

*Martinsville, Virginia*  
A CITY WITHOUT LIMITS



COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

YEAR ENDED JUNE 30, 2007



**CITY OF MARTINSVILLE, VIRGINIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**YEAR ENDED JUNE 30, 2007**

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**PREPARED BY:**

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Finance Department



**CITY OF MARTINSVILLE, VIRGINIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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## CITY OF MARTINSVILLE, VIRGINIA

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### City Council

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Kimble Reynolds, Jr., Mayor  
James W. Clark, Vice-Mayor

Mark T. Anderson

Kathy C. Lawson

J. Ronald Ferrill

### School Board

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James H. Johnson, Chairman  
Bill R. Manning

Nancy L. Baker  
Sandra L. Haley

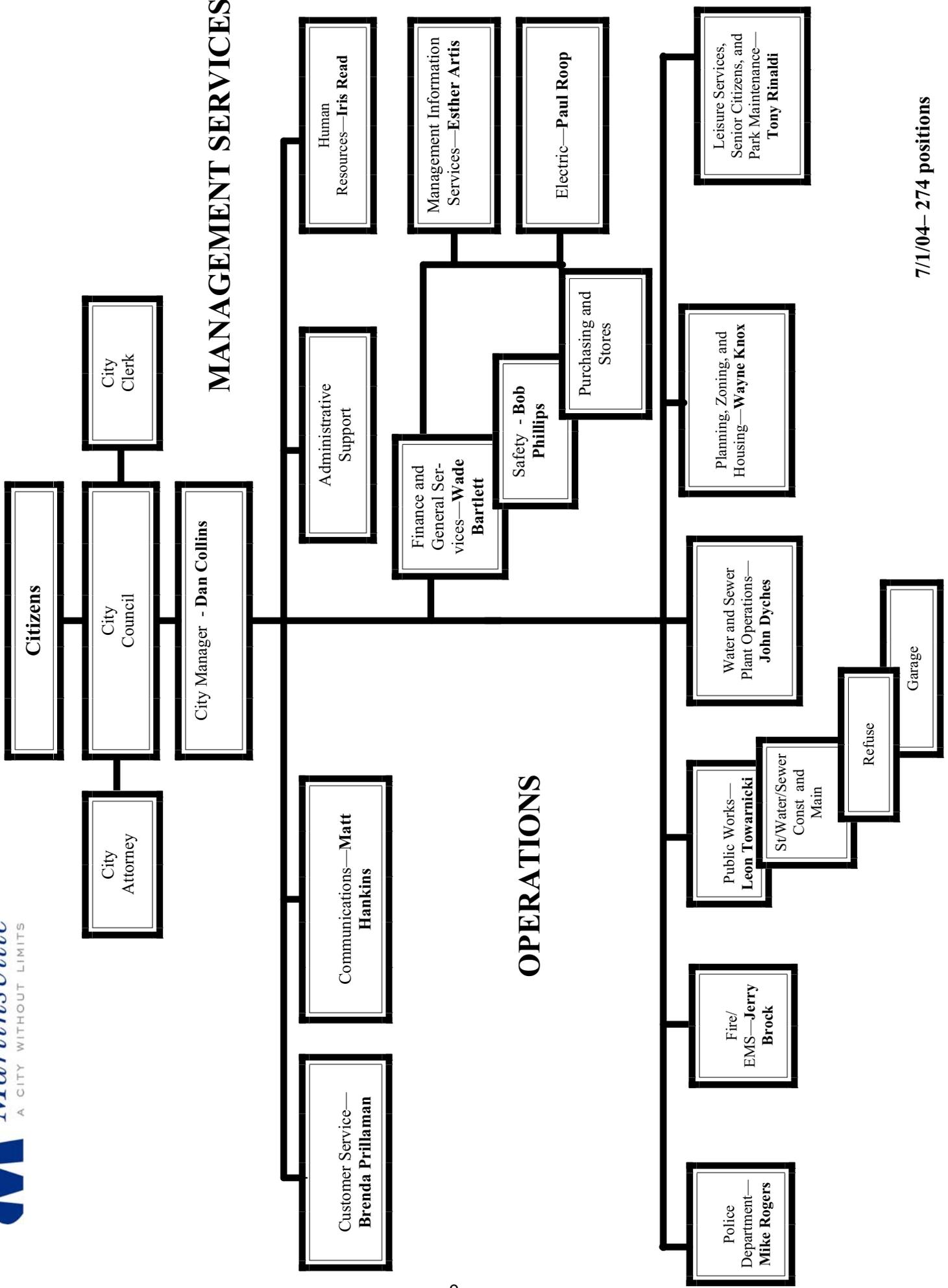
Robert Williams

### Other Officials

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









December 17, 2007

**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, 2007. 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, 2007 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 and one blended component unit. The GASB statement establishes the criteria used in making this determination and identifies each as a blended component unit or discretely presented component unit. Blended component units, although legally separate entities, are in substance, part of the primary government's operations, and therefore are included as part of the primary government. The City's blended component unit is the Martinsville Industrial Development Authority. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position and results of operations from those of this primary government. Therefore, the City School Board is reported in a discrete presentation. Based on GASB Statement 14 criteria, the School Board is a legally separate organization providing educational services to the public whose board is appointed by City Council and is fiscally dependent on the local government.

The financial statements for the Blue Ridge Regional Library and the Henry-Martinsville Social Services Board are not included in the City report. Boards separate from, and independent of, the City Council 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 sluggish. The local unemployment rate was 8.4% at June 30, 2007, an increase over the rate of 7.2% at June 30, 2006. This rate is still much higher than the state and national rates of 3.2% and 4.7% 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, but it has been slow to deliver results. Assessed value of taxable property has increased by 6.7% over the last three years, barely keeping pace with inflation. A major indicator of business activity is the amount collected from Business Licenses. The amount collected this Fiscal Year increased by 2.6% when compared to the previous fiscal year. It is obvious the City still has a long way to go to recover from the loss of local manufacturing.

## MAJOR INITIATIVES

**For Fiscal Year 2007:** 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
- Shared Transfer Station
- Preparation for Closure of the City Landfill
- Agreements with Henry County to Provide Water and Treat Wastewater

**Shared Economic Development.** Additionally, 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.

**Shared Transfer Station.** The City’s landfill reached capacity during last fiscal year and was closed. The landfill generated net income of \$2 million - \$2.5 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.

**Preparation for Closure of the City Landfill.** The City began efforts to close the landfill. Bids were solicited, along with approval from relevant regulatory authorities. A contract was awarded in the approximate amount of \$2,391,086 for closure to occur during FY08. During FY07, only preparatory work and incidental expenses were transacted for the project.

**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. The wastewater portion of the project was completed last fiscal year and increased wastewater revenues by \$370,000 annually. Combined the City’s utility revenues increased by more than \$500,000 annually. The project was funded by various grants.

**Prospects for the Future.** For fiscal year 2008 the City Council approved a General Fund Budget of \$29,281,525. The fiscal year 2008 budget maintains the real estate tax rate at \$1.08 per \$100 of assessed value, 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.

With the close of the landfill, the City pays a third party to dispose of and haul City garbage to another landfill. Refuse rates will continue rising over time as the private contractor increases transfer station fees on an annual basis.

Final closure of the City landfill will be completed during FY08, as the substantial completion inspection is scheduled for mid-December 2007. Bonds will be issued to pay this debt in the anticipated amount of \$2,391,086. The FY08 budget has funds encumbered for bond principal and accrued interest expenditures.

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

This forced the City to raise Electric rates charged to our customers by approximately 50% over the last 3 years. The result has been our rates are around 35% higher than the adjacent utility. The outlook for the future is for even higher wholesale rates. The choice will be to increase electric rates even more, thus placing us in even a worse position in attracting new business. In an effort to reduce our reliance on the high priced and volatile wholesale electric market, we are beginning to explore City-owned electric generation. If approved, this will be a process extending over several years and will not alleviate the pressures mentioned above in the next five years.

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

## **OTHER INFORMATION**

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

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

**Awards.** The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

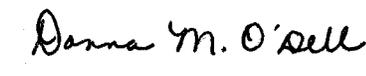
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report (CAFR), whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable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

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

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

Respectfully submitted,

  
City Manager/  
Finance Director

  
Assistant Director of Finance

  
Budget Analyst

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# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

## Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Martinsville, Virginia, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City of Martinsville Virginia's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Martinsville, Virginia, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 21, 2007, on our consideration of the City of Martinsville, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and required supplementary information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

*Robinson, Farmer, Cox Associates*

Charlottesville, Virginia  
December 21, 2007

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The management of the City of Martinsville, Virginia, presents this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2007. 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 \$32,552,505 (total net assets). Of this amount \$12,766,379 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The Governmental activities net assets were \$9,877,308 of the City's total, an increase of \$2,422,989 or 33% in comparison with net assets of \$7,454,319 at June 30, 2006.
- Net assets of the City's various business type activities totaled \$22,675,197. This is an increase of \$99,928 or 4.4% from net assets reported on June 30, 2006.
- The School Board's assets exceeded its liabilities by \$7,487,721, an increase of \$866,007 when compared to the amount on June 30, 2006. However, \$5,574,220 of this amount reflects the School Board's net investment in capital assets leaving \$1,913,501 in unrestricted assets available to meet ongoing obligations. This is an increase of \$177,922 or 10.2% 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 in excess of expenditures and other financing sources by \$2,415,524 (Exhibit 4) after making direct contributions totaling \$6,547,131 to the School Board. An additional \$1,097,395 was expended from the Meals Tax Fund used to retire School related debt. Another \$246,101 was expended from the Capital Reserve for the renovation of Patrick Henry Elementary School. A total of \$7,890,627 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 \$3,359,880, which is an increase of \$2,415,524 in comparison with the prior fiscal year.
- At the close of the current fiscal year, the unreserved fund balance for the general fund was \$2,081,470 or 7.4% of total general fund expenditures.
- The combined long-term Governmental obligations decreased \$641,421 or 4.2% during the current fiscal year.

## Overview of the Financial Statements

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

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

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

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

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

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

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

## Government-wide Financial Analysis

As stated earlier in this discussion, net assets may serve as a useful indicator of a City's financial position over time. For the City in FY2007, assets exceeded liabilities by \$32,552,505 at the close of the fiscal year as presented in the Table below. This was an increase of \$2,522,917 or 8.4% over the FY2006 closing amount of \$30,029,588.

**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, 2007 and 2006**

	<u>Governmental</u>		<u>Business-type</u>		<u>Totals</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 6,638,290	\$ 4,359,192	\$ 14,907,667	\$ 14,624,159	\$ 21,545,957	\$ 18,983,351
Capital assets	<u>19,248,617</u>	<u>19,898,240</u>	<u>14,643,741</u>	<u>14,161,621</u>	<u>33,892,358</u>	<u>34,059,861</u>
Total assets	<u>\$ 25,886,907</u>	<u>\$ 24,257,432</u>	<u>\$ 29,551,408</u>	<u>\$ 28,785,780</u>	<u>\$ 55,438,315</u>	<u>\$ 53,043,212</u>
Long-term liabilities outstanding	\$ 13,386,285	\$ 14,056,062	\$ 3,089,251	\$ 2,790,635	\$ 16,475,536	\$ 16,846,697
Current liabilities	<u>2,623,314</u>	<u>2,747,051</u>	<u>3,786,961</u>	<u>3,419,876</u>	<u>6,410,275</u>	<u>6,166,927</u>
Total liabilities	<u>\$ 16,009,599</u>	<u>\$ 16,803,113</u>	<u>\$ 6,876,211</u>	<u>\$ 6,210,511</u>	<u>\$ 22,885,810</u>	<u>\$ 23,013,624</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 5,142,385	\$ 5,176,372	\$ 14,643,741	\$ 14,161,621	\$ 19,786,126	\$ 19,337,993
Unrestricted	<u>4,734,923</u>	<u>2,277,947</u>	<u>8,031,456</u>	<u>8,413,648</u>	<u>12,766,379</u>	<u>10,691,595</u>
Total net assets	<u>\$ 9,877,308</u>	<u>\$ 7,454,319</u>	<u>\$ 22,675,197</u>	<u>\$ 22,575,269</u>	<u>\$ 32,552,505</u>	<u>\$ 30,029,588</u>

At the end of FY2007, the City's investment in capital assets, net of related debt is \$19,786,126 and represents 60.8% 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 \$5,142,385.

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 \$12,766,379 or 39.2% of total 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 \$2,422,989. The key elements of this increase are found in exhibit 5. There were two primary reasons for this increase (1) the retirement of debt exceeded the issuance of debt by \$615,636; (2) the fund balance increase by \$2,415,524.

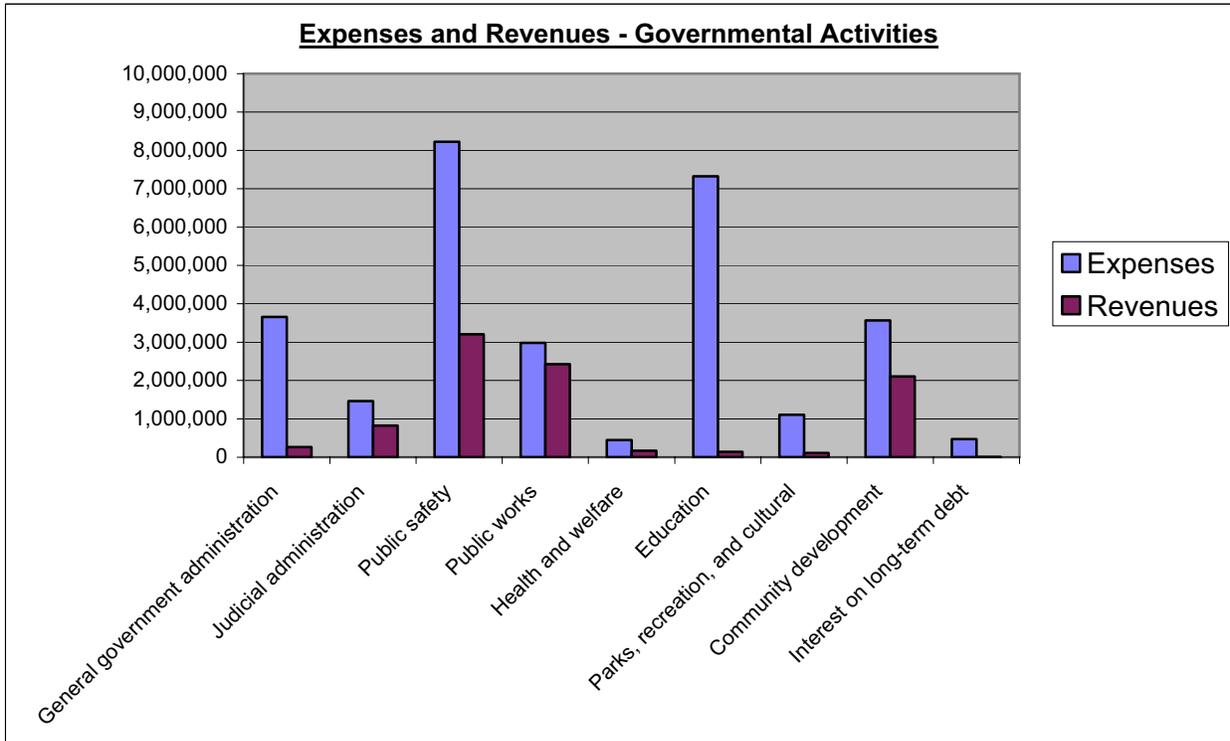
**City of Martinsville, Virginia**  
**Changes in Net Assets**  
**Governmental and Business-Type Activities**  
**For the Years Ended June 30, 2007 and 2006**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues:						
Program revenues:						
Charges for services	\$ 907,121	\$ 890,327	\$ 24,195,952	\$ 23,200,306	\$ 25,103,073	\$ 24,090,633
Operating grants and contributions	9,831,458	8,898,857	-	-	9,831,458	8,898,857
Capital grants and contributions	834,435	139,368	48,003	-	882,438	139,368
General revenues:						
General property taxes	8,759,342	7,677,907	-	-	8,759,342	7,677,907
Other local taxes	7,860,320	7,566,200	-	-	7,860,320	7,566,200
Commonwealth non-categorical aid	734,180	732,396	-	-	734,180	732,396
Other general revenues	1,781,079	1,212,568	187,327	108,482	1,968,406	1,321,050
Total revenues	<u>\$ 30,707,935</u>	<u>\$ 27,117,623</u>	<u>\$ 24,431,282</u>	<u>\$ 23,308,788</u>	<u>\$ 55,139,217</u>	<u>\$ 50,426,411</u>
Expenses:						
General government administration	\$ 3,163,344	\$ 3,368,586	\$ -	\$ -	\$ 3,163,344	\$ 3,368,586
Judicial administration	1,767,723	1,565,300	-	-	1,767,723	1,565,300
Public safety	9,048,222	9,145,017	-	-	9,048,222	9,145,017
Public works	4,399,867	3,544,843	-	-	4,399,867	3,544,843
Health and welfare	577,782	630,735	-	-	577,782	630,735
Education	7,418,547	7,609,659	-	-	7,418,547	7,609,659
Parks, recreation, and cultural	1,486,711	1,472,756	-	-	1,486,711	1,472,756
Community development	4,303,337	3,544,537	-	-	4,303,337	3,544,537
Interest on long-term debt	511,628	757,926	-	-	511,628	757,926
Electric	-	-	14,000,303	11,533,301	14,000,303	11,533,301
Water	-	-	1,873,437	1,819,844	1,873,437	1,819,844
Sewer	-	-	2,775,866	2,552,257	2,775,866	2,552,257
Refuse collection/landfill	-	-	1,289,533	1,563,843	1,289,533	1,563,843
Total expenses	<u>\$ 32,677,161</u>	<u>\$ 31,639,359</u>	<u>\$ 19,939,139</u>	<u>\$ 17,469,245</u>	<u>\$ 52,616,300</u>	<u>\$ 49,108,604</u>
Increase in net assets before transfers	\$ (1,969,226)	\$ (4,521,736)	\$ 4,492,143	\$ 5,839,543	\$ 2,522,917	\$ 1,317,807
Transfers	4,392,215	4,550,493	(4,392,215)	(4,550,493)	-	-
Increase in net assets	\$ 2,422,989	\$ 28,757	\$ 99,928	\$ 1,289,050	\$ 2,522,917	\$ 1,317,807
Net assets-beginning, as restated	7,454,319	7,425,562	22,575,269	21,286,219	30,029,588	28,711,781
Net assets - ending	<u>\$ 9,877,308</u>	<u>\$ 7,454,319</u>	<u>\$ 22,675,197</u>	<u>\$ 22,575,269</u>	<u>\$ 32,552,505</u>	<u>\$ 30,029,588</u>

