Restricted for:						
Capital projects	-	-	-	1,206,199	8,847,395	10,053,594
Committed to:						
Centre Infrastructure project	1,666,700	-	-	-	-	1,666,700
Piedmont Area Regional Transit	23,700	-	-	-	-	23,700
Housing Choice program	-	-	280,061	-	-	280,061
Assigned to:						
Thoroughfare construction	154,099	-	-	-	-	154,099
Capital reserve fund	-	-	-	33,439	-	33,439
Meals tax fund	-	-	-	-	672,518	672,518
Unassigned	4,734,167	(583,105)	-	-	-	4,151,062
Total fund balance	<u>\$ 7,374,285</u>	<u>\$ (583,105)</u>	<u>\$ 280,061</u>	<u>\$ 1,239,638</u>	<u>\$ 9,519,913</u>	<u>\$ 17,830,792</u>

# CITY OF MARTINSVILLE, VIRGINIA

## Changes in Fund Balances of Governmental Funds Last Ten Fiscal Years (Modified Accrual Basis of Accounting)

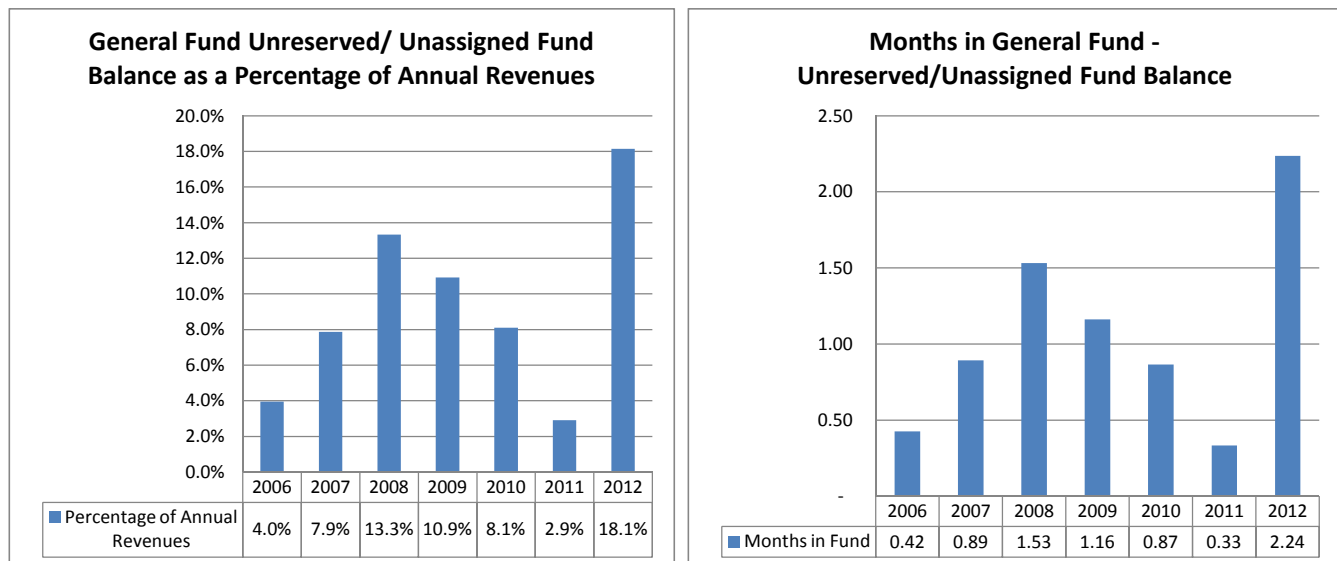
	2003	2004	2005	2006
Revenues:				
General property taxes	\$ 7,288,727	\$ 7,338,045	\$ 7,642,006	\$ 8,744,282
Other local taxes	7,112,440	7,352,810	7,566,200	7,860,321
Permits, privilege fees and regulatory licenses	69,393	199,679	418,210	436,393
Fines and forfeitures	221,076	251,543	235,837	207,286
Revenue from use of money and property	485,093	659,907	965,674	1,472,629
Charges for services	118,038	213,979	236,278	263,442
Miscellaneous	340,160	292,673	246,894	320,678
Recovered costs	947,939	900,686	894,882	1,084,522
Intergovernmental:				
Commonwealth	7,008,991	6,995,579	7,176,201	8,346,744
Federal	2,485,469	2,255,816	2,468,561	3,053,329
Total revenues	<u>\$ 26,077,326</u>	<u>\$ 26,460,717</u>	<u>\$ 27,850,743</u>	<u>\$ 31,789,626</u>
Expenditures:				
General government administration	\$ 3,123,305	\$ 4,079,407	\$ 3,924,510	\$ 3,888,574
Judicial administration	1,372,696	1,468,873	1,566,000	1,779,779
Public safety	7,845,641	8,935,052	9,200,137	9,191,113
Public works	3,667,769	3,551,770	3,820,345	4,518,076
Health and welfare	561,968	454,094	642,240	600,133
Education	6,877,698	6,403,847	8,740,321	6,695,401
Parks, recreation, and cultural	969,929	1,157,425	1,459,050	1,491,346
Community development	2,997,166	3,766,058	3,726,792	4,516,723
Capital Outlays	677,481	-	-	-
Capital Projects	110,432	-	-	-
Non-departmental	-	-	-	-
Debt service:				
Principal retirement	1,906,339	1,092,255	1,183,049	1,103,063
Interest and other fiscal charges	608,736	497,758	638,403	482,109
Total expenditures	<u>\$ 30,719,160</u>	<u>\$ 31,406,539</u>	<u>\$ 34,900,847</u>	<u>\$ 34,266,317</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (4,641,834)</u>	<u>\$ (4,945,822)</u>	<u>\$ (7,050,105)</u>	<u>\$ (2,476,691)</u>
Other financing sources (uses):				
Proceeds from debt issued	\$ 127,000	\$ 427,575	\$ 4,529,764	\$ 500,000
Sale of property	1,177,000	-	-	-
Payment to refunded bond escrow agent	-	-	(2,499,764)	-
Transfers in	3,902,199	5,868,548	4,859,443	5,442,840
Transfers (out)	(426,586)	(1,125,214)	(308,950)	(1,050,625)
Total other financing sources (uses)	<u>\$ 4,779,613</u>	<u>\$ 5,170,909</u>	<u>\$ 6,580,493</u>	<u>\$ 4,892,215</u>
Net changes in fund balances	<u>\$ 137,779</u>	<u>\$ 225,087</u>	<u>\$ (469,612)</u>	<u>\$ 2,415,524</u>
Debt service as a percentage of noncapital expenditures	<u>8.40%</u>	<u>5.30%</u>	<u>5.64%</u>	<u>4.87%</u>

