

CITY OF MARTINSVILLE, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2003

CITY OF MARTINSVILLE, VIRGINIA

City Council

M. Gene Teague, Mayor
Terry L. Roop, Vice Mayor
Joseph R. Cobbe

Bruce H. T. Dallas

J. Ronald Ferrill

School Board

Joseph E. Finley, Chairman
Lynn Ward

Nancy Baker
Cynthia W. Ingram

James H. Johnson

Industrial Development Authority

Thomas E. Hall, Chairman
Vern Berry

Sandy T. Carter
Agnes Mobile Hairston

Kevin B. Laine
Allan McClain

Other Officials

City Manager Earl B. Reynolds, Jr.
Clerk of the Circuit Court Ashby R. Pritchett
City Attorney Eric H. Monday
Commissioner of the Revenue Ruth Krauss
Treasurer Pat S. Conrad
Police Chief Michael E. Rogers
Superintendent of Schools Ira R. Trollinger
Clerk of the School Board Lynda W. Pulliam
Director of Finance and General Services W. W. Bartlett
Director of Social Services Joyce Martin Grogan
Sheriff Steve M. Draper
Commonwealth's Attorney Joan Ziglar
Public Works Department Director Leon E. Towarnicki
Water Resources Department Director John H. Dyches
Chief of Electric Operation Paul R. Roop
Purchasing Agent Karen H. Mays
Fire Chief Jerry W. Brock

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FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditor's Report

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

We have audited the accompanying basic financial statements of the City of Martinsville, Virginia, as of and for the fiscal year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the City of Martinsville, Virginia's management. Our responsibility is to express an opinion 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, Specifications for Audits of Counties, Cities and Towns issued by the Auditor of Public Accounts of the Commonwealth of Virginia, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Martinsville, Virginia, as of June 30, 2003, and the results of its operation and the cash flows of its proprietary funds and changes in fiduciary net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 28, 2003 on our consideration of the City of Martinsville, Virginia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

As described in Note 1 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 34, "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*," as of July 1, 2002. This results in a change to the City's method of accounting and a change in the format and content of the basic financial statements.

Management's Discussion and Analysis and the Budgetary Comparison Schedules as identified in the accompanying table of contents are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City of Martinsville, Virginia, taken as a whole. The accompanying financial information listed as Supporting Schedules in the table of contents and the schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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.

The statistical tables listed in the Table of Contents are not a required part of the basic financial statements, and we did not audit or apply limited procedures to such information. Accordingly, we do not express any assurances on such information.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia

August 28, 2003

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, 2003. 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 \$17,913,188 (total net assets). Of this amount \$3,634,597 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The Governmental activities net assets comprised only \$734,162 of the City's total, a decrease of \$580,893 in comparison with net assets of \$1,315,055 at June 30, 2002.
- Net assets of the City's various business type activities totaled \$17,179,026. This is an increase of \$873,722 from net assets reported on June 30, 2002.
- The School Board's assets exceeded its liabilities by \$4,077,875 an increase of \$1,371,302 when compared to the amount on June 30, 2002. However, \$3,004,434 of this amount reflects the School Board's net investment in capital assets leaving \$1,073,441 to meet ongoing obligations.

Fund Financial Statements

The Governmental Funds, on a current financial resource basis, reported expenditures and other uses of funds in excess of revenues by \$230,730 (Exhibit 4) after making direct contributions totaling \$7,432,000 to the School Board. An additional \$1,115,077 was expended from the Meals Tax Fund to retire School related debt. A total of \$8,547,077 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 \$741,924, which is a decrease of \$230,730 in comparison with the prior fiscal year.
- At the close of the current fiscal year, the unreserved fund balance for the general fund was \$635,008 or two and one-half percent (2.5%) of total general fund expenditures.
- The combined long-term Governmental obligations decreased \$552,097 or 3.2% 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.

Overview of the Financial Statements: (Continued)

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

Government-wide financial statements - The Government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. Government-wide financial reporting consists of two statements: (1) The Statement of Net Assets and (2) The Statement of Activities.

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

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

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

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

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.

Overview of the Financial Statements: (Continued)

The City has one major governmental fund - the *General Fund*. The City has six funds considered Nonmajor funds. These are the Indoor Plumbing Fund (IPR), the Community Development Block Grant Fund (CDBG), the Housing Choice Fund, the Capital Reserve Fund, the Industrial Development Authority Fund (IDA) and the Meals Tax Fund. The IPR and CDBG funds are combined for reporting purposes into a fund called City Grants Fund. The City Grants Fund is then combined with the Housing Choice Fund to create the Special Revenue Funds. The Capital Reserve Fund, the IDA 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 Nonmajor Governmental Funds. Information on these funds are contained in Exhibits six and seven. 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 8-10). 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.

Fiduciary funds - The City of Martinsville is the trustee, or in other words a fiduciary, for the funds of other organizations or individuals. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets (exhibit 13). These activities are excluded from the government-wide financial statements because such assets cannot be used to finance the City's operations. The City maintains four fiduciary funds:

1. Insurance Trust Fund - The Insurance Trust Fund is used to make payments to the employees/retirees health provider. Income is derived from the City's contribution, employee contributions and retiree contributions.
2. Sheriff's Fund - This fund is comprised of the Prisoner Welfare Fund and canteen operation. These funds can only be used for the health and welfare of the City's prisoners.
3. Hookerfield Fund - This fund is used to account for revenues and expenses associated with the operation of the City's ballpark known as Hookerfield. Capital expenditures related to the field and equipment used to maintain the field are normally reported in the Capital Reserve Fund.
4. Police Academy Fund - The City serves as the fiscal agent for the Academy. The Academy is composed of the following localities - City of Martinsville, City of Danville, County of Henry and County of Patrick. The Academy provides training for the law enforcement personnel of the above jurisdictions to include Police and Sheriff personnel.

Notes to the financial statements - Notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information - In addition to the basic financial statement and accompanying notes, this report presents certain required information supplements including budgetary comparison schedules and presentation of combining financial statements for the discretely presented component unit School Board. The School Board does not issue separate financial statements.

Government-wide Financial Analysis

As stated earlier in this discussion, net assets may serve as a useful indicator of a City's financial position over time. For the City in FY2003, assets exceeded liabilities by \$17,913,188 at the close of the fiscal year as presented in the Table below.

City of Martinsville, Virginia Assets, Liabilities and Net Assets Governmental and Business-Type Activities

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current and other assets	\$ 5,325,615	\$ 7,703,361	\$ 13,028,976
Capital assets	14,218,533	15,224,429	29,442,962
Total assets	<u>\$ 19,544,148</u>	<u>\$ 22,927,790</u>	<u>\$ 42,471,938</u>
Long-term liabilities outstanding	\$ 14,644,347	\$ 4,209,610	\$ 18,853,957
Current liabilities	4,165,639	1,539,154	5,704,793
Total liabilities	<u>\$ 18,809,986</u>	<u>\$ 5,748,764</u>	<u>\$ 24,558,750</u>
Net assets:			
Invested in capital assets, net of related debt	\$ (1,029,636)	\$ 14,975,933	\$ 13,946,297
Restricted	332,294	-	332,294
Unrestricted	1,431,504	2,203,093	3,634,597
Total net assets	<u>\$ 734,162</u>	<u>\$ 17,179,026</u>	<u>\$ 17,913,188</u>
Total liabilities and net assets	<u>\$ 19,544,148</u>	<u>\$ 22,927,790</u>	<u>\$ 42,471,938</u>

At the end of FY2003, the City's investment in capital assets, net of related debt is \$13,946,297 and represents seventy-seven and nine tenths percent (77.9%) of total net assets. These capital assets are used to deliver services to City residents and business; and accordingly, these assets are not available for future spending. Although the important and needed investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay such debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the current Fiscal Year, the City's Governmental Activities investment in capital assets net of related debt is (\$1,029,636). The reason for this is due to the recording of liabilities with no assets such as accrued leave, the shell building held for resale (which is held in inventory) and unexpended proceeds from the phone system lease.

Restricted Assets represent resources subject to external restrictions on how they may be used. The City's restricted net assets account for 1.9% of total net assets. The remaining balance of unrestricted net assets in the amount of \$3,634,597 or 20.3% of total assets, may be used to meet the government's ongoing obligations.

Government-wide Financial Analysis: (Continued)

Governmental Activities - Governmental activities decreased Martinsville City's net assets by \$580,893. The key elements of this decrease are found in exhibit 5. The primary cause of this decline was the transfer of assets to the Schools in the amount of \$715,311. This represents the amount of school related debt, net of accumulated depreciation, retired during the fiscal year. Per Virginia law once the debt on a school asset is paid the asset must be transferred to the Schools.

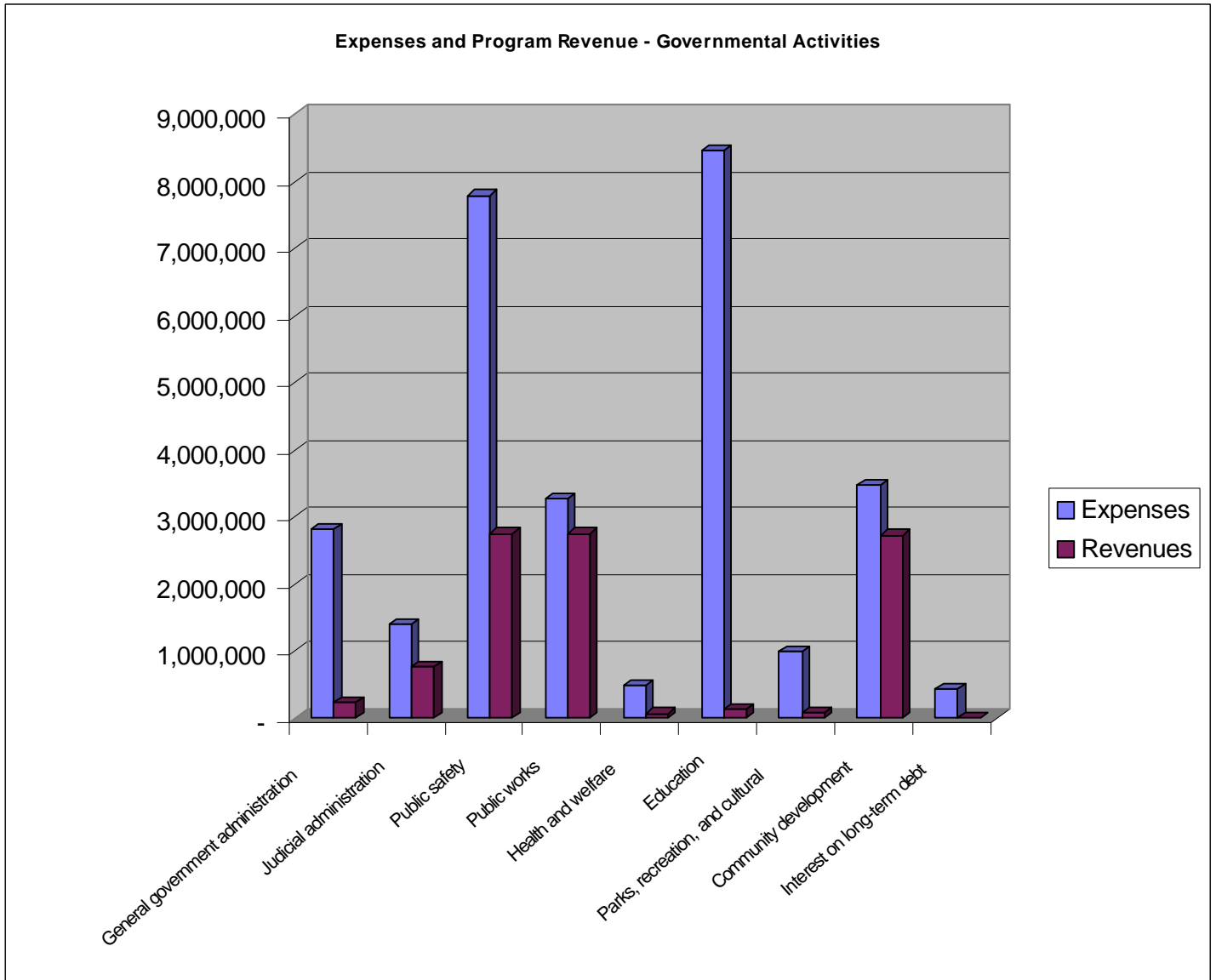
**City of Martinsville, Virginia's
Changes in Net assets
For the Year Ended June 30, 2003**

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for services	\$ 888,110	\$ 17,729,572	\$ 18,617,682
Operating grants and contributions	7,515,844	-	7,515,844
Capital grants and contributions	1,116,848	225,184	1,342,032
General revenues:			
General property taxes	6,747,760	-	6,747,760
Other local taxes	6,887,937	-	6,887,937
Commonwealth non-categorical aid	774,356	-	774,356
Transfers	4,221,484	(4,221,484)	-
Other general revenues	393,783	18,032	411,815
Total revenues	<u>\$ 28,546,122</u>	<u>\$ 13,751,304</u>	<u>\$ 42,297,426</u>
Expenses:			
General government administration	\$ 2,810,467	\$ -	\$ 2,810,467
Judicial administration	1,394,465	-	1,394,465
Public safety	7,793,368	-	7,793,368
Public works	3,268,790	-	3,268,790
Health and welfare	486,640	-	486,640
Education	8,464,870	-	8,464,870
Parks, recreation, and cultural	989,475	-	989,475
Community development	3,481,450	-	3,481,450
Interest on long-term debt	437,490	-	437,490
Electric	-	7,860,760	7,860,760
Water	-	1,597,226	1,597,226
Sewer	-	1,934,362	1,934,362
Refuse collection / landfill	-	1,485,234	1,485,234
Total expenses	<u>\$ 29,127,015</u>	<u>\$ 12,877,582</u>	<u>\$ 42,004,597</u>
Increase (Decrease) in net assets	\$ (580,893)	\$ 873,722	\$ 292,829
Net assets, July 1, 2002	1,315,055	16,305,304	17,620,359
Net assets, June 30, 2003	<u>\$ 734,162</u>	<u>\$ 17,179,026</u>	<u>\$ 17,913,188</u>

Government-wide Financial Analysis: (Continued)

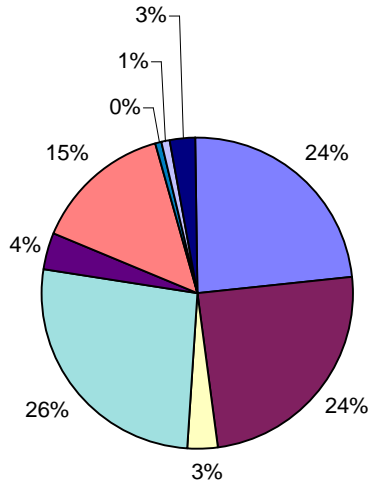
Revenues from governmental activities totaled \$28,546,122 with operating grants and contributions (26.3%), other local taxes (24.1%), general property taxes (23.6%), and transfers (14.8%) comprising 88.9% of the City's revenues. Expenses for education (29.1%), public safety (26.8%), community development (12.0%), public works (11.2%), and general government administration (9.6%) account for 88.6% of total governmental expenses of \$29,127,015.

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



Government-wide Financial Analysis: (Continued)

Revenue by Source - Governmental Activities



- | | |
|--|------------------------------------|
| Property Taxes | Other Local Taxes |
| Charges for Services | Operating Grants and Contributions |
| Capital Grants and Contributions | Transfers |
| Revenue from use of Money and Property | Miscellaneous |
| Commonwealth Non-Categorical Aid | |

The above portrays the Sources of Revenue for the Governmental Activities of the City.

Business-type Activities increased the City's net assets by \$873,722 accounting for the only growth in the City's net assets. Reasons for this increase were increased revenues from service charges of \$110,320 and a decrease in transfers of \$1,604,865 when compared to the prior year. The increased revenues were primarily due to an increase in Electric Fund revenues of \$323,573 over the prior 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.

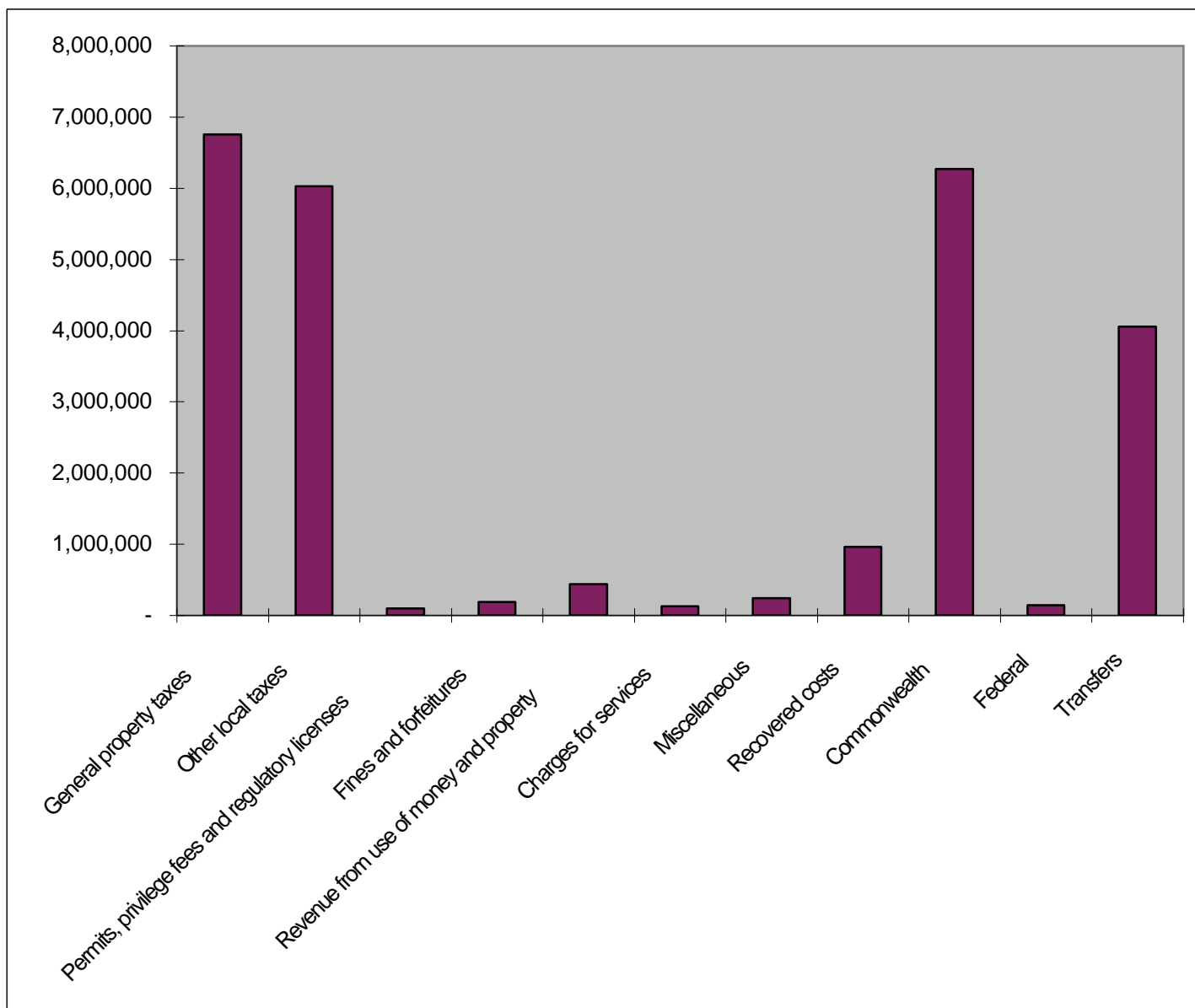
Governmental Funds - The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances at the end of the fiscal year can be used to measure net resources available for expenditure. Governmental Funds reported a combined ending fund balance of \$741,924 a decrease of \$230,730 when compared to the prior year. The majority of this decrease is a result of revenues, particularly general property taxes, not meeting budget expectations. Fifty-five percent (\$409,630) of the combined governmental funds balance is unreserved. The remaining forty-five percent (\$332,294) of the combined fund balance is reserved to show it is not available for spending because it has been committed for future capital projects.