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

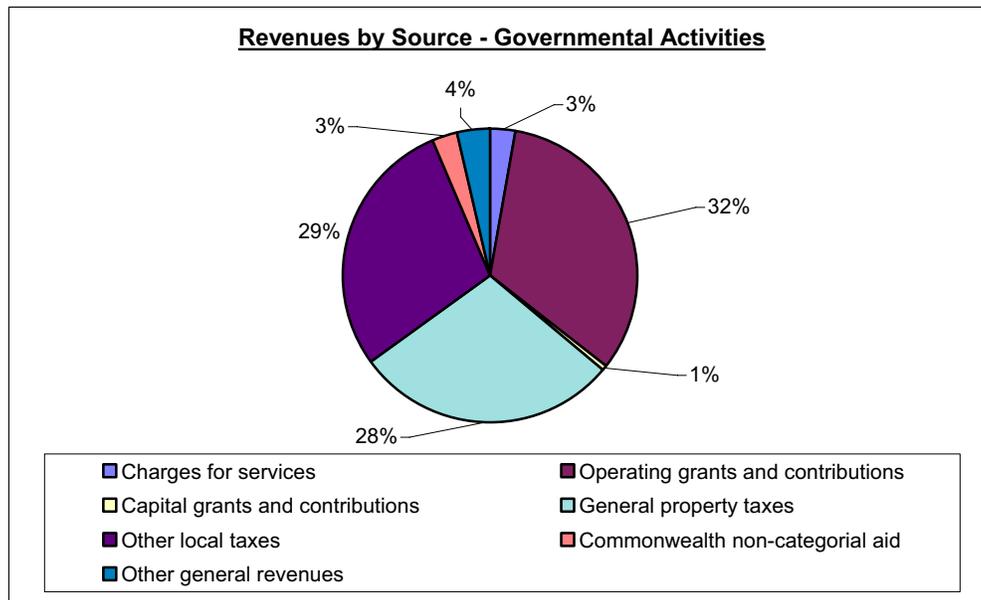
Revenues from governmental activities totaled \$30,707,935 with operating grants and contributions (32%), general property taxes (28.5%), and other local taxes (25.6%) comprising 86% of the City’s revenues. Expenses for public safety (27.7%), education (22.7%), community development (13.1%), public works (13.5%) and general government administration (9.7%), account for 86.7% of total governmental expenses of \$32,677,161.

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



## Government-wide Financial Analysis: (Continued)

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



Business-type Activities increased the City's net assets by \$99,928 even after deducting \$4,392,215 in transfers to the General and Capital Reserve Funds. Transfers decreased \$158,278 compared to the prior Fiscal Year.

## Financial Analysis of the City's Funds

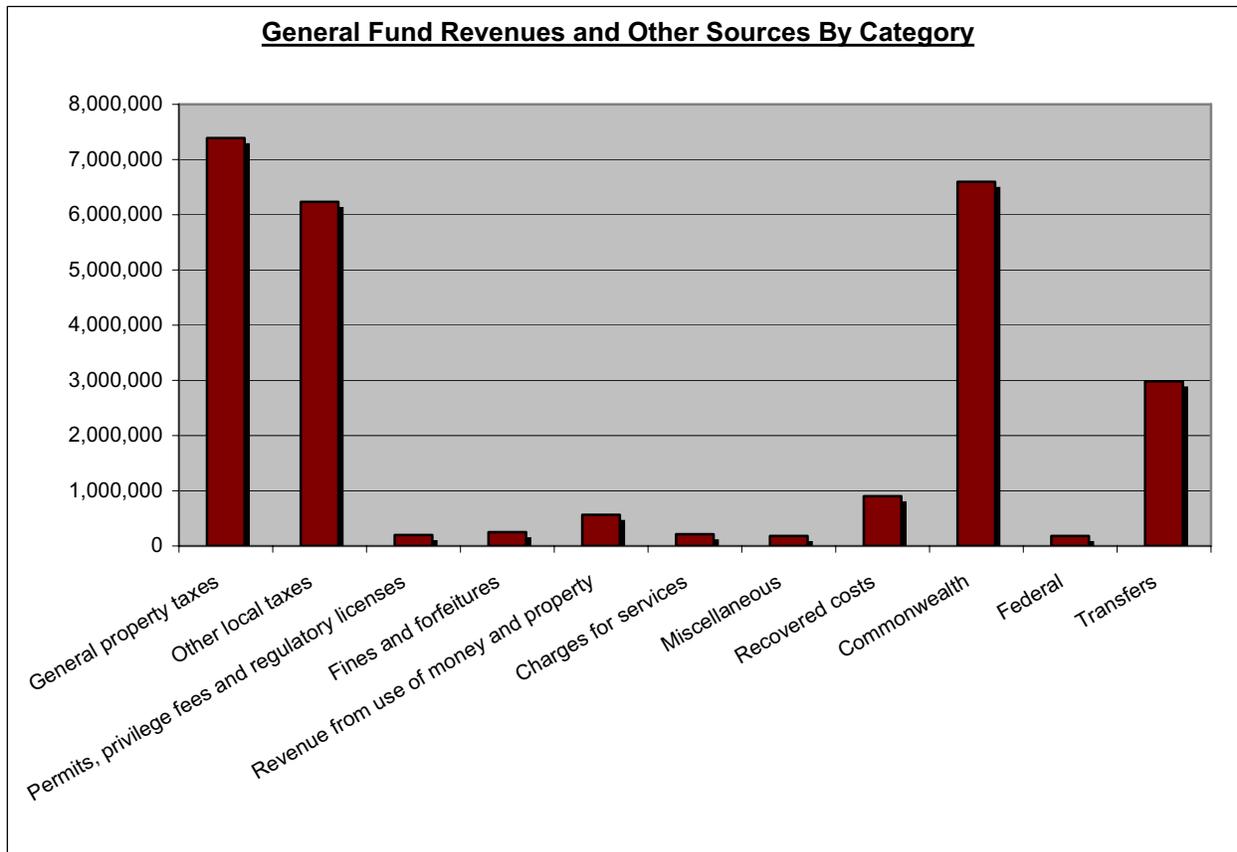
As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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 \$3,359,880 an increase of \$2,415,524 when compared to the prior year. Ninety-five percent (\$3,205,781) of the combined governmental fund balance is unreserved. The remaining five percent (\$154,099) of the combined fund balance is reserved to show it is not available for spending because it has been committed for future capital projects.

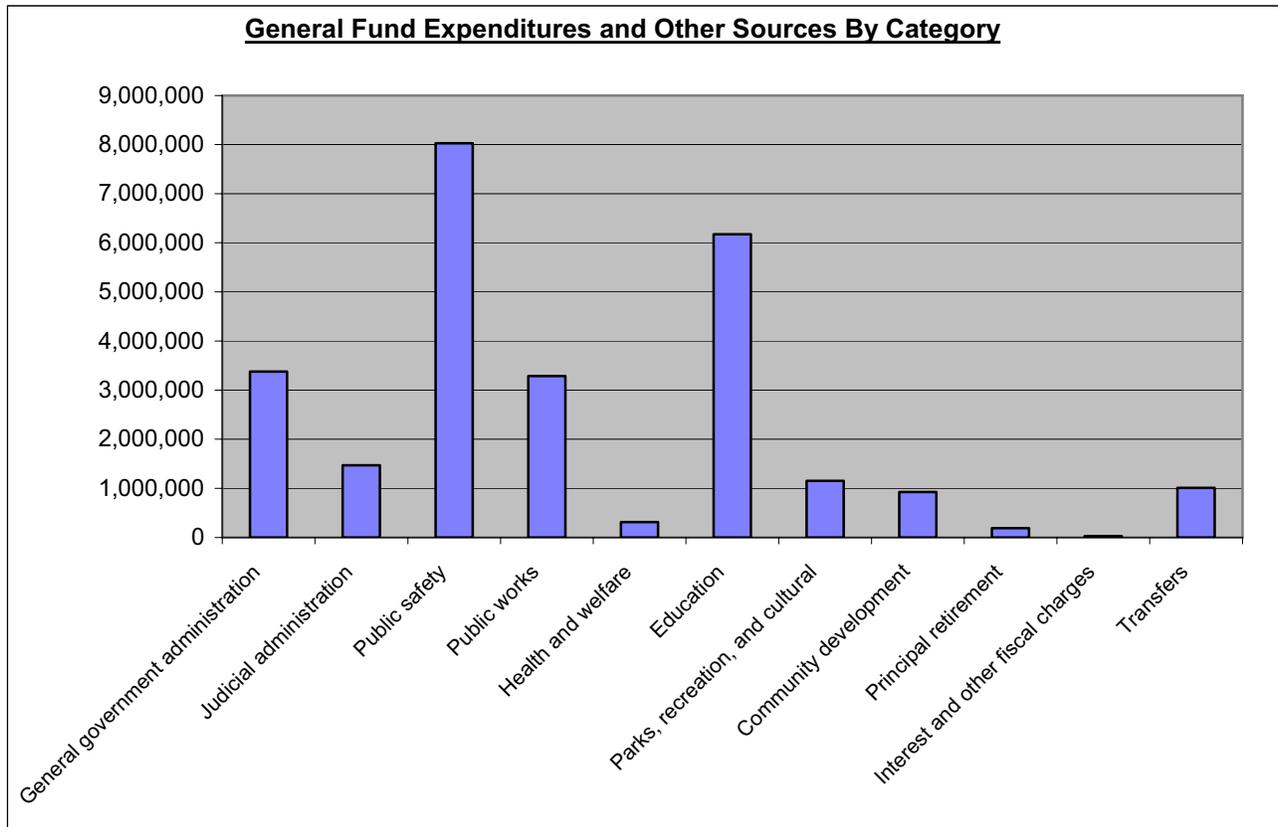
The General Fund is the operating fund of the City. The General Fund reports a fund balance at June 30, 2007 of \$2,235,569. This is an increase from the prior year of \$1,127,439. The General Fund's deficiency of revenues over expenditures in the current year (\$1,579,539) decreased by \$1,269,489 in FY 07 compared to (\$2,849,028) in FY 06. The transfer amounts into the General Fund of \$3,757,603 remained the same as FY06 and transfers out of the General Fund increased by \$741,675. The increase transfer from the General Fund was provided to the Capital Reserve Fund. Ninety-three percent or \$2,081,470 of the total fund balance is unreserved, an increase of \$1,127,439 from June 30, 2006. As a measure of the General Funds liquidity it is useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 7.4% of total General Fund expenditures, while total fund balance is 7.9% 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 \$26,423,435 including transfers into the fund of \$3,757,603.



The graph below displays General Fund expenditures and other uses by category. Total expenditures and uses are \$29,053,599 including transfers out of the fund of \$1,050,625.



Proprietary funds - reported combined ending net assets of \$22,675,197, an increase of \$99,928 in comparison with the amount reported on June 30, 2006. The Electric Fund increased \$1,005,217, and the Refuse Fund increased \$273,481. The Water Fund experienced a decrease of \$374,908 and the Sewer Fund decreased \$803,862.

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

The Enterprise Funds contributed \$4,392,215 in the support of other City operations. Of that amount \$3,757,603 or 85.1% was transferred to the General Fund. The remaining \$634,612 or 14.9% 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 \$1,015,038 or 4.1% while expenditures increased by \$831,436 or 2.9%. The Revenue increases were as follows:

- \$1,623 in Fines and Forfeitures
- \$21,392 in Miscellaneous
- \$55,721 in Recovered costs
- \$479,212 in Intergovernmental Revenues from the Commonwealth
- \$457,090 in Intergovernmental revenues from the Federal Government

**General Fund Budgetary Highlights: (Continued)**

The Expenditure amendments were as follows:

- \$129,085 in decreases in General government administration
- \$164,632 in increases in Judicial administration
- \$404,005 in increases Public Safety
- \$299,836 in increases in Public Works
- \$37,763 in increases in Parks, Recreation, and Cultural
- \$54,285 in increases in Community development

During the year, revenues exceeded the budget by \$643,162 or 2.5% and expenditures were less than the budget by \$1,131,238 or 3.9%. The result was a positive variance of \$1,774,400 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, 2007, is \$33,892,358 (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 FY2007 were: installation and upgrade of security systems throughout City Hall and Jail facilities; EMS equipment; garbage truck; pump replacement and sedimentation basin cover project at the Water Plant; patrol cars; two dump trucks; two pickup trucks; two SUV's; new server; SCADA master upgrade; bucket truck repairs; turbine repairs; steel building for Garage location.

**City of Martinsville, Virginia's  
Capital Assets  
June 30, 2007 and 2006**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 4,379,094	\$ 1,531,372	\$ 683,624	\$ 683,624	\$ 5,062,718	\$ 2,214,996
Construction in progress	-	-	351,318	-	351,318	-
Buildings and improvements	15,421,877	15,402,118	3,139,818	3,090,656	18,561,695	18,492,774
Infrastructure	30,321,165	32,619,953	48,864,179	47,992,429	79,185,344	80,612,382
Equipment	6,896,859	6,498,750	6,287,678	5,696,378	13,184,537	12,195,128
Total	\$ 57,018,995	\$ 56,052,193	\$ 59,326,617	\$ 57,463,087	\$ 116,345,612	\$ 113,515,280
Less: accumulated depreciation	<u>37,770,378</u>	<u>36,153,953</u>	<u>44,682,876</u>	<u>43,301,466</u>	<u>82,453,254</u>	<u>79,455,419</u>
Net capital assets	<u>\$ 19,248,617</u>	<u>\$ 19,898,240</u>	<u>\$ 14,643,741</u>	<u>\$ 14,161,621</u>	<u>\$ 33,892,358</u>	<u>\$ 34,059,861</u>

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

Long-term debt - At the close of FY2007, Martinsville City had total outstanding obligations of \$20,453,698. Of this amount \$15,774,728 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 \$336,470 or 1.6%. The City's obligations decreased \$1,479,137 while \$1,000,000 in new debt was issued. The new debt consisted of \$500,000 to close the landfill and \$500,000 to refinance an existing bond.