Table 7

2007	2008	2009	2010	2011	2012
\$ 8,744,282	\$ 9,252,784	\$ 9,305,221	\$ 9,080,208	\$ 8,941,108	\$ 8,622,900
7,860,321	7,847,713	7,823,526	6,345,922	6,794,798	6,621,038
436,393	432,554	447,276	560,910	505,375	594,763
207,286	167,266	180,298	172,344	151,231	163,118
1,472,629	1,006,575	732,669	714,804	612,256	725,358
263,442	278,350	334,665	376,859	409,501	409,856
320,678	283,529	441,676	374,241	938,783	510,730
1,084,522	1,113,309	995,822	1,077,895	974,492	1,126,724
8,346,744	8,840,847	7,764,295	8,968,309	9,079,756	8,840,678
3,053,329	2,956,705	3,133,635	2,573,838	2,321,181	2,939,213
<u>\$ 31,789,626</u>	<u>\$ 32,179,632</u>	<u>\$ 31,159,083</u>	<u>\$ 30,245,330</u>	<u>\$ 30,728,481</u>	<u>\$ 30,554,378</u>
\$ 3,888,574	\$ 4,302,438	\$ 5,012,363	\$ 4,769,772	\$ 4,320,113	\$ 5,501,331
1,779,779	1,907,589	2,000,189	1,885,975	1,887,939	1,917,844
9,191,113	9,716,719	9,874,293	9,399,480	9,005,610	9,046,810
4,518,076	4,062,576	4,911,994	4,141,317	4,084,984	3,993,552
600,133	521,146	605,854	1,396,264	627,135	604,746
6,695,401	7,082,718	6,891,809	6,039,577	5,697,421	3,638,582
1,491,346	1,722,562	1,108,760	1,165,186	1,500,498	1,218,913
4,516,723	2,970,905	3,950,792	4,173,213	4,066,774	3,474,873
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,103,063	3,660,658	3,660,350	1,251,510	1,188,028	1,207,842
482,109	368,440	528,333	389,116	369,380	582,396
<u>\$ 34,266,317</u>	<u>\$ 36,315,751</u>	<u>\$ 38,544,737</u>	<u>\$ 34,611,410</u>	<u>\$ 32,747,882</u>	<u>\$ 31,186,889</u>
<u>\$ (2,476,691)</u>	<u>\$ (4,136,119)</u>	<u>\$ (7,385,654)</u>	<u>\$ (4,366,080)</u>	<u>\$ (2,019,401)</u>	<u>\$ (632,511)</u>
\$ 500,000	\$ 2,464,452	\$ 2,972,053	\$ 340,000	\$ -	\$ 10,550,000
-	-	-	-	-	-
-	-	-	-	-	-
5,442,840	3,975,745	3,773,941	3,096,834	2,957,692	4,256,202
(1,050,625)	(491,966)	(124,499)	(293,813)	(221,400)	(244,564)
<u>\$ 4,892,215</u>	<u>\$ 5,948,231</u>	<u>\$ 6,621,495</u>	<u>\$ 3,143,021</u>	<u>\$ 2,736,292</u>	<u>\$ 14,561,638</u>
<u>\$ 2,415,524</u>	<u>\$ 1,812,112</u>	<u>\$ (764,159)</u>	<u>\$ (1,223,059)</u>	<u>\$ 716,891</u>	<u>\$ 13,929,127</u>
<u>4.70%</u>	<u>11.26%</u>	<u>11.16%</u>	<u>4.77%</u>	<u>4.81%</u>	<u>6.14%</u>

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Level of Unreserved/Unassigned Fund Balance  
 Last Seven Fiscal Years  
 (Modified Accrual Basis of Accounting)