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

The General Fund is the operating fund of the City. The General Fund reports a fund balance at June 30, 2003 of \$791,702. This is a decrease from the prior year of \$572,372. Eighty percent or \$635,008 of the total fund balance is unreserved, a decrease of \$522,723 from June 30, 2002. As a measure of the General Funds liquidity it is useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 2.5% of total General Fund expenditures, while total fund balance is 3.1% of that same amount.

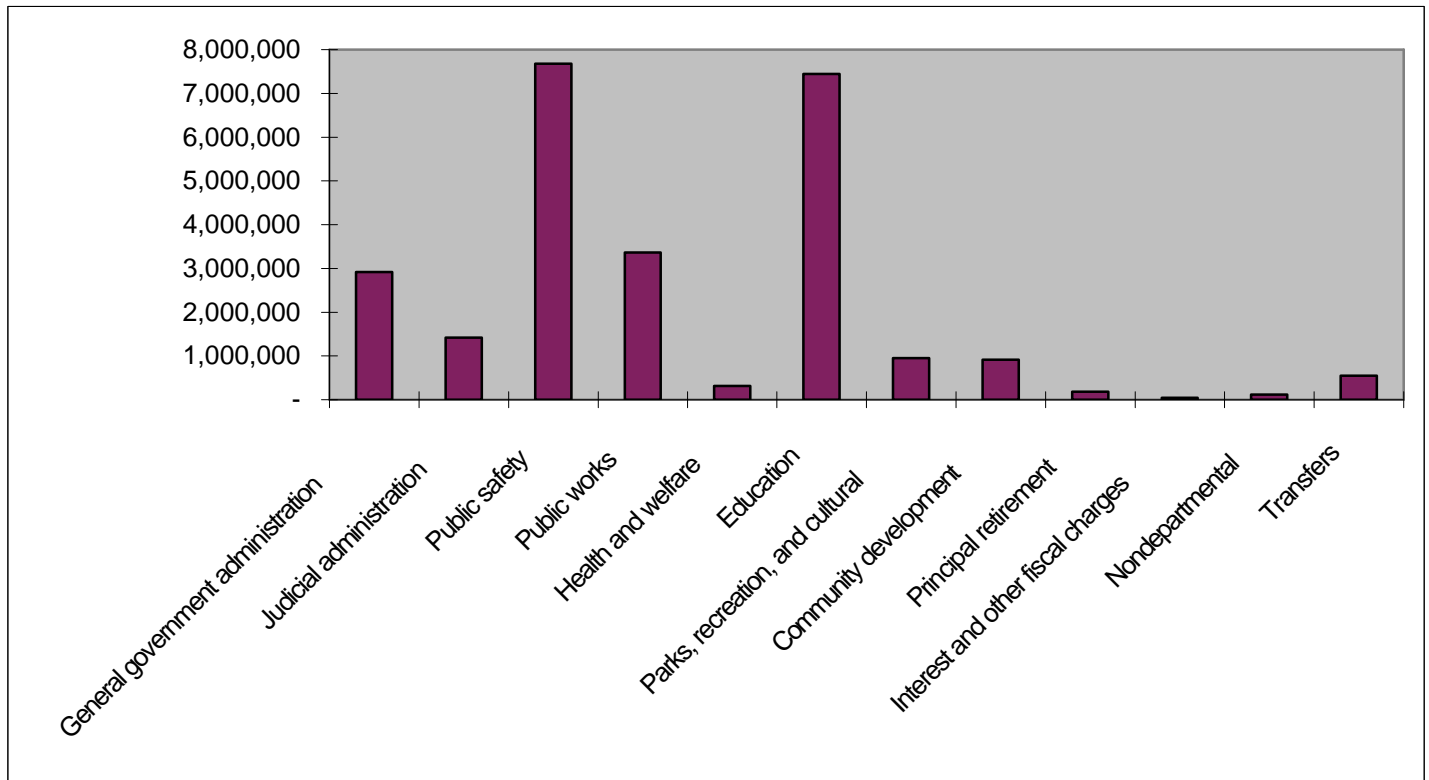
General Fund Revenues By Category

The following graph depicts general Fund revenue by categories. Total revenues are \$25,323,925 including transfers into the fund of \$4, 057,616.



General Fund Expenditures By Category

The graph below displays General Fund expenditures by category. Total expenditures are \$25,896,297 including transfers out of the fund of \$550,750.



Proprietary funds - reported combined ending net assets of \$17,179,026: an increase of \$873,722 in comparison with the amount reported on June 30, 2002. This increase was the result of an increase in the Refuse Fund of \$1,491,266. All of the other proprietary funds reported a decrease in net assets as follows - Electric Fund decreased \$258,610 or 4.2%; Water Fund decreased \$249,740 or 4.9%; and the Sewer Fund decreased \$109,194 or 1.8%.

The decreases in the Electric and Water funds were caused by transferring an amount from those funds that is greater than their Operating Income. The decrease in the Sewer Fund was caused by a failure of Revenues to cover operating expenses. This has been an on-going issue with the Sewer Fund for several years.

The Enterprise Funds contributed \$4,221,484 in the support of other City operations. Of that amount \$3,838,872 or 91% was transferred to the General Fund, \$218,744 or 5% was transferred to the Stores Fund (which is combined into the General Fund) and \$163,868 or 4% was transferred to the Capital Reserve Fund.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor. Revenues were increased by \$282,509 or 1.3% while expenditures were decreased by \$291,750 or 1.1%. The Revenue increases were as follows:

- \$1,462 in General property taxes
- \$76,860 in Other local taxes
- \$4,000 in Permits, privilege fees and regulatory licenses
- \$4,200 in Fines and forfeitures
- \$5,000 in Revenue from use of money and property
- \$33,980 in Charges for services

General Fund Budgetary Highlights: (Continued)

- \$5,475 in Miscellaneous
- \$43,430 in Recovered costs
- \$6,581 in Intergovernmental Revenues from the Commonwealth
- \$101,521 in Intergovernmental revenues from the Federal Government.

The Expenditure amendments were as follows:

- \$127,040 in decreases in General government administration
- \$31,397 in decreases in Judicial administration
- \$69,454 in increases Public Safety
- \$10,100 in decreases in Public Works
- \$136,800 in decreases in Education
- \$18,412 in increases in Parks, recreation, and cultural
- \$74,279 in decreases in Community development

In addition the transfers into the General Fund were reduced by \$3,253. The increase in revenues coupled with the decrease in expenditures and transfers into the general Fund had a net effect of reducing the use of the fund balance by \$571,006. During the year, however, revenues fell \$620,297 or 2.8% short of meeting the revised budget and expenditures were less than budget by 399,422 or 1.6%. The result was the use of \$572,372 from fund balance or \$220,875 more than 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, 2003, is \$29,442,962 (net of accumulated depreciation) as listed in Table 3. This investment in capital assets includes land, buildings and improvements, infrastructure, and machinery and equipment. There were no major capital asset events during the FY2003.

City of Martinsville, Virginia's Capital Assets June 30, 2003

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Land	\$ 1,511,248	\$ 683,624	\$ 2,194,872
Buildings and improvements	4,241,925	2,952,400	7,194,325
Infrastructure	-	45,906,146	45,906,146
Equipment	5,045,486	6,079,354	11,124,840
Jointly owned assets	11,088,822	-	11,088,822
Total	<u>\$ 21,887,481</u>	<u>\$ 55,621,524</u>	<u>\$ 77,509,005</u>
Less: accumulated depreciation	<u>7,668,948</u>	<u>40,397,095</u>	<u>48,066,043</u>
Net capital assets	<u>\$ 14,218,533</u>	<u>\$ 15,224,429</u>	<u>\$ 29,442,962</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 FY2003, Martinsville City had total outstanding obligations of \$22,029,658. Of this amount \$14,414,147 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 decreased its long-term debt by \$1,552,008. The City paid principal payments of \$2,028,896 and issued \$476,888 in new debt which was used to purchase a new phone system. This decrease excludes reimbursables and employee benefits.

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, 2003 the City's ratio of Net General Obligation Debt to Assessed Value was 2.18%.

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

Economic Factors Influencing FY2004 Budgets and Tax Rates

The unemployment rate for the City on June 30, 2003 was 13.6%. This compares unfavorably to the state's average unemployment rate of 4.3% and the national average of 6.4% for the same time.

Martinsville is located in the Southside furniture/textile belt. The evolution of these businesses has moved a large portion of the manufacturing process overseas. This has resulted in plant closings and downsizing of local industries. The remaining manufacturing companies located in the City appear to have weathered this trend and in fact some are expanding operations and increasing their workforce.

Martinsville has a per capita income of \$17,251 as compared to the state average of \$23,975.

According to the consumer price index, Martinsville enjoys a lower cost of living when compared to most other areas in the nation.

The City conducted its biennial reassessment which increased the assessed value of real property by 4.4%.

The City signed agreements with Henry County to provide additional treated water and treat wastewater. This increased budgeted water revenues by \$132,000 and sewer revenues by \$370,000 for FY04.

The landfill is reaching capacity and it has been decided a transfer station will be built to ship waste to a private landfill.

All these factors were considered in preparing the City's budget for the 2004 fiscal year.

In order to balance the budget the following adjustments in the tax rates were approved:

- Personal Property tax rate was increased from \$1.92 to \$2.30
- Cigarette Tax of \$.20 per pack was adopted
- Transient lodging tax of 2% was adopted
- Meals Tax was increased from 4.5% to 5%
- The real estate tax rate was maintained at \$.94 with the 4.4% increase in assessments
- Various landfill charges were increased - Commercial rate increased from \$15.50 to \$17.00; gate rate increased from \$31.70 to \$33.00 per ton.

The General Fund revenue budget for the fiscal year ending June 30, 2004 totals \$25,925,174 a \$1,151,801 or 4.4% decrease from the final approved budget for fiscal year 2003. This required the use of \$185,926 from the General Fund's reserves to balance the budget.

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, Director of Financial and General Services, 55 West Church Street, Martinsville, Virginia 24114.

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Basic Financial Statements

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Government-wide Financial Statements

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Statement of Net Assets
June 30, 2003

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	School Board
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 634,350	\$ 4,527,891	\$ 5,162,241	\$ 2,055,821
Receivables (net of allowance for uncollectibles):				
Property taxes	268,437	-	268,437	-
Accounts receivable	290,185	2,276,387	2,566,572	-
Inventory	2,982,909	899,083	3,881,992	-
Due from other governments	1,149,734	-	1,149,734	571,260
Total Current Assets	\$ 5,325,615	\$ 7,703,361	\$ 13,028,976	\$ 2,627,081
Noncurrent Assets				
Capital assets:				
Land	\$ 1,511,248	\$ 683,624	\$ 2,194,872	\$ 47,172
Buildings and equipment, net of depreciation	12,707,285	14,540,805	27,248,090	2,957,262
Total Noncurrent Assets	\$ 14,218,533	\$ 15,224,429	\$ 29,442,962	\$ 3,004,434
Total Assets	\$ 19,544,148	\$ 22,927,790	\$ 42,471,938	\$ 5,631,515
LIABILITIES				
Current Liabilities				
Accounts payable and other current liabilities	\$ 1,725,997	\$ 503,194	\$ 2,229,191	\$ 1,553,640
Accrued interest payable	299,901	-	299,901	-
Current portion of long-term obligations	2,139,741	1,035,960	3,175,701	-
Total Current Liabilities	\$ 4,165,639	\$ 1,539,154	\$ 5,704,793	\$ 1,553,640
Noncurrent Liabilities				
Noncurrent portion of long-term obligations	14,644,347	4,209,610	18,853,957	-
Total Liabilities	\$ 18,809,986	\$ 5,748,764	\$ 24,558,750	\$ 1,553,640
NET ASSETS				
Invested in capital assets, net of related debt	\$ (1,029,636)	\$ 14,975,933	\$ 13,946,297	\$ 3,004,434
Restricted for:				
Construction	175,600	-	175,600	-
Other purposes	156,694	-	156,694	-
Unrestricted assets	1,431,504	2,203,093	3,634,597	1,073,441
Total Net Assets	\$ 734,162	\$ 17,179,026	\$ 17,913,188	\$ 4,077,875
Total Liabilities and Net Assets	\$ 19,544,148	\$ 22,927,790	\$ 42,471,938	\$ 5,631,515

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

CITY OF MARTINSVILLE, VIRGINIA

Statement of Activities
Year Ended June 30, 2003

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government administration	\$ 2,810,467	\$ 21,978	\$ 214,809	\$ -
Judicial administration	1,394,465	213,339	548,061	-
Public safety	7,793,368	97,496	2,622,507	34,026
Public works	3,268,790	423,762	2,202,666	127,601
Health and welfare	486,640	-	70,337	-
Education	8,464,870	-	-	140,104
Parks, recreation, and cultural	989,475	37,166	37,845	-
Community development	3,481,450	94,369	1,819,619	815,117
Interest on long-term debt	437,490	-	-	-
Total government activities	<u>\$ 29,127,015</u>	<u>\$ 888,110</u>	<u>\$ 7,515,844</u>	<u>\$ 1,116,848</u>
Business-type activities:				
Electric	\$ 7,860,760	\$ 10,741,770	\$ -	\$ -
Water	1,597,226	2,097,486	-	-
Sewer	1,934,362	1,825,168	-	-
Refuse collection / landfill	1,485,234	3,065,148	-	225,184
Total business-type activities	<u>\$ 12,877,582</u>	<u>\$ 17,729,572</u>	<u>\$ -</u>	<u>\$ 225,184</u>
Total primary government	<u>\$ 42,004,597</u>	<u>\$ 18,617,682</u>	<u>\$ 7,515,844</u>	<u>\$ 1,342,032</u>
COMPONENT UNIT:				
School Board	<u>\$ 21,445,029</u>	<u>\$ 483,071</u>	<u>\$ 14,097,711</u>	<u>\$ -</u>
General revenues:				
General property taxes				
Other local taxes				
Unrestricted revenues from use of money and property				
Miscellaneous				
Commonwealth of Virginia non-categorical aid				
City contribution to the school board				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

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

Exhibit 2

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	School Board
\$ (2,573,680)	\$ -	\$ (2,573,680)	\$ -
(633,065)	-	(633,065)	-
(5,039,339)	-	(5,039,339)	-
(514,761)	-	(514,761)	-
(416,303)	-	(416,303)	-
(8,324,766)	-	(8,324,766)	-
(914,464)	-	(914,464)	-
(752,345)	-	(752,345)	-
(437,490)	-	(437,490)	-
<u>\$ (19,606,213)</u>	<u>\$ -</u>	<u>\$ (19,606,213)</u>	<u>\$ -</u>
\$ -	\$ 2,881,010	\$ 2,881,010	\$ -
-	500,260	500,260	-
-	(109,194)	(109,194)	-
-	1,805,098	1,805,098	-
<u>\$ -</u>	<u>\$ 5,077,174</u>	<u>\$ 5,077,174</u>	<u>\$ -</u>
<u>\$ (19,606,213)</u>	<u>\$ 5,077,174</u>	<u>\$ (14,529,039)</u>	<u>\$ -</u>
			<u>\$ (6,864,247)</u>
\$ 6,747,760	\$ -	\$ 6,747,760	\$ -
6,887,937	-	6,887,937	-
133,903	18,032	151,935	14,505
259,880	-	259,880	73,733
774,356	-	774,356	-
-	-	-	8,147,311
4,221,484	(4,221,484)	-	-
<u>\$ 19,025,320</u>	<u>\$ (4,203,452)</u>	<u>\$ 14,821,868</u>	<u>\$ 8,235,549</u>
\$ (580,893)	\$ 873,722	\$ 292,829	\$ 1,371,302
1,315,055	16,305,304	17,620,359	2,706,573
<u>\$ 734,162</u>	<u>\$ 17,179,026</u>	<u>\$ 17,913,188</u>	<u>\$ 4,077,875</u>

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Fund Financial Statements

Balance Sheet - Governmental Funds
At June 30, 2003

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 173,576	\$ 460,774	\$ 634,350
Receivables (Net of allowances for uncollectibles):			
Taxes, including penalties	268,437	-	268,437
Accounts	289,397	788	290,185
Inventory	276,121	-	276,121
Due from other governmental units	<u>908,710</u>	<u>241,024</u>	<u>1,149,734</u>
Total assets	<u>\$ 1,916,241</u>	<u>\$ 702,586</u>	<u>\$ 2,618,827</u>
LIABILITIES			
Cash overdraft	\$ -	\$ 558,095	\$ 558,095
Accounts payable	973,633	194,269	1,167,902
Deferred revenue	<u>150,906</u>	<u>-</u>	<u>150,906</u>
Total liabilities	<u>\$ 1,124,539</u>	<u>\$ 752,364</u>	<u>\$ 1,876,903</u>
FUND BALANCES			
Unreserved:			
Designated for subsequent expenditures	\$ 156,694	\$ -	\$ 156,694
Designated for capital projects	-	175,600	175,600
Unreserved	<u>635,008</u>	<u>(225,378)</u>	<u>409,630</u>
Total fund balances	<u>\$ 791,702</u>	<u>\$ (49,778)</u>	<u>\$ 741,924</u>
Total liabilities and fund balances	<u>\$ 1,916,241</u>	<u>\$ 702,586</u>	

