

Martinsville, Virginia
A CITY WITHOUT LIMITS



**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

FOR THE YEAR ENDED JUNE 30, 2017

CITY OF MARTINSVILLE, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2017

PREPARED BY:

Finance Department

CITY OF MARTINSVILLE, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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CITY OF MARTINSVILLE, VIRGINIA

City Council

Gene Teague, Mayor
Chad Martin, Vice-Mayor

Sharon B. Hodge

Kathy Lawson

Jennifer Bowles

School Board

Joan Montgomery, Chairman
Lawrence Mitchell, Vice-Chairman

Eric Hruza

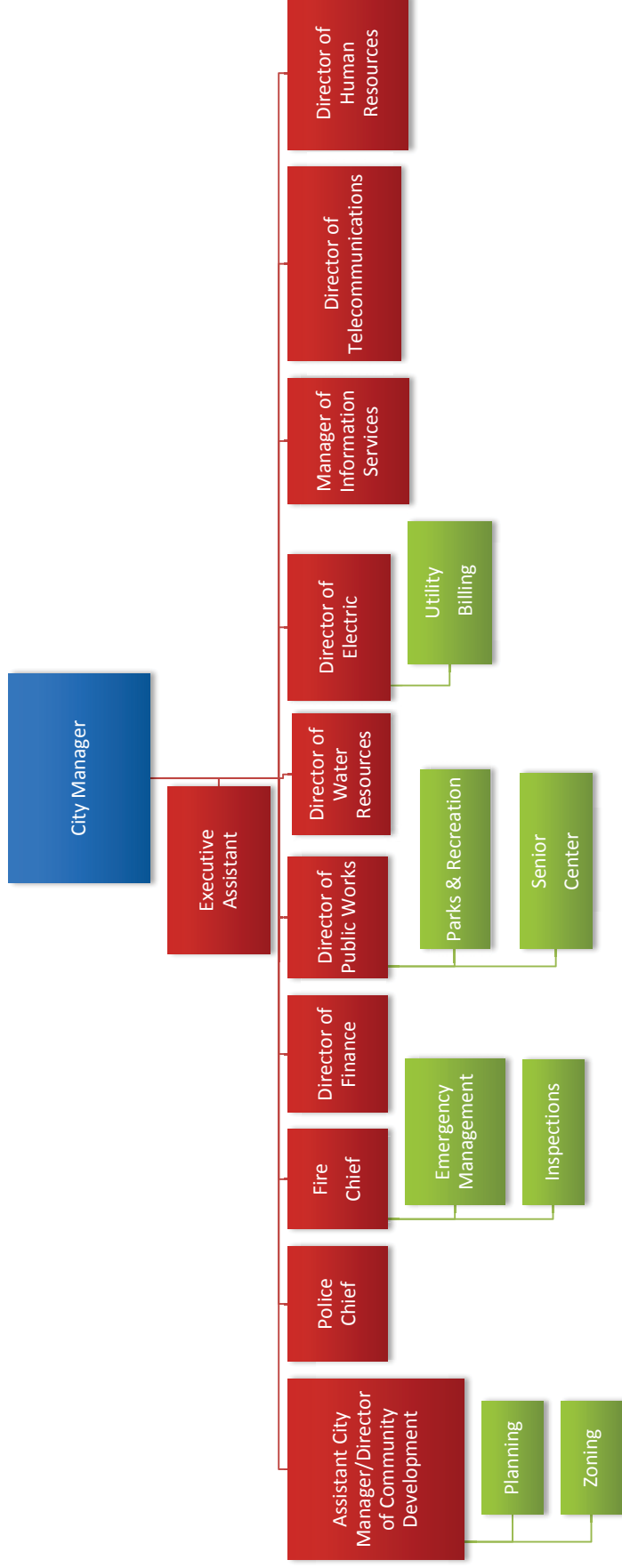
Victor Correa

Donna Dillard

Other Officials

| | |
|-----------------------------------|----------------------|
| 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..... | Eddie Cassady |
| Superintendent of Schools..... | Zebadee Talley |
| Clerk of the School Board..... | Janie Fulcher |
| Director of Finance | Linda H. Conover |
| Sheriff..... | Steve M. Draper |
| Commonwealth's Attorney | Harry "Clay" Gravely |
| Public Works Director | Chris Morris |
| Electric Director | Durwin Joyce |
| Purchasing Agent | Karen H. Mays |
| Fire Chief | Ted Anderson |
| Water Resources | Andy Lash |

City of Martinsville Organizational Chart



ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

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

Report on the Financial Statements

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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, each major fund, and the aggregate remaining fund information of the City of Martinsville, Virginia, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of pension and OPEB funding progress on pages 15-26, 106-107, and 108-112 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Martinsville, Virginia's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

Other Matters (Continued)

Other Information (Continued)

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2017, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Martinsville, Virginia's internal control over financial reporting and compliance.

Robinson, Farnell, Cox Associates

Charlottesville, Virginia
November 15, 2017

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Management's Discussion and Analysis

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, 2017. 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 \$32,768,907 (total net position).
- The Governmental activities net position was \$3,427,605 of the City's total, a decrease of \$999,265 or 22.57% in comparison with net position of \$4,426,870 at June 30, 2016.
- Net position of the City's various business type activities totaled \$29,341,302. This is an increase of \$4,212,662 or 16.76% compared with net position of \$25,128,640 reported on June 30, 2016.

Fund Financial Statements

The Governmental Funds, on a current financial resource basis, reported revenues and other financing sources deficient of expenditures and other financing uses by \$1,231,176 (Exhibit 4) after making direct contributions totaling \$6,247,206 to the School Board. An additional \$1,366,693 was expended from the Meals Tax Fund used to retire School related debt. A total of \$7,613,899 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 \$6,964,886, which is a decrease of \$1,231,176 in comparison with the prior fiscal year.
- At the close of the current fiscal year, the unassigned fund balance for the General Fund was \$3,031,355 or 9.8% of total general fund expenditures.
- The combined long-term Governmental obligations increased \$5,098,396 or 10% 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 Position and (2) The Statement of Activities.

The Statement of Net position (exhibit one) presents information on all of the City's assets and liabilities. The difference between assets and liabilities is reported as net position. Net position is presented in three categories: net investment in capital assets, restricted and unrestricted. Over time, increases or decreases in net position 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 position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items which result in cash flows in future fiscal periods (e.g., uncollected taxes, and earned but unused vacation leave).

The Statement of Net position 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, Telecommunications, 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 three funds considered Non-major funds. These are the Community Development Block Grant Fund (CDBG), the Capital Reserve Fund, and the Meals Tax Fund. For reporting purposes, the CDBG Fund is called the City Grants Fund. 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 is contained in Exhibits 17 and 18. 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 position may serve as a useful indicator of a City's financial position over time. For the City in FY2017, (1) assets and deferred outflows of resources exceeded (2) liabilities and deferred inflows of resources by \$32,768,907 at the close of the fiscal year as presented in the Table below. This was an increase of \$3,213,397 or 10.9% greater than the FY2016 closing amount of \$29,555,510.

City of Martinsville, Virginia
Schedule of Assets, Liabilities and Net Position
Governmental and Business-Type Activities
For the Years Ended June 30, 2017 and 2016

| | Governmental Activities | | Business-type Activities | | Totals | |
|---|------------------------------------|----------------------|-------------------------------------|----------------------|----------------------|----------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Current and other assets | \$ 11,236,203 | \$ 12,381,448 | \$ 17,441,978 | \$ 19,689,824 | \$ 28,678,181 | \$ 32,071,272 |
| Capital assets | <u>24,058,621</u> | <u>24,989,440</u> | <u>35,657,380</u> | <u>26,954,922</u> | <u>59,716,001</u> | <u>51,944,362</u> |
| Total assets | \$ 35,294,824 | \$ 37,370,888 | \$ 53,099,358 | \$ 46,644,746 | \$ 88,394,182 | \$ 84,015,634 |
| Deferred outflows of resources | <u>3,624,257</u> | <u>2,423,744</u> | <u>611,689</u> | <u>423,250</u> | <u>4,235,946</u> | <u>2,846,994</u> |
| Total assets and deferred outflows of resources | <u>\$ 38,919,081</u> | <u>\$ 39,794,632</u> | <u>\$ 53,711,047</u> | <u>\$ 47,067,996</u> | <u>\$ 92,630,128</u> | <u>\$ 86,862,628</u> |
| Long-term liabilities outstanding | \$ 31,884,242 | \$ 30,686,580 | \$ 21,979,497 | \$ 18,672,955 | \$ 53,863,739 | \$ 49,359,535 |
| Current liabilities | <u>3,063,419</u> | <u>3,146,699</u> | <u>1,968,159</u> | <u>2,726,380</u> | <u>5,031,578</u> | <u>5,873,079</u> |
| Total liabilities | <u>\$ 34,947,661</u> | <u>\$ 33,833,279</u> | <u>\$ 23,947,656</u> | <u>\$ 21,399,335</u> | <u>\$ 58,895,317</u> | <u>\$ 55,232,614</u> |
| Deferred inflows of resources | <u>\$ 543,815</u> | <u>\$ 1,534,483</u> | <u>\$ 422,089</u> | <u>\$ 540,021</u> | <u>\$ 965,904</u> | <u>\$ 2,074,504</u> |
| Net position: | | | | | | |
| Net investment in capital assets | \$ 10,624,972 | \$ 10,250,210 | \$ 20,155,003 | \$ 20,792,962 | \$ 30,779,975 | \$ 31,043,172 |
| Unrestricted | <u>(7,197,367)</u> | <u>(5,823,340)</u> | <u>9,186,299</u> | <u>4,335,678</u> | <u>1,988,932</u> | <u>(1,487,662)</u> |
| Total net position | <u>\$ 3,427,605</u> | <u>\$ 4,426,870</u> | <u>\$ 29,341,302</u> | <u>\$ 25,128,640</u> | <u>\$ 32,768,907</u> | <u>\$ 29,555,510</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 38,919,081</u> | <u>\$ 39,794,632</u> | <u>\$ 53,711,047</u> | <u>\$ 47,067,996</u> | <u>\$ 92,630,128</u> | <u>\$ 86,862,628</u> |

At the end of FY2017, the City's net investment in capital assets is \$30,779,975 and represents 93.93% of total net position. 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 as net investment in capital assets, 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 net investment in capital assets is \$10,624,972.

Restricted Assets represent resources subject to external restrictions on how they may be used. In FY2017, the City held cash restricted for Electric and Water customer deposits totaling \$372,572.

Government-wide Financial Analysis (Continued)

Governmental Activities - Governmental activities decreased Martinsville City's net position by \$999,265. The key elements of this increase are found in exhibit 5.

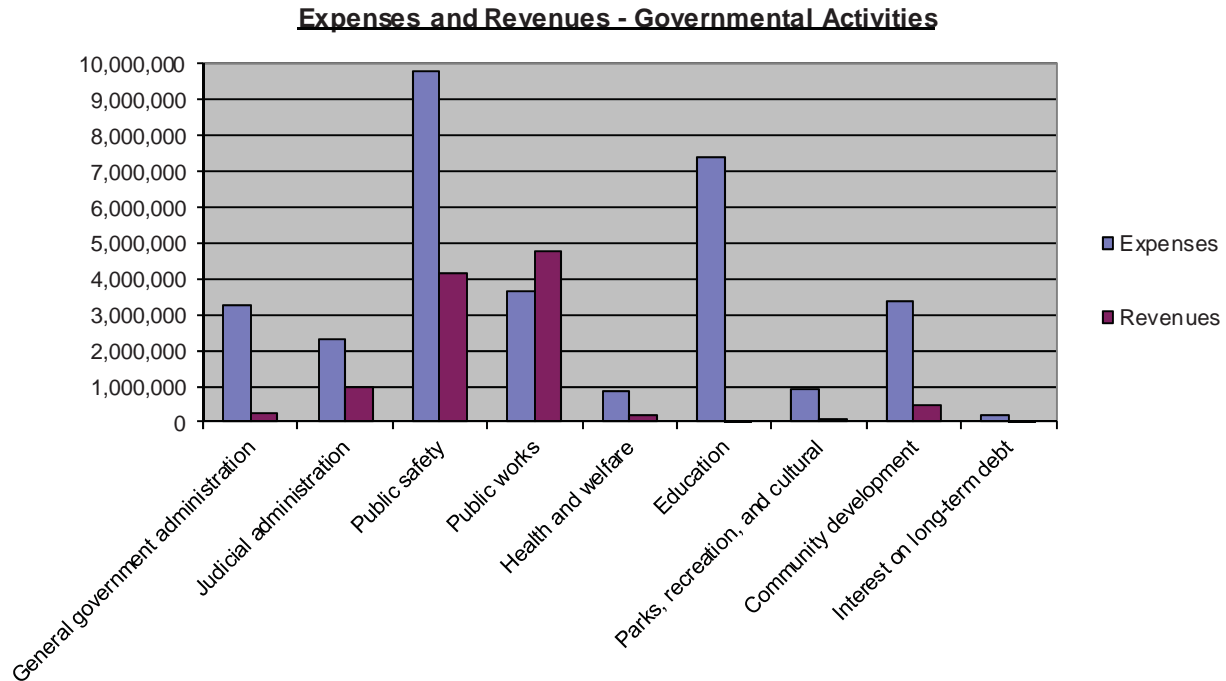
City of Martinsville, Virginia
Changes in Net Position
Governmental and Business-Type Activities
For the Years Ended June 30, 2017 and 2016

| | Governmental Activities | | Business-type Activities | | Totals | |
|---|--------------------------------|----------------|---------------------------------|---------------|---------------|---------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 2,151,850 | \$ 2,013,351 | \$ 28,820,046 | \$ 27,514,420 | \$ 30,971,896 | \$ 29,527,771 |
| Operating grants and contributions | 8,599,743 | 8,692,056 | - | - | 8,599,743 | 8,692,056 |
| Capital grants and contributions | 199,426 | 2,641 | - | - | 199,426 | 2,641 |
| General revenues: | | | | | | |
| General property taxes | 9,072,495 | 8,949,568 | - | - | 9,072,495 | 8,949,568 |
| Other local taxes | 7,121,375 | 7,005,652 | - | - | 7,121,375 | 7,005,652 |
| Commonwealth non-categorical aid | 1,605,957 | 1,622,427 | - | - | 1,605,957 | 1,622,427 |
| Other general revenues | 1,283,176 | 1,208,620 | 27,061 | 28,619 | 1,310,237 | 1,237,239 |
| Total revenues | \$ 30,034,022 | \$ 29,494,315 | \$ 28,847,107 | \$ 27,543,039 | \$ 58,881,129 | \$ 57,037,354 |
| Expenses: | | | | | | |
| General government | | | | | | |
| administration | \$ 3,245,979 | \$ 4,612,205 | \$ - | \$ - | \$ 3,245,979 | \$ 4,612,205 |
| Judicial administration | 2,322,293 | 2,250,373 | - | - | 2,322,293 | 2,250,373 |
| Public safety | 9,805,711 | 9,837,593 | - | - | 9,805,711 | 9,837,593 |
| Public works | 3,659,946 | 4,246,016 | - | - | 3,659,946 | 4,246,016 |
| Health and welfare | 859,053 | 770,780 | - | - | 859,053 | 770,780 |
| Education | 7,401,665 | 7,091,099 | - | - | 7,401,665 | 7,091,099 |
| Parks, recreation, and cultural | 923,286 | 941,835 | - | - | 923,286 | 941,835 |
| Community development | 3,381,324 | 3,373,272 | - | - | 3,381,324 | 3,373,272 |
| Interest on long-term debt | 184,109 | 216,619 | - | - | 184,109 | 216,619 |
| Electric | - | - | 16,860,239 | 16,266,023 | 16,860,239 | 16,266,023 |
| Water | - | - | 1,979,099 | 1,817,456 | 1,979,099 | 1,817,456 |
| Sewer | - | - | 3,279,987 | 3,104,212 | 3,279,987 | 3,104,212 |
| Refuse collection/landfill | - | - | 1,765,041 | 1,586,815 | 1,765,041 | 1,586,815 |
| Total expenses | \$ 31,783,366 | \$ 33,339,792 | \$ 23,884,366 | \$ 22,774,506 | \$ 55,667,732 | \$ 56,114,298 |
| Change in net position before transfers | \$ (1,749,344) | \$ (3,845,477) | \$ 4,962,741 | \$ 4,768,533 | \$ 3,213,397 | \$ 923,056 |
| Transfers | 750,079 | 4,679,968 | (750,079) | (4,679,968) | - | - |
| Change in net position | \$ (999,265) | \$ 834,491 | \$ 4,212,662 | \$ 88,565 | \$ 3,213,397 | \$ 923,056 |
| Net position - beginning | 4,426,870 | 3,592,379 | 25,128,640 | 25,040,075 | 29,555,510 | 28,632,454 |
| Net position - ending | \$ 3,427,605 | \$ 4,426,870 | \$ 29,341,302 | \$ 25,128,640 | \$ 32,768,907 | \$ 29,555,510 |

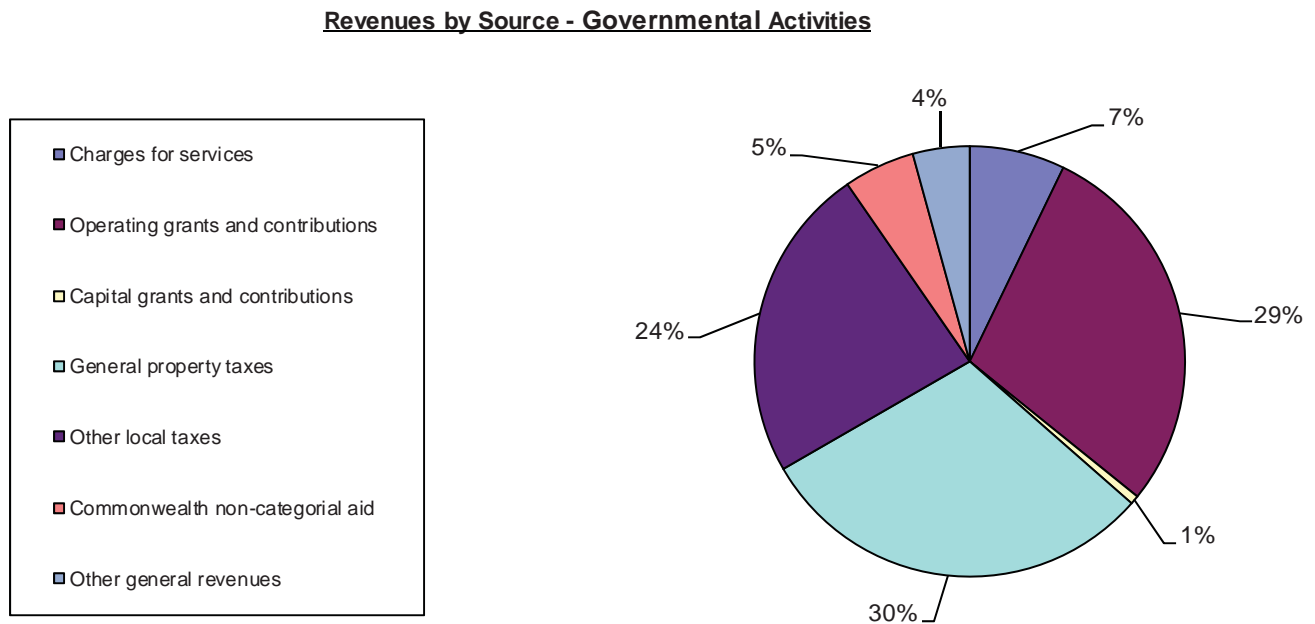
Revenues and transfers from governmental activities totaled \$30,784,101 with operating grants and contributions (28.6%), general property taxes (29.5%), and other local taxes (23.1%) comprising 81.2% of the City's revenues. Expenses for public safety (30.9%), education (23.3%), public works (11.5%), community development (10.6%), and general government administration (10.2%), account for 86.5% of total governmental expenses of \$31,783,366.

Government-wide Financial Analysis (Continued)

The chart below compares the revenues and expenses by program for governmental activities. It is common throughout the Commonwealth for expenses to outpace the revenues 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.



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



Business-type Activities increased the City's net position by \$4,212,662 after deducting \$750,079 in transfers to the General and Capital Reserve Funds. Transfers decreased \$3,929,889 compared to the prior fiscal year.

Financial Analysis of the City's Funds

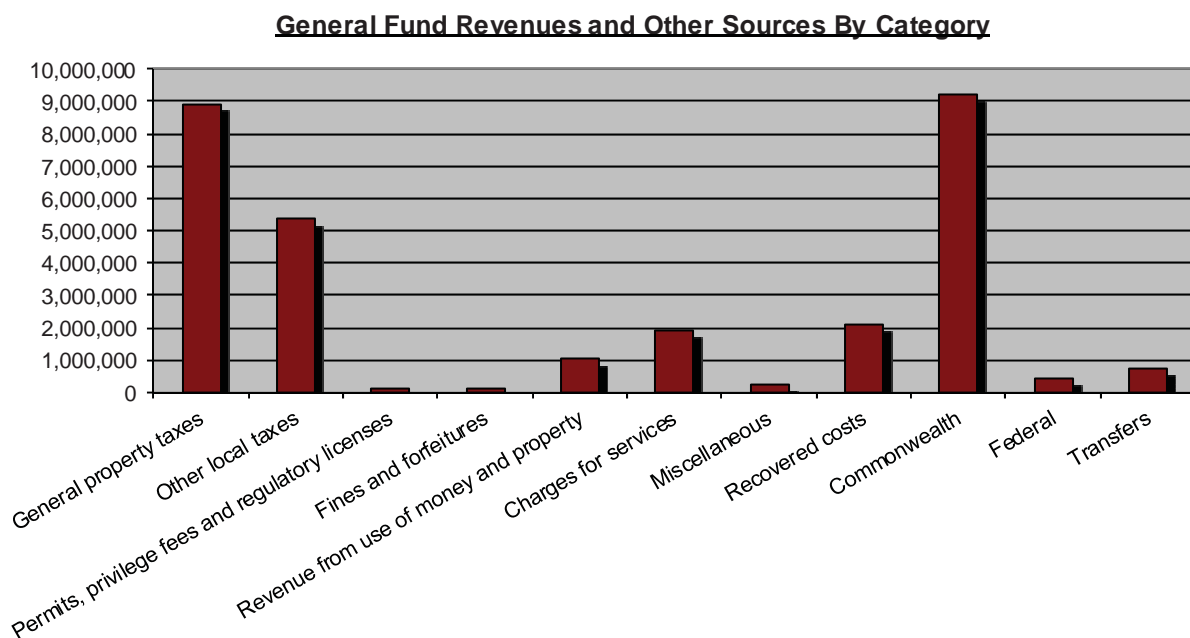
As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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 \$6,964,886, a decrease of \$1,231,176 when compared to the prior year. \$3,031,355, or 43.5%, of the combined governmental fund balance is unassigned. The remaining \$3,933,531, or 56.5%, of the total fund balance is non-spendable, committed or assigned to show it is not available for spending because it has been designated as non-spendable, committed or assigned for future projects.

The General Fund is the operating fund of the City. The General Fund reports a fund balance at June 30, 2017 of \$6,057,119. This is a decrease from the prior year of \$711,199. The General Fund expenditures exceeded revenues in the current year by \$1,461,278; the expenditures exceeded revenues in FY16 by \$4,412,864. The transfer amounts into the General Fund of \$750,079 decreased by \$3,256,485 compared to FY16. During FY17, transfers from the Proprietary Funds were kept to a minimum to allow those funds to accrue reserves. There were no transfers out of the General Fund. Fifty percent, or \$3,031,355, of the total fund balance is unassigned, a decrease of \$1,370,363, compared to \$4,401,718 of unassigned fund balance from June 30, 2016. 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 9.8% of total General Fund expenditures, while total fund balance is 19.6% of that same amount.

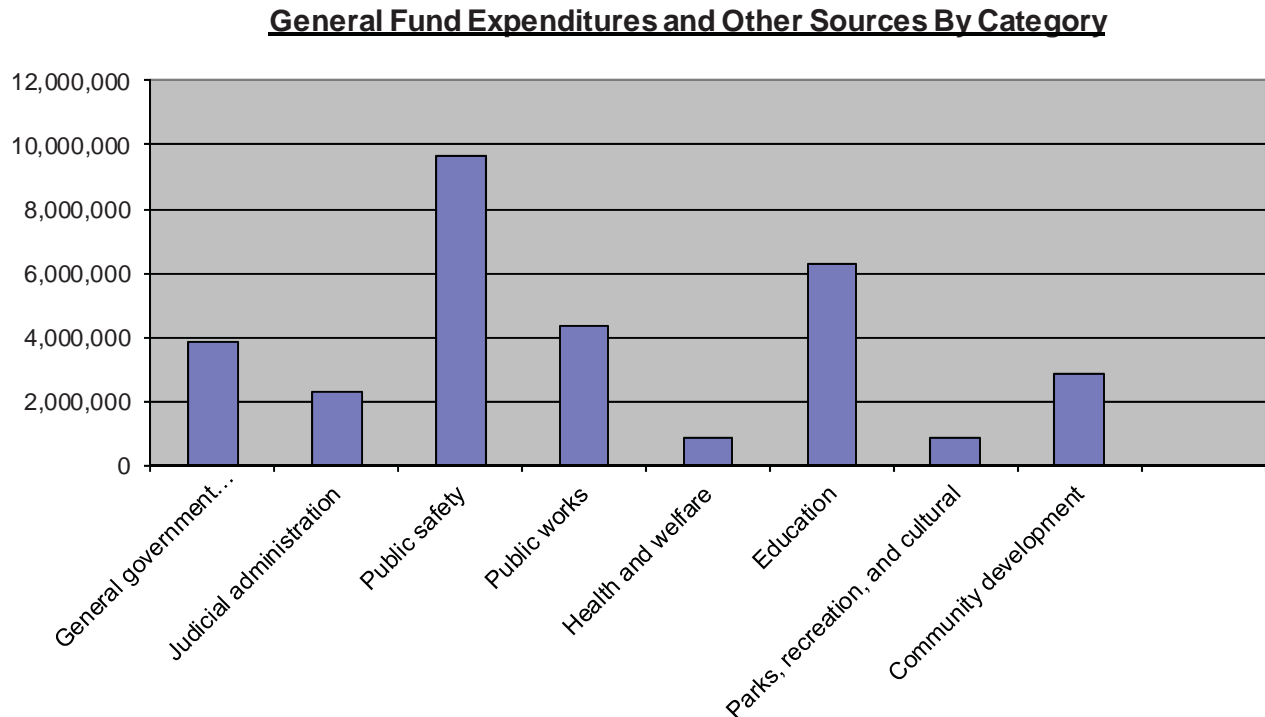
General Fund Revenues and Other Sources by Category

The following graph depicts General Fund revenues and other sources by categories. Total revenues and other sources are \$30,220,708, including transfers into the fund of \$750,079.



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 \$30,931,907.



Proprietary funds – reported combined ending net position of \$29,341,302, an increase of \$4,212,662 in comparison with the amount reported on June 30, 2016. The Electric Fund increased \$1,421,751; the Refuse Fund increased \$165,262; the Water Fund increased \$1,624,241; and the Sewer Fund increased \$1,001,408.

The Enterprise Funds contributed \$750,079 in the support of other City operations. The entire amount was transferred into the General Fund.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were as follows. Revenues were increased by \$603,122 or 2.12%, while expenditures increased by \$2,261,262 or 7.26%.

The Revenue increases (decreases) were as follows:

- \$428 in Fines & Forfeitures
- \$12,935 in Use of Money & Property
- \$3,250 in Miscellaneous Revenue
- \$292,767 in Recovered Costs
- \$(59,337) in Intergovernmental revenues from the Commonwealth
- \$353,079 in Intergovernmental revenues from the Federal Government

General Fund Budgetary Highlights: (Continued)

The Expenditure amendments were as follows:

- \$8,402 in General government administration
- \$31,507 in Judicial administration
- \$444,773 in Public Safety
- \$712,141 in Public Works
- \$614,509 in Education
- \$13,869 in Parks, Recreation, and Cultural
- \$436,061 in Community development

During the year, actual revenues were greater than budgeted by \$373,454 or 1.28%; actual expenditures were less than the budget by \$2,463,297 or 7.38%. The result was a positive variance of \$2,836,751 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, 2017, is \$59,716,001 (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 FY2017 were: patrol cars, communication equipment, trucks, tractor, Fire & EMS equipment, new computer equipment and software, upgrade and extension of fiber optic communications network, infrastructure improvements, and continuing facility renovations.

**City of Martinsville, Virginia's
Capital Assets
June 30, 2017 and 2016**

| | Governmental Activities | | Business-type Activities | | Totals | |
|--------------------------------|--------------------------------|----------------------|---------------------------------|----------------------|----------------------|----------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Land | \$ 4,379,094 | \$ 4,379,094 | \$ 683,624 | \$ 683,624 | \$ 5,062,718 | \$ 5,062,718 |
| Construction in progress | 81,850 | 99,998 | 6,937,948 | 6,650,197 | 7,019,798 | 6,750,195 |
| Buildings and improvements | 19,483,749 | 20,329,576 | 6,746,204 | 6,691,622 | 26,229,953 | 27,021,198 |
| Infrastructure | 34,731,414 | 34,731,414 | 67,297,371 | 58,352,479 | 102,028,785 | 93,083,893 |
| Equipment | 10,151,826 | 9,440,550 | 8,851,876 | 8,522,931 | 19,003,702 | 17,963,481 |
| Total | \$ 68,827,933 | \$ 68,980,632 | \$ 90,517,023 | \$ 80,900,853 | \$ 159,344,956 | \$ 149,881,485 |
| Less: accumulated depreciation | 44,769,312 | 43,991,192 | 54,859,643 | 53,945,931 | 99,628,955 | 97,937,123 |
| Net capital assets | <u>\$ 24,058,621</u> | <u>\$ 24,989,440</u> | <u>\$ 35,657,380</u> | <u>\$ 26,954,922</u> | <u>\$ 59,716,001</u> | <u>\$ 51,944,362</u> |

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

Long-term debt – At the close of FY2017, Martinsville City had total outstanding obligations of \$55,983,170. Of this amount, \$37,220,320 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.

Capital Asset and Debt Administration: (Continued)

During the Fiscal Year, the City's long-term obligations increased by a net of \$5,098,396 or 10%. Long-term obligations excluding the Net Pension Liability and Net OPEB Obligation increased by a net of \$2,354,824.

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, 2017 the City's ratio of Net General Obligation Debt to Assessed Value was 2.77%. This was a decrease 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 FY2017 Budget and Tax Rates

The FY17 budget continued the strategy of streamlining expenses, funding essential capital expenditures, reviewing personnel reductions through attrition wherever possible, and evaluating all vacancies on a case-by-case basis. The FY17 budget included significant reductions in public safety funding, ceased funding of the National Guard Armory, reduced funding to the Economic Development Corporation, and implementation of an internal cost allocation plan to ensure costs attributed to utility operations are fairly and accurately recovered in the City's General Fund. While basic tax rates remain unchanged, the budget included an average 4.97% electric rate increase and a \$3/month increase for both water and sewer rates.

Looking Ahead – The Outlook for FY2018 - Opportunities and Challenges

The City faces both opportunities and challenges in FY18, including the following issues:

- 1. Unemployment, under-employment, and other workforce challenges** – Martinsville continues to consistently experience higher unemployment relative to other localities around the state but continues to show slow and steady improvement - the unemployment rate for the City on June 30, 2017 was 7.3% compared to 7% for June 30, 2016, 9.1% for June 30, 2015, and 9.5% the previous year. The City's unemployment rate still compares unfavorably to the state (3.7%) and national averages (4.2%), both for September, 2017. Despite the higher-than-average rate, challenges continue to be reported with filling vacant positions throughout the community with qualified individuals.
- 2. Reductions in state aid** – A continuing challenge for the City is in regard to potential reductions in state aid during periods when state revenue fails to meet budget projections. This practice is unpredictable and creates financial stress for the City as announcements of such reductions typically occur in mid-year, requiring City budget adjustments. Additionally, the state implementing unfunded mandates and failing to honor financial commitments to localities (HB599 funding, for example) simply adds fiscal stress to already-stretched budgets.
- 3. Personnel Costs** –The City continues to evaluate the rising cost of employee health care, market-related adjustments in the pay/classification plan to remain competitive, and changes in funding related to Virginia Retirement System contributions, all of which has a significant impact on the City's budget.

