

Martinsville, Virginia
A CITY WITHOUT LIMITS



**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

YEAR ENDED JUNE 30, 2005

CITY OF MARTINSVILLE, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2005

PREPARED BY:

W.W. Bartlett, Finance Director

CITY OF MARTINSVILLE, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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CITY OF MARTINSVILLE, VIRGINIA

City Council

Joseph R. Cobbe, Mayor
Kimble Reynolds, Jr., Vice-Mayor

Terry L. Roop

James W. Clark

J. Ronald Ferrill

School Board

James H. Johnson, Chairman
Bill R. Manning

Nancy Baker
Bernie F. Gray, Jr.

Cynthia W. Ingram

Industrial Development Authority

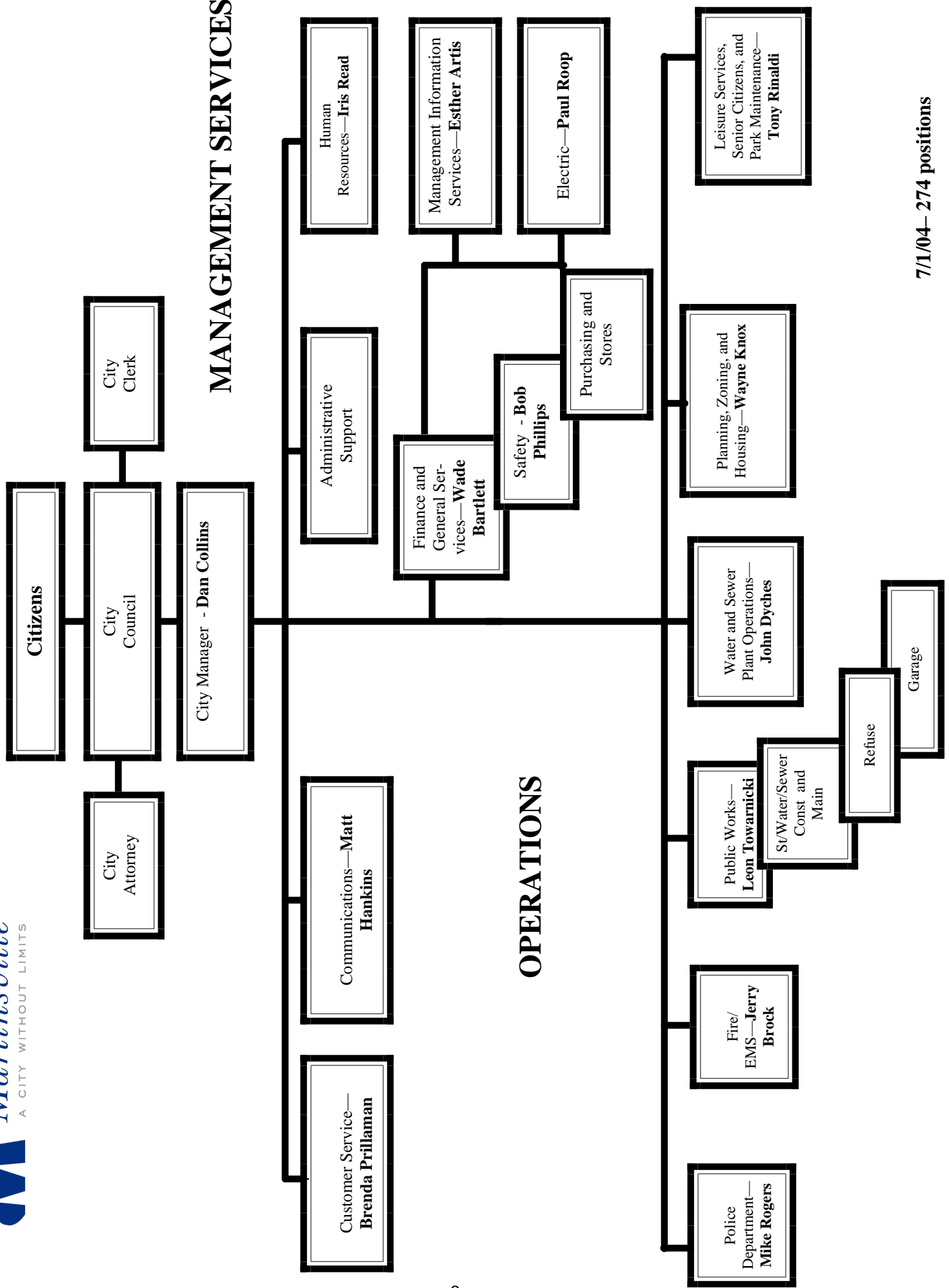
Thomas E. Hall, Chairman
Vern Berry

Mark Stroud
Agnes Mobile Hairston

Monroe Ridenhour
Robert L. Brown

Other Officials

City Manager..... Robert R. Collins
Clerk of the Circuit Court.....Ashby R. Pritchett
City AttorneyEric H. Monday
Commissioner of the Revenue..... Ruth Easley
Treasurer Pat S. Conrad
Police Chief..... Michael E. Rogers
Superintendent of Schools..... Scott R. Kizner
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 ChiefJerry W. Brock



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Martinsville,
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Zielle

President

Jeffrey R. Enow

Executive Director



November 17, 2005

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

We are pleased to present the Comprehensive Annual Financial Report of the City of Martinsville, Virginia, (the "City"), for the fiscal year ended June 30, 2005. This report was prepared by the City's Department of Finance. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

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

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

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

As a recipient of federal and state financial assistance, the City is also responsible for ensuring that adequate internal controls are in place to ensure and document compliance with applicable laws and regulations. The audit for the fiscal year ended June 30, 2005 has been completed and no material internal control weaknesses or material violations of laws and regulations have been identified.

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

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

THE REPORTING ENTITY AND ITS SERVICES

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

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

LOCAL ECONOMY

Martinsville encompasses a land area of 11 square miles. The City is located in the Southside furniture/textile belt, equidistant between Roanoke, Virginia and Greensboro, North Carolina. Two U.S. primary (57 & 58) and one State Route (220) traverse the City. For decades the City's economy was dominated by the manufacturing associated with those two industries. The evolution of these businesses has moved a large portion of the manufacturing process overseas. This caused several local plants to close and others to downsize. The end result has been the complete elimination of textiles in the local economy and a significant reduction in the furniture industry. The remaining manufacturing companies located in the City appear to have weathered this trend and in fact some are expanding operations and increasing their workforce.

Based on available economic data, trends for the local economy are showing signs of improvement albeit slowly. The local unemployment rate was 9.9% at June 30, 2005, a decrease over the rate of 13.9% at June 30, 2004. This rate is still much higher than the state and national rates of 3.8% and 5.2% respectively.

The City has responded to the economic declines by implementing a proactive economic development program. These efforts are beginning to yield results. Expansion of investment and jobs in medical, retail, and call centers have occurred in the last three years. Martinsville's economy is more diversified than it has ever been with strong manufacturing, retail trade, medical, and governmental sectors. Assessed value of taxable property has increased by 5.7% over the last two years. The amounts collected in Business Licenses and Meals taxes increased 17.6% and 7.6% respectively in Fiscal Year 2005. These increases are indicators of expanding business activity.

MAJOR INITIATIVES

For Fiscal Year 2005: Following the goals and objectives established by the City of Martinsville Council, and with the assistance and guidance of the City Manager, City staff and agencies implemented and continued a number of specific "**programs**" designed to provide City residents with cost efficient government while enhancing their home and employment environment.

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

- Regional Economic Development Agreements
- Signed agreements with Henry County to provide water and treat wastewater
- Transportation system improvements
- Instituted an EMS Transportation and Billing Service
- Purchased a Summer Collegiate Baseball Team
- Reduced Transfer from the General Fund to the School Fund

Regional Economic Development Agreements. The City entered into an agreement with Henry County to develop 5 lots containing a total of 239 acres in the County's industrial park. The majority of this project will be paid with Grants from the Federal and State government. The City's cost for this project will be approximately \$240,000. When completed the lots will have access to utilities to include fiber optic cable and road frontage and the lots will be graded and ready to build on. In exchange for helping pay for this project the City will receive one-third of all property and consumer utility taxes generated from any development on the lots. Due to the moratorium on annexation by Cities in the Commonwealth the City had no options to grow. This agreement provides the City with additional land for development while at the same time sharing the cost to make ready for sale lots in an established industrial park.

Additionally, the City has entered into an economic development initiative with the County to combine and greatly expand the development efforts of our two communities. In concert with the local Chamber of Commerce and a local foundation the economic development effort of the region will be financed with an annual budget of \$1.9M, more than double the amount the City and County have expended on these efforts in the past. This new office has a holistic approach to economic development. Instead of merely focusing on recruitment of new business this office will have significant resources and staff to work with existing businesses on retention and expansion, develop projects of community revitalization, manage tourism programs, and foster small business development.

Water/Wastewater. Henry County surrounds the City and has experienced the same downsizing of its textile and furniture industries. Both the City and County's water and wastewater systems had considerable excess capacity after several textile plants ceased production. Recognizing the under utilization of both systems the City and County signed agreements whereby the City's wastewater treatment plant would treat all County waste and the City's water plant would provide additional water to County residents. The water portion of this project has been completed and the City's water revenues increased by \$132,000 annually. Almost 70% of the wastewater project is completed. When finished the City's wastewater revenues will increase by \$370,000 annually. Combined the City's utility revenues will increase by more than \$500,000 annually. The project was funded by various grants.

MAJOR INITIATIVES: (CONTINUED)

Transportation. The City in conjunction with the state continued progress on the improvements to the Liberty Street/Clearview Drive intersection. This intersection is the primary entranceway to the City's Business Park. When completed, access to the Business Park will be greatly improved. This will increase the City's ability to attract additional tenants to the park. All necessary right of way acquisition has been completed and utilities moved. Construction bids were awarded and construction has begun. The entire project will be completed by the summer of 2006.

EMS Transport and Billing. The City began providing emergency ambulance transport associated with emergency calls dispatched by the 911 center. Prior to the implementation of this program City firefighters served as first responders restricted to responding to only life threatening emergencies. Emergency or ambulance transport to the emergency room was provided by either a volunteer rescue squad or if they were not available a private paid-for-profit company.

A review of the emergency calls showed an unacceptable delay in the delivery of this life saving service and that City firefighters had to ride in the ambulance to the emergency room in approximately one-half of all calls. This forced our firefighters to remain on scene for an inordinate amount of time waiting on the arrival of an ambulance. In order to improve this service and more efficiently utilize our personnel the City decided to provide this service. No additional personnel were required for this program since we were already responding to the EMS calls.

As a result the City obtained two ambulances paid mainly with grant funds. We also contracted with a third-party billing agent to bill Medicaid, Medicare and private insurers. This revenue stream is projected to provide \$350,000 annually while operational costs increases of the program will be minimal.

Collegiate Baseball. The City purchased a franchise in the Coastal Plain League, a summer collegiate wooden bat league, in response to losing professional baseball in January 2004. The team hired a general manager in January 2005, and placed responsibility for the team in the city's Communications Department. After recruiting team members throughout the spring, the team started play in June 2005. The team was well received by the community, which supported the team in advertising sales and concessions and souvenir sales. After initial equipment purchases to support game-day activities, the city anticipates investing future net revenues to improve facilities at Hooker Field.

Decreased General Fund Transfer to Schools. After years of underfunding education the Commonwealth finally took steps to fund its portion of this important service. The Commonwealth provided a net increase in school funding of slightly more than \$1.6M. While still not meeting its legal requirement it allowed the City to reduce the General Fund transfer to the Schools by \$703,542. The City expects this increased level of funding to continue into the future, thus easing the burden on the City's real estate tax rate.

PROSPECTS FOR THE FUTURE

For the fiscal year 2006, the City Council has approved a General Fund Budget of \$27,151,261. The fiscal year 2006 plan maintains the real estate tax rate of \$0.94 per \$100 of assessed value. All other tax rates remain the same.

The City faces several major challenges in the near future. The greatest pertain to the Electric and Refuse funds. With the closure of the landfill in 2006 the Refuse Fund will no longer serve as a major source of cash for the City. Over the last three years the Refuse Fund has averaged a positive net cash flow of more than \$2.2 million annually.

PROSPECTS FOR THE FUTURE: (CONTINUED)

After the close of the landfill the City will have to pay a third party to dispose of and haul our garbage to another landfill while at the same time paying the post closure costs associated with the closed landfill. Refuse rates will rise and will just cover operational expenses meaning the loss of more than \$2.2 million in free cash flow.

The challenges in the Electric Fund are just as daunting. Current laws regarding deregulation have greatly increased our cost to purchase power and have forced the City to be noncompetitive with the adjacent power provider. The City purchases power on the wholesale market for resale to our customers. Federal law has deregulated electric wholesale market rates but the Commonwealth has maintained regulation on retail charges. The result has caused the City wholesale rate to be much greater than the retail rates charged by the adjacent utility.

This forced the City to raise Electric rates charged to our customers by approximately 40% over the last 2 years. The result has been our rates are around 30% higher than the adjacent utility. The outlook for the future is for even higher wholesale rates. The choice will be to increase electric rates, placing us in a worse position to attract new business or reduce the transfer from the Electric Fund. This last action will place great pressure on the City to raise tax rates or cut services to our citizens. In an effort to reduce our reliance on the high priced and volatile wholesale electric market we are beginning to explore City owned electric generation. This will be a process extending over several years and will not alleviate the pressures mentioned above.

RISK MANAGEMENT

The City of Martinsville has a risk management program which is committed to the logical, systematic and continuous identification of loss exposures for and to the City, its employees, its citizens and taxpayers, through the evaluation of risk in terms of severity and frequency probability and the application of sound loss control procedures. As a part of this commitment, the City has obtained third party coverage for all liability risk.

OTHER INFORMATION

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

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

OTHER INFORMATION: (CONTINUED)

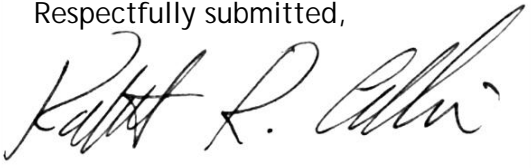
Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Martinsville for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report (CAFR), whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Respectfully submitted,



City Manager



Director of Finance

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 financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Martinsville, Virginia, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City of Martinsville Virginia's management. Our responsibility is to express 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 respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Martinsville, Virginia, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 26, 2005, on our consideration of the City of Martinsville, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and required supplementary information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Martinsville, Virginia, basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, supporting schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the City of Martinsville, Virginia. The combining and individual nonmajor fund financial statements, supporting schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
August 26, 2005

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, 2005. 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 \$23,412,209 (total net assets). Of this amount \$9,050,361 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The Governmental activities net assets were \$2,125,990 of the City's total, an increase of \$1,185,868 in comparison with net assets of \$940,122 at June 30, 2004.
- Net assets of the City's various business type activities totaled \$21,286,219. This is an increase of \$1,831,617 from net assets reported on June 30, 2004.
- The School Board's assets exceeded its liabilities by \$6,306,212 an increase of \$1,689,004 when compared to the amount on June 30, 2004. However, \$4,332,552 of this amount reflects the School Board's net investment in capital assets leaving \$1,973,660 to meet ongoing obligations.

Fund Financial Statements

The Governmental Funds, on a current financial resource basis, reported revenues and other financing sources in excess of expenditures and other uses by \$225,087 (Exhibit 4) after making direct contributions totaling \$6,392,924 to the School Board. An additional \$1,078,185 was expended from the Meals Tax Fund to retire School related debt with another \$229,878 expended from the Capital Reserve for School improvements. A total of \$7,700,987 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 \$1,288,108, which is an increase of \$225,087 in comparison with the prior fiscal year.
- At the close of the current fiscal year, the unreserved fund balance for the general fund was \$354,406 or one and four tenths of a percent (1.4%) of total general fund expenditures.
- The combined long-term Governmental obligations decreased \$632,507 or 4.3% during the current fiscal year. This decrease resulted from payments on existing Notes, Bonds, and Literary Loans exceeding the issuance of new debt.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to the City's basic financial statements. These financial statements are comprised of three (3) components:

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

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

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

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

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

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

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

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.

Overview of the Financial Statements: (Continued)

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

The City has one major governmental fund - the *General Fund*. The City has six funds considered Non-major funds. These are the Indoor Plumbing Fund (IPR), the Community Development Block Grant Fund (CDBG), the Housing Choice Fund, the Capital Reserve Fund, 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, 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 twelve and thirteen. This data is then combined in a single column for the governmental fund balance sheet (exhibit 3) and the governmental fund statement of revenues, expenditures, changes in fund balances (exhibit 4).

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

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

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

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

Government-wide Financial Analysis

As stated earlier in this discussion, net assets may serve as a useful indicator of a City's financial position over time. For the City in FY2005, assets exceeded liabilities by \$23,412,209 at the close of the fiscal year as presented in the Table below. This was an increase of \$3,014,485 or 14.8% over the FY2004 closing amount of \$20,394,724.

Government-wide Financial Analysis: (Continued)

**City of Martinsville, Virginia
Schedule of Assets, Liabilities and Net Assets
Governmental and Business-Type Activities
Schedule of Assets, Liabilities and Net Assets
For the Years Ended June 30, 2005 and 2004**

	Governmental Activities		Business-type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 3,610,971	\$ 3,192,419	\$ 10,766,137	\$ 9,141,956	\$ 14,377,108	\$ 12,334,375
Capital assets	<u>13,471,139</u>	<u>13,531,676</u>	<u>14,603,260</u>	<u>15,092,730</u>	<u>28,074,399</u>	<u>28,624,406</u>
Total assets	<u>\$ 17,082,110</u>	<u>\$ 16,724,095</u>	<u>\$ 25,369,397</u>	<u>\$ 24,234,686</u>	<u>\$ 42,451,507</u>	<u>\$ 40,958,781</u>
Long-term liabilities outstanding	\$ 12,936,113	\$ 13,665,030	\$ 3,117,474	\$ 3,436,307	\$ 16,053,587	\$ 17,101,337
Current liabilities	<u>2,020,007</u>	<u>2,118,943</u>	<u>965,704</u>	<u>1,343,777</u>	<u>2,985,711</u>	<u>3,462,720</u>
Total liabilities	<u>\$ 14,956,120</u>	<u>\$ 15,783,973</u>	<u>\$ 4,083,178</u>	<u>\$ 4,780,084</u>	<u>\$ 19,039,298</u>	<u>\$ 20,564,057</u>
Net assets:						
Invested in capital assets, net of related debt	\$ (241,412)	\$ (845,555)	\$ 14,603,260	\$ 14,978,661	\$ 14,361,848	\$ 14,133,106
Unrestricted	<u>2,367,402</u>	<u>1,785,677</u>	<u>6,682,959</u>	<u>4,475,941</u>	<u>9,050,361</u>	<u>6,261,618</u>
Total net assets	<u>\$ 2,125,990</u>	<u>\$ 940,122</u>	<u>\$ 21,286,219</u>	<u>\$ 19,454,602</u>	<u>\$ 23,412,209</u>	<u>\$ 20,394,724</u>

At the end of FY2005, the City's investment in capital assets, net of related debt is \$14,361,848 and represents sixty one and three tenths of a percent (61.3%) 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 (\$241,412). The reason for this is due to the recording of liabilities with no assets such as accrued leave, current year depreciation expense and joint tenancy assets transferred to the School Board.

Restricted Assets represent resources subject to external restrictions on how they may be used. The City had no restricted assets at the end of the Fiscal Year. The remaining balance of unrestricted net assets in the amount of \$9,050,361 or 38.7% of total assets, may be used to meet the government's ongoing obligations.

Governmental Activities - Governmental activities increased Martinsville City's net assets by \$1,185,868. The key elements of this increase are found in exhibit 5. There were two primary causes of this increase (1) the retirement of debt exceeded issuance of new debt by \$664,680 and (2) purchase of capital assets exceeded depreciation by \$608,789. Another significant factor was the transfer of assets to the Schools in the amount of \$669,326. 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.