Detailed explanation of adjustments from fund statements to government-wide statement of net assets:

Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.	16,925,321
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(299,901)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in the fund balance.	150,906
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds. All liabilities--both current and long-term--are reported in the statement of net assets.	<u>(16,784,088)</u>
Net assets of General Government Activities	<u>\$ 734,162</u>

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

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2003

	<u>General</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
General property taxes	\$ 6,754,405	\$ -	\$ 6,754,405
Other local taxes	6,027,485	860,452	6,887,937
Permits, privilege fees and regulatory licenses	101,779	-	101,779
Fines and forfeitures	188,946	-	188,946
Revenue from use of money and property	443,526	160,267	603,793
Charges for services	127,495	-	127,495
Miscellaneous	246,087	13,793	259,880
Recovered costs	964,001	-	964,001
Intergovernmental:			
Commonwealth	6,271,717	669,662	6,941,379
Federal	140,868	2,324,801	2,465,669
 Total revenues	 <u>\$ 21,266,309</u>	 <u>\$ 4,028,975</u>	 <u>\$ 25,295,284</u>
Expenditures:			
Current:			
General government administration	\$ 2,921,064	\$ 35,190	\$ 2,956,254
Judicial administration	1,418,241	-	1,418,241
Public safety	7,678,200	-	7,678,200
Public works	3,366,197	-	3,366,197
Health and welfare	311,542	186,114	497,656
Education	7,442,194	-	7,442,194
Parks, recreation, and cultural	949,304	-	949,304
Community development	915,658	2,449,266	3,364,924
Capital outlays	-	745,583	745,583
Capital projects	-	184,620	184,620
Debt service:			
Principal retirement	179,171	771,964	951,135
Interest and other fiscal charges	43,968	506,102	550,070
Nondepartmental	120,008	-	120,008
 Total expenditures	 <u>\$ 25,345,547</u>	 <u>\$ 4,878,839</u>	 <u>\$ 30,224,386</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (4,079,238)</u>	<u>\$ (849,864)</u>	<u>\$ (4,929,102)</u>
Other financing sources (uses):			
Proceeds from indebtedness	\$ -	\$ 476,888	\$ 476,888
Transfers in	4,057,616	714,618	4,772,234
Transfers (out)	(550,750)	-	(550,750)
 Total other financing sources (uses)	 <u>\$ 3,506,866</u>	 <u>\$ 1,191,506</u>	 <u>\$ 4,698,372</u>
Changes in fund balances	\$ (572,372)	\$ 341,642	\$ (230,730)
Fund balances at beginning of year, as restated	<u>1,364,074</u>	<u>(391,420)</u>	<u>972,654</u>
Fund balances at end of year	<u><u>\$ 791,702</u></u>	<u><u>\$ (49,778)</u></u>	<u><u>\$ 741,924</u></u>

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

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities - Governmental Funds
For the Year Ended June 30, 2003

		<u>Primary Government Governmental Funds</u>
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - total governmental funds	\$	(230,730)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current year.		
Capital outlay	\$ 542,149	
Depreciation expense	<u>(739,626)</u>	(197,477)
Transfer of joint tenancy assets from Primary Government to the Component Unit		(715,311)
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		(6,645)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Details of supporting this adjustment are as follows:		
Principal retired on debt	\$ 1,046,542	
Proceeds from indebtedness	<u>(476,888)</u>	569,654
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds. The following is a summary of items supporting this adjustment:		
Change in accrued leave	\$ (17,557)	
Change in interest payable	<u>17,173</u>	<u>(384)</u>
Change in net assets of governmental activities	\$	<u><u>(580,893)</u></u>

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

Nonmajor Governmental Funds
 Combining Balance Sheet
 At June 30, 2003

	Special Revenue Funds		Capital Projects Funds			Total
	City Grants Fund	Housing Choice Fund	Capital Reserve Fund	Industrial Development Authority Fund	Meals Tax Fund	
ASSETS						
Cash and cash equivalents	\$ -	\$ 27,957	\$ 432,817	\$ -	\$ -	\$ 460,774
Accounts receivable	-	-	-	-	788	788
Due from other governments	202,350	28,678	-	9,996	-	241,024
Total assets	\$ 202,350	\$ 56,635	\$ 432,817	\$ 9,996	\$ 788	\$ 702,586
LIABILITIES						
Cash overdraft	\$ 351,139	\$ -	\$ -	\$ 176,874	\$ 30,082	\$ 558,095
Accounts payable	130,926	2,298	57,559	3,486	-	194,269
Total liabilities	\$ 482,065	\$ 2,298	\$ 57,559	\$ 180,360	\$ 30,082	\$ 752,364
FUND BALANCE						
Fund balance:						
Designated for capital projects	\$ -	\$ -	\$ 375,258	\$ (170,364)	\$ (29,294)	\$ 175,600
Unreserved	(279,715)	54,337	-	-	-	(225,378)
Total fund balances	\$ (279,715)	\$ 54,337	\$ 375,258	\$ (170,364)	\$ (29,294)	\$ (49,778)
Total liabilities and fund balances	\$ 202,350	\$ 56,635	\$ 432,817	\$ 9,996	\$ 788	\$ 702,586

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

Nonmajor Governmental Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year Ended June 30, 2003

	Special Revenue Funds		Capital Projects Funds			Total
	City Grants Fund	Housing Choice Fund	Capital Reserve Fund	Industrial Development Authority Fund	Meals Tax Fund	
Revenues:						
Other local taxes	\$ -	\$ -	\$ -	\$ -	\$ 860,452	\$ 860,452
Revenue from use of money and property	99,183	5,183	35,118	20,783	-	160,267
Miscellaneous	439	2,742	10,400	212	-	13,793
Intergovernmental:						
Commonwealth	198,637	-	161,627	169,294	140,104	669,662
Federal	686,817	1,637,984	-	-	-	2,324,801
Total revenues	\$ 985,076	\$ 1,645,909	\$ 207,145	\$ 190,289	\$ 1,000,556	\$ 4,028,975
Expenditures:						
General government administration	\$ -	\$ -	\$ -	\$ -	\$ 35,190	\$ 35,190
Health and welfare	186,114	-	-	-	-	186,114
Planning and community development	681,910	1,634,095	-	133,261	-	2,449,266
Capital outlays	-	-	745,583	-	-	745,583
Capital projects	-	-	94,091	90,529	-	184,620
Debt service:						
Principal retired on debt	-	-	72,500	-	699,464	771,964
Interest and fiscal charges	-	-	90,489	-	415,613	506,102
Total expenditures	\$ 868,024	\$ 1,634,095	\$ 1,002,663	\$ 223,790	\$ 1,150,267	\$ 4,878,839
Excess (deficiency) of revenues over expenditures	\$ 117,052	\$ 11,814	\$ (795,518)	\$ (33,501)	\$ (149,711)	\$ (849,864)
Other financing sources:						
Proceeds from indebtedness	\$ -	\$ -	\$ 476,888	\$ -	\$ -	\$ 476,888
Operating transfers in	108,950	-	468,868	-	136,800	714,618
Total other financing sources	\$ 108,950	\$ -	\$ 945,756	\$ -	\$ 136,800	\$ 1,191,506
Changes in fund balances	\$ 226,002	\$ 11,814	\$ 150,238	\$ (33,501)	\$ (12,911)	\$ 341,642
Fund balances at beginning of year, as restated	(505,717)	42,523	225,020	(136,863)	(16,383)	(391,420)
Fund balances at end of year	\$ (279,715)	\$ 54,337	\$ 375,258	\$ (170,364)	\$ (29,294)	\$ (49,778)

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

Proprietary Funds
Statement of Net Assets
At June 30, 2003

ASSETS	Electric Fund	Water Fund	Sewer Fund	Refuse Collection/ Landfill Fund	Total
Current Assets:					
Cash and cash equivalents	\$ (331,418)	\$ 182,773	\$ 444,980	\$ 4,231,556	\$ 4,527,891
Receivables:					
Accounts - net	1,258,782	316,941	257,647	443,017	2,276,387
Inventory	752,684	146,399	-	-	899,083
Total current assets	<u>\$ 1,680,048</u>	<u>\$ 646,113</u>	<u>\$ 702,627</u>	<u>\$ 4,674,573</u>	<u>\$ 7,703,361</u>
Noncurrent Assets					
Capital assets:					
Land	\$ -	\$ 658,224	\$ 25,400	\$ -	\$ 683,624
Buildings and equipment, net of depreciation	4,607,136	3,694,870	5,343,037	895,762	14,540,805
Total Noncurrent Assets	<u>\$ 4,607,136</u>	<u>\$ 4,353,094</u>	<u>\$ 5,368,437</u>	<u>\$ 895,762</u>	<u>\$ 15,224,429</u>
Total assets	<u>\$ 6,287,184</u>	<u>\$ 4,999,207</u>	<u>\$ 6,071,064</u>	<u>\$ 5,570,335</u>	<u>\$ 22,927,790</u>
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 72,940	\$ 17,513	\$ 79,351	\$ 54,637	\$ 224,441
Customers' deposits payable	240,475	38,278	-	-	278,753
Current portion of long-term obligations	19,123	4,707	13,644	998,486	1,035,960
Total current liabilities	<u>\$ 332,538</u>	<u>\$ 60,498</u>	<u>\$ 92,995</u>	<u>\$ 1,053,123</u>	<u>\$ 1,539,154</u>
Noncurrent liabilities:					
Noncurrent portion of long-term obligations	53,585	41,251	33,963	4,080,811	4,209,610
Total liabilities	<u>\$ 386,123</u>	<u>\$ 101,749</u>	<u>\$ 126,958</u>	<u>\$ 5,133,934</u>	<u>\$ 5,748,764</u>
NET ASSETS					
Invested in capital assets, net of related debt	\$ 4,593,429	\$ 4,353,094	\$ 5,358,418	\$ 670,992	\$ 14,975,933
Unrestricted assets	1,307,632	544,364	585,688	(234,591)	2,203,093
Total Net Assets	<u>\$ 5,901,061</u>	<u>\$ 4,897,458</u>	<u>\$ 5,944,106</u>	<u>\$ 436,401</u>	<u>\$ 17,179,026</u>
Total Liabilities and Net Assets	<u>\$ 6,287,184</u>	<u>\$ 4,999,207</u>	<u>\$ 6,071,064</u>	<u>\$ 5,570,335</u>	<u>\$ 22,927,790</u>

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

Proprietary Funds
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2003

	Electric Fund	Water Fund	Sewer Fund	Refuse Collection/ Landfill Fund	Total
Operating revenues:					
Charges for services	\$ 10,649,091	\$ 2,065,269	\$ 1,816,949	\$ 3,058,597	\$ 17,589,906
Miscellaneous	92,679	32,217	8,219	6,551	139,666
Total operating revenues	<u>\$ 10,741,770</u>	<u>\$ 2,097,486</u>	<u>\$ 1,825,168</u>	<u>\$ 3,065,148</u>	<u>\$ 17,729,572</u>
Operating expenses:					
Personal services	\$ 527,576	\$ 542,435	\$ 598,169	\$ 392,873	\$ 2,061,053
Fringe benefits	149,870	179,616	191,876	124,225	645,587
Contractual services	125,874	15,672	28,726	343,128	513,400
Other charges	6,400,761	644,344	604,465	320,508	7,970,078
Depreciation	655,844	215,159	510,515	180,877	1,562,395
Total operating expenses	<u>\$ 7,859,925</u>	<u>\$ 1,597,226</u>	<u>\$ 1,933,751</u>	<u>\$ 1,361,611</u>	<u>\$ 12,752,513</u>
Operating income (loss)	<u>\$ 2,881,845</u>	<u>\$ 500,260</u>	<u>\$ (108,583)</u>	<u>\$ 1,703,537</u>	<u>\$ 4,977,059</u>
Non-operating revenues (expenses):					
Interest income	\$ -	\$ -	\$ -	\$ 18,032	\$ 18,032
Federal and state grants	-	-	-	225,184	225,184
Interest expense	(835)	-	(611)	(123,623)	(125,069)
Total non-operating revenues (expenses)	<u>\$ (835)</u>	<u>\$ -</u>	<u>\$ (611)</u>	<u>\$ 119,593</u>	<u>\$ 118,147</u>
Income (loss) before transfers	<u>\$ 2,881,010</u>	<u>\$ 500,260</u>	<u>\$ (109,194)</u>	<u>\$ 1,823,130</u>	<u>\$ 5,095,206</u>
Transfers:					
Transfers (out)	(3,139,620)	(750,000)	-	(331,864)	(4,221,484)
Change in net assets	<u>\$ (258,610)</u>	<u>\$ (249,740)</u>	<u>\$ (109,194)</u>	<u>\$ 1,491,266</u>	<u>\$ 873,722</u>
Net assets at beginning of year, as restated	<u>6,159,671</u>	<u>5,147,198</u>	<u>6,053,300</u>	<u>(1,054,865)</u>	<u>16,305,304</u>
Net assets at end of year	<u><u>\$ 5,901,061</u></u>	<u><u>\$ 4,897,458</u></u>	<u><u>\$ 5,944,106</u></u>	<u><u>\$ 436,401</u></u>	<u><u>\$ 17,179,026</u></u>

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

Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2003

	Electric Fund	Water Fund	Sewer Fund	Refuse Collection/ Landfill Fund	Total
Cash Flows From Operating Activities:					
Receipts from customers and users	\$ 10,819,098	\$ 2,088,462	\$ 1,836,705	\$ 3,035,150	\$ 17,779,415
Payments to suppliers and other operating expenses	(7,220,347)	(823,578)	(584,647)	(624,661)	(9,253,233)
Payments to employees (including fringe benefits)	(677,446)	(722,051)	(790,045)	(517,098)	(2,706,640)
Net cash provided by (used in) operating activities	\$ 2,921,305	\$ 542,833	\$ 462,013	\$ 1,893,391	\$ 5,819,542
Cash Flows From Capital and Related Financing Activities:					
Acquisition and construction of capital assets	\$ (507,026)	\$ (108,630)	\$ (178,096)	\$ (23,968)	\$ (817,720)
Retirement of note payable	-	-	-	(760,000)	(760,000)
Retirements of capital lease obligations	(13,170)	-	(9,627)	(199,556)	(222,353)
Interest paid on debt	(835)	-	(611)	(123,623)	(125,069)
Net cash provided by (used in) capital and related financing activities	\$ (521,031)	\$ (108,630)	\$ (188,334)	\$ (1,107,147)	\$ (1,925,142)
Cash Flows From Noncapital Financing Activities:					
Transfers	\$ (3,139,620)	\$ (750,000)	\$ -	\$ (331,864)	\$ (4,221,484)
Federal and state grants	-	-	-	225,184	225,184
Net cash provided by (used in) noncapital financing activities	\$ (3,139,620)	\$ (750,000)	\$ -	\$ (106,680)	\$ (3,996,300)
Cash Flows From Investing Activities:					
Interest	\$ -	\$ -	\$ -	\$ 18,032	\$ 18,032
Net cash provided by investing activities	\$ -	\$ -	\$ -	\$ 18,032	\$ 18,032
Increase (decrease) in cash and cash equivalents	\$ (739,346)	\$ (315,797)	\$ 273,679	\$ 697,596	\$ (83,868)
Cash and cash equivalents at beginning of year	407,928	498,570	171,301	3,533,960	4,611,759
Cash and cash equivalents at end of year	\$ (331,418)	\$ 182,773	\$ 444,980	\$ 4,231,556	\$ 4,527,891
Reconciliation of operating income to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ 2,881,845	\$ 500,260	\$ (108,583)	\$ 1,703,537	\$ 4,977,059
Adjustments to reconcile net loss to net cash provided by operations:					
Depreciation	\$ 655,844	\$ 215,159	\$ 510,515	\$ 180,877	\$ 1,562,395
Changes in operating assets and liabilities:					
(Increase) decrease in accounts receivable	135,290	(5,812)	11,537	(29,998)	111,017
(Increase) in inventory	(752,684)	(146,399)	-	-	(899,083)
Increase (decrease) in:					
Accounts payable	25,154	(17,651)	47,205	39,328	94,036
Accrued leave	4,837	(1,118)	1,339	(353)	4,705
Customer deposits	(28,981)	(1,606)	-	-	(30,587)
Total adjustments	\$ 39,460	\$ 42,573	\$ 570,596	\$ 189,854	\$ 842,483
Net cash provided by (used in) operating activities	\$ 2,921,305	\$ 542,833	\$ 462,013	\$ 1,893,391	\$ 5,819,542

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

Statement of Fiduciary Net Assets --
Fiduciary Funds
At June 30, 2003

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 484,668
Accounts receivable	<u>45,261</u>
Total assets	<u>\$ 529,929</u>
LIABILITIES	
Accounts payable	\$ 8,217
Amounts held for others	<u>521,712</u>
Total liabilities	<u>\$ 529,929</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, 2003

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

Financial Statement Presentation

In June 1999, GASB issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. This statement, known as the "Reporting Model" statement, affects the way the City prepares and presents financial information.

GASB Statement No. 34 establishes new requirements and a new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions.

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's activities. This approach includes not just current assets and liabilities but also capital assets and long-term liabilities (such as buildings and general obligation debt).

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, 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.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2003 (Continued)

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

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

Statement of Activities - The new 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 is 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.

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 government's revise their original budgets over the course of the year for a variety of reasons. Under the new reporting model governments will continue to provide budgetary comparison information in their annual reports. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

A. Financial Reporting Entity

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2003 (Continued)

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

B. Individual Component Unit Disclosures

Blended Component Unit. The Martinsville Industrial Development Authority is included as a blended component unit for 2003.

The Authority was created by council resolution pursuant to state statute and it is legally separate from the City. The Council appoints seven (7) board members; however, the City cannot impose its will on the Authority since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the board members. The Authority is fiscally independent and there is no financial benefit or burden relationship with the City. However, the Authority performs economic development services for the City through the authorization of industrial development revenue bonds and recruitment of potential businesses for location in the City. Accordingly, the Authority is reported as a blended component unit of the City.

Discretely Presented Component Units. 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, 2003.

C. Other Related Organizations

Included in the City's Financial Report

None

Excluded from the City's Financial Report

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

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

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

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

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

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

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

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

The government-wide statement of activities reflect 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.

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.

The City's fiduciary funds are presented in the fund financial statements by type. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

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

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

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

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

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

1. Governmental Funds

Governmental Funds are those through which most governmental functions typically are financed. The City reports the General Fund as a major governmental fund.

