

Martinsville, Virginia
A CITY WITHOUT LIMITS



COMPREHENSIVE ANNUAL
FINANCIAL REPORT

YEAR ENDED JUNE 30, 2011

CITY OF MARTINSVILLE, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2011

PREPARED BY:

Finance Department

CITY OF MARTINSVILLE, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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CITY OF MARTINSVILLE, VIRGINIA

City Council

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

M. Gene Teague

Mark C. Stroud, Sr.

Danny Turner

School Board

James H. Johnson, Chairman
Nancy L. Baker

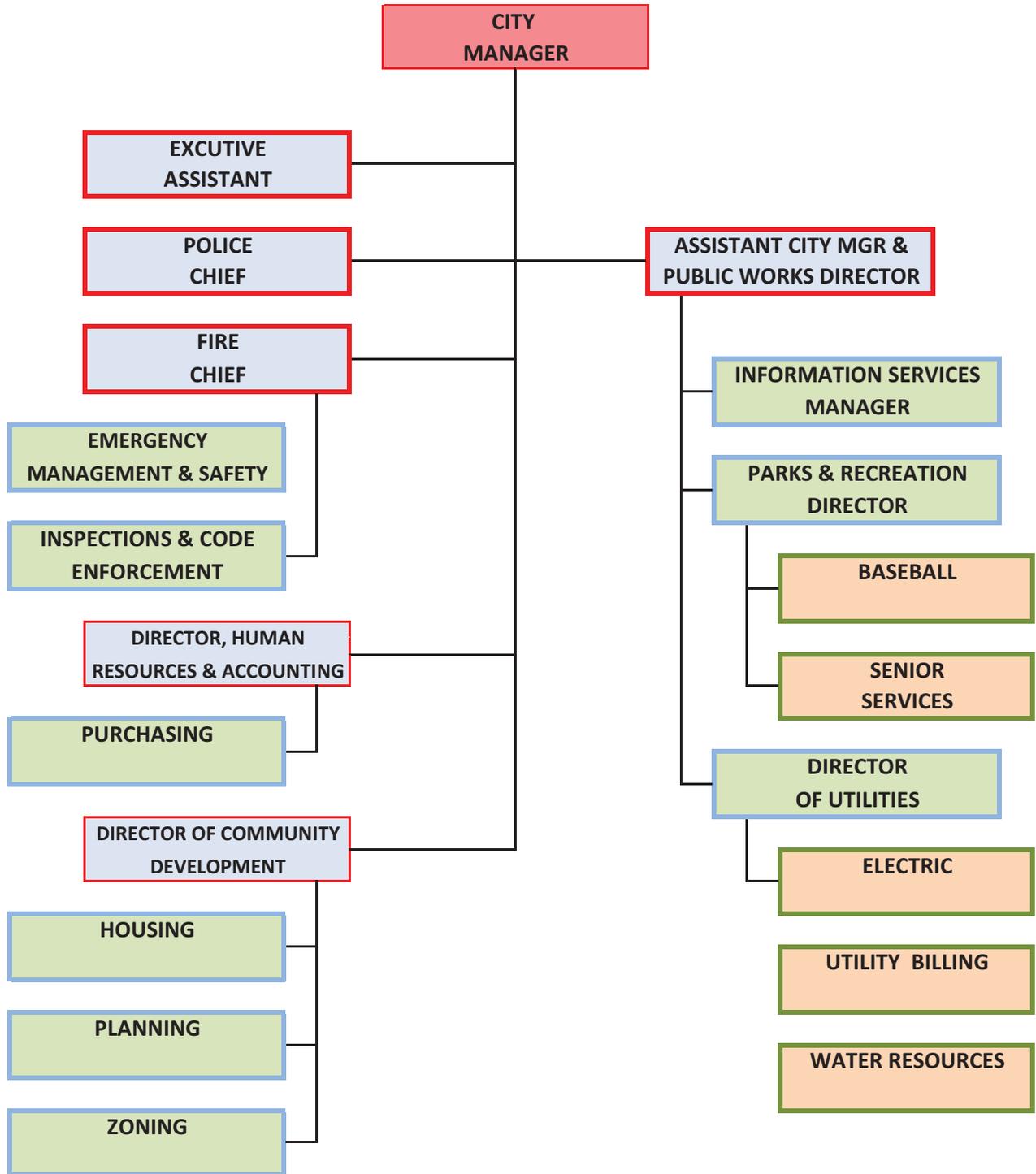
Bill R. Manning
Carolyn McGraw

Robert Williams

Other Officials

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

ORGANIZATIONAL CHART





January 10, 2012

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

We are pleased to present the Comprehensive Annual Financial Report of the City of Martinsville, Virginia, (the "City"), for the fiscal year ended June 30, 2011. 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, 2011 has been completed, and no material internal control weaknesses or material violations of laws and regulations have been identified.

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

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

THE REPORTING ENTITY AND ITS SERVICES

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

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

LOCAL ECONOMY

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

Based on available economic data, the local economy's growth is slow, at best. The local unemployment rate was 17% at June 30, 2011, a small decrease compared to the rate of 20.2% at June 30, 2010. This rate is still substantially higher than the state and national rates of 6.3% and 9.3% respectively.

The City has responded to the economic declines by implementing a proactive economic development program and streamlining expenditures. The City has faith that the economic development program will improve the local economy, which is now just beginning to slowly produce results. Present economic development efforts focus on diversification of jobs, by actively recruiting a variety of industry and business partners. In 2010, after reassessment, assessed value of taxable Real Estate, exclusive of Public Service, has increased by 7.3% over the prior year. However, the assessed value of Personal Property and Machinery & Tools, exclusive of Public Service, has decreased by 9.5% when compared to the prior year. The City still has a long way to go to recover from the loss of local manufacturing.

MAJOR INITIATIVES

For Fiscal Year 2011: Following the goals and objectives established by the City of Martinsville Council, and with the assistance and guidance of the City Manager, City staff implemented and continued a number of specific “*programs*” designed to provide City residents with cost efficient government while enhancing their community.

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

- Shared Economic Development with Henry County
- Revenue-sharing Agreements with Henry County
- Formation of the Phoenix CDC (Community Development Corporation)
- Shared Transfer Station with Henry County
- Methane Collection and Electric Generation Project at City’s Former Landfill Site
- Partnership with Henry County for a Rails-to-Trails program traversing parts of both localities
- Agreements with Henry County to Treat Wastewater
- Agreement with Henry County for a Regional Public Transit Service
- Comprehensive Plan for Revitalization of the Uptown Area (Central Business District)
- Development of a 200-acre pad in Henry County’s Commonwealth Crossing Business Center

Shared Economic Development. The City shares an economic development initiative with the County to combine and greatly expand the development efforts of our two communities. In concert with the local Chamber of Commerce and a local foundation, the economic development effort of the region is 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 has 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.

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

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

Shared Transfer Station. The City’s landfill reached capacity during Fiscal Year 2006 and was closed. The landfill generated net income of \$1 million - \$1.5 million annually. A partnership with a private company was formed and the private company operates a transfer station to dispose of its garbage. Thus the refuse department’s ability to generate revenues for the City was greatly reduced.

Methane Collection Project. As the deteriorating waste at the closed landfill produces methane gas, the City developed a two-phased project to collect the gas and sell carbon credits. Models show that the City’s landfill is capable of producing \$250,000 – 300,000 worth of gross revenue per year, for about 20 years. This project provides the City with the opportunity to replace at least a portion of the revenues lost upon the closing of the landfill.

Rails-to-Trails Program. The City partnered with Henry County to create a paved recreational trail that starts in Henry County and ends in the City, on an abandoned railroad route. Property acquisition is complete, and the railroad rails have been removed. At 4.5 miles in length, the project has been completed and is now open to the public. The new trail connects to a spur-trail, 6/10 of a mile in length, running through the City’s central business district. In FY12, the City partnered with private entities to add a half-mile extension to connect the Spur Trail to the Virginia Museum of Natural History and the City’s Frank Wilson Park. The trail system adds to the quality of life in the region and attracts walkers, joggers, and bicyclists. There are also plans for future expansion connecting locally to the Smith River Sports Complex and the Fieldale Trail, and connecting regionally to the Beaches to Blue Grass Trail, which runs from Kentucky to the Eastern Shore of Virginia.

MAJOR INITIATIVES: (CONTINUED)

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 was completed in fiscal year 2005 and the City's water revenues increased by \$132,000 annually at that time. The wastewater portion of the project was completed in FY07 and increased wastewater revenues by \$370,000 annually at that time. Combined, the City's utility revenues increased by more than \$500,000 annually. The project was funded by various grants. However during FY09, Henry County changed their business strategy and opted to greatly reduce its purchase of water from the City. This change in practice has reduced City Water Revenue and has reduced the transfer of water profits to the General Fund. Currently, the City treats all Waste Water from Henry County, and there is no indication that this practice will cease in the near future.

Regional Transit Service – the City and County jointly launched a regional bus system that started in January 2009. This two-bus system operates from 8:00 AM – 5:30 PM, Monday through Friday. Riders pay a 50 cent fare per ride and can access the bus at stops throughout the main travel routes of the City and can even go into various parts of the County. Stops are mostly through the business district, local hospital, retail sector, and at many community organizations. Both buses were paid with funds from the CTB, and both localities pay a small portion of operational expenses. Daily ridership more than doubled in FY10 over the prior year and it continues to grow in FY11.

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

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

MAJOR INITIATIVES: (CONTINUED)

Prospects for the Future. For fiscal year 2011 the City Council approved a General Fund Budget of \$28,459,712. The fiscal year 2011 budget contains a real estate tax rate at \$1.018 per \$100 of assessed value, unchanged from prior year, and all other tax rates remain the same. The City faces several major challenges in the near future. The greatest pertain to the Refuse and Electric Funds. With the closure of the landfill in 2006, the Refuse Fund no longer serves as a major source of cash for the City. Over the last three years of operating the City landfill, the Refuse Fund averaged a positive net cash flow of more than \$2.2 million annually.

The City Council approved a small rate increase for Water customers, with a monthly off-set for Senior Citizens. The challenges in the Electric Fund are of continued concern. Current laws regarding deregulation have greatly increased the City's cost to purchase power. 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.

This forced the City to charge a Power Cost Adjustment fee to Electric customers to recover the City's increased transmission charges. In an effort to offer lower rates over the long-term, the City entered into a partnership with AMP (American Municipal Power) for power purchase. The initiative allows the City to purchase power from a portfolio of assets, including coal-fired, hydroelectric, and natural gas, with a long-term commitment. The City partnered with AMP in a natural gas combined cycle generation facility that will deliver power to the City in January 2012 at rates below market price. Such prices are believed to be lower than the previous method of purchasing all City power on the market solely.

New Revenue Opportunities. With direction from City Council, staff has aggressively explored opportunities for new revenue, and one project surfaced with promising profits and is under development. The City operated a municipal landfill until 2006, at which time changes in landfill regulations led the City to close the operation, thus eliminating \$1-1.5 million per year in revenue. Deteriorating landfill wastes yield methane gas, and the City's disposal of sewer wastes adds even more of a prosperous environment for more methane gas as compared to residential garbage alone. Models show that the City's landfill is capable of producing \$250,000 – 300,000 worth of gross revenue per year, in carbon credits, for about 20 years. In FY10, the City developed a two-phased project. Phase 1, collection of methane and selling carbon credits, was completed with an \$800,000 price tag and started running in the fourth quarter of FY10. Preliminary analysis of Phase 2, electric generation coupled with the same benefits of Phase 1, is underway and could be on line as early as mid-FY12. Phase 2 could generate up to another \$1M in revenue per year, and exact figures will be known about the time that the FY13 budget is being considered by City Council.

OTHER INFORMATION

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

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

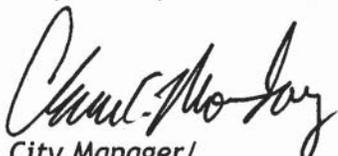
OTHER INFORMATION: (CONTINUED)

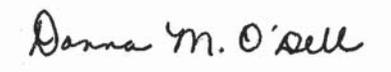
Awards. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently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

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

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

Respectfully submitted,


City Manager/
Finance Director


Assistant Director of Finance


Budget Analyst

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, 2010

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.



Linda C. Dandson

President

Jeffrey R. Emer

Executive Director

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, the major fund, and the aggregate remaining fund information of the City of Martinsville, Virginia, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City of Martinsville, Virginia's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, the major fund, and the aggregate remaining fund information of the City of Martinsville, Virginia, as of June 30, 2011, 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.

As described in Note 1 to the financial statements, the City of Martinsville, Virginia adopted the provisions of *GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2011, on our consideration of the City of Martinsville, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Martinsville, Virginia's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Robinson, Farmer, Cox Associates
Charlottesville, Virginia
December 5, 2011

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, 2011. We encourage you to read this discussion and analysis in conjunction with the accompanying management letter on internal controls, the basic financial statements and the notes to the financial statements.

Financial Highlights

Government-wide Financial Statements

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$32,824,547 (total net assets). Of this amount \$12,726,807 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The Governmental activities net assets were \$10,804,875 of the City's total, an increase of \$722,888 or 7.2% in comparison with net assets of \$10,081,987 at June 30, 2010.
- Net assets of the City's various business type activities totaled \$22,019,672. This is an increase of \$587,317 or 2.7% compared with net assets reported on June 30, 2010.
- The School Board's assets exceeded its liabilities by \$10,360,090, an increase of \$430,907 when compared to the amount on June 30, 2010. However, \$7,508,443 of this amount reflects the School Board's net investment in capital assets leaving \$2,851,647 in unrestricted assets available to meet ongoing obligations. This is an increase of \$208,754 or 7.9% in the School Board's unrestricted assets for the fiscal year.

Fund Financial Statements

The Governmental Funds, on a current financial resource basis, reported revenues and other financing sources in excess of expenditures and other financing uses by \$716,891 (Exhibit 4) after making direct contributions totaling \$5,677,733 to the School Board. An additional \$1,129,868 was expended from the Meals Tax Fund used to retire School related debt. A total of \$6,807,601 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 \$3,901,665, which is an increase of \$716,891 in comparison with the prior fiscal year.
- At the close of the current fiscal year, the unassigned fund balance for the general fund was \$774,240 or 2.8% of total general fund expenditures.
- The combined long-term Governmental obligations decreased \$1,148,650 or 9.7% during the current fiscal year.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

Overview of the Financial Statements: (Continued)

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

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

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

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

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

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

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

Government-wide Financial Analysis

As stated earlier in this discussion, net assets may serve as a useful indicator of a City's financial position over time. For the City in FY2011, assets exceeded liabilities by \$32,824,547 at the close of the fiscal year as presented in the Table below. This was an increase of \$1,310,205 or 4.2% over the FY2010 closing amount of \$31,514,342.

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, 2011 and 2010

	<u>Governmental</u>		<u>Business-type</u>		<u>Totals</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 8,108,399	\$ 7,199,520	\$ 13,238,498	\$ 13,121,139	\$ 21,346,897	\$ 20,320,659
Capital assets	15,217,370	16,296,821	16,476,429	15,681,580	31,693,799	31,978,401
Total assets	\$ 23,325,769	\$ 23,496,341	\$ 29,714,927	\$ 28,802,719	\$ 53,040,696	\$ 52,299,060
Long-term liabilities						
outstanding	\$ 9,469,392	\$ 10,636,094	\$ 6,298,056	\$ 6,034,379	\$ 15,767,448	\$ 16,670,473
Current liabilities	3,051,502	2,778,260	1,397,199	1,335,985	4,448,701	4,114,245
Total liabilities	\$ 12,520,894	\$ 13,414,354	\$ 7,695,255	\$ 7,370,364	\$ 20,216,149	\$ 20,784,718
Net assets:						
Invested in capital assets, net of related debt	\$ 5,095,179	\$ 4,986,603	\$ 15,002,561	\$ 14,419,532	\$ 20,097,740	\$ 19,406,135
Unrestricted	5,709,696	5,095,384	7,017,111	7,012,823	12,726,807	12,108,207
Total net assets	\$ 10,804,875	\$ 10,081,987	\$ 22,019,672	\$ 21,432,355	\$ 32,824,547	\$ 31,514,342

At the end of FY2011, the City's investment in capital assets, net of related debt is \$20,097,740 and represents 61.2% of total net assets. These capital assets are used to deliver services to City residents and business; and accordingly, these assets are not available for future spending. Although the important and needed investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay such debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the current Fiscal Year, the City's Governmental Activities investment in capital assets net of related debt is \$5,095,179.

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 \$12,726,807, or 38.8% of total net assets, may be used to meet the government's ongoing obligations.

Government-wide Financial Analysis (Continued)

Governmental Activities - Governmental activities increased Martinsville City's net assets by \$722,888. The key elements of this increase are found in exhibit 5. Among the primary reasons for this increase is that the retirement of debt exceeded the issuance of debt by \$911,510, and the net change in fund balances increased by \$716,891.

City of Martinsville, Virginia
Changes in Net Assets
Governmental and Business-Type Activities
For the Years Ended June 30, 2011 and 2010

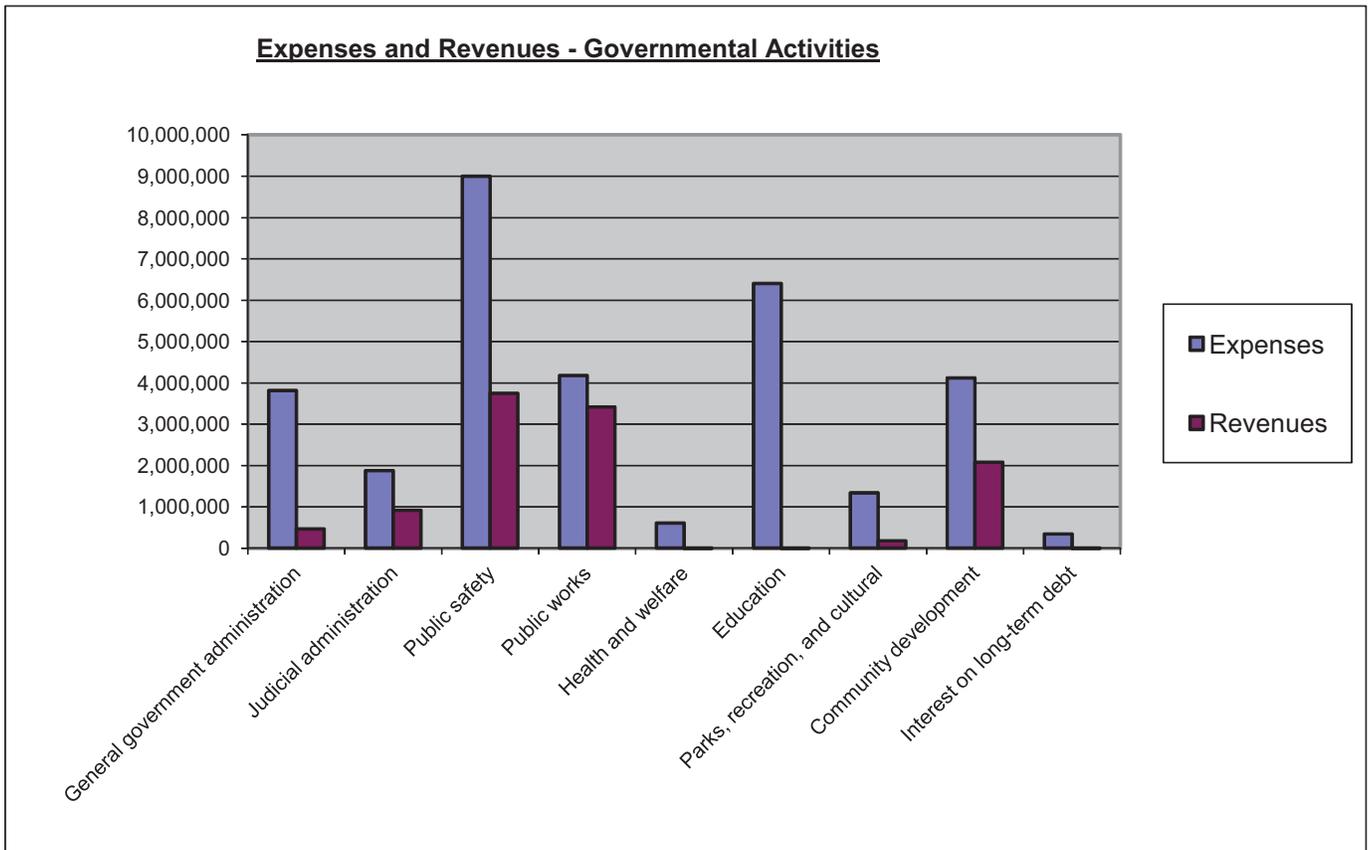
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,066,107	\$ 1,110,114	\$ 25,903,593	\$ 24,999,314	\$ 26,969,700	\$ 26,109,428
Operating grants and contributions	9,743,507	9,319,295	-	-	9,743,507	9,319,295
Capital grants and contributions	-	590,000	-	-	-	590,000
General revenues:						
General property taxes	8,878,758	9,036,094	-	-	8,878,758	9,036,094
Other local taxes	6,794,798	6,345,922	-	-	6,794,798	6,345,922
Commonwealth non-categorical aid	1,657,430	1,632,852	-	-	1,657,430	1,632,852
Other general revenues	1,529,039	1,089,045	38,698	14,364	1,567,737	1,103,409
Total revenues	<u>\$ 29,669,639</u>	<u>\$ 29,123,322</u>	<u>\$ 25,942,291</u>	<u>\$ 25,013,678</u>	<u>\$ 55,611,930</u>	<u>\$ 54,137,000</u>
Expenses:						
General government administration	\$ 3,814,802	\$ 4,093,661	\$ -	\$ -	\$ 3,814,802	\$ 4,093,661
Judicial administration	1,878,258	1,885,494	-	-	1,878,258	1,885,494
Public safety	8,997,810	9,472,187	-	-	8,997,810	9,472,187
Public works	4,178,766	4,304,621	-	-	4,178,766	4,304,621
Health and welfare	606,262	1,292,705	-	-	606,262	1,292,705
Education	6,400,860	6,778,437	-	-	6,400,860	6,778,437
Parks, recreation, and cultural	1,340,515	1,149,286	-	-	1,340,515	1,149,286
Community development	4,117,538	3,755,520	-	-	4,117,538	3,755,520
Interest on long-term debt	348,232	402,996	-	-	348,232	402,996
Electric	-	-	17,175,908	16,432,597	17,175,908	16,432,597
Water	-	-	1,694,197	1,874,519	1,694,197	1,874,519
Sewer	-	-	2,652,619	2,996,728	2,652,619	2,996,728
Refuse collection/landfill	-	-	1,095,958	1,138,147	1,095,958	1,138,147
Total expenses	<u>\$ 31,683,043</u>	<u>\$ 33,134,907</u>	<u>\$ 22,618,682</u>	<u>\$ 22,441,991</u>	<u>\$ 54,301,725</u>	<u>\$ 55,576,898</u>
Increase in net assets before transfers	\$ (2,013,404)	\$ (4,011,585)	\$ 3,323,609	\$ 2,571,687	\$ 1,310,205	\$ (1,439,898)
Transfers	2,736,292	2,803,021	(2,736,292)	(2,803,021)	-	-
Increase in net assets	\$ 722,888	\$ (1,208,564)	\$ 587,317	\$ (231,334)	\$ 1,310,205	\$ (1,439,898)
Net assets-beginning	10,081,987	11,290,551	21,432,355	21,663,689	31,514,342	32,954,240
Net assets - ending	<u>\$ 10,804,875</u>	<u>\$ 10,081,987</u>	<u>\$ 22,019,672</u>	<u>\$ 21,432,355</u>	<u>\$ 32,824,547</u>	<u>\$ 31,514,342</u>

Government-wide Financial Analysis: (Continued)

Revenues from governmental activities totaled \$32,405,931 with operating grants and contributions (30.1%), general property taxes (27.4%), and other local taxes (20.1%) comprising 77.6% of the City’s revenues. Expenses for public safety (28.4%), education (20.2%), public works (13.2%), community development (13.0%), and general government administration (12.1%), account for 86.9% of total governmental expenses of \$31,683,043.