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

The Commonwealth of Virginia imposes a legal limit of 10% of the assessed valuation of taxable real property on the amount of general obligation borrowing which a City may issue. On June 30, 2007 the City's ratio of Net General Obligation Debt to Assessed Value was 2.16%. This was a slight 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 FY2008 Budgets and Tax Rates**

The unemployment rate for the City on June 30, 2007 was 8.4%. This was an increase of 1.2% year to year. Still the City's unemployment rate compares unfavorably to the state's average unemployment rate of 3.2% and the national average of 4.7% for the same time. The City's population and labor force have been steadily shrinking for the last several years. The disappearance of the local textile industry coupled with the downsizing of the furniture industry have caused the population and shrinking labor force. Various estimates predict this loss of population to continue.

For fiscal year 2008, City Council approved a General Fund Budget of \$29,281,525. The fiscal year 2008 budget maintains the real estate tax rate at \$1.08 per \$100 of assessed value, and all other tax rates remain the same.

The City faces several major challenges in the near future with the greatest obstacles pertaining to the Refuse and Electric Funds. The landfill reached capacity and was closed during last fiscal year. Over the last three years the landfill generated net income of \$2.2 million. This excess cash was transferred from the Refuse Fund and was used to pay for the day-to-day operation of the City and Schools. This was done to maintain a low property tax rate while at the same time providing a high level of service to the citizens. With the closing of the landfill the City contracted with a third party to operate a transfer station to haul and dispose of City garbage in another landfill. Thus, the cost to dispose of the waste increased substantially causing the City to increase the various customer collection charges for the third straight year.

In addition to the challenge imposed by the closing of the landfill, the contract to purchase electricity for resale to the public expired on June 30, 2005. The new contract required the City to pay 64% more for the power it purchases for resale. This increase forced the City to increase customer charges. The rates have been increased a total of approximately 50% over the last three years. As with the Refuse fund, excess cash from the Electric Fund was transferred and used to pay for the day-to-day operation of the City and Schools.

All these factors were considered in preparing the City's budget for the 2008 fiscal year.

With minimal growth in the City's tax base and a strategy of maintaining expected City services, the FY08 budget emphasized streamlining expenses, especially regarding personnel. Management's goal was to reduce personnel through attrition and to evaluate all vacancies on a case-by-case basis. The budget called for a net reduction of eight positions in FY08 alone. Management realizes that this trend cannot continue much more, without a reduction in services, due to the previous fiscal year's budget eliminating another eighteen positions. Over two years, this strategy has cut the City workforce by 27 net FTE positions. No other major budget reductions were made during FY08.

## **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 24114.

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## **Basic Financial Statements**

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## **Government-wide Financial Statements**

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Statement of Net Assets  
June 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	School Board
<b>ASSETS</b>				
Current Assets				
Cash and cash equivalents	\$ 3,725,103	\$ 9,863,832	\$ 13,588,935	\$ 2,623,124
Receivables (net of allowance for uncollectibles):				
Property taxes	500,219	-	500,219	-
Accounts receivable	159,728	3,362,767	3,522,495	89,884
Inventory	2,290,512	921,469	3,211,981	-
Internal balances	(759,599)	759,599	-	-
Due from other governments	722,327	-	722,327	624,045
<b>Total Current Assets</b>	<b>\$ 6,638,290</b>	<b>\$ 14,907,667</b>	<b>\$ 21,545,957</b>	<b>\$ 3,337,053</b>
Noncurrent Assets				
Capital assets (net of accumulated depreciation):				
Land	\$ 4,379,094	\$ 683,624	\$ 5,062,718	\$ 47,172
Buildings and improvements	10,627,060	909,705	11,536,765	4,913,448
Equipment	1,907,837	1,688,619	3,596,456	613,600
Construction in progress	-	351,318	351,318	-
Infrastructure	2,334,626	11,010,475	13,345,101	-
<b>Total Capital Assets</b>	<b>\$ 19,248,617</b>	<b>\$ 14,643,741</b>	<b>\$ 33,892,358</b>	<b>\$ 5,574,220</b>
<b>Total Assets</b>	<b>\$ 25,886,907</b>	<b>\$ 29,551,408</b>	<b>\$ 55,438,315</b>	<b>\$ 8,911,273</b>
<b>LIABILITIES</b>				
Current Liabilities				
Accounts payable and other current liabilities	\$ 1,163,298	\$ 966,701	\$ 2,129,999	\$ 1,381,385
Accrued interest payable	266,043	36,070	302,113	-
Unearned revenue	-	-	-	42,167
Current portion of long-term obligations	1,193,973	2,784,190	3,978,163	-
<b>Total Current Liabilities</b>	<b>\$ 2,623,314</b>	<b>\$ 3,786,961</b>	<b>\$ 6,410,275</b>	<b>\$ 1,423,552</b>
Noncurrent Liabilities				
Noncurrent portion of long-term obligations	13,386,285	3,089,251	16,475,536	-
<b>Total Liabilities</b>	<b>\$ 16,009,599</b>	<b>\$ 6,876,211</b>	<b>\$ 22,885,810</b>	<b>\$ 1,423,552</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 5,142,385	\$ 14,643,741	\$ 19,786,126	\$ 5,574,220
Unrestricted assets	4,734,923	8,031,456	12,766,379	1,913,501
<b>Total Net Assets</b>	<b>\$ 9,877,308</b>	<b>\$ 22,675,197</b>	<b>\$ 32,552,505</b>	<b>\$ 7,487,721</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 25,886,907</b>	<b>\$ 29,551,408</b>	<b>\$ 55,438,315</b>	<b>\$ 8,911,273</b>

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

**CITY OF MARTINSVILLE, VIRGINIA**

Statement of Activities  
Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>PRIMARY GOVERNMENT:</b>				
Governmental activities:				
General government administration	\$ 3,163,344	\$ 80,019	\$ 272,402	\$ -
Judicial administration	1,767,723	260,975	786,710	-
Public safety	9,048,222	334,052	3,535,245	460,216
Public works	4,399,867	90,002	2,431,846	-
Health and welfare	577,782	-	360,404	235,000
Education	7,418,547	-	-	139,219
Parks, recreation, and cultural	1,486,711	142,074	18,227	-
Community development	4,303,337	-	2,426,624	-
Interest on long-term debt	511,628	-	-	-
<b>Total government activities</b>	<b>\$ 32,677,161</b>	<b>\$ 907,121</b>	<b>\$ 9,831,458</b>	<b>\$ 834,435</b>
Business-type activities:				
Electric	\$ 14,000,303	\$ 16,499,732	\$ 48,003	\$ -
Water	1,873,437	2,998,529	-	-
Sewer	2,775,866	3,300,744	-	-
Refuse collection / landfill	1,289,533	1,396,947	-	-
<b>Total business-type activities</b>	<b>\$ 19,939,139</b>	<b>\$ 24,195,952</b>	<b>\$ 48,003</b>	<b>\$ -</b>
<b>Total primary government</b>	<b>\$ 52,616,300</b>	<b>\$ 25,103,073</b>	<b>\$ 9,879,461</b>	<b>\$ 834,435</b>
<b>COMPONENT UNIT:</b>				
School Board	\$ 26,139,489	\$ 587,159	\$ 18,860,244	\$ -

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

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

<b>Net (Expense) Revenue and Changes in Net Assets</b>				
<b>Primary Government</b>			<b>Component Unit</b>	
<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>	<b>School Board</b>	<b>Functions/Programs</b>
PRIMARY GOVERNMENT:				
Governmental activities:				
\$ (2,810,923)	\$ -	\$ (2,810,923)	-	General government administration
(720,038)	-	(720,038)	-	Judicial administration
(4,718,709)	-	(4,718,709)	-	Public safety
(1,878,019)	-	(1,878,019)	-	Public works
17,622	-	17,622	-	Health and welfare
(7,279,328)	-	(7,279,328)	-	Education
(1,326,410)	-	(1,326,410)	-	Parks, recreation, and cultural
(1,876,713)	-	(1,876,713)	-	Community development
(511,628)	-	(511,628)	-	Interest on long-term debt
<u>\$ (21,104,147)</u>	<u>\$ -</u>	<u>\$ (21,104,147)</u>	<u>-</u>	Total government activities
Business-type activities:				
\$ -	\$ 2,547,432	\$ 2,547,432	-	Electric
-	1,125,092	1,125,092	-	Water
-	524,878	524,878	-	Sewer
-	107,414	107,414	-	Refuse collection / landfill
<u>\$ -</u>	<u>\$ 4,304,816</u>	<u>\$ 4,304,816</u>	<u>-</u>	Total business-type activities
<u>\$ (21,104,147)</u>	<u>\$ 4,304,816</u>	<u>\$ (16,799,331)</u>	<u>-</u>	Total primary government
COMPONENT UNIT:				
		<u>\$ (6,692,086)</u>		School Board
General revenues:				
\$ 8,759,342	\$ -	\$ 8,759,342	\$ -	General property taxes
2,279,517	-	2,279,517	-	Local sales tax
1,757,733	-	1,757,733	-	Business license tax
1,368,860	-	1,368,860	-	Meals tax
758,582	-	758,582	-	Consumer utility tax
267,252	-	267,252	-	Telephone tax
1,428,376	-	1,428,376	-	Other local taxes
1,460,400	187,327	1,647,727	69,792	Unrestricted revenues from use of money and property
320,679	-	320,679	295,210	Miscellaneous
734,180	-	734,180	-	Commonwealth of Virginia non-categorical aid
-	-	-	7,193,091	City contribution to the school board, unrestricted
4,392,215	(4,392,215)	-	-	Transfers
<u>\$ 23,527,136</u>	<u>\$ (4,204,888)</u>	<u>\$ 19,322,248</u>	<u>\$ 7,558,093</u>	Total general revenues and transfers
<u>\$ 2,422,989</u>	<u>\$ 99,928</u>	<u>\$ 2,522,917</u>	<u>\$ 866,007</u>	Change in net assets
<u>7,454,319</u>	<u>22,575,269</u>	<u>30,029,588</u>	<u>6,621,714</u>	Net assets - beginning
<u>\$ 9,877,308</u>	<u>\$ 22,675,197</u>	<u>\$ 32,552,505</u>	<u>\$ 7,487,721</u>	Net assets - ending

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## **Fund Financial Statements**

Balance Sheet - Governmental Funds  
At June 30, 2007

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,815,809	\$ 1,909,294	\$ 3,725,103
Receivables (net of allowances for uncollectibles):			
Taxes, including penalties	500,219	-	500,219
Accounts	159,103	625	159,728
Inventory	514,280	-	514,280
Due from other governmental units	<u>488,274</u>	<u>234,053</u>	<u>722,327</u>
Total assets	<u>\$ 3,477,685</u>	<u>\$ 2,143,972</u>	<u>\$ 5,621,657</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 903,236	\$ 260,062	\$ 1,163,298
Due to other funds	-	759,599	759,599
Deferred revenue	<u>338,880</u>	<u>-</u>	<u>338,880</u>
Total liabilities	<u>\$ 1,242,116</u>	<u>\$ 1,019,661</u>	<u>\$ 2,261,777</u>
<b>FUND BALANCES</b>			
Unreserved, designated for:			
Development reserve	\$ 45,037	\$ -	\$ 45,037
Subdivision improvements	20,000	-	20,000
Thoroughfare construction	89,062	-	89,062
Undesignated reported in:			
General fund	2,081,470	-	2,081,470
Special revenue funds	-	54,241	54,241
Capital projects	<u>-</u>	<u>1,070,070</u>	<u>1,070,070</u>
Total fund balances	<u>\$ 2,235,569</u>	<u>\$ 1,124,311</u>	<u>\$ 3,359,880</u>
Total liabilities and fund balances	<u>\$ 3,477,685</u>	<u>\$ 2,143,972</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.	19,248,617
Inventory of land and buildings held for resale	1,776,232
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(266,043)
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.	338,880
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds. All liabilities--both current and long-term--are reported in the statement of net assets.	<u>(14,580,258)</u>
Net assets of General Government Activities	<u>\$ 9,877,308</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, 2007

	<u>General</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
General property taxes	\$ 8,744,282	\$ -	\$ 8,744,282
Other local taxes	6,491,461	1,368,860	7,860,321
Permits, privilege fees and regulatory licenses	436,393	-	436,393
Fines and forfeitures	207,286	-	207,286
Revenue from use of money and property	924,987	547,642	1,472,629
Charges for services	263,442	-	263,442
Miscellaneous	197,747	122,931	320,678
Recovered costs	1,084,522	-	1,084,522
Intergovernmental:			
Commonwealth	7,548,843	800,372	8,349,215
Federal	524,472	2,526,386	3,050,858
Total revenues	<u>\$ 26,423,435</u>	<u>\$ 5,366,191</u>	<u>\$ 31,789,626</u>
Expenditures:			
Current:			
General government administration	\$ 3,555,065	\$ 333,509	\$ 3,888,574
Judicial administration	1,779,779	-	1,779,779
Public safety	8,809,655	381,458	9,191,113
Public works	4,345,133	172,943	4,518,076
Health and welfare	510,058	90,075	600,133
Education	6,449,300	246,101	6,695,401
Parks, recreation, and cultural	1,333,042	158,304	1,491,346
Community development	1,110,436	3,406,287	4,516,723
Debt service:			
Principal retirement	97,581	1,005,482	1,103,063
Interest and other fiscal charges	12,925	469,184	482,109
Total expenditures	<u>\$ 28,002,974</u>	<u>\$ 6,263,343</u>	<u>\$ 34,266,317</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (1,579,539)</u>	<u>\$ (897,152)</u>	<u>\$ (2,476,691)</u>
Other financing sources (uses):			
Issuance of debt	\$ -	\$ 500,000	\$ 500,000
Transfers in	3,757,603	1,685,237	5,442,840
Transfers (out)	<u>(1,050,625)</u>	<u>-</u>	<u>(1,050,625)</u>
Total other financing sources (uses)	<u>\$ 2,706,978</u>	<u>\$ 2,185,237</u>	<u>\$ 4,892,215</u>
Changes in fund balances	\$ 1,127,439	\$ 1,288,085	\$ 2,415,524
Fund balances at beginning of year, as restated	<u>1,108,130</u>	<u>(163,774)</u>	<u>944,356</u>
Fund balances at end of year	<u>\$ 2,235,569</u>	<u>\$ 1,124,311</u>	<u>\$ 3,359,880</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, 2007

		<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	\$	2,415,524
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	\$ 1,714,462	
Depreciation expense	<u>(1,842,331)</u>	(127,869)
Inventory of land and buildings purchased during the year and held for resale		42,699
Transfer of joint tenancy assets from Primary Government to the Component Unit		(521,754)
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.		15,062
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	\$ 663,525	
Principal retired on general obligation bonds	188,061	
Principal retired on capital lease obligations	239,803	
Principal retired on VPSA subsidy bonds	24,247	
Proceeds from indebtedness	<u>(500,000)</u>	615,636
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	\$ 25,785	
Change in interest payable	<u>(42,094)</u>	<u>(16,309)</u>
Change in net assets of governmental activities	\$	<u>2,422,989</u>