The General Fund is the primary operating fund of the City. This fund is used to account for all financial transactions and resources except those required to be accounted for 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 General Fund is considered a major fund for government-wide reporting purposes.

The City reports the following non-major governmental funds:

Special Revenue Funds: Special Revenue Funds account for the proceeds of specific revenue sources (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. Special Revenue Funds consist of the City Grants Fund and the Housing Choice Fund.

Capital Projects Funds - Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by Proprietary Funds. Capital Projects Funds consist of the Capital Reserve Fund, Industrial Development Authority Fund and the Meals Tax Fund.

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.

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

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

1. Governmental Funds (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.

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

The City reports the electric, water, sewer and refuse/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. These funds utilize the modified accrual basis of accounting described in the Governmental Fund Presentation. Fiduciary funds are not included in the government-wide financial statements.

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.

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

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

F. Investments

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2003 (Continued)

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

G. Receivables and payables: (continued)

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 \$699,440 at June 30, 2003 is composed solely of the following:

General Fund

Allowance for uncollectible property taxes	\$ <u>275,777</u>
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Enterprise Funds

Allowance for uncollectible accounts:

Electric Fund	\$ 235,972
Water Fund	36,903
Sewer Fund	54,183
Refuse Collection/Landfill Fund	<u>96,605</u>

Total allowance for uncollectible accounts - Enterprise	\$ <u>423,663</u>
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Total allowance for uncollectible accounts	<u><u>\$ 699,440</u></u>
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Real and Personal Property Tax Data:

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

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

The City bills and collects its own property taxes.

H. Inventory

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2003 (Continued)

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

I. Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives 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 asset as of June 30, 2003 was immaterial.

Property, plant and equipment of the primary government, as well as the component units, 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
Infrastructure	40-50

J. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as an expense in the statement of activities and a long-term obligation in the Statement of Net Assets. In accordance with the provisions of Government Accounting Standards No. 16, Accounting for Compensated Absences, no liability is recorded for nonvesting accumulating rights to received 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.

K. Retirement Plan

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2003 (Continued)

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

L. 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.

M. Use of Estimates

The preparation of financial statements in conformity with general 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.

N. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

O. Net Assets

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

P. Long-term Obligations

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

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

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, 2003 (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 budget data presented in the accompanying financial statements is the original to the current comparison of the final budget and actual results.

Expenditures and Appropriations

Expenditures did not exceed appropriations in any fund at June 30, 2003.

Fund Deficits

The following funds had deficit balances at June 30, 2003:

Meals Tax	\$	29,294
City Grants Fund		279,715
School Grants Fund		182,681
IDA		170,364

Note 3—Cash and Cash Equivalents:

The City and Component Unit School Board cash and cash equivalents consist of pooled cash and investments.

Primary Government and Component Unit School Board:

Deposits - All cash of the primary government and its discretely presented component unit is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et.seq. of the Code of Virginia (a multiple financial institutions collateral pool) or covered by federal depository insurance. Under the act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and Loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. Deposits covered by the Act are considered insured since the Treasury Board is authorized to make additional assessments.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2003 (Continued)

Note 3—Cash and Cash Equivalents: (Continued)

Primary Government and Component Unit School Board: (continued)

Investments - Statutes authorize the City to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), Asian Development Bank and the African Development Bank, commercial paper rate A -1 by Standard and Poor's Corporation of P-1 by Moody's Commercial Paper Record, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP).

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its safekeeping agent in the City's name. Category 2 includes uninsured or unregistered investments for which the securities are held by the counterparty's trust department or safekeeping agency in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by the counterparty's trust department (if a bank) or safekeeping agent but not in the City's name.

	<u>Category</u>			<u>Carrying Value</u>	<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Investments:					
None	\$ -	\$ -	\$ -	\$ -	\$ -
Deposits				\$ 6,809,120	
Total Deposits and Investments				\$ 6,809,120	
Cash and Petty Cash				6,030	
Total Cash and Cash Equivalents				<u>\$ 6,815,150</u>	

The following is a summary of cash and cash equivalents per fund financial statements:

Governmental funds - Cash and cash equivalents	\$ 634,350
Governmental funds - Cash overdraft	(558,095)
Proprietary funds - Cash and cash equivalents	4,527,891
Fiduciary funds - Cash and cash equivalents	484,668
Discretely presented component unit School Board:	
Cash and cash equivalents	2,055,821
Cash overdraft	<u>(329,485)</u>
Total	<u>\$ 6,815,150</u>

The component unit school board is part of the City's pooled cash and has a net balance in the amount of \$1,726,336 at June 30, 2003.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
 As of June 30, 2003 (Continued)

Note 4—Due from Other Governments:

At June 30, 2003, the City has receivables from other governments as follows:

	<u>Primary Government</u>	<u>Component Unit School Board</u>
Commonwealth of Virginia:		
Local Sales Tax	\$ 160,127	\$ -
Street & Highway Maintenance	523,209	-
Fringe Benefits	-	54,415
State Sales Tax	-	162,723
Constitutional officer reimbursements	225,374	-
Miscellaneous grants	56,961	-
Comprehensive service	58,029	-
Federal Government:		
School fund grants	-	336,018
School food	-	18,104
Community Development Block Grant	71,339	-
Housing choice	28,678	-
Other federal grants	26,017	-
Total due from other governments	<u>\$ 1,149,734</u>	<u>\$ 571,260</u>

Note 5—Inventory:

At June 30, 2003 the City has inventory recorded in the various funds as follows:

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>
Expendable supplies	\$ 276,121	\$ 899,083
Land and building inventory held for resale:		
83 Commercial residential lots held in the City	1,297,881	-
4 Commercial buildings held in the City	1,396,678	-
47 acre parcel in Henry County, Virginia	12,229	-
Totals	<u>\$ 2,982,909</u>	<u>\$ 899,083</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2003 (Continued)

Note 6—Capital Assets:

The following is a summary of changes in capital assets for the fiscal year ending June 30, 2003:

Primary Government:

	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2003</u>
Land and land improvements	\$ 1,511,248	\$ -	\$ -	\$ 1,511,248
Buildings and improvements	4,241,925	-	-	4,241,925
Equipment	4,503,337	542,149	-	5,045,486
Jointly owned assets	<u>11,892,959</u>	<u>-</u>	<u>804,137</u>	<u>11,088,822</u>
Totals	\$ 22,149,469	\$ 542,149	\$ 804,137	\$ 21,887,481
Accumulated depreciation	<u>7,018,148</u>	<u>739,626</u>	<u>88,826</u>	<u>7,668,948</u>
Net capital assets primary government	<u>\$ 15,131,321</u>	<u>\$ (197,477)</u>	<u>\$ 715,311</u>	<u>\$ 14,218,533</u>

Enterprise Capital Assets:

	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2003</u>
Electric Fund:				
Buildings and improvements	\$ 586,744	\$ -	\$ -	\$ 586,744
Equipment	1,720,546	55,687	-	1,776,233
Infrastructure	<u>20,220,419</u>	<u>451,339</u>	<u>-</u>	<u>20,671,758</u>
Totals	\$ 22,527,709	\$ 507,026	\$ -	\$ 23,034,735
Accumulated depreciation	<u>17,771,755</u>	<u>655,844</u>	<u>-</u>	<u>18,427,599</u>
Net capital assets	<u>\$ 4,755,954</u>	<u>\$ (148,818)</u>	<u>\$ -</u>	<u>\$ 4,607,136</u>
Water Fund:				
Land and land improvements	\$ 658,224	\$ -	\$ -	\$ 658,224
Buildings and improvements	1,186,449	-	-	1,186,449
Equipment	1,069,372	-	-	1,069,372
Infrastructure	<u>10,115,515</u>	<u>100,172</u>	<u>-</u>	<u>10,215,687</u>
Totals	\$ 13,029,560	\$ 100,172	\$ -	\$ 13,129,732
Accumulated depreciation	<u>8,561,479</u>	<u>215,159</u>	<u>-</u>	<u>8,776,638</u>
Net capital assets	<u>\$ 4,468,081</u>	<u>\$ (114,987)</u>	<u>\$ -</u>	<u>\$ 4,353,094</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2003 (Continued)

Note 6—Capital Assets: (Continued)

Enterprise Capital Assets: (Continued)

	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2003</u>
Sewer Fund				
Land and land improvements	\$ 25,400	\$ -	\$ -	\$ 25,400
Buildings and improvements	1,031,542	-	-	1,031,542
Equipment	984,307	8,775	-	993,082
Infrastructure	<u>14,885,378</u>	<u>133,323</u>	<u>-</u>	<u>15,018,701</u>
Totals	\$ 16,926,627	\$ 142,098	\$ -	\$ 17,068,725
Accumulated depreciation	<u>11,189,773</u>	<u>510,515</u>	<u>-</u>	<u>11,700,288</u>
Net capital assets	<u>\$ 5,736,854</u>	<u>\$ (368,417)</u>	<u>\$ -</u>	<u>\$ 5,368,437</u>
Refuse Collection/Landfill Fund:				
Buildings and improvements	\$ 147,665	\$ -	\$ -	\$ 147,665
Equipment	<u>2,216,699</u>	<u>23,968</u>	<u>-</u>	<u>2,240,667</u>
Totals	\$ 2,364,364	\$ 23,968	\$ -	\$ 2,388,332
Accumulated depreciation	<u>1,311,693</u>	<u>180,877</u>	<u>-</u>	<u>1,492,570</u>
Net capital assets	<u>\$ 1,052,671</u>	<u>\$ (156,909)</u>	<u>\$ -</u>	<u>\$ 895,762</u>
Total Enterprise Funds	<u>\$ 16,013,560</u>	<u>\$ (789,131)</u>	<u>\$ -</u>	<u>\$ 15,224,429</u>
Component Unit-School Board:				
Land and land improvements	\$ 47,172	\$ -	\$ -	\$ 47,172
Buildings and improvements	6,691,778	-	-	6,691,778
Equipment	1,287,041	-	-	1,287,041
Jointly owned assets	<u>-</u>	<u>804,137</u>	<u>-</u>	<u>804,137</u>
Totals	\$ 8,025,991	\$ 804,137	\$ -	\$ 8,830,128
Accumulated depreciation	<u>5,553,942</u>	<u>271,752</u>	<u>-</u>	<u>5,825,694</u>
Net capital assets component unit school board	<u>\$ 2,472,049</u>	<u>\$ 532,385</u>	<u>\$ -</u>	<u>\$ 3,004,434</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2003 (Continued)

Note 6—Capital Assets: (Continued)

The following is a summary of capital assets restatements due to change in capital asset policy and other adjustments to actual inventory.

	<u>Balance</u> <u>June 30, 2002</u>	<u>Restatement</u>	<u>Restated</u> <u>Balance</u> <u>June 30, 2002</u>
Primary Government:			
Land and land improvements	\$ 4,247,132	\$ (2,735,884)	\$ 1,511,248
Buildings and improvements	5,750,813	(1,508,888)	4,241,925
Equipment	4,773,629	(270,292)	4,503,337
Jointly owned assets	<u>-</u>	<u>11,892,959</u>	<u>11,892,959</u>
Totals	\$ 14,771,574	\$ 7,377,895	\$ 22,149,469
Accumulated depreciation	<u>-</u>	<u>7,018,148</u>	<u>7,018,148</u>
Net capital assets primary government	\$ <u>14,771,574</u>	\$ <u>359,747</u>	\$ <u>15,131,321</u>
Component Unit - School Board:			
Land and land improvements	\$ 47,172	\$ -	\$ 47,172
Buildings and improvements	18,584,736	(11,892,958)	6,691,778
Jointly owned assets			
Equipment	<u>1,354,066</u>	<u>(67,025)</u>	<u>1,287,041</u>
Totals	\$ 19,985,974	\$ (11,959,983)	\$ 8,025,991
Accumulated depreciation	<u>-</u>	<u>5,553,942</u>	<u>5,553,942</u>
Net capital assets component unit - school board	\$ <u>19,985,974</u>	\$ <u>(17,513,925)</u>	\$ <u>2,472,049</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2003 (Continued)

Note 6—Capital Assets: (Continued)

Depreciation expense was charged to functions/programs/funds as follows:

Governmental activities:

General government	\$	84,948
Judicial administration		-
Public safety		196,254
Public works		81,264
Health and welfare		8,132
Education		307,365
Parks, recreation and cultural		25,671
Community development		<u>35,988</u>
Total Governmental activities	\$	<u>739,622</u>

Enterprise activities:

Electric	\$	655,844
Water		215,159
Sewer		510,515
Refuse collection / landfill		<u>180,877</u>
Total Enterprise activities	\$	<u>1,562,395</u>
Component Unit School Board	\$	<u>182,926</u>

Note 7—Interfund Transfers:

Interfund transfers for the year ended June 30, 2003, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ 4,057,616	\$ 550,750
City grants	108,950	-
Capital reserve	468,868	-
Meals tax	136,800	-
Electric	-	3,139,620
Water	-	750,000
Refuse collection/landfill	<u>-</u>	<u>331,864</u>
Total	\$ <u>4,772,234</u>	\$ <u>4,772,234</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, 2003 (Continued)

Note 8—Long-Term Obligations:

Primary Government:

Annual requirements to amortize long-term obligations and related interest are as follows:

	<u>Amounts Payable at July 1, 2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Amounts Payable at June 30, 2003</u>	<u>Amounts Due Within One Year</u>
Governmental Obligations:					
Incurred by City					
Claims, judgments and compensated absences payable	\$ 409,445	\$ 17,557	\$ -	\$ 427,002	\$ 42,700
G.O. Bonds Series 1999	3,890,000	-	145,000	3,745,000	150,000
Capital lease obligations	198,782	476,888	97,406	578,264	192,666
Note payable	945,000	-	-	945,000	945,000
	<u>\$ 5,443,227</u>	<u>\$ 494,445</u>	<u>\$ 242,406</u>	<u>\$ 5,695,266</u>	<u>\$ 1,330,366</u>
Incurred by School Board:					
State Literary Fund Loans	\$ 11,106,150	\$ -	\$ 663,525	\$ 10,442,625	\$ 663,525
Virginia Public Authority Subsidy Bonds	248,227	-	21,705	226,522	22,271
Capital lease	538,581	-	118,906	419,675	123,579
	<u>\$ 11,892,958</u>	<u>\$ -</u>	<u>\$ 804,136</u>	<u>\$ 11,088,822</u>	<u>\$ 809,375</u>
Total Governmental Obligations	<u>\$ 17,336,185</u>	<u>\$ 494,445</u>	<u>\$ 1,046,542</u>	<u>\$ 16,784,088</u>	<u>\$ 2,139,741</u>
Enterprise Obligations:					
Compensated absences	\$ 151,869	\$ 4,705	\$ -	\$ 156,574	\$ 15,657
Capital lease obligations	566,725	-	222,354	344,371	230,303
Landfill closure and post-closure costs	3,129,625	-	-	3,129,625	-
Pooled loan bonds series 2000B	2,375,000	-	760,000	1,615,000	790,000
	<u>\$ 6,223,219</u>	<u>\$ 4,705</u>	<u>\$ 982,354</u>	<u>\$ 5,245,570</u>	<u>\$ 1,035,960</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2003 (Continued)

Note 8—Long-Term Obligations: (Continued)

Primary Government: (Continued)

Annual requirements to amortize long-term obligations and related interest are as follows:

Year Ending June 30	City Obligations					
	Note Payable		General Obligation Bonds		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 945,000	\$ 23,247	\$ 150,000	\$ 172,900	\$ 192,666	\$ 11,803
2005	-	-	160,000	166,620	93,307	7,577
2006	-	-	165,000	159,875	95,339	5,545
2007	-	-	170,000	152,755	97,415	3,469
2008	-	-	180,000	145,140	99,537	1,347
2009	-	-	185,000	137,018	-	-
2010	-	-	195,000	128,419	-	-
2011	-	-	205,000	119,216	-	-
2012	-	-	215,000	109,398	-	-
2013	-	-	225,000	99,002	-	-
2014	-	-	235,000	88,018	-	-
2015	-	-	245,000	76,437	-	-
2016	-	-	255,000	64,248	-	-
2017	-	-	270,000	51,250	-	-
2018	-	-	285,000	37,375	-	-
2019	-	-	295,000	22,875	-	-
2020	-	-	310,000	7,756	-	-
Total	\$ 945,000	\$ 23,247	\$ 3,745,000	\$ 1,738,302	\$ 578,264	\$ 29,741

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2003 (Continued)

Note 8—Long-Term Obligations: (Continued)

Primary Government: (Continued)

Year Ending June 30	School Obligations					
	State Literary Fund Loans		Virginia Public School Authority Subsidy Bonds		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 663,525	\$ 315,205	\$ 22,271	\$ 14,215	\$ 123,579	\$ 14,028
2005	663,525	294,914	22,887	12,725	128,434	9,173
2006	663,525	274,623	23,545	11,193	133,480	4,127
2007	663,525	254,332	24,247	9,616	34,182	220
2008	663,525	234,041	24,998	7,991	-	-
2009	625,000	213,750	25,799	6,315	-	-
2010	625,000	195,000	26,656	4,584	-	-
2011	625,000	176,250	27,571	2,797	-	-
2012	625,000	157,500	28,548	942	-	-
2013	625,000	138,750	-	-	-	-
2014	625,000	120,000	-	-	-	-
2015	625,000	101,250	-	-	-	-
2016	625,000	82,500	-	-	-	-
2017	625,000	63,750	-	-	-	-
2018	375,000	45,000	-	-	-	-
2019	375,000	33,750	-	-	-	-
2020	375,000	22,500	-	-	-	-
2021	375,000	11,250	-	-	-	-
Total	\$ 10,442,625	\$ 2,734,365	\$ 226,522	\$ 70,378	\$ 419,675	\$ 27,548

Enterprise Obligations

Year Ending June 30	Pooled Loan		Capital Leases	
	Principal	Interest	Principal	Interest
2004	\$ 790,000	\$ 74,702	\$ 230,303	\$ 7,836
2005	825,000	38,362	114,068	1,862
Total	\$ 1,615,000	\$ 113,064	\$ 344,371	\$ 9,698

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2003 (Continued)

Note 8—Long-Term Obligations: (Continued)

Primary Government: (Continued)

General Obligations:

Incurred by City:

\$4,145,000 payable in principal semi-annual installments ranging from \$115,000 to \$310,000 beginning July 15, 2000 through July 2019 interest payable semi-annually at 5.0492% \$ 3,745,000

\$945,000 note payable to VRS contingent on selling Shell building, interest payable at 2.46% upon sale of building \$ 945,000

Capital Lease Obligations:

\$1,021,700 obligation payable in monthly installments of \$18,816 through June 1, 2004 interest at 4%, (General Fund portion of obligation) \$ 101,376