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

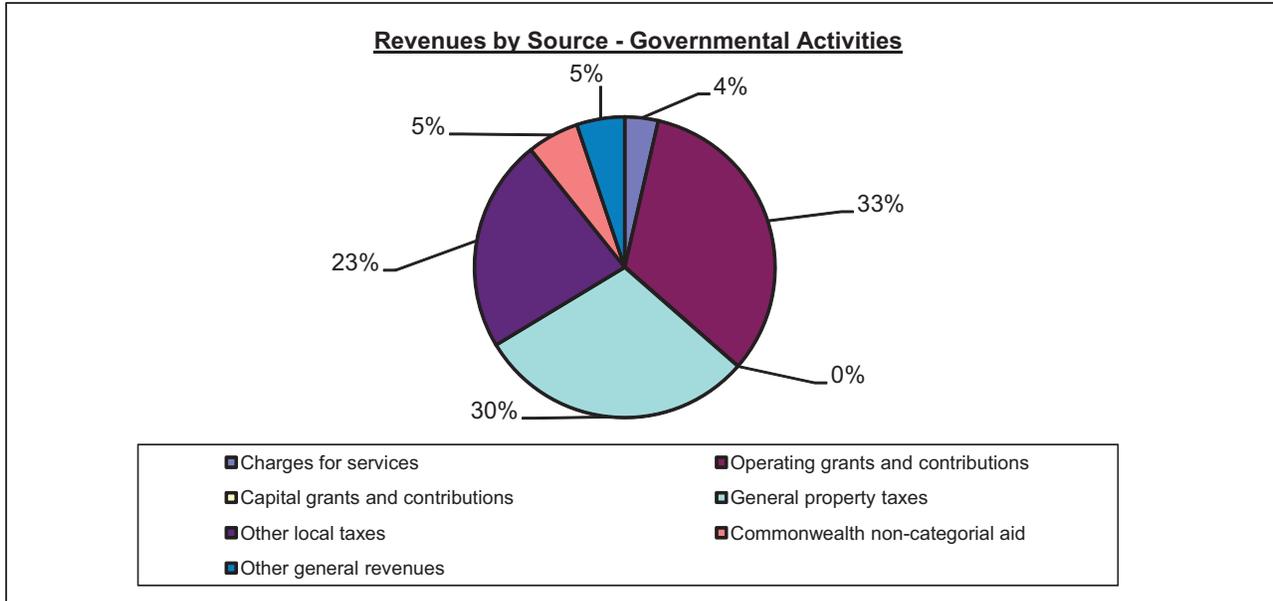
	Expenses	Revenues
General government administration	\$ 3,814,802	\$ 468,179
Judicial administration	1,878,258	915,104
Public safety	8,997,810	3,748,401
Public works	4,178,766	3,419,752
Health and welfare	606,262	-
Education	6,400,860	-
Parks, recreation, and cultural	1,340,515	176,273
Community development	4,117,538	2,081,905
Interest on long-term debt	348,232	-



Government-wide Financial Analysis: (Continued)

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

Charges for services	\$ 1,066,107
Operating grants and contributions	9,743,507
Capital grants and contributions	-
General property taxes	8,878,758
Other local taxes	6,794,798
Commonwealth non-categorical aid	1,657,430
Other general revenues	1,529,039



Business-type Activities increased the City’s net assets by \$587,317 after deducting \$2,736,292 in transfers to the General and Capital Reserve Funds. Transfers decreased \$66,729 compared to the prior fiscal year.

Financial Analysis of the City’s Funds

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

Governmental Funds - The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City’s financing requirements. In particular, unreserved fund balances at the end of the fiscal year can be used to measure net resources available for expenditure. Governmental Funds reported a combined ending fund balance of \$3,901,665, an increase of \$716,891 when compared to the prior year. Four percent (\$186,269) of the combined governmental fund balance is unassigned. The remaining ninety-six percent (\$3,715,396) of the nonspendable, committed or assigned fund balance to show it is not available for spending because it has been nonspendable, committed or assigned for future projects.

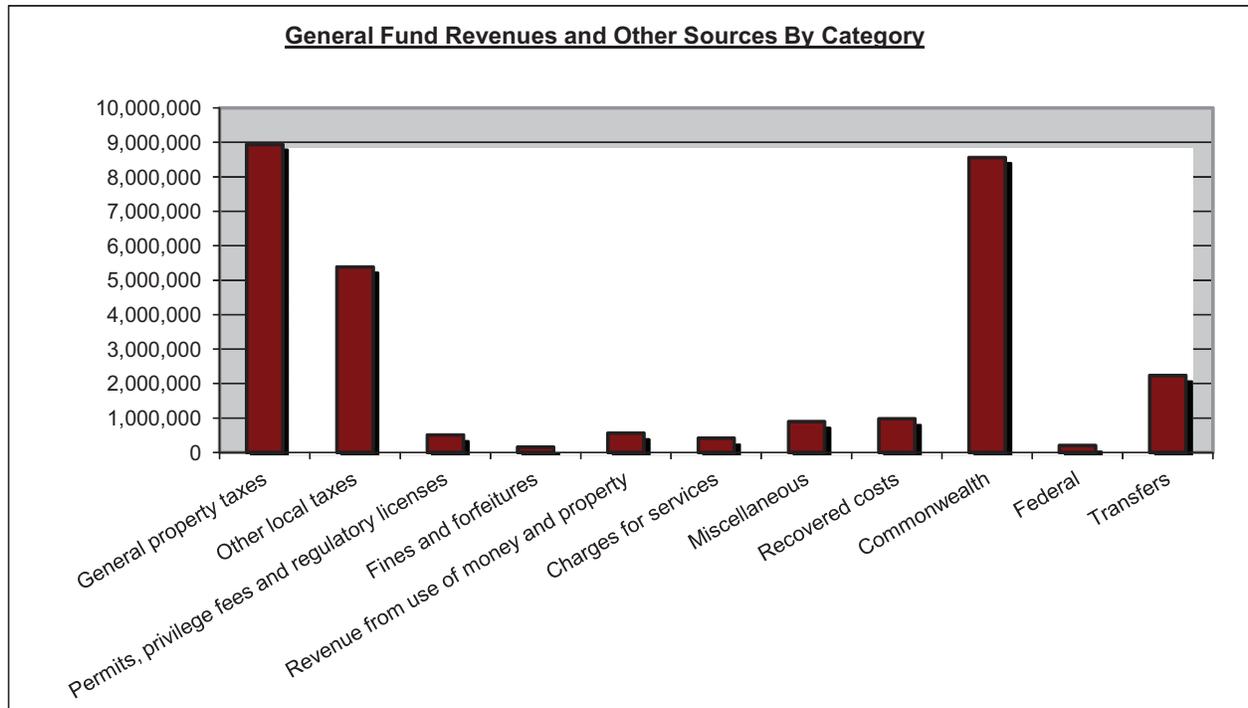
Financial Analysis of the City's Funds: (Continued)

The General Fund is the operating fund of the City. The General Fund reports a fund balance at June 30, 2011 of \$3,130,875. This is an increase from the prior year of \$886,637. The General Fund's deficiency of revenues over expenditures in the current year (\$1,304,813) decreased by \$1,833,957 in FY11 compared to (\$3,138,770) FY10. The transfer amounts into the General Fund of \$2,235,220 decreased by \$34,480 compared to FY10. During FY11, transfers from the Proprietary Funds were maximized to keep tax rates as low as possible, and this decrease is nominal in the grand scheme of all such funds. There were transfers of \$43,770 out of the General Fund. Twenty-five percent or \$774,240 of the total fund balance is unassigned, a decrease compared to \$2,090,139 of unreserved fund balance from June 30, 2010. As a measure of the General Funds liquidity it is useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 2.8% of total General Fund expenditures, while total fund balance is 11.2% 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 \$28,812,958 including transfers into the fund of \$2,235,220.

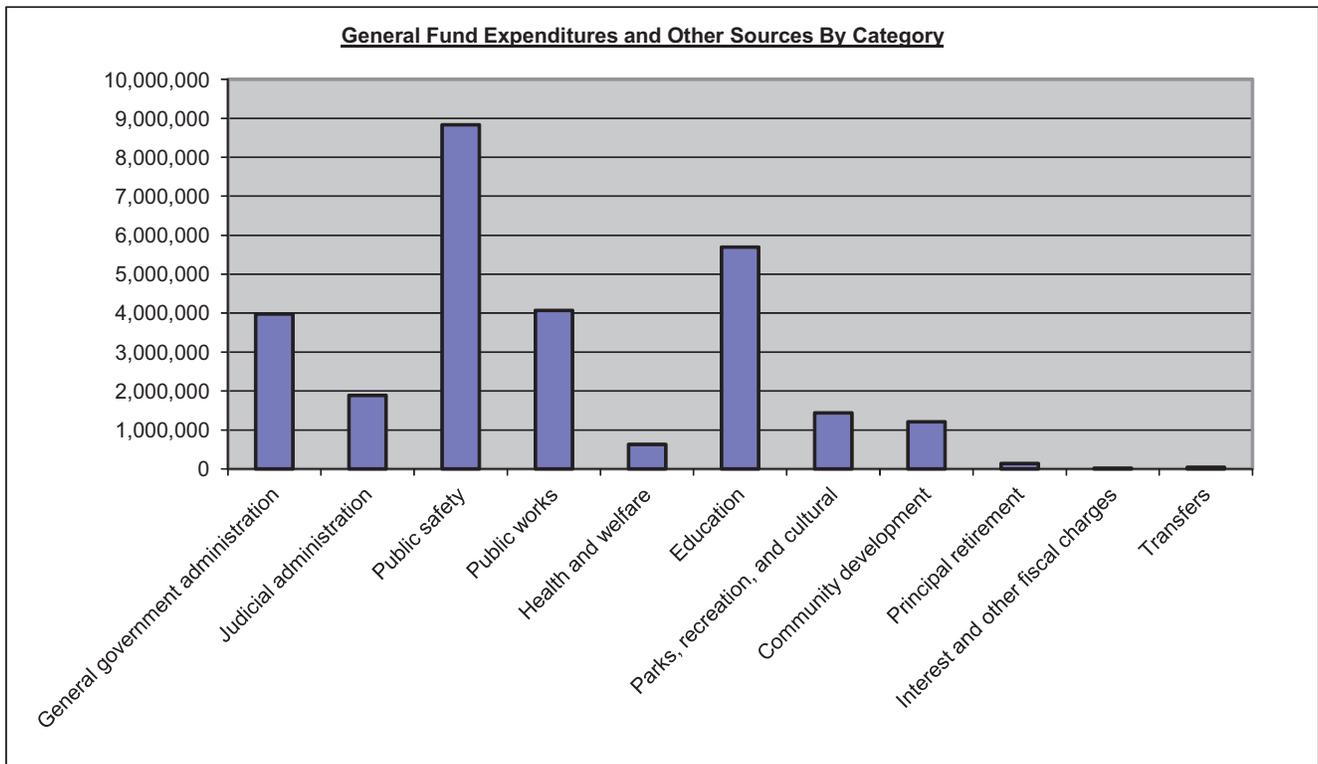
General property taxes	\$	8,941,108
Other local taxes		5,385,356
Permits, privilege fees and regulatory licenses		505,375
Fines and forfeitures		151,231
Revenue from use of money and property		559,983
Charges for services		409,501
Miscellaneous		893,331
Recovered costs		974,492
Commonwealth		8,554,700
Federal		202,661
Transfers		2,235,220



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

The graph below displays General Fund expenditures and other uses by category. Total expenditures and uses are \$27,926,321, including transfers out of the fund of \$43,770.

General government administration	\$ 3,979,435
Judicial administration	1,887,939
Public safety	8,832,086
Public works	4,065,320
Health and welfare	627,135
Education	5,697,421
Parks, recreation, and cultural	1,436,222
Community development	1,208,332
Principal retirement	136,551
Interest and other fiscal charges	12,110
Transfers	43,770



Proprietary funds – reported combined ending net assets of \$22,019,672 an increase of \$587,317 in comparison with the amount reported on June 30, 2010. The Electric Fund increased \$271,047; the Refuse Fund experienced an increase of \$225,149; and the Water Fund increased \$94,332. The Sewer Fund decreased \$3,211. The decrease and slight increases were caused by transferring amounts from the funds greater than their Operating Income, the methane recovery project at the closed landfill site, the enactment of the electric power cost adjustment, and a small water rate increase offset with a senior citizen discount.

The Enterprise Funds contributed \$2,736,292 in the support of other City operations. Of that amount \$2,235,220 or 81.7% was transferred to the General Fund. The remaining \$501,072 or 18.3% 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 \$1,022,386 or 4.1% while expenditures increased by \$1,893,217 or 6.8%. The Revenue increases were as follows:

- \$375,373 in Other Local Taxes
- \$44,675 in Permits, Privilege Fees, and Regulatory Licenses
- \$83,849 in Intergovernmental Revenues from the Commonwealth
- \$118,723 in Intergovernmental revenues from the Federal Government

The Expenditure amendments were as follows:

- \$453,945 in General government administration
- \$36,967 in Judicial administration
- \$276,251 in Public Safety
- \$322,836 in Public Works
- \$118,261 in Parks, Recreation, and Cultural
- \$684,957 in Community development

During the year, revenues were greater than the budget by \$283,474 or 1.1% and expenditures were less than the budget by \$2,113,546 or 7.1%. The result was a positive variance of \$2,397,020 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, 2011, is \$31,649,799 (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 FY2011 were: mobile radios; patrol cars; pickup trucks; continuation of sludge disposal improvement project; new computer equipment; upgrade and extension of fiber optic communications network; City Hall renovations; and the methane collection/power generation project.

City of Martinsville, Virginia's Capital Assets June 30, 2011 and 2010

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 4,379,094	\$ 4,379,094	\$ 683,624	\$ 683,624	\$ 5,062,718	\$ 5,062,718
Construction in progress	-	-	1,803,628	1,451,773	1,803,628	1,451,773
Buildings and improvements	12,505,144	13,238,297	3,534,495	3,452,610	16,039,639	16,690,907
Infrastructure	30,533,944	30,533,944	51,866,530	50,962,215	82,400,474	81,496,159
Equipment	7,584,453	7,433,450	7,455,581	7,309,799	15,040,034	14,743,249
Total	\$ 55,002,635	\$ 55,584,785	\$ 65,343,858	\$ 63,860,021	\$ 120,346,493	\$ 119,444,806
Less: accumulated depreciation	<u>39,785,265</u>	<u>39,287,964</u>	<u>48,911,429</u>	<u>48,178,441</u>	<u>88,696,694</u>	<u>87,466,405</u>
Net capital assets	\$ <u>15,217,370</u>	\$ <u>16,296,821</u>	\$ <u>16,432,429</u>	\$ <u>15,681,580</u>	\$ <u>31,649,799</u>	\$ <u>31,978,401</u>

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

Capital Asset and Debt Administration: (Continued)

Long-term debt – At the close of FY2011, Martinsville City had total outstanding obligations of \$17,688,200. Of this amount \$12,531,644 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 \$797,129 or 4.4%. The City's obligations decreased \$1,860,595. \$880,000 in new debt was issued.

The Commonwealth of Virginia imposes a legal limit of 10% of the assessed valuation of taxable real property on the amount of general obligation borrowing which a City may issue. On June 30, 2011 the City's ratio of Net General Obligation Debt to Assessed Value was 1.87%. This was a decrease from the previous fiscal year.

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

Economic Factors Influencing FY2011 Budgets and Tax Rates

With minimal to flat growth in the City's tax base, diminishing population, continued national recessionary factors, and a strategy of maintaining current levels of City services, the FY11 budget emphasized streamlining expenses. Management's goal was to reduce personnel through attrition, and evaluate all vacancies on a case-by-case basis.

The FY09 and FY10 budgets focused on not only reducing the size of the City government workforce, but also targeted further reorganization of City departments, funding of only vital capital expenditures, limiting the use of debt, reducing operating budgets and funding of outside agencies, and investing in new revenue opportunities.

Management realizes that the trend of providing current levels of services cannot continue without increasing revenues/fees for service and/or without making changes in the manner at which local funds are expended. Since 2006, the policy of reducing staffing has cut the City workforce by 39 net FTE positions

FY2012 Opportunities and Challenges

The City faces opportunities and challenges in FY12 and near future with the most obvious pertaining to the following issues:

1. Continued high levels of unemployment and diminishing population - The unemployment rate for the City on June 30, 2011 was 17%. This was a decrease of 3.2% from the previous year. The City's unemployment rate compares unfavorably to the state's average unemployment rate of 6.3% and the national average of 9.3% for the same time. The City's population and labor force have been steadily shrinking for the last several years. Various estimates predict the continued loss of population. The disappearance of the local textile industry coupled with the downsizing of the furniture industry have caused the decrease in population and shrinking labor force. Figures provided by the Economic Development Corporation show a net loss of 18,741 jobs since 1990.

FY2012 Opportunities and Challenges: (Continued)

2. **National recession** – In a recession that economists estimate to have started in the third quarter of calendar year 2007, the effects of the national economy continued to be felt in the City during FY11, and only nominal growth is predicted during FY12. There are some signs of a slow recovery including the recent construction of a financial institution, a small shopping center, a vehicle service shop, and the steady increase in the issuance of building permits. Management feels that the City is likely to see level to marginal increase in FY12 and remain so until there is sustained improvement in GDP, employment, and consumer confidence.

3. **Continued reductions in state aid** – Due to diminishing State revenue collections, the Commonwealth of Virginia reduced its aid-to-localities in FY09, FY10, and FY11. The sum of such budgetary adjustments totaled almost \$800,000 in various categories including HB 599 Funds (state aid for localities with police departments), reduced funding for constitutional offices, and elimination of ABC and wine taxes. Among the area of highest concern is the fear of major reductions in education funding that the state offers localities, once the ARRA Funding (stimulus) is depleted. Management feels that the City is likely to see flat funding or less State revenue in FY12 and until approximately one year following the end of the national recession.

4. **Policy** - The City Council approves the annual budget following staff recommendations, its own analysis of the needs of the City, the City's overall financial position, economic conditions, and after careful consideration of input and comments from the citizens. This methodical process has led to the development of budget principles of not increasing taxes and fees and the continuation of offering the same levels of service that the citizens are accustomed to receiving. The FY12 budget was prepared, and subsequently adopted, without an increase in any of the tax rates. However, in order to maintain level utility services and keep pace with increased operating costs, the sewer rate was increased by 5%. In an attempt to assist our older residents with their water bills, a Senior Citizen monthly discount was established. Management understands and emphasizes that the FY13 budget process will continue to be a challenge, indentifying priorities for continued financial stability in the future.

5. **Exploration of new revenue opportunities** – With direction from City Council, staff has aggressively explored opportunities for new revenue, and one project surfaced with promising profits and is under development. The City operated a municipal landfill until 2006, at which time changes in landfill regulations led the City to close the operation, thus eliminating \$1-1.5 million per year in revenue. Deteriorating landfill wastes yield methane gas, and the City's disposal of sewer wastes adds even more of a prosperous environment for more methane gas as compared to residential garbage alone. In FY10, the City developed a two-phased project. Phase 1, collection of methane and selling carbon credits, with an \$800,000 price tag and is up and running. Preliminary analysis of Phase 2, electric generation coupled with the same benefits of Phase 1, is underway and could be on line as early as 3rd quarter of FY12. Phase 2 could reduce purchased power costs by another \$500,000 per year, and exact figures will be known about the time that the FY13 budget is being considered by City Council. The City received a \$1M grant from the stimulus package to reduce capital project costs associated with Phase 2.

FY2012 Opportunities and Challenges: (Continued)

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

- A) Renewed commitment from The Harvest Foundation to honor the original pledge so that the Uptown area is truly revitalized, in a sustainable manner that adds value to the region as a whole.
- B) Another grant from The Harvest Foundation to unify the community and facilitate an inclusive planning process. The end question being, “What will add the most value to transform the Uptown area into a sustainable, thriving economic engine?”
- C) More buy-in and collaboration from the community, Planning Commission, City Council, and Department of Housing and Community Development.
- D) The creation of a comprehensive master plan for the Uptown area, completed in February 2010. Economic restructuring strategies included in the Uptown Revitalization Master Plan include:
 - Business, retail, and education
 - Visual and performing arts
 - Recreation
 - Cultural heritage
 - Housing and Uptown living
- E) The formation of Phoenix CDC (Community Development Corporation) in April 2010 to implement parts of the Master Plan and to manage property related efforts as identified.

7. Energy Efficiency Grants—The City received two federal grants aimed at decreasing energy expense. \$400,000 was awarded during FY10, for expenditure in FY12, for the purchase of equipment/enhancements to lighting, heating/cooling, etc. within City government buildings. Also, the City was awarded a grant for \$506,681 for expenditure in FY12, to renovate turbines and electricity generating equipment at the City’s hydroelectric facility. This overhaul will reduce the City’s purchase power budget and yield a 6% increase in the efficiency of hydro-electricity generation.

8. Job Creation—The City partners with Henry County in economic development. In FY11, the EDC successfully recruited Faneuil, a top-end customer service center who plans to hire 250-300 employees. Not only does the City benefit from tax revenue, but furthermore, the City will see increases in utilities revenues from this employer.

FY2012 Opportunities and Challenges: (Continued)

9. **One-Time Capital Expenditures**—Due to the slow recovery of the economy and budget restraints, there were no major one-time capital investments in FY11.

10. **Rives Road Apartments**—Landmark Developer Group purchased Martinsville Novelty Corporation in 2010 and immediately began work on this former table manufacturing company built in the 1920s to adaptively reuse the building. It now has been transformed into 60 loft apartments containing mixed housing, renamed The Martinsville Lofts. This \$6M investment has provided a positive, beautiful anchoring structure in this neighborhood. Landmark worked with the City of Martinsville to provide housing vouchers to enable a variety of income groups to occupy the building. This is the first project of its kind in Martinsville.

11. **Industrial Park Development**—The City and Henry County not only partner in economic development, but they also have a revenue sharing agreement for three separate industrial parks. Within the agreement, the City is to receive one-third of the tax revenue generated after Henry County recoups its initial investment. One particular industrial park, approximately 600 acres in size, became the focus of aggressive development efforts in FY10 with phased development to continue into FY12 and subsequent fiscal years. Various funding sources were secured, including a City contribution of \$331,900 for installation of water and sewer infrastructure. The City has committed \$1,700,000 for the grading of the site.

All these factors were considered in preparing the City's budgets for the 2011 and 2012 fiscal years.

For fiscal year 2011, City Council approved a General Fund Budget of \$28,459,712. The fiscal year 2012 budget maintains the real estate tax rate at \$1.018 per \$100 of assessed value, and all other tax rates remain the same.