Government-wide Financial Analysis: (Continued)

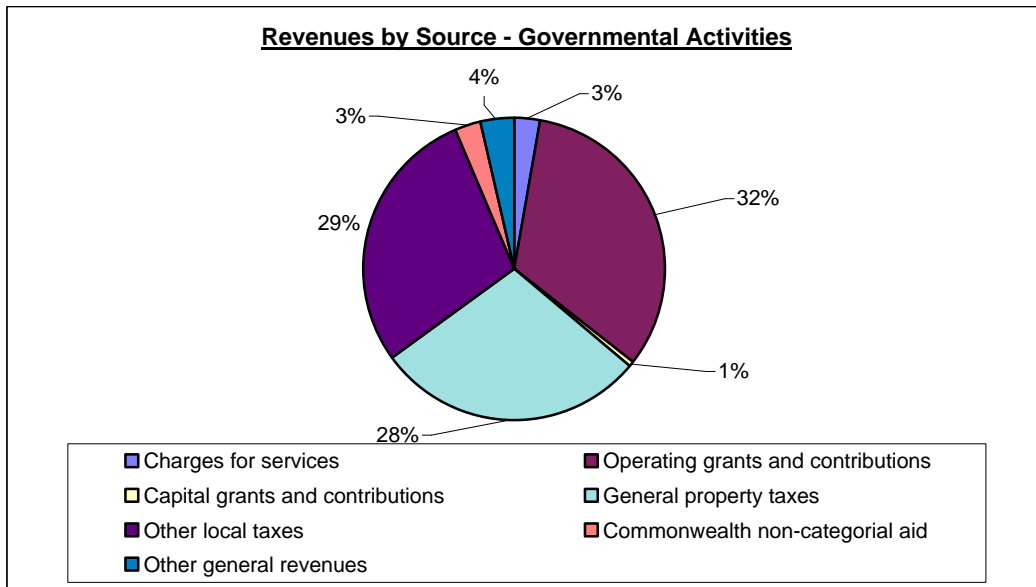
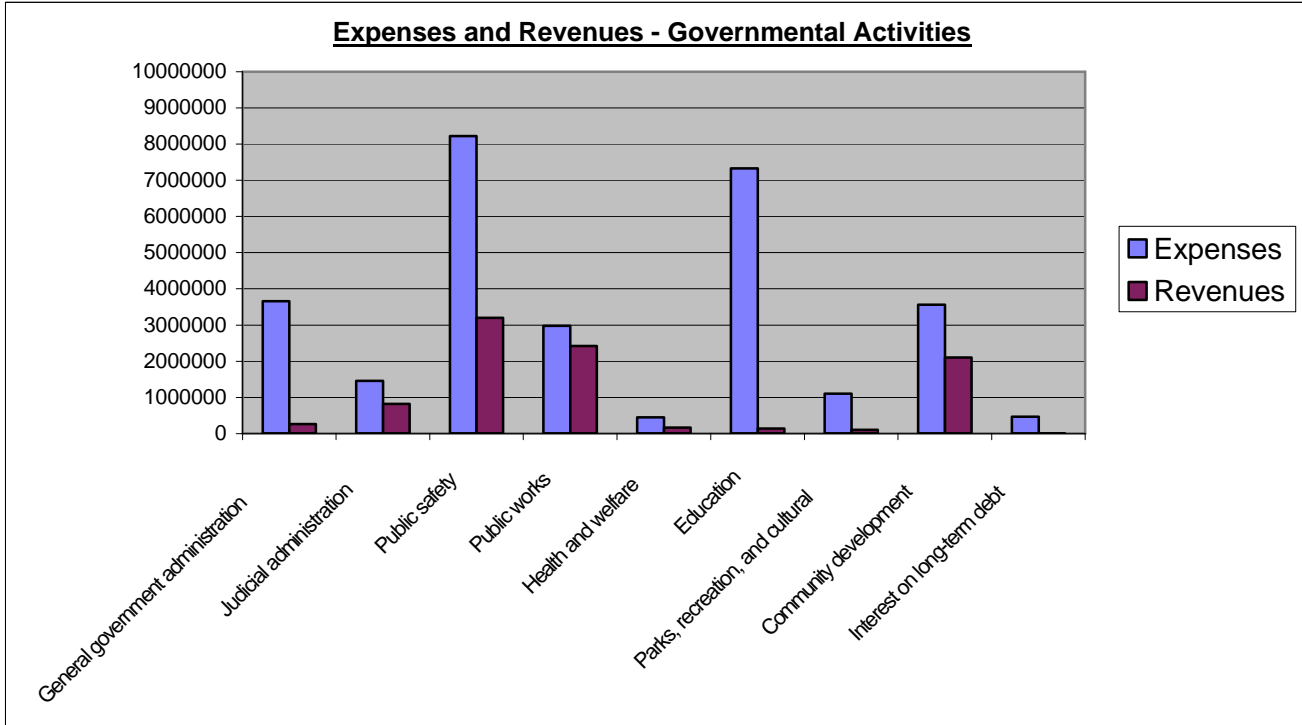
City of Martinsville, Virginia
Changes in Net Assets
Governmental and Business-Type Activities
For the Years Ended June 30, 2005 and 2004

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues:						
Program revenues:						
Charges for services	\$ 679,140	\$ 817,849	\$ 19,875,353	\$ 18,287,298	\$ 20,554,493	\$ 19,105,147
Operating grants and contributions	8,428,348	8,613,003	-	-	8,428,348	8,613,003
Capital grants and contributions	139,919	139,992	25,728	243,925	165,647	383,917
General revenues:						
General property taxes	7,460,249	7,303,536	-	-	7,460,249	7,303,536
Other local taxes	7,352,810	7,112,440	-	-	7,352,810	7,112,440
Commonwealth non-categorical aid	669,189	741,465	-	-	669,189	741,465
Other general revenues	952,580	415,911	-	-	952,580	415,911
Total revenues	<u>\$ 25,682,235</u>	<u>\$ 25,144,196</u>	<u>\$ 19,901,081</u>	<u>\$ 18,531,223</u>	<u>\$ 45,583,316</u>	<u>\$ 43,675,419</u>
Expenses:						
General government administration	\$ 3,657,672	\$ 2,743,168	\$ -	\$ -	\$ 3,657,672	\$ 2,743,168
Judicial administration	1,461,196	1,351,523	-	-	1,461,196	1,351,523
Public safety	8,221,961	8,167,425	-	-	8,221,961	8,167,425
Public works	2,982,834	3,558,497	-	-	2,982,834	3,558,497
Health and welfare	448,218	560,092	-	-	448,218	560,092
Education	7,324,102	7,849,055	-	-	7,324,102	7,849,055
Parks, recreation, and cultural	1,106,306	984,188	-	-	1,106,306	984,188
Community development	3,566,228	3,309,836	-	-	3,566,228	3,309,836
Interest on long-term debt	471,184	502,572	-	-	471,184	502,572
Electric	-	-	7,738,232	7,880,557	7,738,232	7,880,557
Water	-	-	1,656,305	1,630,847	1,656,305	1,630,847
Sewer	-	-	2,188,736	2,016,250	2,188,736	2,016,250
Refuse collection/landfill	-	-	1,742,857	1,913,828	1,742,857	1,913,828
Total expenses	<u>\$ 29,239,701</u>	<u>\$ 29,026,356</u>	<u>\$ 13,326,130</u>	<u>\$ 13,441,482</u>	<u>\$ 42,565,831</u>	<u>\$ 42,467,838</u>
Increase in net assets before transfers	\$ (3,557,466)	\$ (3,882,160)	\$ 6,574,951	\$ 5,089,741	\$ 3,017,485	\$ 1,207,581
Transfers	4,743,334	3,475,613	(4,743,334)	(3,475,613)	-	-
Increase in net assets	\$ 1,185,868	\$ (406,547)	\$ 1,831,617	\$ 1,614,128	\$ 3,017,485	\$ 1,207,581
Net assets-beginning	940,122	1,346,669	19,454,602	17,840,474	20,394,724	19,187,143
Net assets - ending	<u>\$ 2,125,990</u>	<u>\$ 940,122</u>	<u>\$ 21,286,219</u>	<u>\$ 19,454,602</u>	<u>\$ 23,412,209</u>	<u>\$ 20,394,724</u>

Revenues from governmental activities totaled \$25,682,235 with operating grants and contributions (32.8%), other local taxes (28.6%), and general property taxes (29%) comprising 90.5% of the City's revenues. Expenses for public safety (28.1%), education (25%), general government administration (12.5%), community development (12.2%), public works (10.2%), account for 88.1% of total governmental expenses of \$29,239,701.

Government-wide Financial Analysis: (Continued)

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



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

Business-type Activities increased the City's net assets by \$1,831,617 even after deducting \$4,743,334 in transfers to the General and Capital Reserve Funds. Transfers increased \$1,267,721 compared to the prior Fiscal Year. This increase in transfers was made possible by an increase in Electric and Refuse rates.

Financial Analysis of the City's Funds

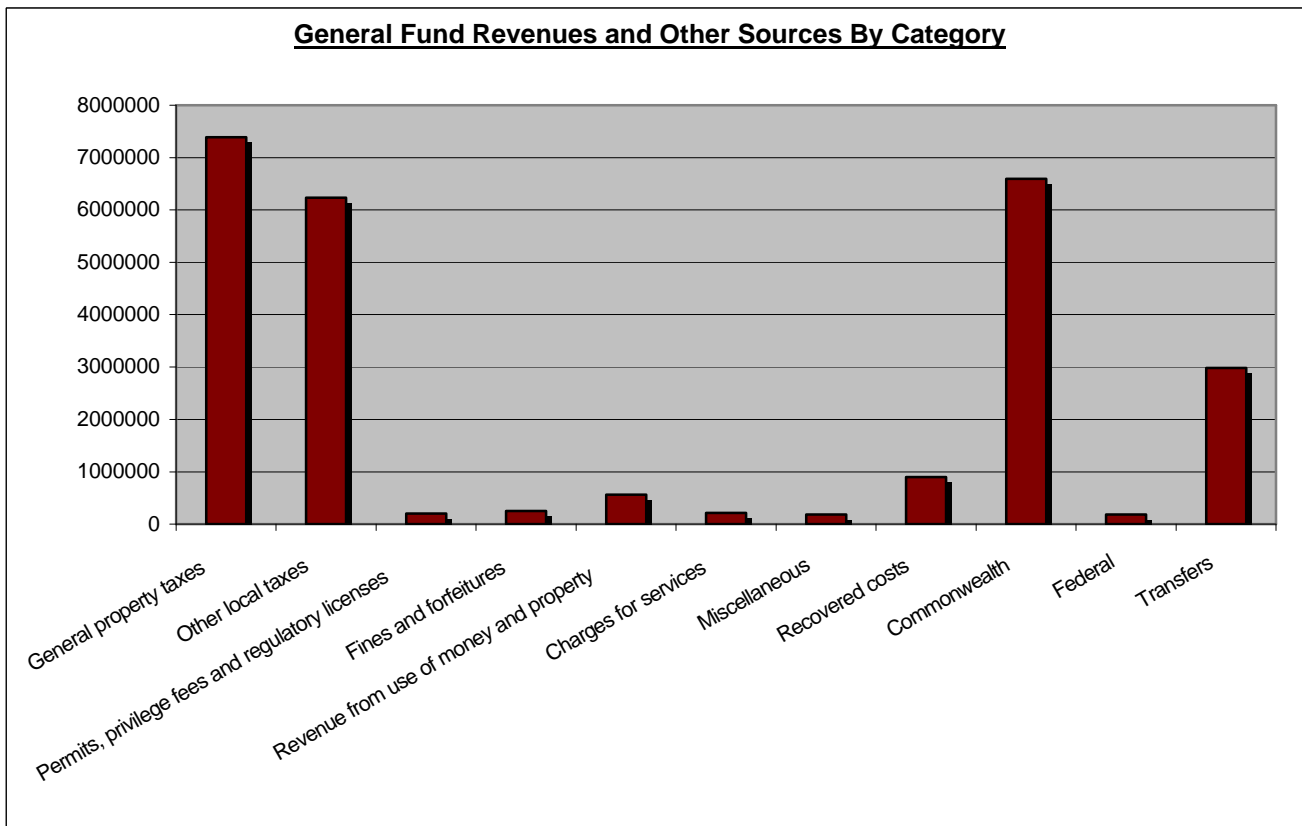
As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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 \$1,288,108 an increase of \$225,087 when compared to the prior year. Eighty-eight percent (\$1,134,009) of the combined governmental funds balance is unreserved. The remaining twelve percent (\$154,099) of the combined fund balance is designated to show it is not available for spending because it has been committed for future capital projects.

The General Fund is the operating fund of the City. The General Fund reports a fund balance at June 30, 2005 of \$508,505. This is a decrease from the prior year of \$304,900. The General Funds deficiency of revenues over expenditures actually fell by \$493,178 for the Fiscal Year. The decline in fund balance was the result of increasing transfers out of the General Fund by \$782,364. This increase was used to fund School improvements. Seventy percent or \$354,406 of the total fund balance is unreserved, a decrease of \$304,900 from June 30, 2004. 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 1.6% of total General Fund expenditures, while total fund balance is 2.2% of that same amount.

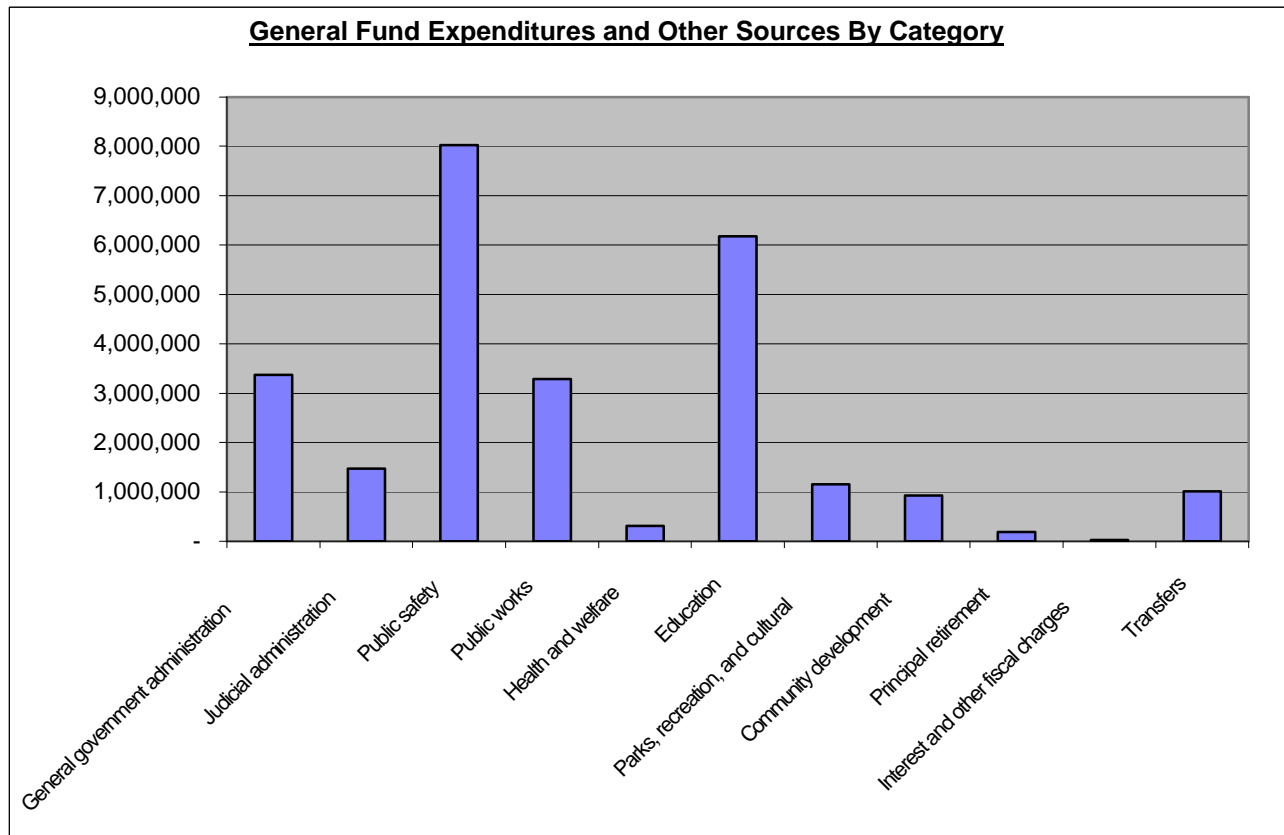
GENERAL FUND REVENUES AND OTHER SOURCES BY CATEGORY

The following graph depicts General Fund revenues and other sources by categories. Total revenues and other sources are \$25,642,638 including transfers into the fund of \$2,980,714.



General Fund Expenditures and Other Uses by Category: Continued

The graph below displays General Fund expenditures and other uses by category. Total expenditures and uses are \$25,947,538 including transfers out of the fund of \$1,008,950.



Proprietary funds – reported combined ending net assets of \$21,286,219: an increase of \$1,831,617 in comparison with the amount reported on June 30, 2004. This increase was the result of an increase in the Refuse Fund of \$1,515,083 and the Electric Fund of \$1,001,012. The Sewer Fund reported a decrease in net assets of \$460,228 or 7.7% and the Water Fund decreased \$224,250 or 4.7%.

The decreases in the Sewer and Water Funds were caused by transferring an amount from those funds greater than their Operating Income.

The Enterprise Funds contributed \$4,859,598 in the support of other City operations. Of that amount \$2,980,714 or 61.3% was transferred to the General Fund, and \$1,878,884 or 38.7% 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 \$422,817 or 1.9% while expenditures increased by \$554,242 or 2.2%. The Revenue increases were as follows:

- \$200 in use of Money and Property
- \$196,919 in Charges for Service
- \$27,071 in Miscellaneous
- \$25,146 in Recovered costs
- \$12,581 in Intergovernmental Revenues from the Commonwealth
- \$160,900 in Intergovernmental revenues from the Federal Government.

General Fund Budgetary Highlights: (Continued)

The Expenditure amendments were as follows:

- \$8,361 in increases in Legislative Administration
- \$25,197 in increases in General government administration
- \$59,809 in increases in Judicial administration
- \$213,412 in increases Public Safety
- \$24,040 in increases in Public Works
- \$5,985 in decreases in Education
- \$223,123 in increases in Parks, Recreation, and Cultural
- \$300 in increases in Community development

The various increases had a net effect of increasing the use of the fund balance by \$131,425. During the year, however, revenues fell \$146,170 or .6% short of meeting the revised budget and expenditures were less than budget by \$800,143 or 3.1%. The result was a positive variance of \$653,973 to the revised budget.

Capital Asset and Debt Administration

Capital assets – The City’s investment in capital assets for its governmental and enterprise operations as of June 30, 2005, is \$28,074,399 (net of accumulated depreciation) as listed in Table 3. This investment in capital assets includes land, buildings and improvements, infrastructure, and machinery and equipment. Significant capital asset events during FY2005 were: purchase of a fire truck, six police vehicles, two ambulances, three vehicles for the Sheriff, dump truck, bucket truck, replacement of several servers and a significant portion of our personal computers, upgrades to MINET, replacement of the cooling tower on the municipal building, purchase of a front end loader, and replaced 4 circuit breakers.

**City of Martinsville, Virginia
Capital Assets
June 30, 2005 and 2004**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$ 1,531,372	\$ 1,531,372	\$ 683,624	\$ 683,624	\$ 2,214,996	\$ 2,214,996
Buildings and improvements	14,160,915	14,975,761	3,040,200	2,952,400	17,201,115	17,928,161
Infrastructure	56,100	-	47,222,531	46,570,391	47,278,631	46,570,391
Equipment	<u>6,105,713</u>	<u>4,806,956</u>	<u>6,286,056</u>	<u>6,173,854</u>	<u>12,391,769</u>	<u>10,980,810</u>
Total	\$ 21,854,100	\$ 21,314,089	\$ 57,232,411	\$ 56,380,269	\$ 79,086,511	\$ 77,694,358
Less: accumulated depreciation	<u>8,382,961</u>	<u>7,782,413</u>	<u>42,629,151</u>	<u>41,287,539</u>	<u>51,012,112</u>	<u>49,069,952</u>
Net capital assets	<u>\$ 13,471,139</u>	<u>\$ 13,531,676</u>	<u>\$ 14,603,260</u>	<u>\$ 15,092,730</u>	<u>\$ 28,074,399</u>	<u>\$ 28,624,406</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 FY2005, Martinsville City had total outstanding obligations of \$17,823,695. Of this amount \$12,731,939 comprises debt backed by the full faith and credit of the City. The remainder of the City’s debt represents bonds secured solely by specified revenue sources, i.e., revenue bonds, landfill closure and post-closure liability, compensated absences, notes payable and capital lease obligations.

During the Fiscal Year the City decreased its long-term obligations by \$1,367,019 or 7.1%. The City paid principal payments of \$2,140,225 and issued \$427,575 in new obligations used to purchase a fire truck. Other obligations increased by \$345,631. The decrease in long-term obligations is the result of City Council’s deliberate actions to decrease debt and improve the City’s overall fund balances.

Capital Asset and Debt Administration: (Continued)

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, 2005 the City's ratio of Net General Obligation Debt to Assessed Value was 1.82%. The City's debt ratio has declined for six consecutive years.

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

Economic Factors Influencing FY2006 Budgets and Tax Rates

The unemployment rate for the City on June 30, 2005 was 9.9%. This was a decrease of 3.7% year to year. Still the City's unemployment rate compares unfavorably to the state's average unemployment rate of 3.8% and the national average of 5.2% for the same time.

Martinsville has a per capita income of \$23,309 as compared to the state average of \$33,730.

The landfill is reaching capacity and it has been decided a transfer station will be built to ship waste to a private landfill. Once the City's landfill is closed in FY2006 the cost to dispose of the waste will increase substantially causing the City to increase the various customer collection charges. In an effort to spread the increases over several years City Council increased these charges for the second straight year and anticipates additional increases.

The current contract to purchase electricity for resale to the public expired on June 30, 2005. The new contract required the City to pay 64% more for the power it purchases for resale. This increase will force customer charges to rise accordingly.

All these factors were considered in preparing the City's budget for the 2006 fiscal year.

In order to balance the budget the following adjustments were approved:

- Reduced Capital Reserve budget by \$2,138,858 as compared to FY2005.
- Decreased the General Fund transfer to Capital Reserve Fund by \$900,000.
- Increased the 911 tax on phones from \$1.67 to \$3.00
- Increased garbage collection rates – Residential increased from \$9.50 to \$11.50 per month, Commercial rate increased from \$18.50 to \$20.50, tipping fee increased from \$39 per ton to \$45.20 per ton.
- Increased Electric rates 30% across the board.
- Increased Water and Sewer rates 20%.
- Reduced transfers out of the Enterprise Funds by \$429,105.