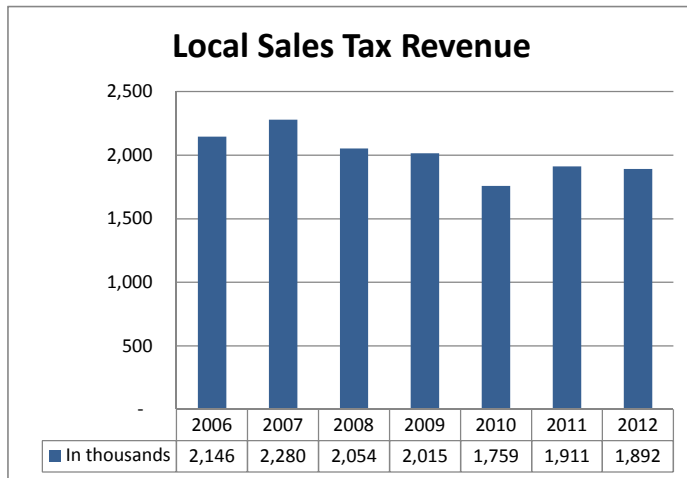


The level of unreserved fund balance is an indication of the amount of unexpended, unencumbered and available resources the government has at a point in time to carryover into the next fiscal year to fund budgetary emergencies, shortfalls, or other unexpected needs. Beginning in fiscal year ending June 30, 2011, the definition of fund balance changed from unreserved to unassigned. In this analysis, only the General Fund is considered.

Governmental Activities Tax Revenues by Source  
 Last Ten Fiscal Years  
 (Modified Accrual Basis of Accounting)

<b>Fiscal Year</b>	<b>General Property Taxes</b>	<b>Local Sales and Use Taxes</b>	<b>Consumer Utility Taxes</b>	<b>Business License Taxes</b>	<b>Meals Taxes</b>	<b>(Telephone) E-911 Taxes</b>	<b>Other Local Taxes</b>	<b>Total</b>
2012	\$ 8,622,900	\$ 1,891,909	\$ 695,041	\$ 1,720,315	\$ 1,632,261	\$ -	\$ 878,807	\$ 15,441,233
2011	8,941,108	1,911,276	710,361	1,947,085	1,409,442	-	816,634	15,735,906
2010	9,080,208	1,759,239	718,563	1,676,826	1,390,907	-	1,738,173	16,363,916
2009	9,305,221	2,015,151	735,458	1,849,974	1,430,326	-	1,792,617	17,128,747
2008	9,252,784	2,054,229	749,579	1,837,209	1,403,131	-	1,803,565	17,100,497
2007	8,744,282	2,279,517	758,582	1,757,733	1,368,860	267,252	1,428,376	16,604,602
2006	7,642,006	2,145,605	768,590	1,713,541	1,155,170	559,954	1,223,340	15,208,206
2005	7,338,045	2,020,464	769,307	1,750,980	1,119,338	598,640	1,094,081	14,690,855
2004	7,288,727	2,048,135	764,038	1,488,635	1,039,988	587,291	1,184,353	14,401,167
2003	6,754,405	2,108,305	779,646	1,615,629	860,452	565,586	958,319	13,642,342

Sales Tax Growth  
Last Seven Fiscal Years  
(Modified Accrual Basis of Accounting)



Local sales tax growth is a measure of the state of the local economy by comparing revenue collected in the prior year to the current year.

For the year ended June 30, 2012, the City experienced a decrease in sales tax collections of approximately \$19,367 or 1.01%.

# CITY OF MARTINSVILLE, VIRGINIA

## Assessed Value of Taxable Property and Tax Rates Last Ten Fiscal Years

<b>Fiscal Year(1)</b>	<b>Real Estate</b>	<b>Personal Property</b>	<b>Machinery and Tools</b>	<b>Public Service Real Estate</b>	<b>Public Service Pers Prop</b>	<b>Total</b>
2012	\$ 666,564,846	\$ 98,318,224	\$ 9,451,688	\$ 22,946,217	\$ 353,331	\$ 797,634,306
2011	693,753,700	96,212,276	5,676,513	22,370,013	257,936	818,270,438
2010	693,122,800	103,067,671	6,124,366	23,411,431	242,044	825,726,268
2009	645,748,787	113,874,992	6,715,547	22,318,052	*	788,657,378
2008	639,192,692	108,609,168	11,452,777	26,072,969	*	785,327,606
2007	593,669,976	100,582,016	15,146,780	21,340,984	*	730,739,756
2006	588,988,194	98,478,170	12,831,665	25,709,402	*	726,007,431
2005	559,497,600	101,861,411	12,083,426	27,043,443	*	700,485,880
2004	556,169,600	94,124,537	13,754,159	29,719,298	*	693,767,594
2003	531,125,500	89,785,700	13,854,533	27,763,786	*	662,529,519
2002	500,132,200	91,886,053	17,253,822	27,821,178	*	637,093,253

(1) 100% fair market value.

\* For this table, prior to 2010, Public Service Real Estate & Personal Property were combined.

Source: Commissioner of the Revenue



Table 11

Tax Rates					
Real Estate	Personal Property	Machinery and Tools	Public Service R/E	Public Service P/P	
\$ 1.01816	\$ 2.30	\$ 1.85	\$ 1.01816	\$ 2.30	
1.01816	2.30	1.85	1.01816	2.30	
1.08	2.30	1.85	1.08	2.30	
1.08	2.30	1.85	1.08	*	
1.08	2.30	1.85	1.08	*	
1.08	2.30	1.85	1.08	*	
0.94	2.30	1.85	0.94	*	
0.94	2.30	1.85	0.94	*	
0.94	2.30	1.85	0.94	*	
0.94	1.92	1.85	0.94	*	
0.94	1.92	1.85	0.94	*	