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

Proprietary Funds  
Statement of Net Assets  
At June 30, 2007

ASSETS	Electric Fund	Water Fund	Sewer Fund	Refuse Collection/ Landfill Fund	Total
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 1,895,570	\$ -	\$ 40,100	\$ 7,928,162	\$ 9,863,832
Receivables:					
Accounts - net	2,214,967	486,401	437,986	223,413	3,362,767
Due from other funds	-	-	-	999,091	999,091
Inventory	771,425	150,044	-	-	921,469
Total current assets	<u>\$ 4,881,962</u>	<u>\$ 636,445</u>	<u>\$ 478,086</u>	<u>\$ 9,150,666</u>	<u>\$ 15,147,159</u>
<b>Noncurrent Assets</b>					
Capital assets:					
Land	\$ -	\$ 658,224	\$ 25,400	\$ -	\$ 683,624
Construction in progress	-	-	-	351,318	351,318
Buildings and improvements	586,744	1,247,750	1,069,859	305,256	3,209,609
Equipment	2,376,051	1,272,494	1,124,429	1,514,704	6,287,678
Infrastructure	22,776,968	10,667,373	15,350,047	-	48,794,388
Less accumulated depreciation	<u>(20,482,201)</u>	<u>(9,562,163)</u>	<u>(13,482,848)</u>	<u>(1,155,664)</u>	<u>(44,682,876)</u>
Total capital assets (net of accumulated depreciation)	<u>\$ 5,257,562</u>	<u>\$ 4,283,678</u>	<u>\$ 4,086,887</u>	<u>\$ 1,015,614</u>	<u>\$ 14,643,741</u>
Total assets	<u>\$ 10,139,524</u>	<u>\$ 4,920,123</u>	<u>\$ 4,564,973</u>	<u>\$ 10,166,280</u>	<u>\$ 29,790,900</u>
<b>LIABILITIES</b>					
<b>Current liabilities:</b>					
Accounts payable	\$ 120,931	\$ 119,941	\$ 83,438	\$ 335,066	\$ 659,376
Customers' deposits payable	266,085	41,240	-	-	307,325
Due to other funds	-	239,492	-	-	239,492
Interest payable	-	-	-	36,070	36,070
Current portion of long-term obligations	5,662	5,469	4,653	2,768,405	2,784,190
Total current liabilities	<u>\$ 392,678</u>	<u>\$ 406,142</u>	<u>\$ 88,091</u>	<u>\$ 3,139,541</u>	<u>\$ 4,026,453</u>
<b>Noncurrent liabilities:</b>					
Noncurrent portion of long-term obligations	50,960	49,224	41,877	2,947,190	3,089,251
Total liabilities	<u>\$ 443,638</u>	<u>\$ 455,366</u>	<u>\$ 129,968</u>	<u>\$ 6,086,731</u>	<u>\$ 7,115,703</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	\$ 5,257,562	\$ 4,283,678	\$ 4,086,887	\$ 1,015,614	\$ 14,643,741
Unrestricted assets	4,438,324	181,079	348,118	3,063,935	8,031,456
Total Net Assets	<u>\$ 9,695,886</u>	<u>\$ 4,464,757</u>	<u>\$ 4,435,005</u>	<u>\$ 4,079,549</u>	<u>\$ 22,675,197</u>
Total Liabilities and Net Assets	<u>\$ 10,139,524</u>	<u>\$ 4,920,123</u>	<u>\$ 4,564,973</u>	<u>\$ 10,166,280</u>	<u>\$ 29,790,900</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, 2007

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Refuse Collection/ Landfill Fund</u>	<u>Total</u>
<b>Operating revenues:</b>					
Charges for services	\$ 16,397,384	\$ 2,949,761	\$ 3,298,110	\$ 1,297,004	\$ 23,942,259
Miscellaneous	<u>102,348</u>	<u>48,768</u>	<u>2,634</u>	<u>99,943</u>	<u>253,693</u>
Total operating revenues	<u>\$ 16,499,732</u>	<u>\$ 2,998,529</u>	<u>\$ 3,300,744</u>	<u>\$ 1,396,947</u>	<u>\$ 24,195,952</u>
<b>Operating expenses:</b>					
Personal services	\$ 603,077	\$ 642,511	\$ 749,390	\$ 187,152	\$ 2,182,130
Fringe benefits	183,871	221,891	273,462	71,717	750,941
Contractual services	173,030	24,487	26,560	234,220	458,297
Other charges	12,475,426	738,754	1,186,286	617,424	15,017,890
Depreciation	<u>564,899</u>	<u>245,794</u>	<u>540,168</u>	<u>101,026</u>	<u>1,451,887</u>
Total operating expenses	<u>\$ 14,000,303</u>	<u>\$ 1,873,437</u>	<u>\$ 2,775,866</u>	<u>\$ 1,211,539</u>	<u>\$ 19,861,145</u>
<b>Operating income</b>	<u>\$ 2,499,429</u>	<u>\$ 1,125,092</u>	<u>\$ 524,878</u>	<u>\$ 185,408</u>	<u>\$ 4,334,807</u>
<b>Non-operating revenues (expenses):</b>					
Miscellaneous non-operating revenues	\$ 48,003	\$ -	\$ -	\$ -	\$ 48,003
Interest income	-	-	21,260	166,067	187,327
Interest expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(77,994)</u>	<u>(77,994)</u>
Total non-operating revenues (expenses)	<u>\$ 48,003</u>	<u>\$ -</u>	<u>\$ 21,260</u>	<u>\$ 88,073</u>	<u>\$ 157,336</u>
<b>Income before transfers</b>	<u>\$ 2,547,432</u>	<u>\$ 1,125,092</u>	<u>\$ 546,138</u>	<u>\$ 273,481</u>	<u>\$ 4,492,143</u>
<b>Transfers:</b>					
Transfers (out)	<u>(1,542,215)</u>	<u>(1,500,000)</u>	<u>(1,350,000)</u>	<u>-</u>	<u>(4,392,215)</u>
<b>Changes in net assets</b>	<u>\$ 1,005,217</u>	<u>\$ (374,908)</u>	<u>\$ (803,862)</u>	<u>\$ 273,481</u>	<u>\$ 99,928</u>
<b>Net assets at beginning of year</b>	<u>8,690,669</u>	<u>4,839,665</u>	<u>5,238,867</u>	<u>3,806,068</u>	<u>22,575,269</u>
<b>Net assets at end of year</b>	<u>\$ 9,695,886</u>	<u>\$ 4,464,757</u>	<u>\$ 4,435,005</u>	<u>\$ 4,079,549</u>	<u>\$ 22,675,197</u>

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

Proprietary Funds  
Statement of Cash Flows  
Year Ended June 30, 2007

	Electric Fund	Water Fund	Sewer Fund	Refuse Collection/ Landfill Fund	Total
<b>Cash Flows From Operating Activities:</b>					
Receipts from customers and users	\$ 16,438,039	\$ 2,858,987	\$ 3,228,193	\$ 1,333,188	\$ 23,858,407
Payments to suppliers and other operating expenses	(12,566,845)	(690,300)	(1,282,673)	(566,637)	(15,106,455)
Payments to employees (including fringe benefits)	(785,712)	(861,275)	(1,021,794)	(258,869)	(2,927,650)
<b>Net cash provided by operating activities</b>	<b>\$ 3,085,482</b>	<b>\$ 1,307,412</b>	<b>\$ 923,726</b>	<b>\$ 507,682</b>	<b>\$ 5,824,302</b>
<b>Cash Flows From Capital and Related Financing Activities:</b>					
Acquisition and construction of capital assets	\$ (966,390)	\$ (326,885)	\$ (119,943)	\$ (520,789)	\$ (1,934,007)
Retirements of general obligation bonds	-	-	-	(198,400)	(198,400)
Issuance of general obligation bonds	-	-	-	500,000	500,000
Interest paid on debt	-	-	-	(77,994)	(77,994)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>\$ (966,390)</b>	<b>\$ (326,885)</b>	<b>\$ (119,943)</b>	<b>\$ (297,183)</b>	<b>\$ (1,710,401)</b>
<b>Cash Flows From Noncapital Financing Activities:</b>					
Transfers	\$ (1,542,215)	\$ (1,500,000)	\$ (1,350,000)	-	\$ (4,392,215)
Interest income	-	-	21,261	166,068	187,329
Miscellaneous non-operating revenues	48,003	-	-	-	48,003
Due from other funds	-	-	-	(110,579)	(110,579)
Due to other funds	-	239,492	-	-	239,492
<b>Net cash provided (used) by noncapital financing activities</b>	<b>\$ (1,494,212)</b>	<b>\$ (1,260,508)</b>	<b>\$ (1,328,739)</b>	<b>\$ 55,489</b>	<b>\$ (4,027,970)</b>
<b>Increase in cash and cash equivalents</b>	<b>\$ 624,880</b>	<b>\$ (279,981)</b>	<b>\$ (524,956)</b>	<b>\$ 265,988</b>	<b>\$ 85,931</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>1,270,690</b>	<b>279,981</b>	<b>565,056</b>	<b>7,662,174</b>	<b>9,777,901</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 1,895,570</b>	<b>\$ -</b>	<b>\$ 40,100</b>	<b>\$ 7,928,162</b>	<b>\$ 9,863,832</b>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>					
Operating income	\$ 2,499,429	\$ 1,125,092	\$ 524,878	\$ 185,408	\$ 4,334,807
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation	\$ 564,899	\$ 245,794	\$ 540,168	\$ 101,026	\$ 1,451,887
Changes in operating assets and liabilities:					
(Increase) in accounts receivable	(50,579)	(139,902)	(72,251)	(63,759)	(326,491)
Increase (decrease) in:					
Accounts and interest payable	81,611	72,941	(69,827)	287,078	371,803
Accrued leave	1,236	3,127	1,058	(2,071)	3,350
Customer deposits	(11,114)	360	(300)	-	(11,054)
<b>Total adjustments</b>	<b>\$ 586,053</b>	<b>\$ 182,320</b>	<b>\$ 398,848</b>	<b>\$ 322,274</b>	<b>\$ 1,489,495</b>
<b>Net cash provided by operating activities</b>	<b>\$ 3,085,482</b>	<b>\$ 1,307,412</b>	<b>\$ 923,726</b>	<b>\$ 507,682</b>	<b>\$ 5,824,302</b>

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

Statement of Fiduciary Net Assets --  
Agency Funds  
At June 30, 2007

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ <u>854,477</u>
Total assets	\$ <u><u>854,477</u></u>
<b>LIABILITIES</b>	
Accounts payable	\$ 9,573
Amounts held for others	<u>844,904</u>
Total liabilities	\$ <u><u>854,477</u></u>

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

# CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2007

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

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

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

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

### Government-wide and Fund Financial Statements

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

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

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

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

Statement of Activities - The new government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government’s functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

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

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

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

# CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

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

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

### **B. Individual Component Unit Disclosures**

*Blended Component Unit.* The City has no blended component units at June 30, 2007.

*Discretely Presented Component Units.* The School Board members are appointed by the City Council and are responsible for the operations of the City's School System within the City boundaries. The School Board is fiscally dependent on the City. The City has the ability to approve its budget and any amendments. The primary funding is from the General Fund of the City. The School Fund does not issue a separate financial report. The financial statements of the School Board are presented as a discrete presentation of the City financial statements for the fiscal year ended June 30, 2007.

Included in the City's Financial Report

None

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

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#### **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.

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

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

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

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

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.

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.

# CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

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

#### 1. Governmental Funds

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

The General Fund is the primary operating fund of the City. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service, and interest income. A significant part of the General Fund's revenues is used principally to finance the operations of the Component Unit School Board. The General Fund is considered a major fund for government-wide reporting purposes.

The City reports the following non-major governmental funds:

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

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

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.

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

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

##### 1. Governmental Funds: (Continued)

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

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

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

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

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

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

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

#### **F. Investments**

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

**CITY OF MARTINSVILLE, VIRGINIA**

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

**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 \$877,392 at June 30, 2007 is composed solely of the following:

General Fund

Allowance for uncollectible property taxes	\$ <u>359,709</u>
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Enterprise Funds

Allowance for uncollectible accounts:

Electric Fund	\$ 290,147
Water Fund	69,289
Sewer Fund	63,356
Refuse Collection/Landfill Fund	<u>94,891</u>

Total allowance for uncollectible accounts – Enterprise funds	\$ <u>517,683</u>
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Total allowance for uncollectible accounts	\$ <u><u>877,392</u></u>
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Real and Personal Property Tax Data:

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

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

The City bills and collects its own property taxes.

# CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

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### 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, 2007 was immaterial.

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

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

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

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#### 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.

#### 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

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

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

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#### **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, 2007 (Continued)

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

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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.

**CITY OF MARTINSVILLE, VIRGINIA**

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

Expenditures and Appropriations

Expenditures exceed appropriations as follows for the fiscal year ended June 30, 2007:

<u>Fund/ Function</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess of Expenditures Over Appropriations</u>
School Cafeteria Fund	\$ 980,987	\$ 1,167,120	\$ (186,133)
School Grants Fund	<u>1,294,192</u>	<u>1,552,742</u>	<u>(258,550)</u>
	<u>\$ 2,275,179</u>	<u>\$ 2,719,862</u>	<u>\$ (444,683)</u>

Fund Deficits

The following funds had deficit balances at June 30, 2007:

City Grants Fund	\$ 551,759
School Grants Fund	42,266

**Note 3—Deposits:**

Deposits:

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

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

The component unit school board is part of the City's pooled cash and has a net balance in the amount of \$2,623,124 at June 30, 2007.

**CITY OF MARTINSVILLE, VIRGINIA**

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

At June 30, 2007 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	\$ 164,853	\$ -
State Sales Tax	-	204,316
Constitutional officer reimbursements	219,979	-
Miscellaneous grants	20,334	36,626
Comprehensive service	15,960	-
Communication taxes	83,108	-
Federal Government:		
School fund grants	-	383,103
Community development block grant	<u>218,093</u>	<u>-</u>
Total due from other governments	<u>\$ 722,327</u>	<u>\$ 624,045</u>

**Note 5—Inventory:**

At June 30, 2007 the City has inventory recorded in the various funds as follows:

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>
Expendable supplies	\$ 514,280	\$ 921,469
Land and building inventory held for resale:		
84 Commercial residential lots held for resale	1,579,670	-
5 Commercial buildings held for resale	<u>196,562</u>	<u>-</u>
Totals	<u>\$ 2,290,512</u>	<u>\$ 921,469</u>

**CITY OF MARTINSVILLE, VIRGINIA**

Notes to Financial Statements  
As of June 30, 2007 (Continued)

**Note 6—Capital Assets:**

The following is a summary of changes in capital assets for the fiscal year ending June 30, 2007:

**Primary Government:**

**Governmental Activities:**

	<b>Adjusted Balance <u>July 1, 2006</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b>Balance <u>June 30, 2007</u></b>
Capital assets, not being depreciated:				
Land	\$ 4,379,094	\$ -	\$ -	\$ 4,379,094
Capital assets being depreciated:				
Buildings	\$ 4,758,067	\$ -	\$ -	\$ 4,758,067
Equipment	6,498,750	423,815	25,706	6,896,859
Infrastructure	29,772,231	548,934	-	30,321,165
Jointly owned assets	<u>10,644,051</u>	<u>741,713</u>	<u>721,954</u>	<u>10,663,810</u>
Total capital assets being depreciated	<u>\$ 51,673,099</u>	<u>\$ 1,714,462</u>	<u>\$ 747,660</u>	<u>\$ 52,639,901</u>
Less accumulated depreciation for:				
Buildings	\$ 2,663,208	\$ 99,769	\$ -	\$ 2,762,977
Equipment	4,630,090	509,757	25,706	5,114,141
Infrastructure	27,147,905	1,031,413	-	28,179,318
Jointly owned assets	<u>1,712,750</u>	<u>201,392</u>	<u>200,200</u>	<u>1,713,942</u>
Total accumulated depreciation	<u>\$ 36,153,953</u>	<u>\$ 1,842,331</u>	<u>\$ 225,906</u>	<u>\$ 37,770,378</u>
Total capital assets being depreciated, net	<u>\$ 15,519,146</u>	<u>\$ (127,869)</u>	<u>\$ 521,754</u>	<u>\$ 14,869,523</u>
Governmental capital assets, net	<u>\$ 19,898,240</u>	<u>\$ (127,869)</u>	<u>\$ 521,754</u>	<u>\$ 19,248,617</u>

**CITY OF MARTINSVILLE, VIRGINIA**

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

**Primary Government:**

**Business-Type Activities:**

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
<b>Electric Fund:</b>				
Capital assets being depreciated:				
Buildings and improvements	\$ 586,744	\$ -	\$ -	\$ 586,744
Equipment	1,974,676	401,375	-	2,376,051
Infrastructure	<u>22,211,953</u>	<u>565,015</u>	<u>-</u>	<u>22,776,968</u>
 Total capital assets being depreciated	 <u>\$ 24,773,373</u>	 <u>\$ 966,390</u>	 <u>\$ -</u>	 <u>\$ 25,739,763</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 585,584	\$ 129	\$ -	\$ 585,713
Equipment	1,691,221	109,216	-	1,800,437
Infrastructure	<u>17,640,497</u>	<u>455,554</u>	<u>-</u>	<u>18,096,051</u>
 Total accumulated depreciation	 <u>\$ 19,917,302</u>	 <u>\$ 564,899</u>	 <u>\$ -</u>	 <u>\$ 20,482,201</u>
 Total capital assets being depreciated, net	 <u>\$ 4,856,071</u>	 <u>\$ 401,491</u>	 <u>\$ -</u>	 <u>\$ 5,257,562</u>
 Electric fund capital assets, net	 <u><u>\$ 4,856,071</u></u>	 <u><u>\$ 401,491</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 5,257,562</u></u>