\$476,888 obligation payable in quarterly installments of \$25,221 through April 1, 2008, interest at 2.16% 476,888

Total capital lease obligations \$ 578,264

Compensated absences \$ 427,002

Total Incurred by City \$ 5,695,266

Incurred by School Board:

State Literary Fund Loans:

\$5,000,000 State Literary Fund loan issued January 28, 1997, due in annual principal installments of \$250,000 through 2017, interest payable annually at 3% \$ 3,500,000

\$146,673 State Literary Fund loan issued June 15, 1987, due in annual principal installments of \$7,400 through 2008; interest payable annually at 4% 37,000

\$94,229 State Literary Fund Loan issued May 19, 1987, due in annual principal installments of \$4,800 through 2008; interest payable annually at 4% 24,000

\$67,413 State Literary Fund Loan issued May 19, 1987, due in annual principal installments of \$3,400 through 2008; interest payable at 4% 17,000

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2003 (Continued)

Note 8—Long-Term Obligations: (Continued)

Primary Government: (Continued)

General Obligations: (continued)

Incurred by School Board: (continued)

State Literary Fund Loans: (continued)

\$109,471 State Literary Fund Loan issued June 15, 1987, due in annual installments of \$5,700 through 2008; interest payable annually at 4% \$ 28,500

\$252,442 State Literary Fund Loan issued May 19, 1987, due in annual principal installments of \$13,000 through 2008; interest payable annually at 4% 65,000

\$84,454 State Literary Fund Loan issued August 1, 1987, due in annual principal installments of \$4,225 through 2008; interest payable annually at 4% 21,125

\$7,500,000 State Literary Fund Loan issued September 1, 2000, due in annual principal installments of \$375,000 through 2021; interest payable annually at 3% 6,750,000

Total State Literary Fund Loans \$ 10,442,625

Virginia Public Authority Subsidy Bonds:

\$438,631 Virginia Public Authority Subsidy Bonds issued in 1991, due in annual installments of varying amounts through 2012; interest payable annually at varying rates \$ 226,522

Capital Lease Obligation:

\$624,802 lease obligation payable in monthly installments of \$11,467 through September 12, 2006 interest at 3.86% \$ 419,675

Total General Obligations \$ 16,784,088

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2003 (Continued)

Note 8—Long-Term Obligations: (Continued)

Primary Government: (Continued)

Enterprise Obligations:

\$3,100,000 Pooled loan bond series 2000B payable in principal annual installments ranging from \$725,000 to \$825,000 beginning April 1, 2005 interest payable semi-annually at 4.5% to 4.65% \$ 1,615,000

Capital Lease Obligations:

\$1,021,700 lease obligation payable in monthly installments of \$18,816 through June 1, 2004 interest at 4%, (Enterprise fund portion of obligation) \$ 119,602

\$332,204 lease obligation payable in monthly installments of \$9,661 through June 14, 2004 interest at 3% 224,769

Total capital lease obligations \$ 344,371

Compensated absences \$ 156,574

Landfill closure and postclosure costs \$ 3,129,625

Total enterprise obligations \$ 5,245,570

Note 9—Closure and Postclosure Costs:

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$3,129,625 reported as landfill closure and postclosure care liability at June 30, 2003, represents the cumulative amount reported based on the use of 80 percent of the estimated capacity of the landfill. These amounts are based on what it would cost to perform all closure and postclosure care in 2003. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The City intends to fund these costs from tipping fee revenues and from any funds accumulated for this purpose in the City Landfill Fund.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2003 (Continued)

Note 10—Deferred Revenue:

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Deferred revenue totaling \$150,906 is comprised of the following:

Deferred Property Tax Revenue - Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$150,906 at June 30, 2003.

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 Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements.

While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowance of current grant program expenditures, if any, would be immaterial.

Note 12—Litigation:

At June 30, 2003, 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.

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; 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.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2003 (Continued)

Note 14—Defined Benefit Pension Plan:

Primary Government:

A. Plan Description

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

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 with 5 years of service for participating law enforcement officers and firefighters) and at age 50 with 30 years of service for participating employees (age 50 with 25 years of service for participating law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the highest consecutive 36 months of reported compensation. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the System at P.O. Box 2500, Richmond, VA 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their reported compensation to the VRS. This 5% member contribution may be assumed by the employer. In addition, the City and School Board are required to contribute the remaining amounts necessary to fund participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The City and School Board non-professional employees contribution rates for the fiscal year ended 2003 were 10.25% and 8.75% of annual covered payroll, respectively.

The School Board's professional employees contributed \$383,842, \$364,803 and \$806,402 to the teacher cost-sharing pool for the fiscal years ended June 30, 2003, 2002 and 2001 respectively and these contributions represented 8.77%, 1.98%, and 7.54% respectively, of current covered payroll.

C. Annual Pension Cost

For fiscal 2003, the City's annual pension cost of \$1,280,666 was equal to the City's required and actuarial contributions. The required contributions were determined as part of the June 30, 2002 actuarial valuation using the entry age normal actuarial cost method.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2003 (Continued)

Note 14—Defined Benefit Pension Plan: (Continued)

Primary Government: (continued)

C. Annual Pension Cost (continued)

For fiscal 2003, the City School Board’s annual pension cost for the Board’s non-professional employees was \$61,409 which was equal to the Board’s required and actuarial contributions. The required contributions were determined as a part of the June 30, 2002 actuarial valuation using the entry age normal actuarial cost method.

	<u>City</u>	<u>Non-Professional School Board Employees</u>
Valuation date	June 30, 2002	June 30, 2002
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percent, open	Level percent, open
Payroll growth rate	3%	3%
Remaining amortization period	22 years	18 years
Asset valuation method	Modified market	Modified market
Actuarial assumptions:		
Investment rate of return ¹	8.00%	8.00%
Projected salary increases: ¹		
Non LEO Employees	4.25% to 6.10%	4.25% to 6.10%
LEO Employees	4.50% to 5.75%	4.50% to 5.75%
Cost-of-living adjustments	3.0%	3.0%

¹ Includes inflation at 3%

<u>Fiscal Year Ending</u>		<u>Annual Pension Cost (APC) (1)</u>	<u>Percentage of APC Contributed</u>		<u>Net Pension Obligation</u>
City:					
June 30, 2003	\$	1,280,666	100%	\$	-
June 30, 2002		1,063,577	100%		-
June 30, 2001		1,199,932	100%		-
School Board:					
Non-Professional:					
June 30, 2003	\$	61,409	100%	\$	-
June 30, 2002		69,140	100%		-
June 30, 2001		78,491	100%		-

(1) Employer portion only

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2003 (Continued)

Note 14—Defined Benefit Pension Plan: (Continued)

Primary Government: (continued)

C. Annual Pension Cost (continued)

Required Supplementary Information

Schedule of Funding Progress for the Authority

<u>Valuation Date</u>	<u>Actuarial Value of Assets (AVA)</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded (Excess Funded) Actuarial Accrued Liability</u>	<u>Funded Ratio (2) (3)</u>	<u>Annual Covered Payroll</u>	<u>UAAL as % of Payroll (4) (6)</u>
City						
6/30/2002	\$ 48,408,887	\$ 55,037,802	6,628,915	87.96%	\$ 11,617,548	57.06%
6/30/2001	47,516,392	50,994,115	3,477,723	93.18%	11,097,462	31.51%
6/30/2000	43,548,353	46,497,026	2,948,376	93.66%	10,805,895	27.29%
School Board Non-Professionals:						
6/30/2002	\$ 2,990,962	\$ 3,500,850	509,888	85.44%	\$ 801,797	63.59%
6/30/2001	2,990,586	3,312,491	321,905	90.28%	724,359	44.44%
6/30/2000	2,791,667	3,123,763	332,096	89.37%	704,789	47.12%

Note 15—Fund Balance/Retained Earnings Adjustments:

	<u>General</u>	<u>Special Revenue</u>	<u>Internal Service</u>	<u>Enterprise Funds</u>
Fund balances/retained earnings as previously reported	\$ 1,313,840	\$ (387,443)	\$ 139,753	\$ 21,710,698
Funds reclassified to other funds	50,234	(22,639)	(27,595)	-
Fund reclassified as an agency fund	-	(162,681)	-	-
Adjustment for proprietary assets	-	-	(104,164)	-
Adjustment for accrued leave and other miscellaneous items	-	-	(7,994)	-
Adjustment for housing choice accounts payable	-	109,569	-	-
Adjustment for accumulated depreciation	-	-	-	(4,948,372)
Adjustment for general fixed assets recorded in the Landfill fund	-	-	-	(457,022)
Totals as adjusted	<u>\$ 1,364,074</u>	<u>\$ (463,194)</u>	<u>\$ -</u>	<u>\$ 16,305,304</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2003 (Continued)

Note 16–Surety Bonds:

	<u>Amount</u>
Fidelity and Deposit Company of Maryland - Surety	
Faithful Performance of Duty Schedule Position Bond:	
Commonwealth Funds	
Ashby R. Pritchett, Clerk of the Circuit Court	\$ 25,000
Pat S. Conrad, Treasurer and/or W.W. Bartlett, Director of Finance	200,000
Ruth Krauss, Commissioner of the Revenue	3,000
Steve M. Draper, Sheriff	30,000
The above constitutional officers and subordinate employees - blanket bond	50,000
Lumberman's Mutual Casualty Company - Surety City funds	
Pat S. Conrad, Treasurer	250,000
Travelers Indemnity Company - Surety	
All School Board employees - blanket bond	
The Aetna Casualty and Surety Company - Surety	
All City employees - blanket bond	
Honesty	10,000
Faithful performance	100,000

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Required Supplementary Information

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General Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual
 Year Ended June 30, 2003

	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Revenues:				
General property taxes	\$ 7,639,333	\$ 7,640,795	\$ 6,754,405	\$ (886,390)
Other local taxes	5,989,233	6,066,093	6,027,485	(38,608)
Permits, privilege fees and regulatory licenses	92,270	96,270	101,779	5,509
Fines and forfeitures	181,800	186,000	188,946	2,946
Revenue from use of money and property	503,000	508,000	443,526	(64,474)
Charges for services	103,700	137,680	127,495	(10,185)
Miscellaneous	248,710	254,185	246,087	(8,098)
Recovered costs	915,774	959,204	964,001	4,797
Intergovernmental:				
Commonwealth	5,912,190	5,918,771	6,271,717	352,946
Federal	18,087	119,608	140,868	21,260
Total revenues	<u>\$ 21,604,097</u>	<u>\$ 21,886,606</u>	<u>\$ 21,266,309</u>	<u>\$ (620,297)</u>
Expenditures:				
Current:				
General government administration	\$ 3,296,966	\$ 3,169,926	\$ 2,921,064	\$ 248,862
Judicial administration	1,523,980	1,492,583	1,418,241	74,342
Public safety	7,615,549	7,685,003	7,678,200	6,803
Public works	3,273,928	3,263,828	3,366,197	(102,369)
Health and welfare	311,542	311,542	311,542	-
Education	7,578,980	7,442,180	7,442,194	(14)
Parks, recreation, and cultural	932,252	950,664	949,304	1,360
Community development	1,149,401	1,075,122	915,658	159,464
Debt service:				
Principal retirement	179,143	179,143	179,171	(28)
Interest and other fiscal charges	44,010	44,010	43,968	42
Nondepartmental	130,968	130,968	120,008	10,960
Total expenditures	<u>\$ 26,036,719</u>	<u>\$ 25,744,969</u>	<u>\$ 25,345,547</u>	<u>\$ 399,422</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (4,432,622)</u>	<u>\$ (3,858,363)</u>	<u>\$ (4,079,238)</u>	<u>\$ (220,875)</u>
Other financing sources (uses):				
Transfers in	\$ 4,060,869	\$ 4,057,616	\$ 4,057,616	\$ -
Transfers (out)	<u>(550,750)</u>	<u>(550,750)</u>	<u>(550,750)</u>	<u>-</u>
Total other financing sources (uses)	<u>\$ 3,510,119</u>	<u>\$ 3,506,866</u>	<u>\$ 3,506,866</u>	<u>\$ -</u>
Changes in fund balances	\$ (922,503)	\$ (351,497)	\$ (572,372)	\$ (220,875)
Fund balances at beginning of year	<u>922,503</u>	<u>351,497</u>	<u>1,364,074</u>	<u>1,012,577</u>
Fund balances at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 791,702</u>	<u>\$ 791,702</u>

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Combining and Individual Fund Statements and Schedules

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Combining Schedule of Fiduciary Net Assets -
 Agency Funds
 At June 30, 2003

	<u>Insurance Fund</u>	<u>Sheriff's Fund</u>	<u>Hooker Field Fund</u>	<u>Police Academy Fund</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 194,088	\$ 99,687	\$ (25,521)	\$ 216,414	\$ 484,668
Accounts receivable	-	-	44,000	1,261	45,261
Total assets	<u>\$ 194,088</u>	<u>\$ 99,687</u>	<u>\$ 18,479</u>	<u>\$ 217,675</u>	<u>\$ 529,929</u>
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ 5,795	\$ 2,422	\$ 8,217
Amounts held for others	194,088	99,687	12,684	215,253	521,712
Total liabilities	<u>\$ 194,088</u>	<u>\$ 99,687</u>	<u>\$ 18,479</u>	<u>\$ 217,675</u>	<u>\$ 529,929</u>

Agency Funds
Statement of Changes in Assets and Liabilities
Year Ended June 30, 2003

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
Insurance Fund:				
Assets:				
Cash	\$ 130,925	\$ 2,636,069	\$ 2,572,906	\$ 194,088
Total assets	<u>\$ 130,925</u>	<u>\$ 2,636,069</u>	<u>\$ 2,572,906</u>	<u>\$ 194,088</u>
Liabilities:				
Amounts held for others	\$ 130,925	\$ 2,636,069	\$ 2,572,906	\$ 194,088
Total liabilities	<u>\$ 130,925</u>	<u>\$ 2,636,069</u>	<u>\$ 2,572,906</u>	<u>\$ 194,088</u>
Sheriff Funds:				
Assets:				
Cash	\$ 94,555	\$ 249,372	\$ 244,240	\$ 99,687
Total assets	<u>\$ 94,555</u>	<u>\$ 249,372</u>	<u>\$ 244,240</u>	<u>\$ 99,687</u>
Liabilities:				
Amounts held for others	\$ 94,555	\$ 249,372	\$ 244,240	\$ 99,687
Total liabilities	<u>\$ 94,555</u>	<u>\$ 249,372</u>	<u>\$ 244,240</u>	<u>\$ 99,687</u>
Hooker Field Fund:				
Assets:				
Cash	\$ 2,680	\$ 26,323	\$ 54,524	\$ (25,521)
Accounts receivable	-	44,000	-	44,000
Total assets	<u>\$ 2,680</u>	<u>\$ 70,323</u>	<u>\$ 54,524</u>	<u>\$ 18,479</u>
Liabilities:				
Accounts payable	\$ 1,680	\$ 4,115	\$ -	\$ 5,795
Amounts held for others	1,000	66,208	54,524	12,684
Total liabilities	<u>\$ 2,680</u>	<u>\$ 70,323</u>	<u>\$ 54,524</u>	<u>\$ 18,479</u>
Police Academy Fund:				
Assets:				
Cash	\$ 167,471	\$ 238,490	\$ 189,547	\$ 216,414
Accounts receivable	-	1,261	-	1,261
Total assets	<u>\$ 167,471</u>	<u>\$ 239,751</u>	<u>\$ 189,547</u>	<u>\$ 217,675</u>
Liabilities:				
Accounts payable	\$ 4,791	\$ 2,422	\$ 4,791	\$ 2,422
Amounts held for others	162,680	237,329	184,756	215,253
Total liabilities	<u>\$ 167,471</u>	<u>\$ 239,751</u>	<u>\$ 189,547</u>	<u>\$ 217,675</u>
Total -- All Agency Funds				
Assets:				
Cash	\$ 395,631	\$ 3,150,254	\$ 3,061,217	\$ 484,668
Accounts receivable	-	45,261	-	45,261
Total assets	<u>\$ 395,631</u>	<u>\$ 3,195,515</u>	<u>\$ 3,061,217</u>	<u>\$ 529,929</u>
Liabilities:				
Accounts payable	\$ 6,471	\$ 6,537	\$ 4,791	\$ 8,217
Amounts held for others	389,160	3,188,978	3,056,426	521,712
Total liabilities	<u>\$ 395,631</u>	<u>\$ 3,195,515</u>	<u>\$ 3,061,217</u>	<u>\$ 529,929</u>

Discretely Presented Component Unit School Board

Combining Balance Sheet
 Discretely Presented Component Unit -- School Board
 At June 30, 2003

	<u>School Operating Fund</u>	<u>School Cafeteria Fund</u>	<u>School Grants Fund</u>	<u>Totals</u>
ASSETS				
Assets:				
Cash and cash equivalents	\$ 2,000,991	\$ 54,830	\$ -	\$ 2,055,821
Due from other governmental units	<u>360,365</u>	<u>18,105</u>	<u>192,790</u>	<u>571,260</u>
Total assets	<u>\$ 2,361,356</u>	<u>\$ 72,935</u>	<u>\$ 192,790</u>	<u>\$ 2,627,081</u>
LIABILITIES				
Reconciled overdraft	\$ -	\$ -	\$ 329,485	\$ 329,485
Accounts payable	293,635	4,938	8,898	307,471
Deferred revenue	150,399	-	-	150,399
Accrued liabilities	<u>707,971</u>	<u>21,226</u>	<u>37,088</u>	<u>766,285</u>
Total liabilities	<u>\$ 1,152,005</u>	<u>\$ 26,164</u>	<u>\$ 375,471</u>	<u>\$ 1,553,640</u>
FUND BALANCES				
Unreserved:				
Undesignated	<u>\$ 1,209,351</u>	<u>\$ 46,771</u>	<u>\$ (182,681)</u>	<u>\$ 1,073,441</u>
Total fund balances	<u>\$ 1,209,351</u>	<u>\$ 46,771</u>	<u>\$ (182,681)</u>	<u>\$ 1,073,441</u>
Total liabilities and fund balances	<u>\$ 2,361,356</u>	<u>\$ 72,935</u>	<u>\$ 192,790</u>	

Detailed explanation of adjustments from fund statements to government-wide statement of net assets:

Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.	<u>3,004,434</u>
Net assets of General Government Activities	<u>\$ 4,077,875</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds - Discretely Presented Component Unit - School Board
 Year Ended June 30, 2003