**CITY OF MARTINSVILLE, VIRGINIA**Property Tax Levies and Collections  
Last Ten Fiscal Years

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<b>Fiscal Year</b>	<b>Total (1) Tax Levy</b>	<b>Current Tax (1), (3) Collections</b>	<b>Percent of Levy Collected</b>	<b>Delinquent (1) Tax (2) Collections</b>
2012	\$ 9,663,905	\$ 8,670,267	89.72%	\$ 437,761
2011	9,654,565	8,926,474	92.46%	437,117
2010	9,790,499	9,082,620	92.77%	453,976
2009	9,960,763	9,330,615	93.67%	428,157
2008	10,162,566	9,304,630	91.56%	396,634
2007	9,594,029	8,819,854	91.93%	397,090
2006	8,587,588	7,808,647	90.93%	352,969
2005	8,142,346	7,441,799	91.40%	324,579
2004	7,984,936	7,554,156	94.61%	236,605
2003	7,269,766	6,925,121	95.26%	355,301

(1) Exclusive of penalties and interest.

(2) Does not include land redemptions.

(3) Note: Current Tax Collections includes PPTRA funds.

Table 12

<b>Total Tax Collections</b>		<b>Percent of Total Tax Collections to Tax Levy</b>	<b>Outstanding Delinquent Taxes (1)</b>		<b>Percent of Delinquent Taxes to Tax Levy</b>
\$	9,108,028	94.25%	\$	1,044,410	10.81%
	9,363,591	96.99%		1,122,427	11.63%
	9,536,596	97.41%		1,463,215	14.95%
	9,758,772	97.97%		1,161,416	11.66%
	9,701,264	95.46%		1,156,795	11.38%
	9,216,944	96.07%		1,042,455	10.87%
	8,161,616	95.04%		934,930	10.89%
	7,766,378	95.38%		782,918	9.62%
	7,790,761	97.57%		751,746	9.41%
	7,280,422	100.15%		729,216	10.03%

**CITY OF MARTINSVILLE, VIRGINIA**

Ratios of Outstanding Debt by Type  
Last Ten Fiscal Years

Fiscal Year	Governmental Activities					
	General Obligation Bonds	General Obligation Notes	State Literary Loans	VP SA Bonds	Capital Leases	Notes Payable
2012	\$ 3,480,300	\$ 340,000	\$ 4,625,000	\$ 10,921,962	\$ 97,087	\$ -
2011	2,473,800	340,000	5,250,000	1,732,744	325,647	-
2010	2,707,900	340,000	5,875,000	1,840,897	546,422	-
2009	2,923,900	-	6,500,000	1,946,566	851,263	-
2008	3,077,971	-	7,125,000	2,045,332	661,723	-
2007	3,276,703	2,000,000	7,788,525	133,572	407,432	500,000
2006	3,464,764	2,000,000	8,452,050	157,819	647,235	-
2005	3,435,000	-	9,115,575	181,364	980,612	-
2004	3,595,000	-	9,779,100	204,251	798,880	-
2003	3,745,000	-	10,442,625	226,522	997,939	-

n/a - not available at publication

Table 13

</					

Ratio of Net General Bonded Debt to  
Assessed Value and Net Bonded Debt Per Capita  
Last Ten Fiscal Years

<b>Fiscal Year</b>	<b>Population (1)</b>	<b>Assessed Value (in thousands) (2)</b>	<b>Net Bonded Debt</b>	<b>Ratio of Net General Obligation Debt to Assessed Value</b>	<b>Net Bonded Debt per Capita</b>
2012	13,902	\$ 797,634,306	\$ 22,050,962	2.76%	\$ 1,586
2011	13,821	818,270,438	12,871,644	1.57%	931
2010	13,821	825,726,268	13,265,997	1.61%	960
2009	14,841	788,657,378	14,113,266	1.79%	951
2008	14,535	785,327,606	14,230,903	1.81%	979
2007	14,545	730,739,756	15,774,728	2.16%	1,085
2006	14,687	726,007,431	15,824,714	2.18%	838
2005	14,743	700,485,880	12,731,939	1.82%	893
2004	14,731	693,767,594	13,580,355	1.96%	942
2003	15,024	662,529,519	14,414,147	2.18%	977

Sources:

(1) The Weldon Cooper Center for Public Service

(2) From Table 7

(3) Includes all long-term general obligation bonded debt, Literary Fund Loans,  
Excludes revenue bonds, capital leases, and compensated absences.