Looking Ahead – The Outlook for FY2018 - Opportunities and Challenges: (Continued)

- 4. Policy** - The City Council approves the annual budget following staff recommendations, its own analysis of the needs of the City including the City's overall financial position and economic conditions, and after careful consideration of input and comments from the citizens. This methodical process has led to the development of conservative 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. Management realizes that the trend of providing current levels of services cannot continue indefinitely without increasing revenues/fees for service and/or without making changes in the manner at which local funds are expended.
- 5. Exploration of new revenue opportunities** – With direction from City Council, staff will continue to explore opportunities for revenue growth. Continued expansion/growth of the City's fiber optic system shows potential and positive net revenue growth is occurring. Expansion opportunities are generally considered on a case by case basis in regard to the investment required, ROI/pay back, and the ability of City staff to provide the highest level of customer support. Consideration is being given to a continued marketing strategy for the MiNet system and using the system capabilities as an economic development tool.
- 6. Exploration of opportunities to reduce costs/outsource** – City staff continues to investigate options for outsourcing certain governmental functions/operations in areas where service can be provided at least as good if not better at less cost than providing the same service internally. Outsourcing housing functions, potential changes in management of the City's baseball team, the Martinsville Mustangs, and continuing to contract with the Martinsville Chamber of Commerce's Partnership for Economic Growth for small business development are several examples.
- 7. Uptown Revitalization Projects** – The City continues to advocate for a New College Institute affiliation with a 4-year institution/university while NCI continues with efforts related to advanced manufacturing training and meeting the ever-changing educational needs of the community.

In 2013, the City partnered with a Petersburg, Virginia development firm – Waukeshaw Development Corp. for redevelopment of the Henry Hotel. Purchased in 2009 by the City, the four-story Henry Hotel is located in the heart of uptown Martinsville. The Hotel renovation project was completed in the summer of 2015 and is now fully leased in both the residential and commercial spaces. Redevelopment of the hotel parallels renewed interest in business growth in uptown Martinsville that should ultimately generate additional employment opportunities and tax revenue.

The City's continued partnership with the Martinsville-Henry County Chamber of Commerce's – Partnership for Economic Growth for management of West Piedmont Business Development Center – a business incubator located in the heart of Uptown Martinsville is proving to be beneficial as CPEG continually maintains the Incubator at or near full capacity. Additionally, the City will be continuing its partnership with CPEG in FY18 regarding small business development with the goal of creating opportunities for small business growth and development in the Uptown area and other areas of the City. The second year of a successful community business launch project, Start-Up Martinsville, recently resulted in the startup or expansion of a number of new businesses in Uptown Martinsville.

- 8. Job Creation**—The City continues to partner with Henry County in economic development. Going into FY18, efforts will continue to retain current business and industry, provide an atmosphere conducive to expansion, as well as to attract new business and industry.

Looking Ahead – The Outlook for FY2018 - Opportunities and Challenges: (Continued)

- 9. 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 at County 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 (CCBC), a 726 acre rail-served site, has become the focus of aggressive development efforts and grading of the site is complete. CCBC now generates significant interest from prospects. Additionally, a local firm has plans to acquire and develop a 12 acre tract in the City's Clearview Business Park
- 10. Infrastructure Needs** – In early FY15, investigation regarding two important projects occurred – (1) an engineering assessment of an approximate 6 mile section of 36- and 42-inch diameter sewer line, and (2) the need for replacement of the City's aging water and electric meters. Combined, the two projects represent approximately \$30 million and funding for these projects has been secured. Work began on these projects in 2016 and is on-going. The City is also investigating a project at the closed City Landfill to remediate environmental issues.

For fiscal year 2018, City Council approved a General Fund Budget of \$30,017,250 with no changes in the basic tax rates or utility fees, but an increase in the meals tax from 6.5% to 7%, and an increase in the cigarette tax from \$0.20/pack to \$0.30/pack.

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 Position
At June 30, 2017

| | Primary Government | | | Component Unit |
|--|-------------------------|--------------------------|---------------|----------------|
| | Governmental Activities | Business-type Activities | Total | School Board |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | \$ 6,378,117 | \$ 12,070,082 | \$ 18,448,199 | \$ 2,278,561 |
| Cash and cash equivalents - restricted | - | 372,572 | 372,572 | - |
| Receivables (net of allowance for uncollectibles): | | | | |
| Property taxes | 1,217,796 | - | 1,217,796 | - |
| Accounts receivable | 108,812 | 3,810,265 | 3,919,077 | 970 |
| Inventory | 2,788,931 | 1,189,059 | 3,977,990 | - |
| Due from other governments | 737,272 | - | 737,272 | 601,275 |
| Prepaid items | 5,275 | - | 5,275 | - |
| Total Current Assets | \$ 11,236,203 | \$ 17,441,978 | \$ 28,678,181 | \$ 2,880,806 |
| Noncurrent Assets: | | | | |
| Capital assets (net of accumulated depreciation): | | | | |
| Land and land improvements | \$ 4,379,094 | \$ 683,624 | \$ 5,062,718 | \$ 47,172 |
| Construction in progress | 81,850 | 6,937,948 | 7,019,798 | - |
| Buildings and improvements | 12,267,434 | 3,108,629 | 15,376,063 | 9,985,330 |
| Equipment | 2,454,260 | 2,237,786 | 4,692,046 | 912,329 |
| Infrastructure | 4,875,983 | 22,689,393 | 27,565,376 | - |
| Total Net Capital Assets | \$ 24,058,621 | \$ 35,657,380 | \$ 59,716,001 | \$ 10,944,831 |
| Total Noncurrent Assets | \$ 24,058,621 | \$ 35,657,380 | \$ 59,716,001 | \$ 10,944,831 |
| Total Assets | \$ 35,294,824 | \$ 53,099,358 | \$ 88,394,182 | \$ 13,825,637 |
| DEFERRED OUTFLOWS OF RESOURCES: | | | | |
| Pension contributions subsequent to measurement date | \$ 1,624,681 | \$ 331,079 | \$ 1,955,760 | \$ 1,837,166 |
| Differences in proportionate share of net pension liabilities | 363,781 | 22,534 | 386,315 | 692,000 |
| Differences between expected and actual experience | 127,919 | 26,114 | 154,033 | - |
| Net difference between projected and actual earnings on plan investments | 1,507,876 | 231,962 | 1,739,838 | 1,282,214 |
| Total deferred outflows of resources | \$ 3,624,257 | \$ 611,689 | \$ 4,235,946 | \$ 3,811,380 |
| Total assets and deferred outflows of resources | \$ 38,919,081 | \$ 53,711,047 | \$ 92,630,128 | \$ 17,637,017 |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accounts payable and other current liabilities | \$ 1,422,941 | \$ 1,153,947 | \$ 2,576,888 | \$ 1,471,788 |
| Accrued interest payable | 247,941 | 87,318 | 335,259 | - |
| Unearned revenues | - | - | - | 26,431 |
| Current portion of long-term obligations | 1,392,537 | 726,894 | 2,119,431 | - |
| Total Current Liabilities | \$ 3,063,419 | \$ 1,968,159 | \$ 5,031,578 | \$ 1,498,219 |
| Noncurrent Liabilities: | | | | |
| Noncurrent portion of long-term obligations | \$ 31,884,242 | \$ 21,979,497 | \$ 53,863,739 | \$ 23,010,431 |
| Total Liabilities | \$ 34,947,661 | \$ 23,947,656 | \$ 58,895,317 | \$ 24,508,650 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Differences between expected and actual experience | \$ 384,086 | \$ 71,720 | \$ 455,806 | \$ 699,180 |
| Differences in proportionate share of net pension liabilities | - | 350,369 | 350,369 | 1,604,000 |
| Deferred revenue - property taxes | 159,729 | - | 159,729 | - |
| Total deferred inflows of resources | \$ 543,815 | \$ 422,089 | \$ 965,904 | \$ 2,303,180 |
| NET POSITION | | | | |
| Net investment in capital assets | \$ 10,624,972 | \$ 20,155,003 | \$ 30,779,975 | \$ 10,944,831 |
| Unrestricted | (7,197,367) | 9,186,299 | 1,988,932 | (20,119,644) |
| Total Net Position | \$ 3,427,605 | \$ 29,341,302 | \$ 32,768,907 | \$ (9,174,813) |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | \$ 38,919,081 | \$ 53,711,047 | \$ 92,630,128 | \$ 17,637,017 |

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

CITY OF MARTINSVILLE, VIRGINIA

Statement of Activities

For the Year Ended June 30, 2017

| Functions/Programs | Program Revenues | | | |
|--|------------------|----------------------------|--|--|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| PRIMARY GOVERNMENT: | | | | |
| Governmental activities: | | | | |
| General government administration | \$ 3,245,979 | \$ 54,221 | \$ 218,070 | \$ - |
| Judicial administration | 2,322,293 | 199,722 | 793,561 | - |
| Public safety | 9,805,711 | 557,825 | 3,600,720 | - |
| Public works | 3,659,946 | 1,327,920 | 3,267,296 | 199,426 |
| Health and welfare | 859,053 | - | 201,601 | - |
| Education | 7,401,665 | - | - | - |
| Parks, recreation, and cultural | 923,286 | 12,162 | 43,729 | - |
| Community development | 3,381,324 | - | 474,766 | - |
| Interest on long-term debt | 184,109 | - | - | - |
| Total governmental activities | \$ 31,783,366 | \$ 2,151,850 | \$ 8,599,743 | \$ 199,426 |
| Business-type activities: | | | | |
| Electric | \$ 16,860,239 | \$ 18,680,678 | \$ - | \$ - |
| Water | 1,979,099 | 3,602,775 | - | - |
| Sewer | 3,279,987 | 4,255,883 | - | - |
| Refuse collection / landfill | 1,765,041 | 2,280,710 | - | - |
| Total business-type activities | \$ 23,884,366 | \$ 28,820,046 | \$ - | \$ - |
| Total primary government | \$ 55,667,732 | \$ 30,971,896 | \$ 8,599,743 | \$ 199,426 |
| COMPONENT UNIT: | | | | |
| School Board | \$ 24,068,409 | \$ 291,448 | \$ 17,848,941 | \$ - |
| 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 | | | | |
| Grants and contributions not restricted to specific programs | | | | |
| City contribution to the school board, unrestricted | | | | |
| Transfers | | | | |
| Total general revenues and transfers | | | | |
| Change in net position | | | | |
| Net position - beginning | | | | |
| Net position - ending | | | | |

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

| Net (Expense) Revenue and Changes in Net Position | | | | |
|---|-----------------------------|-----------------------------|------------------------------|--|
| Primary Government | | | Component Unit | |
| Governmental Activities | Business-type Activities | Total | School Board | Functions/Programs |
| PRIMARY GOVERNMENT: | | | | |
| Governmental activities: | | | | |
| \$ (2,973,688) | \$ - | \$ (2,973,688) | \$ - | General government administration |
| (1,329,010) | - | (1,329,010) | - | Judicial administration |
| (5,647,166) | - | (5,647,166) | - | Public safety |
| 1,134,696 | - | 1,134,696 | - | Public works |
| (657,452) | - | (657,452) | - | Health and welfare |
| (7,401,665) | - | (7,401,665) | - | Education |
| (867,395) | - | (867,395) | - | Parks, recreation, and cultural |
| (2,906,558) | - | (2,906,558) | - | Community development |
| (184,109) | - | (184,109) | - | Interest on long-term debt |
| <u>\$ (20,832,347)</u> | <u>\$ -</u> | <u>\$ (20,832,347)</u> | <u>\$ -</u> | Total government activities |
| Business-type activities: | | | | |
| \$ - | \$ 1,820,439 | \$ 1,820,439 | \$ - | Electric |
| - | 1,623,676 | 1,623,676 | - | Water |
| - | 975,896 | 975,896 | - | Sewer |
| - | 515,669 | 515,669 | - | Refuse collection / landfill |
| <u>\$ -</u> | <u>\$ 4,935,680</u> | <u>\$ 4,935,680</u> | <u>\$ -</u> | Total business-type activities |
| <u>\$ (20,832,347)</u> | <u>\$ 4,935,680</u> | <u>\$ (15,896,667)</u> | <u>\$ -</u> | Total primary government |
| COMPONENT UNIT: | | | | |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (5,928,020)</u> | School Board |
| General revenues: | | | | |
| \$ 9,072,495 | \$ - | \$ 9,072,495 | \$ - | General property taxes |
| 2,046,701 | - | 2,046,701 | - | Local sales tax |
| 1,770,305 | - | 1,770,305 | - | Business license tax |
| 1,738,415 | - | 1,738,415 | - | Meals tax |
| 640,608 | - | 640,608 | - | Consumer utility tax |
| 925,346 | - | 925,346 | - | Other local taxes |
| 1,024,325 | 27,061 | 1,051,386 | 76,479 | Unrestricted revenues from use of money and property |
| 258,851 | - | 258,851 | 158,295 | Miscellaneous |
| 1,605,957 | - | 1,605,957 | - | Grants and contributions not restricted to specific programs |
| - | - | - | 6,247,206 | City contribution to the school board, unrestricted |
| 750,079 | (750,079) | - | - | Transfers |
| <u>\$ 19,833,082</u> | <u>\$ (723,018)</u> | <u>\$ 19,110,064</u> | <u>\$ 6,481,980</u> | Total general revenues and transfers |
| <u>\$ (999,265)</u> | <u>\$ 4,212,662</u> | <u>\$ 3,213,397</u> | <u>\$ 553,960</u> | Change in net position |
| <u>4,426,870</u> | <u>25,128,640</u> | <u>29,555,510</u> | <u>(9,728,773)</u> | Net position - beginning |
| <u><u>\$ 3,427,605</u></u> | <u><u>\$ 29,341,302</u></u> | <u><u>\$ 32,768,907</u></u> | <u><u>\$ (9,174,813)</u></u> | Net position - ending |

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Fund Financial Statements

Balance Sheet - Governmental Funds
At June 30, 2017

| | General | Meals Tax Fund | Nonmajor Governmental Funds | Total |
|---|---------------------|----------------------|-----------------------------------|---------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 5,437,376 | \$ 282,697 | \$ 658,044 | \$ 6,378,117 |
| Receivables (net of allowance for uncollectibles): | | | | |
| Taxes, including penalties | 1,217,796 | - | - | 1,217,796 |
| Accounts | 108,812 | - | - | 108,812 |
| Inventory | 1,200,075 | - | - | 1,200,075 |
| Due from other governments | 641,653 | - | 95,619 | 737,272 |
| Prepaid items | 5,275 | - | - | 5,275 |
| Total assets | <u>\$ 8,610,987</u> | <u>\$ 282,697</u> | <u>\$ 753,663</u> | <u>\$ 9,647,347</u> |
| LIABILITIES | | | | |
| Accounts payable and other current liabilities | \$ 1,294,348 | \$ - | \$ 128,593 | \$ 1,422,941 |
| Total liabilities | <u>\$ 1,294,348</u> | <u>\$ -</u> | <u>\$ 128,593</u> | <u>\$ 1,422,941</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable revenue-property taxes | \$ 1,259,520 | \$ - | \$ - | \$ 1,259,520 |
| FUND BALANCES | | | | |
| Nonspendable: | | | | |
| Inventory | \$ 1,200,075 | \$ - | \$ - | \$ 1,200,075 |
| Prepaid items | 5,275 | - | - | 5,275 |
| Committed: | | | | |
| General government administration | 5,000 | - | - | 5,000 |
| Judicial administration | 11,970 | - | - | 11,970 |
| Public safety | 218,497 | - | - | 218,497 |
| Public works | 874,793 | - | - | 874,793 |
| Education | 634,794 | - | - | 634,794 |
| Community development | 75,360 | - | - | 75,360 |
| Assigned: | | | | |
| Capital reserve fund | - | - | 515,922 | 515,922 |
| Special revenue | - | - | 109,148 | 109,148 |
| Meals tax fund | - | 282,697 | - | 282,697 |
| Unassigned | 3,031,355 | - | - | 3,031,355 |
| Total fund balances | <u>\$ 6,057,119</u> | <u>\$ 282,697</u> | <u>\$ 625,070</u> | <u>\$ 6,964,886</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 8,610,987</u> | <u>\$ 282,697</u> | <u>\$ 753,663</u> | <u>\$ 9,647,347</u> |

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

| | |
|---|---------------------|
| Total fund balances per exhibit 3 - Balance Sheet - Governmental Funds | \$ 6,964,886 |
| Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds. | 24,058,621 |
| Inventory of land and buildings held for resale | 1,588,856 |
| 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 unavailable revenues in the governmental funds and thus are not included in the fund balance. | 1,099,791 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | (384,086) |
| Deferred inflows related to measurement of net pension liability | 1,624,681 |
| Pension contributions subsequent to the measurement date will be a reduction to the net pension liability in the next fiscal year and, therefore, are not reported in the funds. | (33,276,779) |
| 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 position. | (247,941) |
| Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. | 1,999,576 |
| Deferred outflows related to measurement of net pension liability | |
| Net position of General Government Activities | <u>\$ 3,427,605</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
For the Year Ended June 30, 2017

| | General | Meals Tax Fund | Total Nonmajor Governmental Funds | Total Governmental Funds |
|---|----------------|----------------------|--|--------------------------------|
| Revenues: | | | | |
| General property taxes | \$ 8,877,122 | \$ - | \$ - | \$ 8,877,122 |
| Other local taxes | 5,382,960 | 1,738,415 | - | 7,121,375 |
| Permits, privilege fees and regulatory licenses | 93,979 | - | - | 93,979 |
| Fines and forfeitures | 140,171 | - | - | 140,171 |
| Revenue from use of money and property | 1,020,385 | - | 123,864 | 1,144,249 |
| Charges for services | 1,917,701 | - | - | 1,917,701 |
| Miscellaneous | 258,852 | - | - | 258,852 |
| Recovered costs | 2,108,095 | - | - | 2,108,095 |
| Intergovernmental: | | | | |
| Commonwealth | 9,231,666 | - | - | 9,231,666 |
| Federal | 439,698 | 367,978 | 733,762 | 1,541,438 |
| Total revenues | \$ 29,470,629 | \$ 2,106,393 | \$ 857,626 | \$ 32,434,648 |
| Expenditures: | | | | |
| Current: | | | | |
| General government administration | \$ 3,824,189 | \$ 51,232 | \$ 167,099 | \$ 4,042,520 |
| Judicial administration | 2,293,175 | - | - | 2,293,175 |
| Public safety | 9,660,700 | - | 471,148 | 10,131,848 |
| Public works | 4,323,362 | - | 452,002 | 4,775,364 |
| Health and welfare | 874,554 | - | - | 874,554 |
| Education | 6,267,041 | - | - | 6,267,041 |
| Parks, recreation, and cultural | 861,036 | - | - | 861,036 |
| Community development | 2,827,850 | - | 466,026 | 3,293,876 |
| Debt service: | | | | |
| Principal retirement | - | 990,827 | 314,754 | 1,305,581 |
| Interest and other fiscal charges | - | 531,296 | 39,612 | 570,908 |
| Total expenditures | \$ 30,931,907 | \$ 1,573,355 | \$ 1,910,641 | \$ 34,415,903 |
| Excess (deficiency) of revenues over (under) expenditures | \$ (1,461,278) | \$ 533,038 | \$ (1,053,015) | \$ (1,981,255) |
| Other financing sources (uses): | | | | |
| Transfers in | \$ 750,079 | \$ - | \$ 1,095,018 | \$ 1,845,097 |
| Transfers (out) | - | (1,095,018) | - | (1,095,018) |
| Total other financing sources (uses) | \$ 750,079 | \$ (1,095,018) | \$ 1,095,018 | \$ 750,079 |
| Changes in fund balances | \$ (711,199) | \$ (561,980) | \$ 42,003 | \$ (1,231,176) |
| Fund balances at beginning of year | 6,768,318 | 844,677 | 583,067 | 8,196,062 |
| Fund balances at end of year | \$ 6,057,119 | \$ 282,697 | \$ 625,070 | \$ 6,964,886 |

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, 2017

| | | <u>Primary Governmental Funds</u> |
|---|--------------------|---|
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Net change in fund balances - total governmental funds | \$ | (1,231,176) |
| 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 depreciation exceeded capital outlays in the current year. | | |
| Capital outlays | \$ 968,730 | |
| Depreciation expense | <u>(1,053,722)</u> | (84,992) |
| Inventory of land and buildings held for resale sold during the year | | (119,924) |
| Transfer of joint tenancy assets from Primary Government to the Component Unit | | (845,827) |
| 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 following: | | |
| Change in unavailable taxes | \$ 195,373 | |
| (Increase) decrease in deferred inflows related to pension: | | |
| Difference between expected and actual experience | (384,086) | |
| Difference between projected and actual earnings on plan investments | <u>1,480,782</u> | 1,292,069 |
| 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 position. Also, governmental funds report the effect of premiums, discounts, similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. | | |
| Details supporting this adjustment are as follows: | | |
| Principal retired on debt on state literary fund loans | \$ 625,000 | |
| Principal retired on general obligation bonds | 366,300 | |
| Principal retired on capital lease | 93,454 | |
| Principal retired on VPA subsidy bonds | <u>220,827</u> | 1,305,581 |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds. The following is a summary of items supporting this adjustment: | | |
| Change in compensated absences | \$ 14,891 | |
| Difference between expected and actual experience | (119,551) | |
| Changes in proportionate share | 183,609 | |
| Difference between projected and actual earnings on plan investments | 1,507,877 | |
| Change in net pension liability | (2,583,222) | |
| Change in pension contributions subsequent to measurement date | (371,421) | |
| Change in net OPEB obligation | 34,000 | |
| Change in accrued interest payable | <u>18,821</u> | <u>(1,314,996)</u> |
| Change in net position of governmental activities | \$ | <u><u>(999,265)</u></u> |

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

Proprietary Funds
Statement of Net Position
At June 30, 2017

| | Electric Fund | Water Fund | Sewer Fund | Refuse Collection/ Landfill Fund | Total |
|---|----------------------|----------------------|----------------------|---|----------------------|
| ASSETS | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | \$ 791,861 | \$ 3,271,442 | \$ 2,662,566 | \$ 5,344,213 | \$ 12,070,082 |
| Cash and cash equivalents - restricted | 326,277 | 46,295 | - | - | 372,572 |
| Receivables (net of allowance for uncollectibles): | 2,594,774 | 503,975 | 446,462 | 265,054 | 3,810,265 |
| Inventory | 996,219 | 192,840 | - | - | 1,189,059 |
| Total current assets | <u>\$ 4,709,131</u> | <u>\$ 4,014,552</u> | <u>\$ 3,109,028</u> | <u>\$ 5,609,267</u> | <u>\$ 17,441,978</u> |
| Noncurrent Assets | | | | | |
| Capital assets: | | | | | |
| Land | \$ - | \$ 658,224 | \$ 25,400 | \$ - | \$ 683,624 |
| Construction in progress | - | 253,000 | 6,684,948 | - | 6,937,948 |
| Buildings and improvements | 586,744 | 1,993,728 | 1,230,905 | 2,934,827 | 6,746,204 |
| Equipment | 2,779,971 | 1,706,597 | 2,475,597 | 1,889,711 | 8,851,876 |
| Infrastructure | 35,990,802 | 14,864,501 | 16,442,068 | - | 67,297,371 |
| Accumulated depreciation | (23,952,109) | (11,782,334) | (16,673,029) | (2,452,171) | (54,859,643) |
| Total capital assets (net of accumulated depreciation) | <u>\$ 15,405,408</u> | <u>\$ 7,693,716</u> | <u>\$ 10,185,889</u> | <u>\$ 2,372,367</u> | <u>\$ 35,657,380</u> |
| Total assets | <u>\$ 20,114,539</u> | <u>\$ 11,708,268</u> | <u>\$ 13,294,917</u> | <u>\$ 7,981,634</u> | <u>\$ 53,099,358</u> |
| Deferred Outflows of Resources: | | | | | |
| Pension contributions subsequent to measurement date | \$ 97,057 | \$ 69,555 | \$ 136,834 | \$ 27,633 | \$ 331,079 |
| Differences in proportionate share of net pension liabilities | 22,534 | - | - | - | 22,534 |
| Differences in expected and actual experience | 5,800 | 6,792 | 11,449 | 2,073 | 26,114 |
| Net difference between projected and actual earnings on plan investments | 67,995 | 53,123 | 90,877 | 19,967 | 231,962 |
| Total deferred outflows of resources | <u>\$ 193,386</u> | <u>\$ 129,470</u> | <u>\$ 239,160</u> | <u>\$ 49,673</u> | <u>\$ 611,689</u> |
| Total assets and deferred outflows of resources | <u>\$ 20,307,925</u> | <u>\$ 11,837,738</u> | <u>\$ 13,534,077</u> | <u>\$ 8,031,307</u> | <u>\$ 53,711,047</u> |
| LIABILITIES | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$ 49,425 | \$ 305,437 | \$ 355,948 | \$ 70,565 | \$ 781,375 |
| Customers' deposits | 326,277 | 46,295 | - | - | 372,572 |
| Interest payable | 48,281 | 27,620 | 755 | 10,662 | 87,318 |
| Current portion of long-term obligations | 249,451 | 161,327 | 203,478 | 112,638 | 726,894 |
| Total current liabilities | <u>\$ 673,434</u> | <u>\$ 540,679</u> | <u>\$ 560,181</u> | <u>\$ 193,865</u> | <u>\$ 1,968,159</u> |
| Noncurrent liabilities: | | | | | |
| Noncurrent portion of long-term obligations | 5,530,324 | 3,463,626 | 8,463,444 | 4,522,103 | 21,979,497 |
| Total liabilities | <u>\$ 6,203,758</u> | <u>\$ 4,004,305</u> | <u>\$ 9,023,625</u> | <u>\$ 4,715,968</u> | <u>\$ 23,947,656</u> |
| Deferred Inflows of Resources: | | | | | |
| Differences in proportionate share of net pension liabilities | \$ - | \$ 127,297 | \$ 205,598 | \$ 17,474 | \$ 350,369 |
| Differences in expected and actual experience | 19,345 | 17,084 | 29,383 | 5,908 | 71,720 |
| Total deferred inflows of resources: | <u>\$ 19,345</u> | <u>\$ 144,381</u> | <u>\$ 234,981</u> | <u>\$ 23,382</u> | <u>\$ 422,089</u> |
| NET POSITION | | | | | |
| Net investment in capital assets | \$ 10,643,408 | \$ 4,972,716 | \$ 3,049,467 | \$ 1,489,412 | \$ 20,155,003 |
| Unrestricted | 3,441,414 | 2,716,336 | 1,226,004 | 1,802,545 | 9,186,299 |
| Total net position | <u>\$ 14,084,822</u> | <u>\$ 7,689,052</u> | <u>\$ 4,275,471</u> | <u>\$ 3,291,957</u> | <u>\$ 29,341,302</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 20,307,925</u> | <u>\$ 11,837,738</u> | <u>\$ 13,534,077</u> | <u>\$ 8,031,307</u> | <u>\$ 53,711,047</u> |

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

Proprietary Funds
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

| | Electric Fund | Water Fund | Sewer Fund | Refuse Collection/ Landfill Fund | Total |
|---|------------------|---------------|---------------|---|---------------|
| Operating revenues: | | | | | |
| Charges for services | \$ 18,569,344 | \$ 3,418,046 | \$ 4,254,774 | \$ 1,685,518 | \$ 27,927,682 |
| Miscellaneous | 111,334 | 184,729 | 1,109 | 595,192 | 892,364 |
| Total operating revenues | \$ 18,680,678 | \$ 3,602,775 | \$ 4,255,883 | \$ 2,280,710 | \$ 28,820,046 |
| Operating expenses: | | | | | |
| Personnel services | \$ 685,340 | \$ 527,644 | \$ 878,824 | \$ 212,825 | \$ 2,304,633 |
| Fringe benefits | 207,225 | 143,636 | 267,786 | 70,577 | 689,224 |
| Contractual services | 144,884 | 118,750 | 126,526 | 188,388 | 578,548 |
| Other charges | 15,291,140 | 895,884 | 1,766,040 | 1,093,019 | 19,046,083 |
| Depreciation | 413,514 | 225,626 | 209,160 | 175,047 | 1,023,347 |
| Total operating expenses | \$ 16,742,103 | \$ 1,911,540 | \$ 3,248,336 | \$ 1,739,856 | \$ 23,641,835 |
| Operating income (loss) | \$ 1,938,575 | \$ 1,691,235 | \$ 1,007,547 | \$ 540,854 | \$ 5,178,211 |
| Nonoperating revenues (expenses): | | | | | |
| Interest income | \$ 984 | \$ 565 | \$ 25,512 | \$ - | \$ 27,061 |
| Interest expense | (118,136) | (67,559) | (2,061) | (25,185) | (212,941) |
| Debt issuance cost | - | - | (29,590) | - | (29,590) |
| Total nonoperating revenues (expenses) | \$ (117,152) | \$ (66,994) | \$ (6,139) | \$ (25,185) | \$ (215,470) |
| Income (loss) before transfers | \$ 1,821,423 | \$ 1,624,241 | \$ 1,001,408 | \$ 515,669 | \$ 4,962,741 |
| Transfers: | | | | | |
| Transfers (out) | (399,672) | - | - | (350,407) | (750,079) |
| Change in net position | \$ 1,421,751 | \$ 1,624,241 | \$ 1,001,408 | \$ 165,262 | \$ 4,212,662 |
| Net position at beginning of year | 12,663,071 | 6,064,811 | 3,274,063 | 3,126,695 | 25,128,640 |
| Net position at end of year | \$ 14,084,822 | \$ 7,689,052 | \$ 4,275,471 | \$ 3,291,957 | \$ 29,341,302 |

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

Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2017

| | Electric Fund | Water Fund | Sewer Fund | Refuse Collection/ Landfill Fund | Total |
|---|------------------|----------------|----------------|---|----------------|
| Cash Flows From Operating Activities: | | | | | |
| Receipts from customers and users | \$ 18,467,604 | \$ 3,544,906 | \$ 4,196,844 | \$ 2,255,618 | \$ 28,464,972 |
| Payments to suppliers and other operating expenses | (16,057,560) | (1,333,818) | (2,195,215) | (1,297,610) | (20,884,203) |
| Payments to employees (including fringe benefits) | (899,063) | (698,372) | (1,222,191) | (290,930) | (3,110,556) |
| Net cash provided by (used for) operating activities | \$ 1,510,981 | \$ 1,512,716 | \$ 779,438 | \$ 667,078 | \$ 4,470,213 |
| Cash Flows From Capital and Related Financing Activities: | | | | | |
| Purchase and construction of capital assets | \$ (4,344,058) | \$ (1,615,828) | \$ (3,599,947) | \$ (165,972) | \$ (9,725,805) |
| Issuance of water and sewer revenue bonds | - | - | 3,823,977 | - | 3,823,977 |
| Retirements of general obligation bonds | (19,000) | - | (15,976) | (109,025) | (144,001) |
| Debt issuance cost | - | - | (29,590) | - | (29,590) |
| Interest expense | (142,012) | (81,365) | (2,238) | (26,444) | (252,059) |
| Net cash provided by (used for) capital and related financing activities | \$ (4,505,070) | \$ (1,697,193) | \$ 176,226 | \$ (301,441) | \$ (6,327,478) |
| Cash Flows From Noncapital Financing Activities: | | | | | |
| Transfers | \$ (399,672) | \$ - | \$ - | \$ (350,407) | \$ (750,079) |
| Net cash provided by (used for) noncapital financing activities | \$ (399,672) | \$ - | \$ - | \$ (350,407) | \$ (750,079) |
| Cash Flows From Investing Activities: | | | | | |
| Interest income | \$ 984 | \$ 565 | \$ 25,512 | \$ - | \$ 27,061 |
| Net Increase (decrease) in cash and cash equivalents | \$ (3,392,777) | \$ (183,912) | \$ 981,176 | \$ 15,230 | \$ (2,580,283) |
| Cash and cash equivalents at beginning of year | 4,510,915 | 3,501,649 | 1,681,390 | 5,328,983 | 15,022,937 |
| Cash and cash equivalents at end of year | \$ 1,118,138 | \$ 3,317,737 | \$ 2,662,566 | \$ 5,344,213 | \$ 12,442,654 |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | | | | | |
| Operating income (loss) | \$ 1,938,575 | \$ 1,691,235 | \$ 1,007,547 | \$ 540,854 | \$ 5,178,211 |
| Adjustments to reconcile operating income to net cash provided by (used for) operating activities: | | | | | |
| Depreciation | \$ 413,514 | \$ 225,626 | \$ 209,160 | \$ 175,047 | \$ 1,023,347 |
| Changes in operating activities: | | | | | |
| (Increase) decrease in: | | | | | |
| Accounts receivable | (219,195) | (60,505) | (59,039) | (25,092) | (363,831) |
| Inventory | 48,692 | (17,302) | - | - | 31,390 |
| Increase (decrease) in: | | | | | |
| Accounts payable | (670,228) | (301,882) | (302,649) | (16,203) | (1,290,962) |
| Deferred outflows of resources | (81,630) | (27,545) | (64,306) | (14,958) | (188,439) |
| Deferred inflows of resources | (140,433) | 25,185 | 15,130 | (17,814) | (117,932) |
| Net pension liability | 213,203 | (27,621) | (17,361) | 26,129 | 194,350 |
| Compensated absences | 2,362 | 2,889 | (9,044) | (885) | (4,678) |
| Customer deposits | 6,121 | 2,636 | - | - | 8,757 |
| Total adjustments | \$ (427,594) | \$ (178,519) | \$ (228,109) | \$ 126,224 | \$ (707,998) |
| Net cash provided by (used for) operating activities | \$ 1,510,981 | \$ 1,512,716 | \$ 779,438 | \$ 667,078 | \$ 4,470,213 |

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

Statement of Fiduciary Net Position --
Agency Funds
At June 30, 2017

| | <u>Agency Funds</u> |
|---------------------------|----------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ <u>1,317,119</u> |
| Total assets | \$ <u><u>1,317,119</u></u> |
| LIABILITIES | |
| Accounts payable | \$ 81,817 |
| Notes payable | 182,161 |
| Amounts held for others | <u>1,053,141</u> |
| Total liabilities | \$ <u><u>1,317,119</u></u> |

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements As of June 30, 2017

Note 1—Summary of Significant Accounting Policies:

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 accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board and the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, and 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 position 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 Position - The Statement of Net Position is designed to display financial position of the primary government (governmental and business-type activities) and its discretely presented component unit. Governments will report all capital assets, in the government-wide Statement of Net Position and will report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net position of a government will be broken down into three categories - 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

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

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 unit. 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, 2017 (Continued)

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

B. Individual Component Unit Disclosures

Blended Component Unit. The City has no blended component units at June 30, 2017.