The additional revenues raised by the rate increases mentioned above and the decreased spending on capital items were not adequate to offset increasing expenses. The net result of the FY2006 budget will be a decrease in total fund balances of \$731,754.

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.

Basic Financial Statements

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Government-wide Financial Statements

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Statement of Net Assets
June 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	School Board
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 1,498,603	\$ 5,589,001	\$ 7,087,604	\$ 2,096,455
Receivables (net of allowance for uncollectibles):				
Property taxes	409,136	-	409,136	-
Accounts receivable	207,530	2,883,928	3,091,458	42,770
Inventory	1,810,481	921,469	2,731,950	-
Internal balances	(1,371,739)	1,371,739	-	-
Due from other governments	1,056,960	-	1,056,960	1,112,052
Total Current Assets	\$ 3,610,971	\$ 10,766,137	\$ 14,377,108	\$ 3,251,277
Noncurrent Assets				
Capital assets (net of accumulated depreciation):				
Land	\$ 1,531,372	\$ 683,624	\$ 2,214,996	\$ 47,172
Buildings and improvements	9,912,348	903,025	10,815,373	3,670,527
Equipment	1,973,189	1,490,805	3,463,994	614,853
Infrastructure	54,230	11,525,806	11,580,036	-
Total Capital Assets	\$ 13,471,139	\$ 14,603,260	\$ 28,074,399	\$ 4,332,552
Total Assets	\$ 17,082,110	\$ 25,369,397	\$ 42,451,507	\$ 7,583,829
LIABILITIES				
Current Liabilities				
Accounts payable and other current liabilities	\$ 522,319	\$ 426,489	\$ 948,808	\$ 1,277,617
Accrued interest payable	266,795	-	266,795	-
Current portion of long-term obligations	1,230,893	539,215	1,770,108	-
Total Current Liabilities	\$ 2,020,007	\$ 965,704	\$ 2,985,711	\$ 1,277,617
Noncurrent Liabilities				
Noncurrent portion of long-term obligations	12,936,113	3,117,474	16,053,587	-
Total Liabilities	\$ 14,956,120	\$ 4,083,178	\$ 19,039,298	\$ 1,277,617
NET ASSETS				
Invested in capital assets, net of related debt	\$ (241,412)	\$ 14,603,260	\$ 14,361,848	\$ 4,332,552
Unrestricted assets	2,367,402	6,682,959	9,050,361	1,973,660
Total Net Assets	\$ 2,125,990	\$ 21,286,219	\$ 23,412,209	\$ 6,306,212
Total Liabilities and Net Assets	\$ 17,082,110	\$ 25,369,397	\$ 42,451,507	\$ 7,583,829

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

CITY OF MARTINSVILLE, VIRGINIA

Statement of Activities
Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government administration	\$ 3,657,672	\$ 27,565	\$ 236,395	\$ -
Judicial administration	1,461,196	293,337	532,023	-
Public safety	8,221,961	174,115	3,032,031	-
Public works	2,982,834	73,745	2,352,700	-
Health and welfare	448,218	-	169,150	-
Education	7,324,102	-	-	139,919
Parks, recreation, and cultural	1,106,306	110,378	-	-
Community development	3,566,228	-	2,106,049	-
Interest on long-term debt	471,184	-	-	-
Total government activities	\$ 29,239,701	\$ 679,140	\$ 8,428,348	\$ 139,919
Business-type activities:				
Electric	\$ 7,738,232	\$ 11,796,694	\$ 25,728	\$ -
Water	1,656,305	2,213,187	-	-
Sewer	2,188,736	2,211,259	-	-
Refuse collection / landfill	1,742,857	3,654,213	-	-
Total business-type activities	\$ 13,326,130	\$ 19,875,353	\$ 25,728	\$ -
Total primary government	\$ 42,565,831	\$ 20,554,493	\$ 8,454,076	\$ 139,919
COMPONENT UNIT:				
School Board	\$ 23,192,770	\$ 574,392	\$ 17,016,226	\$ -

General revenues:
 General property taxes
 Local sales tax
 Business license tax
 Meals tax
 Consumer utility tax
 Telephone tax
 Other local taxes
 Unrestricted revenues from use of money and property
 Miscellaneous
 Commonwealth of Virginia non-categorical aid
 City contribution to the school board, unrestricted
 Transfers
 Total general revenues and transfers
 Change in net assets
 Net assets - beginning
 Net assets - ending

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

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Unit	
Governmental Activities	Business Type Activities	Total	School Board	Functions/Programs
PRIMARY GOVERNMENT:				
Governmental activities:				
\$ (3,393,712)	\$ -	\$ (3,393,712)	\$ -	General government administration
(635,836)	-	(635,836)	-	Judicial administration
(5,015,815)	-	(5,015,815)	-	Public safety
(556,389)	-	(556,389)	-	Public works
(279,068)	-	(279,068)	-	Health and welfare
(7,184,183)	-	(7,184,183)	-	Education
(995,928)	-	(995,928)	-	Parks, recreation, and cultural
(1,460,179)	-	(1,460,179)	-	Community development
(471,184)	-	(471,184)	-	Interest on long-term debt
<u>\$ (19,992,294)</u>	<u>\$ -</u>	<u>\$ (19,992,294)</u>	<u>\$ -</u>	Total government activities
Business-type activities:				
\$ -	\$ 4,084,190	\$ 4,084,190	\$ -	Electric
-	556,882	556,882	-	Water
-	22,523	22,523	-	Sewer
-	1,911,356	1,911,356	-	Refuse collection / landfill
<u>\$ -</u>	<u>\$ 6,574,951</u>	<u>\$ 6,574,951</u>	<u>\$ -</u>	Total business-type activities
<u>\$ (19,992,294)</u>	<u>\$ 6,574,951</u>	<u>\$ (13,417,343)</u>	<u>\$ -</u>	Total primary government
COMPONENT UNIT:				
			<u>\$ (5,602,152)</u>	School Board
General revenues:				
\$ 7,460,249	\$ -	\$ 7,460,249	\$ -	General property taxes
2,020,464	-	2,020,464	-	Local sales tax
1,750,980	-	1,750,980	-	Business license tax
1,119,338	-	1,119,338	-	Meals tax
769,307	-	769,307	-	Consumer utility tax
598,640	-	598,640	-	Telephone tax
1,094,081	-	1,094,081	-	Other local taxes
659,907	-	659,907	16,721	Unrestricted revenues from use of money and property
292,673	-	292,673	277,261	Miscellaneous
669,189	-	669,189	-	Commonwealth of Virginia non-categorical aid
-	-	-	6,997,174	City contribution to the school board, unrestricted
4,743,334	(4,743,334)	-	-	Transfers
<u>\$ 21,178,162</u>	<u>\$ (4,743,334)</u>	<u>\$ 16,434,828</u>	<u>\$ 7,291,156</u>	Total general revenues and transfers
<u>\$ 1,185,868</u>	<u>\$ 1,831,617</u>	<u>\$ 3,017,485</u>	<u>\$ 1,689,004</u>	Change in net assets
940,122	19,454,602	20,394,724	4,617,208	Net assets - beginning
<u>\$ 2,125,990</u>	<u>\$ 21,286,219</u>	<u>\$ 23,412,209</u>	<u>\$ 6,306,212</u>	Net assets - ending

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Fund Financial Statements

Balance Sheet - Governmental Funds
At June 30, 2005

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 18,406	\$ 1,480,197	\$ 1,498,603
Receivables (Net of allowances for uncollectibles):			
Taxes, including penalties	409,136	-	409,136
Accounts	206,741	789	207,530
Inventory	297,856	-	297,856
Due from other governmental units	990,359	66,601	1,056,960
	<u>1,922,498</u>	<u>1,547,587</u>	<u>3,470,085</u>
Total assets	\$ 1,922,498	\$ 1,547,587	\$ 3,470,085
LIABILITIES			
Accounts payable	\$ 366,811	\$ 155,508	\$ 522,319
Due to other funds	759,263	612,476	1,371,739
Deferred revenue	287,919	-	287,919
	<u>1,413,993</u>	<u>767,984</u>	<u>2,181,977</u>
Total liabilities	\$ 1,413,993	\$ 767,984	\$ 2,181,977
FUND BALANCES			
Unreserved, designated for:			
Development reserve	\$ 45,037	\$ -	\$ 45,037
Subdivision improvements	20,000	-	20,000
Thoroughfare construction	89,062	-	89,062
Undesignated reported in:			
General fund	354,406	-	354,406
Special revenue funds (deficit)	-	(347,663)	(347,663)
Capital projects	-	1,127,266	1,127,266
	<u>508,505</u>	<u>779,603</u>	<u>1,288,108</u>
Total fund balances	\$ 508,505	\$ 779,603	\$ 1,288,108
Total liabilities and fund balances	<u>1,922,498</u>	<u>1,547,587</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.	13,471,139
Inventory of land and buildings held for resale	1,512,625
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(266,795)
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.	287,919
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>(14,167,006)</u>
Net assets of General Government Activities	<u>\$ 2,125,990</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, 2005

	<u>General</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
General property taxes	\$ 7,338,045	\$ -	\$ 7,338,045
Other local taxes	6,233,472	1,119,338	7,352,810
Permits, privilege fees and regulatory licenses	199,679	-	199,679
Fines and forfeitures	251,543	-	251,543
Revenue from use of money and property	564,778	95,129	659,907
Charges for services	213,979	-	213,979
Miscellaneous	181,855	110,818	292,673
Recovered costs	900,686	-	900,686
Intergovernmental:			
Commonwealth	6,595,229	400,350	6,995,579
Federal	182,658	2,073,158	2,255,816
Total revenues	<u>\$ 22,661,924</u>	<u>\$ 3,798,793</u>	<u>\$ 26,460,717</u>
Expenditures:			
Current:			
General government administration	\$ 3,376,462	\$ 702,945	\$ 4,079,407
Judicial administration	1,468,873	-	1,468,873
Public safety	8,025,471	909,581	8,935,052
Public works	3,286,615	265,155	3,551,770
Health and welfare	312,660	141,434	454,094
Education	6,173,969	229,878	6,403,847
Parks, recreation, and cultural	1,150,610	6,815	1,157,425
Community development	924,973	2,841,085	3,766,058
Debt service:			
Principal retirement	189,846	902,409	1,092,255
Interest and other fiscal charges	29,109	468,649	497,758
Total expenditures	<u>\$ 24,938,588</u>	<u>\$ 6,467,951</u>	<u>\$ 31,406,539</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (2,276,664)</u>	<u>\$ (2,669,158)</u>	<u>\$ (4,945,822)</u>
Other financing sources (uses):			
Capital leases	\$ -	\$ 427,575	\$ 427,575
Transfers in	2,980,714	2,887,834	5,868,548
Transfers (out)	<u>(1,008,950)</u>	<u>(116,264)</u>	<u>(1,125,214)</u>
Total other financing sources (uses)	<u>\$ 1,971,764</u>	<u>\$ 3,199,145</u>	<u>\$ 5,170,909</u>
Changes in fund balances	\$ (304,900)	\$ 529,987	\$ 225,087
Fund balances at beginning of year	<u>813,405</u>	<u>249,616</u>	<u>1,063,021</u>
Fund balances at end of year	<u><u>\$ 508,505</u></u>	<u><u>\$ 779,603</u></u>	<u><u>\$ 1,288,108</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, 2005

		<u>Primary Governmental Funds</u>
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
Net change in fund balances - total governmental funds	\$	225,087
<p>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.</p>		
Capital outlay	\$ 1,430,856	
Depreciation expense	<u>(822,067)</u>	608,789
Inventory of land and buildings purchased during the year and held for resale		240,033
Transfer of joint tenancy assets from Primary Government to the Component Unit		(669,326)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Details of this item consist of the change in deferred taxes.</p>		
		122,204
<p>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.</p>		
<p>Details supporting this adjustment are as follows:</p>		
Principal retired on debt	\$ 1,092,255	
Proceeds from indebtedness	<u>(427,575)</u>	664,680
<p>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:</p>		
Change in accrued leave	\$ (32,173)	
Change in interest payable	<u>26,574</u>	<u>(5,599)</u>
Change in net assets of governmental activities		<u>\$ 1,185,868</u>

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

Proprietary Funds
Statement of Net Assets
At June 30, 2005

ASSETS	Electric Fund	Water Fund	Sewer Fund	Refuse Collection/ Landfill Fund	Total
Current Assets:					
Cash and cash equivalents	\$ 1,163,764	\$ -	\$ 332,531	\$ 4,092,706	\$ 5,589,001
Receivables:					
Accounts - net	1,714,640	337,791	287,586	543,911	2,883,928
Due from other funds	-	-	-	1,385,887	1,385,887
Inventory	771,425	150,044	-	-	921,469
Total current assets	\$ 3,649,829	\$ 487,835	\$ 620,117	\$ 6,022,504	\$ 10,780,285
Noncurrent Assets					
Capital assets:					
Land	\$ -	\$ 658,224	\$ 25,400	\$ -	\$ 683,624
Buildings and improvements	586,744	1,186,449	1,031,542	235,465	3,040,200
Equipment	1,781,456	1,087,119	1,043,287	2,374,194	6,286,056
Infrastructure	21,637,391	10,397,292	15,187,848	-	47,222,531
Less accumulated depreciation	(19,405,884)	(9,111,942)	(12,420,017)	(1,691,308)	(42,629,151)
Total capital assets (net of accumulated depreciation)	\$ 4,599,707	\$ 4,217,142	\$ 4,868,060	\$ 918,351	\$ 14,603,260
Total assets	\$ 8,249,536	\$ 4,704,977	\$ 5,488,177	\$ 6,940,855	\$ 25,383,545
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 16,022	\$ 19,387	\$ 60,149	\$ 10,255	\$ 105,813
Customers' deposits payable	279,496	40,880	300	-	320,676
Due to other funds	-	14,148	-	-	14,148
Current portion of long-term obligations	5,855	4,636	3,682	525,042	539,215
Total current liabilities	\$ 301,373	\$ 79,051	\$ 64,131	\$ 535,297	\$ 979,852
Noncurrent liabilities:					
Noncurrent portion of long-term obligations	52,688	41,719	33,142	2,989,925	3,117,474
Total liabilities	\$ 354,061	\$ 120,770	\$ 97,273	\$ 3,525,222	\$ 4,097,326
NET ASSETS					
Invested in capital assets, net of related debt	\$ 4,599,707	\$ 4,217,142	\$ 4,868,060	\$ 918,351	\$ 14,603,260
Unrestricted assets	3,295,768	367,065	522,844	2,497,282	6,682,959
Total Net Assets	\$ 7,895,475	\$ 4,584,207	\$ 5,390,904	\$ 3,415,633	\$ 21,286,219
Total Liabilities and Net Assets	\$ 8,249,536	\$ 4,704,977	\$ 5,488,177	\$ 6,940,855	\$ 25,383,545

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, 2005

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Refuse Collection/ Landfill Fund</u>	<u>Total</u>
Operating revenues:					
Charges for services	\$ 11,714,316	\$ 2,180,688	\$ 2,187,602	\$ 3,626,813	\$ 19,709,419
Miscellaneous	<u>82,378</u>	<u>32,499</u>	<u>23,657</u>	<u>27,400</u>	<u>165,934</u>
Total operating revenues	<u>\$ 11,796,694</u>	<u>\$ 2,213,187</u>	<u>\$ 2,211,259</u>	<u>\$ 3,654,213</u>	<u>\$ 19,875,353</u>
Operating expenses:					
Personal services	\$ 536,028	\$ 578,852	\$ 636,306	\$ 440,577	\$ 2,191,763
Fringe benefits	169,154	202,014	224,577	138,921	734,666
Contractual services	134,292	29,768	33,922	173,951	371,933
Other charges	6,318,047	637,881	776,018	774,322	8,506,268
Depreciation	<u>580,711</u>	<u>207,790</u>	<u>517,913</u>	<u>175,160</u>	<u>1,481,574</u>
Total operating expenses	<u>\$ 7,738,232</u>	<u>\$ 1,656,305</u>	<u>\$ 2,188,736</u>	<u>\$ 1,702,931</u>	<u>\$ 13,286,204</u>
Operating income (loss)	<u>\$ 4,058,462</u>	<u>\$ 556,882</u>	<u>\$ 22,523</u>	<u>\$ 1,951,282</u>	<u>\$ 6,589,149</u>
Non-operating revenues (expenses):					
Federal and state grants	\$ 25,728	\$ -	\$ -	\$ -	\$ 25,728
Interest expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(39,926)</u>	<u>(39,926)</u>
Total non-operating revenues (expenses)	<u>\$ 25,728</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (39,926)</u>	<u>\$ (14,198)</u>
Income (loss) before transfers	<u>\$ 4,084,190</u>	<u>\$ 556,882</u>	<u>\$ 22,523</u>	<u>\$ 1,911,356</u>	<u>\$ 6,574,951</u>
Transfers:					
Transfers in	\$ -	\$ -	\$ -	\$ 116,264	\$ 116,264
Transfers (out)	<u>(3,083,178)</u>	<u>(781,132)</u>	<u>(482,751)</u>	<u>(512,537)</u>	<u>(4,859,598)</u>
Total transfers	<u>\$ (3,083,178)</u>	<u>\$ (781,132)</u>	<u>\$ (482,751)</u>	<u>\$ (396,273)</u>	<u>\$ (4,743,334)</u>
Changes in net assets	\$ 1,001,012	\$ (224,250)	\$ (460,228)	\$ 1,515,083	\$ 1,831,617
Net assets at beginning of year	<u>6,894,463</u>	<u>4,808,457</u>	<u>5,851,132</u>	<u>1,900,550</u>	<u>19,454,602</u>
Net assets at end of year	<u>\$ 7,895,475</u>	<u>\$ 4,584,207</u>	<u>\$ 5,390,904</u>	<u>\$ 3,415,633</u>	<u>\$ 21,286,219</u>

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

Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2005

	Electric Fund	Water Fund	Sewer Fund	Refuse Collection/ Landfill Fund	Total
Cash Flows From Operating Activities:					
Receipts from customers and users	\$ 11,571,513	\$ 2,192,993	\$ 2,212,657	\$ 3,707,395	\$ 19,684,558
Payments to suppliers and other operating expenses	(6,450,763)	(664,195)	(781,111)	(767,279)	(8,663,348)
Payments to employees (including fringe benefits)	(706,258)	(780,990)	(860,220)	(574,901)	(2,922,369)
Net cash provided by operating activities	\$ 4,414,492	\$ 747,808	\$ 571,326	\$ 2,365,215	\$ 8,098,841
Cash Flows From Capital and Related Financing Activities:					
Retirement of note payable	\$ -	\$ -	\$ -	\$ (825,000)	\$ (825,000)
Acquisition and construction of capital assets	(511,823)	(103,884)	(142,687)	(233,712)	(992,106)
Retirements of capital lease obligations	-	-	-	(114,068)	(114,068)
Federal and state grants	25,728	-	-	-	25,728
Interest paid on debt	-	-	-	(39,926)	(39,926)
Net cash provided by (used in) capital and related financing activities	\$ (486,095)	\$ (103,884)	\$ (142,687)	\$ (1,212,706)	\$ (1,945,372)
Cash Flows From Noncapital Financing Activities:					
Transfers	\$ (3,083,178)	\$ (781,132)	\$ (482,751)	\$ (396,273)	\$ (4,743,334)
Increase in due from other funds	-	-	-	(416,728)	(416,728)
Due to other funds	-	14,148	-	-	14,148
Net cash provided by (used in) noncapital financing activities	\$ (3,083,178)	\$ (766,984)	\$ (482,751)	\$ (813,001)	\$ (5,145,914)
Increase (decrease) in cash and cash equivalents	\$ 845,219	\$ (123,060)	\$ (54,112)	\$ 339,508	\$ 1,007,555
Cash and cash equivalents at beginning of year	318,545	123,060	386,643	3,753,198	4,581,446
Cash and cash equivalents at end of year	\$ 1,163,764	\$ -	\$ 332,531	\$ 4,092,706	\$ 5,589,001
Reconciliation of operating income to net cash provided by (used in) operating activities:					
Operating income	\$ 4,058,462	\$ 556,882	\$ 22,523	\$ 1,951,282	\$ 6,589,149
Adjustments to reconcile net loss to net cash provided by operations:					
Depreciation	\$ 580,711	\$ 207,790	\$ 517,913	\$ 175,160	\$ 1,481,574
Changes in operating assets and liabilities:					
(Increase) decrease in accounts receivable	(245,672)	(22,654)	1,098	53,182	(214,046)
Increase (decrease) in:					
Accounts payable	1,576	3,454	28,829	(19,504)	14,355
Accrued leave	(1,076)	(124)	663	4,597	4,060
Landfill closure and post-closure liability	-	-	-	200,498	200,498
Customer deposits	20,491	2,460	300	-	23,251
Total adjustments	\$ 356,030	\$ 190,926	\$ 548,803	\$ 413,933	\$ 1,509,692
Net cash provided by operating activities	\$ 4,414,492	\$ 747,808	\$ 571,326	\$ 2,365,215	\$ 8,098,841

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

Statement of Fiduciary Net Assets --
Agency Funds
At June 30, 2005

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ <u>501,079</u>
Total assets	\$ <u><u>501,079</u></u>
LIABILITIES	
Accounts payable	\$ 13,529
Amounts held for others	<u>487,550</u>
Total liabilities	\$ <u><u>501,079</u></u>

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005

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).