**CITY OF MARTINSVILLE, VIRGINIA**

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

**Primary Government: (Continued)**

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

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
<b>Water Fund:</b>				
Capital assets, not being depreciated:				
Land and land improvements	\$ 658,224	\$ -	\$ -	\$ 658,224
Capital assets being depreciated:				
Buildings and improvements	\$ 1,205,571	\$ 42,179	\$ -	\$ 1,247,750
Equipment	1,162,349	127,623	17,478	1,272,494
Infrastructure	<u>10,510,290</u>	<u>157,083</u>	<u>-</u>	<u>10,667,373</u>
Total capital assets being depreciated	\$ <u>12,878,210</u>	\$ <u>326,885</u>	\$ <u>17,478</u>	\$ <u>13,187,617</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 841,052	\$ 16,370	\$ -	\$ 857,422
Equipment	712,546	53,750	17,478	748,818
Infrastructure	<u>7,780,249</u>	<u>175,674</u>	<u>-</u>	<u>7,955,923</u>
Total accumulated depreciation	\$ <u>9,333,847</u>	\$ <u>245,794</u>	\$ <u>17,478</u>	\$ <u>9,562,163</u>
Total capital assets being depreciated, net	\$ <u>3,544,363</u>	\$ <u>81,091</u>	\$ <u>-</u>	\$ <u>3,625,454</u>
Water fund capital assets, net	<u>\$ 4,202,587</u>	<u>\$ 81,091</u>	<u>\$ -</u>	<u>\$ 4,283,678</u>

**CITY OF MARTINSVILLE, VIRGINIA**

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

**Primary Government: (Continued)**

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

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
<b>Sewer Fund:</b>				
Capital assets, not being depreciated:				
Land and land improvements	\$ 25,400	\$ -	\$ -	\$ 25,400
Capital assets being depreciated:				
Buildings and improvements	\$ 1,062,876	\$ 6,983	\$ -	\$ 1,069,859
Equipment	1,091,330	33,099	-	1,124,429
Infrastructure	15,270,186	79,861	-	15,350,047
Total capital assets being depreciated	\$ 17,424,392	\$ 119,943	\$ -	\$ 17,544,335
Less accumulated depreciation for:				
Buildings and improvements	\$ 695,233	\$ 31,049	\$ -	\$ 726,282
Equipment	894,111	64,216	-	958,327
Infrastructure	11,353,336	444,903	-	11,798,239
Total accumulated depreciation	\$ 12,942,680	\$ 540,168	\$ -	\$ 13,482,848
Total capital assets being depreciated, net	\$ 4,481,712	\$ (420,225)	\$ -	\$ 4,061,487
Sewer fund capital asset, net	<u>\$ 4,507,112</u>	<u>\$ (420,225)</u>	<u>\$ -</u>	<u>\$ 4,086,887</u>

**CITY OF MARTINSVILLE, VIRGINIA**

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

**Primary Government: (Continued)**

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

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
<b>Refuse Collection/Landfill Fund:</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 351,318	\$ -	\$ 351,318
Capital assets, being depreciated:				
Buildings and improvements	\$ 235,465	\$ 69,791	\$ -	\$ 305,256
Equipment	1,448,246	99,680	33,222	1,514,704
Total capital assets being depreciated	\$ 1,683,711	\$ 169,471	\$ 33,222	\$ 1,819,960
Less accumulated depreciation for:				
Buildings and improvements	\$ 54,507	\$ 9,680	\$ -	\$ 64,187
Equipment	1,033,353	91,346	33,222	1,091,477
Total accumulated depreciation	\$ 1,087,860	\$ 101,026	\$ 33,222	\$ 1,155,664
Total capital assets being depreciated, net	\$ 595,851	\$ 68,445	\$ -	\$ 664,296
Refuse collection/landfill fund capital assets, net	\$ 595,851	\$ 419,763	\$ -	\$ 1,015,614

**CITY OF MARTINSVILLE, VIRGINIA**

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

**Discretely Presented Component Unit—School Board:**

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
<b>Discretely Presented</b>				
<b>Component Unit-School Board:</b>				
Capital assets, not being depreciated:				
Land	\$ 47,172	\$ -	\$ -	\$ 47,172
Construction in Progress	<u>76,988</u>	<u>-</u>	<u>76,988</u>	<u>-</u>
Total capital assets being depreciated	<u>\$ 124,160</u>	<u>\$ -</u>	<u>\$ 76,988</u>	<u>\$ 47,172</u>
Capital assets being depreciated:				
Buildings	\$ 6,950,710	\$ 455,316	\$ -	\$ 7,406,026
Equipment	1,583,434	188,603	134,500	1,637,537
Jointly owned assets	<u>3,248,908</u>	<u>721,954</u>	<u>-</u>	<u>3,970,862</u>
Total capital assets being depreciated	<u>\$ 11,783,052</u>	<u>\$ 1,365,873</u>	<u>\$ 134,500</u>	<u>\$ 13,014,425</u>
Less accumulated depreciation for:				
Buildings	\$ 5,451,606	\$ 286,651	\$ -	\$ 5,738,257
Equipment	1,044,489	113,949	134,500	1,023,938
Jointly owned assets	<u>524,982</u>	<u>200,200</u>	<u>-</u>	<u>725,182</u>
Total accumulated depreciation	<u>\$ 7,021,077</u>	<u>\$ 600,800</u>	<u>\$ 134,500</u>	<u>\$ 7,487,377</u>
Total capital assets being depreciated, net	<u>\$ 4,761,975</u>	<u>\$ 765,073</u>	<u>\$ -</u>	<u>\$ 5,527,048</u>
School Board capital assets, net	<u>\$ 4,886,135</u>	<u>\$ 765,073</u>	<u>\$ 76,988</u>	<u>\$ 5,574,220</u>

**CITY OF MARTINSVILLE, VIRGINIA**

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

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The following is a summary of depreciation expense for the year ended June 30, 2007:

Governmental activities:

General government	\$	93,581
Judicial administration		1,119
Public safety		264,672
Public works		1,178,918
Health and welfare		8,647
Education		201,392
Parks, recreation and cultural		43,194
Community development		<u>50,808</u>
Total Governmental activities	\$	<u><u>1,842,331</u></u>

Enterprise activities:

Electric	\$	564,899
Water		245,794
Sewer		540,168
Refuse collection / landfill		<u>101,026</u>
Total Enterprise activities	\$	<u><u>1,451,887</u></u>

Component Unit School Board	\$	<u><u>400,600</u></u> *
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\* Note accumulated depreciation transferred from the Primary Government to the Component Unit School Board on Jointly owned assets totals \$200,200 for the year ending June 30, 2007 when added to depreciation expense above totals \$600,800 accumulated depreciation previous page.

**CITY OF MARTINSVILLE, VIRGINIA**

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

Interfund transfers for the year ended June 30, 2007, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ 3,757,603	\$ 1,050,625
City grants	108,950	-
Capital reserve	1,576,287	-
Meals tax		-
Electric	-	1,542,215
Water	-	1,500,000
Sewer	-	1,350,000
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 5,442,840</u>	<u>\$ 5,442,840</u>

Interfund receivables and payable balances relative to working capital loans at June 30, 2007 are presented below:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
Primary Government:		
City grants	\$ -	\$ 759,599
Water	-	239,492
Refuse Collection Landfill	999,091	-
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 999,091</u>	<u>\$ 999,091</u>
Component Unit - School Board		
School Fund	\$ 330,191	-
School Grants	-	330,191
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 330,191</u>	<u>\$ 330,191</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, 2007 (Continued)

**Note 8—Long-Term Obligations:**

**Primary Government:**

The following is a summary of change in long-term obligations for the fiscal year ending June 30, 2007:

	<b>Amounts Payable at July 1, 2006</b>	<b>Increases</b>	<b>Decreases</b>	<b>Amounts Payable at June 30, 2007</b>	<b>Amounts Due Within One Year</b>
Governmental Obligations:					
Incurred by City					
Claims, judgments and compensated absences and payable	\$ 499,811	\$ 101,510	\$ 127,295	\$ 474,026	\$ 47,402
G.O. Bonds	3,464,764	-	188,061	3,276,703	246,532
G.O. Note	-	500,000	-	500,000	-
Capital lease obligations	<u>613,053</u>	<u>-</u>	<u>205,621</u>	<u>407,432</u>	<u>211,516</u>
Total incurred by City	<u>\$ 4,577,628</u>	<u>\$ 601,510</u>	<u>\$ 520,977</u>	<u>\$ 4,658,161</u>	<u>\$ 505,450</u>
Incurred by School Board:					
State Literary Fund Loans Virginia Public Authority Subsidy Bonds	\$ 8,452,050	\$ -	\$ 663,525	\$ 7,788,525	\$ 663,525
GO Note	157,819	-	24,247	133,572	24,998
Capital lease	2,000,000	-	-	2,000,000	-
	<u>34,182</u>	<u>-</u>	<u>34,182</u>	<u>-</u>	<u>-</u>
Total incurred by School Board	<u>\$ 10,644,051</u>	<u>\$ -</u>	<u>\$ 721,954</u>	<u>\$ 9,922,097</u>	<u>\$ 688,523</u>
Total Governmental Obligations	<u>\$ 15,221,679</u>	<u>\$ 601,510</u>	<u>\$ 1,242,931</u>	<u>\$ 14,580,258</u>	<u>\$ 1,193,973</u>
Enterprise Obligations:					
Compensated absences	\$ 166,205	\$ 41,157	\$ 37,806	\$ 169,556	\$ 16,956
General obligation bond	1,907,900	500,000	198,400	2,209,500	179,100
Landfill closure and post- closure costs	<u>3,494,384</u>	<u>-</u>	<u>-</u>	<u>3,494,384</u>	<u>2,588,134</u>
Total Enterprise Obligations	<u>\$ 5,568,489</u>	<u>\$ 541,157</u>	<u>\$ 236,206</u>	<u>\$ 5,873,440</u>	<u>\$ 2,784,190</u>
Total Primary Government	<u>\$ 20,790,168</u>	<u>\$ 1,142,667</u>	<u>\$ 1,479,137</u>	<u>\$ 20,453,698</u>	<u>\$ 3,978,163</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, 2007 (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		Capital Leases		G.O. Note		General Obligation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 198,732	\$ 122,026	\$ 211,516	\$ 10,510	-	\$ 18,600	\$ 226,900	\$ 76,696
2009	204,428	113,206	104,341	5,321	500,000	18,600	235,000	68,549
2010	215,151	103,884	91,575	2,013	-	-	243,500	60,111
2011	225,900	93,933	-	-	-	-	252,200	51,363
2012	235,527	84,488	-	-	-	-	261,300	42,301
2013	243,880	75,739	-	-	-	-	270,600	32,912
2014	251,945	66,690	-	-	-	-	280,300	23,186
2015	259,701	57,352	-	-	-	-	290,500	13,106
2016	267,127	47,737	-	-	-	-	149,200	2,659
2017	279,098	37,769	-	-	-	-		
2018	290,621	27,372	-	-	-	-		
2019	296,842	16,649	-	-	-	-		
2020	307,751	5,616	-	-	-	-		
<b>Total</b>	<b>\$ 3,276,703</b>	<b>\$ 852,461</b>	<b>\$ 407,432</b>	<b>\$ 17,844</b>	<b>\$ 500,000</b>	<b>\$ 37,200</b>	<b>\$ 2,209,500</b>	<b>\$ 370,882</b>

**CITY OF MARTINSVILLE, VIRGINIA**

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

**Primary Government: (Continued)**

Year Ending June 30	School Obligations					
	State Literary Fund Loans		Virginia Public School Authority Subsidy Bonds		General Obligation Note	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 663,525	\$ 234,041	\$ 24,998	\$ 7,991	-	\$ 58,400
2009	625,000	213,750	25,799	6,315	2,000,000	58,400
2010	625,000	195,000	26,656	4,584	-	-
2011	625,000	176,250	27,571	2,797	-	-
2012	625,000	157,500	28,548	942	-	-
2013	625,000	138,750	-	-	-	-
2014	625,000	120,000	-	-	-	-
2015	625,000	101,250	-	-	-	-
2016	625,000	82,500	-	-	-	-
2017	625,000	63,750	-	-	-	-
2018	375,000	45,000	-	-	-	-
2019	375,000	33,750	-	-	-	-
2020	375,000	22,500	-	-	-	-
2021	375,000	11,250	-	-	-	-
Total	<u>\$ 7,788,525</u>	<u>\$ 1,595,291</u>	<u>\$ 133,572</u>	<u>\$ 22,629</u>	<u>\$ 2,000,000</u>	<u>\$ 116,800</u>

# CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

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### Primary Government: (Continued)

#### Incurred by City:

##### General Obligation Bonds:

\$4,145,000 payable in principal semi-annual installments ranging from \$115,000 to \$310,000 beginning July 15, 2000 through July 2011 (bonds maturing on July 15, 2011 to July 15, 2019 were defeased on September 21, 2005); interest payable semi-annually at 5.0492%	\$ 765,000
\$2,529,764 general obligation refunding series 2005 bonds maturing in various annual installments of \$18,061 to \$307,751 through July 15, 2019, interest payable semi-annually at 3.65%	<u>2,511,703</u>
Total general obligation bonds	<u>\$ 3,276,703</u>

##### General Obligation Note:

\$500,000 general obligation note, Series 2005 issued August 23, 2006 payable on January 15, 2009, interest at 3.72%	<u>\$ 500,000</u>
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##### Capital Lease Obligations:

The City has entered into several lease agreements as lessee for financing the acquisition of a phone system, a street sweeper and a fire truck. The phone system was acquired with lease financing in the amount of \$476,888 and cost a total of \$544,811. The street sweeper cost \$127,000 and was acquired with lease financing. The fire truck which cost a total of \$432,428 was acquired with lease financing of \$427,575. Annual requirements to amortize City long-term lease obligations are disclosed within this note. Details of these leases are as follows:

\$127,000 obligation for the purchase of a street sweeper, payable in monthly installments of \$2,296 through January 5, 2009, interest at 3.25%	\$ 42,468
\$476,888 obligation for the purchase of a phone system, payable in quarterly installments of \$25,221 through April 1, 2008, interest at 2.16%	99,537
\$427,575 obligation for the purchase of a fire truck, payable in monthly installments of \$23,397 through April 29, 2010, interest at 3.5%	<u>265,427</u>
Total capital lease obligations	<u>\$ 407,432</u>
Compensated absences	<u>\$ 474,026</u>
Total Incurred by City	<u>\$ 4,658,161</u>

**CITY OF MARTINSVILLE, VIRGINIA**

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

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**Primary Government: (Continued)**

**Incurred by School Board:**

State Literary Fund Loans:

\$5,000,000 State Literary Fund loan issued January 28, 1997, due in annual principal installments of \$250,000 through 2017, interest payable annually at 3%	\$ 2,500,000
\$146,673 State Literary Fund loan issued June 15, 1987, due in annual principal installments of \$7,400 through 2008; interest payable annually at 4%	7,400
\$94,229 State Literary Fund Loan issued May 19, 1987, due in annual principal installments of \$4,800 through 2008; interest payable annually at 4%	4,800
\$67,413 State Literary Fund Loan issued May 19, 1987, due in annual principal installments of \$3,400 through 2008; interest payable at 4%	3,400
\$109,471 State Literary Fund Loan issued June 15, 1987, due in annual installments of \$5,700 through 2008; interest payable annually at 4%	5,700
\$252,442 State Literary Fund Loan issued May 19, 1987, due in annual principal installments of \$13,000 through 2008; interest payable annually at 4%	13,000
\$84,454 State Literary Fund Loan issued August 1, 1987, due in annual principal installments of \$4,225 through 2008; interest payable annually at 4%	4,225
\$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>5,250,000</u>
Total State Literary Fund Loans	<u>\$ 7,788,525</u>

**CITY OF MARTINSVILLE, VIRGINIA**

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

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**Primary Government: (Continued)**

**Incurred by School Board:**

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 \$ 133,572

Note Payable:

\$2,000,000 note dated August 26, 2005 payable on January 15, 2009, interest payable semi-annually at 2.92% 2,000,000

Total Incurred by the School Board \$ 9,922,097

Total Governmental Obligations \$ 14,580,258

**Enterprise Obligations:**

**General Obligation Bonds:**

\$2,000,000 General obligation bond, Series 2005, issued August 28, 2005, payable in various semi-annual installments of principal and interest through July 15, 2015 interest at 3.42% \$ 1,734,800

\$500,000 general obligation bond, Series 2005, issued August 23, 2006, payable in various semi-annual installments beginning January 15, 2007 through July 15, 2015, interest at 4.08% 474,700

Total general obligation bonds \$ 2,209,500

Compensated absences \$ 169,556

Landfill closure and postclosure costs 3,494,384

Total enterprise obligations \$ 5,873,440

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

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State and federal laws and regulations require the City to place a final cover on each phase of its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste. In accordance with Statement 18 of the Governmental Accounting Standards Board entitled Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs, the City reported a liability for a portion of these closure and postclosure care costs based on landfill capacity used. The \$3,494,384 reported as landfill closure and postclosure care liability at June 30, 2007 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 2007. Actual closure and postclosure care costs may be higher due to inflation, changes in technology, or changes in regulations.