Requests for Information

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

Basic Financial Statements

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Government-wide Financial Statements

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Statement of Net Assets
June 30, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	School Board
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 4,900,763	\$ 8,206,825	\$ 13,107,588	\$ 3,693,190
Receivables (net of allowance for uncollectibles):				
Property taxes	482,648	-	482,648	-
Accounts receivable	151,339	3,306,126	3,457,465	136,851
Inventory	2,792,550	921,469	3,714,019	-
Internal balances	(804,078)	804,078	-	-
Due from other governments	582,507	-	582,507	783,035
Prepaid items	2,670	-	2,670	-
Total Current Assets	\$ 8,108,399	\$ 13,238,498	\$ 21,346,897	\$ 4,613,076
Noncurrent Assets:				
Unamortized bond issue costs	\$ -	\$ 44,000	\$ 44,000	\$ -
Capital assets (net of accumulated depreciation):				
Land	\$ 4,379,094	\$ 683,624	\$ 5,062,718	\$ 47,172
Buildings and improvements	7,561,537	1,047,844	8,609,381	6,619,178
Equipment	1,564,591	2,335,737	3,900,328	842,093
Construction in progress	-	1,803,628	1,803,628	-
Infrastructure	1,712,148	10,561,596	12,273,744	-
Total Capital Assets	\$ 15,217,370	\$ 16,432,429	\$ 31,649,799	\$ 7,508,443
Total Noncurrent Assets	\$ 15,217,370	\$ 16,476,429	\$ 31,693,799	\$ 7,508,443
Total Assets	\$ 23,325,769	\$ 29,714,927	\$ 53,040,696	\$ 12,121,519
LIABILITIES				
Current Liabilities:				
Accounts payable and other current liabilities	\$ 1,603,680	\$ 701,196	\$ 2,304,876	\$ 1,350,179
Accrued interest payable	190,086	32,987	223,073	-
Unearned revenue	-	-	-	296,250
Current portion of long-term obligations	1,257,736	663,016	1,920,752	-
Total Current Liabilities	\$ 3,051,502	\$ 1,397,199	\$ 4,448,701	\$ 1,646,429
Noncurrent Liabilities:				
Noncurrent portion of long-term obligations	9,469,392	6,298,056	15,767,448	115,000
Total Liabilities	\$ 12,520,894	\$ 7,695,255	\$ 20,216,149	\$ 1,761,429
NET ASSETS				
Invested in capital assets, net of related debt	\$ 5,095,179	\$ 15,002,561	\$ 20,097,740	\$ 7,508,443
Unrestricted assets	5,709,696	7,017,111	12,726,807	2,851,647
Total Net Assets	\$ 10,804,875	\$ 22,019,672	\$ 32,824,547	\$ 10,360,090
Total Liabilities and Net Assets	\$ 23,325,769	\$ 29,714,927	\$ 53,040,696	\$ 12,121,519

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

CITY OF MARTINSVILLE, VIRGINIA

Statement of Activities
Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government administration	\$ 3,814,802	\$ 191,123	\$ 277,056	\$ -
Judicial administration	1,878,258	202,053	713,051	-
Public safety	8,997,810	509,000	3,239,401	-
Public works	4,178,766	24,000	3,395,752	-
Health and welfare	606,262	-	-	-
Education	6,400,860	-	-	-
Parks, recreation, and cultural	1,340,515	139,931	36,342	-
Community development	4,117,538	-	2,081,905	-
Interest on long-term debt	348,232	-	-	-
Total governmental activities	\$ 31,683,043	\$ 1,066,107	\$ 9,743,507	\$ -
Business-type activities:				
Electric	\$ 17,175,908	\$ 17,549,813	\$ -	\$ -
Water	1,694,197	3,090,420	-	-
Sewer	2,652,619	3,611,687	-	-
Refuse collection / landfill	1,095,958	1,651,673	-	-
Total business-type activities	\$ 22,618,682	\$ 25,903,593	\$ -	\$ -
Total primary government	\$ 54,301,725	\$ 26,969,700	\$ 9,743,507	\$ -
COMPONENT UNIT:				
School Board	\$ 23,646,515	\$ 468,196	\$ 17,699,127	\$ -
General revenues:				
General property taxes				
Local sales tax				
Business license tax				
Meals tax				
Consumer utility tax				
Other local taxes				
Unrestricted revenues from use of money and property				
Miscellaneous				
Commonwealth of Virginia non-categorical aid				
City contribution to the school board, unrestricted				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

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

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Unit	
Governmental Activities	Business Type Activities	Total	School Board	Functions/Programs
PRIMARY GOVERNMENT:				
Governmental activities:				
\$ (3,346,623)	\$ -	\$ (3,346,623)	\$ -	General government administration
(963,154)	-	(963,154)	-	Judicial administration
(5,249,409)	-	(5,249,409)	-	Public safety
(759,014)	-	(759,014)	-	Public works
(606,262)	-	(606,262)	-	Health and welfare
(6,400,860)	-	(6,400,860)	-	Education
(1,164,242)	-	(1,164,242)	-	Parks, recreation, and cultural
(2,035,633)	-	(2,035,633)	-	Community development
(348,232)	-	(348,232)	-	Interest on long-term debt
<u>\$ (20,873,429)</u>	<u>\$ -</u>	<u>\$ (20,873,429)</u>	<u>\$ -</u>	Total government activities
Business-type activities:				
\$ -	\$ 373,905	\$ 373,905	\$ -	Electric
-	1,396,223	1,396,223	-	Water
-	959,068	959,068	-	Sewer
-	555,715	555,715	-	Refuse collection / landfill
<u>\$ -</u>	<u>\$ 3,284,911</u>	<u>\$ 3,284,911</u>	<u>\$ -</u>	Total business-type activities
<u>\$ (20,873,429)</u>	<u>\$ 3,284,911</u>	<u>\$ (17,588,518)</u>	<u>\$ -</u>	Total primary government
COMPONENT UNIT:				
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,479,192)</u>	School Board
General revenues:				
\$ 8,878,758	\$ -	\$ 8,878,758	\$ -	General property taxes
1,911,276	-	1,911,276	-	Local sales tax
1,947,085	-	1,947,085	-	Business license tax
1,409,442	-	1,409,442	-	Meals tax
710,361	-	710,361	-	Consumer utility tax
816,634	-	816,634	-	Other local taxes
612,256	38,698	650,954	55,096	Unrestricted revenues from use of money and property
916,783	-	916,783	177,270	Miscellaneous
1,657,430	-	1,657,430	-	Commonwealth of Virginia non-categorical aid
-	-	-	5,677,733	City contribution to the school board, unrestricted
2,736,292	(2,736,292)	-	-	Transfers
<u>\$ 21,596,317</u>	<u>\$ (2,697,594)</u>	<u>\$ 18,898,723</u>	<u>\$ 5,910,099</u>	Total general revenues and transfers
<u>\$ 722,888</u>	<u>\$ 587,317</u>	<u>\$ 1,310,205</u>	<u>\$ 430,907</u>	Change in net assets
<u>10,081,987</u>	<u>21,432,355</u>	<u>31,514,342</u>	<u>9,929,183</u>	Net assets - beginning
<u>\$ 10,804,875</u>	<u>\$ 22,019,672</u>	<u>\$ 32,824,547</u>	<u>\$ 10,360,090</u>	Net assets - ending

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Fund Financial Statements

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Balance Sheet - Governmental Funds
At June 30, 2011

	General	Nonmajor Governmental Funds	Total
ASSETS			
Cash and cash equivalents	\$ 3,165,010	\$ 1,735,753	\$ 4,900,763
Receivables (net of allowance for uncollectibles):			
Taxes, including penalties	482,648	-	482,648
Accounts	140,658	10,681	151,339
Inventory	509,466	-	509,466
Due from other governmental units	582,507	-	582,507
Prepaid items	2,670	-	2,670
	<u>4,882,959</u>	<u>1,746,434</u>	<u>6,629,393</u>
Total assets	<u>\$ 4,882,959</u>	<u>\$ 1,746,434</u>	<u>\$ 6,629,393</u>
LIABILITIES			
Accounts payable	\$ 1,432,114	\$ 171,566	\$ 1,603,680
Due to other funds	-	804,078	804,078
Deferred revenue	319,970	-	319,970
	<u>1,752,084</u>	<u>975,644</u>	<u>2,727,728</u>
Total liabilities	<u>\$ 1,752,084</u>	<u>\$ 975,644</u>	<u>\$ 2,727,728</u>
FUND BALANCES			
Nonspendable:			
Inventory	\$ 509,466	-	\$ 509,466
Prepaid items	2,670	-	2,670
Committed to:			
Centre Infrastructure project	1,666,700	-	1,666,700
Piedmont Area Regional Transit	23,700	-	23,700
Housing Choice program	-	161,982	161,982
Assigned to:			
Thoroughfare construction	154,099	-	154,099
Capital reserve fund	-	469,812	469,812
Meals tax fund	-	726,967	726,967
Unassigned	774,240	(587,971)	186,269
Total fund balances	<u>\$ 3,130,875</u>	<u>\$ 770,790</u>	<u>\$ 3,901,665</u>
Total liabilities and fund balances	<u>\$ 4,882,959</u>	<u>\$ 1,746,434</u>	<u>\$ 6,629,393</u>

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

Total fund balances per exhibit 3 - Balance Sheet - Governmental Funds	3,901,665
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.	15,217,370
Inventory of land and buildings held for resale	2,283,084
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(190,086)
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.	319,970
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.	(10,727,128)
Net assets of General Government Activities	<u>\$ 10,804,875</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, 2011

	<u>General</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
General property taxes	\$ 8,941,108	\$ -	\$ 8,941,108
Other local taxes	5,385,356	1,409,442	6,794,798
Permits, privilege fees and regulatory licenses	505,375	-	505,375
Fines and forfeitures	151,231	-	151,231
Revenue from use of money and property	559,983	52,273	612,256
Charges for services	409,501	-	409,501
Miscellaneous	893,331	45,452	938,783
Recovered costs	974,492	-	974,492
Intergovernmental:			
Commonwealth	8,554,700	525,056	9,079,756
Federal	202,661	2,118,520	2,321,181
Total revenues	<u>\$ 26,577,738</u>	<u>\$ 4,150,743</u>	<u>\$ 30,728,481</u>
Expenditures:			
Current:			
General government administration	\$ 3,979,435	\$ 340,678	\$ 4,320,113
Judicial administration	1,887,939	-	1,887,939
Public safety	8,832,086	173,524	9,005,610
Public works	4,065,320	19,664	4,084,984
Health and welfare	627,135	-	627,135
Education	5,697,421	-	5,697,421
Parks, recreation, and cultural	1,436,222	64,276	1,500,498
Community development	1,208,332	2,858,442	4,066,774
Debt service:			
Principal retirement	136,551	1,051,477	1,188,028
Interest and other fiscal charges	12,110	357,270	369,380
Total expenditures	<u>\$ 27,882,551</u>	<u>\$ 4,865,331</u>	<u>\$ 32,747,882</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (1,304,813)</u>	<u>\$ (714,588)</u>	<u>\$ (2,019,401)</u>
Other financing sources (uses):			
Transfers in	\$ 2,235,220	\$ 722,472	\$ 2,957,692
Transfers (out)	<u>(43,770)</u>	<u>(177,630)</u>	<u>(221,400)</u>
Total other financing sources	<u>\$ 2,191,450</u>	<u>\$ 544,842</u>	<u>\$ 2,736,292</u>
Changes in fund balances	\$ 886,637	\$ (169,746)	\$ 716,891
Fund balances at beginning of year	<u>2,244,238</u>	<u>940,536</u>	<u>3,184,774</u>
Fund balances at end of year	<u>\$ 3,130,875</u>	<u>\$ 770,790</u>	<u>\$ 3,901,665</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, 2011

		<u>Primary Government Governmental Funds</u>
Amounts reported for governmental activities in the Statement of Activities are different because:		
Net change in fund balances - total governmental funds	\$	716,891
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current year.		
Capital outlay	\$ 392,707	
Depreciation expense	<u>(942,574)</u>	(549,867)
Inventory of land and buildings purchased during the year and held for resale		(22,000)
Transfer of joint tenancy assets from Primary Government to the Component Unit		(529,584)
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.		(62,350)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.		
Details supporting this adjustment are as follows:		
Principal retired on debt on literary fund loans	\$ 625,000	
Principal retired on general obligation bonds	234,100	
Principal retired on capital lease obligations	220,775	
Principal retired on VPSA subsidy bonds	108,153	
Other post employment benefits	<u>(57,000)</u>	1,131,028
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds. The following is a summary of items supporting this adjustment:		
Change in accrued leave	\$ 17,622	
Change in interest payable	<u>21,148</u>	<u>38,770</u>
Change in net assets of governmental activities	\$	<u><u>722,888</u></u>

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

Proprietary Funds
Statement of Net Assets
At June 30, 2011

ASSETS	Electric Fund	Water Fund	Sewer Fund	Refuse Collection/ Landfill Fund	Total
Current Assets:					
Cash and cash equivalents	\$ 1,703,936	\$ 6,423	\$ 395,227	\$ 6,101,239	\$ 8,206,825
Receivables (net of allowance for uncollectibles):	2,289,428	396,861	374,135	245,702	3,306,126
Due from other funds	-	-	-	804,078	804,078
Inventory	771,425	150,044	-	-	921,469
Total current assets	<u>\$ 4,764,789</u>	<u>\$ 553,328</u>	<u>\$ 769,362</u>	<u>\$ 7,151,019</u>	<u>\$ 13,238,498</u>
Noncurrent Assets					
Unamortized bond issue costs	\$ -	\$ -	\$ 9,554	\$ 34,446	\$ 44,000
Capital assets:					
Land	\$ -	\$ 658,224	\$ 25,400	\$ -	\$ 683,624
Construction in progress	780,499	-	-	1,023,129	1,803,628
Buildings and improvements	586,744	1,572,636	1,069,859	305,256	3,534,495
Equipment	2,397,731	1,438,201	2,106,090	1,513,559	7,455,581
Infrastructure	25,191,191	10,994,862	15,680,477	-	51,866,530
Less accumulated depreciation	<u>(21,658,620)</u>	<u>(10,476,369)</u>	<u>(15,323,193)</u>	<u>(1,453,247)</u>	<u>(48,911,429)</u>
Total capital assets (net of accumulated depreciation)	<u>\$ 7,297,545</u>	<u>\$ 4,187,554</u>	<u>\$ 3,558,633</u>	<u>\$ 1,388,697</u>	<u>\$ 16,432,429</u>
Total noncurrent assets	<u>\$ 7,297,545</u>	<u>\$ 4,187,554</u>	<u>\$ 3,568,187</u>	<u>\$ 1,423,143</u>	<u>\$ 16,476,429</u>
Total assets	<u><u>\$ 12,062,334</u></u>	<u><u>\$ 4,740,882</u></u>	<u><u>\$ 4,337,549</u></u>	<u><u>\$ 8,574,162</u></u>	<u><u>\$ 29,714,927</u></u>
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 45,464	\$ 82,968	\$ 79,223	\$ 190,302	\$ 397,957
Customers' deposits payable	264,307	38,932	-	-	303,239
Interest payable	2,363	-	452	30,172	32,987
Current portion of long-term obligations	20,702	4,575	148,582	489,157	663,016
Total current liabilities	<u>\$ 332,836</u>	<u>\$ 126,475</u>	<u>\$ 228,257</u>	<u>\$ 709,631</u>	<u>\$ 1,397,199</u>
Noncurrent liabilities:					
Noncurrent portion of long-term obligations	190,918	41,176	271,698	5,794,264	6,298,056
Total liabilities	<u>\$ 523,754</u>	<u>\$ 167,651</u>	<u>\$ 499,955</u>	<u>\$ 6,503,895</u>	<u>\$ 7,695,255</u>
NET ASSETS					
Invested in capital assets, net of related debt	\$ 7,138,945	\$ 4,187,554	\$ 3,205,298	\$ 470,764	\$ 15,002,561
Unrestricted assets	4,399,635	385,677	632,296	1,599,503	7,017,111
Total Net Assets	<u>\$ 11,538,580</u>	<u>\$ 4,573,231</u>	<u>\$ 3,837,594</u>	<u>\$ 2,070,267</u>	<u>\$ 22,019,672</u>
Total Liabilities and Net Assets	<u><u>\$ 12,062,334</u></u>	<u><u>\$ 4,740,882</u></u>	<u><u>\$ 4,337,549</u></u>	<u><u>\$ 8,574,162</u></u>	<u><u>\$ 29,714,927</u></u>

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

Proprietary Funds
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2011

	<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	\$ 17,416,005	\$ 2,972,088	\$ 3,604,201	\$ 1,534,459	\$ 25,526,753
Miscellaneous	<u>133,808</u>	<u>118,332</u>	<u>7,486</u>	<u>117,214</u>	<u>376,840</u>
Total operating revenues	<u>\$ 17,549,813</u>	<u>\$ 3,090,420</u>	<u>\$ 3,611,687</u>	<u>\$ 1,651,673</u>	<u>\$ 25,903,593</u>
Operating expenses:					
Personal services	\$ 589,729	\$ 543,246	\$ 773,356	\$ 149,933	\$ 2,056,264
Fringe benefits	184,291	204,383	293,065	57,060	738,799
Contractual services	200,913	21,635	36,273	199,713	458,534
Other charges	15,863,506	694,466	1,263,200	567,983	18,389,155
Depreciation	<u>332,294</u>	<u>230,467</u>	<u>278,967</u>	<u>55,116</u>	<u>896,844</u>
Total operating expenses	<u>\$ 17,170,733</u>	<u>\$ 1,694,197</u>	<u>\$ 2,644,861</u>	<u>\$ 1,029,805</u>	<u>\$ 22,539,596</u>
Operating income (loss)	<u>\$ 379,080</u>	<u>\$ 1,396,223</u>	<u>\$ 966,826</u>	<u>\$ 621,868</u>	<u>\$ 3,363,997</u>
Non-operating revenues (expenses):					
Interest income	\$ 1,218	\$ -	\$ 26,472	\$ 11,008	\$ 38,698
Interest expense	<u>(5,175)</u>	<u>-</u>	<u>(7,758)</u>	<u>(66,153)</u>	<u>(79,086)</u>
Total non-operating revenues (expenses)	<u>\$ (3,957)</u>	<u>\$ -</u>	<u>\$ 18,714</u>	<u>\$ (55,145)</u>	<u>\$ (40,388)</u>
Income (loss) before transfers	<u>\$ 375,123</u>	<u>\$ 1,396,223</u>	<u>\$ 985,540</u>	<u>\$ 566,723</u>	<u>\$ 3,323,609</u>
Transfers:					
Transfers (out)	<u>(104,076)</u>	<u>(1,301,891)</u>	<u>(988,751)</u>	<u>(341,574)</u>	<u>(2,736,292)</u>
Changes in net assets	<u>\$ 271,047</u>	<u>\$ 94,332</u>	<u>\$ (3,211)</u>	<u>\$ 225,149</u>	<u>\$ 587,317</u>
Net assets at beginning of year	<u>11,267,533</u>	<u>4,478,899</u>	<u>3,840,805</u>	<u>1,845,118</u>	<u>21,432,355</u>
Net assets at end of year	<u><u>\$ 11,538,580</u></u>	<u><u>\$ 4,573,231</u></u>	<u><u>\$ 3,837,594</u></u>	<u><u>\$ 2,070,267</u></u>	<u><u>\$ 22,019,672</u></u>

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

Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2011

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Refuse Collection/ Landfill Fund</u>	<u>Total</u>
Cash Flows From Operating Activities:					
Receipts from customers and users	\$ 17,491,371	\$ 3,079,835	\$ 3,639,981	\$ 1,653,914	\$ 25,865,101
Payments to suppliers and other operating expenses	(16,070,479)	(639,971)	(1,397,192)	(823,285)	(18,930,927)
Payments to employees (including fringe benefits)	(778,697)	(760,721)	(1,063,372)	(207,029)	(2,809,819)
Net cash provided by operating activities	<u>\$ 642,195</u>	<u>\$ 1,679,143</u>	<u>\$ 1,179,417</u>	<u>\$ 623,600</u>	<u>\$ 4,124,355</u>
Cash Flows From Capital and Related Financing Activities:					
Acquisition and construction of capital assets	\$ (900,537)	\$ (187,820)	\$ (207,481)	\$ (351,855)	\$ (1,647,693)
Issuance of general obligation bonds	-	-	159,616	720,384	880,000
Interest paid on debt	(5,397)	-	(8,049)	(69,724)	(83,170)
Net cash provided (used) by capital and related financing activities	<u>\$ (905,934)</u>	<u>\$ (187,820)</u>	<u>\$ (55,914)</u>	<u>\$ 298,805</u>	<u>\$ (850,863)</u>
Cash Flows From Noncapital Financing Activities:					
Transfers	\$ (104,076)	\$ (1,301,891)	\$ (988,751)	\$ (341,574)	\$ (2,736,292)
Retirements of general obligation bonds	(14,900)	-	(124,728)	(292,200)	(431,828)
Due from other funds	-	-	-	49,751	49,751
Due to other funds	-	(183,009)	-	-	(183,009)
Net cash provided (used) by noncapital financing activities	<u>\$ (118,976)</u>	<u>\$ (1,484,900)</u>	<u>\$ (1,113,479)</u>	<u>\$ (584,023)</u>	<u>\$ (3,301,378)</u>
Cash Flows From Investing Activities:					
Interest income	\$ 1,218	\$ -	\$ 26,472	\$ 11,008	\$ 38,698
Increase in cash and cash equivalents	\$ (381,497)	\$ 6,423	\$ 36,496	\$ 349,390	\$ 10,812
Cash and cash equivalents at beginning of year	<u>2,085,433</u>	<u>-</u>	<u>358,731</u>	<u>5,751,849</u>	<u>8,196,013</u>
Cash and cash equivalents at end of year	<u>\$ 1,703,936</u>	<u>\$ 6,423</u>	<u>\$ 395,227</u>	<u>\$ 6,101,239</u>	<u>\$ 8,206,825</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 379,080	\$ 1,396,223	\$ 966,826	\$ 621,868	\$ 3,363,997
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation	\$ 332,294	\$ 230,467	\$ 278,967	\$ 55,116	\$ 896,844
Changes in operating assets and liabilities:					
(Increase) in accounts receivable	(967)	(2,857)	28,294	2,241	26,711
Increase (decrease) in:					
Accounts payable	(6,060)	76,130	(88,165)	60,752	42,657
Accrued leave	(4,677)	(13,092)	3,049	(36)	(14,756)
Bond issuance costs	-	-	(9,554)	(34,446)	(44,000)
Landfill closure and post-closure liability	-	-	-	(81,895)	(81,895)
Customer deposits	(57,475)	(7,728)	-	-	(65,203)
Total adjustments	<u>\$ 263,115</u>	<u>\$ 282,920</u>	<u>\$ 212,591</u>	<u>\$ 1,732</u>	<u>\$ 760,358</u>
Net cash provided by operating activities	<u>\$ 642,195</u>	<u>\$ 1,679,143</u>	<u>\$ 1,179,417</u>	<u>\$ 623,600</u>	<u>\$ 4,124,355</u>

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

Statement of Fiduciary Net Assets --
Agency Funds
At June 30, 2011

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ <u>1,330,741</u>
Total assets	\$ <u><u>1,330,741</u></u>
LIABILITIES	
Accounts payable	\$ 40,650
Amounts held for others	<u>1,290,091</u>
Total liabilities	\$ <u><u>1,330,741</u></u>

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

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CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011

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.

Management's Discussion and Analysis - GASB Statement No. 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A).

Government-wide and Fund Financial Statements

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

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

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

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

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.

Budgetary comparison schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments revise their original budgets over the course of the year for a variety of reasons. Under the GASB 34 reporting model, governments provide budgetary comparison information in their annual reports, including the government's original budget, final budget and actual results.

A. Financial Reporting Entity

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

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

B. Individual Component Unit Disclosures

Blended Component Unit. The City has no blended component units at June 30, 2011.

Discretely Presented Component Unit School Board. The School Board members are appointed by the City Council and are responsible for the operations of the City's School System within the City boundaries. The School Board is fiscally dependent on the City. The City has the ability to approve its budget and any amendments. The primary funding is from the General Fund of the City. The School Fund does not issue a separate financial report. The financial statements of the School Board are presented as a discrete presentation of the City financial statements for the fiscal year ended June 30, 2011.

Included in the City's Financial Report

None

C. Other Related Organizations

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, 2011 (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 reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity.

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

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

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (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 and report all financial resources except those required to be accounted for and reported in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service, and interest income. A significant part of the General Fund's revenues is used principally to finance the operations of the Component Unit School Board. The 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 and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Special Revenue Funds consist of the City Grants Fund and the Housing Choice Fund.

Capital Projects Funds - The Capital Projects Fund accounts for and reports financial resources that are restricted, committed or assigned to expenditure for capital outlays, except for those financed by proprietary funds or for assets held in trust for individuals, private organizations, or other governments. 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, 2011 (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 collection/landfill funds as major enterprise funds.