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, 2017.

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. The City holds assets in a custodial capacity for the Library. These assets are accounted for as an agency fund on the City's financial statements.

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 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.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

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

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

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 unavailable 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.

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.

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

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

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 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 nonmajor 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. The nonmajor Special Revenue Funds are the Housing Choice Fund and the City Grants 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 nonmajor Capital Projects Fund is the Capital Reserve Fund.

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.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

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

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

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.

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

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 Trust Fund, Inmate Welfare Fund, Police Academy Fund, Southern Virginia Recreation Facility Authority Fund, Blue Ridge Regional Library Fund, and Dan River ASAP Fund.

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.

F. Investments

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

Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposit (CDs) and external investment pools are measured at amortized cost. All other investments are reported at fair value. Investments in custody of others include unspent bond proceeds and accumulated interest that the City intends to use for the electric and water meter installation projects.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

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

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). All other outstanding balances between funds are reported as “advances to/from other funds” (i.e. the noncurrent portion of interfund loans).

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 \$1,595,873 at June 30, 2017, and is composed of the following:

General Fund

| | |
|--|-------------------|
| Allowance for uncollectible property taxes | \$ <u>163,367</u> |
|--|-------------------|

Enterprise Funds

Allowance for uncollectible accounts:

| | |
|---|----------------------------|
| Electric Fund | \$ 970,560 |
| Water Fund | 180,648 |
| Sewer Fund | 172,595 |
| Refuse Collection/Landfill Fund | <u>108,703</u> |
| Total allowance for uncollectible accounts – Enterprise funds | \$ <u>1,432,506</u> |
| Total allowance for uncollectible accounts | \$ <u><u>1,595,873</u></u> |

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.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

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

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 and infrastructure, 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 acquisition 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, 2017 was immaterial.

Property, plant and equipment and infrastructure 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 |

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

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category. It is comprised of certain items related to the measurement of the net pension liability. These include differences between expected and actual experience, the net difference between projected and actual earnings on pension plan investments, and changes in proportionate share of employer contributions. It is also comprised of contributions to the pension plan made during the current year and subsequent to the net pension asset or liability measurement date, which will be recognized as a reduction of the net pension asset or liability next fiscal year. For more detailed information on this item, reference the pension note.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30 and amounts prepaid on the 2nd half installments and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, amounts prepaid on the 2nd half installments are reported as deferred inflows of resources. In addition, certain amounts related to the measurement of the net pension asset or liability are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, the net difference between projected and actual earnings on pension plan investments, and changes in proportion and differences between employer contributions and proportionate share of contributions. For more detailed information on this item, reference the pension note.

L. Pensions

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

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

M. 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 Position. 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.

N. 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.

O. 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.

P. Fund Equity

The City reports fund balance in accordance with GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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;

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

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

P. Fund Equity: (Continued)

- 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).

Q. Net Position

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

R. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

S. Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. 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 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.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

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

T. 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 Position, 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 position of the City. The corresponding capital assets are reported as assets of the Component Unit—School Board (title holder), thereby increasing its net position.

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.

U. Upcoming Pronouncements

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

Statement No. 81, *Irrevocable Split-Interest Agreements*, improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

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

U. Upcoming Pronouncements: (Continued)

Statement No. 84, Fiduciary Activities, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 86, Certain Debt Extinguishment Issues, improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

Statement No. 87, Leases, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

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.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 2—Stewardship, Compliance, and Accounting:

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 budgetary data presented in the accompanying financial statements is the original to the current comparison of the final budget and actual results.

Expenditures and Appropriations

There were no expenditures in excess of appropriations for the fiscal year ended June 30, 2017.

Note 3—Deposits and Investments:

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.

Restricted investments at June 30, 2017 consist of the following:

| | <u>Electric Fund</u> | <u>Water Fund</u> | <u>Total</u> |
|---------------------------|--------------------------|-----------------------|-------------------|
| Proprietary Funds: | | | |
| Utility customer deposits | \$ 326,277 | \$ 46,295 | \$ 372,572 |
| Total | <u>\$ 326,277</u> | <u>\$ 46,295</u> | <u>\$ 372,572</u> |

The component unit school board is part of the City's pooled cash and has a net balance in the amount of \$2,278,561 at June 30, 2017.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 4—Due from Other Governments:

At June 30, 2017 the City has receivables from other governments as follows:

| | Primary Government | Component Unit School Board |
|---------------------------------------|-------------------------------|--|
| Commonwealth of Virginia: | | |
| Local sales tax | \$ 174,398 | \$ - |
| State sales tax | - | 176,319 |
| State recordation tax | 2,642 | - |
| Railroad stock tax | 14 | - |
| Constitutional officer reimbursements | 240,998 | - |
| Miscellaneous grants | 11,038 | 51,100 |
| Comprehensive service | 55,839 | - |
| Communication taxes | 71,423 | - |
| Technology grant | - | 64,400 |
| Federal Government: | | |
| Community development block grant | 95,619 | - |
| Alcohol traffic safety | 41,203 | - |
| Brownfields grant | 34,437 | - |
| Miscellaneous grants | 9,661 | - |
| School fund grants | - | 309,456 |
| Total due from other governments | \$ <u>737,272</u> | \$ <u>601,275</u> |

Note 5—Inventory:

At June 30, 2017 the City has inventory recorded in the various funds as follows:

| | Governmental Funds | Enterprise Funds |
|--|-------------------------------|-----------------------------|
| Expendable supplies | \$ 1,200,075 | \$ 1,189,059 |
| Land and building inventory held for resale: | | |
| 77 Commercial & residential lots held for resale | 1,392,294 | - |
| 5 Commercial & residential buildings held for resale | 196,562 | - |
| Totals | \$ <u>2,788,931</u> | \$ <u>1,189,059</u> |

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements As of June 30, 2017 (Continued)

Note 6—Capital Assets:

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2017:

Primary Government:

Governmental Activities:

| | Balance July 1, 2016 | Additions | Deletions | Balance June 30, 2017 |
|---|---------------------------------|---------------------|---------------------|----------------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 4,379,094 | \$ - | \$ - | \$ 4,379,094 |
| Construction in progress | 99,998 | 160,092 | 178,240 | 81,850 |
| Total capital assets not being depreciated | <u>\$ 4,479,092</u> | <u>\$ 160,092</u> | <u>\$ 178,240</u> | <u>\$ 4,460,944</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | \$ 7,931,855 | \$ - | \$ - | \$ 7,931,855 |
| Equipment | 9,440,550 | 986,878 | 275,602 | 10,151,826 |
| Infrastructure | 34,731,414 | - | - | 34,731,414 |
| Jointly owned assets | 12,397,721 | - | 845,827 | 11,551,894 |
| Total capital assets being depreciated | <u>\$ 64,501,540</u> | <u>\$ 986,878</u> | <u>\$ 1,121,429</u> | <u>\$ 64,366,989</u> |
| Accumulated depreciation: | | | | |
| Buildings and improvements | \$ 3,986,769 | \$ 206,230 | \$ - | \$ 4,192,999 |
| Equipment | 7,628,390 | 344,778 | 275,602 | 7,697,566 |
| Infrastructure | 29,641,514 | 213,917 | - | 29,855,431 |
| Jointly owned assets | 2,734,519 | 288,797 | - | 3,023,316 |
| Total accumulated depreciation | <u>\$ 43,991,192</u> | <u>\$ 1,053,722</u> | <u>\$ 275,602</u> | <u>\$ 44,769,312</u> |
| Total capital assets being depreciated, net | <u>\$ 20,510,348</u> | <u>\$ (66,844)</u> | <u>\$ 845,827</u> | <u>\$ 19,597,677</u> |
| Governmental activities capital assets, net | <u>\$ 24,989,440</u> | <u>\$ 93,248</u> | <u>\$ 1,024,067</u> | <u>\$ 24,058,621</u> |

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 6—Capital Assets: (Continued)**Primary Government:****Business-type Activities:**

| | <u>Balance</u> <u>July 1, 2016</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2017</u> |
|---|---------------------------------------|------------------|------------------|--|
| Electric Fund: | | | | |
| Capital assets, not being depreciated: | | | | |
| Construction in progress | \$ 1,504,358 | \$ 4,322,484 | \$ 5,826,842 | \$ - |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | \$ 586,744 | \$ - | \$ - | \$ 586,744 |
| Equipment | 2,764,916 | 21,574 | 6,519 | 2,779,971 |
| Infrastructure | 30,163,960 | 5,826,842 | - | 35,990,802 |
| Total capital assets being depreciated | \$ 33,515,620 | \$ 5,848,416 | \$ 6,519 | \$ 39,357,517 |
| Accumulated depreciation: | | | | |
| Buildings and improvements | \$ 586,744 | \$ - | \$ - | \$ 586,744 |
| Equipment | 2,269,009 | 119,262 | 6,519 | 2,381,752 |
| Infrastructure | 20,689,361 | 294,252 | - | 20,983,613 |
| Total accumulated depreciation | \$ 23,545,114 | \$ 413,514 | \$ 6,519 | \$ 23,952,109 |
| Total capital assets being depreciated, net | \$ 9,970,506 | \$ 5,434,902 | \$ - | \$ 15,405,408 |
| Electric fund capital assets, net | \$ 11,474,864 | \$ 9,757,386 | \$ 5,826,842 | \$ 15,405,408 |

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 6—Capital Assets: (Continued)**Primary Government: (Continued)****Business-type Activities: (Continued)**

| | Balance July 1, 2016 | Additions | Deletions | Balance June 30, 2017 |
|---|---------------------------------|---------------------|---------------------|----------------------------------|
| Water Fund: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land and land improvements | \$ 658,224 | \$ - | \$ - | \$ 658,224 |
| Construction in progress | <u>1,703,189</u> | <u>1,549,299</u> | <u>2,999,488</u> | <u>253,000</u> |
| Total capital assets not being depreciated | \$ <u>2,361,413</u> | \$ <u>1,549,299</u> | \$ <u>2,999,488</u> | \$ <u>911,224</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | \$ 1,993,728 | \$ - | \$ - | \$ 1,993,728 |
| Equipment | 1,640,068 | 66,529 | - | 1,706,597 |
| Infrastructure | <u>11,865,013</u> | <u>2,999,488</u> | <u>-</u> | <u>14,864,501</u> |
| Total capital assets being depreciated | \$ <u>15,498,809</u> | \$ <u>3,066,017</u> | \$ <u>-</u> | \$ <u>18,564,826</u> |
| Accumulated depreciation: | | | | |
| Buildings and improvements | \$ 1,173,788 | \$ 42,805 | \$ - | \$ 1,216,593 |
| Equipment | 1,127,662 | 49,733 | - | 1,177,395 |
| Infrastructure | <u>9,255,258</u> | <u>133,088</u> | <u>-</u> | <u>9,388,346</u> |
| Total accumulated depreciation | \$ <u>11,556,708</u> | \$ <u>225,626</u> | \$ <u>-</u> | \$ <u>11,782,334</u> |
| Total capital assets being depreciated, net | \$ <u>3,942,101</u> | \$ <u>2,840,391</u> | \$ <u>-</u> | \$ <u>6,782,492</u> |
| Water fund capital assets, net | <u>\$ 6,303,514</u> | <u>\$ 4,389,690</u> | <u>\$ 2,999,488</u> | <u>\$ 7,693,716</u> |

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 6—Capital Assets: (Continued)**Primary Government: (Continued)****Business-type Activities: (Continued)**

| | <u>Balance</u> <u>July 1, 2016</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2017</u> |
|---|---------------------------------------|---------------------|-------------------|--|
| Sewer Fund: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land and land improvements | \$ 25,400 | \$ - | \$ - | \$ 25,400 |
| Construction in progress | <u>3,442,650</u> | <u>3,360,860</u> | <u>118,562</u> | <u>6,684,948</u> |
| Total capital assets not being depreciated | \$ <u>3,468,050</u> | \$ <u>3,360,860</u> | \$ <u>118,562</u> | \$ <u>6,710,348</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | \$ 1,230,905 | \$ - | \$ - | \$ 1,230,905 |
| Equipment | 2,259,672 | 239,087 | 23,162 | 2,475,597 |
| Infrastructure | <u>16,323,506</u> | <u>118,562</u> | <u>-</u> | <u>16,442,068</u> |
| Total capital assets being depreciated | \$ <u>19,814,083</u> | \$ <u>357,649</u> | \$ <u>23,162</u> | \$ <u>20,148,570</u> |
| Accumulated depreciation: | | | | |
| Buildings and improvements | \$ 897,137 | \$ 18,659 | \$ - | \$ 915,796 |
| Equipment | 1,480,630 | 63,746 | 23,162 | 1,521,214 |
| Infrastructure | <u>14,109,264</u> | <u>126,755</u> | <u>-</u> | <u>14,236,019</u> |
| Total accumulated depreciation | \$ <u>16,487,031</u> | \$ <u>209,160</u> | \$ <u>23,162</u> | \$ <u>16,673,029</u> |
| Total capital assets being depreciated, net | \$ <u>3,327,052</u> | \$ <u>148,489</u> | \$ <u>-</u> | \$ <u>3,475,541</u> |
| Sewer fund capital asset, net | <u>\$ 6,795,102</u> | <u>\$ 3,509,349</u> | <u>\$ 118,562</u> | <u>\$ 10,185,889</u> |

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 6—Capital Assets: (Continued)

Primary Government: (Continued)**Business-type Activities: (Continued)**

| | <u>Balance</u> <u>July 1, 2016</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2017</u> |
|---|---------------------------------------|--------------------------|--------------------|--|
| Refuse Collection/Landfill Fund: | | | | |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | \$ 2,880,245 | \$ 54,582 | \$ - | \$ 2,934,827 |
| Equipment | <u>1,858,275</u> | <u>111,390</u> | <u>79,954</u> | <u>1,889,711</u> |
| Total capital assets being depreciated | <u>\$ 4,738,520</u> | <u>\$ 165,972</u> | <u>\$ 79,954</u> | <u>\$ 4,824,538</u> |
| Accumulated depreciation: | | | | |
| Buildings and improvements | \$ 780,667 | \$ 137,775 | \$ - | \$ 918,442 |
| Equipment | <u>1,576,411</u> | <u>37,272</u> | <u>79,954</u> | <u>1,533,729</u> |
| Total accumulated depreciation | <u>\$ 2,357,078</u> | <u>\$ 175,047</u> | <u>\$ 79,954</u> | <u>\$ 2,452,171</u> |
| Total capital assets being depreciated, net | <u>\$ 2,381,442</u> | <u>\$ (9,075)</u> | <u>\$ -</u> | <u>\$ 2,372,367</u> |
| Refuse collection/landfill fund capital assets, net | <u><u>\$ 2,381,442</u></u> | <u><u>\$ (9,075)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 2,372,367</u></u> |

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 6—Capital Assets: (Continued)

Primary Government: (Continued)

Business-type Activities: (Continued)

| | <u>Balance</u> <u>July 1, 2016</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2017</u> |
|---|---------------------------------------|-----------------------------|----------------------------|--|
| Total Business-type Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land and land improvements | \$ 683,624 | \$ - | \$ - | \$ 683,624 |
| Construction in progress | <u>6,650,197</u> | <u>9,232,643</u> | <u>8,944,892</u> | <u>6,937,948</u> |
| Total capital assets not being depreciated | <u>\$ 7,333,821</u> | <u>\$ 9,232,643</u> | <u>\$ 8,944,892</u> | <u>\$ 7,621,572</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | \$ 6,691,622 | \$ 54,582 | \$ - | \$ 6,746,204 |
| Equipment | 8,522,931 | 438,580 | 109,635 | 8,851,876 |
| Infrastructure | <u>58,352,479</u> | <u>8,944,892</u> | <u>-</u> | <u>67,297,371</u> |
| Total capital assets being depreciated | <u>\$ 73,567,032</u> | <u>\$ 9,438,054</u> | <u>\$ 109,635</u> | <u>\$ 82,895,451</u> |
| Accumulated depreciation: | | | | |
| Buildings and improvements | \$ 3,438,336 | \$ 199,239 | \$ - | \$ 3,637,575 |
| Equipment | 6,453,712 | 270,013 | 109,635 | 6,614,090 |
| Infrastructure | <u>44,053,883</u> | <u>554,095</u> | <u>-</u> | <u>44,607,978</u> |
| Total accumulated depreciation | <u>\$ 53,945,931</u> | <u>\$ 1,023,347</u> | <u>\$ 109,635</u> | <u>\$ 54,859,643</u> |
| Total capital assets being depreciated, net | <u>\$ 19,621,101</u> | <u>\$ 8,414,707</u> | <u>\$ -</u> | <u>\$ 28,035,808</u> |
| Total Business-type capital assets, net | <u><u>\$ 26,954,922</u></u> | <u><u>\$ 17,647,350</u></u> | <u><u>\$ 8,944,892</u></u> | <u><u>\$ 35,657,380</u></u> |

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 6—Capital Assets: (Continued)

Discretely Presented Component Unit—School Board:

| | <u>Balance July 1, 2016</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance June 30, 2017</u> |
|--|---------------------------------|------------------|------------------|----------------------------------|
| Discretely Presented Component Unit-School Board: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 47,172 | \$ - | \$ - | \$ 47,172 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | \$ 8,046,929 | \$ 49,379 | \$ - | \$ 8,096,308 |
| Equipment | 3,579,796 | 125,803 | 24,000 | 3,681,599 |
| Jointly owned assets | 11,339,037 | 845,827 | - | 12,184,864 |
| Total capital assets being depreciated | \$ 22,965,762 | \$ 1,021,009 | \$ 24,000 | \$ 23,962,771 |
| Accumulated depreciation: | | | | |
| Buildings and improvements | \$ 5,925,953 | \$ 107,744 | \$ - | \$ 6,033,697 |
| Equipment | 2,565,498 | 227,772 | 24,000 | 2,769,270 |
| Jointly owned assets | 3,957,523 | 304,622 | - | 4,262,145 |
| Total accumulated depreciation | \$ 12,448,974 | \$ 640,138 | \$ 24,000 | \$ 13,065,112 |
| Total capital assets being depreciated, net | \$ 10,516,788 | \$ 380,871 | \$ - | \$ 10,897,659 |
| School Board capital assets, net | \$ 10,563,960 | \$ 380,871 | \$ - | \$ 10,944,831 |

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 6—Capital Assets: (Continued)

The following is a summary of depreciation expense for the year ended June 30, 2017:

Governmental activities:

| | | |
|-----------------------------------|----|---------------|
| General government administration | \$ | 103,038 |
| Judicial administration | | 10,532 |
| Public safety | | 226,963 |
| Public works | | 293,395 |
| Health and welfare | | 9,596 |
| Education | | 288,797 |
| Parks, recreation and cultural | | 59,128 |
| Community development | | <u>62,273</u> |

| | | |
|-------------------------------|----|-------------------------|
| Total Governmental activities | \$ | <u><u>1,053,722</u></u> |
|-------------------------------|----|-------------------------|

Business-type activities:

| | | |
|------------------------------|----|----------------|
| Electric | \$ | 413,514 |
| Water | | 225,626 |
| Sewer | | 209,160 |
| Refuse collection / landfill | | <u>175,047</u> |

| | | |
|--------------------------------|----|-------------------------|
| Total Business-type activities | \$ | <u><u>1,023,347</u></u> |
|--------------------------------|----|-------------------------|

| | | |
|-----------------------------|----|-------------------------|
| Component Unit School Board | \$ | <u><u>335,516</u></u> * |
|-----------------------------|----|-------------------------|

* Note accumulated depreciation transferred from the Primary Government to the Component Unit School Board on Jointly owned assets totals \$304,622 for the year ending June 30, 2017 when added to depreciation expense above totals \$640,138 accumulated depreciation per the previous page.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 7—Interfund Transfers/Obligations:

Interfund transfers for the year ended June 30, 2017, consisted of the following:

| <u>Fund</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|------------------------------|---------------------|----------------------|
| Primary Government: | | |
| Governmental Activities: | | |
| General Fund | \$ 750,079 | \$ - |
| Meals tax | - | 1,095,018 |
| Nonmajor governmental funds: | | |
| Capital reserve | 1,095,018 | - |
| Proprietary Funds: | | |
| Electric | - | 399,672 |
| Refuse Collection/Landfill | - | 350,407 |
| Total | \$ <u>1,845,097</u> | \$ <u>1,845,097</u> |

Interfund receivables and payable balances relative to working capital loans at June 30, 2017 are presented below:

| <u>Fund</u> | <u>Receivables</u> | <u>Payables</u> |
|--------------------------------|--------------------|-------------------|
| Component Unit - School Board: | | |
| School Operating Fund | \$ 167,920 | \$ - |
| School Grants | - | 167,920 |
| Total | \$ <u>167,920</u> | \$ <u>167,920</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, 2017 (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, 2017:

| | Beginning Balance July 1, 2016 | Issuances/ Additions | Retirements/ Deletions | Ending Balance June 30, 2017 | Amounts Due Within One Year |
|--|---|---------------------------------|-----------------------------------|---|--|
| Governmental Activities Obligations: | | | | | |
| Incurred by City | | | | | |
| Compensated absences | \$ 558,682 | \$ 139,671 | \$ 154,562 | \$ 543,791 | \$ 54,379 |
| General obligation bonds | 2,153,100 | - | 366,300 | 1,786,800 | 374,400 |
| Net pension liability | 16,542,117 | 6,615,612 | 4,032,390 | 19,125,339 | - |
| Net OPEB obligation | 208,000 | 209,000 | 243,000 | 174,000 | - |
| Capital lease | 188,409 | - | 93,454 | 94,955 | 94,955 |
| Total incurred by City | <u>\$ 19,650,308</u> | <u>\$ 6,964,283</u> | <u>\$ 4,889,706</u> | <u>\$ 21,724,885</u> | <u>\$ 523,734</u> |
| Incurred by School Board: | | | | | |
| State Literary Fund Loans | \$ 2,125,000 | \$ - | \$ 625,000 | \$ 1,500,000 | \$ 375,000 |
| VPA subsidy bonds | 10,272,721 | - | 220,827 | 10,051,894 | 493,803 |
| Total incurred by School Board | <u>\$ 12,397,721</u> | <u>\$ -</u> | <u>\$ 845,827</u> | <u>\$ 11,551,894</u> | <u>\$ 868,803</u> |
| Total Governmental Activities Obligations | <u>\$ 32,048,029</u> | <u>\$ 6,964,283</u> | <u>\$ 5,735,533</u> | <u>\$ 33,276,779</u> | <u>\$ 1,392,537</u> |
| Business-type Activities Obligations: | | | | | |
| Compensated absences | \$ 197,899 | \$ 39,580 | \$ 44,261 | \$ 193,218 | \$ 19,322 |
| General obligation bonds | 1,155,000 | - | 144,000 | 1,011,000 | 148,000 |
| Revenue bonds | 3,242,399 | 3,823,977 | - | 7,066,376 | 178,572 |
| Capital lease | 7,425,000 | - | - | 7,425,000 | 381,000 |
| Net pension liability | 3,376,937 | 1,279,456 | 1,085,106 | 3,571,287 | - |
| Landfill closure and post-closure costs | 3,439,510 | - | - | 3,439,510 | - |
| Total Business-type Activities Obligations | <u>\$ 18,836,745</u> | <u>\$ 5,143,013</u> | <u>\$ 1,273,367</u> | <u>\$ 22,706,391</u> | <u>\$ 726,894</u> |
| Total Primary Government | <u>\$ 50,884,774</u> | <u>\$ 12,107,296</u> | <u>\$ 7,008,900</u> | <u>\$ 55,983,170</u> | <u>\$ 2,119,431</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, 2017 (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, | Governmental Activities Obligations | | | | Business-type Activities Obligations | | | | | |
|----------------------------|-------------------------------------|------------|---------------|----------|--------------------------------------|------------|---------------|----------|---------------|--------------|
| | General Obligation Bonds | | Capital Lease | | General Obligation Bonds | | Revenue Bonds | | Capital Lease | |
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2018 | \$ 374,400 | \$ 39,442 | \$ 94,955 | \$ 1,141 | \$ 148,000 | \$ 26,288 | \$ 178,572 | \$ - | \$ 381,000 | 183,398 |
| 2019 | 378,600 | 31,346 | - | - | 151,000 | 22,439 | 495,739 | - | 408,000 | 173,987 |
| 2020 | 386,800 | 23,110 | - | - | 155,000 | 18,499 | 634,336 | - | 416,000 | 163,910 |
| 2021 | 85,100 | 17,793 | - | - | 139,000 | 14,669 | 634,336 | - | 445,000 | 153,634 |
| 2022 | 87,400 | 15,452 | - | - | 41,000 | 10,931 | 634,336 | - | 504,000 | 142,643 |
| 2023 | 89,800 | 13,049 | - | - | 43,000 | 9,776 | 634,336 | - | 515,000 | 130,194 |
| 2024 | 92,300 | 10,579 | - | - | 44,000 | 8,580 | 634,336 | - | 522,000 | 117,473 |
| 2025 | 94,800 | 8,041 | - | - | 45,000 | 7,356 | 634,336 | - | 570,000 | 104,580 |
| 2026 | 97,500 | 5,434 | - | - | 46,000 | 6,105 | 634,336 | - | 638,000 | 90,501 |
| 2027 | 100,100 | 2,753 | - | - | 48,000 | 4,813 | 634,336 | - | 494,000 | 74,743 |
| 2028 | - | - | - | - | 49,000 | 3,479 | 634,336 | - | 501,000 | 62,541 |
| 2029 | - | - | - | - | 50,000 | 2,118 | 634,336 | - | 530,000 | 50,166 |
| 2030 | - | - | - | - | 52,000 | 715 | 634,336 | - | 561,000 | 37,075 |
| 2031 | - | - | - | - | - | - | 634,336 | - | 592,000 | 23,218 |
| 2032 | - | - | - | - | - | - | 634,336 | - | 348,000 | 8,596 |
| 2033 | - | - | - | - | - | - | 634,336 | - | - | - |
| 2034 | - | - | - | - | - | - | 634,336 | - | - | - |
| 2034 | - | - | - | - | - | - | 634,336 | - | - | - |
| 2036 | - | - | - | - | - | - | 634,336 | - | - | - |
| 2037 | - | - | - | - | - | - | 634,336 | - | - | - |
| 2038 | - | - | - | - | - | - | 634,336 | - | - | - |
| 2039 | - | - | - | - | - | - | 634,336 | - | - | - |
| 2040 | - | - | - | - | - | - | 634,336 | - | - | - |
| 2041 | - | - | - | - | - | - | 634,336 | - | - | - |
| 2042 | - | - | - | - | - | - | 634,336 | - | - | - |
| 2043 | - | - | - | - | - | - | 634,336 | - | - | - |
| 2044 | - | - | - | - | - | - | 634,336 | - | - | - |
| 2045 | - | - | - | - | - | - | 634,336 | - | - | - |
| 2046 | - | - | - | - | - | - | 455,763 | - | - | - |
| 2047 | - | - | - | - | - | - | 277,190 | - | - | - |
| Total | \$ 1,786,800 | \$ 166,999 | \$ 94,955 | \$ 1,141 | \$ 1,011,000 | \$ 135,768 | \$ 17,900,000 | \$ - | \$ 7,425,000 | \$ 1,516,659 |

* This is the full amortization schedule for revenue bonds-- at June 30, 2017 \$7,066,376 has been received.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

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

| Year Ending June 30, | School Board Obligations | | | |
|----------------------------|------------------------------|-------------------|-----------------------------|---------------------|
| | State Literary Fund Loans | | General Obligation Bonds | |
| | Principal | Interest | Principal | Interest |
| 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 | 197,624 |
| Total | \$ <u>1,500,000</u> | \$ <u>112,500</u> | \$ <u>10,051,894</u> | \$ <u>5,679,299</u> |

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements As of June 30, 2017 (Continued)

Note 8—Long-Term Obligations: (Continued)

Primary Government: (Continued)

Incurred by City:

General Obligation Bonds:

\$1,752,167 general obligation refunding bonds series 2014A bonds maturing in various annual installments of \$290,000 to \$304,398 through July 15, 2019, interest payable semi-annually at 2.37% \$ 898,000

\$1,250,000 general obligation bond, Series 2012 issued (for Municipal building renovations) January 26, 2012, maturing in various annual installments of \$76,300 to \$100,100 through February 1, 2027, interest payable semi-annually at 2.75% 888,800

Total general obligation bonds \$ 1,786,800

Capital Lease:

The City has entered into a lease agreement as lessee for financing the acquisition of a fire truck. The fire truck cost \$460,000 and was acquired with lease financing. Annual requirements to amortize City long-term lease obligations are disclosed within this note. Details of this lease are as follows:

\$460,000 obligation for the purchase of a fire truck, payable in semi-annual installments of \$48,048 beginning August 15, 2013 through February 15, 2018, interest at 1.6% \$ 94,955

Compensated absences \$ 543,791

Net pension liability \$ 19,125,339

Net OPEB obligation \$ 174,000

Total Incurred by City \$ 21,724,885

Incurred by School Board:

State Literary Fund Loan:

\$7,500,000 State Literary Fund Loan issued (for Albert Harris Elementary) September 1, 2000, due in annual principal installments of \$375,000 through 2021; interest payable annually at 3% \$ 1,500,000

General Obligation Bonds:

\$1,936,758 Virginia Public Authority Subsidy Bonds issued (for Patrick Henry Elementary School) November 1, 2007, due in annual installments of varying amounts through 2028; interest payable semi-annually at 4.38% \$ 1,182,825

\$9,300,000 Qualified School Construction Bonds issued (for renovations to Martinsville High School) 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 8,869,069

Total General Obligation Bonds \$ 10,051,894

Total Incurred by the School Board \$ 11,551,894

Total Governmental Activities Obligations \$ 33,276,779

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements As of June 30, 2017 (Continued)

Note 8—Long-Term Obligations: (Continued)

Primary Government: (Continued)

Business-type Activities Obligations:

Revenue Bonds:

\$10,000,000 water and sewer revenue bonds series 2016 bonds maturing in various semi-annual installments of \$178,571 beginning May 1, 2018 through November 1, 2045, interest payable at 0.00%. At June 30, 2017 only \$7,036,786 has been received of this loan.