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (Continued)

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

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.

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.

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (Continued)

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

Budgetary comparison schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in 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.

B. Individual Component Unit Disclosures

Blended Component Unit. The Martinsville Industrial Development Authority is included as a blended component unit for 2005.

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.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (Continued)

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

B. Individual Component Unit Disclosures: (Continued)

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, 2005.

C. Other Related Organizations

Included in the City's Financial Report

None

Excluded from the City's Financial Report

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

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

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

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

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (Continued)

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

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

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

The government-wide statement of activities 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.

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (Continued)

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 of the specific expenditures. Revenues from general purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

1. Governmental Funds

Governmental Funds are those through which most governmental functions typically are financed. The City reports the 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, and the Meals Tax Fund.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (Continued)

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

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

1. Governmental Funds: (Continued)

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.

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

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

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. Agency funds utilize the accrual basis of accounting to recognize receivables and payables. Fiduciary funds are not included in the government-wide financial statements. Agency funds include the Insurance Fund, Sheriff's Fund, West Piedmont Business Development Center Fund (WPBDC), Hooker Field Fund and the Police Academy Fund.

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.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (Continued)

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

E. Cash and Cash Equivalents: (Continued)

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.

G. Receivables and payables:

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

All trade and property tax receivables are shown net of an allowance for uncollectibles. The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$757,075 at June 30, 2005 is composed solely of the following:

General Fund

Allowance for uncollectible property taxes	\$ <u>239,392</u>
--	-------------------

Enterprise Funds

Allowance for uncollectible accounts:

Electric Fund	\$ 290,147
Water Fund	69,289
Sewer Fund	63,356
Refuse Collection/Landfill Fund	<u>94,891</u>
Total allowance for uncollectible accounts – Enterprise funds	\$ <u>517,683</u>
Total allowance for uncollectible accounts	\$ <u><u>757,075</u></u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (Continued)

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

G. Receivables and payables: (Continued)

Real and Personal Property Tax Data:

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

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

The City bills and collects its own property taxes.

H. Inventory

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

I. 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 assets as of June 30, 2005 was immaterial.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (Continued)

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

I. Capital Assets

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
Utility plant in service	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 receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that is estimated will be taken as “terminal leave” prior to retirement.

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.

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 generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (Continued)

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

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.
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.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (Continued)

Note 2—Stewardship, Compliance, and Accounting: (Continued)

- 5. Formal budgetary integration is employed as a management control device during the year for all funds.
- 6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- 7. Appropriations lapse on June 30, for all City units.
- 8. All budget data presented in the accompanying financial statements is the original to the current comparison of the final budget and actual results.

Expenditures and Appropriations

Expenditures exceed appropriations as follows for the fiscal year ended June 30, 2005:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess of Expenditures Over Appropriations</u>
City Grants	\$ <u>653,556</u>	\$ <u>761,983</u>	\$ <u>108,427</u>

Fund Deficits

The following funds had deficit balances at June 30, 2005:

Meals Tax	\$	34,289
City Grants Fund		518,154
School Grants Fund		29,402

Note 3—Deposits:

Deposits:

All cash of the City is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act (a multiple financial institution collateral pool), Section 2.2-4400 et. seq. of the Code of Virginia 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, 2005 (Continued)

Note 3—Deposits: (Continued)

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

The component unit school board is part of the City's pooled cash and has a net balance in the amount of \$2,096,455 at June 30, 2005.

Note 4—Due from Other Governments:

At June 30, 2005 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	\$ 156,384	\$ -
Street & Highway Maintenance	565,355	-
Fringe Benefits	-	58,423
State Sales Tax	-	212,964
Constitutional officer reimbursements	191,690	-
Miscellaneous grants	11,474	37,673
Comprehensive service	25,924	-
Federal Government:		
School fund grants	-	402,642
Homeland Security	63,636	-
Technology Challenge	-	400,350
Other federal grants	42,497	-
Total due from other governments	\$ <u>1,056,960</u>	\$ <u>1,112,052</u>

Note 5—Inventory:

At June 30, 2005 the City has inventory recorded in the various funds as follows:

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>
Expendable supplies	\$ 297,856	\$ 921,469
Land and building inventory held for resale:		
83 Commercial residential lots held for resale	1,303,834	-
5 Commercial buildings held for resale	196,562	-
47 acre parcel in Henry County, Virginia	12,229	-
Totals	\$ <u>1,810,481</u>	\$ <u>921,469</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (Continued)

Note 6—Capital Assets:

The following is a summary of changes in capital assets for the fiscal year ending June 30, 2005:

Primary Government:

Governmental Activities:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2005</u>
Capital assets, not being depreciated:				
Land	\$ 1,531,372	\$ -	\$ -	\$ 1,531,372
Capital assets being depreciated:				
Buildings	\$ 4,696,314	\$ -	\$ -	\$ 4,696,314
Equipment	4,806,956	1,374,756	75,999	6,105,713
Infrastructure	-	56,100	-	56,100
Jointly owned assets	<u>10,279,447</u>	<u>-</u>	<u>814,846</u>	<u>9,464,601</u>
Total capital assets being depreciated	\$ <u>19,782,717</u>	\$ <u>1,430,856</u>	\$ <u>890,845</u>	\$ <u>20,322,728</u>
Less accumulated depreciation for:				
Buildings	\$ 2,504,181	\$ 80,424	\$ -	\$ 2,584,605
Equipment	3,719,679	488,844	75,999	4,132,524
Infrastructure	-	1,870	-	1,870
Jointly owned assets	<u>1,558,553</u>	<u>250,929</u>	<u>145,520</u>	<u>1,663,962</u>
Total accumulated depreciation	\$ <u>7,782,413</u>	\$ <u>822,067</u>	\$ <u>221,519</u>	\$ <u>8,382,961</u>
Total capital assets being depreciated, net	\$ <u>12,000,304</u>	\$ <u>608,789</u>	\$ <u>669,326</u>	\$ <u>11,939,767</u>
Governmental activities capital assets, net	<u>\$ 13,531,676</u>	<u>\$ 608,789</u>	<u>\$ 669,326</u>	<u>\$ 13,471,139</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (Continued)

Note 6—Capital Assets: (Continued)

Primary Government:

Business-Type Activities:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2005</u>
Electric Fund:				
Capital assets being depreciated:				
Buildings and improvements	\$ 586,744	\$ -	\$ -	\$ 586,744
Equipment	1,776,233	25,000	19,777	1,781,456
Infrastructure	<u>21,150,568</u>	<u>486,823</u>	<u>-</u>	<u>21,637,391</u>
 Total capital assets being depreciated	 \$ <u>23,513,545</u>	 \$ <u>511,823</u>	 \$ <u>19,777</u>	 \$ <u>24,005,591</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 585,326	\$ 129	\$ -	\$ 585,455
Equipment	1,593,143	60,343	19,777	1,633,709
Infrastructure	<u>16,666,481</u>	<u>520,239</u>	<u>-</u>	<u>17,186,720</u>
 Total accumulated depreciation	 \$ <u>18,844,950</u>	 \$ <u>580,711</u>	 \$ <u>19,777</u>	 \$ <u>19,405,884</u>
 Total capital assets being depreciated, net	 \$ <u>4,668,595</u>	 \$ <u>(68,888)</u>	 \$ <u>-</u>	 \$ <u>4,599,707</u>
 Electric fund capital assets, net	 \$ <u><u>4,668,595</u></u>	 \$ <u><u>(68,888)</u></u>	 \$ <u><u>-</u></u>	 \$ <u><u>4,599,707</u></u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (Continued)

Note 6—Capital Assets: (Continued)

Primary Government: (Continued)

Business-Type Activities: (Continued)

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2005</u>
Water Fund:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 658,224	\$ -	\$ -	\$ 658,224
Capital assets being depreciated:				
Buildings and improvements	\$ 1,186,449	\$ -	\$ -	\$ 1,186,449
Equipment	1,069,372	17,747	-	1,087,119
Infrastructure	<u>10,311,156</u>	<u>86,136</u>	<u>-</u>	<u>10,397,292</u>
Total capital assets being depreciated	\$ <u>12,566,977</u>	\$ <u>103,883</u>	\$ <u>-</u>	\$ <u>12,670,860</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 811,497	\$ 14,320	\$ -	\$ 825,817
Equipment	652,391	21,818	-	674,209
Infrastructure	<u>7,440,264</u>	<u>171,652</u>	<u>-</u>	<u>7,611,916</u>
Total accumulated depreciation	\$ <u>8,904,152</u>	\$ <u>207,790</u>	\$ <u>-</u>	\$ <u>9,111,942</u>
Total capital assets being depreciated, net	\$ <u>3,662,825</u>	\$ <u>(103,907)</u>	\$ <u>-</u>	\$ <u>3,558,918</u>
Water fund capital assets, net	<u>\$ 4,321,049</u>	<u>\$ (103,907)</u>	<u>\$ -</u>	<u>\$ 4,217,142</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (Continued)

Note 6—Capital Assets: (Continued)

Primary Government: (Continued)

Business-Type Activities: (Continued)

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2005</u>
Sewer Fund:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 25,400	\$ -	\$ -	\$ 25,400
Capital assets being depreciated:				
Buildings and improvements	\$ 1,031,542	\$ -	\$ -	\$ 1,031,542
Equipment	1,011,082	63,505	31,300	1,043,287
Infrastructure	<u>15,108,667</u>	<u>79,181</u>	<u>-</u>	<u>15,187,848</u>
Total capital assets being depreciated	\$ <u>17,151,291</u>	\$ <u>142,686</u>	\$ <u>31,300</u>	\$ <u>17,262,677</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 660,983	\$ 16,603	\$ -	\$ 677,586
Equipment	829,580	46,062	31,300	844,342
Infrastructure	<u>10,442,842</u>	<u>455,247</u>	<u>-</u>	<u>10,898,089</u>
Total accumulated depreciation	\$ <u>11,933,405</u>	\$ <u>517,912</u>	\$ <u>31,300</u>	\$ <u>12,420,017</u>
Total capital assets being depreciated, net	\$ <u>5,217,886</u>	\$ <u>(375,226)</u>	\$ <u>-</u>	\$ <u>4,842,660</u>
Sewer fund capital asset, net	<u>\$ 5,243,286</u>	<u>\$ (375,226)</u>	<u>\$ -</u>	<u>\$ 4,868,060</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (Continued)

Note 6—Capital Assets: (Continued)

Primary Government: (Continued)

Business-Type Activities: (Continued)

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2005</u>
Refuse Collection/Landfill Fund:				
Capital assets, not being depreciated:				
Buildings and improvements	\$ 147,665	\$ 87,800	\$ -	\$ 235,465
Equipment	<u>2,317,167</u>	<u>145,911</u>	<u>88,884</u>	<u>2,374,194</u>
Total capital assets being depreciated	<u>\$ 2,464,832</u>	<u>\$ 233,711</u>	<u>\$ 88,884</u>	<u>\$ 2,609,659</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 42,127	\$ 6,190	\$ -	\$ 48,317
Equipment	<u>1,562,905</u>	<u>168,970</u>	<u>88,884</u>	<u>1,642,991</u>
Total accumulated depreciation	<u>\$ 1,605,032</u>	<u>\$ 175,160</u>	<u>\$ 88,884</u>	<u>\$ 1,691,308</u>
Total capital assets being depreciated, net	<u>\$ 859,800</u>	<u>\$ 58,551</u>	<u>\$ -</u>	<u>\$ 918,351</u>
Refuse collection/landfill fund capital assets, net	<u>\$ 859,800</u>	<u>\$ 58,551</u>	<u>\$ -</u>	<u>\$ 918,351</u>
Business-type activities capital assets, net	<u>\$ 15,092,730</u>	<u>\$ (489,470)</u>	<u>\$ -</u>	<u>\$ 14,603,260</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (Continued)

Note 6—Capital Assets: (Continued)

Discretely Presented Component Unit—School Board:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2005</u>
Capital assets, not being depreciated:				
Land	\$ 47,172	\$ -	\$ -	\$ 47,172
Capital assets being depreciated:				
Buildings	\$ 6,691,778	\$ 151,000	\$ -	\$ 6,842,778
Equipment	1,348,082	213,332	-	1,561,414
Jointly owned assets	<u>1,613,512</u>	<u>814,846</u>	<u>-</u>	<u>2,428,358</u>
Total capital assets being depreciated	\$ <u>9,653,372</u>	\$ <u>1,179,178</u>	\$ <u>-</u>	\$ <u>10,832,550</u>
Less accumulated depreciation for:				
Buildings	\$ 5,077,963	\$ 170,917	\$ -	\$ 5,248,880
Equipment	851,038	95,523	-	946,561
Jointly owned assets	<u>206,209</u>	<u>145,520</u>	<u>-</u>	<u>351,729</u>
Total accumulated depreciation	\$ <u>6,135,210</u>	\$ <u>411,960</u>	\$ <u>-</u>	\$ <u>6,547,170</u>
Total capital assets being depreciated, net	\$ <u>3,518,162</u>	\$ <u>767,218</u>	\$ <u>-</u>	\$ <u>4,285,380</u>
School Board capital assets, net	<u>\$ 3,565,334</u>	<u>\$ 767,218</u>	<u>\$ -</u>	<u>\$ 4,332,552</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (Continued)

Note 6—Capital Assets: (Continued)

The following is a summary of depreciation expense for the year ended June 30, 2005:

Governmental activities:

General government	\$	82,841
Public safety		280,700
Public works		111,373
Health and welfare		8,132
Education		250,929
Parks, recreation and cultural		40,744
Community development		<u>47,348</u>
Total Governmental activities	\$	<u><u>822,067</u></u>

Enterprise activities:

Electric	\$	580,711
Water		207,790
Sewer		517,913
Refuse collection / landfill		<u>175,160</u>
Total Enterprise activities	\$	<u><u>1,481,574</u></u>

Component Unit School Board	\$	<u><u>266,440</u></u>
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* Note accumulated depreciation transferred from the Primary Government to the Component Unit School Board on Jointly owned assets totals \$145,520 for the year ending June 30, 2005.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (Continued)

Note 7—Interfund Transfers/Obligations:

Interfund transfers for the year ended June 30, 2005, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ 2,980,714	\$ 1,008,950
City grants	108,950	-
Capital reserve	2,778,884	-
Meals tax	-	116,264
Electric	-	3,083,178
Water	-	781,132
Sewer	-	482,751
Refuse collection/landfill	116,264	512,537
	<u>5,984,812</u>	<u>5,984,812</u>
Total	\$ <u>5,984,812</u>	\$ <u>5,984,812</u>

Interfund receivables and payable balances relative to working capital loans at June 30, 2005 are presented below:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
Primary Government:		
General Fund	\$ -	\$ 759,263
City grants	-	577,398
Meals tax	-	35,078
Water	-	14,148
Refuse Collection Landfill	1,385,887	-
	<u>1,385,887</u>	<u>1,385,887</u>
Total	\$ <u>1,385,887</u>	\$ <u>1,385,887</u>
Component Unit - School Board		
School Fund	\$ 659,133	\$ -
School Grants	-	659,133
	<u>659,133</u>	<u>659,133</u>
Total	\$ <u>659,133</u>	\$ <u>659,133</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, 2005 (Continued)

Note 8—Long-Term Obligations:

Primary Government:

The following is a summary of change in long-term obligations for the fiscal year ending June 30, 2005:

	<u>Amounts Payable at July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Amounts Payable at June 30, 2005</u>	<u>Amounts Due Within One Year</u>
Governmental Obligations:					
Incurred by City					
Compensated absences	\$ 422,282	\$ 105,571	\$ 73,398	\$ 454,455	\$ 45,446
G.O. Bonds Series 1999	3,595,000	-	160,000	3,435,000	165,000
Capital lease obligations	<u>502,784</u>	<u>427,575</u>	<u>117,409</u>	<u>812,950</u>	<u>199,897</u>
Total incurred by City	<u>\$ 4,520,066</u>	<u>\$ 533,146</u>	<u>\$ 350,807</u>	<u>\$ 4,702,405</u>	<u>\$ 410,343</u>
Incurred by School Board:					
State Literary Fund Loans	\$ 9,779,100	-	\$ 663,525	\$ 9,115,575	\$ 663,525
Virginia Public Authority					
Subsidy Bonds	204,251	-	22,887	181,364	23,545
Capital lease obligations	<u>296,096</u>	<u>-</u>	<u>128,434</u>	<u>167,662</u>	<u>133,480</u>
Total incurred by School Board	<u>\$ 10,279,447</u>	<u>\$ -</u>	<u>\$ 814,846</u>	<u>\$ 9,464,601</u>	<u>\$ 820,550</u>
Total Governmental Obligations	<u>\$ 14,799,513</u>	<u>\$ 533,146</u>	<u>\$ 1,165,653</u>	<u>\$ 14,167,006</u>	<u>\$ 1,230,893</u>
Enterprise Obligations:					
Compensated absences	\$ 158,247	\$ 39,562	\$ 35,504	\$ 162,305	\$ 16,231
Capital lease obligations	114,068	-	114,068	-	-
Landfill closure and post-closure costs	3,293,886	200,498	-	3,494,384	522,984
Pooled loan bonds series 2000B	<u>825,000</u>	<u>-</u>	<u>825,000</u>	<u>-</u>	<u>-</u>
Total Enterprise Obligations	<u>\$ 4,391,201</u>	<u>\$ 240,060</u>	<u>\$ 974,572</u>	<u>\$ 3,656,689</u>	<u>\$ 539,215</u>

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (Continued)

Note 8—Long-Term Obligations: (Continued)

Primary Government: (Continued)

Year Ending June 30	City Obligations			
	General Obligation Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2006	\$ 165,000	\$ 159,875	\$ 199,897	\$ 22,129
2007	170,000	152,755	205,621	16,405
2008	180,000	145,140	211,516	10,510
2009	185,000	137,018	104,341	5,321
2010	195,000	128,419	91,575	2,013
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	\$ <u>3,435,000</u>	\$ <u>1,398,782</u>	\$ <u>812,950</u>	\$ <u>56,378</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (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
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	\$ <u>9,115,575</u>	\$ <u>2,124,246</u>	\$ <u>181,364</u>	\$ <u>43,438</u>	\$ <u>167,662</u>	\$ <u>4,347</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (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% \$ 3,435,000

Capital Lease Obligations:

\$127,000 obligation for the purchase of a street sweeper, payable in monthly installments of \$2,296 through January 5, 2009, interest at 3.25% \$ 93,084

\$476,888 obligation for the purchase of a phone system, payable in quarterly installments of \$25,221 through April 1, 2008, interest at 2.16% 292,291

\$427,575 obligation for the purchase of a fire truck, payable in monthly installments of \$23,397 through April 29, 2010, interest at 3.5% 427,575

Total capital lease obligations \$ 812,950

Compensated absences \$ 454,455

Total Incurred by City \$ 4,702,405

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% \$ 3,000,000

\$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% 22,200

\$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% 14,400

\$67,413 State Literary Fund Loan issued May 19, 1987, due in annual principal installments of \$3,400 through 2008; interest payable at 4% 10,200

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (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%	\$ 17,100
\$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%	39,000
\$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%	12,675
\$7,500,000 State Literary Fund Loan issued September 1, 2000, due in annual principal installments of \$375,000 through 2021; interest payable annually at 3%	<u>6,000,000</u>
Total State Literary Fund Loans	<u>\$ 9,115,575</u>

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	181,364
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Capital Lease Obligation:

\$624,802 lease obligation for the purchase of buses, payable in monthly installments of \$11,467 through September 12, 2006 interest at 3.86%	<u>167,662</u>
Total Incurred by the School Board	<u>\$ 9,464,601</u>
Total Governmental Obligations	<u>\$ 14,167,006</u>

Enterprise Obligations:

Compensated absences	\$ 162,305
Landfill closure and postclosure costs	<u>3,494,384</u>
Total enterprise obligations	<u>\$ 3,656,689</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (Continued)

Note 9—Landfill Closure and Postclosure Costs:

State and federal laws and regulations require the City to place a final cover on each phase of its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste. In accordance with Statement 18 of the Governmental Accounting Standards Board entitled Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs, the City reported a liability for a portion of these closure and postclosure care costs based on landfill capacity used. The \$3,494,384 reported as landfill closure and postclosure care liability at June 30, 2005 is based on the use of 97.6% of the estimated capacity used to date. The City will recognize the remaining estimated cost of closure and postclosure care of \$85,927 as the remaining estimated capacity is filled in the existing open cell. These amounts are based on what it would cost to perform all closure and postclosure care in 2005. Actual closure and postclosure care costs may be higher due to inflation, changes in technology, or changes in regulations.

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

The landfill is estimated to be closed in January 2006.

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 \$349,461 is comprised of the following:

Deferred Property Tax Revenue - Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$287,919 at June 30, 2005.

Discretely Presented School Board – Deferred revenue represented unexpended NASA grant funds totaling \$61,542 at June 30, 2005.

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.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (Continued)

Note 11—Contingent Liabilities:

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, 2005, 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, 2005 (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 2005 were 15.25% and 8.75% of annual covered payroll, respectively.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (Continued)

Note 14—Defined Benefit Pension Plan: (Continued)

Primary Government:

B. Funding Policy: (Continued)

The School Board contributed \$684,393, \$432,833, and \$383,842 to the teacher cost-sharing pool for the fiscal years ended June 30, 2005, 2004 and 2003 respectively and these contributions represented 6.03%, 3.77%, and 3.77% respectively, of current covered payroll.