	School Operating Fund	School Cafeteria Fund	School Grants Fund	Total
Revenues:				
Revenue from use of money and property	\$ 14,505	\$ -	\$ -	\$ 14,505
Charges for services	83,854	399,217	-	483,071
Miscellaneous	72,579	-	1,154	73,733
Intergovernmental:				
Local government	7,432,000	-	-	7,432,000
Commonwealth	11,655,841	15,145	-	11,670,986
Federal	652,268	516,752	1,257,705	2,426,725
	<u>19,911,047</u>	<u>931,114</u>	<u>1,258,859</u>	<u>22,101,020</u>
Total revenues	\$ 19,911,047	\$ 931,114	\$ 1,258,859	\$ 22,101,020
Expenditures:				
Current:				
Education	\$ 18,998,926	\$ 944,228	\$ 1,318,949	\$ 21,262,103
	<u>18,998,926</u>	<u>944,228</u>	<u>1,318,949</u>	<u>21,262,103</u>
Total expenditures	\$ 18,998,926	\$ 944,228	\$ 1,318,949	\$ 21,262,103
Changes in fund balances	\$ 912,121	\$ (13,114)	\$ (60,090)	\$ 838,917
Fund balances at beginning of year	<u>297,230</u>	<u>59,885</u>	<u>(122,591)</u>	<u>234,524</u>
Fund balances at end of year	<u>\$ 1,209,351</u>	<u>\$ 46,771</u>	<u>\$ (182,681)</u>	<u>\$ 1,073,441</u>

CITY OF MARTINSVILLE, VIRGINIA

Schedule of Revenues, Expenditures and Changes in Fund Balances --
 Budget and Actual -- Discretely Presented Component Unit - School Board
 Year Ended June 30, 2003

	School Operating Fund			Variance From Final Budget Positive (Negative)
	Original Budget	Budget As Amended	Actual	
Revenues:				
Revenue from use of money and property	\$ 5,500	\$ 5,500	\$ 14,505	\$ 9,005
Charges for services	35,000	35,000	83,854	48,854
Miscellaneous	22,720	54,095	72,579	18,484
Intergovernmental:				
Local government	7,568,786	7,431,986	7,432,000	14
Commonwealth	11,347,705	11,671,273	11,655,841	(15,432)
Federal	539,551	754,551	652,268	(102,283)
Total revenues	\$ 19,519,262	\$ 19,952,405	\$ 19,911,047	\$ (41,358)
Expenditures:				
Current:				
Education	\$ 19,519,262	\$ 20,183,483	\$ 18,998,926	\$ 1,184,557
Total expenditures	\$ 19,519,262	\$ 20,183,483	\$ 18,998,926	\$ 1,184,557
Changes in fund balances	\$ -	\$ (231,078)	\$ 912,121	\$ 1,143,199
Fund balances at beginning of year	-	94,278	297,230	202,952
Fund balances at end of year	\$ -	\$ (136,800)	\$ 1,209,351	\$ 1,346,151

School Cafeteria Fund			
Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
\$ 7,092	\$ 7,092	\$ -	\$ (7,092)
535,435	535,435	399,217	(136,218)
-	-	-	-
-	-	-	-
16,833	16,833	15,145	(1,688)
<u>515,671</u>	<u>515,671</u>	<u>516,752</u>	<u>1,081</u>
\$ <u>1,075,031</u>	\$ <u>1,075,031</u>	\$ <u>931,114</u>	\$ <u>(143,917)</u>
\$ <u>1,075,031</u>	\$ <u>1,075,031</u>	\$ <u>944,228</u>	\$ <u>130,803</u>
\$ <u>1,075,031</u>	\$ <u>1,075,031</u>	\$ <u>944,228</u>	\$ <u>130,803</u>
\$ -	\$ -	\$ (13,114)	\$ (13,114)
<u>-</u>	<u>-</u>	<u>59,885</u>	<u>59,885</u>
\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>46,771</u></u>	\$ <u><u>46,771</u></u>

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities-
Discretely Presented Component Unit
For the Year Ended June 30, 2003

Amounts reported for governmental activities in the statement of activities are different
because:

Net change in fund balances - total governmental funds	\$	838,917
--	----	---------

Governmental funds report capital outlays as expenditures. However, in the statement
of activities the cost of those assets is allocated over their estimated useful lives and
reported as depreciation expense. This is the amount by which the capital outlays
exceeded depreciation in the current period.

532,385

Change in net assets of governmental activities	\$	<u><u>1,371,302</u></u>
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Supporting Schedules

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Governmental Funds and Discretely Presented Component Unit - School Board
Statement of Revenues -- Budget and Actual
Year Ended June 30, 2003

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Amended Budget Positive (Negative)
Primary Government:				
General Fund:				
General property taxes:				
Real property taxes	\$ 5,374,148	\$ 5,470,148	\$ 5,306,588	\$ (163,560)
Personal property taxes	1,152,062	1,124,062	435,185	(688,877)
Business equipment	659,214	655,276	613,872	(41,404)
Machinery and tools taxes	318,909	256,309	258,466	2,157
Penalties	75,000	75,000	88,696	13,696
Interest and costs	60,000	60,000	51,598	(8,402)
Total general property taxes	<u>\$ 7,639,333</u>	<u>\$ 7,640,795</u>	<u>\$ 6,754,405</u>	<u>\$ (886,390)</u>
Other local taxes:				
Local sales and use taxes	\$ 2,141,981	\$ 2,180,681	\$ 2,108,305	\$ (72,376)
Consumers' utility taxes	773,030	766,190	779,646	13,456
E-911 surcharge	220,299	220,299	197,430	(22,869)
Grantor tax	15,000	15,000	12,278	(2,722)
Telephone tax	510,948	510,948	565,586	54,638
Business license tax	1,532,490	1,577,490	1,615,629	38,139
Franchise license taxes	155,636	155,636	180,578	24,942
Motor vehicle licenses	230,000	230,000	226,211	(3,789)
Bank franchise tax	360,289	360,289	285,272	(75,017)
Rental tax	4,560	4,560	4,675	115
Taxes on recordation and wills	45,000	45,000	51,875	6,875
Total other local taxes	<u>\$ 5,989,233</u>	<u>\$ 6,066,093</u>	<u>\$ 6,027,485</u>	<u>\$ (38,608)</u>
Permits, privilege fees and regulatory licenses:				
Animal licenses	\$ 1,500	\$ 1,500	\$ 1,836	\$ 336
Other permits and licenses	90,770	94,770	99,943	5,173
Total permits, privilege fees and regulatory licenses	<u>\$ 92,270</u>	<u>\$ 96,270</u>	<u>\$ 101,779</u>	<u>\$ 5,509</u>
Fines and Forfeitures:				
Court fines and forfeitures	\$ 170,000	\$ 184,000	\$ 185,631	\$ 1,631
Other fines and forfeitures	11,800	2,000	3,315	1,315
Total fines and forfeitures	<u>\$ 181,800</u>	<u>\$ 186,000</u>	<u>\$ 188,946</u>	<u>\$ 2,946</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 100,000	\$ 100,000	\$ 58,525	\$ (41,475)
Revenue from use of property	403,000	408,000	385,001	(22,999)
Total revenue from use of money and property	<u>\$ 503,000</u>	<u>\$ 508,000</u>	<u>\$ 443,526</u>	<u>\$ (64,474)</u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2003 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Amended Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Charges for services:				
Sheriff fees	\$ 5,000	\$ 5,000	\$ 3,625	\$ (1,375)
Courthouse maintenance fees	18,000	18,000	18,755	755
Court appointed attorney fees	4,200	4,200	3,791	(409)
Commonwealth attorney fees	2,000	2,000	1,780	(220)
Police services	5,400	5,400	3,718	(1,682)
Recreation fees	35,000	35,000	35,008	8
Prison farm labor / street maintenance	29,000	29,000	24,000	(5,000)
Other charges for services	5,100	39,080	36,818	(2,262)
	<u>103,700</u>	<u>137,680</u>	<u>127,495</u>	<u>(10,185)</u>
Total charges for services	\$	\$	\$	\$
Miscellaneous revenue:				
Payment in lieu of tax	\$ 207,890	\$ 207,890	\$ 207,890	\$ -
Other miscellaneous revenue	40,820	46,295	38,197	(8,098)
	<u>248,710</u>	<u>254,185</u>	<u>246,087</u>	<u>(8,098)</u>
Total miscellaneous revenue	\$	\$	\$	\$
Recovered costs:				
Meals tax administration	\$ 35,190	\$ 35,190	\$ 35,190	\$ -
Boarding of prisoners	30,000	20,000	8,606	(11,394)
Juvenile and domestic relations court	4,000	4,000	4,869	869
Health department	8,381	6,187	19,148	12,961
Juror and witness	20,000	20,000	18,907	(1,093)
Fiscal agent fees - regional library	3,000	3,000	3,000	-
National guard armory	14,000	14,000	14,561	561
Medical co-pay reimbursement	11,120	11,120	12,638	1,518
WW Moore	120,000	120,000	36,052	(83,948)
VML self insurance dividend	50,000	44,631	44,631	-
Collection expense	9,000	9,000	9,000	-
Billing expense	342,165	342,165	314,314	(27,851)
Safety expense	69,296	69,296	69,295	(1)
Engineer	68,000	68,000	66,648	(1,352)
Communication	83,147	83,147	83,146	(1)
Central garage	22,740	22,740	22,740	-
Cost allocation - street maintenance	-	-	114,662	114,662
Miscellaneous recoveries	25,735	86,728	86,594	(134)
	<u>915,774</u>	<u>959,204</u>	<u>964,001</u>	<u>4,797</u>
Total recovered costs	\$	\$	\$	\$
Total revenue from local sources	\$ 15,673,820	\$ 15,848,227	\$ 14,853,724	\$ (994,503)

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2003 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Amended Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Revenue from the Commonwealth:				
Noncategorical aid:				
ABC profits	\$ 18,675	\$ 18,675	\$ 18,654	\$ (21)
Wine taxes	21,125	21,125	17,272	(3,853)
Rolling stock tax	11,117	11,117	8,867	(2,250)
PPTRA	-	-	648,728	648,728
Auto rental tax	45,000	45,000	48,975	3,975
Recordation tax	39,904	39,904	31,860	(8,044)
Total noncategorical aid	<u>\$ 135,821</u>	<u>\$ 135,821</u>	<u>\$ 774,356</u>	<u>\$ 638,535</u>
Categorical aid:				
Shared expenses:				
Commonwealth's attorney	\$ 272,108	\$ 272,108	\$ 258,124	\$ (13,984)
Sheriff	1,556,726	1,569,771	1,586,923	17,152
Commissioner of the Revenue	104,969	95,360	91,741	(3,619)
Treasurer	96,590	87,156	85,391	(1,765)
Medical examiner	500	500	330	(170)
Registrar/electoral board	38,923	38,923	37,677	(1,246)
Clerk of the circuit court	236,240	220,606	219,923	(683)
Total shared expenses	<u>\$ 2,306,056</u>	<u>\$ 2,284,424</u>	<u>\$ 2,280,109</u>	<u>\$ (4,315)</u>
Other categorical aid:				
Senior citizens	\$ 11,836	\$ 11,836	\$ 11,836	\$ -
Street maintenance	2,054,378	2,098,834	2,092,834	(6,000)
Liberty street engineering	264,440	264,440	109,832	(154,608)
Fire grant	22,500	20,661	20,661	-
Police confiscated assets	-	9,586	9,586	-
House Bill # 599 - police	601,121	582,150	582,151	1
EMS two for life	5,801	5,551	5,551	-
Local jails / city jails	414,640	405,371	288,935	(116,436)
Victim witness	69,628	69,628	70,014	386
DMV grant - police department	-	4,500	-	(4,500)
DCJS resource officer grant	25,969	25,969	25,852	(117)
Total other categorical aid	<u>\$ 3,470,313</u>	<u>\$ 3,498,526</u>	<u>\$ 3,217,252</u>	<u>\$ (281,274)</u>
Total categorical aid	<u>\$ 5,776,369</u>	<u>\$ 5,782,950</u>	<u>\$ 5,497,361</u>	<u>\$ (285,589)</u>
Total revenue from the Commonwealth	<u>\$ 5,912,190</u>	<u>\$ 5,918,771</u>	<u>\$ 6,271,717</u>	<u>\$ 352,946</u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2003 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Amended Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Revenue from the federal government:				
Categorical aid:				
Senior citizens	\$ 18,087	\$ 18,087	\$ 26,009	\$ 7,922
Police confiscated assets	-	401	401	-
Homeland security grant	-	32,521	32,521	-
DCJS - police grant	-	5,012	5,012	-
Bulletproof vest grant	-	5,742	5,742	-
DMV grant - police	-	9,087	13,984	4,897
SCAAP funds	-	24,170	24,170	-
Hazards planning grant	-	-	12,341	12,341
Police - miscellaneous	-	3,900	-	(3,900)
Law enforcement block grant	-	20,688	20,688	-
Total categorical aid	<u>\$ 18,087</u>	<u>\$ 119,608</u>	<u>\$ 140,868</u>	<u>\$ 21,260</u>
Total revenue from the Federal Government	<u>\$ 18,087</u>	<u>\$ 119,608</u>	<u>\$ 140,868</u>	<u>\$ 21,260</u>
Total General Fund	<u><u>\$ 21,604,097</u></u>	<u><u>\$ 21,886,606</u></u>	<u><u>\$ 21,266,309</u></u>	<u><u>\$ (620,297)</u></u>
Special Revenue Funds:				
Grants Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ 5,790	\$ 5,790	\$ 5,284	\$ (506)
Revenue from use of property	<u>36,135</u>	<u>36,135</u>	<u>93,899</u>	<u>57,764</u>
Total revenue from use of money and property	<u>\$ 41,925</u>	<u>\$ 41,925</u>	<u>\$ 99,183</u>	<u>\$ 57,258</u>
Miscellaneous revenue:				
Other miscellaneous funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 439</u>	<u>\$ 439</u>
Total miscellaneous revenue	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 439</u>	<u>\$ 439</u>
Total revenue from local sources	<u>\$ 41,925</u>	<u>\$ 41,925</u>	<u>\$ 99,622</u>	<u>\$ 57,697</u>
Revenue from the Commonwealth:				
Other categorical aid:				
Comprehensive services	\$ -	\$ -	\$ 70,337	\$ 70,337
Indoor plumbing	<u>-</u>	<u>-</u>	<u>128,300</u>	<u>128,300</u>
Total revenue from the Commonwealth	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 198,637</u>	<u>\$ 198,637</u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2003 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Amended Budget Positive (Negative)
Primary Government: (Continued)				
Special Revenue Funds: (Continued)				
Revenue from the federal government:				
Categorical aid:				
Community development block grant	\$ 1,182,908	\$ 1,297,680	\$ 592,322	\$ (705,358)
CDBG - W Church Corridor improvement	-	-	25,000	25,000
Indoor plumbing	259,800	329,295	69,495	(259,800)
Total revenue from the Federal Government	<u>\$ 1,442,708</u>	<u>\$ 1,626,975</u>	<u>\$ 686,817</u>	<u>\$ (940,158)</u>
Total Grants Fund	<u>\$ 1,484,633</u>	<u>\$ 1,668,900</u>	<u>\$ 985,076</u>	<u>\$ (683,824)</u>
Housing Choice Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ 500	\$ 500	\$ 5,183	\$ 4,683
Miscellaneous revenue:				
Miscellaneous funds	250	250	2,742	2,492
Total revenue from local sources	<u>\$ 750</u>	<u>\$ 750</u>	<u>\$ 7,925</u>	<u>\$ 7,175</u>
Revenue from the federal government:				
Categorical aid:				
Housing assistance	\$ 1,215,828	\$ 1,215,828	\$ 1,465,912	\$ 250,084
Moderate rehab. assistance	149,028	149,028	172,072	23,044
Other federal assistance	290,233	290,233	-	(290,233)
Total revenue from the Federal Government	<u>\$ 1,655,089</u>	<u>\$ 1,655,089</u>	<u>\$ 1,637,984</u>	<u>\$ (17,105)</u>
Total Housing Choice Fund	<u>\$ 1,655,839</u>	<u>\$ 1,655,839</u>	<u>\$ 1,645,909</u>	<u>\$ (9,930)</u>
Total Special Revenue Funds	<u>\$ 3,140,472</u>	<u>\$ 3,324,739</u>	<u>\$ 2,630,985</u>	<u>\$ (693,754)</u>
Capital Projects Funds:				
Capital Reserve Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of property	\$ -	\$ 35,100	\$ 35,118	\$ 18
Total revenue from use of money and property	<u>\$ -</u>	<u>\$ 35,100</u>	<u>\$ 35,118</u>	<u>\$ 18</u>
Miscellaneous revenue:				
Miscellaneous	80,000	90,400	10,400	(80,000)
Total revenue from local sources	<u>\$ 80,000</u>	<u>\$ 125,500</u>	<u>\$ 45,518</u>	<u>\$ (79,982)</u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2003 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
Capital Projects Funds: (Continued)				
Revenue from the Commonwealth:				
Categorical aid:				
Rail trail/ VDOT grant	\$ -	\$ 127,601	\$ 127,601	\$ -
Rescue squad assistance	-	49,916	34,026	(15,890)
Virginia center for tech acaf	25,000	25,000	-	(25,000)
	<u>25,000</u>	<u>202,517</u>	<u>161,627</u>	<u>(40,890)</u>
Total revenue from the Commonwealth	\$ 25,000	\$ 202,517	\$ 161,627	\$ (40,890)
Total Capital Reserve Fund	<u>\$ 105,000</u>	<u>\$ 328,017</u>	<u>\$ 207,145</u>	<u>\$ (120,872)</u>
Meals Tax Fund:				
Revenue from local sources:				
Other local taxes:				
Meals taxes	\$ 874,907	\$ 893,047	\$ 860,452	\$ (32,595)
Revenue from the Commonwealth:				
Categorical aid:				
School construction	139,686	139,686	140,104	418
	<u>139,686</u>	<u>139,686</u>	<u>140,104</u>	<u>418</u>
Total Meals Tax Fund	<u>\$ 1,014,593</u>	<u>\$ 1,032,733</u>	<u>\$ 1,000,556</u>	<u>\$ (32,177)</u>
Industrial Development Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of property	\$ -	\$ -	\$ 20,783	\$ 20,783
Miscellaneous revenue:				
Miscellaneous revenue	-	-	212	212
Total revenue from local sources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,995</u>	<u>\$ 20,995</u>
Revenue from the Commonwealth:				
Categorical aid:				
Tobacco commission grant	\$ -	\$ -	\$ 74,645	\$ 74,645
USDA rural economic development grant	-	-	44,649	44,649
Virginia Department of bus assistance	-	-	50,000	50,000
	<u>-</u>	<u>-</u>	<u>169,294</u>	<u>169,294</u>
Total revenue from the Commonwealth	\$ -	\$ -	\$ 169,294	\$ 169,294
Total Industrial Development Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 190,289</u>	<u>\$ 190,289</u>
Total Capital Projects Funds	<u>\$ 1,119,593</u>	<u>\$ 1,360,750</u>	<u>\$ 1,397,990</u>	<u>\$ 37,240</u>
Grand Total Revenues -- Primary Government	<u>\$ 25,864,162</u>	<u>\$ 26,572,095</u>	<u>\$ 25,295,284</u>	<u>\$ (1,276,811)</u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2003 (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	\$ 5,500	\$ 5,500	\$ 14,505	\$ 9,005
Charges for services:				
Tuition and other charges for services	35,000	35,000	83,854	48,854
Miscellaneous revenue:				
Miscellaneous revenue	22,720	54,095	72,579	18,484
Total revenue from local sources	<u>\$ 63,220</u>	<u>\$ 94,595</u>	<u>\$ 170,938</u>	<u>\$ 76,343</u>
Intergovernmental revenue:				
Revenues from local governments:				
Contribution from City of Martinsville, Virginia	\$ 7,568,786	\$ 7,431,986	\$ 7,432,000	\$ 14
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 2,014,984	\$ 2,014,984	\$ 1,917,675	\$ (97,309)
Basic school aid	5,767,314	5,767,314	5,864,628	97,314
Share of fringe benefits - Fica	361,521	361,521	350,590	(10,931)
Share of fringe benefits - VRS	207,266	207,266	226,736	19,470
Lottery proceeds	375,580	375,580	459,431	83,851
Vocational SOQ payments	202,484	202,484	193,945	(8,539)
Special education - basic	930,683	930,683	938,760	8,077
At risk students	210,910	210,910	222,704	11,794
Remedial education	135,608	135,608	136,785	1,177
Reduced K-3	333,016	333,016	335,066	2,050
Textbooks	139,993	139,993	141,208	1,215
Other state funds	668,346	991,914	868,313	(123,601)
Total revenue from the Commonwealth	<u>\$ 11,347,705</u>	<u>\$ 11,671,273</u>	<u>\$ 11,655,841</u>	<u>\$ (15,432)</u>
Revenue from the federal government:				
Categorical aid:				
Vocational education	\$ 57,068	\$ 57,068	\$ 59,614	\$ 2,546
Special education - flow through	372,579	372,579	413,205	40,626
Special education - pre-school incentive	-	-	9,331	9,331
Employment services	-	-	16,095	16,095
School to work	-	-	27,592	27,592
Regional tuition - special education	73,987	73,987	-	(73,987)
NASA program	-	215,000	84,601	(130,399)
ROTC instructors	35,917	35,917	41,830	5,913
Total categorical aid	<u>\$ 539,551</u>	<u>\$ 754,551</u>	<u>\$ 652,268</u>	<u>\$ (102,283)</u>
Total revenue from the federal government	<u>\$ 539,551</u>	<u>\$ 754,551</u>	<u>\$ 652,268</u>	<u>\$ (102,283)</u>
Total School Operating Fund	<u><u>\$ 19,519,262</u></u>	<u><u>\$ 19,952,405</u></u>	<u><u>\$ 19,911,047</u></u>	<u><u>\$ (41,358)</u></u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2003 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Component Unit-School Board: (Continued)				
School Cafeteria Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ 7,092	\$ 7,092	\$ -	\$ (7,092)
Charges for services:				
Cafeteria sales	\$ 535,435	\$ 535,435	\$ 399,217	\$ (136,218)
Revenue from the Commonwealth:				
Categorical aid:				
School food	\$ 16,833	\$ 16,833	\$ 15,145	\$ (1,688)
Revenue from the federal government:				
Categorical aid:				
School food	\$ 515,671	\$ 515,671	\$ 516,752	\$ 1,081
Total School Cafeteria Fund	\$ 1,075,031	\$ 1,075,031	\$ 931,114	\$ (143,917)
School Grants Fund:				
Revenue from local sources:				
Miscellaneous revenue:				
Miscellaneous revenue	\$ -	\$ -	\$ 1,154	\$ 1,154
Revenue from the federal government:				
Categorical aid:				
Title I	\$ -	\$ 608,196	\$ 456,835	\$ (151,361)
Eisenhower	-	-	13,536	13,536
Title II - teacher quality	-	152,650	95,466	(57,184)
Title II - technology	-	16,399	16,399	-
Title V	-	24,736	24,183	(553)
Title VI	-	54,298	44,582	(9,716)
Drug free schools	-	21,228	39,213	17,985
Class size reduction	-	104,081	104,228	147
Even start	-	225,000	187,351	(37,649)
Blue ridge east tech grant	-	637,717	218,212	(419,505)
Technology literacy challenge grant	-	-	57,700	57,700
Total revenue from the federal government	\$ -	\$ 1,844,305	\$ 1,257,705	\$ (586,600)
Total School Grants Fund	\$ -	\$ 1,844,305	\$ 1,258,859	\$ (585,446)
Grand Total Revenues--Component Unit - School Board	\$ 20,594,293	\$ 22,871,741	\$ 22,101,020	\$ (770,721)