\$ 7,036,786

\$7,900,000 water and sewer revenue bonds series 2017 bonds maturing in various semi-annual installments of \$138,596 beginning April 1, 2019 through April 1, 2047, interest payable at 0.00%. At June 30, 2017 only \$29,590 has been received of this loan.

29,590

Total revenue bonds \$ 7,066,376

General Obligation Bonds:

\$112,833 general obligation refunding bonds series 2014A bonds, (acquired bucket truck for Electric) maturing in various annual installments of \$19,000 to \$20,000 through July 15, 2019, interest payable semi-annually at 2.37%

\$ 58,000

\$679,000 capital-related general obligation refunding series 2014B bonds maturing in various annual installments of \$36,000 to \$52,000 through July 15, 2029, interest payable semi-annually at 2.37%

572,000

\$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%

381,000

Total general obligation bonds \$ 1,011,000

Capital Lease:

The City entered into a lease agreement as lessee for financing the acquisition of various water and electric meters. The meters costs \$7,425,000 which included issuance costs. Annual requirements to amortize City long-term lease obligations are disclosed within this note. Details of this lease are as follows:

\$7,425,000 obligation for the purchase of a utility meters for electric and water, payable in various annual installments of \$348,000 to \$638,000 beginning February 1, 2018 through February 1, 2032, interest at 2.46%

\$ 7,425,000

Compensated absences \$ 193,218

Net pension liability \$ 3,571,287

Landfill closure and postclosure costs \$ 3,439,510

Total business-type activities obligations \$ 22,706,391

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 8—Long-Term Obligations: (Continued)

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, 2017:

| | Beginning Balance July 1, 2016 | Additions | Deletions | Ending Balance June 30, 2017 | Amounts Due Within One Year |
|---|---|---------------------|---------------------|---|--|
| Net OPEB obligation | \$ 96,000 | \$ 47,000 | \$ 49,000 | \$ 94,000 | \$ - |
| Net pension liability - nonprofessional | 1,479,165 | 330,138 | 220,872 | 1,588,431 | - |
| Net pension liability - professional | <u>20,984,000</u> | <u>5,201,000</u> | <u>4,857,000</u> | <u>21,328,000</u> | <u>-</u> |
| Total | <u>\$ 22,559,165</u> | <u>\$ 5,578,138</u> | <u>\$ 5,126,872</u> | <u>\$ 23,010,431</u> | <u>\$ -</u> |

Note 9—Landfill Closure and Postclosure Costs:

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, 2017 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 2017. 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.

The City demonstrated financial assurance requirements for closure, post-closure care, and corrective action costs through the submission of a Local Governmental Financial Test to the Virginia Department of Environmental Quality in accordance with Section 9VA C20-70 of the Virginia Administrative Code.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 10—Unearned and Deferred/Unavailable Revenue:

The following is a summary of unearned revenue for the year ended June 30, 2017:

| | Government- wide Statements Governmental Activities | Balance Sheet Governmental Funds | Component Unit School Board |
|---|--|---|--|
| Deferred/Unavailable revenue: | | | |
| Unearned revenue representing uncollected property tax billings for which asset recognition criteria has not been met. The uncollected tax billings are not available for the funding of current expenditures | \$ - | \$ 1,099,791 | \$ - |
| Prepaid property tax revenues representing collections received for property taxes that are applicable to the subsequent budget year | 159,729 | 159,729 | - |
| Total deferred/unavailable revenue | \$ 159,729 | \$ 1,259,520 | \$ - |
| Unearned revenue: | | | |
| Harvest Foundation grant funds | \$ - | \$ - | \$ 26,431 |
| Total | \$ 159,729 | \$ 1,259,520 | \$ 26,431 |

Note 11—Contingent Liabilities:

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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. 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:

At June 30, 2017, 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, 2017 (Continued)

Note 13—Risk Management:

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—Pension Plan:

Plan Description

All full-time, salaried permanent employees of the City and (nonprofessional) employees of the public school divisions are automatically covered by the VRS Retirement Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. However, several entities whose financial information is not included in the primary government report participate in the VRS plan through City of Martinsville, Virginia and the participating entities report their proportionate information on the basis of a cost-sharing plan.

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Retirement Plan upon employment. This is a cost-sharing multiple employer plan administered by the Virginia Retirement System (the system).

Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 14—Pension Plan: (Continued)

Plan Description (Continued)

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

| RETIREMENT PLAN PROVISIONS | | |
|---|---|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> | <p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> | <p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members")</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. |

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 14—Pension Plan: (Continued)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|---|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>About Plan 1 (Cont.)</p> | <p>About Plan 2 (Cont.)</p> | <p>About the Hybrid Retirement Plan (Cont.)</p> <ul style="list-style-type: none"> • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees. |
| <p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> | <p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> | <p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* • School division employees • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees. |

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 14—Pension Plan: (Continued)

Plan Description (Continued)

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 14—Pension Plan: (Continued)

Plan Description (Continued)

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 14—Pension Plan: (Continued)

Plan Description (Continued)

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 14—Pension Plan: (Continued)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|--|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| Vesting (Cont.) | Vesting (Cont.) | Vesting (Cont.) <u>Defined Contributions Component: (Cont.)</u> Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½. |
| Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. | Calculating the Benefit See definition under Plan 1. | Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1. |

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 14—Pension Plan: (Continued)

Plan Description (Continued)

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 14—Pension Plan: (Continued)

Plan Description (Continued)

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 14—Pension Plan: (Continued)

Plan Description (Continued)

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 14—Pension Plan: (Continued)

Plan Description (Continued)

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 14—Pension Plan: (Continued)

Plan Description (Continued)

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 14—Pension Plan: (Continued)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Contributions

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

The City's contractually required contribution rate for the year ended June 30, 2017 was 16.14% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$1,955,760 and \$2,368,834 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability

At June 30, 2017, the City reported a liability of \$22,696,626 for its proportionate share of the net pension liability. The City's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016. In order to allocate the net pension liability to all employers included in the plan, the City is required to determine its proportionate share of the net pension liability. Creditable compensation as of June 30, 2016 and 2015 was used as a basis for allocation to determine the City's proportionate share of the net pension liability. At June 30, 2016 and 2015, the City's proportion was 93.61% and 93.37%, respectively.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 14—Pension Plan: (Continued)

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the City's Retirement Plan and the City Public Schools Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

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

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

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

Note 14—Pension Plan: (Continued)

Actuarial Assumptions – General Employees (Continued)

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Largest 10 – Non-LEOS:
- Update mortality table
 - Decrease in rates of service retirement
 - Decrease in rates of disability retirement
 - Reduce rates of salary increase by 0.25% per year
- All Others (Non 10 Largest) – Non-LEOS:
- Update mortality table
 - Decrease in rates of service retirement
 - Decrease in rates of disability retirement
 - Reduce rates of salary increase by 0.25% per year

Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees in the City’s Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

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

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 14—Pension Plan: (Continued)

Actuarial Assumptions – Public Safety Employees (Continued)

Mortality rates: 60% of deaths are assumed to be service related

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – LEOS:

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 14—Pension Plan: (Continued)

Long-Term Expected Rate of Return

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

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

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 14—Pension Plan: (Continued)

Discount Rate

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

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

| | Rate | | |
|--|----------------|----------------|----------------|
| | (6.00%) | (7.00%) | (8.00%) |
| City's proportionate share of the Net Pension Liability (Asset) | \$ 33,200,954 | \$ 22,696,926 | \$ 13,852,965 |

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

For the year ended June 30, 2017, the City recognized pension expense of \$2,108,575. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Primary Government | |
|---|---|--|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 154,032 | \$ 455,806 |
| Change in proportion | 386,315 | 350,369 |
| Net difference between projected and actual earnings on pension plan investments | 1,379,838 | - |
| Employer contributions subsequent to the measurement date | 1,955,760 | - |
| Total | <u>\$ 3,875,945</u> | <u>\$ 806,175</u> |

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 14—Pension Plan: (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

\$1,955,760 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year ended June 30</u> | <u>Primary Government</u> |
|---------------------------|-------------------------------|
| 2018 | \$ (64,744) |
| 2019 | (198,625) |
| 2020 | 1,013,033 |
| 2021 | 724,344 |
| Thereafter | - |

Component Unit School Board (nonprofessional)

Plan Description

Additional information related to the plan description, plan contribution requirements, actuarial assumptions, long-term expected rate of return, and discount rate is included in the first section of this note.

Employees Covered by Benefit Terms

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

| | <u>Component Unit School Board Nonprofessional</u> |
|--|--|
| Inactive members or their beneficiaries currently receiving benefits | 69 |
| Inactive members: | |
| Vested inactive members | 3 |
| Non-vested inactive members | 4 |
| Inactive members active elsewhere in VRS | <u>19</u> |
| Total inactive members | 26 |
| Active members | <u>17</u> |
| Total covered employees | <u><u>112</u></u> |

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 14—Pension Plan: (Continued)

Component Unit School Board (nonprofessional) (Continued)

Contributions

The Component Unit School Board's contractually required contribution rate for nonprofessional employees for the year ended June 30, 2017 was 27.68% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Component Unit School Board's nonprofessional employees were \$130,309 and \$115,179 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability

The Component Unit School Board's (nonprofessional) net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Changes in Net Pension Liability

| | Component School Board (nonprofessional) | | |
|--|---|--|--|
| | Increase (Decrease) | | |
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
| Balances at June 30, 2015 | \$ 4,204,585 | \$ 2,725,420 | \$ 1,479,165 |
| Changes for the year: | | | |
| Service cost | \$ 45,589 | \$ - | \$ 45,589 |
| Interest | 282,746 | - | 282,746 |
| Differences between expected and actual experience | (43,743) | - | (43,743) |
| Contributions - employer | - | 113,958 | (113,958) |
| Contributions - employee | - | 20,903 | (20,903) |
| Net investment income | - | 42,268 | (42,268) |
| Benefit payments, including refunds of employee contributions | (330,699) | (330,699) | - |
| Administrative expenses | - | (1,784) | 1,784 |
| Other changes | - | (19) | 19 |
| Net changes | \$ (46,107) | \$ (155,373) | \$ 109,266 |
| Balances at June 30, 2016 | \$ 4,158,478 | \$ 2,570,047 | \$ 1,588,431 |

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 14—Pension Plan: (Continued)

Component Unit School Board (nonprofessional) (Continued)

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

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

| | <u>Rate</u> | | |
|---|----------------|----------------|----------------|
| | <u>(6.00%)</u> | <u>(7.00%)</u> | <u>(8.00%)</u> |
| Component Unit School Board (nonprofessional) | | | |
| Net Pension Liability (Asset) | \$ 1,994,493 | \$ 1,588,431 | \$ 1,241,811 |

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

For the year ended June 30, 2017, the Component Unit School Board (nonprofessional) recognized pension expense of \$85,692. At June 30, 2017, the Component Unit School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ - | \$ 8,180 |
| Net difference between projected and actual earnings on pension plan investments | 64,214 | - |
| Employer contributions subsequent to the measurement date | <u>130,309</u> | <u>-</u> |
| Total | <u>\$ 194,523</u> | <u>\$ 8,180</u> |

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 14—Pension Plan: (Continued)

Component Unit School Board (nonprofessional) (Continued)

\$130,309 reported as deferred outflows of resources related to pensions resulting from the Component Unit School Board's (nonprofessional) contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year ended June 30</u> | |
|---------------------------|-------------|
| 2018 | \$ (11,023) |
| 2019 | (2,844) |
| 2020 | 41,583 |
| 2021 | 28,318 |
| Thereafter | - |

Component Unit School Board (professional)

Plan Description

Additional information related to the plan description, plan contribution requirements, long-term expected rate of return, and discount rate is included in the first section of this note.

Contributions

Each School Division's contractually required contribution rate for the year ended June 30, 2017 was 14.66% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and reflects the transfer in June 2015 of \$192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarial rate for the Teacher Retirement Plan was 16.32%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the Code of Virginia, as amended, the contributions were funded at 89.84% of the actuarial rate for the year ended June 30, 2017. Contributions to the pension plan from the School Board were \$1,706,857 and \$1,679,467 for the years ended June 30, 2017 and June 30, 2016, respectively.

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

At June 30, 2017, the school division reported a liability of \$21,328,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2016 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2016 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2016, the school division's proportion was .15219% as compared to .16672% at June 30, 2015.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 14—Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

For the year ended June 30, 2017, the school division recognized pension expense of \$1,717,000. Since there was a change in proportionate share between June 30, 2015 and June 30, 2016, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2017, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ - | \$ 691,000 |
| Net difference between projected and actual earnings on pension plan investments | 1,218,000 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 692,000 | 1,604,000 |
| Employer contributions subsequent to the measurement date | <u>1,679,467</u> | <u>-</u> |
| Total | <u>\$ 3,589,467</u> | <u>\$ 2,295,000</u> |

\$1,706,857 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year ended June 30</u> | |
|---------------------------|--------------|
| 2018 | \$ (260,000) |
| 2019 | (260,000) |
| 2020 | 329,000 |
| 2021 | 4,000 |
| Thereafter | (198,000) |

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 14—Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Actuarial Assumptions

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

| | |
|---------------------------------------|--|
| Inflation | 2.5% |
| Salary increases, including inflation | 3.5% – 5.95% |
| Investment rate of return | 7.0%, net of pension plan investment expense, including inflation* |

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

Mortality rates:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 3 years and females set back 5 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 3 years

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 1 year and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability
- Reduce rates of salary increase by 0.25% per year

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 14—Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2017, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

| | | Teacher Employee Retirement Plan |
|---|----|---|
| Total Pension Liability | \$ | 44,182,326 |
| Plan Fiduciary Net Position | | 30,168,211 |
| Employer's Net Pension Liability (Asset) | | 14,014,115 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | | 68.28% |

Sensitivity of the School Division's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

| | | | Rate | | | |
|--|----|----------------|----------------|----------------|----|------------|
| | | (6.00%) | (7.00%) | (8.00%) | | |
| School division's proportionate share of the VRS Teacher Employee Retirement Plan Net Pension Liability (Asset) | \$ | 30,403,000 | \$ | 21,328,000 | \$ | 13,852,000 |

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-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, 2017 (Continued)

Note 15—Surety Bonds:

| | <u>Amount</u> |
|---|---------------|
| Travelers Casualty and Surety Company of America - Surety Faithful Performance of Duty Schedule Position Bond: | |
| Commonwealth Funds | |
| Ashby R. Pritchett, Clerk of the Circuit Court | \$ 103,000 |
| Cindy Dickerson, Treasurer and/or Linda Conover, Director of Finance | 500,000 |
| Ruth Easley, Commissioner of the Revenue | 3,000 |
| Steve M. Draper, Sheriff | 30,000 |
| Lumberman's Mutual Casualty Company - Surety City funds | |
| Cindy Dickerson, Treasurer | 250,000 |
| Virginia Municipal League - Surety | |
| All School Board employees - blanket bond | |
| VACORP - Surety | |
| All City employees - blanket bond | |
| Honesty | 100,000 |
| Faithful performance | 1,000,000 |

Note 16—Other Postemployment Benefits—Health Insurance:

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, 2017 (Continued)

Note 16—Other Postemployment Benefits—Health Insurance: (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 | \$ 209,000 |
| Interest on net OPEB obligation | 9,000 |
| Adjustment to annual required contribution | (9,000) |
| Annual OPEB cost (expense) | <u>209,000</u> |
| Contributions made | <u>(243,000)</u> |
| Increase (decrease) in net OPEB obligation | \$ (34,000) |
| Net OPEB obligation - beginning of year | <u>208,000</u> |
| Net OPEB obligation - end of year | <u><u>\$ 174,000</u></u> |

For FY2017, the City's expected cash payment of \$243,000 is more than the OPEB cost (expense) of \$209,000 and was \$34,000 more than the ARC. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 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, 2015 | \$ 271,000 | 96.68% | \$ 195,000 |
| June 30, 2016 | 274,000 | 95.26% | 208,000 |
| June 30, 2017 | 209,000 | 116.27% | 174,000 |

D. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2016, the date of the most recent actuarial valuation, is as follows:

| | |
|---|--------------|
| Actuarial accrued liability (AAL) | \$ 3,465,000 |
| Actuarial value of plan assets | - |
| Unfunded actuarial accrued liability | 3,465,000 |
| Funded ratio (actuarial value of plan assets/AAL) | n/a |
| Covered payroll (active plan members) | 6,719,000 |
| UAAL as a percentage of covered payroll | 51.57% |

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 16—Other Postemployment Benefits—Health Insurance: (Continued)

Primary Government: (Continued)

D. Funded Status and Funding Progress (Continued)

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.

E. 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, 2016, most recent 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 2.50% payroll growth rate. Both rates include a 4.25% inflation assumption. The actuarial assumptions also included a 7% 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 July 1, 2016, was thirty years.

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 prior to July 1, 2005, who have participated in the School Board's medical program in the prior plan year and have attained 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.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 16—Other Postemployment Benefits—Health Insurance: (Continued)

Discretely Presented Component Unit-School Board: (Continued)

B. Funding Policy

The School Board establishes employer contribution rates for plan participants as part of the budgetary process each year. The Board 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 hired prior to July 1, 2000 with 15 years of uninterrupted service, the Board pays 100% of the designated contribution towards the monthly single only coverage premium and the retiree contributes the remaining balance. Retirees hired on or after July 1, 2000 but prior to July 1, 2005, with 14 or less years of continuous service are not eligible for the designated contribution. For retirees hired in this same time frame with 15 through 19 years of continuous service, the Board contributes 50% of the designated contribution and the retiree contributes the remaining balance. For retirees hired in this time frame with 20 or more years of continuous service, the Board contributes 75% of the designated contribution and the retiree contributes the remaining balance. Retirees hired on or after July 1, 2005 are not eligible for the designated contribution.

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 the 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 | \$ | 47,000 |
| Interest on net OPEB obligation | | 4,000 |
| Adjustment to annual required contribution | | (4,000) |
| Annual OPEB cost (expense) | | <u>47,000</u> |
| Contributions made | | <u>(49,000)</u> |
| Increase (decrease) in net OPEB obligation | \$ | (2,000) |
| Net OPEB obligation - beginning of year | | <u>96,000</u> |
| Net OPEB obligation - end of year | \$ | <u><u>94,000</u></u> |

The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 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, 2015 | \$ 64,000 | 92.19% | \$ 90,000 |
| June 30, 2016 | 65,000 | 90.77% | 96,000 |
| June 30, 2017 | 47,000 | 104.26% | 94,000 |

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 16—Other Postemployment Benefits—Health Insurance: (Continued)

Discretely Presented Component Unit-School Board: (Continued)

D. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2016, the date of the most recent actuarial valuation, is as follows:

| | | |
|---|----|-----------|
| Actuarial accrued liability (AAL) | \$ | 659,000 |
| Actuarial value of plan assets | | - |
| Unfunded actuarial accrued liability | | 659,000 |
| Funded ratio (actuarial value of plan assets/AAL) | | - |
| Covered payroll (active plan members) | | 3,823,000 |
| UAAL as a percentage of covered payroll | | 17.24% |

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.

E. 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, 2016, most recent 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 4.25% inflation assumption. The actuarial assumptions also included an 7% 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 July 1, 2016, was thirty years.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 17—VRS Health Insurance Credit Other Postemployment Benefits (OPEB):

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 1.11% of annual covered payroll. The School Board's contributions to VRS for the years ended June 30, 2017, 2016, and 2015 were \$128,901, \$122,999, and \$129,252, respectively and equaled the required contributions for each year.

Note 18—Commitments and Contingencies:

At June 30, 2017, the City had the following major projects underway:

| <u>Project</u> | <u>Contract Amount</u> | <u>Expenditures to Date</u> | <u>Balance of Contract</u> |
|---|----------------------------|---------------------------------|--------------------------------|
| Smith River Interceptor Emergency Collapse Repair | \$ 6,814,845 | \$ 3,456,541 | \$ 3,358,304 |
| Water System Inventory | 90,000 | 55,800 | 34,200 |
| Bethel Water Tank Coatings | 250,000 | 225,000 | 25,000 |
| Primary Clarifier #2 | 72,000 | 43,200 | 28,800 |

Required Supplementary Information

Note to Required Supplementary Information:

Presented budgets were prepared in accordance with accounting principles generally accepted in the United States of America.

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual
For the Year Ended June 30, 2017

| | Original Budget | Budget As Amended | Actual | Variance From Final Budget Positive (Negative) |
|--|--------------------|-------------------------|----------------|---|
| Revenues: | | | | |
| General property taxes | \$ 8,825,500 | \$ 8,825,500 | \$ 8,877,122 | \$ 51,622 |
| Other local taxes | 5,299,700 | 5,299,700 | 5,382,960 | 83,260 |
| Permits, privilege fees and regulatory licenses | 86,280 | 86,280 | 93,979 | 7,699 |
| Fines and forfeitures | 99,200 | 99,628 | 140,171 | 40,543 |
| Revenue from use of money and property | 1,019,511 | 1,032,446 | 1,020,385 | (12,061) |
| Charges for services | 1,831,055 | 1,831,055 | 1,917,701 | 86,646 |
| Miscellaneous | 245,332 | 248,582 | 258,852 | 10,270 |
| Recovered costs | 1,859,039 | 2,151,806 | 2,108,095 | (43,711) |
| Intergovernmental: | | | | |
| Commonwealth | 9,179,936 | 9,120,599 | 9,231,666 | 111,067 |
| Federal | 48,500 | 401,579 | 439,698 | 38,119 |
| Total revenues | \$ 28,494,053 | \$ 29,097,175 | \$ 29,470,629 | \$ 373,454 |
| Expenditures: | | | | |
| Current: | | | | |
| General government administration | \$ 4,117,276 | \$ 4,125,678 | \$ 3,824,189 | \$ 301,489 |
| Judicial administration | 2,431,349 | 2,462,856 | 2,293,175 | 169,681 |
| Public safety | 9,429,026 | 9,873,799 | 9,660,700 | 213,099 |
| Public works | 4,520,712 | 5,232,853 | 4,323,362 | 909,491 |
| Health and welfare | 738,338 | 738,338 | 874,554 | (136,216) |
| Education | 6,457,489 | 7,071,998 | 6,267,041 | 804,957 |
| Parks, recreation, and cultural | 931,366 | 945,235 | 861,036 | 84,199 |
| Community development | 2,508,386 | 2,944,447 | 2,827,850 | 116,597 |
| Total expenditures | \$ 31,133,942 | \$ 33,395,204 | \$ 30,931,907 | \$ 2,463,297 |
| Excess (deficiency) of revenues over (under) expenditures | \$ (2,639,889) | \$ (4,298,029) | \$ (1,461,278) | \$ 2,836,751 |
| Other financing sources (uses): | | | | |
| Transfers in | 750,079 | 750,079 | 750,079 | - |
| Changes in fund balances | \$ (1,889,810) | \$ (3,547,950) | \$ (711,199) | \$ 2,836,751 |
| Fund balances at beginning of year | 1,889,810 | 3,547,950 | 6,768,318 | 3,220,368 |
| Fund balances at end of year | \$ - | \$ - | \$ 6,057,119 | \$ 6,057,119 |

Meals Tax Fund

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

For the Year Ended June 30, 2017

| | <u>Original Budget</u> | <u>Budget As Amended</u> | <u>Actual</u> | <u>Variance From Final Budget Positive (Negative)</u> |
|--|----------------------------|----------------------------------|-----------------------|---|
| Revenues: | | | | |
| Other local taxes | \$ 1,700,000 | \$ 1,700,000 | \$ 1,738,415 | \$ 38,415 |
| Intergovernmental: | | | | |
| Federal | <u>368,373</u> | <u>368,373</u> | <u>367,978</u> | <u>(395)</u> |
| Total revenues | <u>\$ 2,068,373</u> | <u>\$ 2,068,373</u> | <u>\$ 2,106,393</u> | <u>\$ 38,020</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government administration | \$ 51,232 | \$ 51,232 | \$ 51,232 | \$ - |
| Debt service: | | | | |
| Principal retirement | 990,827 | 990,827 | 990,827 | - |
| Interest and other fiscal charges | <u>531,296</u> | <u>531,296</u> | <u>531,296</u> | <u>-</u> |
| Total expenditures | <u>\$ 1,573,355</u> | <u>\$ 1,573,355</u> | <u>\$ 1,573,355</u> | <u>\$ -</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>\$ 495,018</u> | <u>\$ 495,018</u> | <u>\$ 533,038</u> | <u>\$ 38,020</u> |
| Other financing sources (uses): | | | | |
| Transfers (out) | <u>\$ (895,018)</u> | <u>\$ (1,095,018)</u> | <u>\$ (1,095,018)</u> | <u>\$ -</u> |
| Changes in fund balances | \$ (400,000) | \$ (600,000) | \$ (561,980) | \$ 38,020 |
| Fund balances at beginning of year | <u>400,000</u> | <u>600,000</u> | <u>844,677</u> | <u>244,677</u> |
| Fund balances at end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 282,697</u> | <u>\$ 282,697</u> |

Schedule of Employer's Proportionate Share of the Net Pension Liability
For the Years Ended June 30, 2015 through June 30, 2017

| Date (1) | Proportion of the Net Pension Liability (NPL) (2) | Proportionate Share of the NPL (3) | Covered Payroll (4) | Proportionate Share of the NPL as a Percentage of Covered Payroll (3)/(4) (5) | Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (6) |
|---|--|---|---------------------------|--|---|
| Primary Government - City Retirement Plan | | | | | |
| 2016 | 93.61% | \$ 22,696,623 | \$ 13,409,915 | 169.25% | 74.76% |
| 2015 | 93.37% | 19,919,054 | 13,216,981 | 150.71% | 77.41% |
| 2014 | 93.42% | 18,187,446 | 12,797,381 | 142.12% | 78.66% |
| Component Unit School Board (professional) | | | | | |
| 2016 | 0.1522% | \$ 21,328,000 | \$ 11,653,559 | 183.02% | n/a |
| 2015 | 0.1667% | 20,984,000 | 11,644,367 | 180.21% | n/a |
| 2014 | 0.1646% | 19,896,000 | 12,040,187 | 165.25% | 70.88% |

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

Schedule of and Changes in Net Pension Liability and Related Ratios
Component Unit School Board (nonprofessional)
For the Years Ended June 30, 2014 through June 30, 2016

| | 2016 | 2015 | 2014 |
|---|---------------------|---------------------|---------------------|
| Total pension liability | | | |
| Service cost | \$ 45,589 | \$ 54,322 | \$ 56,141 |
| Interest | 282,746 | 283,560 | 284,255 |
| Differences between expected and actual experience | (43,743) | (5,140) | - |
| Benefit payments, including refunds of employee contributions | (330,699) | (358,029) | (342,606) |
| Net change in total pension liability | \$ (46,107) | \$ (25,287) | \$ (2,210) |
| Total pension liability - beginning | 4,204,585 | 4,229,872 | 4,232,082 |
| Total pension liability - ending (a) | \$ 4,158,478 | \$ 4,204,585 | \$ 4,229,872 |
| Plan fiduciary net position | | | |
| Contributions - employer | \$ 113,958 | \$ 110,982 | \$ 119,537 |
| Contributions - employee | 20,903 | 21,192 | 25,188 |
| Net investment income | 42,268 | 123,775 | 399,239 |
| Benefit payments, including refunds of employee contributions | (330,699) | (358,029) | (342,606) |
| Administrative expense | (1,784) | (1,895) | (2,295) |
| Other | (19) | (23) | 21 |
| Net change in plan fiduciary net position | \$ (155,373) | \$ (103,998) | \$ 199,084 |
| Plan fiduciary net position - beginning | 2,725,420 | 2,829,418 | 2,630,334 |
| Plan fiduciary net position - ending (b) | \$ 2,570,047 | \$ 2,725,420 | \$ 2,829,418 |
| School Division's net pension liability - ending (a) - (b) | \$ 1,588,431 | \$ 1,479,165 | \$ 1,400,454 |
| Plan fiduciary net position as a percentage of the total pension liability | 61.80% | 64.82% | 66.89% |
| Covered payroll | \$ 442,484 | \$ 426,964 | \$ 503,742 |
| School Division's net pension liability as a percentage of covered payroll | 358.98% | 346.44% | 278.01% |

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

Schedule of Employer Contributions
Last Ten Fiscal Years (as available)

| Date | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | Employer's Covered Employee Payroll (4) | Contributions as a % of Covered Employee Payroll (5) |
|--|--|---|---|---|---|
| Primary Government | | | | | |
| 2017 | \$ 1,955,760 | \$ 1,955,760 | \$ - | \$ 12,117,472 | 16.14% |
| 2016 | 2,368,834 | 2,368,834 | - | 13,409,915 | 18.87% |
| 2015 | 2,290,963 | 2,290,963 | - | 13,216,981 | 18.87% |
| 2014 | 2,363,676 | 2,363,676 | - | 12,797,381 | 18.47% |
| 2013 | 2,303,060 | 2,303,060 | - | 12,649,195 | 18.47% |
| 2012 | 2,009,573 | 2,009,573 | - | 12,622,949 | 15.92% |
| 2011 | 2,016,179 | 2,016,179 | - | 12,664,438 | 15.92% |
| 2010 | 1,945,802 | 1,945,802 | - | 13,336,543 | 14.59% |
| 2009 | 1,972,135 | 1,972,135 | - | 13,517,031 | 14.59% |
| 2008 | 1,853,584 | 1,853,584 | - | 13,136,671 | 14.11% |
| Component Unit School Board (nonprofessional) | | | | | |
| 2017 | \$ 130,309 | \$ 130,309 | \$ - | \$ 470,771 | 27.68% |
| 2016 | 115,179 | 115,179 | - | 442,484 | 26.03% |
| 2015 | 111,139 | 111,139 | - | 426,964 | 26.03% |
| 2014 | 119,538 | 119,538 | - | 503,742 | 23.73% |
| 2013 | 113,698 | 113,698 | - | 479,136 | 23.73% |
| 2012 | 87,135 | 87,135 | - | 512,559 | 17.00% |
| 2011 | 87,193 | 87,193 | - | 512,928 | 17.00% |
| 2010 | 101,918 | 101,918 | - | 615,447 | 16.56% |
| 2009 | 115,743 | 115,743 | - | 698,934 | 16.56% |
| 2008 | 124,661 | 124,661 | - | 651,652 | 19.13% |
| Component Unit School Board (professional) | | | | | |
| 2017 | \$ 1,706,857 | \$ 1,706,857 | \$ - | \$ 11,642,954 | 14.66% |
| 2016 | 1,632,707 | 1,632,707 | - | 11,653,559 | 14.01% |
| 2015 | 1,682,744 | 1,682,744 | - | 11,644,367 | 14.45% |
| 2014 | 1,403,886 | 1,403,886 | - | 12,040,187 | 11.66% |
| 2013 | 1,311,060 | 1,311,060 | - | 11,244,082 | 11.66% |
| 2012 | 735,293 | 735,293 | - | 11,615,998 | 6.33% |
| 2011 | 1,094,073 | 1,094,073 | - | 12,221,764 | 3.93% |
| 2010 | 845,047 | 845,047 | - | 13,434,229 | 8.81% |
| 2009 | 1,168,411 | 1,168,411 | - | 13,262,322 | 8.81% |
| 2008 | 1,340,818 | 1,340,818 | - | 13,017,647 | 10.30% |

Current year contributions are from City and School Board records and prior year contributions are from the VRS actuarial valuation performed each year.

Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of new participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 are not material.