C. Annual Pension Cost

For fiscal 2005, the City’s annual pension cost of \$1,585,376 was equal to the City’s required and actuarial contributions. The required contributions were determined as part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method.

For fiscal 2005, the City School Board’s annual pension cost for the Board’s non-professional employees was \$75,896 which was equal to the Board’s required and actuarial contributions. The required contributions were determined as a part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method.

	<u>City</u>	<u>Non-Professional School Board Employees</u>
Valuation date	June 30, 2004	June 30, 2004
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	18 years	22 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%

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2005 (Continued)

Note 14—Defined Benefit Pension Plan: (Continued)

Primary Government: (Continued)

C. Annual Pension Cost: (Continued)

<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, 2005	\$ 1,585,376	100%	\$ -
June 30, 2004	1,165,747	100%	-
June 30, 2003	1,280,666	100%	-
School Board:			
Non-Professional:			
June 30, 2005	\$ 75,896	100%	\$ -
June 30, 2004	66,852	100%	-
June 30, 2003	61,409	100%	-

(1) Employer portion only

Note 15—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 Easley, Commissioner of the Revenue	3,000
Steve M. Draper, Sheriff	30,000
The above constitutional officers and subordinate employees - blanket bond	50,000
Lumberman's Mutual Casualty Company - Surety City funds	
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	100,000
Faithful performance	1,000,000

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Required Supplementary Information

Note to Required Supplementary Information:

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

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General Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual
 Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Budget As Amended</u>	<u>Actual</u>	<u>Variance From Final Budget Positive (Negative)</u>
Revenues:				
General property taxes	\$ 7,454,323	\$ 7,454,323	\$ 7,338,045	\$ (116,278)
Other local taxes	6,187,877	6,187,877	6,233,472	45,595
Permits, privilege fees and regulatory licenses	409,975	409,975	199,679	(210,296)
Fines and forfeitures	213,000	213,000	251,543	38,543
Revenue from use of money and property	462,272	462,472	564,778	102,306
Charges for services	128,174	325,093	213,979	(111,114)
Miscellaneous	166,709	193,780	181,855	(11,925)
Recovered costs	855,173	880,319	900,686	20,367
Intergovernmental:				
Commonwealth	6,489,774	6,502,355	6,595,229	92,874
Federal	18,000	178,900	182,658	3,758
Total revenues	<u>\$ 22,385,277</u>	<u>\$ 22,808,094</u>	<u>\$ 22,661,924</u>	<u>\$ (146,170)</u>
Expenditures:				
Current:				
General government administration	\$ 3,569,679	\$ 3,603,237	\$ 3,376,462	\$ 226,775
Judicial administration	1,442,681	1,502,490	1,468,873	33,617
Public safety	8,015,590	8,229,002	8,025,471	203,531
Public works	3,375,420	3,399,460	3,286,615	112,845
Health and welfare	316,641	316,641	312,660	3,981
Education	6,180,601	6,174,616	6,173,969	647
Parks, recreation, and cultural	950,649	1,173,772	1,150,610	23,162
Community development	1,120,905	1,121,205	924,973	196,232
Debt service:				
Principal retirement	189,846	189,846	189,846	-
Interest and other fiscal charges	22,477	28,462	29,109	(647)
Total expenditures	<u>\$ 25,184,489</u>	<u>\$ 25,738,731</u>	<u>\$ 24,938,588</u>	<u>\$ 800,143</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (2,799,212)</u>	<u>\$ (2,930,637)</u>	<u>\$ (2,276,664)</u>	<u>\$ 653,973</u>
Other financing sources (uses):				
Transfers in	\$ 2,980,714	\$ 2,980,714	\$ 2,980,714	\$ -
Transfers (out)	<u>(900,000)</u>	<u>(908,300)</u>	<u>(1,008,950)</u>	<u>(100,650)</u>
Total other financing sources (uses)	<u>\$ 2,080,714</u>	<u>\$ 2,072,414</u>	<u>\$ 1,971,764</u>	<u>\$ (100,650)</u>
Changes in fund balances	\$ (718,498)	\$ (858,223)	\$ (304,900)	\$ 553,323
Fund balances at beginning of year	<u>718,498</u>	<u>858,223</u>	<u>813,405</u>	<u>(44,818)</u>
Fund balances at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 508,505</u>	<u>\$ 508,505</u>

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

City

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded (Excess Funded) Actuarial Accrued Liability	Funded Ratio (2)/(3)	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2004	\$ 48,134,629	\$ 60,136,700	\$ 12,002,071	80.04%	\$ 11,117,223	107.96%
6/30/2003	48,121,238	57,424,641	9,303,403	83.80%	11,211,271	82.98%
6/30/2002	48,408,887	55,037,802	6,628,915	87.96%	11,617,548	57.06%

Discretely Presented Component Unit - School Board
School Board Non-Professionals:

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded (Excess Funded) Actuarial Accrued Liability	Funded Ratio (2)/(3)	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2004	\$ 2,848,554	\$ 3,664,894	\$ 816,340	77.73%	\$ 753,597	108.33%
6/30/2003	2,899,074	3,530,640	631,566	82.11%	747,072	84.54%
6/30/2002	2,990,962	3,500,850	509,888	85.44%	801,797	63.59%

Other Supplementary Information

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Combining and Individual Fund Statements and Schedules

Nonmajor Governmental Funds
 Combining Balance Sheet
 At June 30, 2005

	Special Revenue Funds		Capital Projects Funds		Total
	City Grants Fund	Housing Choice Fund	Capital Reserve Fund	Meals Tax Fund	
ASSETS					
Cash and cash equivalents	\$ 28,914	\$ 172,534	\$ 1,278,749	\$ -	\$ 1,480,197
Accounts receivable	-	-	-	789	789
Due from other governments	66,601	-	-	-	66,601
Total assets	\$ 95,515	\$ 172,534	\$ 1,278,749	\$ 789	\$ 1,547,587
LIABILITIES					
Accounts payable and other current liabilities	\$ 36,271	\$ 2,043	\$ 117,194	\$ -	\$ 155,508
Due to other funds	577,398	-	-	35,078	612,476
Total liabilities	\$ 613,669	\$ 2,043	\$ 117,194	\$ 35,078	\$ 767,984
FUND BALANCES					
Fund balances:					
Unreserved, undesignated reported in:					
Special revenue funds	\$ (518,154)	\$ 170,491	\$ -	\$ -	\$ (347,663)
Capital projects (deficit)	-	-	1,161,555	(34,289)	1,127,266
Total fund balances	\$ (518,154)	\$ 170,491	\$ 1,161,555	\$ (34,289)	\$ 779,603
Total liabilities and fund balances	\$ 95,515	\$ 172,534	\$ 1,278,749	\$ 789	\$ 1,547,587

Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2005

	<u>Special Revenue Funds</u>		<u>Capital Projects Funds</u>		<u>Total</u>
	<u>City Grants Fund</u>	<u>Housing Choice Fund</u>	<u>Capital Reserve Fund</u>	<u>Meals Tax Fund</u>	
Revenues:					
Other local taxes	\$ -	\$ -	\$ -	\$ 1,119,338	\$ 1,119,338
Revenue from use of money and property	90,752	4,377	-	-	95,129
Miscellaneous	-	6,180	104,638	-	110,818
Intergovernmental:					
Commonwealth	169,150	-	91,281	139,919	400,350
Federal	260,759	1,811,627	772	-	2,073,158
Total revenues	\$ 520,661	\$ 1,822,184	\$ 196,691	\$ 1,259,257	\$ 3,798,793
Expenditures:					
General government administration	\$ -	\$ -	\$ 667,755	\$ 35,190	\$ 702,945
Public safety	-	-	909,581	-	909,581
Public works	-	-	265,155	-	265,155
Health and welfare	141,434	-	-	-	141,434
Education	-	-	229,878	-	229,878
Parks, recreation, and cultural	-	-	6,815	-	6,815
Planning and community development	620,549	1,866,695	353,841	-	2,841,085
Debt service:					
Principal retired on debt	-	-	197,409	705,000	902,409
Interest and fiscal charges	-	-	95,464	373,185	468,649
Total expenditures	\$ 761,983	\$ 1,866,695	\$ 2,725,898	\$ 1,113,375	\$ 6,467,951
Excess (deficiency) of revenues over expenditures	\$ (241,322)	\$ (44,511)	\$ (2,529,207)	\$ 145,882	\$ (2,669,158)
Other financing sources:					
Capital leases	\$ -	\$ -	\$ 427,575	\$ -	\$ 427,575
Transfers in	108,950	-	2,778,884	-	2,887,834
Transfers (out)	-	-	-	(116,264)	(116,264)
Total other financing sources (uses)	\$ 108,950	\$ -	\$ 3,206,459	\$ (116,264)	\$ 3,199,145
Changes in fund balances	\$ (132,372)	\$ (44,511)	\$ 677,252	\$ 29,618	\$ 529,987
Fund balances at beginning of year	(385,782)	215,002	484,303	(63,907)	249,616
Fund balances at end of year	\$ (518,154)	\$ 170,491	\$ 1,161,555	\$ (34,289)	\$ 779,603

CITY OF MARTINSVILLE, VIRGINIA

Nonmajor Governmental Funds
 Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual
 Year Ended June 30, 2005

	City Grants Fund				Housing Choice Fund				
	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)	
Revenues:									
Other local taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue from use of money and property	41,619	41,619	90,752	49,133	4,500	4,500	4,377	(123)	
Miscellaneous	-	-	-	-	1,500	1,500	6,180	4,680	
Intergovernmental:									
Commonwealth	101,900	101,900	169,150	67,250	-	-	-	-	
Federal	510,959	510,959	260,759	(250,200)	2,217,157	2,217,157	1,811,627	(405,530)	
Total revenues	\$ 654,478	\$ 654,478	\$ 520,661	\$ (133,817)	\$ 2,223,157	\$ 2,223,157	\$ 1,822,184	\$ (400,973)	
Expenditures:									
General government administration	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-	-	-	-	-	-
Public works	-	-	-	-	-	-	-	-	-
Health and welfare	-	-	141,434	(141,434)	-	-	-	-	-
Education	-	-	-	-	-	-	-	-	-
Parks, recreation, and cultural	-	-	-	-	-	-	-	-	-
Planning and community development	599,756	653,556	620,549	33,007	2,335,160	2,335,160	1,866,695	468,465	
Debt service:									
Principal retired on debt	-	-	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-	-	-
Total expenditures	\$ 599,756	\$ 653,556	\$ 761,983	\$ (108,427)	\$ 2,335,160	\$ 2,335,160	\$ 1,866,695	\$ 468,465	
Excess (deficiency) of revenues over expenditures	\$ 54,722	\$ 922	\$ (241,322)	\$ (242,244)	\$ (112,003)	\$ (112,003)	\$ (44,511)	\$ 67,492	
Other financing sources:									
Capital leases	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers in	-	8,300	108,950	100,650	-	-	-	-	-
Transfers (out)	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	\$ -	\$ 8,300	\$ 108,950	\$ 100,650	\$ -	\$ -	\$ -	\$ -	\$ -
Changes in fund balances	\$ 54,722	\$ 9,222	\$ (132,372)	\$ (141,594)	\$ (112,003)	\$ (112,003)	\$ (44,511)	\$ 67,492	
Fund balances at beginning of year	(54,722)	(9,222)	(385,782)	(376,560)	112,003	112,003	215,002	102,999	
Fund balances at end of year	\$ -	\$ -	\$ (518,154)	\$ (518,154)	\$ -	\$ -	\$ 170,491	\$ 170,491	

Capital Reserve Fund				Meals Tax Fund			
Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ 1,089,647	\$ 1,089,647	\$ 1,119,338	\$ 29,691
-	-	-	-	-	-	-	-
80,000	94,827	104,638	9,811	-	-	-	-
-	91,281	91,281	-	139,992	139,992	139,919	(73)
-	-	772	772	-	-	-	-
<u>\$ 80,000</u>	<u>\$ 186,108</u>	<u>\$ 196,691</u>	<u>\$ 10,583</u>	<u>\$ 1,229,639</u>	<u>\$ 1,229,639</u>	<u>\$ 1,259,257</u>	<u>\$ 29,618</u>
\$ 878,884	\$ 1,089,884	\$ 667,755	\$ 422,129	\$ 35,190	\$ 35,190	\$ 35,190	\$ -
706,964	1,188,835	909,581	279,254	-	-	-	-
316,889	331,716	265,155	66,561	-	-	-	-
-	-	-	-	-	-	-	-
900,000	900,000	229,878	670,122	-	-	-	-
6,800	6,800	6,815	(15)	-	-	-	-
320,488	320,488	353,841	(33,353)	-	-	-	-
80,000	80,000	197,409	(117,409)	705,000	705,000	705,000	-
84,435	84,435	95,464	(11,029)	373,185	373,185	373,185	-
<u>\$ 3,294,460</u>	<u>\$ 4,002,158</u>	<u>\$ 2,725,898</u>	<u>\$ 1,276,260</u>	<u>\$ 1,113,375</u>	<u>\$ 1,113,375</u>	<u>\$ 1,113,375</u>	<u>\$ -</u>
<u>\$ (3,214,460)</u>	<u>\$ (3,816,050)</u>	<u>\$ (2,529,207)</u>	<u>\$ 1,286,843</u>	<u>\$ 116,264</u>	<u>\$ 116,264</u>	<u>\$ 145,882</u>	<u>\$ 29,618</u>
\$ -	\$ 427,575	\$ 427,575	\$ -	\$ -	\$ -	\$ -	\$ -
2,778,884	2,778,884	2,778,884	-	-	-	-	-
-	-	-	-	(116,264)	(116,264)	(116,264)	-
<u>\$ 2,778,884</u>	<u>\$ 3,206,459</u>	<u>\$ 3,206,459</u>	<u>\$ -</u>	<u>\$ (116,264)</u>	<u>\$ (116,264)</u>	<u>\$ (116,264)</u>	<u>\$ -</u>
\$ (435,576)	\$ (609,591)	\$ 677,252	\$ 1,286,843	\$ -	\$ -	\$ 29,618	\$ 29,618
435,576	609,591	484,303	(125,288)	-	-	(63,907)	(63,907)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,161,555</u>	<u>\$ 1,161,555</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (34,289)</u>	<u>\$ (34,289)</u>

Combining Schedule of Fiduciary Net Assets -
 Agency Funds
 At June 30, 2005

	<u>Insurance Fund</u>	<u>Sheriff's Fund</u>	<u>West Piedmont Business Development Center Fund</u>	<u>Police Academy Fund</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 64,832	\$ 112,055	\$ -	\$ 324,192	\$ 501,079
Total assets	<u>\$ 64,832</u>	<u>\$ 112,055</u>	<u>\$ -</u>	<u>\$ 324,192</u>	<u>\$ 501,079</u>
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ 10,537	\$ 2,992	\$ 13,529
Amounts held for others	<u>64,832</u>	<u>112,055</u>	<u>(10,537)</u>	<u>321,200</u>	<u>487,550</u>
Total liabilities	<u>\$ 64,832</u>	<u>\$ 112,055</u>	<u>\$ -</u>	<u>\$ 324,192</u>	<u>\$ 501,079</u>

Agency Funds
Statement of Changes in Assets and Liabilities
Year Ended June 30, 2005

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
Insurance Fund:				
Assets:				
Cash	\$ 209,877	\$ 2,428,974	\$ 2,574,019	\$ 64,832
Total assets	<u>\$ 209,877</u>	<u>\$ 2,428,974</u>	<u>\$ 2,574,019</u>	<u>\$ 64,832</u>
Liabilities:				
Amounts held for others	\$ 209,877	\$ 2,428,974	\$ 2,574,019	\$ 64,832
Total liabilities	<u>\$ 209,877</u>	<u>\$ 2,428,974</u>	<u>\$ 2,574,019</u>	<u>\$ 64,832</u>
Sheriff Funds:				
Assets:				
Cash	\$ 96,072	\$ 300,120	\$ 284,137	\$ 112,055
Total assets	<u>\$ 96,072</u>	<u>\$ 300,120</u>	<u>\$ 284,137</u>	<u>\$ 112,055</u>
Liabilities:				
Amounts held for others	\$ 96,072	\$ 300,120	\$ 284,137	\$ 112,055
Total liabilities	<u>\$ 96,072</u>	<u>\$ 300,120</u>	<u>\$ 284,137</u>	<u>\$ 112,055</u>
WPBDC Fund:				
Assets:				
Cash	\$ -	\$ 169,665	\$ 169,665	\$ -
Total assets	<u>\$ -</u>	<u>\$ 169,665</u>	<u>\$ 169,665</u>	<u>\$ -</u>
Liabilities:				
Accounts payable	\$ 3,834	\$ 10,537	\$ 3,834	\$ 10,537
Amounts held for others	<u>(3,834)</u>	<u>159,128</u>	<u>165,831</u>	<u>(10,537)</u>
Total liabilities	<u>\$ -</u>	<u>\$ 169,665</u>	<u>\$ 169,665</u>	<u>\$ -</u>
Police Academy Fund:				
Assets:				
Cash	\$ 263,017	\$ 249,409	\$ 188,234	\$ 324,192
Total assets	<u>\$ 263,017</u>	<u>\$ 249,409</u>	<u>\$ 188,234</u>	<u>\$ 324,192</u>
Liabilities:				
Accounts payable	\$ 2,043	\$ 2,992	\$ 2,043	\$ 2,992
Amounts held for others	<u>260,974</u>	<u>246,417</u>	<u>186,191</u>	<u>321,200</u>
Total liabilities	<u>\$ 263,017</u>	<u>\$ 249,409</u>	<u>\$ 188,234</u>	<u>\$ 324,192</u>
Total -- All Agency Funds				
Assets:				
Cash	\$ 568,966	\$ 3,148,168	\$ 3,216,055	\$ 501,079
Total assets	<u>\$ 568,966</u>	<u>\$ 3,148,168</u>	<u>\$ 3,216,055</u>	<u>\$ 501,079</u>
Liabilities:				
Accounts payable	\$ 5,877	\$ 13,529	\$ 5,877	\$ 13,529
Amounts held for others	<u>563,089</u>	<u>3,134,639</u>	<u>3,210,178</u>	<u>487,550</u>
Total liabilities	<u>\$ 568,966</u>	<u>\$ 3,148,168</u>	<u>\$ 3,216,055</u>	<u>\$ 501,079</u>

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Discretely Presented Component Unit—School Board

Combining Balance Sheet
 Discretely Presented Component Unit -- School Board
 At June 30, 2005

	<u>School Operating Fund</u>	<u>School Cafeteria Fund</u>	<u>School Grants Fund</u>	<u>Totals</u>
ASSETS				
Assets:				
Cash and cash equivalents	\$ 1,880,380	\$ 216,075	\$ -	\$ 2,096,455
Accounts receivable	39,584	3,186	-	42,770
Due from other governmental units	383,441	37,673	690,938	1,112,052
Due from other funds	659,133	-	-	659,133
Total assets	<u>\$ 2,962,538</u>	<u>\$ 256,934</u>	<u>\$ 690,938</u>	<u>\$ 3,910,410</u>
LIABILITIES				
Accounts payable	\$ 300,341	\$ 2,190	\$ -	\$ 302,531
Deferred revenue	61,542	-	-	61,542
Accrued liabilities	828,585	23,752	61,207	913,544
Due to other funds	-	-	659,133	659,133
Total liabilities	<u>\$ 1,190,468</u>	<u>\$ 25,942</u>	<u>\$ 720,340</u>	<u>\$ 1,936,750</u>
FUND BALANCES				
Unreserved:				
Undesignated (deficit)	\$ 1,772,070	\$ 230,992	\$ (29,402)	\$ 1,973,660
Total fund balances	<u>\$ 1,772,070</u>	<u>\$ 230,992</u>	<u>\$ (29,402)</u>	<u>\$ 1,973,660</u>
Total liabilities and fund balances	<u>\$ 2,962,538</u>	<u>\$ 256,934</u>	<u>\$ 690,938</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>4,332,552</u>
Net assets of General Government Activities	<u>\$ 6,306,212</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds - Discretely Presented Component Unit - School Board
 Year Ended June 30, 2005

	School Operating Fund	School Cafeteria Fund	School Grants Fund	Total
Revenues:				
Revenue from use of money and property	\$ 15,545	\$ 1,176	\$ -	\$ 16,721
Charges for services	112,497	461,895	-	574,392
Miscellaneous	277,261	-	-	277,261
Recovered costs	1,011	-	-	1,011
Intergovernmental:				
Local government	6,161,294	-	-	6,161,294
Commonwealth	13,331,300	14,771	-	13,346,071
Federal	<u>1,210,720</u>	<u>649,658</u>	<u>1,809,777</u>	<u>3,670,155</u>
Total revenues	<u>\$ 21,109,628</u>	<u>\$ 1,127,500</u>	<u>\$ 1,809,777</u>	<u>\$ 24,046,905</u>
Expenditures:				
Current:				
Education	<u>\$ 20,485,542</u>	<u>\$ 967,350</u>	<u>\$ 1,672,227</u>	<u>\$ 23,125,119</u>
Total expenditures	<u>\$ 20,485,542</u>	<u>\$ 967,350</u>	<u>\$ 1,672,227</u>	<u>\$ 23,125,119</u>
Changes in fund balances	\$ 624,086	\$ 160,150	\$ 137,550	\$ 921,786
Fund balances at beginning of year	<u>1,147,984</u>	<u>70,842</u>	<u>(166,952)</u>	<u>1,051,874</u>
Fund balances at end of year	<u>\$ 1,772,070</u>	<u>\$ 230,992</u>	<u>\$ (29,402)</u>	<u>\$ 1,973,660</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, 2005