Computation of Direct and Overlapping Bonded Debt  
At June 30, 2012

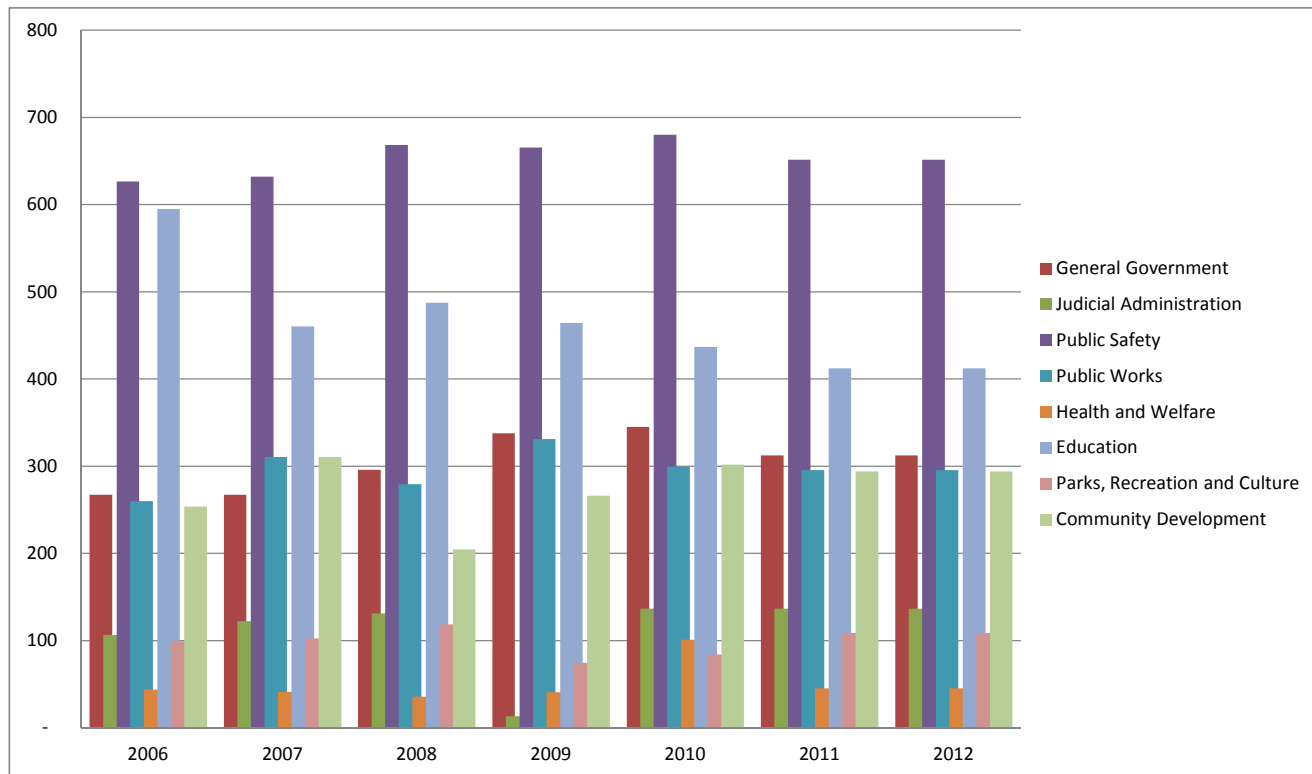
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Direct:(1)

City of Martinsville	\$	22,050,962	100%	\$	22,050,962
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The City of Martinsville has no overlapping debt.

Per Capita Ratios  
Last Seven Fiscal Years





Demographic and Economic Statistics  
Last Ten Fiscal Years

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<b>Fiscal Year</b>	<b>Population (1)</b>	<b>City Per Capita Income (2)</b>	<b>School Enrollment (3)</b>	<b>Unemploy- ment Rate (4)</b>	<b>Personal Income In Thousands (5)</b>
2012	13,902 \$	n/a	2,163	14.30% \$	n/a
2011	13,821	30,097	2,359	17.00%	2,025,548
2010	13,821	29,220	2,324	20.20%	1,981,945
2009	14,841	28,773	2,453	21.60%	2,000,417
2008	14,535	28,906	2,436	11.40%	2,024,349
2007	14,545	27,427	2,408	8.40%	1,920,040
2006	14,687	26,646	2,526	7.20%	1,872,449
2005	14,743	24,641	2,575	10.10%	1,736,201
2004	14,731	17,251	2,593	12.00%	1,720,635
2003	15,024	17,251	2,673	10.50%	1,725,430

n/a - not available at publication

Sources:

- (1) The Weldon Cooper Center for Public Service
- (2) Bureau of Economic Analysis - data for "Martinsville, VA Micropolitan SA"
- (3) School Board Office
- (4) Virginia Employment Commission
- (5) Bureau of Economic Analysis - data for "Martinsville, VA Micropolitan SA"

Full-time Equivalent City Government Employees by Function  
Last Ten Fiscal Years

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government	28	25	28	28	26	24	24	23	23	23
Public safety										
Police department	58	58	55	57	57	57	57	55	54	53
Fire department	29	29	29	31	31	30	30	29	29	29
Public works										
General maintenance	44	41	43	41	38	43	42	42	42	42
Landfill Operation	6	6	6	0	0	0	0	0	0	0
Refuse Collection	4	4	4	0	4	4	4	4	3	3
Engineering	3	4	4	4	4	4	3	2	2	2
Culture and recreation										
Parks and recreation	10	10	10	10	9	9	9	8	7	7
Community development										
Planning	10	9	7	8	8	6	6	5	4	3
Totals	192	186	186	179	177	177	175	168	164	162