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

Largest 10 – Non-LEOS:

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

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) – LEOS:

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

Component Unit School Board - Professional Employees

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Required Supplementary Information
Schedule of OPEB Funding Progress

City - Other Postemployment Benefits

| Actuarial Valuation Date | Actuarial Value of Assets (AVA) | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability | Funded Ratio (2)/(3) | Covered Payroll | UAAL as % of Payroll (4)/(6) |
|---|--|--|---|-------------------------------------|----------------------------|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| 7/1/2016 | \$ - | \$ 3,465,000 | \$ 3,465,000 | 0.00% | \$ 6,719,000 | 51.57% |
| 7/1/2014 | - | 4,213,000 | 4,213,000 | 0.00% | 8,423,000 | 50.02% |
| 7/1/2014 | - | 4,210,000 | 4,210,000 | 0.00% | 8,423,000 | 49.98% |

Discretely Presented Component Unit - School Board - Other Postemployment Benefits

| Actuarial Valuation Date | Actuarial Value of Assets (AVA) | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability | Funded Ratio (2)/(3) | Covered Payroll | UAAL as % of Payroll (4)/(6) |
|---|--|--|---|-------------------------------------|----------------------------|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| 7/1/2016 | \$ - | \$ 659,000 | \$ 659,000 | 0.00% | \$ 3,823,000 | 17.24% |
| 7/1/2014 | - | 897,000 | 897,000 | 0.00% | 6,134,000 | 14.62% |
| 7/1/2014 | - | 897,000 | 897,000 | 0.00% | 6,134,000 | 14.62% |

Other Supplementary Information

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Combining and Individual Fund Financial Statements and Schedules

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Nonmajor Governmental Funds
Combining Balance Sheet
At June 30, 2017

| | Special Revenue Fund | Capital Projects Fund | |
|--|-------------------------------------|--------------------------------------|-------------------|
| | City Grants Fund | Capital Reserve Fund | Total |
| ASSETS | | | |
| Cash and cash equivalents | \$ 101,436 | \$ 556,608 | \$ 658,044 |
| Due from other governments | <u>95,619</u> | <u>-</u> | <u>95,619</u> |
| Total assets | <u>\$ 197,055</u> | <u>\$ 556,608</u> | <u>\$ 753,663</u> |
| LIABILITIES | | | |
| Accounts payable and other current liabilities | \$ <u>87,907</u> | \$ <u>40,686</u> | \$ <u>128,593</u> |
| Total liabilities | <u>\$ 87,907</u> | <u>\$ 40,686</u> | <u>\$ 128,593</u> |
| FUND BALANCES | | | |
| Assigned: | | | |
| Capital reserve fund | \$ - | \$ 515,922 | \$ 515,922 |
| Unassigned | <u>109,148</u> | <u>-</u> | <u>109,148</u> |
| Total fund balances | <u>\$ 109,148</u> | <u>\$ 515,922</u> | <u>\$ 625,070</u> |
| Total liabilities and fund balances | <u>\$ 197,055</u> | <u>\$ 556,608</u> | <u>\$ 753,663</u> |

Nonmajor Governmental Funds
Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual
For the Year Ended June 30, 2017

| | Special Revenue Funds | | | | Capital Projects Fund | | | |
|--|-----------------------|-------------------|------------|--|-----------------------|-------------------|----------------|--|
| | City Grants Fund | | | Variance From Final Budget Positive (Negative) | Capital Reserve Fund | | | Variance From Final Budget Positive (Negative) |
| | Original Budget | Budget As Amended | Actual | | Original Budget | Budget As Amended | Actual | |
| Revenues: | | | | | | | | |
| Revenue from use of money and property | \$ 17,080 | \$ 94,753 | \$ 97,601 | \$ 2,848 | \$ - | \$ 25,425 | \$ 26,263 | \$ 838 |
| Intergovernmental: Federal | - | - | 474,192 | 474,192 | - | 259,570 | 259,570 | - |
| Total revenues | \$ 17,080 | \$ 94,753 | \$ 571,793 | \$ 477,040 | \$ - | \$ 284,995 | \$ 285,833 | \$ 838 |
| Expenditures: | | | | | | | | |
| General government administration | \$ - | \$ - | \$ - | \$ - | \$ 158,000 | \$ 294,989 | \$ 167,099 | \$ 127,890 |
| Public safety | - | - | - | - | 147,648 | 637,218 | 471,148 | 166,070 |
| Public works | - | - | - | - | 271,500 | 499,002 | 452,002 | 47,000 |
| Community development | 2,550 | 770,136 | 466,026 | 304,110 | - | - | - | - |
| Debt service: | | | | | | | | |
| Principal retirement | - | - | - | - | 314,755 | 314,755 | 314,754 | 1 |
| Interest and fiscal charges | - | - | - | - | 39,614 | 39,614 | 39,612 | 2 |
| Total expenditures | \$ 2,550 | \$ 770,136 | \$ 466,026 | \$ 304,110 | \$ 931,517 | \$ 1,785,578 | \$ 1,444,615 | \$ 340,963 |
| Excess (deficiency) of revenues over (under) expenditures | \$ 14,530 | \$ (675,383) | \$ 105,767 | \$ 781,150 | \$ (931,517) | \$ (1,500,583) | \$ (1,158,782) | \$ 341,801 |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | - | - | - | - | 895,018 | 1,095,018 | 1,095,018 | - |
| Changes in fund balances | \$ 14,530 | \$ (675,383) | \$ 105,767 | \$ 781,150 | \$ (36,499) | \$ (405,565) | \$ (63,764) | \$ 341,801 |
| Fund balances at beginning of year | (14,530) | 675,383 | 3,381 | (672,002) | 36,499 | 405,565 | 579,686 | 174,121 |
| Fund balances at end of year | \$ - | \$ - | \$ 109,148 | \$ 109,148 | \$ - | \$ - | \$ 515,922 | \$ 515,922 |

Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2017

| | Special Revenue Fund | Capital Projects Fund | |
|--|-------------------------------------|--------------------------------------|--------------------------|
| | City Grants Fund | Capital Reserve Fund | Total |
| Revenues: | | | |
| Revenue from use of money and property | \$ 97,601 | \$ 26,263 | \$ 123,864 |
| Intergovernmental: | | | |
| Federal | <u>474,192</u> | <u>259,570</u> | <u>733,762</u> |
| Total revenues | <u>\$ 571,793</u> | <u>\$ 285,833</u> | <u>\$ 857,626</u> |
| Expenditures: | | | |
| General government administration | \$ - | \$ 167,099 | \$ 167,099 |
| Public safety | - | 471,148 | 471,148 |
| Public works | - | 452,002 | 452,002 |
| Planning and community development | 466,026 | - | 466,026 |
| Debt service: | | | |
| Principal retirement | - | 314,754 | 314,754 |
| Interest and fiscal charges | <u>-</u> | <u>39,612</u> | <u>39,612</u> |
| Total expenditures | <u>\$ 466,026</u> | <u>\$ 1,444,615</u> | <u>\$ 1,910,641</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>\$ 105,767</u> | <u>\$ (1,158,782)</u> | <u>\$ (1,053,015)</u> |
| Other financing sources: | | | |
| Transfers in | \$ - | \$ 1,095,018 | \$ 1,095,018 |
| Total other financing sources | <u>\$ -</u> | <u>\$ 1,095,018</u> | <u>\$ 1,095,018</u> |
| Changes in fund balances | <u>\$ 105,767</u> | <u>\$ (63,764)</u> | <u>\$ 42,003</u> |
| Fund balances at beginning of year | <u>3,381</u> | <u>579,686</u> | <u>583,067</u> |
| Fund balances at end of year | <u><u>\$ 109,148</u></u> | <u><u>\$ 515,922</u></u> | <u><u>\$ 625,070</u></u> |

Combining Statement of Fiduciary Net Position -
Agency Funds
At June 30, 2017

| | Insurance Trust Fund | Inmate Welfare Fund | Police Academy Fund | Southern Virginia Recreation Facility Authority Fund | Blue Ridge Regional Library Fund | Dan River ASAP Fund | Total |
|---------------------------|----------------------------|---------------------------|---------------------------|---|--|---------------------------|---------------------|
| ASSETS | | | | | | | |
| Cash and cash equivalents | \$ 373,265 | \$ 148,268 | \$ 315,683 | \$ 15,441 | \$ 271,488 | \$ 192,974 | \$ 1,317,119 |
| Total assets | <u>\$ 373,265</u> | <u>\$ 148,268</u> | <u>\$ 315,683</u> | <u>\$ 15,441</u> | <u>\$ 271,488</u> | <u>\$ 192,974</u> | <u>\$ 1,317,119</u> |
| LIABILITIES | | | | | | | |
| Accounts payable | \$ - | \$ - | \$ 7,522 | \$ 14,963 | \$ 53,384 | \$ 5,948 | \$ 81,817 |
| Notes payable | - | - | - | - | - | 182,161 | 182,161 |
| Amounts held for others | <u>373,265</u> | <u>148,268</u> | <u>308,161</u> | <u>478</u> | <u>218,104</u> | <u>4,865</u> | <u>1,053,141</u> |
| Total liabilities | <u>\$ 373,265</u> | <u>\$ 148,268</u> | <u>\$ 315,683</u> | <u>\$ 15,441</u> | <u>\$ 271,488</u> | <u>\$ 192,974</u> | <u>\$ 1,317,119</u> |

Agency Funds
Combining Statement of Changes in Assets and Liabilities
For the Year Ended June 30, 2017

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year |
|---|--|---------------------|---------------------|------------------------------------|
| Insurance Trust Fund: | | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$ 465,474 | \$ 4,318,552 | \$ 4,410,761 | \$ 373,265 |
| Total assets | <u>\$ 465,474</u> | <u>\$ 4,318,552</u> | <u>\$ 4,410,761</u> | <u>\$ 373,265</u> |
| Liabilities: | | | | |
| Amounts held for others | \$ 465,474 | \$ 4,318,552 | \$ 4,410,761 | \$ 373,265 |
| Total liabilities | <u>\$ 465,474</u> | <u>\$ 4,318,552</u> | <u>\$ 4,410,761</u> | <u>\$ 373,265</u> |
| Inmate Welfare Funds: | | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$ 253,317 | \$ 317,042 | \$ 422,091 | \$ 148,268 |
| Total assets | <u>\$ 253,317</u> | <u>\$ 317,042</u> | <u>\$ 422,091</u> | <u>\$ 148,268</u> |
| Liabilities: | | | | |
| Amounts held for others | \$ 253,317 | \$ 317,042 | \$ 422,091 | \$ 148,268 |
| Total liabilities | <u>\$ 253,317</u> | <u>\$ 317,042</u> | <u>\$ 422,091</u> | <u>\$ 148,268</u> |
| Police Academy Fund: | | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$ 340,947 | \$ 302,571 | \$ 327,835 | \$ 315,683 |
| Total assets | <u>\$ 340,947</u> | <u>\$ 302,571</u> | <u>\$ 327,835</u> | <u>\$ 315,683</u> |
| Liabilities: | | | | |
| Accounts payable | \$ 6,133 | \$ 7,522 | \$ 6,133 | \$ 7,522 |
| Amounts held for others | 334,814 | 295,049 | 321,702 | 308,161 |
| Total liabilities | <u>\$ 340,947</u> | <u>\$ 302,571</u> | <u>\$ 327,835</u> | <u>\$ 315,683</u> |
| Southern Virginia Recreation Facilities Authority: | | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$ 3,882 | \$ 612,375 | \$ 600,816 | \$ 15,441 |
| Accounts receivable | 14,285 | - | 14,285 | - |
| Total assets | <u>\$ 18,167</u> | <u>\$ 612,375</u> | <u>\$ 615,101</u> | <u>\$ 15,441</u> |
| Liabilities: | | | | |
| Accounts payable | \$ 17,544 | \$ 14,963 | \$ 17,544 | \$ 14,963 |
| Amounts held for others | 623 | 597,412 | 597,557 | 478 |
| Total liabilities | <u>\$ 18,167</u> | <u>\$ 612,375</u> | <u>\$ 615,101</u> | <u>\$ 15,441</u> |
| Blue Ridge Regional Library: | | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$ 253,653 | \$ 1,739,718 | \$ 1,721,883 | \$ 271,488 |
| Total assets | <u>\$ 253,653</u> | <u>\$ 1,739,718</u> | <u>\$ 1,721,883</u> | <u>\$ 271,488</u> |
| Liabilities: | | | | |
| Accounts payable | \$ 33,564 | \$ 53,384 | \$ 33,564 | \$ 53,384 |
| Amounts held for others | 220,089 | 1,686,334 | 1,688,319 | 218,104 |
| Total liabilities | <u>\$ 253,653</u> | <u>\$ 1,739,718</u> | <u>\$ 1,721,883</u> | <u>\$ 271,488</u> |
| Dan River ASAP: | | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$ 220,872 | \$ 263,705 | \$ 291,603 | \$ 192,974 |
| Total assets | <u>\$ 220,872</u> | <u>\$ 263,705</u> | <u>\$ 291,603</u> | <u>\$ 192,974</u> |
| Liabilities: | | | | |
| Accounts payable | \$ 4,046 | \$ 5,948 | \$ 4,046 | \$ 5,948 |
| Notes payable | 182,161 | - | - | 182,161 |
| Amounts held for others | 34,665 | 257,757 | 287,557 | 4,865 |
| Total liabilities | <u>\$ 220,872</u> | <u>\$ 263,705</u> | <u>\$ 291,603</u> | <u>\$ 192,974</u> |
| Total -- All Agency Funds | | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$ 1,538,145 | \$ 7,553,963 | \$ 7,774,989 | \$ 1,317,119 |
| Accounts receivable | 14,285 | - | 14,285 | - |
| Total assets | <u>\$ 1,552,430</u> | <u>\$ 7,553,963</u> | <u>\$ 7,789,274</u> | <u>\$ 1,317,119</u> |
| Liabilities: | | | | |
| Accounts payable | \$ 61,287 | \$ 81,817 | \$ 61,287 | \$ 81,817 |
| Notes payable | 182,161 | - | - | 182,161 |
| Amounts held for others | 1,308,982 | 7,472,146 | 7,727,987 | 1,053,141 |
| Total liabilities | <u>\$ 1,552,430</u> | <u>\$ 7,553,963</u> | <u>\$ 7,789,274</u> | <u>\$ 1,317,119</u> |

*Beginning balance was restated in the current year to include two agency funds (Blue Ridge Regional Library and Dan River ASAP) that were not included in the prior year Agency Funds Combining Statement of Changes in Assets and Liabilities.

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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, 2017

| | School Operating Fund | School Cafeteria Fund | School Grants Fund | Totals |
|-------------------------------------|-----------------------------|-----------------------------|--------------------------|---------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 887,271 | \$ 1,391,290 | \$ - | \$ 2,278,561 |
| Accounts receivable | 970 | - | - | 970 |
| Due from other governments | 291,819 | 10,872 | 298,584 | 601,275 |
| Due from other funds | 167,920 | - | - | 167,920 |
| Total assets | <u>\$ 1,347,980</u> | <u>\$ 1,402,162</u> | <u>\$ 298,584</u> | <u>\$ 3,048,726</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 508,303 | \$ 6,466 | \$ 51,857 | \$ 566,626 |
| Unearned revenue | 26,431 | - | - | 26,431 |
| Accrued liabilities | 813,246 | 25,500 | 66,416 | 905,162 |
| Due to other funds | - | - | 167,920 | 167,920 |
| Total liabilities | <u>\$ 1,347,980</u> | <u>\$ 31,966</u> | <u>\$ 286,193</u> | <u>\$ 1,666,139</u> |
| FUND BALANCES | | | | |
| Committed: | | | | |
| School food program | \$ - | \$ 1,370,196 | \$ - | \$ 1,370,196 |
| Education | - | - | 12,391 | 12,391 |
| Total fund balances | <u>\$ -</u> | <u>\$ 1,370,196</u> | <u>\$ 12,391</u> | <u>\$ 1,382,587</u> |
| Total liabilities and fund balances | <u>\$ 1,347,980</u> | <u>\$ 1,402,162</u> | <u>\$ 298,584</u> | <u>\$ 3,048,726</u> |

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

| | |
|---|-----------------------|
| Total Fund balances, above | \$ 1,382,587 |
| Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds. | 10,944,831 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | |
| Deferred inflows related to measurement of net pension liability | (2,303,180) |
| Pension contributions subsequent to the measurement date will be a reduction to/increase in the net pension liability in the next fiscal year and, therefore, are not reported in the funds. | 1,837,166 |
| 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 position. | |
| Details supporting this adjustment are as follows: | |
| Net pension liability | (22,916,431) |
| Deferred outflows related to measurement of net pension liability | 1,974,214 |
| Net OPEB obligation | (94,000) |
| Net position of General Government Activities | <u>\$ (9,174,813)</u> |

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds - Discretely Presented Component Unit - School Board
 For the Year Ended June 30, 2017

| | School Operating Fund | School Cafeteria Fund | School Grants Fund | Total |
|---|--------------------------------------|--------------------------------------|-----------------------------------|---------------|
| Revenues: | | | | |
| Revenue from use of money and property | \$ 48,177 | \$ 28,302 | \$ - | \$ 76,479 |
| Charges for services | - | 291,448 | - | 291,448 |
| Miscellaneous | 158,295 | - | - | 158,295 |
| Recovered costs | 827,820 | - | - | 827,820 |
| Intergovernmental: | | | | |
| Local government | 6,247,206 | - | - | 6,247,206 |
| Commonwealth | 14,556,721 | 40,851 | - | 14,597,572 |
| Federal | 30,273 | 1,390,623 | 1,830,473 | 3,251,369 |
| Total revenues | \$ 21,868,492 | \$ 1,751,224 | \$ 1,830,473 | \$ 25,450,189 |
| Expenditures: | | | | |
| Current: | | | | |
| Education | \$ 21,868,492 | \$ 1,530,519 | \$ 1,896,635 | \$ 25,295,646 |
| Total expenditures | \$ 21,868,492 | \$ 1,530,519 | \$ 1,896,635 | \$ 25,295,646 |
| Changes in fund balances | \$ - | \$ 220,705 | \$ (66,162) | \$ 154,543 |
| Fund balances at beginning of year | - | 1,149,491 | 78,553 | 1,228,044 |
| Fund balances at end of year | \$ - | \$ 1,370,196 | \$ 12,391 | \$ 1,382,587 |

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
 For the Year Ended June 30, 2017

| | | |
|---|----|-----------------------|
| Net changes in fund balances - total governmental funds | \$ | 154,543 |
| 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 | | 175,182 |
| Depreciation expense | | (335,516) |
| 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. | | |
| | | 541,205 |
| 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 following: | | |
| Change in deferred inflows related to the measurement of the net pension liability | | (647,682) |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds. The following is a summary of items supporting this adjustment: | | |
| Change in net pension liability | | (453,266) |
| Change in deferred outflows related to pensions | | 1,117,494 |
| Change in net OPEB obligation | | <u>2,000</u> |
| Changes in net position of governmental activities | \$ | <u><u>553,960</u></u> |

CITY OF MARTINSVILLE, VIRGINIA

Schedule of Revenues, Expenditures and Changes in Fund Balances --
 Budget and Actual -- Discretely Presented Component Unit - School Board
 For the Year Ended June 30, 2017

| | School Operating Fund | | | Variance From Final Budget Positive (Negative) |
|---|------------------------------|----------------------------------|----------------------|---|
| | Original Budget | Budget As Amended | Actual | |
| Revenues: | | | | |
| Revenue from use of money and property | \$ 40,000 | \$ 40,000 | \$ 48,177 | \$ 8,177 |
| Charges for services | 5,000 | 5,000 | - | (5,000) |
| Miscellaneous | - | 124,380 | 158,295 | 33,915 |
| Recovered costs | 862,839 | 862,839 | 827,820 | (35,019) |
| Intergovernmental: | | | | |
| Local government | 6,437,654 | 7,052,163 | 6,247,206 | (804,957) |
| Commonwealth | 15,579,119 | 15,579,119 | 14,556,721 | (1,022,398) |
| Federal | 35,658 | 35,658 | 30,273 | (5,385) |
| Total revenues | <u>\$ 22,960,270</u> | <u>\$ 23,699,159</u> | <u>\$ 21,868,492</u> | <u>\$ (1,830,667)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Education | <u>\$ 22,960,270</u> | <u>\$ 23,852,102</u> | <u>\$ 21,868,492</u> | <u>\$ 1,983,610</u> |
| Total expenditures | <u>\$ 22,960,270</u> | <u>\$ 23,852,102</u> | <u>\$ 21,868,492</u> | <u>\$ 1,983,610</u> |
| Changes in fund balances | \$ - | \$ (152,943) | \$ - | \$ 152,943 |
| Fund balances at beginning of year | - | 152,943 | - | (152,943) |
| Fund balances at end of year | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |

| 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) |
| \$ 800 | \$ 800 | \$ 28,302 | \$ 27,502 | \$ - | \$ - | \$ - | \$ - |
| 465,000 | 465,000 | 291,448 | (173,552) | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 31,310 | 31,310 | 40,851 | 9,541 | - | - | - | - |
| 950,433 | 950,433 | 1,390,623 | 440,190 | - | 1,819,804 | 1,830,473 | 10,669 |
| \$ 1,447,543 | \$ 1,447,543 | \$ 1,751,224 | \$ 303,681 | \$ - | \$ 1,819,804 | \$ 1,830,473 | \$ 10,669 |
| \$ 1,517,543 | \$ 1,517,543 | \$ 1,530,519 | \$ (12,976) | \$ - | \$ 1,819,804 | \$ 1,896,635 | \$ (76,831) |
| \$ 1,517,543 | \$ 1,517,543 | \$ 1,530,519 | \$ (12,976) | \$ - | \$ 1,819,804 | \$ 1,896,635 | \$ (76,831) |
| \$ (70,000) | \$ (70,000) | \$ 220,705 | \$ 290,705 | \$ - | \$ - | \$ (66,162) | \$ (66,162) |
| 70,000 | 70,000 | 1,149,491 | 1,079,491 | - | - | 78,553 | 78,553 |
| \$ - | \$ - | \$ 1,370,196 | \$ 1,370,196 | \$ - | \$ - | \$ 12,391 | \$ 12,391 |

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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
 For the Year Ended June 30, 2017

| Fund, Major and Minor Revenue Source | Original Budget | Budget As Amended | Actual | Variance From Final Budget Positive (Negative) |
|---|----------------------------|----------------------------------|---------------|---|
| Primary Government: | | | | |
| General Fund: | | | | |
| Revenue from local sources: | | | | |
| General property taxes: | | | | |
| Real property taxes | \$ 6,690,000 | \$ 6,690,000 | \$ 6,508,674 | \$ (181,326) |
| Real and personal public service corporation taxes | 255,500 | 255,500 | 250,794 | (4,706) |
| Personal property taxes | 695,000 | 695,000 | 816,027 | 121,027 |
| Business equipment | 820,000 | 820,000 | 983,664 | 163,664 |
| Machinery and tools taxes | 175,000 | 175,000 | 104,764 | (70,236) |
| Penalties | 105,000 | 105,000 | 114,536 | 9,536 |
| Interest and costs | 85,000 | 85,000 | 98,663 | 13,663 |
| Total general property taxes | \$ 8,825,500 | \$ 8,825,500 | \$ 8,877,122 | \$ 51,622 |
| Other local taxes: | | | | |
| Local sales and use taxes | \$ 2,020,000 | \$ 2,020,000 | \$ 2,046,701 | \$ 26,701 |
| Consumers' utility taxes | 675,800 | 675,800 | 640,608 | (35,192) |
| Business license tax | 1,750,000 | 1,750,000 | 1,770,305 | 20,305 |
| Franchise license taxes | 20,000 | 20,000 | 20,000 | - |
| Motor vehicle licenses | 320,000 | 320,000 | 320,188 | 188 |
| Bank franchise tax | 300,000 | 300,000 | 312,672 | 12,672 |
| Taxes on recordation and wills | 42,500 | 42,500 | 85,047 | 42,547 |
| Grantor tax | 12,000 | 12,000 | 26,500 | 14,500 |
| Cigarette tax | 140,000 | 140,000 | 142,023 | 2,023 |
| Rental tax | 400 | 400 | 339 | (61) |
| Transient room tax | 19,000 | 19,000 | 18,577 | (423) |
| Total other local taxes | \$ 5,299,700 | \$ 5,299,700 | \$ 5,382,960 | \$ 83,260 |
| Permits, privilege fees and regulatory licenses: | | | | |
| Animal licenses | \$ 4,500 | \$ 4,500 | \$ 3,468 | \$ (1,032) |
| Other permits and licenses | 81,780 | 81,780 | 90,511 | 8,731 |
| Total permits, privilege fees and regulatory licenses | \$ 86,280 | \$ 86,280 | \$ 93,979 | \$ 7,699 |
| Fines and Forfeitures: | | | | |
| Court fines and forfeitures | \$ 90,000 | \$ 90,000 | \$ 126,638 | \$ 36,638 |
| Other fines and forfeitures | 9,200 | 9,628 | 13,533 | 3,905 |
| Total fines and forfeitures | \$ 99,200 | \$ 99,628 | \$ 140,171 | \$ 40,543 |

Governmental Funds and Discretely Presented Component Unit - School Board

Schedule of Revenues -- Budget and Actual

For the Year Ended June 30, 2017 (Continued)

| Fund, Major and Minor Revenue Source | Original Budget | Budget As Amended | Actual | Variance From Final Budget Positive (Negative) |
|--|--------------------|-------------------------|--------------|--|
| Primary Government: (Continued) | | | | |
| General Fund: (Continued) | | | | |
| Revenue from use of money and property: | | | | |
| Revenue from use of money | \$ 225,025 | \$ 225,025 | \$ 316,233 | \$ 91,208 |
| Revenue from use of property | 794,486 | 807,421 | 704,152 | (103,269) |
| Total revenue from use of money and property | \$ 1,019,511 | \$ 1,032,446 | \$ 1,020,385 | \$ (12,061) |
| Charges for services: | | | | |
| Sheriff fees | \$ 3,624 | \$ 3,624 | \$ 3,625 | \$ 1 |
| Courthouse maintenance fees | 10,000 | 10,000 | 7,788 | (2,212) |
| Court appointed attorney fees | 9,000 | 9,000 | 6,755 | (2,245) |
| Court house security fees | 22,500 | 22,500 | 21,481 | (1,019) |
| Ambulance Fees | 420,000 | 420,000 | 472,191 | 52,191 |
| Document reproduction fee | 2,500 | 2,500 | 1,783 | (717) |
| Remote access fee | 6,000 | 6,000 | 7,297 | 1,297 |
| Commonwealth attorney fees | 2,900 | 2,900 | 3,511 | 611 |
| Other public safety fees | 7,650 | 7,650 | 8,047 | 397 |
| Recreation fees | 12,900 | 12,900 | 12,162 | (738) |
| Prison farm labor / street maintenance | 24,000 | 24,000 | 24,000 | - |
| Telecom services | 1,280,981 | 1,280,981 | 1,303,920 | 22,939 |
| Other charges for services | 29,000 | 29,000 | 45,141 | 16,141 |
| Total charges for services | \$ 1,831,055 | \$ 1,831,055 | \$ 1,917,701 | \$ 86,646 |
| Miscellaneous: | | | | |
| Payment in lieu of tax | \$ 207,582 | \$ 207,582 | \$ 207,582 | \$ - |
| Other miscellaneous revenue | 37,750 | 41,000 | 51,270 | 10,270 |
| Total miscellaneous | \$ 245,332 | \$ 248,582 | \$ 258,852 | \$ 10,270 |
| Recovered costs: | | | | |
| WW Moore | \$ 40,000 | \$ 40,000 | \$ 33,782 | \$ (6,218) |
| SSI / LIDS | 1,000 | 1,000 | - | (1,000) |
| Circuit court | 1,000 | 1,000 | 1,068 | 68 |
| Meals tax administration | 51,232 | 51,232 | 51,232 | - |
| Street maintenance overhead | 337,353 | 337,353 | 337,353 | - |
| Demolition | 1,500 | 1,500 | 3,897 | 2,397 |
| Advance / recovered cost | 90,000 | 188,059 | 175,353 | (12,706) |
| Health department | 1,000 | 1,000 | 11,092 | 10,092 |
| Juror and witness | 8,000 | 8,000 | 5,310 | (2,690) |
| Sheriff | - | - | 5,352 | 5,352 |
| Medical co-pay reimbursement | 6,000 | 6,000 | 6,952 | 952 |
| Treasurer | 15,000 | 15,000 | 11,927 | (3,073) |
| Project lifesaver | 1,500 | 1,500 | 520 | (980) |

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 For the Year Ended June 30, 2017 (Continued)

| Fund, Major and Minor Revenue Source | Original Budget | Budget As Amended | Actual | Variance From Final Budget Positive (Negative) |
|--|--------------------|-------------------------|---------------|--|
| Primary Government: (Continued) | | | | |
| General Fund: (Continued) | | | | |
| Recovered costs: (Continued) | | | | |
| Traffic reimbursement | \$ 2,000 | \$ 2,000 | \$ 991 | \$ (1,009) |
| Telecom recovered costs | 44,000 | 193,942 | 189,441 | (4,501) |
| Collection expense | 44,101 | 44,101 | 44,101 | - |
| Billing expense | 430,297 | 430,297 | 392,476 | (37,821) |
| Safety expense | 15,715 | 15,715 | 15,715 | - |
| Communication | 3,688 | 3,688 | 3,688 | - |
| Public safety | - | 36,422 | 36,422 | - |
| Crisis intervention team | 27,000 | 27,000 | 38,763 | 11,763 |
| Central garage | 193,711 | 193,711 | 193,711 | - |
| Other central services | 507,717 | 507,717 | 507,707 | (10) |
| Senior citizens | 6,500 | 14,844 | 8,755 | (6,089) |
| Social services | 23,525 | 23,525 | 23,526 | 1 |
| Program income | 1,200 | 1,200 | 1,794 | 594 |
| Senior citizens - transportation | 2,400 | 2,400 | 3,567 | 1,167 |
| Fiscal agent fees - regional library | 3,600 | 3,600 | 3,600 | - |
| Total recovered costs | \$ 1,859,039 | \$ 2,151,806 | \$ 2,108,095 | \$ (43,711) |
| Total revenue from local sources | \$ 19,265,617 | \$ 19,574,997 | \$ 19,799,265 | \$ 224,268 |
| Intergovernmental: | | | | |
| Revenue from the Commonwealth: | | | | |
| Noncategorical aid: | | | | |
| Rolling stock tax | \$ 9,500 | \$ 9,500 | \$ 8,466 | \$ (1,034) |
| Recordation tax | 15,000 | 15,000 | 26,446 | 11,446 |
| PPTRA | 626,428 | 626,428 | 626,428 | - |
| Communications tax | 870,000 | 870,000 | 859,331 | (10,669) |
| Auto rental tax | 70,000 | 70,000 | 85,286 | 15,286 |
| Total noncategorical aid | \$ 1,590,928 | \$ 1,590,928 | \$ 1,605,957 | \$ 15,029 |
| Categorical aid: | | | | |
| Shared expenses: | | | | |
| Commonwealth's attorney | \$ 503,544 | \$ 503,544 | \$ 492,204 | \$ (11,340) |
| Sheriff | 1,877,695 | 1,877,695 | 1,826,451 | (51,244) |
| Commissioner of the Revenue | 104,362 | 104,362 | 102,856 | (1,506) |
| Treasurer | 79,581 | 79,581 | 78,185 | (1,396) |
| Registrar/electoral board | 33,900 | 33,900 | 37,029 | 3,129 |
| Clerk of the circuit court | 277,431 | 277,431 | 301,356 | 23,925 |
| Total shared expenses | \$ 2,876,513 | \$ 2,876,513 | \$ 2,838,081 | \$ (38,432) |