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

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

E. Cash and Cash Equivalents

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

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

E. Cash and Cash Equivalents: (Continued)

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

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

F. Investments

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

G. Receivables and payables

Activity between funds that 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 \$2,096,319 at June 30, 2011 is composed solely of the following:

General Fund

Allowance for uncollectible property taxes	\$ <u>639,779</u>
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Enterprise Funds

Allowance for uncollectible accounts:

Electric Fund	\$ 994,389
Water Fund	174,261
Sewer Fund	168,922
Refuse Collection/Landfill Fund	<u>118,968</u>
Total allowance for uncollectible accounts – Enterprise funds	\$ <u>1,456,540</u>
Total allowance for uncollectible accounts	\$ <u><u>2,096,319</u></u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (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, 2011 was immaterial.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

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

I. Capital Assets: (Continued)

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
Infrastructure	30

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. A liability for these amounts is recorded in the governmental funds only if they have matured, for example, as a result of employee 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.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

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

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.

N. Fund Equity

Beginning with fiscal year 2011, the City implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance – amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance – amounts that are available for any purpose; positive amounts are only reported in the general fund.

When fund balance resources are available for a specific purpose in more than one classification, it is the City's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

City Council establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

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

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.

Q. Component Unit—School board Capital Asset and Debt Presentation

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

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

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 2—Stewardship, Compliance, and Accounting:

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

1. On or before April 30th, the City Manager submits to the City Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Ordinance.
4. The Appropriations Ordinance places legal restrictions on expenditures at the Fund level. The appropriation for each Fund can be revised only by the City Council. The City Manager is authorized to transfer budgeted amounts within a specific Fund; however, the School Board is authorized to transfer budgeted amounts within the school system's categories.
5. Formal budgetary integration is employed as a management control device during the year for all funds.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, for all City units.
8. All budget data presented in the accompanying financial statements is the original to the current comparison of the final budget and actual results.

Expenditures and Appropriations

Expenditures exceed appropriations as follows for the fiscal year ended June 30, 2011:

<u>Fund/ Function</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess of Expenditures Over Appropriations</u>
School Cafeteria Fund	\$ 1,297,806	\$ 1,456,150	\$ (158,344)
School Grants Fund	<u>2,058,871</u>	<u>2,459,544</u>	<u>(400,673)</u>
	<u>\$ 3,356,677</u>	<u>\$ 3,915,694</u>	<u>\$ (559,017)</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

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

Fund Deficits

The following funds had deficit balances at June 30, 2011:

City Grants Fund	\$ 587,971
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Note 3—Deposits:

Deposits:

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

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 \$3,693,190 at June 30, 2011.

Note 4—Due from Other Governments:

At June 30, 2011 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	\$ 156,290	\$ -
State Sales Tax	-	205,709
Constitutional officer reimbursements	221,763	-
Highway projects	8,930	-
Armory reimbursement	5,218	-
Miscellaneous grants	74,473	-
Comprehensive service	3,447	-
Communication taxes	79,138	-
Federal Government:		
School fund grants	-	577,326
Other federal grants	33,248	-
Total due from other governments	<u>\$ 582,507</u>	<u>\$ 783,035</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 5—Inventory:

At June 30, 2011 the City has inventory recorded in the various funds as follows:

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>
Expendable supplies	\$ 509,466	\$ 921,469
Land and building inventory held for resale:		
96 Commercial residential lots held for resale	1,662,348	-
6 Commercial buildings held for resale	620,736	-
Totals	<u>\$ 2,792,550</u>	<u>\$ 921,469</u>

Note 6—Capital Assets:

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2011:

Primary Government:

Governmental Activities:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>
Capital assets, not being depreciated:				
Land	\$ 4,379,094	\$ -	\$ -	\$ 4,379,094
Capital assets being depreciated:				
Buildings	\$ 5,522,400	\$ -	\$ -	\$ 5,522,400
Equipment	7,433,450	392,707	241,704	7,584,453
Infrastructure	30,533,944	-	-	30,533,944
Jointly owned assets	7,715,897	-	733,153	6,982,744
Total capital assets being depreciated	<u>\$ 51,205,691</u>	<u>\$ 392,707</u>	<u>\$ 974,857</u>	<u>\$ 50,623,541</u>
Less accumulated depreciation for:				
Buildings	\$ 3,078,910	\$ 107,622	\$ -	\$ 3,186,532
Equipment	5,751,407	510,159	241,704	6,019,862
Infrastructure	28,670,858	150,938	-	28,821,796
Jointly owned assets	1,786,789	173,855	203,569	1,757,075
Total accumulated depreciation	<u>\$ 39,287,964</u>	<u>\$ 942,574</u>	<u>\$ 445,273</u>	<u>\$ 39,785,265</u>
Total capital assets being depreciated, net	<u>\$ 11,917,727</u>	<u>\$ (549,867)</u>	<u>\$ 529,584</u>	<u>\$ 10,838,276</u>
Governmental capital assets, net	<u>\$ 16,296,821</u>	<u>\$ (549,867)</u>	<u>\$ 529,584</u>	<u>\$ 15,217,370</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 6—Capital Assets: (Continued)

Primary Government:

Business-Type Activities:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
Electric Fund:				
Capital assets, not being depreciated:				
Construction in progress	\$ 780,499	\$ -	\$ -	\$ 780,499
Capital assets being depreciated:				
Buildings and improvements	\$ 586,744	\$ -	\$ -	\$ 586,744
Equipment	2,325,919	184,651	112,839	2,397,731
Infrastructure	24,475,305	715,886	-	25,191,191
Total capital assets being depreciated	\$ 27,387,968	\$ 900,537	\$ 112,839	\$ 28,175,666
Less accumulated depreciation for:				
Buildings and improvements	\$ 586,100	\$ 129	\$ -	\$ 586,229
Equipment	1,684,019	135,464	112,839	1,706,644
Infrastructure	19,169,046	196,701	-	19,365,747
Total accumulated depreciation	\$ 21,439,165	\$ 332,294	\$ 112,839	\$ 21,658,620
Total capital assets being depreciated, net	\$ 5,948,803	\$ 568,243	\$ -	\$ 6,517,046
Electric fund capital assets, net	<u>\$ 6,729,302</u>	<u>\$ 568,243</u>	<u>\$ -</u>	<u>\$ 7,297,545</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 6—Capital Assets: (Continued)

Primary Government: (Continued)

Business-Type Activities: (Continued)

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
Water Fund:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 658,224	\$ -	\$ -	\$ 658,224
Capital assets being depreciated:				
Buildings and improvements	\$ 1,490,752	\$ 81,884	\$ -	\$ 1,572,636
Equipment	1,438,201	-	-	1,438,201
Infrastructure	10,888,926	105,936	-	10,994,862
Total capital assets being depreciated	\$ 13,817,879	\$ 187,820	\$ -	\$ 14,005,699
Less accumulated depreciation for:				
Buildings and improvements	\$ 947,885	\$ 43,229	\$ -	\$ 991,114
Equipment	848,625	57,825	-	906,450
Infrastructure	8,449,392	129,413	-	8,578,805
Total accumulated depreciation	\$ 10,245,902	\$ 230,467	\$ -	\$ 10,476,369
Total capital assets being depreciated, net	\$ 3,571,977	\$ (42,647)	\$ -	\$ 3,529,330
Water fund capital assets, net	\$ 4,230,201	\$ (42,647)	\$ -	\$ 4,187,554

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 6—Capital Assets: (Continued)

Primary Government: (Continued)

Business-Type Activities: (Continued)

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
Sewer Fund:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 25,400	\$ -	\$ -	\$ 25,400
Capital assets being depreciated:				
Buildings and improvements	\$ 1,069,859	\$ -	\$ -	\$ 1,069,859
Equipment	2,032,121	124,988	51,019	2,106,090
Infrastructure	15,597,984	82,493	-	15,680,477
Total capital assets being depreciated	\$ 18,699,964	\$ 207,481	\$ 51,019	\$ 18,856,426
Less accumulated depreciation for:				
Buildings and improvements	\$ 786,375	\$ 20,031	\$ -	\$ 806,406
Equipment	1,135,092	72,334	51,019	1,156,407
Infrastructure	13,173,778	186,602	-	13,360,380
Total accumulated depreciation	\$ 15,095,245	\$ 278,967	\$ 51,019	\$ 15,323,193
Total capital assets being depreciated, net	\$ 3,604,719	\$ (71,486)	\$ -	\$ 3,533,233
Sewer fund capital asset, net	<u>\$ 3,630,119</u>	<u>\$ (71,486)</u>	<u>\$ -</u>	<u>\$ 3,558,633</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 6—Capital Assets: (Continued)

Primary Government: (Continued)

Business-Type Activities: (Continued)

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
Refuse Collection/Landfill Fund:				
Capital assets, not being depreciated:				
Construction in progress	\$ 671,274	\$ 351,855	\$ -	\$ 1,023,129
Capital assets, being depreciated:				
Buildings and improvements	\$ 305,256	\$ -	\$ -	\$ 305,256
Equipment	1,513,559	-	-	1,513,559
Total capital assets being depreciated	\$ 1,818,815	\$ -	\$ -	\$ 1,818,815
Less accumulated depreciation for:				
Buildings and improvements	\$ 93,224	\$ 9,679	\$ -	\$ 102,903
Equipment	1,304,907	45,437	-	1,350,344
Total accumulated depreciation	\$ 1,398,131	\$ 55,116	\$ -	\$ 1,453,247
Total capital assets being depreciated, net	\$ 420,684	\$ (55,116)	\$ -	\$ 365,568
Refuse collection/landfill fund capital assets, net	\$ 1,091,958	\$ 296,739	\$ -	\$ 1,388,697

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 6—Capital Assets: (Continued)

Primary Government: (Continued)

Business-Type Activities: (Continued)

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
Total Business-Type Activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 683,624	\$ -	\$ -	\$ 683,624
Construction in progress	<u>1,451,773</u>	<u>351,855</u>	<u>-</u>	<u>1,803,628</u>
Total capital assets not being depreciated	<u>\$ 2,135,397</u>	<u>\$ 351,855</u>	<u>\$ -</u>	<u>\$ 2,487,252</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 3,452,611	\$ 81,884	\$ -	\$ 3,534,495
Equipment	7,309,800	309,639	163,858	7,455,581
Infrastructure	<u>50,962,215</u>	<u>904,315</u>	<u>-</u>	<u>51,866,530</u>
Total capital assets being depreciated	<u>\$ 61,724,626</u>	<u>\$ 1,295,838</u>	<u>\$ 163,858</u>	<u>\$ 62,856,606</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 2,413,584	\$ 73,068	\$ -	\$ 2,486,652
Equipment	4,972,643	311,060	163,858	5,119,845
Infrastructure	<u>40,792,216</u>	<u>512,716</u>	<u>-</u>	<u>41,304,932</u>
Total accumulated depreciation	<u>\$ 48,178,443</u>	<u>\$ 896,844</u>	<u>\$ 163,858</u>	<u>\$ 48,911,429</u>
Total capital assets being depreciated, net	<u>\$ 13,546,183</u>	<u>\$ 398,994</u>	<u>\$ -</u>	<u>\$ 13,945,177</u>
Sewer fund capital asset, net	<u>\$ 15,681,580</u>	<u>\$ 750,849</u>	<u>\$ -</u>	<u>\$ 16,432,429</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 6—Capital Assets: (Continued)

Discretely Presented Component Unit—School Board:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
Discretely Presented				
Component Unit-School Board:				
Capital assets, not being depreciated:				
Land	\$ 47,172	\$ -	\$ -	\$ 47,172
Capital assets being depreciated:				
Buildings	\$ 7,922,195	\$ -	\$ -	\$ 7,922,195
Equipment	2,394,101	131,275	-	2,525,376
Jointly owned assets	6,177,062	733,153	-	6,910,215
Total capital assets being depreciated	<u>\$ 16,493,358</u>	<u>\$ 864,428</u>	<u>\$ -</u>	<u>\$ 17,357,786</u>
Less accumulated depreciation for:				
Buildings	\$ 6,530,695	\$ 277,749	\$ -	\$ 6,808,444
Equipment	1,522,326	160,957	-	1,683,283
Jointly owned assets	1,201,219	203,569	-	1,404,788
Total accumulated depreciation	<u>\$ 9,254,240</u>	<u>\$ 642,275</u>	<u>\$ -</u>	<u>\$ 9,896,515</u>
Total capital assets being depreciated, net	<u>\$ 7,239,118</u>	<u>\$ 222,153</u>	<u>\$ -</u>	<u>\$ 7,461,271</u>
School Board capital assets, net	<u>\$ 7,286,290</u>	<u>\$ 222,153</u>	<u>\$ -</u>	<u>\$ 7,508,443</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 6—Capital Assets: (Continued)

The following is a summary of depreciation expense for the year ended June 30, 2011:

Governmental activities:

General government	\$	88,256
Judicial administration		2,269
Public safety		274,426
Public works		301,277
Health and welfare		9,596
Education		173,855
Parks, recreation and cultural		42,087
Community development		<u>50,808</u>
Total Governmental activities	\$	<u><u>942,574</u></u>

Enterprise activities:

Electric	\$	332,294
Water		230,467
Sewer		278,967
Refuse collection / landfill		<u>55,116</u>
Total Enterprise activities	\$	<u><u>896,844</u></u>

Component Unit School Board \$ 438,706 *

* Note accumulated depreciation transferred from the Primary Government to the Component Unit School Board on Jointly owned assets totals \$203,569 for the year ending June 30, 2011 when added to depreciation expense above totals \$642,275 accumulated depreciation previous page.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 7—Interfund Transfers/Obligations:

Interfund transfers for the year ended June 30, 2011, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ 2,235,220	\$ 43,770
Non-Major governmental funds:		
Housing choice	-	1,555
Capital reserve	722,472	-
Meals tax	-	176,075
Proprietary funds:		
Electric	-	104,076
Water	-	1,301,891
Sewer	-	988,751
Refuse Collection/Landfill	-	341,574
	<u> </u>	<u> </u>
Total	\$ <u>2,957,692</u>	\$ <u>2,957,692</u>

Interfund receivables and payable balances relative to working capital loans at June 30, 2011 are presented below:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
Primary Government:		
City Grants	\$ -	\$ 586,295
Housing Choice	-	217,783
Refuse Collection Landfill	804,078	-
	<u> </u>	<u> </u>
Total	\$ <u>804,078</u>	\$ <u>804,078</u>
Component Unit - School Board		
School Fund	\$ 216,490	\$ -
School Grants	-	216,490
	<u> </u>	<u> </u>
Total	\$ <u>216,490</u>	\$ <u>216,490</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, 2011 (Continued)

Note 8—Long-Term Obligations:

Primary Government:

The following is a summary of change in long-term obligations for the fiscal year ended June 30, 2011:

	Amounts Payable at July 1, 2010	Increases	Decreases	Amounts Payable at June 30, 2011	Amounts Due Within One Year
Governmental Obligations:					
Incurred by City					
Compensated absences	\$ 516,559	\$ 90,855	\$ 108,477	\$ 498,937	\$ 49,894
G.O. Bonds	2,707,900	-	234,100	2,473,800	243,500
G.O. Notes	340,000	-	-	340,000	-
Other post employment benefits	49,000	57,000	-	106,000	-
Capital lease obligations	285,425	-	111,795	173,630	114,948
Total incurred by City	<u>\$ 3,898,884</u>	<u>\$ 147,855</u>	<u>\$ 454,372</u>	<u>\$ 3,592,367</u>	<u>\$ 408,342</u>
Incurred by School Board:					
State Literary Fund Loans	\$ 5,875,000	\$ -	\$ 625,000	\$ 5,250,000	\$ 625,000
Virginia Public Authority Subsidy Bonds	1,840,897	-	108,153	1,732,744	110,782
Capital lease	260,997	-	108,980	152,017	113,612
Total incurred by School Board	<u>\$ 7,976,894</u>	<u>\$ -</u>	<u>\$ 842,133</u>	<u>\$ 7,134,761</u>	<u>\$ 849,394</u>
Total Governmental Obligations	<u>\$ 11,875,778</u>	<u>\$ 147,855</u>	<u>\$ 1,296,505</u>	<u>\$ 10,727,128</u>	<u>\$ 1,257,736</u>
Enterprise Obligations:					
Compensated absences	\$ 193,714	\$ 35,611	\$ 50,366	\$ 178,959	\$ 17,896
General obligation bond	2,502,200	880,000	307,100	3,075,100	391,400
Capital lease obligations	318,448	-	124,729	193,719	128,245
Landfill closure and post- closure costs	3,595,189	-	81,895	3,513,294	125,475
Total Enterprise Obligations	<u>\$ 6,609,551</u>	<u>\$ 915,611</u>	<u>\$ 564,090</u>	<u>\$ 6,961,072</u>	<u>\$ 663,016</u>
Total Primary Government	<u>\$ 18,485,329</u>	<u>\$ 1,063,466</u>	<u>\$ 1,860,595</u>	<u>\$ 17,688,200</u>	<u>\$ 1,920,752</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, 2011 (Continued)

Note 8—Long-Term Obligations: (Continued)

Primary Government: (Continued)

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

Year Ending June 30,	City Obligations						Enterprise Obligations			
	General Obligation Bonds		General Obligation Notes		Capital Leases		General Obligation Bonds		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 243,500	\$ 76,442	\$ -	\$ 10,200	\$ 114,948	\$ 4,063	\$ 391,400	\$ 92,899	\$ 128,245	\$ 4,533
2013	251,200	68,403	-	10,200	58,682	822	404,000	79,405	65,474	917
2014	258,500	60,120	-	10,200	-	-	414,900	68,408	-	-
2015	265,400	51,607	-	10,200	-	-	427,200	57,102	-	-
2016	271,900	42,876	-	10,200	-	-	284,900	47,373	-	-
2017	283,000	33,859	-	10,200	-	-	138,900	41,214	-	-
2018	293,400	24,492	-	10,200	-	-	144,000	36,793	-	-
2019	298,600	14,872	-	10,200	-	-	148,200	32,204	-	-
2020	308,300	5,010	-	10,200	-	-	152,400	27,471	-	-
2021	-	-	-	10,200	-	-	137,100	22,925	-	-
2022	-	-	-	10,200	-	-	39,800	18,549	-	-
2023	-	-	-	10,200	-	-	41,600	16,718	-	-
2024	-	-	-	10,200	-	-	43,600	14,801	-	-
2025	-	-	-	10,200	-	-	45,600	12,794	-	-
2026	-	-	-	10,200	-	-	47,700	10,694	-	-
2027	-	-	-	10,200	-	-	49,900	8,498	-	-
2028	-	-	-	10,200	-	-	52,200	6,201	-	-
2029	-	-	-	10,200	-	-	54,600	3,798	-	-
2030	-	-	340,000	1,700	-	-	57,100	1,285	-	-
Total	\$ 2,473,800	\$ 377,681	\$ 340,000	\$ 185,300	\$ 173,630	\$ 4,885	\$ 3,075,100	\$ 599,131	\$ 193,719	\$ 5,450

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 8—Long-Term Obligations: (Continued)

Primary Government: (Continued)

Year Ending June 30,	City School Obligations				School Board	
	State Literary Fund Loans		Virginia Public School Authority Subsidy Bonds		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 625,000	\$ 157,500	\$ 110,782	\$ 84,958	\$ 113,612	4,184
2013	625,000	138,750	83,972	79,778	38,405	331
2014	625,000	120,000	85,802	75,448	-	-
2015	625,000	101,250	87,727	71,023	-	-
2016	625,000	82,500	89,752	66,498	-	-
2017	625,000	63,750	91,884	61,866	-	-
2018	375,000	45,000	94,127	57,123	-	-
2019	375,000	33,750	96,488	52,262	-	-
2020	375,000	22,500	98,972	47,278	-	-
2021	375,000	11,250	101,586	42,164	-	-
2022	-	-	104,337	36,913	-	-
2023	-	-	106,821	31,929	-	-
2024	-	-	109,435	26,815	-	-
2025	-	-	112,597	21,153	-	-
2026	-	-	115,925	15,325	-	-
2027	-	-	119,426	9,324	-	-
2028	-	-	123,111	3,139	-	-
Total	\$ <u>5,250,000</u>	\$ <u>776,250</u>	\$ <u>1,732,744</u>	\$ <u>782,996</u>	\$ <u>152,017</u>	<u>4,515</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 8—Long-Term Obligations: (Continued)

Primary Government: (Continued)

Incurred by City:

General Obligation Bonds:

\$2,523,900 general obligation refunding series 2009A bonds maturing in various annual installments of \$21,000 to \$308,300 through July 15, 2019, interest payable semi-annually at 3.25% \$ 2,473,800

General Obligation Note:

\$340,000 payable in interest monthly installments of \$850 beginning August 1, 2010 through August 2029, with the entire principal balance due in August 2029; interest payable at 3.00% \$ 340,000

Capital Lease Obligations:

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

\$448,153 obligation for the purchase of a street sweeper, payable in semi-annual installments of \$59,505 through December 1, 2012, interest at 2.8% \$ 173,630

Compensated absences \$ 498,937

Other post employment benefits 106,000

Total Incurred by City \$ 3,592,367

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 8—Long-Term Obligations: (Continued)

Primary Government: (Continued)

Incurred by School Board:

State Literary Fund Loans:

\$5,000,000 State Literary Fund loan issued January 28, 1997, due in annual principal installments of \$250,000 through 2017, interest payable annually at 3%	\$ 1,500,000
\$7,500,000 State Literary Fund Loan issued September 1, 2000, due in annual principal installments of \$375,000 through 2021; interest payable annually at 3%	<u>3,750,000</u>
Total State Literary Fund Loans	<u>\$ 5,250,000</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	\$ 28,548
\$1,936,758 Virginia Public Authority Subsidy Bonds issued in 2007, due in annual installments of varying amounts through 2028; interest payable semi-annually at 5.10%	<u>1,704,196</u>
Total Virginia Public Authority Subsidy Bonds	<u>\$ 1,732,744</u>

Capital Lease Obligations:

\$527,694 obligation for the purchase of school buses, payable in monthly installments of \$9,816 through October 1, 2012, interest at 4.17%	\$ <u>152,017</u>
Total Incurred by the School Board	<u>\$ 7,134,761</u>
Total Governmental Obligations	<u><u>\$ 10,727,128</u></u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 8—Long-Term Obligations: (Continued)

Primary Government: (Continued)

Enterprise Obligations:

General Obligation Bonds:

\$1,782,700 noncapital-related general obligation refunding series 2009B bonds maturing in various annual installments of \$149,900 to \$296,100 through July 15, 2015, interest payable semi-annually at 2.50%	\$ 1,290,700
\$190,000 capital-related general obligation series 2009A bonds maturing in various annual installments of \$14,900 to \$20,000 through July 15, 2019, interest payable semi-annually at 3.25%	158,600
\$770,100 capital-related general obligation series 2009B bonds maturing in various annual installments of \$24,300 to \$57,100 through July 15, 2029, interest payable semi-annually at 4.50%	745,800
\$880,000 capital-related general obligation series 2010 bonds maturing in various annual installments of \$76,000 to \$99,000 through February 1, 2021, interest payable semi-annually at 2.65%	<u>880,000</u>
Total general obligation bonds	<u>\$ 3,075,100</u>
<u>Capital Lease Obligations:</u>	
\$500,000 obligation for the purchase of a street sweeper, payable in semi-annual installments of \$66,389 through December 1, 2012, interest at 2.8%	<u>\$ 193,719</u>
Compensated absences	\$ 178,959
Landfill closure and postclosure costs	<u>3,513,294</u>
Total enterprise obligations	<u><u>\$ 6,961,072</u></u>

Discretely Presented Component Unit-School Board

The following is a summary of change in long-term obligations of the Discretely Presented Component Unit-School Board for the fiscal year ended June 30, 2011:

	<u>Amounts Payable at July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Amounts Payable at June 30, 2011</u>	<u>Amounts Due Within One Year</u>
Other post employment benefits	\$ <u>97,000</u>	\$ <u>18,000</u>	\$ <u>-</u>	\$ <u>115,000</u>	\$ <u>-</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (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 \$3,513,294 reported as landfill closure and postclosure care liability at June 30, 2011 is based on 100% of the estimated capacity used to date. These amounts are based on what it would cost to perform all closure and postclosure care in 2011. Actual closure and postclosure care costs may be higher due to inflation, changes in technology, or changes in regulations.