Source: Individual city departments

Operating Indicators by Function  
Last Eight Fiscal Years

		2005	2006	2007	2008	2009	2010	2011	2012
Police Protection	Number of stations	1	1	1	1	1	1	1	1
	Number of police personnel and officers	53	53	52	52	58	56	56	55
	Number of law violations:								
	Physical arrests	1,454	2,133	1,562	1,546	1,933	1,332	1,447	1,677
	Traffic violations	4,403	3,909	3,469	2,882	3,336	2,948	2,842	3,389
Fire Protection	Number of stations	2	2	2	2	2	2	2	2
	Number of fire personnel and officers	29	41	41	39	40	41	43	46
	Number of calls answered	1,712	2,448	2,498	2,761	2,642	2,981	3,136	3,171
	Number of inspections conducted	1,071	122	246	237	2,560	50	1,111	1,401
Streets	Streets (miles)	16	16	100	100	100	100	100	100
	Streetlights	4,027	4,027	4,027	3,300	3,300	3,300	3,300	3,300
Recreation & Culture	Number of parks and recreation facilities	7	7	7	7	7	13	13	13
	Number of libraries	1	1	1	1	1	1	1	1
	Number of community centers	1	1	1	1	1	1	1	1
Water	Service Connections	7,500	7,500	7,500	7,300	7,300	7,300	7,300	7,300
	Miles of water mains	120	120	120	120	120	120	120	120
	Number of fire hydrants	520	520	548	548	548	548	548	548
	Daily average consumption in gallons	3.0 MGD	3.0 MGD	3.0 MGD	3.0 MGD	2.0 MGD	2.0 MGD	2.0 MGD	2.0 MGD
	Maximum daily capacity of plant in gallons	10.0 MGD	10.0 MGD	10.0 MGD	10.0 MGD	10.0 MGD	10.0 MGD	10.0 MGD	7.4 MGD
Sewer	Service Connections	7,000	7,000	7,000	6,800	6,800	6,800	6,800	6,800
	Miles of sanitary sewers	140	140	140	140	140	140	140	140
	Miles of storm sewers	1	1	1	1	1	1	1	1
	Number of treatment plants	1	1	1	1	1	1	1	1
	Daily average treatment in gallons	4.5 MGD	5.0 MGD	5.0 MGD	5.0 MGD	4.5 MGD	4.5 MGD	4.5 MGD	4.5 MGD
	Maximum daily capacity of plant in gallons	8.0 MGD	8.0 MGD	8.0 MGD	8.0 MGD	8.0 MGD	8.0 MGD	8.0 MGD	8.0 MGD
Electric Distribution Systems	Miles of service	100	100	100	100	100	100	100	100
	Number of distribution systems	1	1	1	1	1	1	1	1
Facilities and services not included in the primary government									
	Number of elementary schools	5	2	2	2	2	2	3	3
	Number of middle schools	1	1	1	1	1	1	2	2
	Number of secondary schools	1	1	1	1	1	1	1	1
Facilities and services not included in the reporting entity									
	Hospitals:								
	Number of hospitals	1	1	1	1	1	1	1	1
	Number of patient beds	237	220	220	220	220	220	220	237

Source: Individual city departments

Data for fiscal years prior to 2005 is not available for publication.

Capital Asset Statistics by Function  
Last Eight Fiscal Years

Function	2005	2006	2007	2008	2009	2010	2011	2012
General government								
Administration buildings	4	4	4	4	6	6	6	6
Vehicles	11	11	13	15	39	16	4	4
Public safety								
Police department:								
Patrol units	24	24	19	23	23	13	9	9
Other vehicles	10	10	7	6	10	12	16	16
Sheriffs department:								
Patrol units	10	10	11	8	8	8	0	10
Other vehicles	11	11	12	10	14	12	17	7
Fire department:								
Vehicles	13	13	15	14	14	15	13	12
Building inspections:								
Vehicles	3	3	3	2	2	2	2	2
Animal control:								
Vehicles	1	1	1	1	1	1	1	1
Public works								
General maintenance:								
Trucks/vehicles	43	43	38	39	43	62	80	80
Refuse:								
Vehicles	10	10	14	8	9	9	8	9
Sites	1	1	1	1	1	1	1	1
Culture and recreation								
Parks and recreation:								
Community centers	1	1	1	1	1	1	1	1
Vehicles	13	13	14	13	12	7	14	7
Playing Fields	9	9	9	9	9	9	9	9
Tennis courts	3	3	3	3	3	3	3	3
Community development								
Planning:								
Vehicles	1	1	1	1	2	2	2	2
Component Unit - School Board								
Education:								
Schools	6	4	4	4	4	5	5	5
School buses	33	33	33	35	37	34	35	28
Other vehicles	29	29	29	30	30	30	29	27

Source: Individual city departments

Data for fiscal years prior to 2005 is not available for publication.

# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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## **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

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**To The Honorable Members of City Council  
City of Martinsville  
Martinsville, Virginia**

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Martinsville, Virginia, as of and for the year ended June 30, 2012, which collectively comprise the City of Martinsville, Virginia's basic financial statements and have issued our report thereon dated December 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

### **Internal Control Over Financial Reporting**

Management of the City of Martinsville, Virginia is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Martinsville, Virginia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Martinsville, Virginia's internal control over financial reporting.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Martinsville, 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*.

We noted certain other matters that we reported to management of City of Martinsville, Virginia in a separate letter dated December 12, 2012.

This report is intended solely for the information and use of management, the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Robinson, Farmer, Cox Associates*

Charlottesville, Virginia  
December 12, 2012

# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

## **Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

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**To The Honorable Members of City Council  
City of Martinsville  
Martinsville, Virginia**

### **Compliance**

We have audited the City of Martinsville, Virginia's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The City of Martinsville, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Martinsville, Virginia's management. Our responsibility is to express an opinion on the City of Martinsville, Virginia's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Martinsville, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Martinsville, Virginia's compliance with those requirements.