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 For the Year Ended June 30, 2017 (Continued)

| Fund, Major and Minor Revenue Source | Original Budget | Budget As Amended | Actual | Variance From Final Budget Positive (Negative) |
|--|----------------------|-------------------------|----------------------|--|
| Primary Government: (Continued) | | | | |
| Intergovernmental: (Continued) | | | | |
| Revenue from the Commonwealth: (Continued) | | | | |
| Other categorical aid: | | | | |
| Senior citizens | \$ 12,000 | \$ 12,000 | \$ 13,253 | \$ 1,253 |
| Confiscated assets | - | 1,943 | 1,943 | - |
| Victim witness | 110,744 | 27,686 | 27,686 | - |
| House Bill # 599 - police | 868,655 | 868,655 | 868,656 | 1 |
| EMS two for life | 10,000 | 12,002 | 12,002 | - |
| Fire grant | 40,000 | 54,760 | 54,760 | - |
| Street maintenance | 3,241,096 | 3,241,096 | 3,267,296 | 26,200 |
| Jail per diem | 330,000 | 330,000 | 335,415 | 5,415 |
| Comprehensive services | 100,000 | 100,000 | 201,601 | 101,601 |
| Other categorical aid | - | 5,016 | 5,016 | - |
| Total other categorical aid | \$ 4,712,495 | \$ 4,653,158 | \$ 4,787,628 | \$ 134,470 |
| Total categorical aid | \$ 7,589,008 | \$ 7,529,671 | \$ 7,625,709 | \$ 96,038 |
| Total revenue from the Commonwealth | \$ 9,179,936 | \$ 9,120,599 | \$ 9,231,666 | \$ 111,067 |
| Revenue from the federal government: | | | | |
| Categorical aid: | | | | |
| Victim witness | \$ - | \$ 83,058 | \$ 76,512 | \$ (6,546) |
| Confiscated assets | - | 14,353 | 14,353 | - |
| DMV grant - police | 18,000 | 18,000 | 12,728 | (5,272) |
| Senior citizens | 14,000 | 14,000 | 20,476 | 6,476 |
| SCAAP funds | - | - | 575 | 575 |
| Viper overtime grant | 9,000 | 9,000 | 2,428 | (6,572) |
| Brownfields grant | - | 189,251 | 189,252 | 1 |
| National endowment for the arts | - | 10,000 | 10,000 | - |
| FEMA | 7,500 | 7,500 | 10,173 | 2,673 |
| Other categorical aid | - | 56,417 | 103,201 | 46,784 |
| Total categorical aid | \$ 48,500 | \$ 401,579 | \$ 439,698 | \$ 38,119 |
| Total revenue from the Federal Government | \$ 48,500 | \$ 401,579 | \$ 439,698 | \$ 38,119 |
| Total General Fund | \$ 28,494,053 | \$ 29,097,175 | \$ 29,470,629 | \$ 373,454 |
| Special Revenue Funds: | | | | |
| City Grants Fund: | | | | |
| Revenue from local sources: | | | | |
| Revenue from use of money and property: | | | | |
| Revenue from use of money | \$ 900 | \$ 900 | \$ 1,508 | \$ 608 |
| Revenue from use of property | 16,180 | 93,853 | 96,093 | 2,240 |
| Total revenue from use of money and property | \$ 17,080 | \$ 94,753 | \$ 97,601 | \$ 2,848 |
| Total revenue from local sources | \$ 17,080 | \$ 94,753 | \$ 97,601 | \$ 2,848 |

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 For the Year Ended June 30, 2017 (Continued)

| Fund, Major and Minor Revenue Source | Original Budget | Budget As Amended | Actual | Variance From Final Budget Positive (Negative) |
|---|----------------------------|----------------------------------|----------------------|---|
| Intergovernmental: | | | | |
| Revenue from the federal government: | | | | |
| Categorical aid: | | | | |
| Neighborhood stabilization program | \$ - | \$ - | \$ 4,139 | \$ 4,139 |
| Northside neighborhood improvement grant | - | - | 470,053 | 470,053 |
| Total revenue from the Federal Government | \$ - | \$ - | \$ 474,192 | \$ 474,192 |
| Total City Grants Fund | <u>\$ 17,080</u> | <u>\$ 94,753</u> | <u>\$ 571,793</u> | <u>\$ 477,040</u> |
| Total Special Revenue Funds | <u>\$ 17,080</u> | <u>\$ 94,753</u> | <u>\$ 571,793</u> | <u>\$ 477,040</u> |
| Capital Projects Funds: | | | | |
| Capital Reserve Fund: | | | | |
| Revenue from local sources: | | | | |
| Revenue from use of money and property: | | | | |
| Revenue from use of money | \$ - | \$ 25,425 | \$ 26,263 | \$ 838 |
| Total revenue from local sources | \$ - | \$ 25,425 | \$ 26,263 | \$ 838 |
| Intergovernmental: | | | | |
| Revenue from the federal government: | | | | |
| Categorical aid: | | | | |
| Confiscated assets | \$ - | \$ 259,570 | \$ 259,570 | \$ - |
| Total revenue from the Federal Government | \$ - | \$ 259,570 | \$ 259,570 | \$ - |
| Total Capital Reserve Fund | <u>\$ -</u> | <u>\$ 284,995</u> | <u>\$ 285,833</u> | <u>\$ 838</u> |
| Meals Tax Fund: | | | | |
| Revenue from local sources: | | | | |
| Other local taxes: | | | | |
| Meals taxes | \$ 1,700,000 | \$ 1,700,000 | \$ 1,738,415 | \$ 38,415 |
| Total revenue from local sources | \$ 1,700,000 | \$ 1,700,000 | \$ 1,738,415 | \$ 38,415 |
| Intergovernmental: | | | | |
| Revenue from the Federal Government | | | | |
| Categorical aid: | | | | |
| QSCB tax credit | \$ 368,373 | \$ 368,373 | \$ 367,978 | \$ (395) |
| Total revenue from the Federal Government | \$ 368,373 | \$ 368,373 | \$ 367,978 | \$ (395) |
| Total Meals Tax Fund | <u>\$ 2,068,373</u> | <u>\$ 2,068,373</u> | <u>\$ 2,106,393</u> | <u>\$ 38,020</u> |
| Total Capital Projects Funds | <u>\$ 2,068,373</u> | <u>\$ 2,353,368</u> | <u>\$ 2,392,226</u> | <u>\$ 38,858</u> |
| Total Revenues -- Primary Government | <u>\$ 30,579,506</u> | <u>\$ 31,545,296</u> | <u>\$ 32,434,648</u> | <u>\$ 889,352</u> |

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 For the Year Ended June 30, 2017 (Continued)

| Fund, Major and Minor Revenue Source | Original Budget | Budget As Amended | Actual | Variance From Final Budget Positive (Negative) |
|--|--------------------|-------------------------|---------------|--|
| Component Unit-School Board: | | | | |
| Governmental Funds: | | | | |
| School Operating Fund: | | | | |
| Revenue from local sources: | | | | |
| Revenue from use of money and property: | | | | |
| Revenue from use of property | \$ 40,000 | \$ 40,000 | \$ 48,177 | \$ 8,177 |
| Charges for services: | | | | |
| Tuition and other charges for services | \$ 5,000 | \$ 5,000 | \$ - | \$ (5,000) |
| Miscellaneous revenue: | | | | |
| Miscellaneous revenue | \$ - | \$ 124,380 | \$ 158,295 | \$ 33,915 |
| Recovered costs: | | | | |
| Recovered costs | \$ 862,839 | \$ 862,839 | \$ 827,820 | \$ (35,019) |
| Total revenue from local sources | \$ 907,839 | \$ 1,032,219 | \$ 1,034,292 | \$ 2,073 |
| Intergovernmental: | | | | |
| Revenues from local governments: | | | | |
| Contribution from City of Martinsville, Virginia | \$ 6,437,654 | \$ 7,052,163 | \$ 6,247,206 | \$ (804,957) |
| Revenue from the Commonwealth: | | | | |
| Categorical aid: | | | | |
| Share of state sales tax | \$ 2,225,691 | \$ 2,225,691 | \$ 2,176,013 | \$ (49,678) |
| Basic school aid | 6,925,019 | 6,925,019 | 6,407,121 | (517,898) |
| Share of fringe benefits - Fica | 481,197 | 481,197 | 450,196 | (31,001) |
| Share of fringe benefits - VRS | 992,973 | 992,973 | 928,999 | (63,974) |
| English as a second language | 77,039 | 77,039 | 82,651 | 5,612 |
| Group life insurance benefits | 32,187 | 32,187 | 30,113 | (2,074) |
| Regional tuition special education | 146,456 | 146,456 | 82,289 | (64,167) |
| Early reading intervention | 110,688 | 110,688 | 109,425 | (1,263) |
| Vocational SOQ payments | 170,592 | 170,592 | 159,601 | (10,991) |
| Special education - basic | 980,098 | 980,098 | 925,603 | (54,495) |
| At risk students | 741,267 | 741,267 | 693,476 | (47,791) |
| Homebound education | 19,532 | 19,532 | 10,724 | (8,808) |
| Remedial education | 159,281 | 159,281 | 151,772 | (7,509) |
| Remediation SOQ payments | 627,649 | 627,649 | 587,212 | (40,437) |
| Reduced K-3 | 737,823 | 737,823 | 668,459 | (69,364) |
| Preschool initiative | 280,257 | 280,257 | 280,257 | - |
| Textbooks | 176,675 | 176,675 | 165,293 | (11,382) |
| Technology | 245,025 | 245,025 | 76,231 | (168,794) |
| Other state funds | 449,670 | 449,670 | 571,286 | 121,616 |
| Total categorical aid | \$ 15,579,119 | \$ 15,579,119 | \$ 14,556,721 | \$ (1,022,398) |
| Total revenue from the Commonwealth | \$ 15,579,119 | \$ 15,579,119 | \$ 14,556,721 | \$ (1,022,398) |

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 For the Year Ended June 30, 2017 (Continued)

| Fund, Major and Minor Revenue Source | Original Budget | Budget As Amended | Actual | Variance From Final Budget Positive (Negative) |
|--|----------------------|-------------------------|----------------------|--|
| Component Unit-School Board: (Continued) | | | | |
| Governmental Funds: (Continued) | | | | |
| School Operating Fund: (Continued) | | | | |
| Intergovernmental: | | | | |
| Revenue from the federal government: | | | | |
| Categorical aid: | | | | |
| Other federal categorical aid | \$ 35,658 | \$ 35,658 | \$ 30,273 | \$ (5,385) |
| Total categorical aid | \$ 35,658 | \$ 35,658 | \$ 30,273 | \$ (5,385) |
| Total revenue from the federal government | \$ 35,658 | \$ 35,658 | \$ 30,273 | \$ (5,385) |
| Total School Operating Fund | \$ 22,960,270 | \$ 23,699,159 | \$ 21,868,492 | \$ (1,830,667) |
| School Cafeteria Fund: | | | | |
| Revenue from local sources: | | | | |
| Revenue from use of money and property: | | | | |
| Revenue from use of money | \$ 800 | \$ 800 | \$ 28,302 | \$ 27,502 |
| Charges for services: | | | | |
| Cafeteria sales | \$ 465,000 | \$ 465,000 | \$ 291,448 | \$ (173,552) |
| Intergovernmental: | | | | |
| Revenue from the Commonwealth: | | | | |
| Categorical aid: | | | | |
| School food | \$ 31,310 | \$ 31,310 | \$ 40,851 | \$ 9,541 |
| Revenue from the federal government: | | | | |
| Categorical aid: | | | | |
| School food | \$ 950,433 | \$ 950,433 | \$ 1,390,623 | \$ 440,190 |
| Total School Cafeteria Fund | \$ 1,447,543 | \$ 1,447,543 | \$ 1,751,224 | \$ 303,681 |
| School Grants Fund: | | | | |
| Intergovernmental: | | | | |
| Revenue from the federal government: | | | | |
| Categorical aid: | | | | |
| Title I | \$ - | \$ 1,035,983 | \$ 962,911 | \$ (73,072) |
| Title II - teacher quality | - | 118,566 | 38,268 | (80,298) |
| Title III - language acquisition grant | - | 9,691 | 9,396 | (295) |
| Title VI - rural education | - | 44,740 | 47,484 | 2,744 |
| School improvement | - | - | 176,624 | 176,624 |
| Special education - flow through | - | 548,072 | 535,537 | (12,535) |
| Special education - preschool | - | 6,297 | 5,818 | (479) |
| Perkins vocational education | - | 56,455 | 54,435 | (2,020) |
| Total revenue from the federal government | \$ - | \$ 1,819,804 | \$ 1,830,473 | \$ 10,669 |
| Total School Grants Fund | \$ - | \$ 1,819,804 | \$ 1,830,473 | \$ 10,669 |
| Total Revenues--Component Unit - School Board | \$ 24,407,813 | \$ 26,966,506 | \$ 25,450,189 | \$ (1,516,317) |

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 For the Year Ended June 30, 2017

| Fund, Function, Activity and Elements | Original Budget | Budget As Amended | Actual | Variance From Final Budget Positive (Negative) |
|--|--------------------|-------------------------|--------------|--|
| Primary Government: | | | | |
| General Fund: | | | | |
| General Government Administration: | | | | |
| Legislative: | | | | |
| City council | \$ 37,190 | \$ 37,190 | \$ 42,149 | \$ (4,959) |
| General and Financial Administration: | | | | |
| Clerk of council | \$ 4,114 | \$ 4,114 | \$ 4,100 | \$ 14 |
| City attorney | 96,798 | 96,798 | 106,672 | (9,874) |
| City manager's office | 253,943 | 253,943 | 250,091 | 3,852 |
| Assistant city manager | 16,628 | 16,628 | 16,633 | (5) |
| Legal services | 10,200 | 10,200 | 5,000 | 5,200 |
| Human resources | 228,696 | 228,696 | 191,446 | 37,250 |
| Employment services | 427,778 | 433,778 | 327,807 | 105,971 |
| Communications | 24,730 | 24,730 | 22,533 | 2,197 |
| Commissioner of the Revenue | 447,486 | 452,365 | 436,205 | 16,160 |
| Assessor | 7,450 | 2,571 | 1,322 | 1,249 |
| Treasurer | 286,218 | 286,218 | 270,476 | 15,742 |
| Finance director | 135,722 | 135,274 | 119,658 | 15,616 |
| Accounting | 167,710 | 167,710 | 163,057 | 4,653 |
| Utility billing | 418,871 | 418,871 | 392,421 | 26,450 |
| Information services | 388,793 | 391,643 | 404,884 | (13,241) |
| Central garage | 451,495 | 451,495 | 445,372 | 6,123 |
| Purchasing | 170,759 | 170,759 | 168,315 | 2,444 |
| Risk management | 240,510 | 240,510 | 195,631 | 44,879 |
| General expenses | 152,710 | 152,710 | 133,733 | 18,977 |
| Total general and financial administration | \$ 3,930,611 | \$ 3,939,013 | \$ 3,655,356 | \$ 283,657 |
| Board of Elections: | | | | |
| Electoral board and officials | \$ 26,429 | \$ 26,429 | \$ 21,369 | \$ 5,060 |
| Registrar | 123,046 | 123,046 | 105,315 | 17,731 |
| Total board of elections | \$ 149,475 | \$ 149,475 | \$ 126,684 | \$ 22,791 |
| Total general government administration | \$ 4,117,276 | \$ 4,125,678 | \$ 3,824,189 | \$ 301,489 |
| Judicial Administration: | | | | |
| Courts: | | | | |
| Circuit court | \$ 99,387 | \$ 99,387 | \$ 82,377 | \$ 17,010 |
| General district court | 32,635 | 32,635 | 13,852 | 18,783 |
| Juvenile and domestic relations court | 9,475 | 9,475 | 6,671 | 2,804 |
| Clerk of the circuit court | 406,144 | 406,144 | 406,383 | (239) |
| Sheriff - courts | 1,059,130 | 1,082,752 | 1,014,171 | 68,581 |
| Total Courts | \$ 1,606,771 | \$ 1,630,393 | \$ 1,523,454 | \$ 106,939 |

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 For the Year Ended June 30, 2017 (Continued)

| Fund, Function, Activity and Elements | Original Budget | Budget As Amended | Actual | Variance From Final Budget Positive (Negative) |
|---|--------------------|-------------------------|--------------|--|
| Primary Government: (Continued) | | | | |
| General Fund: (Continued) | | | | |
| Commonwealth Attorney: | | | | |
| Commonwealth attorney | \$ 714,282 | \$ 721,719 | \$ 663,064 | \$ 58,655 |
| Victim witness program | 110,296 | 110,744 | 106,657 | 4,087 |
| Total Commonwealth attorney | \$ 824,578 | \$ 832,463 | \$ 769,721 | \$ 62,742 |
| Total judicial administration | \$ 2,431,349 | \$ 2,462,856 | \$ 2,293,175 | \$ 169,681 |
| Public Safety: | | | | |
| Law Enforcement and Traffic Control: | | | | |
| Police department | \$ 3,921,094 | \$ 4,148,529 | \$ 4,170,766 | \$ (22,237) |
| Transportation safety commission | 1,500 | 1,500 | 1,511 | (11) |
| Total law enforcement and traffic control | \$ 3,922,594 | \$ 4,150,029 | \$ 4,172,277 | \$ (22,248) |
| Fire and Rescue Services: | | | | |
| Fire services | \$ 2,011,575 | \$ 2,137,992 | \$ 1,983,901 | \$ 154,091 |
| Emergency medical services | 193,963 | 207,444 | 198,403 | 9,041 |
| Total fire and rescue services | \$ 2,205,538 | \$ 2,345,436 | \$ 2,182,304 | \$ 163,132 |
| Correction and Detention: | | | | |
| Sheriff -corrections | \$ 2,560,626 | \$ 2,611,198 | \$ 2,566,380 | \$ 44,818 |
| Sheriff -jail annex | 157,985 | 159,026 | 126,357 | 32,669 |
| Probation office | 280,425 | 280,425 | 309,652 | (29,227) |
| Total correction and detention | \$ 2,999,036 | \$ 3,050,649 | \$ 3,002,389 | \$ 48,260 |
| Inspections: | | | | |
| Building and other | \$ 196,651 | \$ 222,478 | \$ 208,580 | \$ 13,898 |
| Other Protection: | | | | |
| Safety | \$ 105,207 | \$ 105,207 | \$ 95,150 | \$ 10,057 |
| Total public safety | \$ 9,429,026 | \$ 9,873,799 | \$ 9,660,700 | \$ 213,099 |
| Public Works: | | | | |
| Maintenance of highways, streets, bridges and sidewalks: | | | | |
| Director of public works | \$ 143,720 | \$ 143,720 | \$ 147,205 | \$ (3,485) |
| Engineering | 137,580 | 137,580 | 112,228 | 25,352 |
| Street maintenance | 2,337,667 | 2,678,768 | 2,259,161 | 419,607 |
| Street marking and signs | 194,099 | 194,099 | 161,010 | 33,089 |
| Traffic signals | 358,136 | 382,760 | 398,213 | (15,453) |

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 For the Year Ended June 30, 2017 (Continued)

| Fund, Function, Activity and Elements | Original Budget | Budget As Amended | Actual | Variance From Final Budget Positive (Negative) |
|---|--------------------|-------------------------|--------------|--|
| Primary Government: (Continued) | | | | |
| General Fund: (Continued) | | | | |
| Public Works: (Continued) | | | | |
| Maintenance of highways, streets, bridges and sidewalks: (Continued) | | | | |
| Street cleaning | \$ 351,194 | \$ 351,194 | \$ 349,491 | \$ 1,703 |
| VDOT reserve | 50,000 | 371,107 | - | 371,107 |
| Street construction | 328,924 | 328,924 | 266,416 | 62,508 |
| Total maintenance of highways, streets, bridges and sidewalks | \$ 3,901,320 | \$ 4,588,152 | \$ 3,693,724 | \$ 894,428 |
| Maintenance of buildings and grounds: | | | | |
| Uptown maintenance | \$ 44,030 | \$ 44,030 | \$ 44,850 | \$ (820) |
| City hall maintenance | 436,687 | 443,997 | 424,623 | 19,374 |
| Warehouse / garage complex | 86,300 | 104,299 | 110,909 | (6,610) |
| WPBDC building | 48,800 | 48,800 | 47,281 | 1,519 |
| Housing services building | 3,575 | 3,575 | 1,975 | 1,600 |
| Total maintenance of buildings and grounds | \$ 619,392 | \$ 644,701 | \$ 629,638 | \$ 15,063 |
| Total public works | \$ 4,520,712 | \$ 5,232,853 | \$ 4,323,362 | \$ 909,491 |
| Health and Welfare | | | | |
| Health: | | | | |
| Contribution to local health department | \$ 198,401 | \$ 198,401 | \$ 198,401 | \$ - |
| Mental Health and Mental Retardation: | | | | |
| Chapter X board | \$ 58,125 | \$ 58,125 | \$ 58,125 | \$ - |
| Welfare/Social Services: | | | | |
| Comprehensive services | \$ 150,000 | \$ 150,000 | \$ 308,935 | \$ (158,935) |
| Regional social services board | 331,812 | 331,812 | 309,093 | 22,719 |
| Total welfare/social services | \$ 481,812 | \$ 481,812 | \$ 618,028 | \$ (136,216) |
| Total health and welfare | \$ 738,338 | \$ 738,338 | \$ 874,554 | \$ (136,216) |
| Education: | | | | |
| Contributions to community colleges | \$ 19,835 | \$ 19,835 | \$ 19,835 | \$ - |
| Contributions to School Board Component Unit | 6,437,654 | 7,052,163 | 6,247,206 | 804,957 |
| Total education | \$ 6,457,489 | \$ 7,071,998 | \$ 6,267,041 | \$ 804,957 |

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 For the Year Ended June 30, 2017 (Continued)

| Fund, Function, Activity and Elements | Original Budget | Budget As Amended | Actual | Variance From Final Budget Positive (Negative) |
|--|----------------------|-------------------------|----------------------|--|
| Primary Government: (Continued) | | | | |
| General Fund: (Continued) | | | | |
| Parks, Recreation, and Cultural: | | | | |
| Parks and recreation: | | | | |
| Parks & Recreation | \$ 98,196 | \$ 98,946 | \$ 81,711 | \$ 17,235 |
| Park maintenance | 260,760 | 263,035 | 224,780 | 38,255 |
| Hooker field/Mustangs | 78,879 | 78,879 | 77,978 | 901 |
| Senior services | 201,334 | 212,178 | 184,370 | 27,808 |
| Total parks and recreation | \$ 639,169 | \$ 653,038 | \$ 568,839 | \$ 84,199 |
| Library: | | | | |
| Regional library | \$ 292,197 | \$ 292,197 | \$ 292,197 | \$ - |
| Total parks, recreation and cultural | \$ 931,366 | \$ 945,235 | \$ 861,036 | \$ 84,199 |
| Community Development: | | | | |
| Planning and Community Development: | | | | |
| Community Development | \$ 267,887 | \$ 334,030 | \$ 238,314 | \$ 95,716 |
| Community Development - Brownfields | - | 189,251 | 185,165 | 4,086 |
| Telecom system | 1,233,249 | 1,413,916 | 1,410,321 | 3,595 |
| Planning and zoning | 152,227 | 152,227 | 160,271 | (8,044) |
| Contributions to local organizations | 847,267 | 847,267 | 826,023 | 21,244 |
| Total planning and community development | \$ 2,500,630 | \$ 2,936,691 | \$ 2,820,094 | \$ 116,597 |
| Cooperative Extension Program: | | | | |
| Horticulture and family resources | \$ 7,756 | \$ 7,756 | \$ 7,756 | \$ - |
| Total community development | \$ 2,508,386 | \$ 2,944,447 | \$ 2,827,850 | \$ 116,597 |
| Total General Fund | \$ 31,133,942 | \$ 33,395,204 | \$ 30,931,907 | \$ 2,463,297 |
| Special Revenue Funds: | | | | |
| City Grants Fund: | | | | |
| Community Development: | | | | |
| Community development block grant | \$ 2,550 | \$ 770,136 | \$ 466,026 | \$ 304,110 |
| Total City Grants Fund | \$ 2,550 | \$ 770,136 | \$ 466,026 | \$ 304,110 |
| Total Special Revenue Funds | \$ 2,550 | \$ 770,136 | \$ 466,026 | \$ 304,110 |

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 For the Year Ended June 30, 2017 (Continued)

| Fund, Function, Activity and Elements | Original Budget | Budget As Amended | Actual | Variance From Final Budget Positive (Negative) |
|---|--------------------|-------------------------|---------------------|--|
| Capital Projects Funds: | | | | |
| Capital Reserve Fund: | | | | |
| General Government Administration: | | | | |
| Computer software - Commissioner of the Revenue | \$ - | \$ 54,525 | \$ 25,960 | \$ 28,565 |
| Computer software - information services | 75,000 | 127,525 | 65,964 | 61,561 |
| Physical plant expansion - City Hall | 83,000 | 112,939 | 75,175 | 37,764 |
| Total general government administration | \$ 158,000 | \$ 294,989 | \$ 167,099 | \$ 127,890 |
| Public Safety: | | | | |
| Police department - motor vehicles | \$ 70,000 | \$ 225,421 | \$ 225,421 | \$ - |
| Computer hardware / software - Police | 35,648 | 35,648 | 35,648 | - |
| EMS - motor vehicles | - | 200,000 | 199,785 | 215 |
| Sheriff / Jail - major tools | 22,000 | - | - | - |
| Physical plant expansion - Fire department | 20,000 | 20,000 | 9,995 | 10,005 |
| Physical plant expansion - Sheriff / Jail | - | 156,149 | 299 | 155,850 |
| Total public safety | \$ 147,648 | \$ 637,218 | \$ 471,148 | \$ 166,070 |
| Public Works: | | | | |
| Street maintenance - motor vehicles | \$ 111,500 | \$ 196,670 | \$ 189,949 | \$ 6,721 |
| Street maintenance - major tools | - | 30,800 | 15,000 | 15,800 |
| Street cleaning - major tools | 60,000 | 124,455 | 121,357 | 3,098 |
| Computer hardware / software - engineering | - | 3,500 | - | 3,500 |
| Physical plant expansion - traffic signals | 65,000 | 65,000 | 64,966 | 34 |
| Physical plant expansion - Warehouse complex | 35,000 | 78,577 | 60,730 | 17,847 |
| Total public works | \$ 271,500 | \$ 499,002 | \$ 452,002 | \$ 47,000 |
| Debt service: | | | | |
| Principal retirement | \$ 314,755 | \$ 314,755 | \$ 314,754 | \$ 1 |
| Interest and other debt costs | 39,614 | 39,614 | 39,612 | 2 |
| Total debt service | \$ 354,369 | \$ 354,369 | \$ 354,366 | \$ 3 |
| Total Capital Reserve Fund | \$ 931,517 | \$ 1,785,578 | \$ 1,444,615 | \$ 340,963 |

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 For the Year Ended June 30, 2017 (Continued)

| Fund, Function, Activity and Elements | Original Budget | Budget As Amended | Actual | Variance From Final Budget Positive (Negative) |
|---|----------------------|-------------------------|----------------------|--|
| Primary Government: (Continued) | | | | |
| Capital Projects Funds: (Continued) | | | | |
| Meals Tax Fund: | | | | |
| General Government Administration: | | | | |
| Meals tax administration | \$ 51,232 | \$ 51,232 | \$ 51,232 | \$ - |
| Debt service: | | | | |
| Principal retirement | \$ 990,827 | \$ 990,827 | \$ 990,827 | \$ - |
| Interest and other debt costs | 531,296 | 531,296 | 531,296 | - |
| Total debt service | \$ 1,522,123 | \$ 1,522,123 | \$ 1,522,123 | \$ - |
| Total Meals Tax Fund | <u>\$ 1,573,355</u> | <u>\$ 1,573,355</u> | <u>\$ 1,573,355</u> | <u>\$ -</u> |
| Total Capital Projects Funds | <u>\$ 2,504,872</u> | <u>\$ 3,358,933</u> | <u>\$ 3,017,970</u> | <u>\$ 340,963</u> |
| Total Expenditures - Primary Government | <u>\$ 33,641,364</u> | <u>\$ 37,524,273</u> | <u>\$ 34,415,903</u> | <u>\$ 3,108,370</u> |
| Component Unit - School Board | | | | |
| School Operating Fund: | | | | |
| Education: | | | | |
| Instruction | \$ 16,534,006 | \$ 16,710,903 | \$ 15,283,133 | \$ 1,427,770 |
| Administration, attendance and health | 1,395,862 | 2,010,371 | 1,469,885 | 540,486 |
| Pupil transportation | 986,080 | 986,080 | 1,032,774 | (46,694) |
| Operation and maintenance of school plant | 2,366,809 | 2,467,235 | 2,572,497 | (105,262) |
| Technology | 1,677,513 | 1,677,513 | 1,510,203 | 167,310 |
| Total operating costs | \$ 22,960,270 | \$ 23,852,102 | \$ 21,868,492 | \$ 1,983,610 |
| Total School Operating Fund | <u>\$ 22,960,270</u> | <u>\$ 23,852,102</u> | <u>\$ 21,868,492</u> | <u>\$ 1,983,610</u> |
| School Cafeteria Fund: | | | | |
| Education: | | | | |
| School food services | \$ 1,517,543 | \$ 1,517,543 | \$ 1,530,519 | \$ (12,976) |
| School Grants Fund: | | | | |
| Education: | | | | |
| Instruction costs | \$ - | \$ 1,819,804 | \$ 1,896,635 | \$ (76,831) |
| Total Expenditures - Component Unit - School Board | <u>\$ 24,477,813</u> | <u>\$ 27,189,449</u> | <u>\$ 25,295,646</u> | <u>\$ 1,893,803</u> |

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| <u>Section</u> | <u>Description / Table Name</u> | <u>Table Number</u> |
|--|---|----------------------------|
| <u>Financial Trends</u> | | |
| 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 Position by Component | 1 |
| | Changes in Net Position | 2 |
| | Level of Unrestricted Net Position | 3 |
| | Governmental Activities Tax Revenues by Source--(Accrual Basis of Accounting) | 4 |
| | Fund Balances of Governmental Funds | 5 |
| | Fund Balance Summary | 6 |
| | Changes in Fund Balances of Governmental Funds | 7 |
| | Level of Unreserved/Unassigned Fund Balance | 8 |
| | Governmental Activities Tax Revenues by Source (Modified Accrual Basis of Accounting) | 9 |
| | Local Sales Tax Growth | 10 |
| | Utility Analysis of Unrestricted Net Position | 11 |
| <u>Revenue Capacity</u> | | |
| 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 and Tax Rates | 12 |
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| <u>Debt Capacity</u> | | |
| 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 | 14 |
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| | Computation of Direct and Overlapping Bonded Debt | 16 |
| | Expenditures Per Capita Ratios | 17 |
| <u>Demographic and Economic Information</u> | | |
| | 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. | 18 |
| <u>Operating Information</u> | | |
| 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. | | |
| | Full-time Equivalent City Government Employees by Function--Last Ten Fiscal Years | 19 |
| | Operating Indicators by Function--Last Nine Fiscal Years | 20 |
| | Capital Asset Statistics by Function--Last Nine Fiscal Years | 21 |

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Net Position by Component
Last Ten Fiscal Years
(Accrual Basis of Accounting)

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Governmental activities: | | | | | | | | | | |
| Net investment in capital assets | \$ 5,319,803 | \$ 5,351,713 | \$ 4,986,603 | \$ 5,095,179 | \$ 5,239,010 | \$ 7,783,672 | \$ 9,025,281 | \$ 8,309,912 | \$ 10,250,210 | \$ 10,624,972 |
| Unrestricted | <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> | <u>9,266,186</u> | <u>11,321,289</u> | <u>(4,717,533)</u> | <u>(5,823,340)</u> | <u>(7,197,367)</u> |
| Total governmental activities net position | <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> | <u>\$ 17,049,858</u> | <u>\$ 20,346,570</u> | <u>\$ 3,592,379</u> | <u>\$ 4,426,870</u> | <u>\$ 3,427,605</u> |
| Business-type activities: | | | | | | | | | | |
| Net investment in capital assets | \$ 14,934,394 | \$ 15,210,773 | \$ 14,419,532 | \$ 15,002,561 | \$ 17,011,598 | \$ 17,668,620 | \$ 17,998,885 | \$ 18,933,157 | \$ 20,792,962 | \$ 20,155,003 |
| Unrestricted | <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> | <u>10,467,030</u> | <u>9,385,092</u> | <u>6,106,918</u> | <u>4,335,678</u> | <u>9,186,299</u> |
| Total business-type activities net position | <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> | <u>\$ 28,135,650</u> | <u>\$ 27,383,977</u> | <u>\$ 25,040,075</u> | <u>\$ 25,128,640</u> | <u>\$ 29,341,302</u> |
| Primary government | | | | | | | | | | |
| Net investment in capital assets | \$ 20,254,197 | \$ 20,562,486 | \$ 19,406,135 | \$ 20,097,740 | \$ 22,250,608 | \$ 25,452,292 | \$ 27,024,166 | \$ 27,243,069 | \$ 31,043,172 | \$ 30,779,975 |
| Unrestricted | <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> | <u>19,733,216</u> | <u>20,706,381</u> | <u>1,389,385</u> | <u>(1,487,662)</u> | <u>1,988,932</u> |
| Total primary government | <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> | <u>\$ 45,185,508</u> | <u>\$ 47,730,547</u> | <u>\$ 28,632,454</u> | <u>\$ 29,555,510</u> | <u>\$ 32,768,907</u> |