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2003

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government:				
General Fund:				
General Government Administration:				
Legislative:				
City council	\$ 42,880	\$ 42,880	\$ 38,826	\$ 4,054
General and Financial Administration:				
Clerk of council	\$ 14,167	\$ 14,167	\$ 10,957	\$ 3,210
City manager's office	208,010	206,335	202,328	4,007
Legal services	34,695	34,695	26,623	8,072
Human resources	139,585	134,959	136,936	(1,977)
Employment services	401,161	378,722	244,518	134,204
Customer services	53,281	53,281	46,829	6,452
Communications	83,146	73,146	65,999	7,147
Commissioner of the Revenue	338,553	335,250	319,172	16,078
Assessor	7,805	1,499	1,263	236
Treasurer	252,178	242,744	240,837	1,907
Finance director	85,120	84,320	85,092	(772)
Accounting	167,491	164,203	160,150	4,053
Utility billing	341,677	332,786	314,314	18,472
Information services	248,961	237,920	228,875	9,045
Central garage	438,856	397,345	394,591	2,754
Purchasing	221,997	218,744	203,538	15,206
Risk management	120,000	120,000	128,626	(8,626)
Total general and financial administration	<u>\$ 3,156,683</u>	<u>\$ 3,030,116</u>	<u>\$ 2,810,648</u>	<u>\$ 219,468</u>
Board of Elections:				
Electoral board and officials	\$ 17,447	\$ 16,974	\$ 11,101	\$ 5,873
Registrar	79,956	79,956	60,489	19,467
Total board of elections	<u>\$ 97,403</u>	<u>\$ 96,930</u>	<u>\$ 71,590</u>	<u>\$ 25,340</u>
Total general government administration	<u>\$ 3,296,966</u>	<u>\$ 3,169,926</u>	<u>\$ 2,921,064</u>	<u>\$ 248,862</u>
Judicial Administration:				
Courts:				
Circuit court	\$ 83,932	\$ 83,932	\$ 69,543	\$ 14,389
General district court	17,100	17,100	12,512	4,588
Juvenile and domestic relations court	15,650	15,650	12,909	2,741
Clerk of the circuit court	321,080	305,446	302,884	2,562
Sheriff - courts	690,957	672,986	636,032	36,954
Total Courts	<u>\$ 1,128,719</u>	<u>\$ 1,095,114</u>	<u>\$ 1,033,880</u>	<u>\$ 61,234</u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2003 (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)				
Commonwealth Attorney:				
Commonwealth attorney	\$ 325,633	\$ 327,841	\$ 315,771	\$ 12,070
Victim witness program	69,628	69,628	68,590	1,038
Total Commonwealth attorney	<u>395,261</u>	<u>397,469</u>	<u>384,361</u>	<u>13,108</u>
Total judicial administration	<u>\$ 1,523,980</u>	<u>\$ 1,492,583</u>	<u>\$ 1,418,241</u>	<u>\$ 74,342</u>
Public Safety:				
Law Enforcement and Traffic Control:				
Police department	\$ 3,115,630	\$ 3,184,650	\$ 3,229,650	\$ (45,000)
Transportation safety commission	1,500	2,000	1,809	191
E-911 communication center	234,089	234,089	225,400	8,689
Total law enforcement and traffic control	<u>\$ 3,351,219</u>	<u>\$ 3,420,739</u>	<u>\$ 3,456,859</u>	<u>\$ (36,120)</u>
Fire and Rescue Services:				
Fire services	\$ 1,427,585	\$ 1,454,429	\$ 1,448,947	\$ 5,482
Emergency medical services	90,763	91,614	83,833	7,781
Total fire and rescue services	<u>\$ 1,518,348</u>	<u>\$ 1,546,043</u>	<u>\$ 1,532,780</u>	<u>\$ 13,263</u>
Correction and Detention:				
Sheriff -corrections	\$ 1,975,791	\$ 1,937,267	\$ 2,008,690	\$ (71,423)
Sheriff -jail annex	173,440	173,440	158,990	14,450
Probation office	265,231	260,231	214,041	46,190
Total correction and detention	<u>\$ 2,414,462</u>	<u>\$ 2,370,938</u>	<u>\$ 2,381,721</u>	<u>\$ (10,783)</u>
Inspections:				
Building and other	\$ 262,520	\$ 280,383	\$ 245,513	\$ 34,870
Other Protection:				
Safety	\$ 69,000	\$ 66,900	\$ 61,327	\$ 5,573
Total other protection	<u>\$ 69,000</u>	<u>\$ 66,900</u>	<u>\$ 61,327</u>	<u>\$ 5,573</u>
Total public safety	<u>\$ 7,615,549</u>	<u>\$ 7,685,003</u>	<u>\$ 7,678,200</u>	<u>\$ 6,803</u>
Public Works:				
Maintenance of highways, streets, bridges and sidewalks:				
Director of public works	\$ 69,625	\$ 69,125	\$ 70,338	\$ (1,213)

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2003 (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)				
Highways, streets, bridges and sidewalks:				
Engineering	\$ 180,059	\$ 178,559	\$ 178,881	\$ (322)
Street maintenance	1,282,037	1,282,037	1,373,936	(91,899)
Street marking and signs	170,703	170,703	163,705	6,998
Traffic signals	218,896	218,896	230,934	(12,038)
Street cleaning	382,742	382,742	324,259	58,483
Street construction	278,122	272,022	248,355	23,667
Thoroughfare construction	264,440	264,440	303,515	(39,075)
VDOT reserve	-	-	30,337	(30,337)
Uptown maintenance	48,236	46,236	46,241	(5)
City hall maintenance	369,068	369,068	385,104	(16,036)
Social services building maintenance	-	-	58	(58)
Public health center	10,000	10,000	10,534	(534)
Total highways, streets, bridges and sidewalks	<u>\$ 3,204,303</u>	<u>\$ 3,194,703</u>	<u>\$ 3,295,859</u>	<u>\$ (101,156)</u>
Total public works	<u>\$ 3,273,928</u>	<u>\$ 3,263,828</u>	<u>\$ 3,366,197</u>	<u>\$ (102,369)</u>
Mental Health and Mental Retardation:				
Chapter X board	<u>\$ 48,678</u>	<u>\$ 48,678</u>	<u>\$ 48,678</u>	<u>\$ -</u>
Welfare/Social Services:				
Regional social services board	<u>\$ 262,864</u>	<u>\$ 262,864</u>	<u>\$ 262,864</u>	<u>\$ -</u>
Total welfare/social services	<u>\$ 262,864</u>	<u>\$ 262,864</u>	<u>\$ 262,864</u>	<u>\$ -</u>
Total health and welfare	<u><u>\$ 311,542</u></u>	<u><u>\$ 311,542</u></u>	<u><u>\$ 311,542</u></u>	<u><u>\$ -</u></u>
Education:				
Contributions to community colleges	\$ 10,194	\$ 10,194	\$ 10,194	\$ -
Contributions to School Board Component Unit	<u>7,568,786</u>	<u>7,431,986</u>	<u>7,432,000</u>	<u>(14)</u>
Total education	<u>\$ 7,578,980</u>	<u>\$ 7,442,180</u>	<u>\$ 7,442,194</u>	<u>\$ (14)</u>
Parks, Recreation, and Cultural:				
Parks and recreation				
Leisure services	\$ 190,983	\$ 188,483	\$ 205,788	\$ (17,305)
Park maintenance	254,191	250,691	233,110	17,581
Senior center	146,043	149,304	142,312	6,992
Armory	52,699	52,699	58,607	(5,908)
Total parks and recreation	<u>\$ 643,916</u>	<u>\$ 641,177</u>	<u>\$ 639,817</u>	<u>\$ 1,360</u>
Library:				
Regional library	<u>288,336</u>	<u>309,487</u>	<u>309,487</u>	<u>-</u>
Total parks, recreation and cultural	<u><u>\$ 932,252</u></u>	<u><u>\$ 950,664</u></u>	<u><u>\$ 949,304</u></u>	<u><u>\$ 1,360</u></u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2003 (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)				
Community Development:				
Planning and Community Development:				
Community development coordinator	\$ -	\$ -	\$ 819	\$ (819)
Economic development	336,416	309,687	262,372	47,315
Housing / community development	90,151	90,151	82,661	7,490
Miscellaneous development expenses	297,654	297,654	213,514	84,140
Planning and zoning	22,950	23,031	2,727	20,304
Contributions to local organizations	390,230	342,599	341,565	1,034
Total planning and community development	<u>\$ 1,137,401</u>	<u>\$ 1,063,122</u>	<u>\$ 903,658</u>	<u>\$ 159,464</u>
Cooperative Extension Program:				
Horticulture and family resources	<u>\$ 12,000</u>	<u>\$ 12,000</u>	<u>\$ 12,000</u>	<u>\$ -</u>
Total community development	<u><u>\$ 1,149,401</u></u>	<u><u>\$ 1,075,122</u></u>	<u><u>\$ 915,658</u></u>	<u><u>\$ 159,464</u></u>
Debt service:				
Principal retirement	\$ 179,143	\$ 179,143	\$ 179,171	\$ (28)
Interest and other debt costs	44,010	44,010	43,968	42
Total debt service	<u>\$ 223,153</u>	<u>\$ 223,153</u>	<u>\$ 223,139</u>	<u>\$ 14</u>
Nondepartmental:				
Miscellaneous	\$ 82,097	\$ 82,097	\$ 77,141	\$ 4,956
Hooker field	26,323	26,323	26,323	-
Contingencies	22,548	22,548	16,544	6,004
Total nondepartmental	<u>\$ 130,968</u>	<u>\$ 130,968</u>	<u>\$ 120,008</u>	<u>\$ 10,960</u>
Total General Fund	<u><u>\$ 26,036,719</u></u>	<u><u>\$ 25,744,969</u></u>	<u><u>\$ 25,345,547</u></u>	<u><u>\$ 399,422</u></u>
Special Revenue Funds:				
City Grants Fund:				
Health and Welfare:				
Comprehensive services	\$ -	\$ -	\$ 186,114	\$ (186,114)
Planning and Community Development:				
Community development block grant	\$ 1,210,887	\$ 1,325,659	\$ 511,796	\$ 813,863
Indoor plumbing program	273,746	343,241	170,114	173,127
Total planning and community development	<u>\$ 1,484,633</u>	<u>\$ 1,668,900</u>	<u>\$ 681,910</u>	<u>\$ 986,990</u>
Total City Grants Fund	<u><u>\$ 1,484,633</u></u>	<u><u>\$ 1,668,900</u></u>	<u><u>\$ 868,024</u></u>	<u><u>\$ 800,876</u></u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2003 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
Special Revenue Funds: (Continued)				
Housing Choice Fund:				
Planning and Community Development:				
Housing choice voucher program	\$ 1,655,839	\$ 1,655,839	\$ 1,634,095	\$ 21,744
Total Housing Choice Fund	<u>\$ 1,655,839</u>	<u>\$ 1,655,839</u>	<u>\$ 1,634,095</u>	<u>\$ 21,744</u>
Total Special Revenue Funds	<u>\$ 3,140,472</u>	<u>\$ 3,324,739</u>	<u>\$ 2,502,119</u>	<u>\$ 822,620</u>
Capital Project Funds:				
Capital Reserve Fund:				
Capital outlays:				
Piedmont arts	\$ 25,000	\$ 11,529	\$ 11,529	\$ -
Tools and equipment	63,032	115,348	119,260	(3,912)
Office equipment	15,000	-	-	-
Communications equipment	9,000	485,888	330,398	155,490
Motor vehicles	229,558	193,520	177,316	16,204
ADP equipment	119,217	119,217	107,080	12,137
Total capital outlays	<u>\$ 460,807</u>	<u>\$ 925,502</u>	<u>\$ 745,583</u>	<u>\$ 179,919</u>
Capital projects:				
Physical plant expansion	\$ 102,402	\$ 101,402	\$ 94,091	\$ 7,311
Other capital projects	308,900	308,900	-	308,900
Total capital projects	<u>\$ 411,302</u>	<u>\$ 410,302</u>	<u>\$ 94,091</u>	<u>\$ 316,211</u>
Debt service:				
Principal retirement	\$ 72,500	\$ 72,500	\$ 72,500	\$ -
Interest and other debt costs	90,489	90,489	90,489	-
Total debt service	<u>\$ 162,989</u>	<u>\$ 162,989</u>	<u>\$ 162,989</u>	<u>\$ -</u>
Total Capital Reserve Fund	<u>\$ 1,035,098</u>	<u>\$ 1,498,793</u>	<u>\$ 1,002,663</u>	<u>\$ 496,130</u>
Meals Tax Fund:				
General Government Administration:				
Meals tax administration	\$ 35,190	\$ 35,190	\$ 35,190	\$ -
Debt service:				
Principal retirement	\$ 697,500	\$ 697,500	\$ 699,464	\$ (1,964)
Interest and other debt costs	418,703	418,703	415,613	3,090
Total debt service	<u>\$ 1,116,203</u>	<u>\$ 1,116,203</u>	<u>\$ 1,115,077</u>	<u>\$ 1,126</u>
Total Meals Tax Fund	<u>\$ 1,151,393</u>	<u>\$ 1,151,393</u>	<u>\$ 1,150,267</u>	<u>\$ 1,126</u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2003 (Continued)