	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	\$ 15,545	\$ 10,045
Charges for services	35,000	35,000	112,497	77,497
Miscellaneous	-	216,101	277,261	61,160
Recovered costs	-	-	1,011	1,011
Intergovernmental:				
Local government	6,167,926	6,161,941	6,161,294	(647)
Commonwealth	13,345,852	13,372,072	13,331,300	(40,772)
Federal	595,541	640,153	1,210,720	570,567
Total revenues	\$ 20,149,819	\$ 20,430,767	\$ 21,109,628	\$ 678,861
Expenditures:				
Current:				
Education	\$ 20,149,819	\$ 20,765,068	\$ 20,485,542	\$ 279,526
Total expenditures	\$ 20,149,819	\$ 20,765,068	\$ 20,485,542	\$ 279,526
Changes in fund balances	\$ -	\$ (334,301)	\$ 624,086	\$ 958,387
Fund balances at beginning of year	_____	334,301	1,147,984	813,683
Fund balances at end of year	\$ _____	\$ -	\$ 1,772,070	\$ 1,772,070

School Cafeteria Fund				School Grants Fund			
Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)	Original Budget	Budget As Amended	Actual	Variance From Amended Budget Positive (Negative)
\$ -	\$ 7,592	\$ 1,176	\$ (6,416)	\$ -	\$ -	\$ -	\$ -
-	553,935	461,895	(92,040)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	16,833	14,771	(2,062)	-	-	-	-
-	550,423	649,658	99,235	-	1,723,219	1,809,777	86,558
\$ -	\$ 1,128,783	\$ 1,127,500	\$ (1,283)	\$ -	\$ 1,723,219	\$ 1,809,777	\$ 86,558
\$ -	\$ 1,128,783	\$ 967,350	\$ 161,433	\$ -	\$ 1,723,219	\$ 1,672,227	\$ 50,992
\$ -	\$ 1,128,783	\$ 967,350	\$ 161,433	\$ -	\$ 1,723,219	\$ 1,672,227	\$ 50,992
\$ -	\$ -	\$ 160,150	\$ 160,150	\$ -	\$ -	\$ 137,550	\$ 137,550
-	-	70,842	70,842	-	-	(166,952)	(166,952)
\$ -	\$ -	\$ 230,992	\$ 230,992	\$ -	\$ -	\$ (29,402)	\$ (29,402)

Discretely Presented Component Unit - School Board
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances of Governmental Funds to the Statement of Activities
 Year Ended June 30, 2005

Net changes in fund balances - total governmental funds \$ 921,786

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

Capital outlays	364,332
Depreciation expense	(266,440)

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

669,326

Changes in net assets of governmental activities \$ 1,689,004

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

Supporting Schedules

Governmental Funds and Discretely Presented Component Unit - School Board
Schedule of Revenues -- Budget and Actual
Year Ended June 30, 2005

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government:				
General Fund:				
General property taxes:				
Real property taxes	\$ 5,595,219	\$ 5,595,219	\$ 5,411,516	\$ (183,703)
Personal property taxes	653,070	653,070	611,678	(41,392)
Business equipment	824,127	824,127	939,855	115,728
Machinery and tools taxes	251,907	251,907	226,941	(24,966)
Penalties	75,000	75,000	97,368	22,368
Interest and costs	55,000	55,000	50,687	(4,313)
Total general property taxes	<u>\$ 7,454,323</u>	<u>\$ 7,454,323</u>	<u>\$ 7,338,045</u>	<u>\$ (116,278)</u>
Other local taxes:				
Local sales and use taxes	\$ 2,100,000	\$ 2,100,000	\$ 2,020,464	\$ (79,536)
Consumers' utility taxes	780,013	780,013	769,307	(10,706)
Business license tax	1,506,478	1,506,478	1,750,980	244,502
Franchise license taxes	173,169	173,169	166,185	(6,984)
Motor vehicle licenses	228,000	228,000	227,623	(377)
Bank franchise tax	268,274	268,274	256,028	(12,246)
E-911 surcharge	191,183	191,183	189,660	(1,523)
Taxes on recordation and wills	85,000	85,000	73,343	(11,657)
Grantor tax	15,000	15,000	18,749	3,749
Telephone tax	574,200	574,200	598,640	24,440
Cigarette tax	250,000	250,000	145,099	(104,901)
Rental tax	16,560	16,560	3,659	(12,901)
Transient room tax	-	0	13,735	13,735
Total other local taxes	<u>\$ 6,187,877</u>	<u>\$ 6,187,877</u>	<u>\$ 6,233,472</u>	<u>\$ 45,595</u>
Permits, privilege fees and regulatory licenses:				
Animal licenses	\$ 2,000	\$ 2,000	\$ 2,639	\$ 639
Ambulance Fees	320,375	320,375	129,725	(190,650)
Other permits and licenses	87,600	87,600	67,315	(20,285)
Total permits, privilege fees and regulatory licenses	<u>\$ 409,975</u>	<u>\$ 409,975</u>	<u>\$ 199,679</u>	<u>\$ (210,296)</u>
Fines and Forfeitures:				
Court fines and forfeitures	\$ 210,000	\$ 210,000	\$ 249,034	\$ 39,034
Other fines and forfeitures	3,000	3,000	2,509	(491)
Total fines and forfeitures	<u>\$ 213,000</u>	<u>\$ 213,000</u>	<u>\$ 251,543</u>	<u>\$ 38,543</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 60,000	\$ 60,000	\$ 172,866	\$ 112,866
Revenue from use of property	402,272	402,472	391,912	(10,560)
Total revenue from use of money and property	<u>\$ 462,272</u>	<u>\$ 462,472</u>	<u>\$ 564,778</u>	<u>\$ 102,306</u>
Charges for services:				
Sheriff fees	\$ 3,624	\$ 3,624	\$ 3,673	\$ 49
Courthouse maintenance fees	18,000	18,000	15,978	(2,022)
Court appointed attorney fees	3,000	3,000	7,744	4,744
Court house security fees	16,800	16,800	19,013	2,213
Document reproduction fee	4,300	4,300	3,575	(725)

Governmental Funds and Discretely Presented Component Unit - School Board
Schedule of Revenues -- Budget and Actual
Year Ended June 30, 2005 (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)				
Charges for services: (Continued)				
Remote access fee	\$ 2,500	\$ 2,500	\$ 3,437	\$ 937
Commonwealth attorney fees	1,800	1,800	1,568	(232)
Other public safety fees	8,350	8,350	8,743	393
Recreation fees	36,500	36,500	23,757	(12,743)
Prison farm labor / street maintenance	24,000	24,000	24,000	-
Martinsville mustangs fees	0	196,919	86,621	(110,298)
Other charges for services	9,300	9,300	15,870	6,570
Total charges for services	<u>\$ 128,174</u>	<u>\$ 325,093</u>	<u>\$ 213,979</u>	<u>\$ (111,114)</u>
Miscellaneous revenue:				
Payment in lieu of tax	\$ 133,709	\$ 133,709	\$ 133,709	\$ -
Other miscellaneous revenue	33,000	60,071	48,146	(11,925)
Total miscellaneous revenue	<u>\$ 166,709</u>	<u>\$ 193,780</u>	<u>\$ 181,855</u>	<u>\$ (11,925)</u>
Recovered costs:				
Boarding of prisoners	\$ 10,000	\$ 10,000	\$ 25,590	\$ 15,590
WW Moore	30,000	30,000	53,994	23,994
SSI / LIDS	2,000	2,000	3,400	1,400
Juvenile and domestic relations court	5,000	5,000	837	(4,163)
Meals tax administration	35,190	35,190	35,190	-
Street maintenance overhead	56,067	56,067	67,424	11,357
Demolition	1,000	1,000	2,136	1,136
Advance / recovered cost	30,000	46,281	56,717	10,436
Health department	8,000	8,000	4,259	(3,741)
Juror and witness	14,000	14,000	6,840	(7,160)
Pay phone commissions	-	-	36	36
National guard armory	14,000	14,000	-	(14,000)
Medical co-pay reimbursement	12,000	12,000	21,251	9,251
VML self insurance dividend	-	-	3,277	3,277
Treasurer	1,500	1,500	3,600	2,100
Recovered cost / sheriff	-	-	76	76
Workforce	-	-	3,301	3,301
DUI reimbursement	-	-	4,305	4,305
Collection expense	9,000	9,000	9,000	-
Billing expense	359,175	359,175	328,865	(30,310)
Safety expense	69,879	69,879	69,879	-
Communication	79,842	79,842	79,842	-
Central garage	30,320	30,320	30,320	-
Engineering	68,000	68,000	62,969	(5,031)
Senior citizens	2,000	10,865	10,065	(800)
Social services	10,000	10,000	10,063	63
Program income	1,000	1,000	1,162	162
Senior citizens - transportation	4,200	4,200	3,288	(912)
Fiscal agent fees - regional library	3,000	3,000	3,000	-
Total recovered costs	<u>\$ 855,173</u>	<u>\$ 880,319</u>	<u>\$ 900,686</u>	<u>\$ 20,367</u>
Total revenue from local sources	<u>\$ 15,877,503</u>	<u>\$ 16,126,839</u>	<u>\$ 15,884,037</u>	<u>\$ (242,802)</u>

Governmental Funds and Discretely Presented Component Unit - School Board
Schedule of Revenues -- Budget and Actual
Year Ended June 30, 2005 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Revenue from the Commonwealth:				
Noncategorical aid:				
ABC profits	\$ 20,000	\$ 20,000	\$ 9,037	\$ (10,963)
Wine taxes	9,500	9,500	9,473	(27)
PPTRA	631,000	631,000	576,388	(54,612)
Rolling stock tax	9,000	9,000	8,855	(145)
Auto rental tax	45,000	45,000	48,278	3,278
Recordation tax	-	-	17,158	17,158
Total noncategorical aid	<u>\$ 714,500</u>	<u>\$ 714,500</u>	<u>\$ 669,189</u>	<u>\$ (45,311)</u>
Categorical aid:				
Shared expenses:				
Commonwealth's attorney	\$ 275,129	\$ 275,129	\$ 295,330	\$ 20,201
Sheriff	1,639,619	1,659,619	1,684,383	24,764
Commissioner of the Revenue	97,234	97,234	99,011	1,777
Treasurer	87,235	87,235	87,410	175
Medical examiner	300	300	450	150
Registrar/electoral board	38,188	38,188	49,524	11,336
Clerk of the circuit court	224,957	237,103	236,693	(410)
Total shared expenses	<u>\$ 2,362,662</u>	<u>\$ 2,394,808</u>	<u>\$ 2,452,801</u>	<u>\$ 57,993</u>
Other categorical aid:				
Senior citizens	\$ 11,800	\$ 11,800	\$ 11,132	\$ (668)
DCJS resource officer grant	25,969	25,969	33,612	7,643
Confiscated assets - police	-	16,104	17,170	1,066
Victim witness	68,572	14,139	31,027	16,888
House Bill # 599 - police	632,786	632,786	632,788	2
EMS two for life	5,600	5,600	-	(5,600)
Fire grant	20,661	30,360	30,360	-
Street maintenance	2,242,026	2,242,026	2,261,419	19,393
Jail per diem	405,198	405,198	430,446	25,248
Other categorical aid	-	9,065	25,285	16,220
Total other categorical aid	<u>\$ 3,412,612</u>	<u>\$ 3,393,047</u>	<u>\$ 3,473,239</u>	<u>\$ 80,192</u>
Total categorical aid	<u>\$ 5,775,274</u>	<u>\$ 5,787,855</u>	<u>\$ 5,926,040</u>	<u>\$ 138,185</u>
Total revenue from the Commonwealth	<u>\$ 6,489,774</u>	<u>\$ 6,502,355</u>	<u>\$ 6,595,229</u>	<u>\$ 92,874</u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2005 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Revenue from the federal government:				
Categorical aid:				
Victim witness	\$ -	\$ 55,706	\$ 55,706	\$ -
Fire act grant	-	21,273	21,273	-
Bulletproof vest grant	-	-	254	254
Confiscated assets	-	294	294	-
DMV grant - police	-	13,000	13,939	939
DCJS - police grant	-	5,025	5,025	-
Senior citizens	18,000	19,946	19,536	(410)
SCAAP funds	-	-	2,995	2,995
Homeland security grant	-	63,656	63,636	(20)
Total categorical aid	<u>\$ 18,000</u>	<u>\$ 178,900</u>	<u>\$ 182,658</u>	<u>\$ 3,758</u>
Total revenue from the Federal Government	<u>\$ 18,000</u>	<u>\$ 178,900</u>	<u>\$ 182,658</u>	<u>\$ 3,758</u>
Total General Fund	<u><u>\$ 22,385,277</u></u>	<u><u>\$ 22,808,094</u></u>	<u><u>\$ 22,661,924</u></u>	<u><u>\$ (146,170)</u></u>
Special Revenue Funds:				
Grants Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ 4,145	\$ 4,145	\$ 5,586	\$ 1,441
Revenue from use of property	37,474	37,474	85,166	47,692
Total revenue from use of money and property	<u>\$ 41,619</u>	<u>\$ 41,619</u>	<u>\$ 90,752</u>	<u>\$ 49,133</u>
Total revenue from local sources	<u>\$ 41,619</u>	<u>\$ 41,619</u>	<u>\$ 90,752</u>	<u>\$ 49,133</u>
Revenue from the Commonwealth:				
Other categorical aid:				
Comprehensive services	\$ -	\$ -	\$ 169,150	\$ 169,150
Indoor plumbing	101,900	101,900	-	(101,900)
Total revenue from the Commonwealth	<u>\$ 101,900</u>	<u>\$ 101,900</u>	<u>\$ 169,150</u>	<u>\$ 67,250</u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2005 (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)				
Revenue from the federal government:				
Categorical aid:				
Community development block grant	\$ 510,959	\$ 510,959	\$ 213,182	\$ (297,777)
CDBG - West Church Corridor improvement	-	0	47,577	47,577
Total revenue from the Federal Government	<u>\$ 510,959</u>	<u>\$ 510,959</u>	<u>\$ 260,759</u>	<u>\$ (250,200)</u>
Total Grants Fund	<u><u>\$ 654,478</u></u>	<u><u>\$ 654,478</u></u>	<u><u>\$ 520,661</u></u>	<u><u>\$ (133,817)</u></u>
Housing Choice Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ 4,500	\$ 4,500	\$ 4,377	\$ (123)
Miscellaneous revenue:				
Miscellaneous funds	<u>1,500</u>	<u>1,500</u>	<u>6,180</u>	<u>4,680</u>
Total revenue from local sources	<u>\$ 6,000</u>	<u>\$ 6,000</u>	<u>\$ 10,557</u>	<u>\$ 4,557</u>
Revenue from the federal government:				
Categorical aid:				
Housing assistance	\$ 1,871,947	\$ 1,871,947	\$ 1,618,985	\$ (252,962)
Moderate rehab. assistance	96,071	96,071	171,525	75,454
Other federal assistance	<u>249,139</u>	<u>249,139</u>	<u>21,117</u>	<u>(228,022)</u>
Total revenue from the Federal Government	<u>\$ 2,217,157</u>	<u>\$ 2,217,157</u>	<u>\$ 1,811,627</u>	<u>\$ (405,530)</u>
Total Housing Choice Fund	<u><u>\$ 2,223,157</u></u>	<u><u>\$ 2,223,157</u></u>	<u><u>\$ 1,822,184</u></u>	<u><u>\$ (400,973)</u></u>
Total Special Revenue Funds	<u><u>\$ 2,877,635</u></u>	<u><u>\$ 2,877,635</u></u>	<u><u>\$ 2,342,845</u></u>	<u><u>\$ (534,790)</u></u>
Capital Projects Funds:				
Capital Reserve Fund:				
Revenue from local sources:				
Miscellaneous revenue:				
Miscellaneous	<u>80,000</u>	<u>94,827</u>	<u>104,638</u>	<u>9,811</u>
Total revenue from local sources	<u>\$ 80,000</u>	<u>\$ 94,827</u>	<u>\$ 104,638</u>	<u>\$ 9,811</u>

Governmental Funds and Discretely Presented Component Unit - School Board
Schedule of Revenues -- Budget and Actual
Year Ended June 30, 2005 (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:				
Rescue squad assistance	\$ -	\$ 91,281	\$ 91,281	\$ -
Total revenue from the Commonwealth	\$ -	\$ 91,281	\$ 91,281	\$ -
Revenue from the Federal Government:				
Categorical aid:				
COPS technology grant	\$ -	\$ -	\$ 772	\$ 772
Total revenue from the federal government	\$ -	\$ -	\$ 772	\$ 772
Total Capital Reserve Fund	\$ 80,000	\$ 186,108	\$ 196,691	\$ 10,583
Meals Tax Fund:				
Revenue from local sources:				
Other local taxes:				
Meals taxes	\$ 1,089,647	\$ 1,089,647	\$ 1,119,338	\$ 29,691
Revenue from the Commonwealth:				
Categorical aid:				
School construction	139,992	139,992	139,919	(73)
Total Meals Tax Fund	\$ 1,229,639	\$ 1,229,639	\$ 1,259,257	\$ 29,618
Total Capital Projects Funds	\$ 1,309,639	\$ 1,415,747	\$ 1,455,948	\$ 40,201
Grand Total Revenues -- Primary Government	\$ 26,572,551	\$ 27,101,476	\$ 26,460,717	\$ (640,759)
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	\$ 15,545	\$ 10,045
Charges for services:				
Tuition and other charges for services	35,000	35,000	112,497	77,497
Miscellaneous revenue:				
Miscellaneous revenue	-	216,101	277,261	61,160
Recovered costs:				
Recovered costs	-	-	1,011	1,011
Total revenue from local sources	\$ 40,500	\$ 256,601	\$ 406,314	\$ 149,713
Intergovernmental revenue:				
Revenues from local governments:				
Contribution from City of Martinsville, Virginia	\$ 6,167,926	\$ 6,161,941	\$ 6,161,294	\$ (647)

Governmental Funds and Discretely Presented Component Unit - School Board

Schedule of Revenues -- Budget and Actual

Year Ended June 30, 2005 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Component Unit-School Board: (Continued)				
Governmental Funds: (Continued)				
School Operating Fund: (Continued)				
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 2,401,447	\$ 2,401,447	\$ 2,417,094	\$ 15,647
Basic school aid	6,474,974	6,474,974	6,584,888	109,914
Share of fringe benefits - Fica	369,927	369,927	376,922	6,995
Share of fringe benefits - VRS	309,862	309,862	324,154	14,292
Lottery proceeds	406,077	406,077	446,559	40,482
Regional tuition special education	134,637	134,637	83,236	(51,401)
At risk 4 year olds	241,187	241,187	158,155	(83,032)
Vocational SOQ payments	219,109	219,109	222,384	3,275
Special education - basic	878,294	878,294	891,422	13,128
At risk students	295,227	295,227	294,253	(974)
Remedial education	326,807	326,807	331,692	4,885
Reduced K-3	413,127	413,127	318,597	(94,530)
Textbooks	117,205	117,425	118,957	1,532
Technology	206,000	232,000	386,000	154,000
Other state funds	551,972	551,972	376,987	(174,985)
Total revenue from the Commonwealth	\$ 13,345,852	\$ 13,372,072	\$ 13,331,300	\$ (40,772)
Revenue from the federal government:				
Categorical aid:				
Vocational education - Carl Perkins	\$ 57,068	\$ 67,830	\$ 70,777	\$ 2,947
Special education - pre-school incentive	-	-	3,855	3,855
Special education - flow through	502,556	502,556	642,632	140,076
Special education - sliver grant	-	-	17,500	17,500
ROTC instructors	35,917	35,917	46,515	10,598
Project promise	-	2,600	1,487	(1,113)
NASA program	-	31,250	87,962	56,712
Innovative teacher recruitment	-	-	27,655	27,655
Workforce investment act	-	-	131,374	131,374
Title IV	-	-	178,214	178,214
Refuge school impact	-	-	2,749	2,749
Total categorical aid	\$ 595,541	\$ 640,153	\$ 1,210,720	\$ 570,567
Total revenue from the federal government	\$ 595,541	\$ 640,153	\$ 1,210,720	\$ 570,567
Total School Operating Fund	\$ 20,149,819	\$ 20,430,767	\$ 21,109,628	\$ 678,861