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

Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)

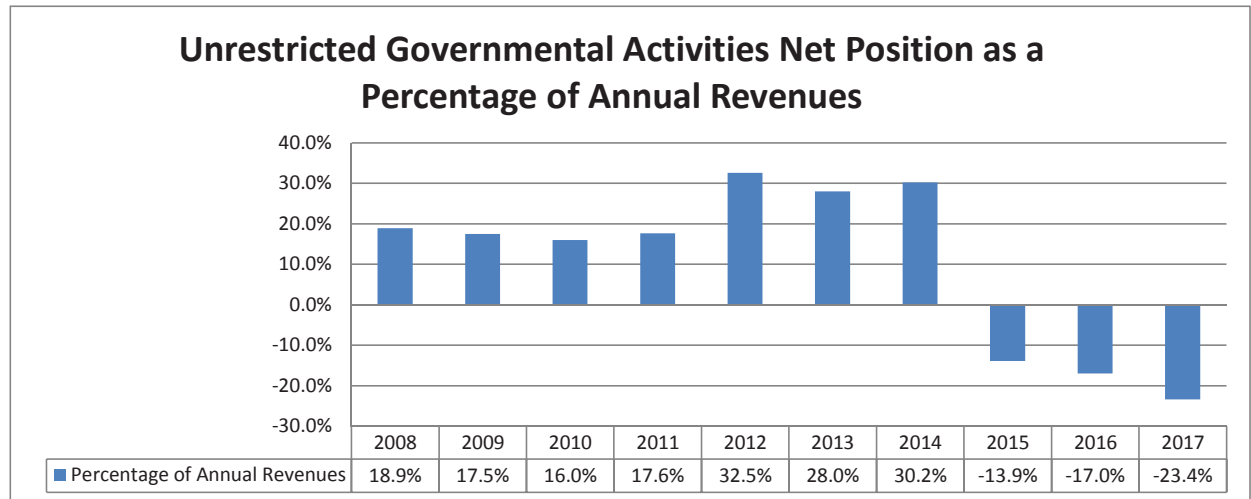
| | Fiscal Year | | | | | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Expenses: | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| General government administration | \$ 3,632,533 | \$ 4,276,071 | \$ 4,093,661 | \$ 3,814,802 | \$ 3,637,285 | \$ 3,632,201 | \$ 3,652,928 | \$ 3,800,766 | \$ 4,612,205 | \$ 3,245,979 |
| Judicial administration | 1,907,359 | 2,000,159 | 1,885,494 | 1,878,258 | 1,918,028 | 1,981,577 | 2,165,263 | 2,096,773 | 2,250,373 | 2,322,293 |
| Public safety | 9,397,114 | 9,696,451 | 9,472,187 | 8,997,810 | 9,228,325 | 9,393,253 | 9,418,417 | 9,176,453 | 9,837,593 | 9,805,711 |
| Public works | 4,210,661 | 4,692,221 | 4,304,621 | 4,178,766 | 4,011,222 | 4,957,877 | 4,265,599 | 3,456,455 | 4,246,016 | 3,659,946 |
| Health and welfare | 502,245 | 582,129 | 1,292,705 | 606,262 | 563,668 | 748,961 | 679,779 | 674,858 | 770,780 | 859,053 |
| Education | 7,834,905 | 7,679,809 | 6,778,437 | 6,400,860 | 3,525,833 | 5,800,158 | 6,876,345 | 7,794,188 | 7,091,099 | 7,401,665 |
| Parks, recreation, and cultural | 1,740,767 | 1,096,975 | 1,149,286 | 1,340,515 | 1,254,795 | 1,085,674 | 1,044,516 | 930,080 | 941,835 | 923,286 |
| Community development | 3,005,045 | 3,954,587 | 3,755,520 | 4,117,538 | 3,498,547 | 3,705,549 | 5,390,512 | 4,958,922 | 3,373,272 | 3,381,324 |
| Interest and other fiscal charges | 313,246 | 514,838 | 402,996 | 348,232 | 395,761 | 488,284 | 688,152 | 616,888 | 216,619 | 184,109 |
| Total governmental activities expenses | \$ 32,543,875 | \$ 34,493,240 | \$ 33,134,907 | \$ 31,683,043 | \$ 28,033,464 | \$ 31,793,534 | \$ 34,181,511 | \$ 33,505,383 | \$ 33,339,792 | \$ 31,783,366 |
| Business-type activities: | | | | | | | | | | |
| Electric | 14,386,289 | 15,660,263 | 16,432,597 | 17,175,908 | \$ 14,987,140 | \$ 13,609,901 | \$ 16,329,938 | \$ 15,552,584 | \$ 16,266,023 | \$ 16,860,239 |
| Water | 2,014,138 | 2,135,742 | 1,874,519 | 1,694,197 | 1,713,386 | 1,756,400 | 1,744,194 | 1,576,999 | 1,817,456 | 1,979,099 |
| Sewer | 2,818,953 | 3,105,291 | 2,996,728 | 2,652,619 | 2,712,919 | 2,762,385 | 3,107,701 | 3,063,555 | 3,104,212 | 3,279,987 |
| Refuse collection / landfill | 2,957,901 | 2,368,403 | 1,138,147 | 1,095,958 | 1,262,415 | 1,566,262 | 1,490,749 | 1,454,477 | 1,586,815 | 1,765,041 |
| Total business-type activities expenses | \$ 22,177,281 | \$ 23,269,699 | \$ 22,441,991 | \$ 22,618,682 | \$ 20,675,860 | \$ 19,694,948 | \$ 22,672,582 | \$ 21,647,615 | \$ 22,774,506 | \$ 23,884,366 |
| Total primary government expenses | \$ 54,721,156 | \$ 57,762,939 | \$ 55,576,898 | \$ 54,301,725 | \$ 48,709,324 | \$ 51,488,482 | \$ 56,854,093 | \$ 55,152,998 | \$ 56,114,298 | \$ 55,667,732 |
| Program revenues: | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| General government administration | \$ 91,900 | \$ 113,848 | \$ 143,120 | \$ 191,123 | \$ 186,019 | \$ 210,744 | \$ 27,323 | \$ 71,257 | \$ 58,315 | \$ 54,221 |
| Judicial administration | 234,672 | 252,763 | 273,737 | 202,053 | 209,709 | 215,326 | 177,396 | 220,001 | 170,680 | 199,722 |
| Public safety | 325,242 | 361,662 | 421,844 | 509,000 | 599,126 | 603,156 | 502,374 | 556,608 | 533,667 | 557,825 |
| Public works | 90,879 | 92,071 | 109,045 | 24,000 | 24,000 | 24,000 | 24,000 | 367,457 | 1,239,954 | 1,327,920 |
| Parks, recreation, and cultural | 135,477 | 141,895 | 162,368 | 139,931 | 148,883 | 51,468 | 224,677 | 13,847 | 10,735 | 12,162 |
| Operating grants and contributions: | | | | | | | | | | |
| General government administration | 276,647 | 267,032 | 234,313 | 277,056 | 423,555 | 275,042 | 310,483 | 230,355 | 228,325 | 218,070 |
| Judicial administration | 866,548 | 780,735 | 736,621 | 713,051 | 719,769 | 721,469 | 738,874 | 766,853 | 789,944 | 793,561 |
| Public safety | 3,940,060 | 3,955,895 | 3,397,090 | 3,239,401 | 3,283,016 | 3,189,324 | 3,229,434 | 3,192,089 | 3,366,678 | 3,600,720 |
| Public works | 2,591,437 | 2,642,578 | 2,625,314 | 3,395,752 | 3,274,179 | 2,937,259 | 3,183,251 | 3,139,103 | 3,220,499 | 3,267,296 |
| Health and welfare | 13,996 | 12,258 | 23,973 | - | 51,227 | 146,616 | 106,284 | 107,481 | 171,032 | 201,601 |
| Parks, recreation, and cultural | 21,953 | 17,467 | 21,545 | 36,342 | 34,633 | 29,024 | 34,111 | 27,393 | 31,257 | 43,729 |
| Community development | 2,715,790 | 2,378,903 | 2,280,439 | 2,081,905 | 2,179,828 | 1,816,471 | 3,566,872 | 1,840,583 | 884,321 | 474,766 |
| Capital grants and contributions | 647,121 | 138,691 | 590,000 | - | - | 2,051,086 | 1,900,918 | 1,099,371 | 2,641 | 199,426 |
| Total governmental activities program revenues | \$ 11,951,722 | \$ 11,155,798 | \$ 11,019,409 | \$ 10,809,614 | \$ 11,133,944 | \$ 12,270,985 | \$ 14,025,997 | \$ 11,632,398 | \$ 10,708,048 | \$ 10,951,019 |

Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)

| | Fiscal Year | | | | | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Business-type activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| Electric | \$ 17,357,449 | \$ 16,728,961 | \$ 16,624,330 | \$ 17,549,813 | \$ 17,005,502 | \$ 16,737,265 | \$ 17,196,837 | \$ 17,630,862 | \$ 17,770,846 | \$ 18,680,678 |
| Water | 3,639,981 | 3,216,234 | 2,912,964 | 3,090,420 | 3,108,345 | 3,223,717 | 3,268,689 | 3,301,837 | 3,284,234 | 3,602,775 |
| Sewer | 3,815,476 | 3,876,929 | 3,763,519 | 3,611,687 | 4,036,668 | 3,917,792 | 3,840,429 | 3,929,737 | 4,226,823 | 4,255,883 |
| Refuse collection / landfill | 1,370,624 | 1,431,649 | 1,698,501 | 1,651,673 | 1,678,419 | 1,599,297 | 2,080,731 | 2,199,089 | 2,232,517 | 2,280,710 |
| Capital grants and contributions | - | - | - | - | 1,878,298 | - | 15,894 | - | - | - |
| Total business-type activities program revenues | \$ 26,183,530 | \$ 25,253,773 | \$ 24,999,314 | \$ 25,903,593 | \$ 27,707,232 | \$ 25,478,071 | \$ 26,402,580 | \$ 27,061,525 | \$ 27,514,420 | \$ 28,820,046 |
| Total primary government program revenues | \$ 38,135,252 | \$ 36,409,571 | \$ 36,018,723 | \$ 36,713,207 | \$ 38,841,176 | \$ 37,749,056 | \$ 40,428,577 | \$ 38,693,923 | \$ 38,222,468 | \$ 39,771,065 |
| Net (expense) / revenue | | | | | | | | | | |
| Governmental activities | \$ (20,592,153) | \$ (23,337,441) | \$ (22,115,498) | \$ (20,873,429) | \$ (16,899,520) | \$ (19,522,549) | \$ (20,155,514) | \$ (21,872,985) | \$ (22,631,744) | \$ (20,832,347) |
| Business-type activities | 4,006,249 | 1,984,074 | 2,557,323 | 3,284,911 | 7,031,372 | 5,783,123 | 3,729,998 | 5,413,910 | 4,739,914 | 4,935,680 |
| Total primary government net expense | \$ (16,585,904) | \$ (21,353,367) | \$ (19,558,175) | \$ (17,588,518) | \$ (9,868,148) | \$ (13,739,426) | \$ (16,425,516) | \$ (16,459,075) | \$ (17,891,830) | \$ (15,896,667) |
| General Revenues and Other Changes in Net Position | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| General property taxes | \$ 9,202,010 | \$ 9,443,548 | \$ 9,036,094 | \$ 8,878,758 | \$ 8,667,298 | \$ 8,815,665 | \$ 9,063,889 | \$ 8,984,049 | \$ 8,949,568 | \$ 9,072,495 |
| Local sales and use taxes | 2,054,229 | 2,015,151 | 1,759,239 | 1,911,276 | 1,891,909 | 1,886,892 | 2,017,806 | 1,921,102 | 2,033,632 | 2,046,701 |
| Consumer utility taxes | 749,579 | 735,458 | 718,563 | 710,361 | 695,041 | 684,046 | 669,664 | 678,862 | 654,989 | 640,608 |
| Business license taxes | 1,837,209 | 1,849,974 | 1,676,826 | 1,947,085 | 1,720,315 | 1,769,645 | 1,807,604 | 1,607,168 | 1,715,637 | 1,770,305 |
| Meals tax | 1,403,131 | 1,430,326 | 1,390,907 | 1,409,442 | 1,434,966 | 1,552,032 | 1,583,889 | 1,665,418 | 1,717,249 | 1,738,415 |
| Other local taxes | 1,803,565 | 1,792,617 | 1,738,173 | 816,634 | 878,807 | 787,788 | 838,603 | 895,763 | 884,145 | 925,346 |
| Grants and contributions not restricted to specific programs | 724,000 | 704,371 | 695,066 | 1,657,430 | 1,631,430 | 1,642,941 | 1,634,436 | 1,629,988 | 1,622,427 | 1,605,957 |
| Unrestricted revenues from use of money and property | 1,006,575 | 732,669 | 714,804 | 612,256 | 725,358 | 684,989 | 925,705 | 649,438 | 958,834 | 1,024,325 |
| Miscellaneous | 283,529 | 441,675 | 374,241 | 916,783 | 510,730 | 263,000 | 403,029 | 243,521 | 249,786 | 258,851 |
| Transfers | 3,483,779 | 3,649,442 | 2,803,021 | 2,736,292 | 4,011,638 | 2,743,691 | 4,507,601 | 3,946,547 | 4,679,968 | 750,079 |
| Total governmental activities | \$ 22,547,606 | \$ 22,795,231 | \$ 20,906,934 | \$ 21,596,317 | \$ 22,167,492 | \$ 20,830,689 | \$ 23,452,226 | \$ 22,221,856 | \$ 23,466,235 | \$ 19,833,082 |
| Business-type activities: | | | | | | | | | | |
| Transfers | \$ (3,483,779) | \$ (3,649,442) | \$ (2,803,021) | \$ (2,736,292) | \$ (4,011,638) | \$ (2,743,691) | \$ (4,507,601) | \$ (3,946,547) | \$ (4,679,968) | \$ (750,079) |
| Unrestricted revenues from use of money and property | 125,885 | 5,505 | 14,364 | 38,698 | 30,599 | 26,213 | 25,930 | 23,386 | 28,619 | 27,061 |
| Total business-type activities | \$ (3,357,894) | \$ (3,643,937) | \$ (2,788,657) | \$ (2,697,594) | \$ (3,981,039) | \$ (2,717,478) | \$ (4,481,671) | \$ (3,923,161) | \$ (4,651,349) | \$ (723,018) |
| Total primary government | \$ 19,189,712 | \$ 19,151,294 | \$ 18,118,277 | \$ 18,898,723 | \$ 18,186,453 | \$ 18,113,211 | \$ 18,970,555 | \$ 18,298,695 | \$ 18,814,886 | \$ 19,110,064 |
| Change in Net Position | | | | | | | | | | |
| Governmental activities | \$ 1,955,453 | \$ (542,210) | \$ (1,208,565) | \$ 722,888 | \$ 5,267,972 | \$ 1,308,140 | \$ 3,296,712 | \$ 348,871 | \$ 834,491 | \$ (999,265) |
| Business-type activities | 648,355 | (1,659,863) | (231,334) | 587,317 | 3,050,333 | 3,065,645 | (751,673) | 1,490,749 | 88,565 | 4,212,662 |
| Total primary government | \$ 2,603,808 | \$ (2,202,073) | \$ (1,439,899) | \$ 1,310,205 | \$ 8,318,305 | \$ 4,373,785 | \$ 2,545,039 | \$ 1,839,620 | \$ 923,056 | \$ 3,213,397 |

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

Level of Unrestricted Net Position
 Last Ten Fiscal Years
 (Accrual Basis of Accounting)



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

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

| Fiscal Year | General Property Taxes | Local Sales and Use Taxes | Consumer Utility Taxes | Business License Taxes | Meals Taxes | Other Local Taxes | Total |
|------------------------|---------------------------------------|--|---------------------------------------|---------------------------------------|------------------------|----------------------------------|---------------|
| 2017 | \$ 9,072,495 | \$ 2,046,701 | \$ 640,608 | \$ 1,770,305 | \$ 1,738,415 | \$ 925,346 | \$ 16,193,870 |
| 2016 | 8,949,568 | 2,033,632 | 654,989 | 1,715,637 | 1,717,249 | 884,145 | 15,955,220 |
| 2015 | 8,984,049 | 1,921,102 | 678,862 | 1,607,168 | 1,665,418 | 895,763 | 15,752,362 |
| 2014 | 9,063,889 | 2,017,806 | 669,664 | 1,807,604 | 1,583,889 | 838,603 | 15,981,455 |
| 2013 | 8,815,665 | 1,886,892 | 684,046 | 1,769,645 | 1,552,032 | 787,788 | 15,496,068 |
| 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 |

CITY OF MARTINSVILLE, VIRGINIA

Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified accrual basis of accounting)

| | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| General fund | | | | | |
| Unreserved, designated | \$ 154,099 | \$ 154,099 | \$ 154,099 | \$ - | \$ - |
| Unreserved, undesignated | 3,666,122 | 2,959,209 | 2,090,139 | - | - |
| Nonspendable | - | - | - | 512,136 | 795,619 |
| Committed | - | - | - | 1,690,400 | 1,690,400 |
| Assigned | - | - | - | 154,099 | 154,099 |
| Unassigned | - | - | - | 774,240 | 4,734,167 |
| Total general fund | <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> |
| All other governmental funds | | | | | |
| Unreserved, reported in: | | | | | |
| Special revenue funds (deficit) | \$ 516,890 | \$ 116,818 | \$ (230,984) | \$ - | \$ - |
| Capital projects funds | 834,781 | 1,177,707 | 1,171,520 | - | - |
| Nonspendable | - | - | - | - | - |
| Restricted for: | | | | | |
| Capital projects | - | - | - | - | 10,053,594 |
| Committed, reported in: | | | | | |
| Special revenue funds | - | - | - | 161,982 | 280,061 |
| Assigned, reported in: | | | | | |
| Capital projects funds | - | - | - | 1,196,779 | 705,957 |
| Special revenue funds | - | - | - | - | - |
| Unassigned, reported in: | | | | | |
| Special revenue funds (deficit) | - | - | - | (587,971) | (583,105) |
| Total all other governmental funds | <u>\$ 1,351,671</u> | <u>\$ 1,294,525</u> | <u>\$ 940,536</u> | <u>\$ 770,790</u> | <u>\$ 10,456,507</u> |
| Total governmental funds | <u>\$ 5,171,892</u> | <u>\$ 4,407,833</u> | <u>\$ 3,184,774</u> | <u>\$ 3,901,665</u> | <u>\$ 17,830,792</u> |

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

Table 5

| 2013 | 2014 | 2015 | 2016 | 2017 |
|----------------------------|-------------------------|----------------------------|----------------------------|----------------------------|
| \$ - | - \$ | - \$ | - \$ | - |
| - | - | - | - | - |
| 841,646 | 993,900 | 759,894 | 1,123,501 | 1,205,350 |
| 1,698,115 | 2,043,941 | 2,267,064 | 1,218,099 | 1,820,414 |
| 154,099 | 25,000 | 25,000 | 25,000 | - |
| <u>4,535,327</u> | <u>4,568,620</u> | <u>4,122,660</u> | <u>4,401,718</u> | <u>3,031,355</u> |
| \$ <u><u>7,229,187</u></u> | <u><u>7,631,461</u></u> | \$ <u><u>7,174,618</u></u> | \$ <u><u>6,768,318</u></u> | \$ <u><u>6,057,119</u></u> |
| \$ - | - \$ | - \$ | - \$ | - |
| - | - | - | - | - |
| 477,955 | - | - | - | - |
| 2,274,054 | 190,981 | - | - | - |
| 11,809 | 395,408 | 53,123 | - | - |
| 318,876 | 1,260,911 | 1,523,314 | 1,424,363 | 798,619 |
| - | - | - | 3,381 | 109,148 |
| <u>(592,879)</u> | <u>(23,767)</u> | <u>(53,031)</u> | <u>-</u> | <u>-</u> |
| \$ <u><u>2,489,815</u></u> | <u><u>1,823,533</u></u> | \$ <u><u>1,523,406</u></u> | \$ <u><u>1,427,744</u></u> | \$ <u><u>907,767</u></u> |
| \$ <u><u>9,719,002</u></u> | <u><u>9,454,994</u></u> | \$ <u><u>8,698,024</u></u> | \$ <u><u>8,196,062</u></u> | \$ <u><u>6,964,886</u></u> |

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Fund Balance Summary
Year Ended June 30, 2017
(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.

| | General Fund | City Grants Fund | Capital Reserve Fund | Meals Tax Fund | Total |
|------------------------------|-------------------------|---------------------------------|-------------------------------------|-------------------------------|---------------------|
| Nonspendable: | | | | | |
| Inventory | \$ 1,200,075 | \$ - | \$ - | \$ - | \$ 1,200,075 |
| Prepaid items | 5,275 | - | - | - | 5,275 |
| Committed to: | | | | | |
| General Gov't Administration | 5,000 | - | - | - | 5,000 |
| Judicial Administration | 11,970 | - | - | - | 11,970 |
| Public Safety | 218,497 | - | - | - | 218,497 |
| Public Works | 874,793 | - | - | - | 874,793 |
| Education | 634,794 | - | - | - | 634,794 |
| Community development | 75,360 | - | - | - | 75,360 |
| Assigned to: | | | | | |
| Capital reserve fund | - | - | 515,922 | - | 515,922 |
| Special revenue fund | - | 109,148 | - | - | 109,148 |
| Meals tax fund | - | - | - | 282,697 | 282,697 |
| Unassigned | 3,031,355 | - | - | - | 3,031,355 |
| Total fund balance | <u>\$ 6,057,119</u> | <u>\$ 109,148</u> | <u>\$ 515,922</u> | <u>\$ 282,697</u> | <u>\$ 6,964,886</u> |

CITY OF MARTINSVILLE, VIRGINIA

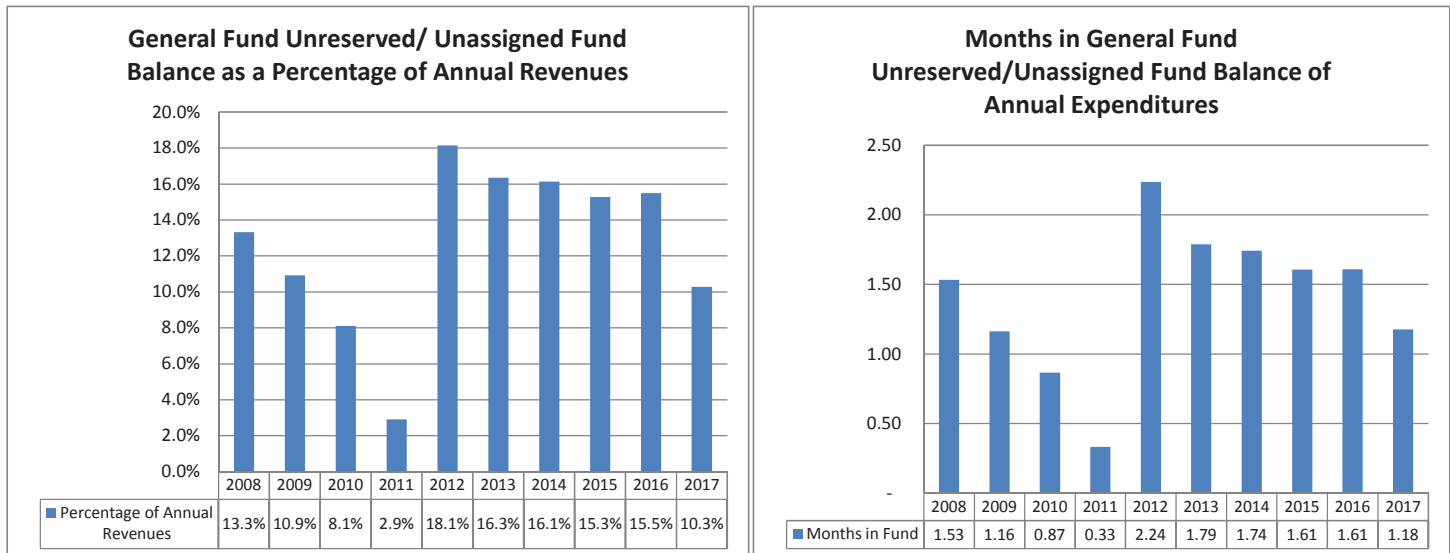
Changes in Fund Balances of Governmental Funds
 Last Ten Fiscal Years
 (Modified Accrual Basis of Accounting)

| | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|---|-----------------------|-----------------------|-----------------------|-----------------------|----------------------|
| Revenues: | | | | | |
| General property taxes | \$ 9,252,784 | \$ 9,305,221 | \$ 9,080,208 | \$ 8,941,108 | \$ 8,622,900 |
| Other local taxes | 7,847,713 | 7,823,526 | 6,345,922 | 6,794,798 | 6,621,038 |
| Permits, privilege fees and regulatory licenses | 432,554 | 447,276 | 560,910 | 505,375 | 594,763 |
| Fines and forfeitures | 167,266 | 180,298 | 172,344 | 151,231 | 163,118 |
| Revenue from use of money and property | 1,006,575 | 732,669 | 714,804 | 612,256 | 725,358 |
| Charges for services | 278,350 | 334,665 | 376,859 | 409,501 | 409,856 |
| Miscellaneous | 283,529 | 441,676 | 374,241 | 938,783 | 510,730 |
| Recovered costs | 1,113,309 | 995,822 | 1,077,895 | 974,492 | 1,126,724 |
| Intergovernmental: | | | | | |
| Commonwealth | 8,840,847 | 7,764,295 | 8,968,309 | 9,079,756 | 8,840,678 |
| Federal | 2,956,705 | 3,133,635 | 2,573,838 | 2,321,181 | 2,939,213 |
| Total revenues | <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> |
| Expenditures: | | | | | |
| General government administration | \$ 4,302,438 | \$ 5,012,363 | \$ 4,769,772 | \$ 4,320,113 | \$ 5,501,331 |
| Judicial administration | 1,907,589 | 2,000,189 | 1,885,975 | 1,887,939 | 1,917,844 |
| Public safety | 9,716,719 | 9,874,293 | 9,399,480 | 9,005,610 | 9,046,810 |
| Public works | 4,062,576 | 4,911,994 | 4,141,317 | 4,084,984 | 3,993,552 |
| Health and welfare | 521,146 | 605,854 | 1,396,264 | 627,135 | 604,746 |
| Education | 7,082,718 | 6,891,809 | 6,039,577 | 5,697,421 | 3,638,582 |
| Parks, recreation, and cultural | 1,722,562 | 1,108,760 | 1,165,186 | 1,500,498 | 1,218,913 |
| Community development | 2,970,905 | 3,950,792 | 4,173,213 | 4,066,774 | 3,474,873 |
| Debt service: | | | | | |
| Principal retirement | 3,660,658 | 3,660,350 | 1,251,510 | 1,188,028 | 1,207,842 |
| Interest and other fiscal charges | 368,440 | 528,333 | 389,116 | 369,380 | 582,396 |
| Total expenditures | <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> |
| Excess (deficiency) of revenues over expenditures | <u>\$ (4,136,119)</u> | <u>\$ (7,385,654)</u> | <u>\$ (4,366,080)</u> | <u>\$ (2,019,401)</u> | <u>\$ (632,511)</u> |
| Other financing sources (uses): | | | | | |
| Issuance of debt | \$ 2,464,452 | \$ 2,972,053 | \$ 340,000 | \$ - | \$ 10,550,000 |
| Transfers in | 3,975,745 | 3,773,941 | 3,096,834 | 2,957,692 | 4,256,202 |
| Transfers (out) | (491,966) | (124,499) | (293,813) | (221,400) | (244,564) |
| Total other financing sources (uses) | <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> |
| Net changes in fund balances | <u>\$ 1,812,112</u> | <u>\$ (764,159)</u> | <u>\$ (1,223,059)</u> | <u>\$ 716,891</u> | <u>\$ 13,929,127</u> |
| Debt service as a percentage of noncapital expenditures | <u>11.26%</u> | <u>11.02%</u> | <u>4.88%</u> | <u>4.79%</u> | <u>5.81%</u> |

Table 7

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|----|---------------------|--------------------|-----------------------|-----------------------|-----------------------|
| \$ | 8,760,993 | 8,683,569 | \$ 9,083,158 | \$ 8,745,402 | \$ 8,877,122 |
| | 6,680,403 | 6,917,566 | 6,768,313 | 7,005,652 | 7,121,375 |
| | 145,833 | 83,931 | 94,162 | 100,068 | 93,979 |
| | 164,533 | 126,049 | 174,262 | 109,396 | 140,171 |
| | 684,989 | 925,705 | 649,438 | 958,834 | 1,144,249 |
| | 794,328 | 745,790 | 960,746 | 1,803,887 | 1,917,701 |
| | 263,000 | 403,029 | 243,521 | 249,786 | 258,852 |
| | 991,218 | 1,041,507 | 1,490,324 | 1,735,766 | 2,108,095 |
| | 8,927,696 | 9,150,812 | 9,827,014 | 9,746,076 | 9,231,666 |
| | 4,259,593 | 5,553,851 | 2,206,202 | 939,421 | 1,541,438 |
| \$ | <u>31,672,586</u> | <u>33,631,809</u> | <u>\$ 31,497,140</u> | <u>\$ 31,394,288</u> | <u>\$ 32,434,648</u> |
| \$ | 4,745,980 | 4,284,558 | \$ 4,633,537 | \$ 6,277,216 | \$ 4,042,520 |
| | 1,983,255 | 2,164,763 | 2,144,310 | 2,319,579 | 2,293,175 |
| | 9,579,378 | 9,845,689 | 9,712,097 | 10,320,222 | 10,131,848 |
| | 6,637,533 | 6,098,946 | 4,403,469 | 4,639,584 | 4,775,364 |
| | 792,657 | 720,419 | 725,947 | 812,079 | 874,554 |
| | 12,477,628 | 7,341,781 | 6,587,543 | 5,957,670 | 6,267,041 |
| | 1,068,617 | 1,027,633 | 1,185,463 | 927,402 | 861,036 |
| | 3,817,336 | 5,035,599 | 4,932,864 | 3,447,169 | 3,293,876 |
| | 1,167,732 | 2,913,705 | 1,243,918 | 1,271,763 | 1,305,581 |
| | 717,951 | 722,325 | 631,509 | 603,532 | 570,908 |
| \$ | <u>42,988,067</u> | <u>40,155,418</u> | <u>\$ 36,200,657</u> | <u>\$ 36,576,216</u> | <u>\$ 34,415,903</u> |
| \$ | <u>(11,315,481)</u> | <u>(6,523,609)</u> | <u>\$ (4,703,517)</u> | <u>\$ (5,181,928)</u> | <u>\$ (1,981,255)</u> |
| \$ | 460,000 | 1,752,000 | \$ - | \$ - | \$ - |
| | 3,062,864 | 5,357,541 | 4,440,920 | 5,191,579 | 1,845,097 |
| | (319,173) | (849,940) | (494,373) | (511,611) | (1,095,018) |
| \$ | <u>3,203,691</u> | <u>6,259,601</u> | <u>\$ 3,946,547</u> | <u>\$ 4,679,968</u> | <u>\$ 750,079</u> |
| \$ | <u>(8,111,790)</u> | <u>(264,008)</u> | <u>\$ (756,970)</u> | <u>\$ (501,960)</u> | <u>\$ (1,231,176)</u> |
| | <u>5.81%</u> | <u>10.02%</u> | <u>5.32%</u> | <u>5.27%</u> | <u>5.61%</u> |

Level of Unreserved/Unassigned Fund Balance
Last Ten 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.

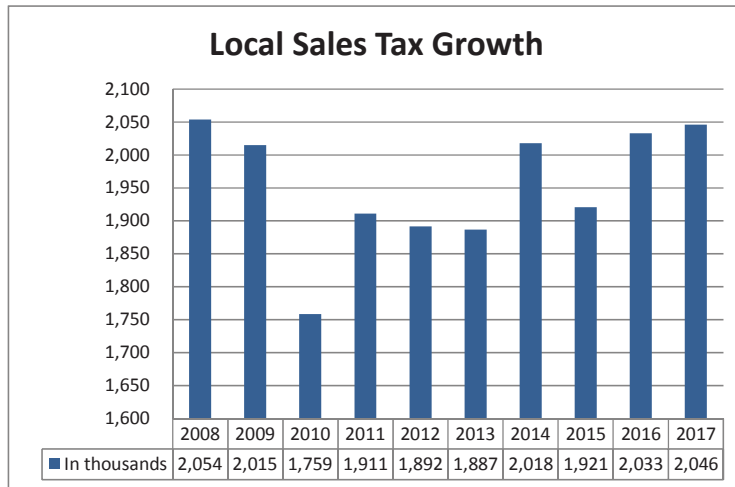
Note:

FY2012 Data includes unexpended bond proceeds of \$8,847,395 and School Operating Fund balance of \$2,254,080 which was transferred to the General Fund as part of the Fund Balance Policy adopted by Council.