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

### **Note 10—Deferred Revenue:**

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Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Deferred revenue totaling \$381,047 is comprised of the following:

Deferred Property Tax Revenue - Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$338,880 at June 30, 2007.

Discretely Presented School Board – Deferred revenue represented unexpended NASA grant funds totaling \$42,167 at June 30, 2007.

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

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

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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### **Note 11—Contingent Liabilities: (Continued)**

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

### **Note 12—Litigation:**

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At June 30, 2007, there were no matters of litigation involving the City or which would materially affect the City's financial position should any court decisions on pending matters not be favorable to such entities.

### **Note 13—Risk Management:**

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

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

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

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

## CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

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#### **Primary Government:**

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

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

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

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

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

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their reported compensation to the VRS. This 5% member contribution may be assumed by the employer. In addition, the City and School Board are required to contribute the remaining amounts necessary to fund participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The City and School Board non-professional employers contribution rates for the fiscal year ended 2007 were 14.11% and 19.13% of annual covered payroll, respectively.

**CITY OF MARTINSVILLE, VIRGINIA**

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

**Primary Government:**

**B. Funding Policy: (Continued)**

The School Board contributed \$1,172,469, \$827,217, and \$684,393 to the teacher cost-sharing pool for the fiscal years ended June 30, 2007, 2006 and 2005 respectively and these contributions represented 9.20%, 6.62% and 6.03% respectively, of current covered payroll.

**C. Annual Pension Cost**

For fiscal 2007, the City’s annual pension cost of \$1,782,882 (does not include the employee share assumed by the City which was \$631,779) was equal to the City’s required and actuarial contributions. The required contributions were determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method.

For fiscal 2007, the City School Board’s annual pension cost for the Board’s non-professional employees was \$131,312 (does not include the employee share assumed by the Board which was \$34,321) which was equal to the Board’s required and actuarial contributions. The required contributions were determined as a part of the June 30, 2006 actuarial valuation using the entry age normal actuarial cost method.

	<u>City</u>	<u>Non-Professional School Board Employees</u>
Valuation date	June 30, 2006	June 30, 2006
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percent, open	Level percent, open
Payroll growth rate	2.5%	2.5%
Remaining amortization period	20 years	20 years
Asset valuation method	Modified market	Modified market
Actuarial assumptions:		
Investment rate of return <sup>1</sup>	7.5%	7.5%
Projected salary increases: <sup>1</sup>		
Non LEO Employees	3.75% to 5.60%	3.75% to 5.60%
LEO Employees	3.5% to 4.75%	3.5% to 4.75%
Cost-of-living adjustments	2.5%	2.5%

<sup>1</sup> Includes inflation at 2.5%

**CITY OF MARTINSVILLE, VIRGINIA**

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

**Primary Government: (Continued)**

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

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC) (1)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
City:			
June 30, 2007	\$ 1,782,882	100%	\$ -
June 30, 2006	1,486,308	100%	-
June 30, 2005	1,585,376	100%	-
School Board:			
Non-Professional:			
June 30, 2007	\$ 131,312	100%	\$ -
June 30, 2006	108,228	100%	-
June 30, 2005	75,896	100%	-

(1) Employer portion only

**Note 15—Surety Bonds:**

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

**CITY OF MARTINSVILLE, VIRGINIA**

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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**Note 16–Fund Balance/Net Asset Adjustments:**

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Fund balance and net assets were restated as of July 1, 2006 as follows:

	<u>Fund Balances</u>	<u>Net Assets</u>
	<u>Nonmajor Governmental Funds</u>	<u>Governmental Funds</u>
Net assets/retained earnings as previously reported	\$ (289,633)	\$ 2,028,887
Error in prior year receivable	125,859	125,860
Recording infrastructure assets	-	32,440,657
Recording infrastructure accumulated depreciation	<u>-</u>	<u>(27,141,085)</u>
Totals as restated	<u>\$ (163,774)</u>	<u>\$ 7,454,319</u>

## **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, 2007

	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Revenues:				
General property taxes	\$ 8,448,283	\$ 8,448,283	\$ 8,744,282	\$ 295,999
Other local taxes	6,535,013	6,535,013	6,491,461	(43,552)
Permits, privilege fees and regulatory licenses	472,450	472,450	436,393	(36,057)
Fines and forfeitures	222,397	224,020	207,286	(16,734)
Revenue from use of money and property	634,720	634,720	924,987	290,267
Charges for services	301,344	301,344	263,442	(37,902)
Miscellaneous	163,071	184,463	197,747	13,284
Recovered costs	884,023	939,744	1,084,522	144,778
Intergovernmental:				
Commonwealth	7,080,397	7,559,609	7,548,843	(10,766)
Federal	23,537	480,627	524,472	43,845
<b>Total revenues</b>	<b>\$ 24,765,235</b>	<b>\$ 25,780,273</b>	<b>\$ 26,423,435</b>	<b>\$ 643,162</b>
Expenditures:				
Current:				
General government administration	\$ 4,186,531	\$ 4,057,446	\$ 3,555,065	\$ 502,381
Judicial administration	1,683,335	1,847,967	1,779,779	68,188
Public safety	8,889,462	9,293,467	8,809,655	483,812
Public works	4,187,975	4,487,811	4,345,133	142,678
Health and welfare	510,298	510,298	510,058	240
Education	6,343,912	6,343,912	6,449,300	(105,388)
Parks, recreation, and cultural	1,298,274	1,336,037	1,333,042	2,995
Community development	987,095	1,041,380	1,110,436	(69,056)
Debt service:				
Principal retirement	195,950	195,950	97,581	98,369
Interest and other fiscal charges	19,944	19,944	12,925	7,019
<b>Total expenditures</b>	<b>\$ 28,302,776</b>	<b>\$ 29,134,212</b>	<b>\$ 28,002,974</b>	<b>\$ 1,131,238</b>
Excess (deficiency) of revenues over expenditures	\$ (3,537,541)	\$ (3,353,939)	\$ (1,579,539)	\$ 1,774,400
Other financing sources (uses):				
Transfers in	\$ 3,757,603	\$ 3,757,603	\$ 3,757,603	\$ -
Transfers (out)	(805,450)	(1,050,624)	(1,050,625)	(1)
<b>Total other financing sources (uses)</b>	<b>\$ 2,952,153</b>	<b>\$ 2,706,979</b>	<b>\$ 2,706,978</b>	<b>\$ (1)</b>
Changes in fund balances	\$ (585,388)	\$ (646,960)	\$ 1,127,439	\$ 1,774,399
Fund balances at beginning of year	585,388	646,960	1,108,130	461,170
Fund balances at end of year	\$ -	\$ -	\$ 2,235,569	\$ 2,235,569

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

**City**

<b>Valuation Date</b>	<b>Actuarial Value of Assets (AVA)</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded (Excess Funded) Actuarial Accrued Liability</b>	<b>Funded Ratio (2)/(3)</b>	<b>Annual Covered Payroll</b>	<b>UAAL as % of Payroll (4)/(6)</b>
<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>	<b>(5)</b>	<b>(6)</b>	<b>(7)</b>
6/30/2006	\$ 51,571,773	\$ 61,398,159	\$ 9,826,386	84.00%	\$ 12,224,349	80.38%
6/30/2005	48,940,187	62,153,717	13,213,530	78.74%	11,685,820	113.07%
6/30/2004	48,134,629	60,136,700	12,002,071	80.04%	11,117,223	107.96%

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

<b>Valuation Date</b>	<b>Actuarial Value of Assets (AVA)</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded (Excess Funded) Actuarial Accrued Liability</b>	<b>Funded Ratio (2)/(3)</b>	<b>Annual Covered Payroll</b>	<b>UAAL as % of Payroll (4)/(6)</b>
<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>	<b>(5)</b>	<b>(6)</b>	<b>(7)</b>
6/30/2006	\$ 2,876,654	\$ 3,743,400	\$ 866,746	76.85%	\$ 612,693	141.46%
6/30/2005	2,814,331	3,900,362	1,086,031	72.16%	533,720	203.48%
6/30/2004	2,848,554	3,664,894	816,340	77.73%	753,597	108.33%

**Other Supplementary Information**

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

Nonmajor Governmental Funds  
 Combining Balance Sheet  
 At June 30, 2007

	Special Revenue Funds		Capital Projects Funds		Total
	City Grants Fund	Housing Choice Fund	Capital Reserve Fund	Meals Tax Fund	
<b>ASSETS</b>					
Cash and cash equivalents	\$ -	\$ 606,887	\$ 787,718	\$ 514,689	\$ 1,909,294
Accounts receivable	-	-	-	625	625
Due from other governments	234,053	-	-	-	234,053
<b>Total assets</b>	<b>\$ 234,053</b>	<b>\$ 606,887</b>	<b>\$ 787,718</b>	<b>\$ 515,314</b>	<b>\$ 2,143,972</b>
<b>LIABILITIES</b>					
Accounts payable and other current liabilities	\$ 26,213	\$ 887	\$ 231,924	\$ 1,038	\$ 260,062
Due to other funds	759,599	-	-	-	759,599
<b>Total liabilities</b>	<b>\$ 785,812</b>	<b>\$ 887</b>	<b>\$ 231,924</b>	<b>\$ 1,038</b>	<b>\$ 1,019,661</b>
<b>FUND BALANCES</b>					
Fund balances:					
Unreserved, undesignated reported in:					
Special revenue funds (deficit)	\$ (551,759)	\$ 606,000	\$ -	\$ -	\$ 54,241
Capital projects	-	-	555,794	514,276	1,070,070
<b>Total fund balances</b>	<b>\$ (551,759)</b>	<b>\$ 606,000</b>	<b>\$ 555,794</b>	<b>\$ 514,276</b>	<b>\$ 1,124,311</b>
<b>Total liabilities and fund balances</b>	<b>\$ 234,053</b>	<b>\$ 606,887</b>	<b>\$ 787,718</b>	<b>\$ 515,314</b>	<b>\$ 2,143,972</b>

Nonmajor Governmental Funds  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Year Ended June 30, 2007

	<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>	
<b>Revenues:</b>					
Other local taxes	\$ -	\$ -	\$ -	\$ 1,368,860	\$ 1,368,860
Revenue from use of money and property	66,338	3,390	477,914	-	547,642
Miscellaneous	15,565	12,014	95,352	-	122,931
Intergovernmental:					
Commonwealth	65,699	-	595,454	139,219	800,372
Federal	481,734	1,944,890	99,762	-	2,526,386
Total revenues	\$ 629,336	\$ 1,960,294	\$ 1,268,482	\$ 1,508,079	\$ 5,366,191
<b>Expenditures:</b>					
General government administration	\$ -	\$ -	\$ 298,319	\$ 35,190	\$ 333,509
Public safety	-	-	381,458	-	381,458
Public works	-	-	172,943	-	172,943
Health and welfare	90,075	-	-	-	90,075
Education	-	-	246,101	-	246,101
Parks, recreation, and cultural	-	-	158,304	-	158,304
Planning and community development	494,716	1,725,832	1,185,739	-	3,406,287
Debt service:					
Principal retired on debt	-	-	292,802	712,680	1,005,482
Interest and fiscal charges	-	-	84,469	384,715	469,184
Total expenditures	\$ 584,791	\$ 1,725,832	\$ 2,820,135	\$ 1,132,585	\$ 6,263,343
<b>Excess (deficiency) of revenues over expenditures</b>	\$ 44,545	\$ 234,462	\$ (1,551,653)	\$ 375,494	\$ (897,152)
<b>Other financing sources:</b>					
Issuance of debt	\$ -	\$ -	\$ 500,000	\$ -	\$ 500,000
Transfers in	108,950	-	1,576,287	-	1,685,237
Total other financing sources	\$ 108,950	\$ -	\$ 2,076,287	\$ -	\$ 2,185,237
<b>Changes in fund balances</b>	\$ 153,495	\$ 234,462	\$ 524,634	\$ 375,494	\$ 1,288,085
<b>Fund balances at beginning of year as restated</b>	(705,254)	371,538	31,160	138,782	(163,774)
<b>Fund balances at end of year</b>	\$ (551,759)	\$ 606,000	\$ 555,794	\$ 514,276	\$ 1,124,311

**CITY OF MARTINSVILLE, VIRGINIA**

Nonmajor Governmental Funds  
 Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual  
 Year Ended June 30, 2007

	Special Revenues Funds							
	City Grants Fund				Housing Choice Fund			
	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
<b>Revenues:</b>								
Other local taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue from use of money and property	42,825	42,825	66,338	23,513	2,000	2,000	3,390	1,390
Miscellaneous	-	-	15,565	15,565	3,500	3,500	12,014	8,514
Intergovernmental:								
Commonwealth	-	-	65,699	65,699	-	-	-	-
Federal	796,694	1,238,437	481,734	(756,703)	1,430,013	1,430,013	1,944,890	514,877
<b>Total revenues</b>	<b>\$ 839,519</b>	<b>\$ 1,281,262</b>	<b>\$ 629,336</b>	<b>\$ (651,926)</b>	<b>\$ 1,435,513</b>	<b>\$ 1,435,513</b>	<b>\$ 1,960,294</b>	<b>\$ 524,781</b>
<b>Expenditures:</b>								
General government administration	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-	-	-	-	-
Public works	-	-	-	-	-	-	-	-
Health and welfare	-	-	90,075	(90,075)	-	-	-	-
Education	-	-	-	-	-	-	-	-
Parks, recreation, and cultural	-	-	-	-	-	-	-	-
Planning and community development	414,464	632,964	494,716	138,248	1,711,688	1,732,208	1,725,832	6,376
Debt service:								
Principal retired on debt	-	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-	-
<b>Total expenditures</b>	<b>\$ 414,464</b>	<b>\$ 632,964</b>	<b>\$ 584,791</b>	<b>\$ 48,173</b>	<b>\$ 1,711,688</b>	<b>\$ 1,732,208</b>	<b>\$ 1,725,832</b>	<b>\$ 6,376</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>\$ 425,055</b>	<b>\$ 648,298</b>	<b>\$ 44,545</b>	<b>\$ (603,753)</b>	<b>\$ (276,175)</b>	<b>\$ (296,695)</b>	<b>\$ 234,462</b>	<b>\$ 531,157</b>
<b>Other financing sources (uses):</b>								
Issuance of debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers in	-	-	108,950	108,950	-	-	-	-
Transfers (out)	-	-	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 108,950</b>	<b>\$ 108,950</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Changes in fund balances</b>	<b>\$ 425,055</b>	<b>\$ 648,298</b>	<b>\$ 153,495</b>	<b>\$ (494,803)</b>	<b>\$ (276,175)</b>	<b>\$ (296,695)</b>	<b>\$ 234,462</b>	<b>\$ 531,157</b>
<b>Fund balances at beginning of year, as restated</b>	<b>(425,055)</b>	<b>(648,298)</b>	<b>(705,254)</b>	<b>(56,956)</b>	<b>276,175</b>	<b>296,695</b>	<b>371,538</b>	<b>74,843</b>
<b>Fund balances at end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (551,759)</b>	<b>\$ (551,759)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 606,000</b>	<b>\$ 606,000</b>