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

Note 10—Deferred Revenue:

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 \$616,220 is comprised of the following:

Deferred Property Tax Revenue - Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$319,970 at June 30, 2011.

Discretely Presented School Board – Deferred revenue represented unexpended NASA and Harvest Foundation grant funds totaling \$296,250 at June 30, 2011.

Note 11—Contingent Liabilities:

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

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

Note 12—Litigation:

At June 30, 2011, there were no matters of litigation involving the City or which would materially affect the City's financial position should any court decisions on pending matters not be favorable to such entities.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 13—Risk Management:

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

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

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

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

Note 14—Defined Benefit Pension Plan:

A. Plan Description

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

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

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

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 14—Defined Benefit Pension Plan: (Continued)

A. Plan Description: (Continued)

- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

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

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

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2010-annual-report.pdf> or by writing to the System's Chief Financial Officer 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 5.00% of their compensation toward their retirement. All or part of the 5.00% 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 its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City's and School Board's non-professional employee contribution rates for the fiscal year ended 2011 was 15.92% and 17.00% of annual covered payroll, respectively.

The School Board's contributions for professional employees were \$1,094,073, \$845,047, and \$1,168,411, to the teacher cost-sharing pool for the fiscal years ended June 30, 2011, 2010, and 2009, respectively and these contributions represented 3.93%, 8.81%, and 8.81%, respectively, of current covered payroll.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 14—Defined Benefit Pension Plan: (Continued)

C. Annual Pension Cost

For fiscal year 2011, City’s annual pension cost of \$2,016,179 was equal to the City’s required and actual contributions.

For fiscal year 2011, School Board’s annual pension cost for non-professional employees of \$87,198 was equal to the School Board’s required and actual contributions.

Three-Year Trend Information for the City and School Board

Fiscal Year Ending	Annual Pension Cost (APC) (1)	Percentage of APC Contributed	Net Pension Obligation
City:			
June 30, 2011	\$ 2,016,179	100%	\$ -
June 30, 2010	1,945,802	100%	-
June 30, 2009	1,972,135	100%	-
School Board:			
Non-Professional:			
June 30, 2011	\$ 87,198	100%	\$ -
June 30, 2010	101,918	100%	-
June 30, 2009	115,743	100%	-

(1) Employer portion only

The FY 2011 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the City’s and School Board’s assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. City and School Board’s unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 14—Defined Benefit Pension Plan: (Continued)

D. Funded Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date, the City's plan was 70.00% funded. The actuarial accrued liability for benefits was \$86,662,667, and the actuarial value of assets was \$60,665,180, resulting in an unfunded actuarial accrued liability (UAAL) of \$25,997,487. The covered payroll (annual payroll of active employees covered by the plan) was \$12,860,060, and ratio of the UAAL to the covered payroll was 202.16%.

As of June 30, 2010, the most recent actuarial valuation date, the School Board's plan was 69.26% funded. The actuarial accrued liability for benefits was \$4,288,461, and the actuarial value of assets was \$2,970,367, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,318,094. The covered payroll (annual payroll of active employees covered by the plan) was \$613,431, and ratio of the UAAL to the covered payroll was 214.87%.

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

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
Cindy Dickerson, Treasurer and/or Clarence Monday, Director of Finance	200,000
Ruth Easley, Commissioner of the Revenue	3,000
Steve M. Draper, Sheriff	30,000
The above constitutional officers and subordinate employees - blanket bond	50,000
Lumberman's Mutual Casualty Company - Surety City funds	
Cindy Dickerson, Treasurer	250,000
Travelers Indemnity Company - Surety	
All School Board employees - blanket bond	
The Aetna Casualty and Surety Company - Surety	
All City employees - blanket bond	
Honesty	100,000
Faithful performance	1,000,000

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

Note 16—Other Post-Employment Benefits Program:

Primary Government:

A. Plan Description

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

B. Funding Policy

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

C. Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 233,000
Interest on net OPEB obligation	2,000
Adjustment to annual required contribution	<u>(2,000)</u>
Annual OPEB cost (expense)	233,000
Contributions made	<u>(176,000)</u>
Increase (decrease) in net OPEB obligation	\$ 57,000
Net OPEB obligation - beginning of year	<u>49,000</u>
Net OPEB obligation - end of year	<u><u>\$ 106,000</u></u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

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

Primary Government: (Continued)

C. Annual OPEB Cost and Net OPEB Obligation

For 2011, the City's expected cash payment of \$176,000 is less than the OPEB cost (expense) of \$233,000 and was \$57,000 short of the ARC. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the preceding year are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2009	\$ 284,000	84.5%	\$ 45,000
June 30, 2010	289,000	98.6%	49,000
June 30, 2011	233,000	75.5%	106,000

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2011 is as follows:

Actuarial accrued liability (AAL)	\$ 3,462,000
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	3,462,000
Funded ratio (actuarial value of plan assets/AAL)	n/a
Covered payroll (active plan members)	10,934,000
UAAL as a percentage of covered payroll	31.66%

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

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

Primary Government: (Continued)

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

Actuarial Methods and Assumptions.

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

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

Discretely Presented Component Unit-School Board:

A. Plan Description

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

B. Funding Policy

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

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

Discretely Presented Component Unit-School Board: (Continued)

C. Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 151,000
Interest on net OPEB obligation	4,000
Adjustment to annual required contribution	<u>(4,000)</u>
Annual OPEB cost (expense)	151,000
Contributions made	<u>(133,000)</u>
Increase (decrease) in net OPEB obligation	\$ 18,000
Net OPEB obligation - beginning of year	<u>97,000</u>
Net OPEB obligation - end of year	<u><u>\$ 115,000</u></u>

The School Board’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the preceding year are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2009	\$ 269,000	81.4%	\$ 50,000
June 30, 2010	266,000	82.3%	97,000
June 30, 2011	151,000	88.1%	115,000

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

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

Discretely Presented Component Unit-School Board: (Continued)

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

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2011 is as follows:

Actuarial accrued liability (AAL)	\$	2,136,000
Actuarial value of plan assets		-
Unfunded actuarial accrued liability		2,136,000
Funded ratio (actuarial value of plan assets/AAL)		n/a
Covered payroll (active plan members)		9,125,000
UAAL as a percentage of covered payroll		23.41%

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

Actuarial Methods and Assumptions.

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

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2011 (Continued)

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

A. Plan Description

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

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

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

A. Funding Policy

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is 0.6% of annual covered payroll. The School Board's contributions to VRS for the years ended June 30, 2011, 2010, and 2009 were \$73,331, \$99,756, and \$137,928, respectively and equaled the required contributions for each year.

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Required Supplementary Information

Note to Required Supplementary Information:

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

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General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual
Year Ended June 30, 2011

	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Revenues:				
General property taxes	\$ 9,025,880	\$ 9,025,880	\$ 8,941,108	\$ (84,772)
Other local taxes	5,009,983	5,009,983	5,385,356	375,373
Permits, privilege fees and regulatory licenses	460,700	460,700	505,375	44,675
Fines and forfeitures	181,200	182,230	151,231	(30,999)
Revenue from use of money and property	600,656	600,656	559,983	(40,673)
Charges for services	426,370	426,370	409,501	(16,869)
Miscellaneous	176,246	901,109	893,331	(7,778)
Recovered costs	1,020,019	1,132,547	974,492	(158,055)
Intergovernmental:				
Commonwealth	8,350,824	8,470,851	8,554,700	83,849
Federal	20,000	83,938	202,661	118,723
Total revenues	\$ 25,271,878	\$ 26,294,264	\$ 26,577,738	\$ 283,474
Expenditures:				
Current:				
General government administration	\$ 4,109,783	\$ 4,563,728	\$ 3,979,435	\$ 584,293
Judicial administration	1,951,657	1,988,624	1,887,939	100,685
Public safety	9,065,062	9,341,313	8,832,086	509,227
Public works	4,120,800	4,443,636	4,065,320	378,316
Health and welfare	572,894	572,894	627,135	(54,241)
Education	5,697,900	5,697,900	5,697,421	479
Parks, recreation, and cultural	1,317,320	1,435,581	1,436,222	(641)
Community development	1,119,282	1,804,239	1,208,332	595,907
Debt service:				
Principal retirement	136,551	136,551	136,551	-
Interest and other fiscal charges	11,631	11,631	12,110	(479)
Total expenditures	\$ 28,102,880	\$ 29,996,097	\$ 27,882,551	\$ 2,113,546
Excess (deficiency) of revenues over expenditures	\$ (2,831,002)	\$ (3,701,833)	\$ (1,304,813)	\$ 2,397,020
Other financing sources (uses):				
Transfers in	\$ 2,235,220	\$ 2,235,220	\$ 2,235,220	\$ -
Transfers (out)	(43,770)	(43,770)	(43,770)	-
Total other financing sources (uses)	\$ 2,191,450	\$ 2,191,450	\$ 2,191,450	\$ -
Changes in fund balances	\$ (639,552)	\$ (1,510,383)	\$ 886,637	\$ 2,397,020
Fund balances at beginning of year	639,552	1,510,383	2,244,238	733,855
Fund balances at end of year	\$ -	\$ -	\$ 3,130,875	\$ 3,130,875

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)
6/30/2010	\$ 60,665,180	\$ 86,662,667	\$ 25,997,487	70.00%	\$ 12,860,060	202.16%
6/30/2009	61,619,651	81,304,623	19,684,972	75.79%	13,771,266	142.94%
6/30/2008	61,850,577	77,080,208	15,229,631	80.24%	13,168,139	115.66%

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

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)
6/30/2010	\$ 2,970,367	\$ 4,288,461	\$ 1,318,094	69.26%	\$ 613,431	214.87%
6/30/2009	3,122,252	4,100,275	978,023	76.15%	697,677	140.18%
6/30/2008	3,300,965	4,045,424	744,459	81.60%	666,432	111.71%

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

City

<u>Valuation Date</u>	<u>Actuarial Value of Assets (AVA)</u>	<u>Actuarial Liability (AAL)</u>	<u>Unfunded (Excess Funded) Actuarial Accrued Liability</u>	<u>Funded Ratio (2)/(3)</u>	<u>Annual Covered Payroll</u>	<u>UAAL as % of Payroll (4)/(6)</u>
(1)	(2)	(3)	(4)	(5)	(6)	(7)
7/1/2009	\$ -	\$ 3,462,000	\$ 3,462,000	0.00%	\$ 10,934,000	31.66%
7/1/2007	-	4,069,000	4,069,000	0.00%	13,332,000	30.52%

Discretely Presented Component Unit - School Board

<u>Valuation Date</u>	<u>Actuarial Value of Assets (AVA)</u>	<u>Actuarial Liability (AAL)</u>	<u>Unfunded (Excess Funded) Actuarial Accrued Liability</u>	<u>Funded Ratio (2)/(3)</u>	<u>Annual Covered Payroll</u>	<u>UAAL as % of Payroll (4)/(6)</u>
(1)	(2)	(3)	(4)	(5)	(6)	(7)
7/1/2009	\$ -	\$ 2,136,000	\$ 2,136,000	0.00%	\$ 9,125,000	23.41%
7/1/2007	-	2,527,000	2,527,000	0.00%	16,303,000	15.50%

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Other Supplementary Information

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Combining and Individual Fund Statements and Schedules

Nonmajor Governmental Funds
Combining Balance Sheet
At June 30, 2011

	Special Revenue Funds		Capital Projects Funds		Total
	City Grants Fund	Housing Choice Fund	Capital Reserve Fund	Meals Tax Fund	
ASSETS					
Cash and cash equivalents	\$ 38,131	\$ 388,413	\$ 581,363	\$ 727,846	\$ 1,735,753
Accounts receivable	-	-	10,056	625	10,681
Total assets	<u>\$ 38,131</u>	<u>\$ 388,413</u>	<u>\$ 591,419</u>	<u>\$ 728,471</u>	<u>\$ 1,746,434</u>
LIABILITIES					
Accounts payable and other current liabilities	\$ 39,807	\$ 8,648	\$ 121,607	\$ 1,504	\$ 171,566
Due to other funds	586,295	217,783	-	-	804,078
Total liabilities	<u>\$ 626,102</u>	<u>\$ 226,431</u>	<u>\$ 121,607</u>	<u>\$ 1,504</u>	<u>\$ 975,644</u>
FUND BALANCES					
Fund balances:					
Committed to:					
Housing Choice program	\$ -	\$ 161,982	\$ -	\$ -	\$ 161,982
Assigned to:					
Capital reserve fund	-	-	469,812	-	469,812
Meals tax fund	-	-	-	726,967	726,967
Unassigned	(587,971)	-	-	-	(587,971)
Total fund balances	<u>\$ (587,971)</u>	<u>\$ 161,982</u>	<u>\$ 469,812</u>	<u>\$ 726,967</u>	<u>\$ 770,790</u>
Total liabilities and fund balances	<u>\$ 38,131</u>	<u>\$ 388,413</u>	<u>\$ 591,419</u>	<u>\$ 728,471</u>	<u>\$ 1,746,434</u>

Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2011

	<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	\$ -	\$ -	\$ -	\$ 1,409,442	\$ 1,409,442
Revenue from use of money and property	34,972	17,301	-	-	52,273
Miscellaneous	-	9,649	35,803	-	45,452
Intergovernmental:					
Commonwealth	-	-	525,056	-	525,056
Federal	6,165	2,081,905	30,450	-	2,118,520
Total revenues	\$ 41,137	\$ 2,108,855	\$ 591,309	\$ 1,409,442	\$ 4,150,743
Expenditures:					
General government administration	\$ -	\$ -	\$ 305,488	\$ 35,190	\$ 340,678
Public safety	-	-	173,524	-	173,524
Public works	-	-	19,664	-	19,664
Parks, recreation, and cultural	-	-	64,276	-	64,276
Planning and community development	193,535	2,149,907	515,000	-	2,858,442
Debt service:					
Principal retired on debt	-	-	228,845	822,632	1,051,477
Interest and fiscal charges	-	-	50,034	307,236	357,270
Total expenditures	\$ 193,535	\$ 2,149,907	\$ 1,356,831	\$ 1,165,058	\$ 4,865,331
Excess (deficiency) of revenues over expenditures	\$ (152,398)	\$ (41,052)	\$ (765,522)	\$ 244,384	\$ (714,588)
Other financing sources:					
Transfers in	\$ -	\$ -	\$ 722,472	\$ -	\$ 722,472
Transfers (out)	-	(1,555)	-	(176,075)	(177,630)
Total other financing sources	\$ -	\$ (1,555)	\$ 722,472	\$ (176,075)	\$ 544,842
Changes in fund balances	\$ (152,398)	\$ (42,607)	\$ (43,050)	\$ 68,309	\$ (169,746)
Fund balances at beginning of year	(435,573)	204,589	512,862	658,658	940,536
Fund balances at end of year	\$ (587,971)	\$ 161,982	\$ 469,812	\$ 726,967	\$ 770,790

CITY OF MARTINSVILLE, VIRGINIA

Nonmajor Governmental Funds
 Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual
 Year Ended June 30, 2011

	Special Revenues Funds							
	City Grants Fund				Housing Choice Fund			
	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Revenues:								
Other local taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue from use of money and property	31,327	31,327	34,972	3,645	17,300	17,300	17,301	1
Miscellaneous	-	-	-	-	5,923	5,923	9,649	3,726
Intergovernmental:								
Commonwealth	5,000	5,000	-	(5,000)	-	-	-	-
Federal	-	-	6,165	6,165	1,871,856	1,871,856	2,081,905	210,049
Total revenues	\$ 36,327	\$ 36,327	\$ 41,137	\$ 4,810	\$ 1,895,079	\$ 1,895,079	\$ 2,108,855	\$ 213,776
Expenditures:								
General government administration	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-	-	-	-	-
Public works	-	-	-	-	-	-	-	-
Parks, recreation, and cultural	-	-	-	-	-	-	-	-
Planning and community development	87,823	476,707	193,535	(283,172)	2,244,239	2,273,442	2,149,907	123,535
Debt service:								
Principal retired on debt	-	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-	-
Total expenditures	\$ 87,823	\$ 476,707	\$ 193,535	\$ (283,172)	\$ 2,244,239	\$ 2,273,442	\$ 2,149,907	\$ 123,535
Excess (deficiency) of revenues over expenditures	\$ (51,496)	\$ (440,380)	\$ (152,398)	\$ 287,982	\$ (349,160)	\$ (378,363)	\$ (41,052)	\$ 337,311
Other financing sources (uses):								
Transfers in	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers (out)	-	-	-	-	(1,555)	(1,555)	(1,555)	-
Total other financing sources (uses)	\$ -	\$ -	\$ -	\$ -	\$ (1,555)	\$ (1,555)	\$ (1,555)	\$ -
Changes in fund balances	\$ (51,496)	\$ (440,380)	\$ (152,398)	\$ 287,982	\$ (350,715)	\$ (379,918)	\$ (42,607)	\$ 337,311
Fund balances at beginning of year	51,496	440,380	(435,573)	(875,953)	350,715	379,918	204,589	(175,329)
Fund balances at end of year	\$ -	\$ -	\$ (587,971)	\$ (587,971)	\$ -	\$ -	\$ 161,982	\$ 161,982

Capital Projects Funds							
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)
\$ -	\$ -	\$ -	\$ -	\$ 1,342,260	\$ 1,342,260	\$ 1,409,442	\$ 67,182
-	-	-	-	-	-	-	-
20,000	31,400	35,803	4,403	-	-	-	-
-	525,056	525,056	-	-	-	-	-
-	30,450	30,450	-	-	-	-	-
<u>\$ 20,000</u>	<u>\$ 586,906</u>	<u>\$ 591,309</u>	<u>\$ 4,403</u>	<u>\$ 1,342,260</u>	<u>\$ 1,342,260</u>	<u>\$ 1,409,442</u>	<u>\$ 67,182</u>
\$ 241,600	\$ 275,600	\$ 305,488	\$ (29,888)	\$ 35,190	\$ 35,190	\$ 35,190	\$ -
132,597	213,103	173,524	39,579	-	-	-	-
21,270	32,670	19,664	13,006	-	-	-	-
67,000	67,000	64,276	2,724	-	-	-	-
-	515,000	515,000	-	-	-	-	-
228,846	228,846	228,845	1	822,632	822,632	822,632	-
51,159	51,159	50,034	1,125	308,363	308,363	307,236	(1,127)
<u>\$ 742,472</u>	<u>\$ 1,383,378</u>	<u>\$ 1,356,831</u>	<u>\$ 26,547</u>	<u>\$ 1,166,185</u>	<u>\$ 1,166,185</u>	<u>\$ 1,165,058</u>	<u>\$ (1,127)</u>
<u>\$ (722,472)</u>	<u>\$ (796,472)</u>	<u>\$ (765,522)</u>	<u>\$ 30,950</u>	<u>\$ 176,075</u>	<u>\$ 176,075</u>	<u>\$ 244,384</u>	<u>\$ 68,309</u>
\$ 722,472	\$ 722,472	\$ 722,472	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	(176,075)	(176,075)	(176,075)	-
<u>\$ 722,472</u>	<u>\$ 722,472</u>	<u>\$ 722,472</u>	<u>\$ -</u>	<u>\$ (176,075)</u>	<u>\$ (176,075)</u>	<u>\$ (176,075)</u>	<u>\$ -</u>
\$ -	\$ (74,000)	\$ (43,050)	\$ 30,950	\$ -	\$ -	\$ 68,309	\$ 68,309
-	74,000	512,862	438,862	-	-	658,658	658,658
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 469,812</u>	<u>\$ 469,812</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 726,967</u>	<u>\$ 726,967</u>

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Combining Schedule of Fiduciary Net Assets -
 Agency Funds
 At June 30, 2011

	<u>Insurance Fund</u>	<u>Sheriff's Fund</u>	<u>West Piedmont Business Development Center Fund</u>	<u>Police Academy Fund</u>	<u>Southern Virginia Recreation Facility Authority</u>	<u>Total</u>
ASSETS						
Cash and cash equivalents	\$ 524,076	\$ 102,453	\$ 130,901	\$ 495,757	\$ 77,554	\$ 1,330,741
Total assets	<u>\$ 524,076</u>	<u>\$ 102,453</u>	<u>\$ 130,901</u>	<u>\$ 495,757</u>	<u>\$ 77,554</u>	<u>\$ 1,330,741</u>
LIABILITIES						
Accounts payable	\$ -	\$ 116	\$ 7,720	\$ 6,167	\$ 26,647	\$ 40,650
Amounts held for others	<u>524,076</u>	<u>102,337</u>	<u>123,181</u>	<u>489,590</u>	<u>50,907</u>	<u>1,290,091</u>
Total liabilities	<u>\$ 524,076</u>	<u>\$ 102,453</u>	<u>\$ 130,901</u>	<u>\$ 495,757</u>	<u>\$ 77,554</u>	<u>\$ 1,330,741</u>

Agency Funds
Statement of Changes in Assets and Liabilities
Year Ended June 30, 2011

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Insurance Fund:				
Assets:				
Cash and cash equivalents	\$ 336,111	\$ 3,558,742	\$ 3,370,777	\$ 524,076
Total assets	<u>\$ 336,111</u>	<u>\$ 3,558,742</u>	<u>\$ 3,370,777</u>	<u>\$ 524,076</u>
Liabilities:				
Amounts held for others	\$ 336,111	\$ 3,558,742	\$ 3,370,777	\$ 524,076
Total liabilities	<u>\$ 336,111</u>	<u>\$ 3,558,742</u>	<u>\$ 3,370,777</u>	<u>\$ 524,076</u>
Sheriff's Fund:				
Assets:				
Cash and cash equivalents	\$ 73,076	\$ 45,580	\$ 16,203	\$ 102,453
Total assets	<u>\$ 73,076</u>	<u>\$ 45,580</u>	<u>\$ 16,203</u>	<u>\$ 102,453</u>
Liabilities:				
Accounts payable	\$ 1,422	\$ 116	\$ 1,422	\$ 116
Amounts held for others	71,654	45,464	14,781	102,337
Total liabilities	<u>\$ 73,076</u>	<u>\$ 45,580</u>	<u>\$ 16,203</u>	<u>\$ 102,453</u>
WPBDC Fund:				
Assets:				
Cash and cash equivalents	\$ 136,489	\$ 126,846	\$ 132,434	\$ 130,901
Total assets	<u>\$ 136,489</u>	<u>\$ 126,846</u>	<u>\$ 132,434</u>	<u>\$ 130,901</u>
Liabilities:				
Accounts payable	\$ 7,840	\$ 7,720	\$ 7,840	\$ 7,720
Amounts held for others	128,649	119,126	124,594	123,181
Total liabilities	<u>\$ 136,489</u>	<u>\$ 126,846</u>	<u>\$ 132,434</u>	<u>\$ 130,901</u>
Police Academy Fund:				
Assets:				
Cash and cash equivalents	\$ 504,311	\$ 265,995	\$ 274,549	\$ 495,757
Total assets	<u>\$ 504,311</u>	<u>\$ 265,995</u>	<u>\$ 274,549</u>	<u>\$ 495,757</u>
Liabilities:				
Accounts payable	\$ 7,767	\$ 6,167	\$ 7,767	\$ 6,167
Amounts held for others	496,544	259,828	266,782	489,590
Total liabilities	<u>\$ 504,311</u>	<u>\$ 265,995</u>	<u>\$ 274,549</u>	<u>\$ 495,757</u>
Southern Virginia Recreation Facilities Authority:				
Assets:				
Cash and cash equivalents	\$ 84,451	\$ 559,647	\$ 566,544	\$ 77,554
Total assets	<u>\$ 84,451</u>	<u>\$ 559,647</u>	<u>\$ 566,544</u>	<u>\$ 77,554</u>
Liabilities:				
Accounts payable	\$ 18,530	\$ 26,647	\$ 18,530	\$ 26,647
Amounts held for others	65,921	533,000	548,014	50,907
Total liabilities	<u>\$ 84,451</u>	<u>\$ 559,647</u>	<u>\$ 566,544</u>	<u>\$ 77,554</u>
Total -- All Agency Funds				
Assets:				
Cash and cash equivalents	\$ 1,134,438	\$ 4,556,810	\$ 4,360,507	\$ 1,330,741
Total assets	<u>\$ 1,134,438</u>	<u>\$ 4,556,810</u>	<u>\$ 4,360,507</u>	<u>\$ 1,330,741</u>
Liabilities:				
Accounts payable	\$ 35,559	\$ 40,650	\$ 35,559	\$ 40,650
Amounts held for others	1,098,879	4,516,160	4,324,948	1,290,091
Total liabilities	<u>\$ 1,134,438</u>	<u>\$ 4,556,810</u>	<u>\$ 4,360,507</u>	<u>\$ 1,330,741</u>