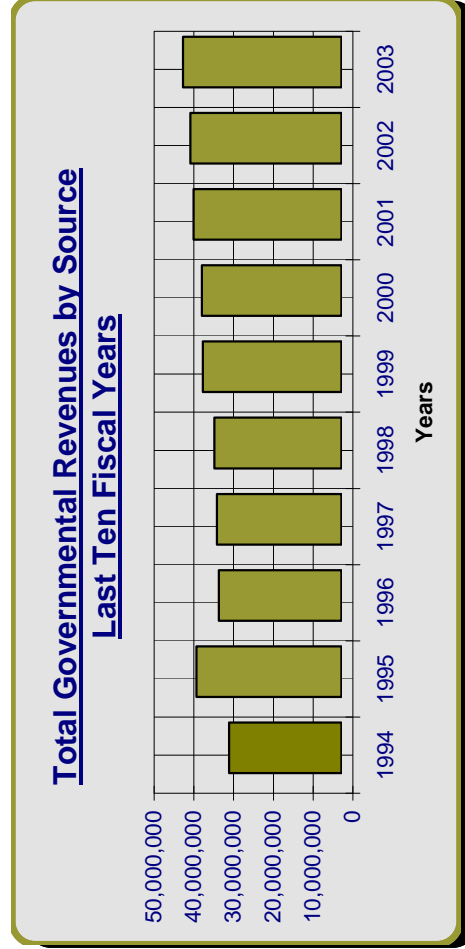
Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
Capital Project Funds: (Continued)				
Industrial Development Fund:				
Planning and Community Development:				
WPBDC	\$ -	\$ -	\$ 133,261	\$ (133,261)
Capital projects:				
WPBDC	-	-	90,529	(90,529)
Total Industrial Development Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 223,790</u>	<u>\$ (223,790)</u>
Total Capital Project Funds	<u>\$ 2,186,491</u>	<u>\$ 2,650,186</u>	<u>\$ 2,376,720</u>	<u>\$ 273,466</u>
Grand Total Expenditures - Primary Government	<u>\$ 31,363,682</u>	<u>\$ 31,719,894</u>	<u>\$ 30,224,386</u>	<u>\$ 1,495,508</u>
Component Unit - School Board				
School Operating Fund:				
Education:				
Instruction	\$ 13,766,505	\$ 14,319,621	\$ 13,636,010	\$ 683,611
Administration, attendance and health	2,871,265	2,938,128	2,592,782	345,346
Pupil transportation	628,986	628,986	650,367	(21,381)
Operation and maintenance of school plant	2,252,506	2,296,748	2,119,767	176,981
Total operating costs	<u>\$ 19,519,262</u>	<u>\$ 20,183,483</u>	<u>\$ 18,998,926</u>	<u>\$ 1,184,557</u>
Total School Operating Fund	<u>\$ 19,519,262</u>	<u>\$ 20,183,483</u>	<u>\$ 18,998,926</u>	<u>\$ 1,184,557</u>
School Cafeteria Fund:				
Education:				
School food services	<u>\$ 1,075,031</u>	<u>\$ 1,075,031</u>	<u>\$ 944,228</u>	<u>\$ 130,803</u>
School Grants Fund:				
Education:				
Instruction costs	<u>\$ -</u>	<u>\$ 1,844,306</u>	<u>\$ 1,318,949</u>	<u>\$ 525,357</u>
Grand Total Expenditures - Component Unit - School Board	<u>\$ 20,594,293</u>	<u>\$ 23,102,820</u>	<u>\$ 21,262,103</u>	<u>\$ 1,840,717</u>

Statistical Tables

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Governmental Revenues by Source
Last Ten Fiscal Years

Fiscal Year Ended June 30,	General Property Taxes		Other Local Taxes		Permit Fees & Regulatory Licenses	Fines & Forfeitures		Revenues from the Use of Money & Property		Charges for Services		Miscellaneous	Recovered Costs	Inter-governmental	Total
1994	\$ 6,457,507	\$ 4,728,382	\$ 63,540	\$ 134,792	\$ 1,226,292	\$ 510,454	\$ 517,591	\$ 76,316	\$ 14,544,438	\$ 28,259,312					
1995	6,615,957	4,981,630	108,890	163,427	6,869,288	500,774	543,862	892,409	15,807,412	36,483,649					
1996	6,776,450	5,653,788	15,395	209,863	1,027,754	514,184	1,184,441	530,850	14,910,038	30,822,763					
1997	6,929,431	5,866,852	17,652	213,765	958,325	849,872	643,564	469,944	15,364,538	31,313,943					
1998	7,225,353	6,129,277	27,982	202,332	726,311	860,789	494,622	562,993	15,746,475	31,976,134					
1999	7,312,654	6,282,372	33,552	197,292	795,555	874,083	614,087	655,743	18,094,451	34,859,789					
2000	6,583,181	6,162,491	18,679	145,992	973,942	686,792	758,135	766,081	19,007,401	35,102,694					
2001	7,372,892	6,227,663	17,024	201,585	674,472	538,333	808,634	819,424	20,527,650	37,187,677					
2002	6,374,432	6,518,345	13,360	214,765	621,218	572,599	488,889	940,455	22,246,185	37,990,248					
2003	6,754,405	6,887,937	101,779	188,946	618,298	610,566	333,613	849,339	23,504,759	39,849,642					

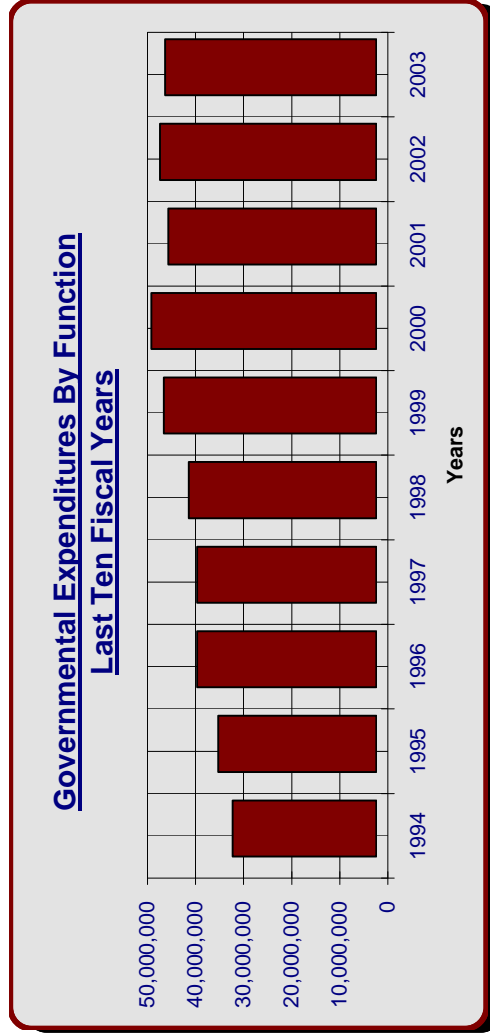


(1) Includes revenues of the Governmental Funds of the Primary Government and its discretely presented Component Unit School Board.

(2) The General Fund contributions to the Component Unit School Board are not included.

Governmental Expenditures by Function
Last Ten Fiscal Years

Fiscal Year Ended June 30,	General Administration		Judicial Administration	Public Safety		Public Works	Health and Welfare	Education	Recreation and Cultural	Community Development	Non departmental	Capital Outlays / Projects	Debt Service	Total
1994	\$ 1,703,174	\$ 847,797	\$ 5,355,476	\$ 2,485,901	\$ 3,442,634	\$ 14,538,411	\$ 315,601	\$ 532,174	\$ 492,101	\$ -	\$ 193,312	\$ 29,906,581		
1995	1,953,183	923,927	5,384,376	3,017,788	3,816,463	14,966,954	582,259	1,165,594	809,153	-	283,353	32,903,050		
1996	2,268,140	922,737	6,201,816	2,670,523	1,826,442	15,555,188	648,164	1,985,338	72,182	4,611,462	552,086	37,314,078		
1997	2,318,569	1,014,527	6,186,934	2,828,856	1,889,267	17,020,651	609,157	1,663,019	67,583	3,153,271	517,542	37,269,376		
1998	2,399,075	1,183,001	6,895,989	2,582,484	802,053	17,336,053	612,875	2,220,260	239,874	4,051,829	666,701	38,990,194		
1999	2,818,717	1,489,784	7,703,106	2,834,361	967,745	19,250,708	768,054	1,896,216	56,990	5,685,305	758,192	44,229,178		
2000	3,412,307	1,532,636	7,665,532	2,492,734	897,445	20,577,487	938,878	1,335,416	273,423	6,687,375	992,269	46,805,502		
2001	2,806,251	1,755,428	7,529,991	3,203,106	692,418	20,785,714	925,040	1,735,267	212,975	2,637,869	961,970	43,246,029		
2002	2,827,411	1,585,234	7,779,779	3,266,630	613,511	21,045,643	966,334	2,324,440	132,802	3,040,542	1,455,130	45,037,456		
2003	2,956,254	1,418,241	7,678,200	3,251,535	497,656	21,272,297	949,304	3,364,924	120,008	930,203	1,501,205	43,939,827		



(1) Includes current expenditures of the Governmental Funds of the Primary Government and its discretely presented Component Unit School Board.

(2) The General Fund contributions to the Component Unit School Board are not included.

Assessed Valuation of All Taxable Property
Last Ten Fiscal Years

Fiscal Years Ending June 30,	Real Estate	Personal Property	Machinery and Tools	Public Service Corporations	Total
1994	\$ 480,442,747	\$ 53,563,990	\$ 53,230,118	\$ 25,061,326	\$ 612,298,181
1995	483,949,585	54,234,564	59,074,742	24,075,144	621,334,035
1996	484,467,800	71,685,524	61,610,086	26,575,957	644,339,367
1997	489,100,450	85,210,947	54,173,499	23,425,736	651,910,632
1998	485,331,000	79,598,067	49,009,925	23,304,634	637,243,626
1999	483,149,200	85,925,407	45,790,992	23,191,676	638,057,275
2000	492,377,750	87,198,592	50,918,879	26,135,117	656,630,338
2001	499,376,500	87,362,958	47,211,356	27,313,555	661,264,369
2002	500,132,200	91,886,053	17,253,822	27,821,178	637,093,253
2003	531,125,500	89,785,700	13,854,533	27,763,786	662,529,519

Property Tax Rates
Last Ten Fiscal Years

Fiscal Years Ending June 30,	Real Estate		Personal Property		Machinery and Tools		Public Service	
							Real	Personal
1994	\$	0.84	\$	2.25	\$	1.85	\$	0.84
1995		0.84		2.25		1.85		0.84
1996		0.84		1.92		1.85		1.92
1997		0.84		1.92		1.85		1.92
1998		0.94		1.92		1.85		1.92
1999		0.94		1.92		1.85		1.92
2000		0.94		1.92		1.85		1.92
2001		0.94		1.92		1.85		1.92
2002		0.94		1.92		1.85		1.92
2003		0.94		1.92		1.85		1.92

Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year Ending June 30,	Total (1) Tax Levy	Current Tax (1) Collections	Percent of Levy Collected	Delinquent (1) Tax (2) Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding (1) Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
1994	\$ 6,362,452	\$ 6,198,291	97.42%	\$ 160,772	\$ 6,359,063	99.95%	\$ 597,141	9.39%
1995	6,534,695	6,360,796	97.34%	255,161	6,615,957	101.24%	631,352	9.66%
1996	6,847,293	6,484,461	94.70%	159,670	6,644,131	97.03%	655,816	9.58%
1997	6,988,863	6,721,278	96.17%	58,536	6,779,814	97.01%	632,399	9.05%
1998	7,245,084	6,827,121	94.23%	246,449	7,073,570	97.63%	667,413	9.21%
1999	7,294,688	6,950,292	95.28%	263,040	7,213,332	98.88%	684,915	9.39%
2000	7,525,350	6,301,132	83.73%	320,798	6,621,930	87.99%	1,466,633	19.49%
2001	7,546,250	6,596,153	87.41%	954,232	7,550,385	100.05%	923,231	12.23%
2002	7,104,697	6,899,049	97.11%	107,345	7,006,394	98.62%	845,663	11.90%
2003	7,269,766	6,925,121	95.26%	355,301	7,280,422	100.15%	729,216	10.03%

(1) Exclusive of penalties and interest.

(2) Does not include land redemptions.

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

Fiscal Year Ended June 30,	Population (1)	Assessed Value (in thousands)(2)	Net Bonded Debt	Ratio of Net General Obligation Debt to Assessed Value	Net Bonded Debt per Capita
1994	16,031	\$ 612,298,181	\$ 1,423,025	0.23%	\$ 89
1995	16,031	621,334,035	1,418,874	0.23%	89
1996	16,031	644,339,367	5,990,212	0.93%	374
1997	16,031	651,910,632	5,773,866	0.89%	360
1998	16,031	637,243,626	5,465,708	0.86%	341
1999	16,031	638,057,275	16,802,217	2.63%	1,048
2000	16,031	656,630,338	16,493,362	2.51%	1,029
2001	15,416	661,264,369	16,069,098	2.43%	1,042
2002	15,416	637,093,253	15,244,377	2.39%	989
2003	15,416	662,529,519	14,414,147	2.18%	935

(1) Tayloe Murphy Institute at the University of Virginia.

(2) From Table 5

Compliance

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

***Report on Compliance and on Internal Control Over
Financial Reporting 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 the financial statements of the City of Martinsville, Virginia, as of and for the fiscal year ended June 30, 2003, and have issued our report thereon dated August 28, 2003. We conducted our audit in accordance with the Specifications for Audit of Counties, Cities and Towns, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, and with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Martinsville, Virginia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Martinsville, Virginia's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Martinsville, Virginia in a separate letter dated August 28, 2003.

This report is intended for the information of the City Council, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
August 28, 2003

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of the City of Martinsville, Virginia with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the fiscal year ended June 30, 2003. The City of Martinsville, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Martinsville, Virginia's management. Our responsibility is to express an opinion on the City of Martinsville, Virginia's compliance based on our audit.

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

In our opinion, the City of Martinsville, Virginia, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2003.

Internal Control Over Compliance

The management of the City of Martinsville, Virginia is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Martinsville, Virginia's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the City Council, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia

August 28, 2003

CITY OF MARTINSVILLE, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and
Discretely Presented Component Units
Year Ended June 30, 2003

<u>Federal Grantor/State Pass - Through Grantor/ Program Title (Pass - Through Grantor's Number)</u>	<u>Federal Catalog Number</u>	<u>Expenditures</u>
PRIMARY GOVERNMENT:		
<u>DEPARTMENT OF TRANSPORTATION:</u>		
<u>Pass through payments:</u>		
Department of Motor Vehicles		
State and Community Highway Safety (Section 402 Grants) Alcohol Traffic		
National highway traffic safety	20.000	\$ <u>13,984</u>
 <u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>		
<u>Pass through payments:</u>		
Department of Housing and Community Development:		
Community development block grant	14.228	\$ 617,322
Housing choice	14.871	1,465,912
Moderate rehabilitation	14.856	172,072
Home Investment Partnerships Program	14.239	69,495
Total Department of Housing and Community Development		\$ <u>2,324,801</u>
 <u>DEPARTMENT OF LABOR:</u>		
<u>Pass through payments:</u>		
Governor's Employment and Training Department:		
Senior Community Services Employment Program	17.235	\$ <u>26,009</u>
 <u>DEPARTMENT OF JUSTICE:</u>		
<u>Pass through payments:</u>		
Department of Criminal Justice Services:		
Miscellaneous grants	16.000	\$ 6,143
State domestic support preparedness program	16.007	32,521
Local law enforcement block grants	16.592	20,688
Drug control and system improvement	16.579	25,845
State criminal alien assistance program	16.606	24,170
Total Department of Justice		\$ <u>109,367</u>
 <u>DEPARTMENT OF EMERGENCY SERVICES:</u>		
<u>Pass through payments:</u>		
Disaster relief public assistance	83.544	\$ 173,622
State and local all hazards emergency operations planning	83.562	7,874
Emergency management preparedness grant	83.552	4,467
Total Department of Emergency Services		\$ <u>185,963</u>
Total Primary Government		\$ <u><u>2,660,124</u></u>
 COMPONENT UNIT-SCHOOL BOARD:		
<u>DEPARTMENT OF AGRICULTURE:</u>		
<u>Pass through payments:</u>		
Department of Education:		
Food distribution	10.553	\$ 75,342

CITY OF MARTINSVILLE, VIRGINIA

Schedule of Expenditures of Federal Awards - Primary Government and
Discretely Presented Component Units
Year Ended June 30, 2003 (Continued)

<u>Federal Grantor/State Pass - Through Grantor/ Program Title (Pass - Through Grantor's Number)</u>	<u>Federal Catalog Number</u>	<u>Expenditures</u>
COMPONENT UNIT-SCHOOL BOARD: (Continued)		
Department of Education:		
National school breakfast program	10.553	\$ 101,526
National school lunch program	10.555	415,226
		<u>415,226</u>
Total Department of Agriculture		\$ <u>592,094</u>
<u>DEPARTMENT OF LABOR:</u>		
<u>Direct payments:</u>		
ROTC Instruction	17.000	\$ <u>41,830</u>
<u>DEPARTMENT OF EDUCATION:</u>		
<u>Pass through payments:</u>		
Education Consolidation and Improvement Act of 1981:		
Employment services	17.249	\$ 16,095
School to Work Transition Project	17.261	27,592
Title 1:		
Financial assistance to meet special educational needs of disadvantaged children - program operated by local education agencies (2E004500, 2E004511, 3E005820)	84.010	456,835
Title VI-B:		
Assistance to states for education of handicapped children - preschool and school programs (1E002570, 3E001110)	84.027	413,205
Vocational Education:		
Basic grants to states (3E001311)	84.048	59,614
Special Education:		
Preschool	84.173	9,331
Special Projects:		
Drug-free schools and communities (2E004617)	84.186	39,213
Goals 2000	84.276	
Eisenhower professional	84.281	13,536
Improving teacher quality	84.367	111,865
Innovative education	84.298	24,933
Title VI - Rural and low income schools	84.358	43,832
Technology challenge grant	84.318	275,912
Comprehensive school reform	84.213	187,351
Class size reduction	84.340	104,228
		<u>104,228</u>
Total Department of Education		\$ <u>1,783,542</u>
NASA	43.001	\$ <u>235,000</u>
Total Component Unit School Board		<u>\$ 2,652,466</u>
Total Federal Assistance		<u>\$ 5,312,590</u>

CITY OF MARTINSVILLE, VIRGINIA

Schedule of Findings and Questioned Costs
Year Ended June 30, 2003

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Reportable conditions identified not considered to be material weaknesses? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weaknesses identified? No

Reportable conditions identified not considered to be material weaknesses? None reported

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

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

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
84.027	Title VI-B
10.555	National School Lunch Program
84.010	Title I
14.228	Community Development Block Grant
14.871	Housing Choice

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

Auditee qualified as low-risk auditee? No

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

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

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