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)
\$ -	\$ -	\$ -	\$ -	\$ 1,408,830	\$ 1,408,830	\$ 1,368,860	\$ (39,970)
10,000	437,875	477,914	40,039	-	-	-	-
-	44,695	95,352	50,657	-	-	-	-
200,000	795,454	595,454	(200,000)	139,354	139,354	139,219	(135)
-	103,425	99,762	(3,663)	-	-	-	-
<u>\$ 210,000</u>	<u>\$ 1,381,449</u>	<u>\$ 1,268,482</u>	<u>\$ (112,967)</u>	<u>\$ 1,548,184</u>	<u>\$ 1,548,184</u>	<u>\$ 1,508,079</u>	<u>\$ (40,105)</u>
\$ 250,900	\$ 403,602	\$ 298,319	\$ 105,283	\$ 35,190	\$ 35,190	\$ 35,190	\$ -
263,849	556,389	381,458	174,931	-	-	-	-
189,000	189,000	172,943	16,057	-	-	-	-
-	-	-	-	-	-	-	-
-	-	246,101	(246,101)	-	-	-	-
160,000	510,000	158,304	351,696	-	-	-	-
295,000	1,461,425	1,185,739	275,686	-	-	-	-
297,576	297,576	292,802	4,774	719,301	719,301	712,680	(6,621)
84,788	84,788	84,469	319	375,931	375,931	384,715	8,784
<u>\$ 1,541,113</u>	<u>\$ 3,502,780</u>	<u>\$ 2,820,135</u>	<u>\$ 682,645</u>	<u>\$ 1,130,422</u>	<u>\$ 1,130,422</u>	<u>\$ 1,132,585</u>	<u>\$ 2,163</u>
<u>\$ (1,331,113)</u>	<u>\$ (2,121,331)</u>	<u>\$ (1,551,653)</u>	<u>\$ 569,678</u>	<u>\$ 417,762</u>	<u>\$ 417,762</u>	<u>\$ 375,494</u>	<u>\$ (42,268)</u>
\$ -	\$ -	\$ 500,000	\$ 500,000	\$ -	\$ -	\$ -	\$ -
1,331,113	1,576,287	1,576,287	-	-	-	-	-
-	-	-	-	(417,762)	(417,762)	-	417,762
<u>\$ 1,331,113</u>	<u>\$ 1,576,287</u>	<u>\$ 2,076,287</u>	<u>\$ 500,000</u>	<u>\$ (417,762)</u>	<u>\$ (417,762)</u>	<u>\$ -</u>	<u>\$ 417,762</u>
\$ -	\$ (545,044)	\$ 524,634	\$ 1,069,678	\$ -	\$ -	\$ 375,494	\$ 375,494
-	545,044	31,160	(513,884)	-	-	138,782	138,782
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 555,794</u>	<u>\$ 555,794</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 514,276</u>	<u>\$ 514,276</u>

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Combining Schedule of Fiduciary Net Assets -  
 Agency Funds  
 At June 30, 2007

	<u>Insurance Fund</u>	<u>Sheriff's Fund</u>	<u>West Piedmont Business Development Center Fund</u>	<u>Police Academy Fund</u>	<u>Total</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 216,103	\$ 126,321	\$ 63,470	\$ 448,583	\$ 854,477
Total assets	<u>\$ 216,103</u>	<u>\$ 126,321</u>	<u>\$ 63,470</u>	<u>\$ 448,583</u>	<u>\$ 854,477</u>
<b>LIABILITIES</b>					
Accounts payable	\$ -	\$ -	\$ 7,227	\$ 2,346	\$ 9,573
Amounts held for others	<u>216,103</u>	<u>126,321</u>	<u>56,243</u>	<u>446,237</u>	<u>844,904</u>
Total liabilities	<u>\$ 216,103</u>	<u>\$ 126,321</u>	<u>\$ 63,470</u>	<u>\$ 448,583</u>	<u>\$ 854,477</u>

Agency Funds  
Statement of Changes in Assets and Liabilities  
Year Ended June 30, 2007

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
<b>Insurance Fund:</b>				
Assets:				
Cash	\$ 188,719	\$ 2,914,856	\$ 2,887,472	\$ 216,103
Total assets	<u>\$ 188,719</u>	<u>\$ 2,914,856</u>	<u>\$ 2,887,472</u>	<u>\$ 216,103</u>
Liabilities:				
Amounts held for others	\$ 188,719	\$ 2,914,856	\$ 2,887,472	\$ 216,103
Total liabilities	<u>\$ 188,719</u>	<u>\$ 2,914,856</u>	<u>\$ 2,887,472</u>	<u>\$ 216,103</u>
<b>Sheriff Funds:</b>				
Assets:				
Cash	\$ 116,126	\$ 339,112	\$ 328,917	\$ 126,321
Total assets	<u>\$ 116,126</u>	<u>\$ 339,112</u>	<u>\$ 328,917</u>	<u>\$ 126,321</u>
Liabilities:				
Amounts held for others	\$ 116,126	\$ 339,112	\$ 328,917	\$ 126,321
Total liabilities	<u>\$ 116,126</u>	<u>\$ 339,112</u>	<u>\$ 328,917</u>	<u>\$ 126,321</u>
<b>WPBDC Fund:</b>				
Assets:				
Cash	\$ 47,675	\$ 205,969	\$ 190,174	\$ 63,470
Total assets	<u>\$ 47,675</u>	<u>\$ 205,969</u>	<u>\$ 190,174</u>	<u>\$ 63,470</u>
Liabilities:				
Accounts payable	\$ 6,591	\$ 7,227	\$ 6,591	\$ 7,227
Amounts held for others	41,084	198,742	183,583	56,243
Total liabilities	<u>\$ 47,675</u>	<u>\$ 205,969</u>	<u>\$ 190,174</u>	<u>\$ 63,470</u>
<b>Police Academy Fund:</b>				
Assets:				
Cash	\$ 379,098	\$ 260,507	\$ 191,022	\$ 448,583
Total assets	<u>\$ 379,098</u>	<u>\$ 260,507</u>	<u>\$ 191,022</u>	<u>\$ 448,583</u>
Liabilities:				
Accounts payable	\$ 5,802	\$ 2,346	\$ 5,802	\$ 2,346
Amounts held for others	373,296	258,161	185,220	446,237
Total liabilities	<u>\$ 379,098</u>	<u>\$ 260,507</u>	<u>\$ 191,022</u>	<u>\$ 448,583</u>
<b>Total -- All Agency Funds</b>				
Assets:				
Cash	\$ 731,618	\$ 3,720,444	\$ 3,597,585	\$ 854,477
Total assets	<u>\$ 731,618</u>	<u>\$ 3,720,444</u>	<u>\$ 3,597,585</u>	<u>\$ 854,477</u>
Liabilities:				
Accounts payable	\$ 12,393	\$ 9,573	\$ 12,393	\$ 9,573
Amounts held for others	719,225	3,710,871	3,585,192	844,904
Total liabilities	<u>\$ 731,618</u>	<u>\$ 3,720,444</u>	<u>\$ 3,597,585</u>	<u>\$ 854,477</u>

**Discretely Presented Component Unit—School Board**

Combining Balance Sheet  
 Discretely Presented Component Unit -- School Board  
 At June 30, 2007

	<u>School Operating Fund</u>	<u>School Cafeteria Fund</u>	<u>School Grants Fund</u>	<u>Totals</u>
<b>ASSETS</b>				
Assets:				
Cash and cash equivalents	\$ 2,257,477	\$ 365,647	\$ -	\$ 2,623,124
Accounts receivable	89,884	-	-	89,884
Due from other governmental units	245,405	34,489	344,151	624,045
Due from other funds	330,191	-	-	330,191
Total assets	<u>\$ 2,922,957</u>	<u>\$ 400,136</u>	<u>\$ 344,151</u>	<u>\$ 3,667,244</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 438,471	\$ 5,818	\$ -	\$ 444,289
Deferred revenue	42,167	-	-	42,167
Accrued liabilities	852,757	28,113	56,226	937,096
Due to other funds	-	-	330,191	330,191
Total liabilities	<u>\$ 1,333,395</u>	<u>\$ 33,931</u>	<u>\$ 386,417</u>	<u>\$ 1,753,743</u>
<b>FUND BALANCES</b>				
Unreserved:				
Undesignated (deficit)	<u>\$ 1,589,562</u>	<u>\$ 366,205</u>	<u>\$ (42,266)</u>	<u>\$ 1,913,501</u>
Total fund balances	<u>\$ 1,589,562</u>	<u>\$ 366,205</u>	<u>\$ (42,266)</u>	<u>\$ 1,913,501</u>
Total liabilities and fund balances	<u>\$ 2,922,957</u>	<u>\$ 400,136</u>	<u>\$ 344,151</u>	

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

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

5,574,220

Net assets of General Government Activities

\$ 7,487,721

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Governmental Funds - Discretely Presented Component Unit - School Board  
 Year Ended June 30, 2007

	<b>School Operating Fund</b>	<b>School Cafeteria Fund</b>	<b>School Grants Fund</b>	<b>Total</b>
<b>Revenues:</b>				
Revenue from use of money and property	\$ 57,094	\$ 12,698	\$ -	\$ 69,792
Charges for services	111,415	475,744	-	587,159
Miscellaneous	295,210	-	-	295,210
Recovered costs	55,272	1,958	-	57,230
Intergovernmental:				
Local government	6,436,625	-	-	6,436,625
Commonwealth	15,550,448	19,619	-	15,570,067
Federal	1,074,817	684,126	1,531,234	3,290,177
	<u>23,580,881</u>	<u>1,194,145</u>	<u>1,531,234</u>	<u>26,306,260</u>
Total revenues	\$ 23,580,881	\$ 1,194,145	\$ 1,531,234	\$ 26,306,260
<b>Expenditures:</b>				
Current:				
Education	\$ 23,408,476	\$ 1,167,120	\$ 1,552,742	\$ 26,128,338
Total expenditures	\$ 23,408,476	\$ 1,167,120	\$ 1,552,742	\$ 26,128,338
<b>Changes in fund balances</b>	\$ 172,405	\$ 27,025	\$ (21,508)	\$ 177,922
<b>Fund balances at beginning of year</b>	<u>1,417,157</u>	<u>339,180</u>	<u>(20,758)</u>	<u>1,735,579</u>
<b>Fund balances at end of year</b>	<u>\$ 1,589,562</u>	<u>\$ 366,205</u>	<u>\$ (42,266)</u>	<u>\$ 1,913,501</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, 2007

	<b>School Operating Fund</b>			<b>Variance From Final Budget Positive (Negative)</b>
	<b>Original Budget</b>	<b>Budget As Amended</b>	<b>Actual</b>	
<b>Revenues:</b>				
Revenue from use of money and property	\$ 5,500	\$ 8,018	\$ 57,094	\$ 49,076
Charges for services	35,000	35,000	111,415	76,415
Miscellaneous	-	293,580	295,210	1,630
Recovered costs	-	36,297	55,272	18,975
Intergovernmental:				
Local government	6,164,355	6,677,779	6,436,625	(241,154)
Commonwealth	15,798,473	15,647,479	15,550,448	(97,031)
Federal	783,186	826,186	1,074,817	248,631
<b>Total revenues</b>	<b>\$ 22,786,514</b>	<b>\$ 23,524,339</b>	<b>\$ 23,580,881</b>	<b>\$ 56,542</b>
<b>Expenditures:</b>				
Current:				
Education	\$ 22,786,514	\$ 23,524,339	\$ 23,408,476	\$ 115,863
<b>Total expenditures</b>	<b>\$ 22,786,514</b>	<b>\$ 23,524,339</b>	<b>\$ 23,408,476</b>	<b>\$ 115,863</b>
<b>Changes in fund balances</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 172,405</b>	<b>\$ 172,405</b>
<b>Fund balances at beginning of year</b>	<b>-</b>	<b>-</b>	<b>1,417,157</b>	<b>1,417,157</b>
<b>Fund balances at end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,589,562</b>	<b>\$ 1,589,562</b>

School Cafeteria Fund				School Grants Fund			
Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)	Original Budget	Budget As Amended	Actual	Variance From Amended Budget Positive (Negative)
\$ 8,500	\$ 8,500	\$ 12,698	\$ 4,198	\$ -	\$ -	\$ -	\$ -
376,000	376,000	475,744	99,744	-	-	-	-
-	-	-	-	-	-	-	-
-	-	1,958	1,958	-	-	-	-
-	-	-	-	-	-	-	-
16,833	16,833	19,619	2,786	-	-	-	-
579,654	579,654	684,126	104,472	-	1,294,192	1,531,234	237,042
<u>\$ 980,987</u>	<u>\$ 980,987</u>	<u>\$ 1,194,145</u>	<u>\$ 213,158</u>	<u>\$ -</u>	<u>\$ 1,294,192</u>	<u>\$ 1,531,234</u>	<u>\$ 237,042</u>
<u>\$ 980,987</u>	<u>\$ 980,987</u>	<u>\$ 1,167,120</u>	<u>\$ (186,133)</u>	<u>\$ -</u>	<u>\$ 1,294,192</u>	<u>\$ 1,552,742</u>	<u>\$ (258,550)</u>
<u>\$ 980,987</u>	<u>\$ 980,987</u>	<u>\$ 1,167,120</u>	<u>\$ (186,133)</u>	<u>\$ -</u>	<u>\$ 1,294,192</u>	<u>\$ 1,552,742</u>	<u>\$ (258,550)</u>
\$ -	\$ -	\$ 27,025	\$ 27,025	\$ -	\$ -	\$ (21,508)	\$ (21,508)
-	-	339,180	339,180	-	-	(20,758)	(20,758)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 366,205</u>	<u>\$ 366,205</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (42,266)</u>	<u>\$ (42,266)</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, 2007

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Net changes in fund balances - total governmental funds	\$ 177,922
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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	566,931
Depreciation expense	(400,600)

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.

<u>521,754</u>
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Changes in net assets of governmental activities	\$ <u><u>866,007</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

## **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, 2007

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
<b>Primary Government:</b>				
<b>General Fund:</b>				
General property taxes:				
Real property taxes	\$ 6,515,131	\$ 6,515,131	\$ 6,619,463	\$ 104,332
Personal property taxes	656,797	656,797	807,209	150,412
Business equipment	924,328	924,328	899,758	(24,570)
Machinery and tools taxes	222,027	222,027	250,766	28,739
Penalties	80,000	80,000	93,396	13,396
Interest and costs	50,000	50,000	73,690	23,690
Total general property taxes	<u>\$ 8,448,283</u>	<u>\$ 8,448,283</u>	<u>\$ 8,744,282</u>	<u>\$ 295,999</u>
Other local taxes:				
Local sales and use taxes	\$ 2,100,000	\$ 2,100,000	\$ 2,279,517	\$ 179,517
Consumers' utility taxes	774,790	774,790	758,582	(16,208)
Business license tax	1,679,585	1,679,585	1,757,733	78,148
Franchise license taxes	160,000	160,000	133,426	(26,574)
Motor vehicle licenses	330,600	330,600	290,247	(40,353)
Bank franchise tax	294,402	294,402	215,299	(79,103)
E-911 surcharge	318,636	318,636	154,338	(164,298)
Taxes on recordation and wills	84,000	84,000	81,036	(2,964)
Grantor tax	15,000	15,000	19,054	4,054
Telephone tax	610,000	610,000	267,252	(342,748)
Cigarette tax	151,000	151,000	144,396	(6,604)
Rental tax	3,000	3,000	2,949	(51)
Transient room tax	14,000	14,000	15,206	1,206
Telecommunications tax	-	-	372,426	372,426
Total other local taxes	<u>\$ 6,535,013</u>	<u>\$ 6,535,013</u>	<u>\$ 6,491,461</u>	<u>\$ (43,552)</u>
Permits, privilege fees and regulatory licenses:				
Animal licenses	\$ 3,000	\$ 3,000	\$ 2,365	\$ (635)
Ambulance Fees	379,000	379,000	301,549	(77,451)
Other permits and licenses	90,450	90,450	132,479	42,029
Total permits, privilege fees and regulatory licenses	<u>\$ 472,450</u>	<u>\$ 472,450</u>	<u>\$ 436,393</u>	<u>\$ (36,057)</u>
Fines and Forfeitures:				
Court fines and forfeitures	\$ 220,000	\$ 220,000	\$ 201,689	\$ (18,311)
Other fines and forfeitures	2,397	4,020	5,597	1,577
Total fines and forfeitures	<u>\$ 222,397</u>	<u>\$ 224,020</u>	<u>\$ 207,286</u>	<u>\$ (16,734)</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 250,000	\$ 250,000	\$ 441,721	\$ 191,721
Revenue from use of property	384,720	384,720	483,266	98,546
Total revenue from use of money and property	<u>\$ 634,720</u>	<u>\$ 634,720</u>	<u>\$ 924,987</u>	<u>\$ 290,267</u>
Charges for services:				
Sheriff fees	\$ 3,624	\$ 3,624	\$ 3,625	\$ 1
Courthouse maintenance fees	16,000	16,000	12,282	(3,718)
Court appointed attorney fees	5,000	5,000	6,669	1,669
Court house security fees	18,000	18,000	15,239	(2,761)
Document reproduction fee	3,400	3,400	3,192	(208)