Discretely Presented Component Unit—School Board

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Combining Balance Sheet
 Discretely Presented Component Unit -- School Board
 At June 30, 2011

	<u>School Operating Fund</u>	<u>School Cafeteria Fund</u>	<u>School Grants Fund</u>	<u>Totals</u>
ASSETS				
Assets:				
Cash and cash equivalents	\$ 3,028,173	\$ 665,017	\$ -	\$ 3,693,190
Accounts receivable	77,864	58,987	-	136,851
Due from other governmental units	336,071	-	446,964	783,035
Due from other funds	216,490	-	-	216,490
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 3,658,598</u>	<u>\$ 724,004</u>	<u>\$ 446,964</u>	<u>\$ 4,829,566</u>
LIABILITIES				
Accounts payable	\$ 199,818	\$ 12,687	\$ 52,734	\$ 265,239
Deferred revenue	296,250	-	-	296,250
Accrued liabilities	908,450	21,354	155,136	1,084,940
Due to other funds	-	-	216,490	216,490
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>\$ 1,404,518</u>	<u>\$ 34,041</u>	<u>\$ 424,360</u>	<u>\$ 1,862,919</u>
FUND BALANCES				
Committed to:				
School food program	\$ -	\$ 689,963	\$ -	\$ 689,963
Education	-	-	22,604	22,604
Unassigned	2,254,080	-	-	2,254,080
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>\$ 2,254,080</u>	<u>\$ 689,963</u>	<u>\$ 22,604</u>	<u>\$ 2,966,647</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 3,658,598</u>	<u>\$ 724,004</u>	<u>\$ 446,964</u>	<u>\$ 4,829,566</u>

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

Total Fund balances, above 2,966,647

Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds. 7,508,443

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

Details supporting this adjustment are as follows:

Other post employment benefits	<u>(115,000)</u>
Net assets of General Government Activities	<u>\$ 10,360,090</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds - Discretely Presented Component Unit - School Board
 Year Ended June 30, 2011

	<u>School Operating Fund</u>	<u>School Cafeteria Fund</u>	<u>School Grants Fund</u>	<u>Total</u>
Revenues:				
Revenue from use of money and property	\$ 54,353	\$ 743	\$ -	\$ 55,096
Charges for services	19,100	449,096	-	468,196
Miscellaneous	177,270	-	-	177,270
Recovered costs	349,561	-	-	349,561
Intergovernmental:				
Local government	5,677,733	-	-	5,677,733
Commonwealth	13,328,380	30,146	-	13,358,526
Federal	874,871	1,011,315	2,454,415	4,340,601
	<u>20,481,268</u>	<u>1,491,300</u>	<u>2,454,415</u>	<u>24,426,983</u>
Total revenues	\$ 20,481,268	\$ 1,491,300	\$ 2,454,415	\$ 24,426,983
Expenditures:				
Current:				
Education	\$ 20,284,535	\$ 1,456,150	\$ 2,459,544	\$ 24,200,229
	<u>20,284,535</u>	<u>1,456,150</u>	<u>2,459,544</u>	<u>24,200,229</u>
Total expenditures	\$ 20,284,535	\$ 1,456,150	\$ 2,459,544	\$ 24,200,229
Changes in fund balances	\$ 196,733	\$ 35,150	\$ (5,129)	\$ 226,754
Fund balances at beginning of year	<u>2,057,347</u>	<u>654,813</u>	<u>27,733</u>	<u>2,739,893</u>
Fund balances at end of year	<u>\$ 2,254,080</u>	<u>\$ 689,963</u>	<u>\$ 22,604</u>	<u>\$ 2,966,647</u>

Discretely Presented Component Unit - School Board
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances of Governmental Funds to the Statement of Activities
 Year Ended June 30, 2011

Net changes in fund balances - total governmental funds \$ 226,754

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	131,275
Depreciation expense	(438,706)

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. 529,584

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

Details supporting this adjustment are as follows:

Other post employment benefits	<u>(18,000)</u>
Changes in net assets of governmental activities	<u><u>\$ 430,907</u></u>

CITY OF MARTINSVILLE, VIRGINIA

Schedule of Revenues, Expenditures and Changes in Fund Balances --
 Budget and Actual -- Discretely Presented Component Unit - School Board
 Year Ended June 30, 2011

	School Operating Fund			Variance From Final Budget Positive (Negative)
	Original Budget	Budget As Amended	Actual	
Revenues:				
Revenue from use of money and property	\$ 58,000	\$ 58,000	\$ 54,353	\$ (3,647)
Charges for services	5,000	5,000	19,100	14,100
Miscellaneous	-	154,000	177,270	23,270
Recovered costs	257,451	307,951	349,561	41,610
Intergovernmental:				
Local government	5,678,212	5,678,212	5,677,733	(479)
Commonwealth	13,846,106	13,788,267	13,328,380	(459,887)
Federal	172,983	1,055,590	874,871	(180,719)
Total revenues	\$ 20,017,752	\$ 21,047,020	\$ 20,481,268	\$ (565,752)
Expenditures:				
Current:				
Education	\$ 20,015,122	\$ 21,205,627	\$ 20,284,535	\$ 921,092
Total expenditures	\$ 20,015,122	\$ 21,205,627	\$ 20,284,535	\$ 921,092
Excess (deficiency) of revenues over expenditures	\$ 2,630	\$ (158,607)	\$ 196,733	\$ 355,340
Other financing sources (uses):				
Transfers in	\$ -	\$ -	\$ -	\$ -
Transfers (out)	(2,630)	(2,630)	-	2,630
Total other financing sources (uses)	\$ (2,630)	\$ (2,630)	\$ -	\$ 2,630
Changes in fund balances	\$ -	\$ (161,237)	\$ 196,733	\$ 357,970
Fund balances at beginning of year	-	161,237	2,057,347	1,896,110
Fund balances at end of year	\$ -	\$ -	\$ 2,254,080	\$ 2,254,080

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)
\$ 500	\$ 500	\$ 743	\$ 243	\$ -	\$ -	\$ -	\$ -
514,909	514,909	449,096	(65,813)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
34,059	34,059	30,146	(3,913)	-	-	-	-
673,338	673,338	1,011,315	337,977	-	2,058,871	2,454,415	395,544
<u>\$ 1,222,806</u>	<u>\$ 1,222,806</u>	<u>\$ 1,491,300</u>	<u>\$ 268,494</u>	<u>\$ -</u>	<u>\$ 2,058,871</u>	<u>\$ 2,454,415</u>	<u>\$ 395,544</u>
<u>\$ 1,297,806</u>	<u>\$ 1,297,806</u>	<u>\$ 1,456,150</u>	<u>\$ (158,344)</u>	<u>\$ -</u>	<u>\$ 2,058,871</u>	<u>\$ 2,459,544</u>	<u>\$ (400,673)</u>
<u>\$ 1,297,806</u>	<u>\$ 1,297,806</u>	<u>\$ 1,456,150</u>	<u>\$ (158,344)</u>	<u>\$ -</u>	<u>\$ 2,058,871</u>	<u>\$ 2,459,544</u>	<u>\$ (400,673)</u>
<u>\$ (75,000)</u>	<u>\$ (75,000)</u>	<u>\$ 35,150</u>	<u>\$ 110,150</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,129)</u>	<u>\$ (5,129)</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ (75,000)	\$ (75,000)	\$ 35,150	\$ 110,150	\$ -	\$ -	\$ (5,129)	\$ (5,129)
-	-	654,813	654,813	-	-	27,733	27,733
<u>\$ (75,000)</u>	<u>\$ (75,000)</u>	<u>\$ 689,963</u>	<u>\$ 764,963</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,604</u>	<u>\$ 22,604</u>

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Supporting Schedules

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Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2011

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	\$ 7,355,968	\$ 7,355,968	\$ 7,095,630	\$ (260,338)
Personal property taxes	560,220	560,220	640,798	80,578
Business equipment	857,761	857,761	916,558	58,797
Machinery and tools taxes	99,931	99,931	104,026	4,095
Penalties	92,000	92,000	101,470	9,470
Interest and costs	60,000	60,000	82,626	22,626
Total general property taxes	<u>\$ 9,025,880</u>	<u>\$ 9,025,880</u>	<u>\$ 8,941,108</u>	<u>\$ (84,772)</u>
Other local taxes:				
Local sales and use taxes	\$ 1,900,000	\$ 1,900,000	\$ 1,911,276	\$ 11,276
Consumers' utility taxes	753,500	753,500	710,361	(43,139)
Business license tax	1,639,957	1,639,957	1,947,085	307,128
Franchise license taxes	15,000	15,000	15,000	-
Motor vehicle licenses	285,000	285,000	327,947	42,947
Bank franchise tax	233,526	233,526	253,181	19,655
Taxes on recordation and wills	40,000	40,000	45,227	5,227
Grantor tax	13,000	13,000	9,788	(3,212)
Cigarette tax	114,000	114,000	148,172	34,172
Rental tax	-	-	192	192
Transient room tax	16,000	16,000	17,127	1,127
Total other local taxes	<u>\$ 5,009,983</u>	<u>\$ 5,009,983</u>	<u>\$ 5,385,356</u>	<u>\$ 375,373</u>
Permits, privilege fees and regulatory licenses:				
Animal licenses	\$ 4,000	\$ 4,000	\$ 5,318	\$ 1,318
Ambulance Fees	355,000	355,000	418,294	63,294
Other permits and licenses	101,700	101,700	81,763	(19,937)
Total permits, privilege fees and regulatory licenses	<u>\$ 460,700</u>	<u>\$ 460,700</u>	<u>\$ 505,375</u>	<u>\$ 44,675</u>
Fines and Forfeitures:				
Court fines and forfeitures	\$ 180,000	\$ 180,000	\$ 147,641	\$ (32,359)
Other fines and forfeitures	1,200	2,230	3,590	1,360
Total fines and forfeitures	<u>\$ 181,200</u>	<u>\$ 182,230</u>	<u>\$ 151,231</u>	<u>\$ (30,999)</u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2011 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Revenue from use of money and property:				
Revenue from use of money	\$ 15,000	\$ 15,000	\$ 37,403	\$ 22,403
Revenue from use of property	585,656	585,656	522,580	(63,076)
Total revenue from use of money and property	<u>\$ 600,656</u>	<u>\$ 600,656</u>	<u>\$ 559,983</u>	<u>\$ (40,673)</u>
Charges for services:				
Sheriff fees	\$ 3,624	\$ 3,624	\$ 3,625	\$ 1
Courthouse maintenance fees	12,000	12,000	10,368	(1,632)
Court appointed attorney fees	7,000	7,000	9,263	2,263
Court house security fees	24,000	24,000	21,837	(2,163)
Document reproduction fee	3,300	3,300	2,871	(429)
Remote access fee	3,000	3,000	3,005	5
Commonwealth attorney fees	1,500	1,500	1,833	333
Other public safety fees	7,650	7,650	7,521	(129)
Recreation fees	35,400	35,400	13,353	(22,047)
Prison farm labor / street maintenance	24,000	24,000	24,000	-
Martinsville mustangs fees	136,600	136,600	126,578	(10,022)
Other charges for services	168,296	168,296	185,247	16,951
Total charges for services	<u>\$ 426,370</u>	<u>\$ 426,370</u>	<u>\$ 409,501</u>	<u>\$ (16,869)</u>
Miscellaneous revenue:				
Payment in lieu of tax	\$ 150,007	\$ 150,007	\$ 150,007	\$ -
Other miscellaneous revenue	26,239	751,102	743,324	(7,778)
Total miscellaneous revenue	<u>\$ 176,246</u>	<u>\$ 901,109</u>	<u>\$ 893,331</u>	<u>\$ (7,778)</u>
Recovered costs:				
Boarding of prisoners	\$ 13,000	\$ 13,000	\$ 21,607	\$ 8,607
WW Moore	20,000	20,000	32,809	12,809
SSI / LIDS	3,000	3,000	3,000	-
Juvenile and domestic relations court	1,800	1,800	450	(1,350)
Meals tax administration	35,190	35,190	35,190	-
Street maintenance overhead	80,000	80,000	71,515	(8,485)
Demolition	2,000	2,000	1,690	(310)
Advance / recovered cost	60,000	154,702	158,144	3,442
Health department	4,000	4,000	72	(3,928)
Juror and witness	12,000	12,000	15,077	3,077
Medical co-pay reimbursement	6,000	6,000	4,093	(1,907)
Treasurer	7,000	7,000	18,039	11,039
Project lifesaver	1,500	2,480	2,480	-

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2011 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Recovered costs: (Continued)				
DUI reimbursement	\$ 1,500	\$ 1,500	\$ 4,269	\$ 2,769
Collection expense	9,000	9,000	9,000	-
Billing expense	500,519	500,519	417,478	(83,041)
Safety expense	87,128	87,128	87,128	-
Communication	91,344	91,344	19,631	(71,713)
Central garage	30,320	41,365	42,580	1,215
Engineering	30,000	30,000	900	(29,100)
Senior citizens	6,000	11,801	12,319	518
Social services	10,918	10,918	10,008	(910)
Program income	1,000	1,000	1,110	110
Senior citizens - transportation	3,200	3,200	2,303	(897)
Fiscal agent fees - regional library	3,600	3,600	3,600	-
Total recovered costs	<u>\$ 1,020,019</u>	<u>\$ 1,132,547</u>	<u>\$ 974,492</u>	<u>\$ (158,055)</u>
Total revenue from local sources	<u>\$ 16,901,054</u>	<u>\$ 17,739,475</u>	<u>\$ 17,820,377</u>	<u>\$ 80,902</u>
Revenue from the Commonwealth:				
Noncategorical aid:				
Rolling stock tax	\$ 8,000	\$ 8,000	\$ 59	\$ (7,941)
Recordation tax	18,000	18,000	17,154	(846)
PPTRA	626,428	626,428	626,428	-
Communications tax	1,000,000	1,000,000	961,470	(38,530)
Auto rental tax	42,480	42,480	52,319	9,839
Total noncategorical aid	<u>\$ 1,694,908</u>	<u>\$ 1,694,908</u>	<u>\$ 1,657,430</u>	<u>\$ (37,478)</u>
Categorical aid:				
Shared expenses:				
Commonwealth's attorney	\$ 428,604	\$ 456,574	\$ 440,459	\$ (16,115)
Sheriff	1,787,053	1,787,053	1,869,640	82,587
Commissioner of the Revenue	94,758	94,758	97,059	2,301
Treasurer	73,105	73,105	74,903	1,798
Registrar/electoral board	37,522	37,522	38,385	863
Clerk of the circuit court	254,672	265,211	272,592	7,381
Total shared expenses	<u>\$ 2,675,714</u>	<u>\$ 2,714,223</u>	<u>\$ 2,793,038</u>	<u>\$ 78,815</u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2011 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
Revenue from the Commonwealth: (Continued)				
Other categorical aid:				
Senior citizens	\$ 11,000	\$ 11,000	\$ 13,000	\$ 2,000
Confiscated assets	-	1,768	1,768	-
Victim witness	69,677	69,677	17,419	(52,258)
House Bill # 599 - police	872,133	872,133	872,180	47
EMS two for life	11,000	12,028	12,028	-
Fire grant	40,000	44,512	44,512	-
Street maintenance	2,625,314	2,625,314	2,721,036	95,722
Jail per diem	336,078	336,078	330,230	(5,848)
Indoor plumbing	-	-	25,350	25,350
Other categorical aid	15,000	89,210	66,709	(22,501)
Total other categorical aid	<u>\$ 3,980,202</u>	<u>\$ 4,061,720</u>	<u>\$ 4,104,232</u>	<u>\$ 42,512</u>
Total categorical aid	<u>\$ 6,655,916</u>	<u>\$ 6,775,943</u>	<u>\$ 6,897,270</u>	<u>\$ 121,327</u>
Total revenue from the Commonwealth	<u>\$ 8,350,824</u>	<u>\$ 8,470,851</u>	<u>\$ 8,554,700</u>	<u>\$ 83,849</u>
Revenue from the federal government:				
Categorical aid:				
Victim witness	\$ -	\$ -	\$ 52,258	\$ 52,258
Confiscated assets	-	1,684	1,684	-
DMV grant - police	-	-	32,978	32,978
Senior citizens	20,000	21,769	21,966	197
Terrorism grants	-	29,740	-	(29,740)
SCAAP funds	-	-	1,376	1,376
Indoor plumbing	-	-	56,950	56,950
Viper overtime grant	-	-	4,704	4,704
Safe Routes to Schools grant	-	30,745	30,745	-
Total categorical aid	<u>\$ 20,000</u>	<u>\$ 83,938</u>	<u>\$ 202,661</u>	<u>\$ 118,723</u>
Total revenue from the Federal Government	<u>\$ 20,000</u>	<u>\$ 83,938</u>	<u>\$ 202,661</u>	<u>\$ 118,723</u>
Total General Fund	<u><u>\$ 25,271,878</u></u>	<u><u>\$ 26,294,264</u></u>	<u><u>\$ 26,577,738</u></u>	<u><u>\$ 283,474</u></u>
Special Revenue Funds:				
City Grants Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ 3,209	\$ 3,209	\$ 2,605	\$ (604)
Revenue from use of property	28,118	28,118	32,367	4,249
Total revenue from use of money and property	<u>\$ 31,327</u>	<u>\$ 31,327</u>	<u>\$ 34,972</u>	<u>\$ 3,645</u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2011 (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)				
City Grants Fund: (Continued)				
Revenue from the Commonwealth:				
Categorical aid:				
Uptown planning grant	\$ 5,000	\$ 5,000	\$ -	\$ (5,000)
Total revenue from the Commonwealth	<u>\$ 5,000</u>	<u>\$ 5,000</u>	<u>\$ -</u>	<u>\$ (5,000)</u>
Revenue from the federal government:				
Categorical aid:				
Cherry street planning grant	\$ -	\$ -	\$ 6,165	\$ 6,165
Total revenue from the Federal Government	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,165</u>	<u>\$ 6,165</u>
Total City Grants Fund	<u><u>\$ 36,327</u></u>	<u><u>\$ 36,327</u></u>	<u><u>\$ 41,137</u></u>	<u><u>\$ 4,810</u></u>
Housing Choice Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ 200	\$ 200	\$ 561	\$ 361
Revenue from use of property	<u>17,100</u>	<u>17,100</u>	<u>16,740</u>	<u>(360)</u>
Total revenue from use of money and property	<u>\$ 17,300</u>	<u>\$ 17,300</u>	<u>\$ 17,301</u>	<u>\$ 1</u>
Miscellaneous revenue:				
Fraud recoveries	\$ 5,240	\$ 5,240	\$ 7,101	\$ 1,861
Other recovered costs	500	500	622	122
Other miscellaneous revenue	<u>183</u>	<u>183</u>	<u>1,926</u>	<u>1,743</u>
Total miscellaneous revenue	<u>\$ 5,923</u>	<u>\$ 5,923</u>	<u>\$ 9,649</u>	<u>\$ 3,726</u>
Total revenue from local sources	<u>\$ 23,223</u>	<u>\$ 23,223</u>	<u>\$ 26,950</u>	<u>\$ 3,727</u>
Revenue from the federal government:				
Categorical aid:				
Housing assistance	\$ 1,595,964	\$ 1,595,964	\$ 1,826,651	\$ 230,687
Moderate rehab. assistance	27,696	27,696	-	(27,696)
Other federal assistance	<u>248,196</u>	<u>248,196</u>	<u>255,254</u>	<u>7,058</u>
Total revenue from the Federal Government	<u>\$ 1,871,856</u>	<u>\$ 1,871,856</u>	<u>\$ 2,081,905</u>	<u>\$ 210,049</u>
Total Housing Choice Fund	<u><u>\$ 1,895,079</u></u>	<u><u>\$ 1,895,079</u></u>	<u><u>\$ 2,108,855</u></u>	<u><u>\$ 213,776</u></u>
Total Special Revenue Funds	<u><u>\$ 1,931,406</u></u>	<u><u>\$ 1,931,406</u></u>	<u><u>\$ 2,149,992</u></u>	<u><u>\$ 218,586</u></u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2011 (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:				
Capital Reserve Fund:				
Revenue from local sources:				
Miscellaneous revenue:				
Miscellaneous	\$ 20,000	\$ 31,400	\$ 35,803	\$ 4,403
Total revenue from local sources	<u>\$ 20,000</u>	<u>\$ 31,400</u>	<u>\$ 35,803</u>	<u>\$ 4,403</u>
Revenue from the Commonwealth:				
Categorical aid:				
Tobacco commission grant	\$ -	\$ 525,056	\$ 525,056	\$ -
Total revenue from the Commonwealth	<u>\$ -</u>	<u>\$ 525,056</u>	<u>\$ 525,056</u>	<u>\$ -</u>
Revenue from the federal government:				
Categorical aid:				
USDA Grant	\$ -	\$ 30,450	\$ 30,450	\$ -
Total revenue from the Federal Government	<u>\$ -</u>	<u>\$ 30,450</u>	<u>\$ 30,450</u>	<u>\$ -</u>
Total Capital Reserve Fund	<u><u>\$ 20,000</u></u>	<u><u>\$ 586,906</u></u>	<u><u>\$ 591,309</u></u>	<u><u>\$ 4,403</u></u>
Meals Tax Fund:				
Revenue from local sources:				
Other local taxes:				
Meals taxes	\$ 1,342,260	\$ 1,342,260	\$ 1,409,442	\$ 67,182
Total Meals Tax Fund	<u><u>\$ 1,342,260</u></u>	<u><u>\$ 1,342,260</u></u>	<u><u>\$ 1,409,442</u></u>	<u><u>\$ 67,182</u></u>
Total Capital Projects Funds	<u><u>\$ 1,362,260</u></u>	<u><u>\$ 1,929,166</u></u>	<u><u>\$ 2,000,751</u></u>	<u><u>\$ 71,585</u></u>
Grand Total Revenues -- Primary Government	<u><u>\$ 28,565,544</u></u>	<u><u>\$ 30,154,836</u></u>	<u><u>\$ 30,728,481</u></u>	<u><u>\$ 573,645</u></u>
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	\$ 58,000	\$ 58,000	\$ 54,353	\$ (3,647)
Charges for services:				
Tuition and other charges for services	5,000	5,000	19,100	14,100
Miscellaneous revenue:				
Miscellaneous revenue	-	154,000	177,270	23,270
Recovered costs:				
Recovered costs	<u>257,451</u>	<u>307,951</u>	<u>349,561</u>	<u>41,610</u>
Total revenue from local sources	<u><u>\$ 320,451</u></u>	<u><u>\$ 524,951</u></u>	<u><u>\$ 600,284</u></u>	<u><u>\$ 75,333</u></u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2011 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Component Unit-School Board: (Continued)				
Governmental Funds: (Continued)				
School Operating Fund: (Continued)				
Intergovernmental revenue:				
Revenues from local governments:				
Contribution from City of Martinsville, Virginia	\$ 5,678,212	\$ 5,678,212	\$ 5,677,733	\$ (479)
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 2,496,788	\$ 2,496,788	\$ 2,606,220	\$ 109,432
Basic school aid	6,791,242	6,710,943	6,216,816	(494,127)
Share of fringe benefits - Fica	473,063	473,063	466,631	(6,432)
Share of fringe benefits - VRS	279,940	279,940	276,133	(3,807)
English as a second language	74,757	74,757	61,810	(12,947)
Group life insurance benefits	17,718	17,718	17,477	(241)
Regional tuition special education	120,931	120,931	63,798	(57,133)
Early reading intervention	61,121	61,121	47,016	(14,105)
Vocational SOQ payments	256,907	256,907	253,414	(3,493)
Special education - basic	919,648	919,648	926,248	6,600
At risk students	541,001	541,001	533,684	(7,317)
Homebound education	47,017	47,017	22,292	(24,725)
Remedial education	122,607	122,607	137,490	14,883
Remediation SOQ payments	395,105	395,105	389,733	(5,372)
Reduced K-3	556,838	556,838	531,481	(25,357)
Preschool initiative	223,229	223,229	255,321	32,092
Textbooks	93,089	93,089	91,823	(1,266)
Technology	164,396	164,396	162,836	(1,560)
Other state funds	210,709	233,169	268,157	34,988
Total revenue from the Commonwealth	\$ 13,846,106	\$ 13,788,267	\$ 13,328,380	\$ (459,887)
Revenue from the federal government:				
Categorical aid:				
Vocational education - Carl Perkins	\$ 64,255	\$ 64,255	\$ 75,019	\$ 10,764
State fiscal stabilization funds	-	771,302	705,450	(65,852)
NASA program	-	51,450	-	(51,450)
Workforce investment act	37,604	37,604	43,446	5,842
Other federal categorical aid	71,124	130,979	50,956	(80,023)
Total categorical aid	\$ 172,983	\$ 1,055,590	\$ 874,871	\$ (180,719)
Total revenue from the federal government	\$ 172,983	\$ 1,055,590	\$ 874,871	\$ (180,719)
Total School Operating Fund	\$ 20,017,752	\$ 21,047,020	\$ 20,481,268	\$ (565,752)