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

| Fiscal Year | General Property Taxes | Local Sales and Use Taxes | Consumer Utility Taxes | Business License Taxes | Meals Taxes | Communications Taxes | Other Local Taxes | Total |
|------------------------|---------------------------------------|--|---------------------------------------|---------------------------------------|------------------------|---------------------------------|----------------------------------|---------------|
| 2017 | \$ 8,877,122 | \$ 2,046,701 | \$ 640,608 | \$ 1,770,305 | \$ 1,738,415 | \$ 859,331 | \$ 925,346 | \$ 16,857,828 |
| 2016 | 8,745,402 | 2,033,632 | 654,989 | 1,715,637 | 1,717,249 | 880,952 | 884,145 | 16,632,006 |
| 2015 | 9,083,158 | 1,921,102 | 678,862 | 1,607,168 | 1,665,418 | 911,387 | 895,763 | 16,762,858 |
| 2014 | 8,683,569 | 2,017,806 | 669,664 | 1,807,604 | 1,583,889 | 912,783 | 838,603 | 16,513,918 |
| 2013 | 8,760,993 | 1,886,892 | 684,046 | 1,769,645 | 1,552,032 | 935,756 | 787,788 | 16,377,152 |
| 2012 | 8,622,900 | 1,891,909 | 695,041 | 1,720,315 | 1,434,966 | 911,484 | 878,807 | 16,155,422 |
| 2011 | 8,941,108 | 1,911,276 | 710,361 | 1,947,085 | 1,409,442 | 961,470 | 816,634 | 16,697,376 |
| 2010 | 9,080,208 | 1,759,239 | 718,563 | 1,676,826 | 1,390,907 | 937,786 | 800,387 | 16,363,916 |
| 2009 | 9,305,221 | 2,015,151 | 735,458 | 1,849,974 | 1,430,326 | 968,924 | 823,693 | 17,128,747 |
| 2008 | 9,252,784 | 2,054,229 | 749,579 | 1,837,209 | 1,403,131 | 1,031,174 | 772,391 | 17,100,497 |

Local Sales Tax Growth
 Last Ten 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, 2017, the City experienced an increase in sales tax collections of approximately \$13,000 or 0.68%.

Utility Analysis of Unrestricted Net Position
At June 30, 2017

| | Electric Fund | Water Fund | Sewer Fund | Refuse Collection/ Landfill Fund | Total |
|---|--------------------------|-----------------------|-----------------------|---|---------------------|
| Net Position at June 30, 2017 | \$ 14,084,822 | \$ 7,689,052 | \$ 4,275,471 | \$ 3,291,957 | \$ 29,341,302 |
| Less capital assets | (15,405,408) | (7,693,716) | (10,185,889) | (2,372,367) | (35,657,380) |
| Add current portion of long-term obligations | 249,451 | 161,327 | 203,478 | 112,638 | 726,894 |
| Add noncurrent portion of long-term obligations | 5,530,324 | 3,463,626 | 8,463,444 | 4,522,103 | 21,979,497 |
| Less compensated absences | (54,505) | (53,270) | (67,368) | (18,076) | (193,219) |
| Less net pension liability | (963,270) | (850,683) | (1,463,132) | (294,200) | (3,571,285) |
| Less landfill closure and post-closure costs | - | - | - | (3,439,510) | (3,439,510) |
| Unrestricted Net Position at June 30, 2017 | <u>\$ 3,441,414</u> | <u>\$ 2,716,336</u> | <u>\$ 1,226,004</u> | <u>\$ 1,802,545</u> | <u>\$ 9,186,299</u> |

CITY OF MARTINSVILLE, VIRGINIA

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

| Fiscal Year(1) | Real Estate | Personal Property | Machinery and Tools | Public Service Real Estate | Public Service Pers Prop | Total |
|---------------------------|------------------------|------------------------------|------------------------------------|---|---|----------------|
| 2017 | \$ 639,432,100 | \$ 104,500,889 | \$ 5,684,864 | \$ 22,387,747 | \$ 565,832 | \$ 772,571,432 |
| 2016 | 637,317,000 | 96,930,746 | 8,947,408 | 24,215,061 | 475,737 | 767,885,952 |
| 2015 | 640,608,600 | 93,920,412 | 9,236,280 | 23,076,423 | 294,246 | 767,135,961 |
| 2014 | 641,502,458 | 99,431,367 | 8,222,283 | 22,511,294 | 623,124 | 772,290,526 |
| 2013 | 668,272,729 | 94,077,288 | 7,159,164 | 22,600,872 | 399,539 | 792,509,592 |
| 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 | 818,012,502 |
| 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 |

(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 12

| Tax Rates | | | | | |
|-------------|---------|-------------------|---------------------|--------------------|--------------------|
| Real Estate | | Personal Property | Machinery and Tools | Public Service R/E | Public Service P/P |
| \$ | 1.0621 | \$ 2.30 | \$ 1.85 | \$ 1.0621 | \$ 2.30 |
| | 1.0621 | 2.30 | 1.85 | 1.0621 | 2.30 |
| | 1.0621 | 2.30 | 1.85 | 1.0621 | 2.30 |
| | 1.0621 | 2.30 | 1.85 | 1.0621 | 2.30 |
| | 1.01816 | 2.30 | 1.85 | 1.01816 | 2.30 |
| | 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 | * |

CITY OF MARTINSVILLE, VIRGINIAProperty Tax Levies and Collections
Last Ten Fiscal Years

| Fiscal Year | Total (1) Tax Levy | Current Tax (1), (3) Collections | Percent of Levy Collected | Delinquent (1) Tax (2) Collections |
|------------------------|-------------------------------|---|--|---|
| 2017 | \$ 9,596,296 | \$ 8,834,417 | 92.06% | \$ 513,318 |
| 2016 | 9,465,270 | 8,763,769 | 92.59% | 392,885 |
| 2015 | 9,424,583 | 8,873,795 | 94.16% | 547,335 |
| 2014 | 9,329,806 | 8,683,981 | 93.08% | 426,107 |
| 2013 | 9,515,252 | 8,730,614 | 91.75% | 463,880 |
| 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 |

(1) Exclusive of penalties and interest.

(2) Does not include land redemptions.

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

Table 13

| Total Tax Collections | | Percent of Total Tax Collections to Tax Levy | Outstanding Delinquent Taxes (1) | Percent of Delinquent Taxes to Tax Levy |
|--------------------------------------|-----------|---|---|--|
| \$ | 9,347,735 | 97.41% | \$ 1,381,163 | 14.39% |
| | 9,156,654 | 96.74% | 1,314,580 | 13.89% |
| | 9,421,130 | 99.96% | 1,084,664 | 11.51% |
| | 9,110,088 | 97.64% | 1,208,189 | 12.95% |
| | 9,194,494 | 96.63% | 1,027,354 | 10.80% |
| | 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% |

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 |
| 2017 | \$ 1,786,800 | \$ - | \$ 1,500,000 | \$ 10,051,894 | \$ 94,955 |
| 2016 | 2,153,100 | - | 2,125,000 | 10,272,721 | 188,409 |
| 2015 | 2,509,400 | - | 2,750,000 | 10,471,207 | 280,386 |
| 2014 | 2,863,700 | 340,000 | 3,375,000 | 10,645,303 | 370,909 |
| 2013 | 3,161,200 | 340,000 | 4,000,000 | 10,795,417 | 460,000 |
| 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 |

n/a - not available at publication

Table 14

| Business-type Activities | | | Total Primary Government | Percentage of Personal Income | Net Bonded Debt per Capita |
|--------------------------------|------------------|-------------------|--------------------------------|-------------------------------------|-------------------------------------|
| General Obligation Bonds | Revenue Bonds | Capital Leases | | | |
| \$ 1,011,000 | \$ 7,066,376 | \$ 7,425,000 | \$ 28,936,025 | n/a | \$ n/a |
| 1,155,000 | 3,242,399 | 7,425,000 | 26,561,629 | n/a | 1,947 |
| 1,444,900 | - | - | 17,455,893 | n/a | 1,288 |
| 1,880,000 | - | - | 19,474,912 | n/a | 1,400 |
| 2,279,700 | - | - | 21,036,317 | n/a | 1,543 |
| 2,683,700 | - | 65,474 | 22,213,523 | n/a | 1,620 |
| 3,075,100 | - | 193,719 | 13,391,010 | 661.11% | 975 |
| 2,502,200 | - | 318,448 | 14,130,867 | 712.98% | 952 |
| 2,742,800 | - | 439,756 | 15,404,285 | 770.05% | 1,038 |
| 1,982,600 | - | - | 14,892,626 | 735.67% | 1,025 |

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

| Fiscal Year | Population (1) | Assessed Value (in thousands) (2) | Net Bonded Debt (3) | Ratio of Net General Obligation Debt to Assessed Value | Net Bonded Debt per Capita |
|------------------------|-----------------------|--|------------------------------------|---|---|
| 2017 | n/a | \$ 772,571,432 | \$ 21,416,070 | 2.77% | \$ n/a |
| 2016 | 13,544 | 767,885,952 | 18,948,220 | 2.47% | 1,389 |
| 2015 | 13,552 | 767,135,961 | 17,175,507 | 2.24% | 1,267 |
| 2014 | 13,583 | 772,290,526 | 19,104,003 | 2.47% | 1,374 |
| 2013 | 13,630 | 792,509,592 | 20,576,317 | 2.60% | 1,510 |
| 2012 | 13,710 | 797,634,306 | 22,050,962 | 2.76% | 1,608 |
| 2011 | 13,729 | 818,012,502 | 12,871,644 | 1.57% | 938 |
| 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 |

Sources:

(1) Estimates - United States Census Bureau

(2) From Table 12

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

n/a - not available at publication

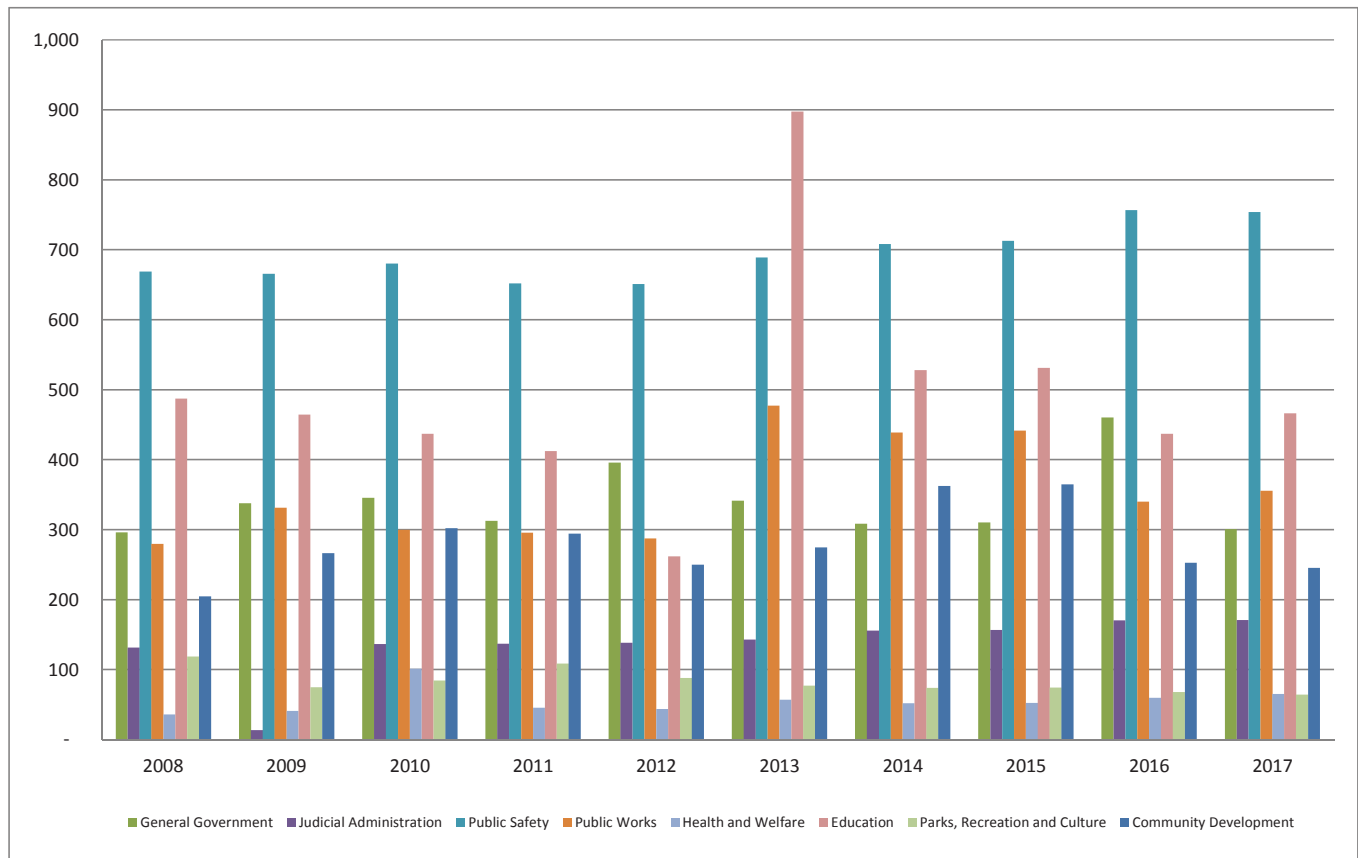
Computation of Direct and Overlapping Bonded Debt
At June 30, 2017

Direct:(1)

| | | | | | |
|----------------------|----|------------|------|----|------------|
| City of Martinsville | \$ | 21,416,070 | 100% | \$ | 21,416,070 |
|----------------------|----|------------|------|----|------------|

The City of Martinsville has no overlapping debt.

Expenditures Per Capita Ratio
Last Ten Fiscal Years



Note:

Information included is governmental expenditures - Table 7

Population - Table 18

Demographic and Economic Statistics
Last Ten Fiscal Years

| Fiscal Year | Population (1) | City Per Capita Income (2) | School Enrollment (3) | Unemploy- ment Rate (4) | Personal Income In Thousands (5) |
|------------------------|-----------------------|---|----------------------------------|------------------------------------|---|
| 2017 | n/a | \$ n/a | 2,019 | 7.30% | n/a |
| 2016 | 13,544 | n/a | 2,056 | 7.00% | n/a |
| 2015 | 13,552 | 34,968 | 2,300 | 9.58% | 2,291,342 |
| 2014 | 13,583 | 33,439 | 2,125 | 10.30% | 2,199,995 |
| 2013 | 13,630 | 32,546 | 2,137 | 13.90% | 2,160,176 |
| 2012 | 13,710 | 32,133 | 2,163 | 14.30% | 2,139,689 |
| 2011 | 13,729 | 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 |

n/a - not available at publication

Sources:

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

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

| Function | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| General government | 24 | 24 | 23 | 23 | 23 | 24 | 24 | 26 | 22 | 21 |
| Public safety | | | | | | | | | | |
| Police department | 57 | 57 | 55 | 54 | 53 | 54 | 52 | 50 | 56 | 50 |
| Fire department | 30 | 30 | 29 | 29 | 29 | 29 | 29 | 28 | 27 | 27 |
| Public works | | | | | | | | | | |
| General maintenance | 43 | 42 | 42 | 42 | 42 | 39 | 42 | 40 | 38 | 35 |
| Refuse Collection | 4 | 4 | 4 | 3 | 3 | 3 | 3 | 3 | 3 | 5 |
| Engineering | 4 | 3 | 2 | 2 | 2 | 2 | 2 | 3 | 3 | 3 |
| Culture and recreation | | | | | | | | | | |
| Parks and recreation | 9 | 9 | 8 | 7 | 7 | 7 | 7 | 7 | 6 | 5 |
| Community development | | | | | | | | | | |
| Planning | 6 | 6 | 5 | 4 | 3 | 3 | 3 | 4 | 2 | 3 |
| Totals | <u>177</u> | <u>175</u> | <u>168</u> | <u>164</u> | <u>162</u> | <u>161</u> | <u>162</u> | <u>161</u> | <u>157</u> | <u>149</u> |

Source: Individual city departments

CITY OF MARTINSVILLE, VIRGINIA

Operating Indicators by Function
Last Ten Fiscal Years

| | | 2008 | 2009 | 2010 | 2011 |
|--|--|-------------|-------------|-------------|-------------|
| Police Protection | Number of stations | 1 | 1 | 1 | 1 |
| | Number of police personnel and officers | 52 | 58 | 56 | 56 |
| | Number of law violations: | | | | |
| | Physical arrests | 1,546 | 1,933 | 1,332 | 1,447 |
| | Traffic violations | 2,882 | 3,336 | 2,948 | 2,842 |
| Fire Protection | Number of stations | 2 | 2 | 2 | 2 |
| | Number of fire personnel and officers | 39 | 40 | 41 | 43 |
| | Number of calls answered | 2,761 | 2,642 | 2,981 | 3,136 |
| | Number of inspections conducted | 237 | 2,560 | 50 | 1,111 |
| Streets | Streets (miles) | 100 | 100 | 100 | 100 |
| | Streetlights | 3,300 | 3,300 | 3,300 | 3,300 |
| Recreation & Culture | Number of parks and recreation facilities | 7 | 7 | 13 | 13 |
| | Number of libraries | 1 | 1 | 1 | 1 |
| | Number of community centers | 1 | 1 | 1 | 1 |
| Water | Service Connections | 7,300 | 7,300 | 7,300 | 7,300 |
| | Miles of water mains | 120 | 120 | 120 | 120 |
| | Number of fire hydrants | 548 | 548 | 548 | 548 |
| | Daily average consumption in gallons | 3.0 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 |
| Sewer | Service Connections | 6,800 | 6,800 | 6,800 | 6,800 |
| | Miles of sanitary sewers | 140 | 140 | 140 | 140 |
| | Miles of storm sewers | 1 | 1 | 1 | 1 |
| | Number of treatment plants | 1 | 1 | 1 | 1 |
| | Daily average treatment in gallons | 5.0 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 |
| Electric Distribution Systems | Miles of service | 100 | 100 | 100 | 100 |
| | Number of distribution systems | 1 | 1 | 1 | 1 |
| Facilities and services not included in the primary government | | | | | |
| | Number of elementary schools | 2 | 2 | 2 | 3 |
| | Number of middle schools | 1 | 1 | 1 | 2 |
| | Number of secondary schools | 1 | 1 | 1 | 1 |
| Facilities and services not included in the reporting entity | | | | | |
| | Hospitals: | | | | |
| | Number of hospitals | 1 | 1 | 1 | 1 |
| | Number of patient beds | 220 | 220 | 220 | 220 |

Source: Individual city departments

Table 20

| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---------|---------|---------|---------|---------|---------|
| 1 | 1 | 1 | 1 | 1 | 1 |
| 55 | 55 | 52 | 51 | 53 | 50 |
| 1,677 | 1,580 | 1,305 | 1,559 | 1,394 | 1,694 |
| 3,389 | 2,430 | 2,979 | 3,314 | 1,772 | 2,877 |
| 2 | 2 | 2 | 2 | 2 | 2 |
| 46 | 45 | 46 | 46 | 42 | 41 |
| 3,171 | 2,935 | 2,870 | 3,093 | 3,041 | 3,024 |
| 1,401 | 2,006 | 1,101 | 790 | 530 | 659 |
| 100 | 100 | 100 | 100 | 100 | 100 |
| 3,300 | 3,300 | 3,300 | 2,721 | 2,871 | 3,175 |
| 13 | 13 | 13 | 13 | 13 | 13 |
| 1 | 1 | 1 | 1 | 1 | 1 |
| 1 | 1 | 1 | 1 | 1 | 1 |
| 7,300 | 7,300 | 7,300 | 7,300 | 7,300 | 7,250 |
| 120 | 120 | 120 | 120 | 120 | 120 |
| 548 | 555 | 555 | 555 | 555 | 555 |
| 2.0 MGD | 1.8 MGD | 1.8 MGD | 1.8 MGD | 1.8 MGD | 1.8 MGD |
| 7.4 MGD | 7.4 MGD | 7.4 MGD | 7.4 MGD | 7.4 MGD | 7.4 MGD |
| 6,800 | 6,800 | 6,800 | 6,800 | 6,800 | 6,800 |
| 140 | 140 | 140 | 140 | 140 | 140 |
| 1 | 1 | 1 | 1 | 1 | 1 |
| 1 | 1 | 1 | 1 | 1 | 1 |
| 4.5 MGD | 4.5 MGD | 4.5 MGD | 4.5 MGD | 4.5 MGD | 4.5 MGD |
| 8.0 MGD | 8.0 MGD | 8.0 MGD | 8.0 MGD | 8.0 MGD | 8.0 MGD |
| 100 | 100 | 100 | 100 | 100 | 100 |
| 1 | 1 | 1 | 1 | 1 | 1 |
| 3 | 3 | 3 | 3 | 3 | 3 |
| 2 | 2 | 2 | 2 | 2 | 2 |
| 1 | 1 | 1 | 1 | 1 | 1 |
| 1 | 1 | 1 | 1 | 1 | 1 |
| 237 | 237 | 220 | 220 | 220 | 220 |

Capital Asset Statistics by Function
Last Ten Fiscal Years

| Function | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------------------------|------|------|------|------|------|------|------|------|------|------|
| General government | | | | | | | | | | |
| Administration buildings | 4 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Vehicles | 15 | 39 | 16 | 4 | 4 | 4 | 4 | 4 | 4 | 3 |
| Public safety | | | | | | | | | | |
| Police department: | | | | | | | | | | |
| Patrol units | 23 | 23 | 13 | 9 | 9 | 19 | 21 | 23 | 22 | 15 |
| Other vehicles* | 6 | 10 | 12 | 16 | 16 | 13 | 10 | 13 | 16 | 14 |
| Sheriffs department: | | | | | | | | | | |
| Patrol units | 8 | 8 | 8 | 0 | 10 | 11 | 12 | 12 | 13 | 11 |
| Other vehicles* | 10 | 14 | 12 | 17 | 7 | 8 | 10 | 10 | 10 | 12 |
| Fire department: | | | | | | | | | | |
| Vehicles | 14 | 14 | 15 | 13 | 12 | 12 | 13 | 12 | 12 | 12 |
| Building inspections: | | | | | | | | | | |
| Vehicles | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 1 | 1 | 1 |
| Animal control: | | | | | | | | | | |
| Vehicles | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Public works | | | | | | | | | | |
| General maintenance: | | | | | | | | | | |
| Trucks/vehicles | 39 | 43 | 62 | 80 | 80 | 66 | 64 | 60 | 59 | 48 |
| Refuse: | | | | | | | | | | |
| Vehicles | 8 | 9 | 9 | 8 | 9 | 10 | 10 | 10 | 10 | 8 |
| Sites | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Culture and recreation | | | | | | | | | | |
| Parks and recreation: | | | | | | | | | | |
| Community centers | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Vehicles | 13 | 12 | 7 | 14 | 7 | 12 | 12 | 13 | 12 | 11 |
| Playing Fields | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 |
| Tennis courts | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Community development | | | | | | | | | | |
| Planning: | | | | | | | | | | |
| Vehicles | 1 | 2 | 2 | 2 | 2 | 2 | 1 | 1 | 1 | 1 |
| Component Unit - School Board | | | | | | | | | | |
| Education: | | | | | | | | | | |
| Schools | 4 | 4 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| School buses | 35 | 37 | 34 | 35 | 28 | 28 | 28 | 30 | 30 | 31 |
| Other vehicles | 30 | 30 | 30 | 29 | 27 | 27 | 23 | 23 | 29 | 27 |

Source: Individual city departments

*Police: includes Admin, CID & K-9

Sheriff: includes Admin, Annex & M/C's

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, 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, 2017, and the related notes to the financial statements, which collectively comprise the City of Martinsville, Virginia's basic financial statements, and have issued our report thereon dated November 15, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Farnell, Cox Associates

Charlottesville, Virginia

November 15, 2017

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report on Compliance For Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited the City of Martinsville, Virginia's compliance with the types of compliance requirements described *OMB Compliance Supplement* that could have a direct and material effect on each of City of Martinsville, Virginia's major federal programs for the year ended June 30, 2017. City of Martinsville, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of City of Martinsville, Virginia's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of City of Martinsville, Virginia's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Martinsville, Virginia complied, in all material respects, with the types of compliance 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, 2017.

Report on Internal Control over Compliance

Management of the City of Martinsville, Virginia is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Martinsville, Virginia's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 City of Martinsville, Virginia'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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Robinson, Farnell, Cox Associates

Charlottesville, Virginia
November 15, 2017

Schedule of Expenditures of Federal Awards - Primary Government and
Discretely Presented Component Unit
For the Year Ended June 30, 2017

| Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures | |
|--|---------------------------|--|-------------------------|-----------|
| PRIMARY GOVERNMENT: | | | | |
| DEPARTMENT OF TRANSPORTATION: | | | | |
| Pass through payments: | | | | |
| Highway Safety Cluster: | | | | |
| Department of Motor Vehicles: | | | | |
| | | OP-2016-56330-6530 | | |
| | | OP-2017-57404-7053 | | |
| | | SC-2016-56332-6532 | | |
| State and Community Highway Safety | 20.600 | SC-2017-57356-7005 | \$ 7,027 | |
| | | K8-2016-56305-6505 | | |
| Alcohol Impaired Driving Countermeasures Incentive Grants | 20.601 | K8-2017-57410-7059 | 5,701 | 12,728 |
| Total Department of Transportation | | | \$ | 12,728 |
| DEPARTMENT OF HOMELAND SECURITY: | | | | |
| Pass through payments: | | | | |
| Department of Emergency Services: | | | | |
| Emergency Management Performance Grants | 97.042 | EMW-2015-EP-00069 | \$ | 10,173 |
| NATIONAL ENDOWMENT FOR THE ARTS | | | | |
| Direct payments: | | | | |
| Promotion of the Arts Partnership Agreements | 45.025 | N/A | \$ | 10,000 |
| ENVIRONMENTAL PROTECTION AGENCY: | | | | |
| Direct payments: | | | | |
| Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements | 66.814 | N/A | \$ | 189,252 |
| Pass through payments: | | | | |
| Virginia Resources Authority: | | | | |
| Capitalization Grants for Clean Water State Revolving Funds | 66.458 | Unknown | | 3,823,977 |
| Total Environmental Protection Agency | | | \$ | 4,013,229 |
| DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT: | | | | |
| Pass through payments: | | | | |
| Department of Housing and Community Development: | | | | |
| Community Development Block Grants / State's Program and Non-Entitlement Grants in Hawaii | 14.228 | Unknown | \$ | 474,192 |
| DEPARTMENT OF LABOR: | | | | |
| Pass through payments: | | | | |
| Department for Aging and Rehabilitative Services: | | | | |
| Senior Community Service Employment Program | 17.235 | Unknown | \$ | 20,476 |
| DEPARTMENT OF JUSTICE: | | | | |
| Direct payments: | | | | |
| Alcohol, Tobacco, and Firearms Training Assistance | 16.012 | N/A | \$ | 2,428 |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | N/A | | 97,621 |
| Equitable Sharing Program | 16.922 | N/A | | 279,503 |
| State Criminal Alien Assistance Program | 16.606 | N/A | | 575 |
| Pass through payments: | | | | |
| Department of Criminal Justice Services: | | | | |
| Crime Victim Assistance | 16.575 | 15VAGX0043 | | 76,512 |
| Total Department of Justice | | | \$ | 456,639 |
| Total Primary Government | | | \$ | 4,997,437 |

Schedule of Expenditures of Federal Awards - Primary Government and
Discretely Presented Component Unit
For the Year Ended June 30, 2017 (Continued)

| Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | | Federal Expenditures |
|---|---------------------------|--|-------------------|-------------------------|
| COMPONENT UNIT-SCHOOL BOARD: | | | | |
| <u>DEPARTMENT OF AGRICULTURE:</u> | | | | |
| <u>Pass through payments:</u> | | | | |
| Child Nutrition Cluster: | | | | |
| Virginia Department of Agriculture and Consumer Services: | | | | |
| Food Distribution - School Nutrition Program | 10.555 | APE40254 | \$ 99,901 | |
| Virginia Department of Education: | | | | |
| National School Lunch Program | 10.555 | APE40254 | <u>780,632</u> | \$ 880,533 |
| Virginia Department of Education: | | | | |
| School Breakfast Program | 10.553 | APE40253 | \$ <u>447,965</u> | \$ 1,328,498 |
| Virginia Department of Education: | | | | |
| Fresh Fruit and Vegetable Program | 10.582 | APE40251/40252/40256 | | <u>62,125</u> |
| Total Department of Agriculture | | | | \$ <u>1,390,623</u> |
| <u>DEPARTMENT OF EDUCATION:</u> | | | | |
| <u>Direct payments:</u> | | | | |
| Department of Education: | | | | |
| Adult Education - National Leadership Activities | 84.191 | N/A | | \$ 30,273 |
| <u>Pass through payments:</u> | | | | |
| Department of Education: | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | APE42901 | | 962,911 |
| Special Education Cluster (IDEA): | | | | |
| Special Education - Grants to States | 84.027 | APE43071 | \$ 535,537 | |
| Special Education - Preschool Grants | 84.173 | APE62521 | <u>5,818</u> | 541,355 |
| Career and Technical Education - Basic Grants to States | 84.048 | APE61095 | | 54,435 |
| English Language Acquisition State Grants | 84.365 | APE60512 | | 9,396 |
| Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grants) | 84.367 | APE61480 | | 38,268 |
| Rural Education | 84.358 | APE43481 | | 47,484 |
| School Improvement Grants | 84.377 | APE43040 | | <u>176,624</u> |
| Total Department of Education | | | | \$ <u>1,860,746</u> |
| Total Component Unit School Board | | | | \$ <u>3,251,369</u> |
| Total Expenditures of Federal Awards | | | | \$ <u>8,248,806</u> |

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, 2017

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Martinsville, Virginia under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the reporting requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance). 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 position, 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 the Uniform Guidance and/or 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 - Subrecipients

No awards were passed through to subrecipients.

Note 5 - 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 | \$ | 439,698 |
| Special Revenue Fund: | | |
| City Grants Fund | | 474,192 |
| Capital Projects Funds: | | |
| Capital Reserve Fund | | 259,570 |
| Meals Tax Fund | | 367,978 |
| Total primary government | \$ | <u>1,541,438</u> |

Component Unit School Board:

| | | |
|-----------------------------------|----|------------------|
| School Operating Fund | \$ | 30,273 |
| School Grants Fund | | 1,830,473 |
| School Cafeteria Fund | | <u>1,390,623</u> |
| Total component unit school board | \$ | 3,251,369 |

Reconcile federal revenues to expenditures:

| | |
|---|------------------|
| Add: Loan proceeds in the Sewer Fund | 3,823,977 |
| Less: Federal tax credit subsidy on QSCB bond | <u>(367,978)</u> |

| | | |
|---|----|-------------------------|
| Total federal expenditures per the Schedule of Expenditures of Federal Awards | \$ | <u><u>8,248,806</u></u> |
|---|----|-------------------------|

CITY OF MARTINSVILLE, VIRGINIA

Schedule of Findings and Questioned Costs For The Year Ended June 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

| | |
|---|---------------|
| Type of auditors' report issued: | Unmodified |
| 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 auditors' report issued on compliance for major programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? | No |
| Identification of major programs: | |

| CFDA # | Name of Federal Program or Cluster |
|--------|--|
| 14.228 | Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii |
| 66.458 | Capitalization Grants Clean Water State Revolving Fund |

| | |
|---|-----------|
| Dollar threshold used to distinguish between Type A and Type B programs: | \$750,000 |
| Auditee qualified as low-risk auditee? | Yes |

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.

Section IV - Prior Year Findings

There are no prior year findings.