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2005 (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	\$ -	\$ 7,592	\$ 1,176	\$ (6,416)
Charges for services:				
Cafeteria sales	\$ -	\$ 553,935	\$ 461,895	\$ (92,040)
Revenue from the Commonwealth:				
Categorical aid:				
School food	\$ -	\$ 16,833	\$ 14,771	\$ (2,062)
Revenue from the federal government:				
Categorical aid:				
School food	\$ -	\$ 550,423	\$ 649,658	\$ 99,235
Total School Cafeteria Fund	\$ -	\$ 1,128,783	\$ 1,127,500	\$ (1,283)
School Grants Fund:				
Revenue from the federal government:				
Categorical aid:				
Title I	\$ -	\$ 780,897	\$ 657,597	\$ (123,300)
Title II - teacher quality	-	161,359	182,693	21,334
Title II - technology	-	19,089	8,966	(10,123)
Title V - innovative program	-	16,726	16,733	7
Title VI - rural education	-	72,219	5,693	(66,526)
Drug free schools	-	17,616	30,954	13,338
Reading first	-	430,313	453,224	22,911
Class size reduction	-	50,000	100,000	50,000
Even start	-	175,000	160,348	(14,652)
Mentor teacher program	-	-	31,861	31,861
Blue ridge east tech grant	-	-	161,708	161,708
Total revenue from the federal government	\$ -	\$ 1,723,219	\$ 1,809,777	\$ 86,558
Total School Grants Fund	\$ -	\$ 1,723,219	\$ 1,809,777	\$ 86,558
Grand Total Revenues--Component Unit - School Board	\$ 20,149,819	\$ 23,282,769	\$ 24,046,905	\$ 764,136

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2005

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government:				
General Fund:				
General Government Administration:				
Legislative:				
City council	\$ 39,880	\$ 48,241	\$ 39,503	\$ 8,738
General and Financial Administration:				
Clerk of council	\$ 13,167	\$ 13,167	\$ 8,626	\$ 4,541
City manager's office	222,996	222,996	231,342	(8,346)
Legal services	33,620	33,620	27,536	6,084
Human resources	129,324	132,548	147,634	(15,086)
Employment services	265,496	265,496	257,016	8,480
Customer services	51,011	51,011	45,897	5,114
Communications	81,087	81,087	76,031	5,056
Commissioner of the Revenue	346,718	350,223	322,374	27,849
Assessor	5,855	2,350	1,349	1,001
Treasurer	238,931	238,931	234,107	4,824
Finance director	88,801	91,701	91,516	185
Accounting	172,863	174,792	173,356	1,436
Utility billing	359,175	359,175	328,864	30,311
Information services	256,730	256,730	246,074	10,656
Central garage	444,433	450,924	450,618	306
Purchasing	226,595	230,795	230,570	225
Risk management	157,000	157,000	150,387	6,613
General expenses	332,122	338,575	226,858	111,717
Total general and financial administration	\$ 3,425,924	\$ 3,451,121	\$ 3,250,155	\$ 200,966
Board of Elections:				
Electoral board and officials	\$ 19,515	\$ 19,515	\$ 16,073	\$ 3,442
Registrar	84,360	84,360	70,731	13,629
Total board of elections	\$ 103,875	\$ 103,875	\$ 86,804	\$ 17,071
Total general government administration	\$ 3,569,679	\$ 3,603,237	\$ 3,376,462	\$ 226,775
Judicial Administration:				
Courts:				
Circuit court	\$ 76,759	\$ 76,759	\$ 59,600	\$ 17,159
General district court	13,516	13,516	20,734	(7,218)
Juvenile and domestic relations court	7,550	7,550	5,134	2,416
Clerk of the circuit court	317,517	329,663	323,112	6,551
Sheriff - courts	619,350	641,235	625,774	15,461
Total Courts	\$ 1,034,692	\$ 1,068,723	\$ 1,034,354	\$ 34,369

Governmental Funds and Discretely Presented Component Unit - School Board
Schedule of Expenditures - Budget and Actual
Year Ended June 30, 2005 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Commonwealth Attorney:				
Commonwealth attorney	\$ 339,629	\$ 364,134	\$ 361,708	\$ 2,426
Victim witness program	68,360	69,633	72,811	(3,178)
Total Commonwealth attorney	<u>\$ 407,989</u>	<u>\$ 433,767</u>	<u>\$ 434,519</u>	<u>\$ (752)</u>
Total judicial administration	<u>\$ 1,442,681</u>	<u>\$ 1,502,490</u>	<u>\$ 1,468,873</u>	<u>\$ 33,617</u>
Public Safety:				
Law Enforcement and Traffic Control:				
Police department	\$ 3,258,723	\$ 3,312,178	\$ 3,283,874	\$ 28,304
Transportation safety commission	1,500	1,500	436	1,064
E-911 communication center	255,477	255,477	230,000	25,477
Total law enforcement and traffic control	<u>\$ 3,515,700</u>	<u>\$ 3,569,155</u>	<u>\$ 3,514,310</u>	<u>\$ 54,845</u>
Fire and Rescue Services:				
Fire services	\$ 1,474,225	\$ 1,579,142	\$ 1,569,304	\$ 9,838
Emergency medical services	105,548	122,278	122,279	(1)
Total fire and rescue services	<u>\$ 1,579,773</u>	<u>\$ 1,701,420</u>	<u>\$ 1,691,583</u>	<u>\$ 9,837</u>
Correction and Detention:				
Sheriff -corrections	\$ 2,121,829	\$ 2,134,874	\$ 2,091,982	\$ 42,892
Sheriff -jail annex	149,672	150,172	149,109	1,063
Probation office	260,807	260,807	255,756	5,051
Total correction and detention	<u>\$ 2,532,308</u>	<u>\$ 2,545,853</u>	<u>\$ 2,496,847</u>	<u>\$ 49,006</u>
Inspections:				
Building and other	\$ 318,313	\$ 343,078	\$ 253,324	\$ 89,754
Other Protection:				
Safety	\$ 69,496	\$ 69,496	\$ 69,407	\$ 89
Total other protection	<u>\$ 69,496</u>	<u>\$ 69,496</u>	<u>\$ 69,407</u>	<u>\$ 89</u>
Total public safety	<u>\$ 8,015,590</u>	<u>\$ 8,229,002</u>	<u>\$ 8,025,471</u>	<u>\$ 203,531</u>
Public Works:				
Maintenance of highways, streets, bridges and sidewalks:				
Director of public works	\$ 74,641	\$ 75,282	\$ 75,282	\$ -

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2005 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Highways, streets, bridges and sidewalks:				
Engineering	\$ 180,271	\$ 182,194	\$ 182,195	\$ (1)
Street maintenance	1,412,206	1,412,206	1,460,894	(48,688)
Street marking and signs	187,264	187,264	177,279	9,985
Traffic signals	251,536	262,026	268,746	(6,720)
Street cleaning	384,070	384,070	354,500	29,570
Street construction	292,409	298,200	313,231	(15,031)
Thoroughfare construction	195,600	90,600	20,302	70,298
VDOT reserve	-	105,000	16,529	88,471
Uptown maintenance	42,930	42,930	45,432	(2,502)
City hall maintenance	344,493	349,688	362,563	(12,875)
Social services building maintenance	-	-	55	(55)
Public health center	10,000	10,000	9,607	393
Total highways, streets, bridges and sidewalks	<u>\$ 3,300,779</u>	<u>\$ 3,324,178</u>	<u>\$ 3,211,333</u>	<u>\$ 112,845</u>
Total public works	<u>\$ 3,375,420</u>	<u>\$ 3,399,460</u>	<u>\$ 3,286,615</u>	<u>\$ 112,845</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>\$ 267,963</u>	<u>\$ 267,963</u>	<u>\$ 263,982</u>	<u>\$ 3,981</u>
Total welfare/social services	<u>\$ 267,963</u>	<u>\$ 267,963</u>	<u>\$ 263,982</u>	<u>\$ 3,981</u>
Total health and welfare	<u><u>\$ 316,641</u></u>	<u><u>\$ 316,641</u></u>	<u><u>\$ 312,660</u></u>	<u><u>\$ 3,981</u></u>
Education:				
Contributions to community colleges	\$ 12,675	\$ 12,675	\$ 12,675	\$ -
Contributions to School Board Component Unit	<u>6,167,926</u>	<u>6,161,941</u>	<u>6,161,294</u>	<u>647</u>
Total education	<u>\$ 6,180,601</u>	<u>\$ 6,174,616</u>	<u>\$ 6,173,969</u>	<u>\$ 647</u>
Parks, Recreation, and Cultural:				
Parks and recreation:				
Leisure services	\$ 158,481	\$ 163,553	\$ 179,712	\$ (16,159)
Park maintenance	253,781	261,391	261,497	(106)
Hooker field	24,036	220,954	174,751	46,203
Senior center	143,832	156,683	160,219	(3,536)
Armory	<u>53,260</u>	<u>53,932</u>	<u>57,172</u>	<u>(3,240)</u>
Total parks and recreation	<u>\$ 633,390</u>	<u>\$ 856,513</u>	<u>\$ 833,351</u>	<u>\$ 23,162</u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2005 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Parks, Recreation, and Cultural: (Continued)				
Library:				
Regional library	\$ 317,259	\$ 317,259	\$ 317,259	\$ -
Total parks, recreation and cultural	<u>\$ 950,649</u>	<u>\$ 1,173,772</u>	<u>\$ 1,150,610</u>	<u>\$ 23,162</u>
Community Development:				
Planning and Community Development:				
Economic development	\$ 289,751	\$ 289,751	\$ 139,352	\$ 150,399
Housing / community development	82,440	82,740	82,785	(45)
Miscellaneous development expenses	155,100	155,100	76,441	78,659
Planning and zoning	8,850	8,850	1,330	7,520
Contributions to local organizations	<u>575,764</u>	<u>575,764</u>	<u>616,065</u>	<u>(40,301)</u>
Total planning and community development	<u>\$ 1,111,905</u>	<u>\$ 1,112,205</u>	<u>\$ 915,973</u>	<u>\$ 196,232</u>
Cooperative Extension Program:				
Horticulture and family resources	\$ 9,000	\$ 9,000	\$ 9,000	\$ -
Total community development	<u>\$ 1,120,905</u>	<u>\$ 1,121,205</u>	<u>\$ 924,973</u>	<u>\$ 196,232</u>
Debt service:				
Principal retirement	\$ 189,846	\$ 189,846	\$ 189,846	\$ -
Interest and other debt costs	<u>22,477</u>	<u>28,462</u>	<u>29,109</u>	<u>(647)</u>
Total debt service	<u>\$ 212,323</u>	<u>\$ 218,308</u>	<u>\$ 218,955</u>	<u>\$ (647)</u>
Total General Fund	<u><u>\$ 25,184,489</u></u>	<u><u>\$ 25,738,731</u></u>	<u><u>\$ 24,938,588</u></u>	<u><u>\$ 800,143</u></u>
Special Revenue Funds:				
City Grants Fund:				
Health and Welfare:				
Comprehensive services	\$ -	\$ -	\$ 141,434	\$ (141,434)
Planning and Community Development:				
Community development block grant	\$ 491,066	\$ 491,066	\$ 551,305	\$ (60,239)
Indoor plumbing program	<u>108,690</u>	<u>162,490</u>	<u>69,244</u>	<u>93,246</u>
Total planning and community development	<u>\$ 599,756</u>	<u>\$ 653,556</u>	<u>\$ 620,549</u>	<u>\$ 33,007</u>
Total City Grants Fund	<u><u>\$ 599,756</u></u>	<u><u>\$ 653,556</u></u>	<u><u>\$ 761,983</u></u>	<u><u>\$ (108,427)</u></u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2005 (Continued)

Fund, Function, Activity and Elements	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	\$ 2,335,160	\$ 2,335,160	\$ 1,866,695	\$ 468,465
Total Housing Choice Fund	<u>\$ 2,335,160</u>	<u>\$ 2,335,160</u>	<u>\$ 1,866,695</u>	<u>\$ 468,465</u>
Total Special Revenue Funds	<u>\$ 2,934,916</u>	<u>\$ 2,988,716</u>	<u>\$ 2,628,678</u>	<u>\$ 360,038</u>
Capital Project Funds:				
Capital Reserve Fund:				
Capital outlays and projects:				
General Government Administration:				
Utility billing - equipment	\$ 26,000	\$ 26,000	\$ 18,115	\$ 7,885
Communications equipment	181,084	392,084	282,748	109,336
ADP equipment - information services	50,000	50,000	39,100	10,900
ADP equipment - central computer replacement	423,000	423,000	188,369	234,631
Central garage - equipment	6,800	6,800	6,632	168
Central garage - projects	10,000	10,000	-	10,000
Fiber optic network	7,000	7,000	23,627	(16,627)
Minet - phone system	85,000	85,000	51,120	33,880
City hall - projects	90,000	90,000	58,044	31,956
Total general government administration	<u>\$ 878,884</u>	<u>\$ 1,089,884</u>	<u>\$ 667,755</u>	<u>\$ 422,129</u>
Public Safety:				
Law Enforcement and Traffic Control:				
Police department - equipment	59,000	59,000	20,767	38,233
Police department - motor vehicles	113,377	113,377	109,889	3,488
Total law enforcement and traffic control	<u>\$ 172,377</u>	<u>\$ 172,377</u>	<u>\$ 130,656</u>	<u>\$ 41,721</u>
Fire and Rescue Services:				
Fire services - equipment	\$ 98,000	\$ 98,000	\$ 56,651	\$ 41,349
Fire services - ADP equipment	-	1,598	1,598	-
Fire services - physical plant expansion	15,000	15,000	-	15,000
Fire services - motor vehicles	274,587	754,860	609,556	145,304
Total fire and rescue services	<u>\$ 387,587</u>	<u>\$ 869,458</u>	<u>\$ 667,805</u>	<u>\$ 201,653</u>
Correction and Detention:				
Sheriff -corrections - equipment	\$ 87,000	\$ 87,000	\$ 42,097	\$ 44,903
Sheriff -corrections - motor vehicles	60,000	60,000	69,023	(9,023)
Total correction and detention	<u>\$ 147,000</u>	<u>\$ 147,000</u>	<u>\$ 111,120</u>	<u>\$ 35,880</u>
Total public safety	<u>\$ 706,964</u>	<u>\$ 1,188,835</u>	<u>\$ 909,581</u>	<u>\$ 279,254</u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2005 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
Capital Projects Funds: (Continued)				
Public Works:				
Highways, streets, bridges and sidewalks:				
Engineering - equipment	\$ 10,000	\$ 10,000	\$ 8,853	\$ 1,147
Wheel loader	27,554	27,554	-	27,554
Street construction - equipment	94,775	94,775	64,394	30,381
Street construction - motor vehicles	123,560	123,560	134,884	(11,324)
Street construction - projects	61,000	61,000	56,100	4,900
Traffic signals	-	14,827	924	13,903
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total public works	\$ 316,889	\$ 331,716	\$ 265,155	\$ 66,561
Education:				
School maintenance / improvements				
	\$ 900,000	\$ 900,000	\$ 229,878	\$ 670,122
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total education	\$ 900,000	\$ 900,000	\$ 229,878	\$ 670,122
Parks, Recreation, and Cultural:				
Parks and recreation:				
Park maintenance	\$ -	\$ -	\$ 6,815	\$ (6,815)
Senior center	6,800	6,800	-	6,800
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total parks, recreation and cultural	\$ 6,800	\$ 6,800	\$ 6,815	\$ (15)
Community Development:				
Planning and Community Development:				
Uptown rail program	\$ -	\$ -	\$ 3,800	\$ (3,800)
Virginia Economic Development Partnership	-	-	200,000	(200,000)
Industrial site development	320,488	320,488	150,041	170,447
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total community development	\$ 320,488	\$ 320,488	\$ 353,841	\$ (33,353)
Debt service:				
Principal retirement	\$ 80,000	\$ 80,000	\$ 197,409	\$ (117,409)
Interest and other debt costs	84,435	84,435	95,464	(11,029)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total debt service	\$ 164,435	\$ 164,435	\$ 292,873	\$ (128,438)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Capital Reserve Fund	\$ 3,294,460	\$ 4,002,158	\$ 2,725,898	\$ 1,276,260

Governmental Funds and Discretely Presented Component Unit - School Board
Schedule of Expenditures - Budget and Actual
Year Ended June 30, 2005 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
Capital Projects Funds: (Continued)				
Meals Tax Fund:				
General Government Administration:				
Meals tax administration	\$ 35,190	\$ 35,190	\$ 35,190	\$ -
Debt service:				
Principal retirement	\$ 705,000	\$ 705,000	\$ 705,000	\$ -
Interest and other debt costs	373,185	373,185	373,185	-
Total debt service	\$ 1,078,185	\$ 1,078,185	\$ 1,078,185	\$ -
Total Meals Tax Fund	<u>\$ 1,113,375</u>	<u>\$ 1,113,375</u>	<u>\$ 1,113,375</u>	<u>\$ -</u>
Total Capital Project Funds	<u>\$ 4,407,835</u>	<u>\$ 5,115,533</u>	<u>\$ 3,839,273</u>	<u>\$ 1,276,260</u>
Grand Total Expenditures - Primary Government	<u>\$ 32,527,240</u>	<u>\$ 33,842,980</u>	<u>\$ 31,406,539</u>	<u>\$ 2,436,441</u>
Component Unit - School Board				
School Operating Fund:				
Education:				
Instruction	\$ 13,922,721	\$ 14,567,121	\$ 14,576,954	\$ (9,833)
Administration, attendance and health	3,295,777	3,042,949	2,864,336	178,613
Pupil transportation	599,146	772,585	872,752	(100,167)
Operation and maintenance of school plant	2,332,175	2,382,413	2,171,500	210,913
Total operating costs	\$ 20,149,819	\$ 20,765,068	\$ 20,485,542	\$ 279,526
Total School Operating Fund	<u>\$ 20,149,819</u>	<u>\$ 20,765,068</u>	<u>\$ 20,485,542</u>	<u>\$ 279,526</u>
School Cafeteria Fund:				
Education:				
School food services	\$ -	\$ 1,128,783	\$ 967,350	\$ 161,433
School Grants Fund:				
Education:				
Instruction costs	\$ -	\$ 1,723,219	\$ 1,672,227	\$ 50,992
Grand Total Expenditures - Component Unit - School Board	<u>\$ 20,149,819</u>	<u>\$ 23,617,070</u>	<u>\$ 23,125,119</u>	<u>\$ 491,951</u>

Statistical Tables

CITY OF MARTINSVILLE, VIRGINIA

Government-Wide Expenses by Function
Last Three Fiscal Years

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education
2002-03	\$ 2,810,467	\$ 1,394,465	\$ 7,793,368	\$ 3,268,790	\$ 486,640	8,464,870
2003-04	2,743,168	1,351,523	8,167,425	3,558,497	560,092	7,849,055
2004-05	3,657,672	1,461,196	8,221,961	2,982,834	448,218	7,324,102

Table 1

<u>Recreation and Cultural</u>	<u>Community Development</u>	<u>Interest on Debt</u>	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Landfill</u>	<u>Total</u>
\$ 989,475	\$ 3,481,450	\$ 437,490	\$ 7,860,760	\$ 1,597,226	\$ 1,934,362	\$ 1,485,234	\$ 42,004,597
984,188	3,309,836	502,572	7,880,557	1,630,847	2,016,250	1,913,828	42,467,838
1,106,306	3,566,228	471,184	7,738,232	1,656,305	2,188,736	1,742,857	42,565,831

CITY OF MARTINSVILLE, VIRGINIA

Government-Wide Revenues
Last Three Fiscal Years

<u>Fiscal Year</u>	<u>Program Revenues</u>		
	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
2002-03	\$ 18,617,682	\$ 7,515,844	\$ 1,342,032
2003-04	19,105,147	8,613,003	139,992
2004-05	20,554,493	8,454,076	139,919

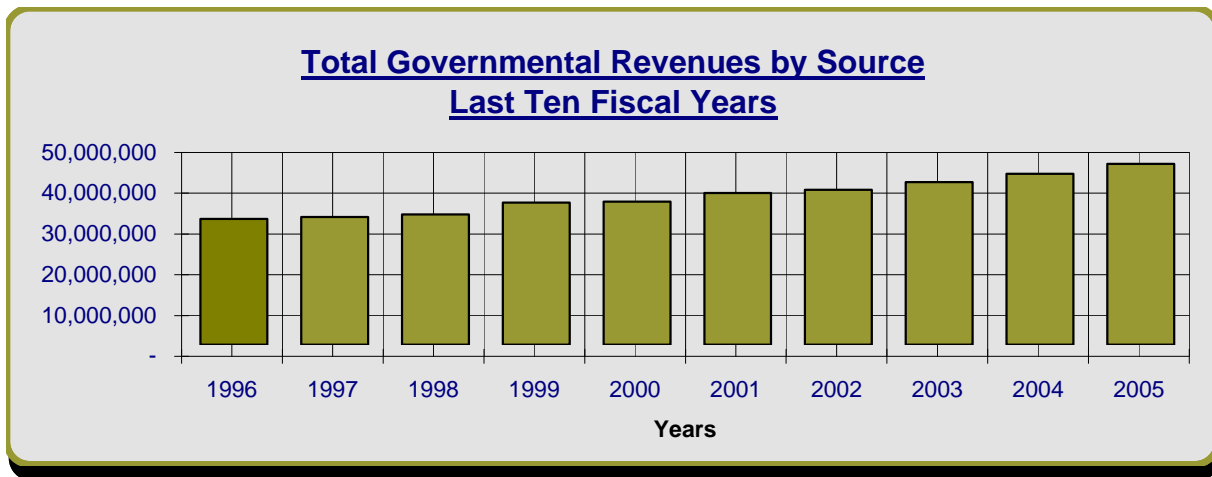
Table 2

General Revenues						
General Property Taxes	Other Local Taxes	Commonwealth of Virginia Non-Categorical Aid	Revenues from the Use of Money & Property	Miscellaneous	Total	
\$ 6,747,760	\$ 6,887,937	\$ 774,356	\$ 151,935	\$ 259,880	\$ 42,297,426	
7,303,536	7,112,440	741,465	75,751	340,160	43,431,494	
7,460,249	7,352,810	669,189	659,907	292,673	45,583,316	

CITY OF MARTINSVILLE, VIRGINIA

General Government Revenues by Source (1), (2)
Last Ten Fiscal Years

Fiscal Year Ended June 30,	General Property Taxes	Other Local Taxes	Permit Privilege Fees & Regulatory Licenses	Fines & Forfeitures	Revenues from the Use of Money & Property	Charges for Services
1996	\$ 6,776,450	\$ 5,653,788	\$ 15,395	\$ 209,863	\$ 1,027,754	\$ 514,184
1997	6,929,431	5,866,852	17,652	213,765	958,325	849,872
1998	7,225,353	6,129,277	27,982	202,332	726,311	860,789
1999	7,312,654	6,282,372	33,552	197,292	795,555	874,083
2000	6,583,181	6,162,491	18,679	145,992	973,942	686,792
2001	7,372,892	6,227,663	17,024	201,585	674,472	538,333
2002	6,374,432	6,518,345	13,360	214,765	621,218	572,599
2003	6,754,405	6,887,937	101,779	188,946	618,298	610,566
2004	7,288,727	7,112,440	69,393	221,076	494,706	585,490
2005	7,338,045	7,352,810	199,679	251,543	676,628	788,371



- (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.