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2011 (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 Cafeteria Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ 500	\$ 500	\$ 743	\$ 243
Charges for services:				
Cafeteria sales	\$ 514,909	\$ 514,909	\$ 449,096	\$ (65,813)
Revenue from the Commonwealth:				
Categorical aid:				
School food	\$ 34,059	\$ 34,059	\$ 30,146	\$ (3,913)
Revenue from the federal government:				
Categorical aid:				
School food	\$ 673,338	\$ 673,338	\$ 1,011,315	\$ 337,977
Total School Cafeteria Fund	\$ 1,222,806	\$ 1,222,806	\$ 1,491,300	\$ 268,494
School Grants Fund:				
Revenue from the federal government:				
Categorical aid:				
Title I	\$ -	\$ 988,327	\$ 968,079	\$ (20,248)
Title II - teacher quality	-	181,925	164,314	(17,611)
Title VI - rural education	-	68,149	397,088	328,939
Drug free schools	-	-	155,434	155,434
Special education - flow through	-	646,393	487,616	(158,777)
State academic achievement grant	-	-	3,285	3,285
21st Century Title IV-B	-	174,077	278,599	104,522
Total revenue from the federal government	\$ -	\$ 2,058,871	\$ 2,454,415	\$ 395,544
Total School Grants Fund	\$ -	\$ 2,058,871	\$ 2,454,415	\$ 395,544
Grand Total Revenues--Component Unit - School Board	\$ 21,240,558	\$ 24,328,697	\$ 24,426,983	\$ 98,286

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2011

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	\$ 38,497	\$ 38,497	\$ 32,255	\$ 6,242
General and Financial Administration:				
Clerk of council	\$ 1,827	\$ 1,827	\$ 1,327	\$ 500
City attorney	93,398	93,398	162,399	(69,001)
City manager's office	235,112	235,112	231,886	3,226
Assistant city manager	64,176	64,176	63,751	425
Legal services	15,000	15,000	7,455	7,545
Human resources	141,358	141,358	142,979	(1,621)
Employment services	349,437	453,917	286,001	167,916
Communications	19,631	19,661	17,154	2,507
Commissioner of the Revenue	376,857	379,441	378,053	1,388
Assessor	6,800	6,800	6,028	772
Treasurer	254,346	253,712	259,356	(5,644)
Finance director	9,968	9,968	7,869	2,099
Accounting	225,964	225,964	217,746	8,218
Utility billing	455,420	428,920	417,478	11,442
Information services	340,072	340,072	327,278	12,794
Central garage	484,522	484,522	462,639	21,883
Purchasing	233,196	233,196	233,028	168
Risk management	252,000	252,000	229,566	22,434
General expenses	377,816	750,329	388,491	361,838
Total general and financial administration	\$ 3,936,900	\$ 4,389,373	\$ 3,840,484	\$ 548,889
Board of Elections:				
Electoral board and officials	\$ 19,762	\$ 19,762	\$ 13,769	\$ 5,993
Registrar	114,624	116,096	92,927	23,169
Total board of elections	\$ 134,386	\$ 135,858	\$ 106,696	\$ 29,162
Total general government administration	\$ 4,109,783	\$ 4,563,728	\$ 3,979,435	\$ 584,293
Judicial Administration:				
Courts:				
Circuit court	\$ 89,052	\$ 90,552	\$ 74,872	\$ 15,680
General district court	31,875	31,875	18,424	13,451
Juvenile and domestic relations court	7,580	7,580	6,539	1,041
Clerk of the circuit court	360,407	363,297	356,322	6,975
Sheriff - courts	818,630	817,480	790,254	27,226
Total Courts	\$ 1,307,544	\$ 1,310,784	\$ 1,246,411	\$ 64,373

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2011 (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	\$ 574,436	\$ 608,163	\$ 571,776	\$ 36,387
Victim witness program	69,677	69,677	69,752	(75)
Total Commonwealth attorney	<u>\$ 644,113</u>	<u>\$ 677,840</u>	<u>\$ 641,528</u>	<u>\$ 36,312</u>
Total judicial administration	<u>\$ 1,951,657</u>	<u>\$ 1,988,624</u>	<u>\$ 1,887,939</u>	<u>\$ 100,685</u>
Public Safety:				
Law Enforcement and Traffic Control:				
Police department	\$ 3,821,958	\$ 3,902,837	\$ 3,762,761	\$ 140,076
Transportation safety commission	1,500	1,500	1,413	87
Total law enforcement and traffic control	<u>\$ 3,823,458</u>	<u>\$ 3,904,337</u>	<u>\$ 3,764,174</u>	<u>\$ 140,163</u>
Fire and Rescue Services:				
Fire services	\$ 1,916,857	\$ 1,994,795	\$ 1,788,762	\$ 206,033
Emergency medical services	156,956	180,405	187,454	(7,049)
Total fire and rescue services	<u>\$ 2,073,813</u>	<u>\$ 2,175,200</u>	<u>\$ 1,976,216</u>	<u>\$ 198,984</u>
Correction and Detention:				
Sheriff -corrections	\$ 2,404,343	\$ 2,489,517	\$ 2,374,078	\$ 115,439
Sheriff -jail annex	161,620	161,620	152,902	8,718
Probation office	308,483	308,483	310,936	(2,453)
Total correction and detention	<u>\$ 2,874,446</u>	<u>\$ 2,959,620</u>	<u>\$ 2,837,916</u>	<u>\$ 121,704</u>
Inspections:				
Building and other	\$ 206,885	\$ 212,385	\$ 168,769	\$ 43,616
Other Protection:				
Safety	\$ 86,460	\$ 89,771	\$ 85,011	\$ 4,760
Total other protection	<u>\$ 86,460</u>	<u>\$ 89,771</u>	<u>\$ 85,011</u>	<u>\$ 4,760</u>
Total public safety	<u>\$ 9,065,062</u>	<u>\$ 9,341,313</u>	<u>\$ 8,832,086</u>	<u>\$ 509,227</u>
Public Works:				
Maintenance of highways, streets, bridges and sidewalks:				
Director of public works	\$ 96,527	\$ 97,671	\$ 97,431	\$ 240

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2011 (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	\$ 128,693	\$ 131,693	\$ 122,238	\$ 9,455
Street maintenance	1,553,629	1,666,821	1,554,452	112,369
Street marking and signs	197,480	228,225	218,054	10,171
Traffic signals	425,400	425,400	412,908	12,492
Street cleaning	457,903	457,903	435,721	22,182
VDOT reserve	1,000	1,000	1,240	(240)
Street construction	391,513	391,513	382,847	8,666
Thoroughfare construction	60,000	168,972	129,098	39,874
Total highways, streets, bridges and sidewalks	<u>\$ 3,312,145</u>	<u>\$ 3,569,198</u>	<u>\$ 3,353,989</u>	<u>\$ 215,209</u>
Maintenance of buildings and grounds:				
Uptown maintenance	\$ 45,055	\$ 45,055	\$ 44,239	\$ 816
City hall maintenance	431,101	483,929	440,321	43,608
Social services building maintenance	23,665	23,665	2,089	21,576
Indoor Plumbing	158,064	171,019	64,173	106,846
WPBDC building	5,000	5,000	45,809	(40,809)
Fiber optic network	120,700	120,700	109,974	10,726
Housing services building	10,070	10,070	4,472	5,598
Public health center	15,000	15,000	254	14,746
Total maintenance of buildings and grounds	<u>\$ 808,655</u>	<u>\$ 874,438</u>	<u>\$ 711,331</u>	<u>\$ 163,107</u>
Total public works	<u>\$ 4,120,800</u>	<u>\$ 4,443,636</u>	<u>\$ 4,065,320</u>	<u>\$ 378,316</u>
Health and Welfare				
Health:				
Comprehensive services	\$ -	\$ -	\$ 35,858	\$ (35,858)
Contribution to local health department	191,275	191,275	234,344	(43,069)
Total health	<u>\$ 191,275</u>	<u>\$ 191,275</u>	<u>\$ 270,202</u>	<u>\$ (78,927)</u>
Mental Health and Mental Retardation:				
Chapter X board	\$ 53,818	\$ 53,818	\$ 53,818	\$ -
Welfare/Social Services:				
Regional social services board	\$ 327,801	\$ 327,801	\$ 303,115	\$ 24,686
Total welfare/social services	<u>\$ 327,801</u>	<u>\$ 327,801</u>	<u>\$ 303,115</u>	<u>\$ 24,686</u>
Total health and welfare	<u>\$ 572,894</u>	<u>\$ 572,894</u>	<u>\$ 627,135</u>	<u>\$ (54,241)</u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2011 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Education:				
Contributions to community colleges	\$ 19,688	\$ 19,688	\$ 19,688	\$ -
Contributions to School Board Component Unit	5,678,212	5,678,212	5,677,733	479
Total education	<u>\$ 5,697,900</u>	<u>\$ 5,697,900</u>	<u>\$ 5,697,421</u>	<u>\$ 479</u>
Parks, Recreation, and Cultural:				
Parks and recreation:				
Parks & Recreation	\$ 149,462	\$ 159,950	\$ 167,949	\$ (7,999)
Park maintenance	301,915	388,399	377,629	10,770
Hooker field	269,341	275,675	296,624	(20,949)
Senior center	190,712	199,201	193,642	5,559
Armory	84,747	91,213	79,235	11,978
Total parks and recreation	<u>\$ 996,177</u>	<u>\$ 1,114,438</u>	<u>\$ 1,115,079</u>	<u>\$ (641)</u>
Library:				
Regional library	\$ 321,143	\$ 321,143	\$ 321,143	\$ -
Total parks, recreation and cultural	<u>\$ 1,317,320</u>	<u>\$ 1,435,581</u>	<u>\$ 1,436,222</u>	<u>\$ (641)</u>
Community Development:				
Planning and Community Development:				
Housing / community development	\$ 173,410	\$ 858,367	\$ 230,427	\$ 627,940
Planning and zoning	111,611	111,611	106,270	5,341
Contributions to local organizations	826,566	826,566	863,940	(37,374)
Total planning and community development	<u>\$ 1,111,587</u>	<u>\$ 1,796,544</u>	<u>\$ 1,200,637</u>	<u>\$ 595,907</u>
Cooperative Extension Program:				
Horticulture and family resources	\$ 7,695	\$ 7,695	\$ 7,695	\$ -
Total community development	<u>\$ 1,119,282</u>	<u>\$ 1,804,239</u>	<u>\$ 1,208,332</u>	<u>\$ 595,907</u>
Debt service:				
Principal retirement	\$ 136,551	\$ 136,551	\$ 136,551	\$ -
Interest and other debt costs	11,631	11,631	12,110	(479)
Total debt service	<u>\$ 148,182</u>	<u>\$ 148,182</u>	<u>\$ 148,661</u>	<u>\$ (479)</u>
Total General Fund	<u><u>\$ 28,102,880</u></u>	<u><u>\$ 29,996,097</u></u>	<u><u>\$ 27,882,551</u></u>	<u><u>\$ 2,113,546</u></u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2011 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
Special Revenue Funds:				
City Grants Fund:				
Planning and Community Development:				
Community development block grant	\$ 87,823	\$ 476,707	\$ 193,535	\$ 283,172
Total City Grants Fund	<u>\$ 87,823</u>	<u>\$ 476,707</u>	<u>\$ 193,535</u>	<u>\$ 283,172</u>
Housing Choice Fund:				
Planning and Community Development:				
Housing choice voucher program	\$ 2,244,239	\$ 2,273,442	\$ 2,149,907	\$ 123,535
Total Housing Choice Fund	<u>\$ 2,244,239</u>	<u>\$ 2,273,442</u>	<u>\$ 2,149,907</u>	<u>\$ 123,535</u>
Total Special Revenue Funds	<u>\$ 2,332,062</u>	<u>\$ 2,750,149</u>	<u>\$ 2,343,442</u>	<u>\$ 406,707</u>
Capital Project Funds:				
Capital Reserve Fund:				
Capital outlays and projects:				
General Government Administration:				
Communications equipment	\$ 38,000	\$ 38,000	\$ 34,800	\$ 3,200
ADP equipment - information services	70,000	90,000	90,030	(30)
Fiber optic network	28,600	28,600	47,925	(19,325)
City hall	80,000	80,000	82,900	(2,900)
Stores	15,500	15,500	6,635	8,865
Minet - phone system	9,500	9,500	29,075	(19,575)
Motor vehicles	-	14,000	14,123	(123)
Total general government administration	<u>\$ 241,600</u>	<u>\$ 275,600</u>	<u>\$ 305,488</u>	<u>\$ (29,888)</u>
Public Safety:				
Law Enforcement and Traffic Control:				
Police department - equipment	\$ -	\$ 10,056	\$ 6,825	\$ 3,231
Police department - motor vehicles	61,304	91,754	84,812	\$ 6,942
Jail - equipment	10,000	10,000	7,645	2,355
Jail - motor vehicles	29,000	69,000	42,378	26,622
Jail expansion	10,325	10,325	10,575	(250)
Total law enforcement and traffic control	<u>\$ 110,629</u>	<u>\$ 191,135</u>	<u>\$ 152,235</u>	<u>\$ 38,900</u>
Fire and Rescue Services:				
Fire services - equipment	\$ 9,968	\$ 9,968	\$ 9,800	\$ 168
Fire services - physical plant expansion	12,000	12,000	11,489	511
Total fire and rescue services	<u>\$ 21,968</u>	<u>\$ 21,968</u>	<u>\$ 21,289</u>	<u>\$ 679</u>
Total public safety	<u>\$ 132,597</u>	<u>\$ 213,103</u>	<u>\$ 173,524</u>	<u>\$ 39,579</u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2011 (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)				
Capital Reserve Fund: (Continued)				
Public Works:				
Highways, streets, bridges and sidewalks:				
Street construction - motor vehicles	\$ 21,270	\$ 32,670	\$ 19,664	\$ 13,006
Total public works	<u>\$ 21,270</u>	<u>\$ 32,670</u>	<u>\$ 19,664</u>	<u>\$ 13,006</u>
Parks, Recreation, and Cultural:				
Parks and recreation:				
Senior Center	\$ 10,000	\$ 10,000	\$ 6,967	\$ 3,033
Park maintenance - motor vehicles	32,000	32,000	31,370	\$ 630
Park maintenance - other	<u>25,000</u>	<u>25,000</u>	<u>25,939</u>	<u>(939)</u>
Total parks, recreation and cultural	<u>\$ 67,000</u>	<u>\$ 67,000</u>	<u>\$ 64,276</u>	<u>\$ 2,724</u>
Planning and Community Development:				
Governor's Opportunity funds	\$ -	\$ 135,000	\$ 135,000	\$ -
Tobacco funds	<u>-</u>	<u>380,000</u>	<u>380,000</u>	<u>-</u>
Total planning and community development	<u>\$ -</u>	<u>\$ 515,000</u>	<u>\$ 515,000</u>	<u>\$ -</u>
Debt service:				
Principal retirement	\$ 228,846	\$ 228,846	\$ 228,845	\$ 1
Interest and other debt costs	<u>51,159</u>	<u>51,159</u>	<u>50,034</u>	<u>1,125</u>
Total debt service	<u>\$ 280,005</u>	<u>\$ 280,005</u>	<u>\$ 278,879</u>	<u>\$ 1,126</u>
Total Capital Reserve Fund	<u><u>\$ 742,472</u></u>	<u><u>\$ 1,383,378</u></u>	<u><u>\$ 1,356,831</u></u>	<u><u>\$ 26,547</u></u>
Meals Tax Fund:				
General Government Administration:				
Meals tax administration	\$ 35,190	\$ 35,190	\$ 35,190	\$ -
Debt service:				
Principal retirement	\$ 822,632	\$ 822,632	\$ 822,632	\$ -
Interest and other debt costs	<u>308,363</u>	<u>308,363</u>	<u>307,236</u>	<u>1,127</u>
Total debt service	<u>\$ 1,130,995</u>	<u>\$ 1,130,995</u>	<u>\$ 1,129,868</u>	<u>\$ 1,127</u>
Total Meals Tax Fund	<u><u>\$ 1,166,185</u></u>	<u><u>\$ 1,166,185</u></u>	<u><u>\$ 1,165,058</u></u>	<u><u>\$ 1,127</u></u>
Total Capital Project Funds	<u><u>\$ 1,908,657</u></u>	<u><u>\$ 2,549,563</u></u>	<u><u>\$ 2,521,889</u></u>	<u><u>\$ 27,674</u></u>
Grand Total Expenditures - Primary Government	<u><u>\$ 32,343,599</u></u>	<u><u>\$ 35,295,809</u></u>	<u><u>\$ 32,747,882</u></u>	<u><u>\$ 2,547,927</u></u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2011 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Component Unit - School Board				
School Operating Fund:				
Education:				
Instruction	\$ 14,965,060	\$ 16,155,565	\$ 15,504,284	\$ 651,281
Administration, attendance and health	2,022,142	2,022,142	1,569,215	452,927
Pupil transportation	784,658	784,658	882,925	(98,267)
Operation and maintenance of school plant	<u>2,243,262</u>	<u>2,243,262</u>	<u>2,328,111</u>	<u>(84,849)</u>
Total operating costs	<u>\$ 20,015,122</u>	<u>\$ 21,205,627</u>	<u>\$ 20,284,535</u>	<u>\$ 921,092</u>
Total School Operating Fund	<u><u>\$ 20,015,122</u></u>	<u><u>\$ 21,205,627</u></u>	<u><u>\$ 20,284,535</u></u>	<u><u>\$ 921,092</u></u>
School Cafeteria Fund:				
Education:				
School food services	<u>\$ 1,297,806</u>	<u>\$ 1,297,806</u>	<u>\$ 1,456,150</u>	<u>\$ (158,344)</u>
School Grants Fund:				
Education:				
Instruction costs	<u>\$ -</u>	<u>\$ 2,058,871</u>	<u>\$ 2,459,544</u>	<u>\$ (400,673)</u>
Grand Total Expenditures - Component Unit - School Board	<u><u>\$ 21,312,928</u></u>	<u><u>\$ 24,562,304</u></u>	<u><u>\$ 24,200,229</u></u>	<u><u>\$ 362,075</u></u>

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

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

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

Revenue Capacity

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

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

Debt Capacity

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

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

Demographic and Economic Information

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

Operating Information

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

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

Sources:

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

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

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

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

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

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

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

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

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

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

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

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

CITY OF MARTINSVILLE, VIRGINIA

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General fund					
Unreserved, designated	\$ 156,109	156,694	\$ 154,099	154,099	\$ 154,099
Unreserved, undesignated	1,157,731	635,008	659,306	354,406	954,031
Nonspendable	-	-	-	-	-
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total general fund	<u>\$ 1,313,840</u>	<u>791,702</u>	<u>\$ 813,405</u>	<u>508,505</u>	<u>\$ 1,108,130</u>
All other governmental funds					
Unreserved, reported in:					
Special revenue funds (deficit)	\$ (387,443)	175,600	\$ 420,396	1,127,266	\$ (459,576)
Capital projects funds	71,774	(225,378)	(170,780)	(347,663)	169,943
Committed, reported in:					
Special revenue funds	-	-	-	-	-
Assigned, reported in:					
Capital projects funds	-	-	-	-	-
Unassigned, reported in:					
Special revenue funds (deficit)	-	-	-	-	-
Total all other governmental funds	<u>\$ (315,669)</u>	<u>(49,778)</u>	<u>\$ 249,616</u>	<u>779,603</u>	<u>\$ (289,633)</u>

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

Table 4

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
\$ 154,099	\$ 154,099	\$ 154,099	\$ 154,099	\$ -
2,081,470	3,666,122	2,959,209	2,090,139	-
-	-	-	-	512,136
-	-	-	-	1,690,400
-	-	-	-	154,099
-	-	-	-	774,240
<u>\$ 2,235,569</u>	<u>\$ 3,820,221</u>	<u>\$ 3,113,308</u>	<u>\$ 2,244,238</u>	<u>\$ 3,130,875</u>
\$ 54,241	\$ 516,890	\$ 116,818	\$ (230,984)	\$ -
1,070,070	834,781	1,177,707	1,171,520	-
-	-	-	-	161,982
-	-	-	-	1,196,779
-	-	-	-	(587,971)
<u>\$ 1,124,311</u>	<u>\$ 1,351,671</u>	<u>\$ 1,294,525</u>	<u>\$ 940,536</u>	<u>\$ 770,790</u>