In our opinion, the City of Martinsville, Virginia complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

## **Internal Control Over Compliance**

The management of the City of Martinsville, Virginia is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Martinsville, Virginia's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Robinson, Farmer, Cox Associates*  
Charlottesville, Virginia  
December 12, 2012



Schedule of Expenditures of Federal Awards - Primary Government and  
Discretely Presented Component Unit  
Year Ended June 30, 2012

Federal Grantor/State Pass - Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Agency Identifying Number	Federal Expenditures
<b>PRIMARY GOVERNMENT:</b>			
<u>DEPARTMENT OF TRANSPORTATION:</u>			
<u>Pass through payments:</u>			
Department of Motor Vehicles:			
ARRA - Highway planning and construction	20.205	UPC 97198	\$ 16,401
Alcohol Open Container Requirements	20.607	60507-50320	29,785
Total Department of Housing and Community Development			\$ 46,186
<u>DEPARTMENT OF ENERGY:</u>			
<u>Direct payments:</u>			
State Energy Program	81.041	N/A	\$ 1,000,000
Energy Efficiency and Conservation Block Grant Program	81.128	N/A	906,681
			\$ 1,906,681
<u>FEDERAL EMERGENCY MANAGEMENT AGENCY:</u>			
<u>Pass through payments:</u>			
Department of Emergency Services:			
State Homeland Security Program (SHSP)	97.073	Unknown	35,720
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>			
<u>Direct payments:</u>			
Section 8 Housing choice vouchers	14.871	N/A	\$ 1,997,431
Lower Income Housing Assistance Program-Section 8			
Moderate Rehabilitation	14.856	N/A	48,851
<u>Pass through payments:</u>			
Department of Housing and Community Development:			
Community development block grants / State's Program and Non-Entitlement			
Grants in Hawaii	14.228	53305-50797	133,546
Total Department of Housing and Community Development			\$ 2,179,828
<u>DEPARTMENT OF LABOR:</u>			
<u>Pass through payments:</u>			
Governor's Employment and Training Department:			
Senior community service employment program	17.235	N/A	\$ 21,123
<u>DEPARTMENT OF JUSTICE:</u>			
<u>Direct payments:</u>			
Viper grant	16.000	N/A	\$ 6,882
Asset forfeiture	16.000	N/A	1,524
Total viper grant and asset forfeiture - 16.000			\$ 8,406
ARRA - Public Safety Partnership and Community Policing Grants	16.710	N/A	8,500
Edward Byrne Memorial State and Local Law Enforcement Discretionary			
Grants Program	16.580	N/A	3,383
State Criminal Alien Assistance Program	16.606	N/A	510
<u>Pass through payments:</u>			
Department of Criminal Justice Services:			
Crime victim assistance	16.575	39001-86000	53,303
Total Department of Justice			\$ 74,102
<b>Total Primary Government</b>			<b>\$ 4,263,640</b>
<b>COMPONENT UNIT-SCHOOL BOARD:</b>			
<u>DEPARTMENT OF AGRICULTURE:</u>			
<u>Pass through payments:</u>			
Child Nutrition Cluster:			
Department of Agriculture:			
Food distribution	10.555	10.555/2001	\$ 65,254
Department of Education:			
National school lunch program	10.555	10.555/2011	713,173
		10.555/2012	
Total national school lunch program - 10.555			\$ 778,427

Schedule of Expenditures of Federal Awards - Primary Government and  
Discretely Presented Component Unit  
Year Ended June 30, 2012 (Continued)

Federal Grantor/State Pass - Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Agency Identifying Number	Federal Expenditures
<b>COMPONENT UNIT-SCHOOL BOARD: (Continued)</b>			
<u>DEPARTMENT OF AGRICULTURE: (Continued)</u>			
Department of Education:			
School breakfast program	10.553	10.553/2011 10.553/2012	\$ 258,600
Fresh fruit and vegetable program	10.582	10.582/2011 10.582/2012	41,999
Total Department of Agriculture			\$ 1,079,026
<u>DEPARTMENT OF LABOR:</u>			
<u>Direct payments:</u>			
Workforce investment act - youth activities	17.259	N/A	\$ 47,846
<u>DEPARTMENT OF EDUCATION:</u>			
<u>Direct payments:</u>			
Department of Education:			
Adult Education - National Leadership Activities	84.191	N/A	\$ 42,073
<u>Pass through payments:</u>			
Department of Education:			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	17117-00000	\$ 21,088
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	S010A090046 S010A100046 S010A110046	971,525
ARRA - Title I Grants to Local Educational Agencies	84.389	S389A090046	151,486
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027	H027A090107 H027A100107 H027A110107	537,970
Special Education - Preschool Grants	84.173	H173A090112 H173A100112 H173A110112	7,489
ARRA - Special Education - Grants to States	84.391	H391A090107	214,193
ARRA - Special Education - Preschool Grants	84.392	H392A090112	6,162
Career and Technical Education - Basic Grants to States	84.048	V048A100046 V048A110046	69,141
Safe and Drug-free schools and communities - State Grants	84.186	Q189A090048	20,788
English Language acquisition grants	84.365	S365A090046 S365A100046	13,900
Improving teacher quality state grants	84.367	S367A090044 S367A100044 S367A110044	171,460
Rural Education	84.358	S358B090046 S358B100046 S358B110046	60,297
Twenty-First Century Community Learning Centers	84.287	S287C090047 S287C100047 S287C110047	419,800
Education Technology State Grants	84.318	S318X100046	15,822
ARRA - Education Jobs Fund	84.410	S410A10047	592,713
Total Department of Education			\$ 3,315,907
<u>NATIONAL AERONAUTICS AND SPACE ADMINISTRATION:</u>			
<u>Direct payments:</u>			
Aerospace Education Services Program	43.001	N/A	\$ 274,139
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE:</u>			
<u>Pass through payments:</u>			
Department of Education:			
Learn and Serve America - School and Community Based Programs	94.004	KSSVA09001 KSSVA09002	\$ 31,323
<b>Total Component Unit School Board</b>			\$ 4,748,241
<b>Total Expenditures of Federal Awards</b>			\$ 9,011,881

See accompanying notes to schedule of expenditures of federal awards

## CITY OF MARTINSVILLE, VIRGINIA

### Notes to Schedule of Expenditures of Federal Awards For The Year Ended June 30, 2012

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#### Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Martinsville, Virginia under programs of the federal government for the year ended June 30, 2012. The information in this Schedule is presented in accordance with the reporting requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Martinsville, Virginia, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City of Martinsville, Virginia.