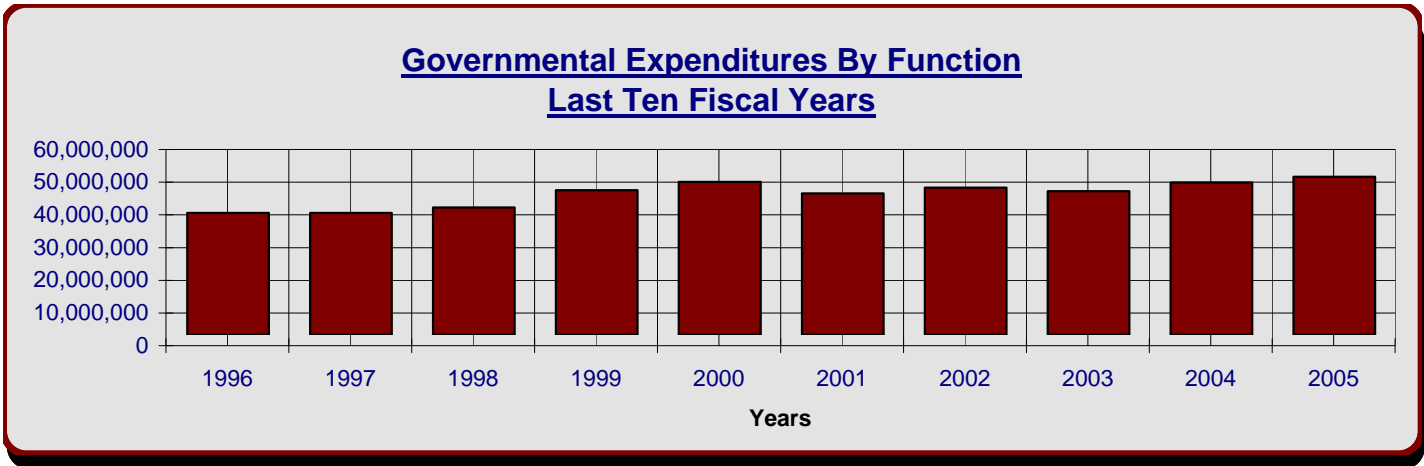
Table 3

Miscell- aneous	Recovered Costs	Inter- govern- mental	Total
\$ 1,184,441	\$ 530,850	\$ 14,910,038	\$ 30,822,763
643,564	469,944	15,364,538	31,313,943
494,622	562,993	15,746,475	31,976,134
614,087	655,743	18,094,451	34,859,789
758,135	766,081	19,007,401	35,102,694
808,634	819,424	20,527,650	37,187,677
488,889	940,455	22,246,185	37,990,248
333,613	849,339	23,504,759	39,849,642
484,468	947,939	24,750,070	41,954,309
569,934	901,697	26,267,621	44,346,328

CITY OF MARTINSVILLE, VIRGINIA

General Government Expenditures by Function (1), (2)
Last Ten Fiscal Years

Fiscal Year Ended June 30,	General Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education
1996	\$ 2,268,140	\$ 922,737	\$ 6,201,816	\$ 2,670,523	\$ 1,826,442	15,555,188
1997	2,318,569	1,014,527	6,186,934	2,828,856	1,889,267	17,020,651
1998	2,399,075	1,183,001	6,895,989	2,582,484	802,053	17,336,053
1999	2,818,717	1,489,784	7,703,106	2,834,361	967,745	19,250,708
2000	3,412,307	1,532,636	7,665,532	2,492,734	897,445	20,577,487
2001	2,806,251	1,755,428	7,529,991	3,203,106	692,418	20,785,714
2002	2,827,411	1,585,234	7,779,779	3,266,630	613,511	21,045,643
2003	2,956,254	1,418,241	7,678,200	3,251,535	497,656	21,272,297
2004	3,123,305	1,372,696	7,845,641	3,667,769	561,968	22,776,248
2005	4,079,407	1,468,873	8,935,052	3,551,770	454,094	23,367,672



(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.

Table 4

Recreation and Cultural	Community Development	Non departmental	Capital Outlays / Projects	Debt Service	Total
\$ 648,164	\$ 1,985,338	\$ 72,182	\$ 4,611,462	\$ 552,086	\$ 37,314,078
609,157	1,663,019	67,583	3,153,271	517,542	37,269,376
612,875	2,220,260	239,874	4,051,829	666,701	38,990,194
768,054	1,896,216	56,990	5,685,305	758,192	44,229,178
938,878	1,335,416	273,423	6,687,375	992,269	46,805,502
925,040	1,735,267	212,975	2,637,869	961,970	43,246,029
966,334	2,324,440	132,802	3,040,542	1,455,130	45,037,456
949,304	3,364,924	120,008	930,203	1,501,205	43,939,827
969,929	2,997,166	-	787,913	2,515,075	46,617,710
1,157,425	3,766,058	-	-	1,590,013	48,370,364

Assessed Value of Taxable Property
Last Ten Fiscal Years

Fiscal Years Ending June 30,	Real Estate	Personal Property	Machinery and Tools	Public Service Corporations	Total
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
2004	556,169,600	94,124,537	13,754,159	29,719,298	693,767,594
2005	559,497,600	101,861,411	12,083,426	27,043,443	700,485,880

Source: Commissioner of the Revenue

Property Tax Rates (1)
Last Ten Fiscal Years

Fiscal Years Ending June 30,	Real Estate		Personal Property		Machinery and Tools		Public Service			
	Real	Estate	Personal	Property	Machinery	and Tools	Real	Personal		
1996	\$	0.84	\$	1.92	\$	1.85	\$	0.84	\$	1.92
1997		0.84		1.92		1.85		0.84		1.92
1998		0.94		1.92		1.85		0.94		1.92
1999		0.94		1.92		1.85		0.94		1.92
2000		0.94		1.92		1.85		0.94		1.92
2001		0.94		1.92		1.85		0.94		1.92
2002		0.94		1.92		1.85		0.94		1.92
2003		0.94		1.92		1.85		0.94		1.92
2004		0.94		2.30		1.85		0.94		2.30
2005		0.94		2.30		1.85		0.94		2.30

(1) Per \$100 of assessed value

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
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%
2004	7,984,936	7,554,156	94.61%	236,605	7,790,761	97.57%	751,746	9.41%
2005	8,142,346	7,441,799	91.40%	324,579	7,766,378	95.38%	782,918	9.62%

(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
1996	16,000	\$ 644,339,367	\$ 5,990,212	0.93%	\$ 374
1997	15,800	651,910,632	5,773,866	0.89%	365
1998	15,700	637,243,626	5,465,708	0.86%	348
1999	15,500	638,057,275	16,802,217	2.63%	1,084
2000	15,500	656,630,338	16,493,362	2.51%	1,064
2001	15,416	661,264,369	16,069,098	2.43%	1,042
2002	15,600	637,093,253	15,244,377	2.39%	977
2003	15,300	662,529,519	14,414,147	2.18%	942
2004	15,200	693,767,594	13,580,355	1.96%	893
2005	15,200	700,485,880	12,731,939	1.82%	838

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

(2) From Table 5

Ratio of Annual Debt Service Expenditures for General Bonded Debt (1) to Total General Governmental Expenditures Last Ten Years

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Expenditures (2)	Ratio of Debt Service to General Governmental Expenditures
1995-96	\$ 225,199	\$ 326,887	\$ 552,086	\$ 37,314,078	1.48%
1996-97	212,045	305,497	517,542	37,269,376	1.39%
1997-98	420,772	245,929	666,701	38,990,194	1.71%
1998-99	380,543	377,649	758,192	44,229,178	1.71%
1999-00	470,791	521,478	992,269	46,805,502	2.12%
2000-01	595,143	366,827	961,970	43,246,029	2.22%
2001-02	889,963	565,167	1,455,130	45,037,456	3.23%
2002-03	951,135	550,070	1,501,205	43,939,827	3.42%
2003-04	1,906,339	608,736	2,515,075	46,617,710	5.40%
2004-05	1,092,255	497,758	1,590,013	48,370,364	3.29%

(1) Excludes bond issuance and other costs.

(2) Includes General and Capital Project Funds of the Primary Government and its discretely presented component unit.

Computation of Direct and Overlapping Bonded Debt
At June 30, 2005

Direct: (1)

City of Martinsville	\$ <u>12,731,939</u>	<u>100.00%</u>	\$ <u>12,731,939</u>
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(1) Includes general obligation bonded debt.

The City of Martinsville has no overlapping debt.

CITY OF MARTINSVILLE, VIRGINIA

Property Value and Construction
Last Ten Fiscal Years

Fiscal Year	Residential Construction		Commercial Construction		Miscellaneous Construction		Residential Demolition	
	Permits	Valuation	Permits	Valuation	Permits	Valuation	Permits	Valuation
1995-96	95	\$ 1,943,208	28	\$ 10,401,355	170	\$ 2,793,485	N/A	\$ N/A
1996-97	83	2,404,596	45	4,970,631	156	2,131,959	N/A	N/A
1997-98	11	535,255	17	5,129,724	432	11,446,558	N/A	N/A
1998-99	135	2,322,032	43	11,141,214	428	4,992,503	N/A	N/A
1999-00	127	1,737,105	79	13,126,079	426	9,602,951	N/A	N/A
2000-01	152	2,356,106	53	4,183,968	430	4,079,357	N/A	N/A
2001-02	121	1,624,548	46	3,623,433	349	2,317,287	N/A	N/A
2002-03	92	1,290,531	48	1,640,831	359	1,671,068	N/A	N/A
2003-04	56	1,138,217	41	2,080,629	326	1,754,129	N/A	N/A
2004-05	78	1,644,772	35	7,952,707	350	3,313,432	15	108,013

1 Source: Martinsville City Community Development Department

2 Source: Commissioner of the Revenue / Circuit Court Clerk's Office

Table 11

Commercial Demolition		Residential (2)	Commercial (2)	Industrial (2)	Multi-Family (2)	Non-Taxable (2)
Permits	Valuation					
N/A	\$ N/A	\$ 287,416,000	\$ 114,217,900	\$ 50,384,700	\$ 32,449,200	\$ 100,551,650
N/A	N/A	288,669,900	116,825,800	51,218,800	32,385,950	101,357,750
N/A	N/A	290,901,400	113,881,310	48,402,800	32,145,500	106,122,000
N/A	N/A	292,499,550	114,972,800	43,594,200	32,082,650	106,668,950
N/A	N/A	300,314,000	117,006,000	42,907,200	32,150,550	108,776,000
N/A	N/A	300,696,900	123,366,650	42,941,700	32,371,250	110,076,400
N/A	N/A	302,817,300	127,558,100	35,706,200	34,050,600	113,087,700
N/A	N/A	303,870,300	156,274,200	35,624,700	35,356,300	86,625,600
N/A	N/A	312,978,800	178,091,500	26,919,000	38,180,300	86,011,800
2	6,500	313,963,300	179,485,500	27,897,900	38,150,900	84,789,300

Demographic Statistics
Last Ten Fiscal Years

<u>Year</u>	<u>Population (1)</u>	<u>City Per Capita Income (1)</u>	<u>School Enrollment (3)</u>	<u>Unemployment Rate (2)</u>
1995-96	16,000	\$ 18,754	2,817	9.1%
1996-97	15,800	19,776	2,818	8.4%
1997-98	15,700	20,410	2,747	5.3%
1998-99	15,500	20,531	2,661	5.4%
1999-00	15,500	21,154	2,621	10.0%
2000-01	15,416	21,447	2,676	12.2%
2001-02	15,600	17,251	2,655	11.2%
2002-03	15,300	17,251	2,673	16.1%
2003-04	15,000	n/a	2,593	13.9%
2004-05	14,700	n/a	2,575	13.0%

(1) US Census Bureau and the Weldon Cooper Center for Public Service

(2) Virginia Employment Commission

(3) School Board Office

n/a - information not available

Principal Taxpayers

At June 30, 2005

Taxpayer	Type of Business	Assessed Valuation	% of Total Assessed Valuation
PHC - Martinsville Inc.	Hospital	\$ 40,766,700	5.88%
Liberty Fair Va. LP	Shopping mall	28,802,000	4.15%
Central Telephone Company of Va.	Utility	17,702,945	2.55%
Lester Lumber Co. Inc.	Commercial	12,969,700	1.87%
Blue Ridge Nursing Home	Medical	8,511,900	1.23%
Hooker Furniture Corporation	Commercial / Industrial	5,561,800	0.80%
Commonwealth Blvd. Associates, LLC	Commercial	4,737,400	0.68%
R C Realty Corp.	Commercial	3,181,000	0.46%
DARAL LLC	Commercial	2,993,000	0.43%
Spruce Village Apartments	Commercial	2,979,800	0.43%
Totals		\$ <u>128,206,245</u>	<u>18.48%</u>

Miscellaneous Statistics
At June 30, 2005

Date of Incorporation	1940
Form of Government	City Council/ City Manager
Area in square miles	11
Number of street lights	4,027
Fire Protection	
Number of stations	2
Number of fire personnel and officers	29
Number of calls answered	1,712
Number of inspections conducted	1,071
Police Protection	
Number of stations	1
Number of police personnel and officers	53
Number of patrol units	10
Number of law violations:	
Physical arrests	1,454
Traffic violations	4,403
Recreation and Culture	
Number of parks and recreation facilities	7
Number of libraries	1
Number of community centers	1
Swimming pools	0
Employees at June 30, 2005	
General government (includes public safety)	451
School division (includes teachers)	546
Sewerage Systems	
Miles of sanitary sewers	140
Miles of storm sewers	1
Number of treatment plants	1
Number of service connections	7,000
Daily average treatment in gallons	4.5 MGD
Water Systems	
Miles of water mains	120
Number of fire hydrants	520
Number of service connections	7,500
Daily average consumption in gallons	3.0 MGD
Maximum daily capacity of plant in gallons	10.0 MGD
Electric Distribution Systems	
Miles of service	100
Number of distribution systems	1
Facilities and services not included in the primary government	
Number of elementary schools	5
Number of elementary school instructors	101
Number of secondary schools	1
Number of secondary school instructors	82
Facilities and services not included in the reporting entity	
Hospitals:	
Number of hospitals	1
Number of patient beds	237

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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Martinsville, Virginia, as of and for the year ended June 30, 2005, which collectively comprise the City of Martinsville, Virginia's basic financial statements and have issued our report thereon dated August 26, 2005. 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.

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 an opinion 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 reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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

However, we noted other matters that we have reported to management in a separate letter dated August 26, 2005.

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

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
August 26, 2005

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, 2005. 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, 2005.

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 26, 2005

Schedule of Expenditures of Federal Awards - Primary Government and
Discretely Presented Component Units
Year Ended June 30, 2005

<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>13,939</u>
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>		
<u>Direct payments:</u>		
Housing choice	14.871	\$ 1,635,102
Moderate rehabilitation	14.856	171,525
<u>Pass through payments:</u>		
Department of Housing and Community Development:		
Community development block grant	14.228	260,759
Home investment partnerships program	14.239	5,000
Total Department of Housing and Community Development		\$ <u>2,072,386</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>19,536</u>
<u>DEPARTMENT OF JUSTICE:</u>		
<u>Direct payments:</u>		
COPS technology grant	16.710	\$ 772
Bullet proof vest program	16.000	255
Asset forfeiture	16.000	294
State criminal alien assistance program	16.606	2,995
<u>Pass through payments:</u>		
Department of Criminal Justice Services:		
Crime victim assistance	16.575	55,706
Drug control and system improvement	16.579	<u>18,303</u>
Total Department of Justice		\$ <u>78,325</u>
<u>DEPARTMENT OF HOMELAND SECURITY:</u>		
<u>Direct payments:</u>		
Fire prevention and safety grants	97.044	\$ 21,273
<u>Pass through payments:</u>		
Department emergency management:		
State homeland security grant program	97.004	<u>63,636</u>
Total Department of Homeland Security		\$ <u>84,909</u>
Total Primary Government		\$ <u>2,269,095</u>

Schedule of Expenditures of Federal Awards - Primary Government and
Discretely Presented Component Units
Year Ended June 30, 2005 (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:		
<u>DEPARTMENT OF AGRICULTURE:</u>		
<u>Pass through payments:</u>		
Department of Education:		
Food distribution	10.555	\$ 67,880
Department of Education:		
National school breakfast program	10.553	145,999
National school lunch program	10.555	<u>503,659</u>
Total Department of Agriculture		\$ <u>717,538</u>
<u>DEPARTMENT OF LABOR:</u>		
<u>Direct payments:</u>		
Workforce investment act - youth activities	17.259	\$ 131,374
ROTC Instruction	17.000	<u>46,515</u>
Total Department of Labor		\$ <u>177,889</u>
<u>DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u>		
<u>Pass through payments:</u>		
Department of Education:		
Refugee impact grant payments	93.576	\$ <u>2,749</u>
<u>DEPARTMENT OF EDUCATION:</u>		
<u>Pass through payments:</u>		
Department of Education:		
Education Consolidation and Improvement Act of 1981:		
Title 1:		
Financial assistance to meet special educational needs of disadvantaged children - program operated by local education agencies (2E004500, 2E004511, 3E005820)	84.010	\$ 608,737
Even start	84.213	175,275
Comprehensive school reform	84.332	100,000
Title VI-B:		
Assistance to states for education of handicapped children - preschool and school programs (1E002570, 3E001110)	84.027	667,022
Vocational Education:		
Basic grants to states (3E001311)	84.048	70,777

Schedule of Expenditures of Federal Awards - Primary Government and
 Discretely Presented Component Units
 Year Ended June 30, 2005 (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)		
<u>DEPARTMENT OF EDUCATION: (Continued)</u>		
<u>Pass through payments: (Continued)</u>		
Special Education:		
Preschool	84.173	3,855
Special Projects:		
Drug-free schools and communities (2E004617)	84.186	24,064
Title IV part B - after school learning center	84.287	178,213
JAVITS education program	84.206	1,487
Reading first	84.357	453,224
Improving teacher quality	84.367	231,553
Innovative teacher recruitment	84.336	44,589
Title VI - Rural and low income schools	84.358	5,693
Technology challenge grant	84.318	161,708
Innovative education program strategies	84.298	16,733
State assessments and related activities	84.369	<u>8,966</u>
 Total Department of Education		 \$ <u>2,751,896</u>
<u>NATIONAL AERONAUTICS AND SPACE ADMINISTRATION:</u>		
<u>Direct payments:</u>		
NASA grant	43.001	\$ <u>87,962</u>
 Total Component Unit School Board		 \$ <u>3,738,034</u>
 Total Federal Assistance		 \$ <u>6,007,129</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards
For The Year Ended June 30, 2005

Note 1 - General

The accompanying schedule of expenditures of federal awards presents the activity of all federally assisted programs of the City of Martinsville, Virginia. The City's reporting entity is defined in note 1 to the City's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

Note 2 - Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the City's basic financial statements.

Note 3 - Relationship to Financial Statements

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

Intergovernmental federal revenues per the basic financial statements:

Primary government:		
General Fund	\$	182,658
Housing Choice Fund		1,811,627
Capital Reserve Fund		772
Grants Fund		<u>260,759</u>
Total primary government	\$	<u>2,255,816</u>
Agency funds:		
Police Academy Fund	\$	<u>13,278</u>
Component Unit Public Schools:		
School Operating Fund	\$	1,210,720
School Grants Fund		1,809,777
School Cafeteria Fund		<u>649,658</u>
Total component unit public schools	\$	<u>3,670,155</u>
Total federal expenditures per basic financial statements	\$	<u>5,939,249</u>
Non-cash expenditures - value of donated commodities	\$	<u>67,880</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards	\$	<u><u>6,007,129</u></u>

CITY OF MARTINSVILLE, VIRGINIA

Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

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>
84.357	Reading First
14.871	Housing Choice

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
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Auditee qualified as low-risk auditee?	Yes
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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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