CITY OF MARTINSVILLE, VIRGINIA

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Revenues:				
General property taxes	\$ 6,754,405	\$ 7,288,727	\$ 7,338,045	\$ 7,642,006
Other local taxes	6,887,937	7,112,440	7,352,810	7,566,200
Permits, privilege fees and regulatory licenses	101,779	69,393	199,679	418,210
Fines and forfeitures	188,946	221,076	251,543	235,837
Revenue from use of money and property	603,793	485,093	659,907	965,674
Charges for services	127,495	118,038	213,979	236,278
Miscellaneous	259,880	340,160	292,673	246,894
Recovered costs	964,001	947,939	900,686	894,882
Intergovernmental:				
Commonwealth	6,941,379	7,008,991	6,995,579	7,176,201
Federal	2,465,669	2,485,469	2,255,816	2,468,561
Total revenues	<u>\$ 25,295,284</u>	<u>\$ 26,077,326</u>	<u>\$ 26,460,717</u>	<u>\$ 27,850,743</u>
Expenditures:				
General government administration	\$ 2,956,254	\$ 3,123,305	\$ 4,079,407	\$ 3,924,510
Judicial administration	1,418,241	1,372,696	1,468,873	1,566,000
Public safety	7,678,200	7,845,641	8,935,052	9,200,137
Public works	3,366,197	3,667,769	3,551,770	3,820,345
Health and welfare	497,656	561,968	454,094	642,240
Education	7,442,194	6,877,698	6,403,847	8,740,321
Parks, recreation, and cultural	949,304	969,929	1,157,425	1,459,050
Community development	3,364,924	2,997,166	3,766,058	3,726,792
Capital Outlays	745,583	677,481	-	-
Capital Projects	184,620	110,432	-	-
Non-departmental	120,008	-	-	-
Debt service:				
Principal retirement	951,135	1,906,339	1,092,255	1,183,049
Interest and other fiscal charges	550,070	608,736	497,758	638,403
Total expenditures	<u>\$ 30,224,386</u>	<u>\$ 30,719,160</u>	<u>\$ 31,406,539</u>	<u>\$ 34,900,847</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (4,929,102)</u>	<u>\$ (4,641,834)</u>	<u>\$ (4,945,822)</u>	<u>\$ (7,050,105)</u>
Other financing sources (uses):				
Proceeds from debt issued	\$ 476,888	\$ 127,000	\$ 427,575	\$ 4,529,764
Sale of property	-	1,177,000	-	-
Payment to refunded bond escrow agent	-	-	-	(2,499,764)
Transfers in	4,772,234	3,902,199	5,868,548	4,859,443
Transfers (out)	(550,750)	(426,586)	(1,125,214)	(308,950)
Total other financing sources (uses)	<u>\$ 4,698,372</u>	<u>\$ 4,779,613</u>	<u>\$ 5,170,909</u>	<u>\$ 6,580,493</u>
Net changes in fund balances	<u>\$ (230,730)</u>	<u>\$ 137,779</u>	<u>\$ 225,087</u>	<u>\$ (469,612)</u>
Debt service as a percentage of noncapital expenditures	<u>5.12%</u>	<u>8.40%</u>	<u>5.30%</u>	<u>5.64%</u>

Table 5

	2006	2007	2008	2009	2010	2011
\$	8,744,282	\$ 8,744,282	\$ 9,252,784	\$ 9,305,221	\$ 9,080,208	\$ 8,941,108
	7,860,321	7,860,321	7,847,713	7,823,526	6,345,922	6,794,798
	436,393	436,393	432,554	447,276	560,910	505,375
	207,286	207,286	167,266	180,298	172,344	151,231
	1,472,629	1,472,629	1,006,575	732,669	714,804	612,256
	263,442	263,442	278,350	334,665	376,859	409,501
	320,678	320,678	283,529	441,676	374,241	938,783
	1,084,522	1,084,522	1,113,309	995,822	1,077,895	974,492
	8,346,744	8,346,744	8,840,847	7,764,295	8,968,309	9,079,756
	3,053,329	3,053,329	2,956,705	3,133,635	2,573,838	2,321,181
\$	<u>31,789,626</u>	<u>\$ 31,789,626</u>	<u>\$ 32,179,632</u>	<u>\$ 31,159,083</u>	<u>\$ 30,245,330</u>	<u>\$ 30,728,481</u>
\$	3,888,574	\$ 3,888,574	\$ 4,302,438	\$ 5,012,363	\$ 4,769,772	\$ 4,320,113
	1,779,779	1,779,779	1,907,589	2,000,189	1,885,975	1,887,939
	9,191,113	9,191,113	9,716,719	9,874,293	9,399,480	9,005,610
	4,518,076	4,518,076	4,062,576	4,911,994	4,141,317	4,084,984
	600,133	600,133	521,146	605,854	1,396,264	627,135
	6,695,401	6,695,401	7,082,718	6,891,809	6,039,577	5,697,421
	1,491,346	1,491,346	1,722,562	1,108,760	1,165,186	1,500,498
	4,516,723	4,516,723	2,970,905	3,950,792	4,173,213	4,066,774
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	1,103,063	1,103,063	3,660,658	3,660,350	1,251,510	1,188,028
	482,109	482,109	368,440	528,333	389,116	369,380
\$	<u>34,266,317</u>	<u>\$ 34,266,317</u>	<u>\$ 36,315,751</u>	<u>\$ 38,544,737</u>	<u>\$ 34,611,410</u>	<u>\$ 32,747,882</u>
\$	<u>(2,476,691)</u>	<u>\$ (2,476,691)</u>	<u>\$ (4,136,119)</u>	<u>\$ (7,385,654)</u>	<u>\$ (4,366,080)</u>	<u>\$ (2,019,401)</u>
\$	500,000	\$ 500,000	\$ 2,464,452	\$ 2,972,053	340,000	\$ -
	-	-	-	-	-	-
	-	-	-	-	-	-
	5,442,840	5,442,840	3,975,745	3,773,941	3,096,834	2,957,692
	(1,050,625)	(1,050,625)	(491,966)	(124,499)	(293,813)	(221,400)
\$	<u>4,892,215</u>	<u>\$ 4,892,215</u>	<u>\$ 5,948,231</u>	<u>\$ 6,621,495</u>	<u>\$ 3,143,021</u>	<u>\$ 2,736,292</u>
\$	<u>2,415,524</u>	<u>\$ 2,415,524</u>	<u>\$ 1,812,112</u>	<u>\$ (764,159)</u>	<u>\$ (1,223,059)</u>	<u>\$ 716,891</u>
	<u>4.87%</u>	<u>4.70%</u>	<u>11.26%</u>	<u>11.16%</u>	<u>4.77%</u>	<u>4.81%</u>

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

Fiscal Year	General Property Taxes	Local Sales and Use Taxes	Consumer Utility Taxes	Business License Taxes	Meals Taxes	(Telephone) E-911 Taxes	Other Local Taxes	Total
2011	\$ 8,941,108	\$ 1,911,276	\$ 710,361	\$ 1,947,085	\$ 1,409,442	\$ -	\$ 816,634	\$ 15,735,906
2010	9,080,208	1,759,239	718,563	1,676,826	1,390,907	-	1,738,173	16,363,916
2009	9,305,221	2,015,151	735,458	1,849,974	1,430,326	-	1,792,617	17,128,747
2008	9,252,784	2,054,229	749,579	1,837,209	1,403,131	-	1,803,565	17,100,497
2007	8,744,282	2,279,517	758,582	1,757,733	1,368,860	267,252	1,428,376	16,604,602
2006	7,642,006	2,145,605	768,590	1,713,541	1,155,170	559,954	1,223,340	15,208,206
2005	7,338,045	2,020,464	769,307	1,750,980	1,119,338	598,640	1,094,081	14,690,855
2004	7,288,727	2,048,135	764,038	1,488,635	1,039,988	587,291	1,184,353	14,401,167
2003	6,754,405	2,108,305	779,646	1,615,629	860,452	565,586	958,319	13,642,342
2002	6,374,432	1,835,109	773,811	1,432,066	856,362	559,492	1,061,505	12,892,777

CITY OF MARTINSVILLE, VIRGINIA

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

Fiscal Year(1)	Real Estate	Personal Property	Machinery and Tools	Public Service Real Estate	Public Service Pers Prop	Total
2011	\$ 693,753,700	\$ 96,212,276	\$ 5,676,513	\$ 22,370,013	\$ 257,936	\$ 818,270,438
2010	693,122,800	103,067,671	6,124,366	23,411,431	242,044	825,968,312
2009	645,748,787	113,874,992	6,715,547	22,318,052	*	788,657,378
2008	639,192,692	108,609,168	11,452,777	26,072,969	*	785,327,606
2007	593,669,976	100,582,016	15,146,780	21,340,984	*	730,739,756
2006	588,988,194	98,478,170	12,831,665	25,709,402	*	726,007,431
2005	559,497,600	101,861,411	12,083,426	27,043,443	*	700,485,880
2004	556,169,600	94,124,537	13,754,159	29,719,298	*	693,767,594
2003	531,125,500	89,785,700	13,854,533	27,763,786	*	662,529,519
2002	500,132,200	91,886,053	17,253,822	27,821,178	*	637,093,253
2001	499,376,500	87,362,958	47,211,356	27,313,555	*	661,264,369

(1) 100% fair market value.

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

Source: Commissioner of the Revenue

Table 7

Tax Rates				
Real Estate	Personal Property	Machinery and Tools	Public Service R/E	Public Service P/P
\$ 1.02	\$ 2.30	\$ 1.85	\$ 1.02	\$ 2.30
1.08	2.30	1.85	1.08	2.30
1.08	2.30	1.85	1.08	*
1.08	2.30	1.85	1.08	*
1.08	2.30	1.85	1.08	*
0.94	2.30	1.85	0.94	*
0.94	2.30	1.85	0.94	*
0.94	2.30	1.85	0.94	*
0.94	1.92	1.85	0.94	*
0.94	1.92	1.85	0.94	*
0.94	1.92	1.85	0.94	*

CITY OF MARTINSVILLE, VIRGINIA

Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total (1) Tax Levy	Current Tax (1), (3) Collections	Percent of Levy Collected	Delinquent (1) Tax (2) Collections
2011	\$ 9,654,565	\$ 8,858,482	91.75%	\$ -
2010	9,790,499	9,082,620	92.77%	453,976
2009	9,960,763	9,330,615	93.67%	428,157
2008	10,162,566	9,304,630	91.56%	396,634
2007	9,594,029	8,819,854	91.93%	397,090
2006	8,587,588	7,808,647	90.93%	352,969
2005	8,142,346	7,441,799	91.40%	324,579
2004	7,984,936	7,554,156	94.61%	236,605
2003	7,269,766	6,925,121	95.26%	355,301
2002	7,104,697	6,899,049	97.11%	107,345

(1) Exclusive of penalties and interest.

(2) Does not include land redemptions.

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

Table 8

	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (1)	Percent of Delinquent Taxes to Tax Levy
\$	8,858,482	91.75%	\$ 1,122,427	11.63%
	9,536,596	97.41%	1,463,215	14.95%
	9,758,772	97.97%	1,161,416	11.66%
	9,701,264	95.46%	1,156,795	11.38%
	9,216,944	96.07%	1,042,455	10.87%
	8,161,616	95.04%	934,930	10.89%
	7,766,378	95.38%	782,918	9.62%
	7,790,761	97.57%	751,746	9.41%
	7,280,422	100.15%	729,216	10.03%
	7,006,394	98.62%	845,663	11.90%

CITY OF MARTINSVILLE, VIRGINIA

Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	Governmental Activities					
	General Obligation Bonds	General Obligation Notes	State Literary Loans	VPSA Bonds	Capital Leases	Notes Payable
2011	\$ 2,473,800	\$ 340,000	\$ 5,250,000	\$ 1,732,744	\$ 325,647	\$ -
2010	2,707,900	340,000	5,875,000	1,840,897	546,422	-
2009	2,923,900	-	6,500,000	1,946,566	851,263	-
2008	3,077,971	-	7,125,000	2,045,332	661,723	-
2007	3,276,703	2,000,000	7,788,525	133,572	407,432	500,000
2006	3,464,764	2,000,000	8,452,050	157,819	647,235	-
2005	3,435,000	-	9,115,575	181,364	980,612	-
2004	3,595,000	-	9,779,100	204,251	798,880	-
2003	3,745,000	-	10,442,625	226,522	997,939	-
2002	3,890,000	-	11,106,150	248,227	737,363	945,000
2001	4,030,000	-	11,769,675	269,423	292,375	978,879

n/a - not available at publication

Table 9

General Obligation Bonds	Revenue Bonds	Capital Leases	Total Primary Government	Percentage of Personal Income	Net Bonded Debt per Capita
\$ 3,075,100	\$ -	\$ 193,719	\$ 13,391,010	n/a	\$ 969
2,502,200	-	318,448	14,130,867	n/a	1,022
2,742,800	-	439,756	15,404,285	n/a	1,060
1,982,600	-	-	14,892,626	n/a	1,025
2,209,500	-	-	16,315,732	849.76%	1,122
1,907,900	-	-	16,629,768	888.13%	1,132
-	-	-	13,712,551	789.80%	930
-	825,000	114,068	15,316,299	890.15%	1,040
-	1,615,000	344,371	17,371,457	1006.79%	1,156
-	2,375,000	566,725	19,868,465	1169.84%	1,321
-	3,100,000	344,943	20,785,295	1271.91%	1,361

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

Fiscal Year	Population (1)	Assessed Value (in thousands) (2)	Net Bonded Debt	Ratio of Net General Obligation Debt to Assessed Value	Net Bonded Debt per Capita
2011	13,821 \$	818,270,438 \$	12,871,644	1.57% \$	931
2010	13,821	825,968,312	13,265,997	1.61%	960
2009	14,841	788,657,378	14,113,266	1.79%	951
2008	14,535	785,327,606	14,230,903	1.81%	979
2007	14,545	730,739,756	15,774,728	2.16%	1,085
2006	14,687	726,007,431	15,824,714	2.18%	838
2005	14,743	700,485,880	12,731,939	1.82%	893
2004	14,731	693,767,594	13,580,355	1.96%	942
2003	15,024	662,529,519	14,414,147	2.18%	977
2002	15,041	637,093,253	15,244,377	2.39%	1,042

Sources:

(1) The Weldon Cooper Center for Public Service

(2) From Table 7

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

Computation of Direct and Overlapping Bonded Debt
At June 30, 2011

Direct:(1)

City of Martinsville	\$	12,871,644	100%	\$	12,871,644
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The City of Martinsville has no overlapping debt.

Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population (1)	City Per Capita Income (2)	School Enrollment (3)	Unemployment Rate (4)	Personal Income In Thousands (5)
2011	13,821	n/a	2,359	17.00%	n/a
2010	13,821	n/a	2,324	20.20%	n/a
2009	14,841	28,773	2,453	21.60%	2,000,417
2008	14,535	28,906	2,436	11.40%	2,024,349
2007	14,545	27,427	2,408	8.40%	1,920,040
2006	14,687	26,646	2,526	7.20%	1,872,449
2005	14,743	24,641	2,575	10.10%	1,736,201
2004	14,731	17,251	2,593	12.00%	1,720,635
2003	15,024	17,251	2,673	10.50%	1,725,430
2002	15,041	17,251	2,655	12.50%	1,698,396

n/a - not available at publication

Sources:

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

Principal Employers
Current Year and Ten Years Ago

<u>Employer</u>	<u>Fiscal Year 2011</u>		<u>Employer</u>	<u>Fiscal Year 2002</u>	
	<u>Employees</u>	<u>Rank</u>		<u>Employees</u>	<u>Rank</u>
Memorial Hospital of M'ville	500-999	1	Hooker Furniture Corporation	500-999	1
Martinsville City Schools	250-499	2	Memorial Hospital of Martinsville	500-999	2
Advantage Staffing Resources	250-499	3	Newroads	500-999	3
Martinsville City	250-499	4	Martinsville City Schools	500-999	4
Piedmont Reg. Comm Services	250-499	5	Nationwide Homes	250-499	5
Ameristaff	250-499	6	City of Martinsville	250-499	6
Southern Finishing Co	100-249	7	WalMart	250-499	7
Healthcare Services Group	100-249	8	ABH Staffing	250-499	8
Nationwide Homes Inc	100-249	9	Piedmont Reg Comm Services	100-249	9
Kidd International Home C Inc	100-249	10	Blue Ridge Rehabilitation Center	100-249	10

Source: Virginia Employment Commission & Martinsville-Henry County EDC

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

<u>Function</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
General government	26	28	25	28	28	26	24	24	23	23
Public safety										
Police department	59	58	58	55	57	57	57	57	55	54
Fire department	27	29	29	29	31	31	30	30	29	29
Public works										
General maintenance	37	44	41	43	41	38	43	42	42	42
Landfill Operation	7	6	6	6	0	0	0	0	0	0
Refuse Collection	4	4	4	4	0	4	4	4	4	3
Engineering	5	3	4	4	4	4	4	3	2	2
Culture and recreation										
Parks and recreation	11	10	10	10	10	9	9	9	8	7
Community development										
Planning	10	10	9	7	8	8	6	6	5	4
Totals	<u>186</u>	<u>192</u>	<u>186</u>	<u>186</u>	<u>179</u>	<u>177</u>	<u>177</u>	<u>175</u>	<u>168</u>	<u>164</u>

Source: Individual city departments

Operating Indicators by Function
Last Seven Fiscal Years

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

Source: Individual city departments

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

Capital Asset Statistics by Function
Last Seven Fiscal Years

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

Source: Individual city departments

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, the major fund, and the aggregate remaining fund information of the City of Martinsville, Virginia, as of and for the year ended June 30, 2011, which collectively comprise the City of Martinsville, Virginia's basic financial statements and have issued our report thereon dated December 5, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

We noted certain other matters that we reported to management of City of Martinsville, Virginia in a separate letter dated December 5, 2011.

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

Robinson, Farmer, Cox Associates
Charlottesville, Virginia
December 5, 2011

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

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

Compliance

We have audited the City of Martinsville, Virginia's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The City of Martinsville, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Martinsville, Virginia's management. Our responsibility is to express an opinion on the City of Martinsville, Virginia's compliance based on our audit.

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

In our opinion, the City of Martinsville, Virginia complied, in all material respects, with the requirements referred to above that that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

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

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

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

Robinson, Farmer, Cox Associates
Charlottesville, Virginia
December 5, 2011

Schedule of Expenditures of Federal Awards - Primary Government and
Discretely Presented Component Unit
Year Ended June 30, 2011

<u>Federal Grantor/State Pass - Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Agency Identifying Number</u>	<u>Federal Expenditures</u>
PRIMARY GOVERNMENT:			
<u>DEPARTMENT OF AGRICULTURE:</u>			
<u>Direct payments:</u>			
Community facilities loans and grants	10.766	N/A	\$ <u>30,450</u>
<u>DEPARTMENT OF TRANSPORTATION:</u>			
<u>Pass through payments:</u>			
Department of Motor Vehicles:			
ARRA - Highway planning and construction	20.205	UPC 97198	\$ 30,745
Alcohol Open Container Requirements	20.607	60507-50320	<u>32,978</u>
Total Department of Housing and Community Development			\$ <u>63,723</u>
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>			
<u>Direct payments:</u>			
Section 8 Housing choice vouchers	14.871	N/A	\$ 2,081,905
<u>Pass through payments:</u>			
Department of Housing and Community Development:			
Community development block grant	14.228	53305-50797	6,167
Home investment partnerships program	14.239	45805-45856	<u>56,950</u>
Total Department of Housing and Community Development			\$ <u>2,145,022</u>
<u>DEPARTMENT OF LABOR:</u>			
<u>Pass through payments:</u>			
Governor's Employment and Training Department:			
Senior community service employment program	17.235	N/A	\$ <u>21,966</u>
<u>DEPARTMENT OF JUSTICE:</u>			
<u>Direct payments:</u>			
Viper grant	16.000	N/A	\$ 4,704
Asset forfeiture	16.000	N/A	<u>1,684</u>
Total viper grant and asset forfeiture - 16.000			\$ <u>6,388</u>
State Criminal Alien Assistance Program	16.606	N/A	1,376
<u>Pass through payments:</u>			
Department of Criminal Justice Services:			
Crime victim assistance	16.575	39001-86000	<u>52,258</u>
Total Department of Justice			\$ <u>60,022</u>
Total Primary Government			\$ <u>2,321,183</u>
COMPONENT UNIT-SCHOOL BOARD:			
<u>DEPARTMENT OF AGRICULTURE:</u>			
<u>Pass through payments:</u>			
Child Nutrition Cluster:			
Department of Agriculture:			
Food distribution	10.555	10.555/2001	\$ 89,487
Department of Education:			
National school lunch program	10.555	10.555/2011	<u>673,734</u>
Total national school lunch program - 10.555			\$ <u>763,221</u>

Schedule of Expenditures of Federal Awards - Primary Government and
Discretely Presented Component Unit
Year Ended June 30, 2011 (Continued)

<u>Federal Grantor/State Pass - Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Agency Identifying Number</u>	<u>Federal Expenditures</u>
COMPONENT UNIT-SCHOOL BOARD: (Continued)			
<u>DEPARTMENT OF AGRICULTURE: (Continued)</u>			
Department of Education:			
School breakfast program	10.553	10.553/2011	\$ 209,096
Fresh fruit and vegetable program	10.582	10.582/2011	<u>38,996</u>
Total Department of Agriculture			<u>\$ 1,011,313</u>
<u>DEPARTMENT OF LABOR:</u>			
<u>Direct payments:</u>			
Workforce investment act - youth activities	17.259	N/A	<u>\$ 43,446</u>
<u>DEPARTMENT OF EDUCATION:</u>			
<u>Direct payments:</u>			
Department of Education:			
Adult Education - National Leadership Activities	84.191	N/A	\$ 10,500
<u>Pass through payments:</u>			
Department of Education:			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	17117-00000	\$ 22,239
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	S010A090046	740,379
ARRA - Title I Grants to Local Educational Agencies	84.389	S389A090046	230,985
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027	H027A100107	487,616
Special Education - Preschool Grants	84.173	H173A100112	6,062
ARRA - Special Education - Grants to States	84.391	H391A090107	327,413
ARRA - Special Education - Preschool Grants	84.392	H392A090112	12,621
Career and Technical Education - Basic Grants to States	84.048	V048A100046	75,019
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants	84.394	S394A090047	705,450
Safe and Drug-free schools and communities - State Grants	84.186	Q189A090048	155,434
English Language acquisition grants	84.365	S365A100046	13,627
Improving teacher quality state grants	84.367	S367A100044	143,093
Rural Education	84.358	S358B090046	50,993
21st Century Community Learning Centers	84.287	S287C100047	278,599
Educational Technology State Grants Cluster:			
Education Technology State Grants	84.318	S318X100046	7,253
ARRA - Education Technology State Grants	84.386	S386A090046	<u>341</u>
Total Department of Education			<u>\$ 3,267,624</u>
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE:</u>			
<u>Pass through payments:</u>			
Department of Education:			
Learn and Serve America - School and Community Based Programs	94.004	KSSVA09001	<u>\$ 18,216</u>
Total Component Unit School Board			<u>\$ 4,340,599</u>
Total Expenditures of Federal Awards			<u>\$ 6,661,782</u>

See accompanying notes to schedule of expenditures of federal awards

CITY OF MARTINSVILLE, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards For The Year Ended June 30, 2011

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Martinsville, Virginia under programs of the federal government for the year ended June 30, 2011 . The information in this Schedule is presented in accordance with the reporting requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of operations of the City of Martinsville, Virginia, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City of Martinsville, Virginia.

Note 2 - Summary of Significant Accounting Policies

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

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

Note 3 - 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	\$ 202,661
Housing Choice Fund	2,081,905
Capital Reserve Fund	30,450
Grants Fund	<u>6,165</u>
Total primary government	\$ <u>2,321,181</u>
Component Unit Public Schools:	
School Operating Fund	\$ 874,871
School Grants Fund	2,454,415
School Cafeteria Fund	<u>1,011,315</u>
Total component unit public schools	\$ <u>4,340,601</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards	\$ <u><u>6,661,782</u></u>

CITY OF MARTINSVILLE, VIRGINIA

Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
Material weakness(es) identified? No
Significant deficiency(ies) identified? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:
Material weakness(es) identified? No
Significant deficiency(ies) identified? None reported

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

Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
Section .510 (a)? Yes

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
14.871	Section 8 Housing choice vouchers
84.010/84.389	Title I, Part A Cluster
84.027/84.173/84.391/84.392	Special Education Cluster (IDEA)
84.394	ARRA - State fiscal stabilization fund (SFSF) - Education State Grants

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

Auditee qualified as low-risk auditee? Yes

Section II - Financial Statement Findings

There are no financial statement findings to report.

CITY OF MARTINSVILLE, VIRGINIA

Schedule of Findings and Questioned Costs
Year Ended June 30, 2011 (continued)

Section III - Federal Award Findings and Questioned Costs

2011-1 Funding Source - Department of Education

Special Education Cluster

CFDA Numbers: 84.027, 84.173, 84.391, 84.392

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

Federal Grant Award: H027A100107; H173A100112; H391A090107; H392A090112

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

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

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

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

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

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

Response: The School Board has been in contact with the Virginia Department of Education and at the report release date this matter is not fully resolved and the outcome is uncertain.

CITY OF MARTINSVILLE, VIRGINIA

Summary Schedule of Prior Year Findings
Year Ended June 30, 2011

There are no prior year findings and questioned costs.