#### Note 2 - Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

#### Note 3 - Food Distribution

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

#### Note 4 - Relationship to Financial Statements

Federal expenditures, revenues and capital contributions are reported in the City's basic financial statements as follows:

##### Intergovernmental federal revenues per the basic financial statements:

###### Primary government:

General Fund	\$	141,411
Electric Fund		506,681
Refuse Collection / Landfill Fund		1,000,000
Housing Choice Fund		2,046,282
Capital Reserve Fund		435,720
Meals tax fund		182,254
City Grants Fund		<u>133,546</u>

Total primary government	\$	<u>4,445,894</u>
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###### Component Unit Public Schools:

School Operating Fund	\$	1,094,144
School Grants Fund		2,575,071
School Cafeteria Fund		<u>1,079,026</u>

Total component unit public schools	\$	<u>4,748,241</u>
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###### Reconcile Federal revenues to expenditures:

Less: Federal Tax Credit Subsidy on QSCB Bond		<u>(182,254)</u>
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Total federal expenditures per the Schedule of Expenditures  
of Federal Awards

\$	<u><u>9,011,881</u></u>
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## CITY OF MARTINSVILLE, VIRGINIA

### Schedule of Findings and Questioned Costs Year Ended June 30, 2012

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#### Section I - Summary of Auditor's Results

##### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None reported

Noncompliance material to financial statements noted? No

##### Federal Awards

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None reported

Type of auditor's report issued on compliance  
for major programs: Unqualified

Any audit findings disclosed that are required to be  
reported in accordance with Section 510 (a)  
of Circular A-133? No

##### Identification of major programs:

CFDA #	Name of Federal Program or Cluster
14.871	Section 8 Housing choice vouchers
84.010/84.389	Title I, Part A Cluster
84.027/84.173/84.391/84.392	Special Education Cluster (IDEA)
84.287	Twenty-First Century Community Learning Centers
84.410	ARRA - Education Jobs Fund
81.041	State Energy Program
81.128	Energy Efficiency and Conservation Block Grant Program

Dollar threshold used to distinguish between Type A  
and Type B programs: \$300,000

Auditee qualified as low-risk auditee? No

#### Section II - Financial Statement Findings

There are no financial statement findings to report.

#### Section III - Federal Award Findings and Questioned Costs

There are no federal award findings and questioned costs to report.

## CITY OF MARTINSVILLE, VIRGINIA

### Summary Schedule of Prior Year Findings Year Ended June 30, 2012

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#### 2011-1 Funding Source - Department of Education

##### Special Education Cluster

CFDA Numbers: 84.027, 84.173, 84.391, 84.392

Federal Award Year: 2010, 2010 (Preschool), 2009 ARRA, 2009 (Preschool),

Federal Grant Award: H027A100107; H173A100112; H391A090107; H392A090112

Criteria: For any fiscal year for which the federal allocation received by a LEA exceeds the amount received for the previous fiscal year, the LEA may reduce the level of local or State and local expenditures by not more than 50 percent of the excess (20 USC 1413(a)(2)(C)(i)). If an LEA exercises this authority, it must use an amount of local funds equal to the reduction in expenditures under Section 1413(a)(2)(C)(i) to carry out activities authorized under the Elementary and Secondary Education Act (ESEA) of 1965. The amount of funds expended by the LEA may reduce. However, if an SEA determines that an LEA is unable to establish and maintain programs of FAPE that meet the requirements of Section 1413 (a) or the SEA has taken action against the LEA under Section 1416, the SEA shall prohibit the LEA from reducing its local or State and local expenditures for that fiscal year (20 USC 1413 (a)(2)(C)).

Condition: The School Board did not meet their required local effort during fiscal year 2011.

Questioned Costs: It is estimated that the School Board failed to meet their required level of effort by approximately \$249,000. This estimate is subject to change based on a review by the Virginia Department of Education.

Cause: The School Board received additional federal funds of \$267,609 during the year ended June 30, 2011 as compared to the prior year. Expenditures for the program did not increase by a corresponding amount; therefore, the federally funded portion of program expenditures increased while the State and local portion of program expenditures decreased. In essence, the federal funds were used to pay expenses that had been supported with State and Local funds in prior periods. The underlying cause of this problem was a significant allocation of federal stimulus money to the program that represents a one-time increase in funding.

Effect: The School Board did not meet requirements governing the State and local maintenance of effort for the fiscal year ended June 30, 2011. The School Board may be required to repay federal funds or accept reduced funding for the program in future periods. The Virginia Department of Education will likely file a waiver on behalf of the School Division requesting a one-time exemption from the level of effort requirements surrounding the program.

Recommendation: There are no recommendations as the School Board has reported this finding to the Virginia Department of Education. In addition, the Virginia Department of Education has started a review of the program and will provide guidance to the School Division.

Response: The School Board has resolved this finding by issuing a check with the Virginia Department of Education in the amount of \$205,040 thus resolving this finding.