Governmental Funds and Discretely Presented Component Unit - School Board  
Schedule of Revenues -- Budget and Actual  
Year Ended June 30, 2007 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
<b>Primary Government: (Continued)</b>				
<b>General Fund: (Continued)</b>				
Charges for services: (Continued)				
Remote access fee	\$ 2,500	\$ 2,500	\$ 4,153	\$ 1,653
Commonwealth attorney fees	1,600	1,600	1,751	151
Other public safety fees	7,600	7,600	7,634	34
Recreation fees	31,000	31,000	29,036	(1,964)
Prison farm labor / street maintenance	24,000	24,000	24,000	-
Martinsville mustangs fees	166,420	166,420	113,038	(53,382)
Other charges for services	22,200	22,200	42,823	20,623
Total charges for services	<u>\$ 301,344</u>	<u>\$ 301,344</u>	<u>\$ 263,442</u>	<u>\$ (37,902)</u>
Miscellaneous revenue:				
Payment in lieu of tax	\$ 137,271	\$ 137,271	\$ 136,271	\$ (1,000)
Other miscellaneous revenue	25,800	47,192	61,476	14,284
Total miscellaneous revenue	<u>\$ 163,071</u>	<u>\$ 184,463</u>	<u>\$ 197,747</u>	<u>\$ 13,284</u>
Recovered costs:				
Boarding of prisoners	\$ 15,000	\$ 15,000	\$ 16,462	\$ 1,462
WW Moore	30,000	30,000	52,968	22,968
SSI / LIDS	3,000	3,000	3,400	400
Juvenile and domestic relations court	850	850	1,980	1,130
Meals tax administration	35,190	35,190	35,190	-
Street maintenance overhead	56,067	56,067	170,136	114,069
Demolition	1,100	1,100	8,204	7,104
Advance / recovered cost	30,000	79,654	94,034	14,380
Health department	4,000	4,000	5,129	1,129
Juror and witness	7,400	7,400	9,423	2,023
Pay phone commissions	-	-	22	22
Medical co-pay reimbursement	12,000	12,000	13,082	1,082
Treasurer	2,000	2,000	4,501	2,501
Refund / Unused flex spend account	-	-	2,942	2,942
BCM maintenance	-	-	1,100	1,100
Project lifesaver	-	-	2,799	2,799
DUI reimbursement	4,000	4,000	1,162	(2,838)
Collection expense	9,000	9,000	9,000	-
Billing expense	381,716	381,716	353,192	(28,524)
Safety expense	76,926	76,926	76,926	-
Communication	119,254	119,254	119,254	-
Central garage	30,320	30,320	30,320	-
Engineering	45,000	45,000	45,580	580
Senior citizens	4,000	10,067	10,209	142
Social services	10,000	10,000	10,008	8
Program income	1,000	1,000	1,048	48
Senior citizens - transportation	3,200	3,200	3,451	251
Fiscal agent fees - regional library	3,000	3,000	3,000	-
Total recovered costs	<u>\$ 884,023</u>	<u>\$ 939,744</u>	<u>\$ 1,084,522</u>	<u>\$ 144,778</u>
Total revenue from local sources	<u>\$ 17,661,301</u>	<u>\$ 17,740,037</u>	<u>\$ 18,350,120</u>	<u>\$ 610,083</u>

Governmental Funds and Discretely Presented Component Unit - School Board  
Schedule of Revenues -- Budget and Actual  
Year Ended June 30, 2007 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
<b>Primary Government: (Continued)</b>				
<b>General Fund: (Continued)</b>				
Revenue from the Commonwealth:				
Noncategorical aid:				
ABC profits	\$ 9,037	\$ 9,037	\$ 9,037	\$ -
Wine taxes	9,473	9,473	9,473	-
PPTRA	626,428	626,428	639,745	13,317
Rolling stock tax	9,000	9,000	9,023	23
Auto rental tax	45,000	45,000	47,928	2,928
Recordation tax	14,500	14,500	18,974	4,474
Total noncategorical aid	<u>\$ 713,438</u>	<u>\$ 713,438</u>	<u>\$ 734,180</u>	<u>\$ 20,742</u>
Categorical aid:				
Shared expenses:				
Commonwealth's attorney	\$ 350,531	\$ 453,582	\$ 462,448	\$ 8,866
Sheriff	1,778,123	1,778,123	1,826,793	48,670
Commissioner of the Revenue	110,303	110,303	112,962	2,659
Treasurer	96,488	96,488	98,729	2,241
Medical examiner	300	300	-	(300)
Registrar/electoral board	48,134	61,062	60,711	(351)
Clerk of the circuit court	250,774	254,902	254,585	(317)
Total shared expenses	<u>\$ 2,634,653</u>	<u>\$ 2,754,760</u>	<u>\$ 2,816,228</u>	<u>\$ 61,468</u>
Other categorical aid:				
Senior citizens	\$ 11,000	\$ 11,000	\$ 11,074	\$ 74
Confiscated assets	-	6,748	9,390	2,642
Victim witness	70,740	70,740	13,935	(56,805)
House Bill # 599 - police	681,869	995,981	995,980	(1)
EMS two for life	9,500	9,500	9,765	265
Fire grant	34,296	37,392	37,392	-
Street maintenance	2,414,901	2,414,901	2,429,375	14,474
Jail per diem	430,000	430,000	445,032	15,032
Rescue squad assistance program	-	8,344	8,344	-
Police DCJS / Triad grant	-	-	2,471	2,471
Other categorical aid	80,000	106,805	35,677	(71,128)
Total other categorical aid	<u>\$ 3,732,306</u>	<u>\$ 4,091,411</u>	<u>\$ 3,998,435</u>	<u>\$ (92,976)</u>
Total categorical aid	<u>\$ 6,366,959</u>	<u>\$ 6,846,171</u>	<u>\$ 6,814,663</u>	<u>\$ (31,508)</u>
Total revenue from the Commonwealth	<u>\$ 7,080,397</u>	<u>\$ 7,559,609</u>	<u>\$ 7,548,843</u>	<u>\$ (10,766)</u>

Governmental Funds and Discretely Presented Component Unit - School Board  
 Schedule of Revenues -- Budget and Actual  
 Year Ended June 30, 2007 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
<b>Primary Government: (Continued)</b>				
<b>General Fund: (Continued)</b>				
Revenue from the federal government:				
Categorical aid:				
Victim witness	\$ -	\$ -	\$ 55,742	\$ 55,742
Confiscated assets	-	48,297	48,297	-
DMV grant - police	-	13,667	20,073	6,406
Senior citizens	19,787	21,535	18,227	(3,308)
Fire act grant	-	29,707	1,779	(27,928)
Local law enforcement block grant	3,750	3,750	-	(3,750)
Dental clinic grant	-	283,631	283,631	-
Incentive grant	-	45,000	45,000	-
Vipe overtime grant	-	-	9,654	9,654
Terrorism	-	35,040	33,452	(1,588)
Homeland security grant	-	-	8,617	8,617
Total categorical aid	<u>\$ 23,537</u>	<u>\$ 480,627</u>	<u>\$ 524,472</u>	<u>\$ 43,845</u>
Total revenue from the Federal Government	<u>\$ 23,537</u>	<u>\$ 480,627</u>	<u>\$ 524,472</u>	<u>\$ 43,845</u>
<b>Total General Fund</b>	<u><u>\$ 24,765,235</u></u>	<u><u>\$ 25,780,273</u></u>	<u><u>\$ 26,423,435</u></u>	<u><u>\$ 643,162</u></u>
<b>Special Revenue Funds:</b>				
<b>Grants Fund:</b>				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ 3,788	\$ 3,788	\$ 5,306	\$ 1,518
Revenue from use of property	<u>39,037</u>	<u>39,037</u>	<u>61,032</u>	<u>21,995</u>
Total revenue from use of money and property	<u>\$ 42,825</u>	<u>\$ 42,825</u>	<u>\$ 66,338</u>	<u>\$ 23,513</u>
Miscellaneous revenue:				
Other miscellaneous revenue	<u>-</u>	<u>-</u>	<u>15,565</u>	<u>15,565</u>
Total revenue from local sources	<u>\$ 42,825</u>	<u>\$ 42,825</u>	<u>\$ 81,903</u>	<u>\$ 39,078</u>
Revenue from the Commonwealth:				
Other categorical aid:				
Comprehensive services	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,699</u>	<u>\$ 65,699</u>
Total revenue from the Commonwealth	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,699</u>	<u>\$ 65,699</u>

Governmental Funds and Discretely Presented Component Unit - School Board  
 Schedule of Revenues -- Budget and Actual  
 Year Ended June 30, 2007 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
<b>Primary Government: (Continued)</b>				
<b>Special Revenue Funds: (Continued)</b>				
Revenue from the federal government:				
Categorical aid:				
Community development block grant	\$ -	\$ 53,246	\$ 47,490	\$ (5,756)
CDBG - West Church Corridor improvement	84,000	417,568	266,301	(151,267)
Cherry street planning grant	-	25,000	25,000	-
USDA rural development grant	506,094	536,023	90,243	(445,780)
Indoor plumbing	206,600	206,600	52,700	(153,900)
Total revenue from the Federal Government	<u>\$ 796,694</u>	<u>\$ 1,238,437</u>	<u>\$ 481,734</u>	<u>\$ (756,703)</u>
<b>Total Grants Fund</b>	<u>\$ 839,519</u>	<u>\$ 1,281,262</u>	<u>\$ 629,336</u>	<u>\$ (651,926)</u>
<b>Housing Choice Fund:</b>				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ 2,000	\$ 2,000	\$ 3,390	\$ 1,390
Miscellaneous revenue:				
Miscellaneous funds	3,500	3,500	12,014	8,514
Total revenue from local sources	<u>\$ 5,500</u>	<u>\$ 5,500</u>	<u>\$ 15,404</u>	<u>\$ 9,904</u>
Revenue from the federal government:				
Categorical aid:				
Housing assistance	\$ 1,027,477	\$ 1,027,477	\$ 1,578,935	\$ 551,458
Moderate rehab. assistance	178,152	178,152	173,264	(4,888)
Other federal assistance	224,384	224,384	192,691	(31,693)
Total revenue from the Federal Government	<u>\$ 1,430,013</u>	<u>\$ 1,430,013</u>	<u>\$ 1,944,890</u>	<u>\$ 514,877</u>
<b>Total Housing Choice Fund</b>	<u>\$ 1,435,513</u>	<u>\$ 1,435,513</u>	<u>\$ 1,960,294</u>	<u>\$ 524,781</u>
<b>Total Special Revenue Funds</b>	<u>\$ 2,275,032</u>	<u>\$ 2,716,775</u>	<u>\$ 2,589,630</u>	<u>\$ (127,145)</u>
<b>Capital Projects Funds:</b>				
<b>Capital Reserve Fund:</b>				
Revenue from local sources:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ 10,000	\$ 437,875	\$ 477,914	\$ 40,039
Miscellaneous revenue:				
Miscellaneous	-	44,695	95,352	50,657
Total revenue from local sources	<u>\$ 10,000</u>	<u>\$ 482,570</u>	<u>\$ 573,266</u>	<u>\$ 90,696</u>

Governmental Funds and Discretely Presented Component Unit - School Board  
Schedule of Revenues -- Budget and Actual  
Year Ended June 30, 2007 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
<b>Primary Government: (Continued)</b>				
<b>Capital Projects Funds: (Continued)</b>				
Revenue from the Commonwealth:				
Categorical aid:				
Rescue squad assistance	\$ -	\$ 25,454	\$ 25,454	\$ -
Governor's opportunity fund	-	325,000	325,000	-
Fire Programs Fund	-	10,000	10,000	-
Rail trail / VDOT	200,000	200,000	-	(200,000)
Tobacco grant	-	235,000	235,000	-
Total revenue from the Commonwealth	<u>\$ 200,000</u>	<u>\$ 795,454</u>	<u>\$ 595,454</u>	<u>\$ (200,000)</u>
Revenue from the federal government:				
Categorical aid:				
Bulletproof vest grant	\$ -	\$ 13,425	\$ 6,098	\$ (7,327)
OJP grant	-	90,000	93,664	3,664
Total revenue from the Federal Government	<u>\$ -</u>	<u>\$ 103,425</u>	<u>\$ 99,762</u>	<u>\$ (3,663)</u>
<b>Total Capital Reserve Fund</b>	<u><u>\$ 210,000</u></u>	<u><u>\$ 1,381,449</u></u>	<u><u>\$ 1,268,482</u></u>	<u><u>\$ (112,967)</u></u>
<b>Meals Tax Fund:</b>				
Revenue from local sources:				
Other local taxes:				
Meals taxes	\$ 1,408,830	\$ 1,408,830	\$ 1,368,860	\$ (39,970)
Revenue from the Commonwealth:				
Categorical aid:				
School construction	<u>139,354</u>	<u>139,354</u>	<u>139,219</u>	<u>(135)</u>
<b>Total Meals Tax Fund</b>	<u><u>\$ 1,548,184</u></u>	<u><u>\$ 1,548,184</u></u>	<u><u>\$ 1,508,079</u></u>	<u><u>\$ (40,105)</u></u>
<b>Total Capital Projects Funds</b>	<u><u>\$ 1,758,184</u></u>	<u><u>\$ 2,929,633</u></u>	<u><u>\$ 2,776,561</u></u>	<u><u>\$ (153,072)</u></u>
<b>Grand Total Revenues -- Primary Government</b>	<u><u>\$ 28,798,451</u></u>	<u><u>\$ 31,426,681</u></u>	<u><u>\$ 31,789,626</u></u>	<u><u>\$ 362,945</u></u>
<b>Component Unit-School Board:</b>				
<b>Governmental Funds:</b>				
<b>School Operating Fund:</b>				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of property	\$ 5,500	\$ 8,018	\$ 57,094	\$ 49,076
Charges for services:				
Tuition and other charges for services	35,000	35,000	111,415	76,415
Miscellaneous revenue:				
Miscellaneous revenue	-	293,580	295,210	1,630
Recovered costs:				
Recovered costs	<u>-</u>	<u>36,297</u>	<u>55,272</u>	<u>18,975</u>
Total revenue from local sources	<u>\$ 40,500</u>	<u>\$ 372,895</u>	<u>\$ 518,991</u>	<u>\$ 146,096</u>
Intergovernmental revenue:				
Revenues from local governments:				
Contribution from City of Martinsville, Virginia	<u>\$ 6,164,355</u>	<u>\$ 6,677,779</u>	<u>\$ 6,436,625</u>	<u>\$ (241,154)</u>

Governmental Funds and Discretely Presented Component Unit - School Board  
 Schedule of Revenues -- Budget and Actual  
 Year Ended June 30, 2007 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
<b>Component Unit-School Board: (Continued)</b>				
<b>Governmental Funds: (Continued)</b>				
<b>School Operating Fund: (Continued)</b>				
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 2,865,626	\$ 2,865,626	\$ 2,635,428	\$ (230,198)
Basic school aid	7,473,305	7,473,305	7,404,264	(69,041)
Share of fringe benefits - Fica	465,235	465,235	453,852	(11,383)
Share of fringe benefits - VRS	592,800	592,800	574,635	(18,165)
Lottery proceeds	436,777	436,777	424,223	(12,554)
Regional tuition special education	88,782	88,782	115,145	26,363
At risk 4 year olds	117,920	117,920	124,471	6,551
Vocational SOQ payments	251,377	251,377	245,226	(6,151)
Special education - basic	1,037,400	1,037,400	1,012,016	(25,384)
At risk students	386,711	386,711	375,712	(10,999)
Project graduation	-	-	13,274	13,274
Gear up grant	-	-	19,970	19,970
Remedial education	320,787	320,787	312,938	(7,849)
Reduced K-3	412,440	412,440	354,419	(58,021)
Textbooks	190,990	190,990	184,558	(6,432)
Technology	180,000	180,000	334,000	154,000
Other state funds	978,323	827,329	966,317	138,988
<b>Total revenue from the Commonwealth</b>	<b>\$ 15,798,473</b>	<b>\$ 15,647,479</b>	<b>\$ 15,550,448</b>	<b>\$ (97,031)</b>
Revenue from the federal government:				
Categorical aid:				
Vocational education - Carl Perkins	\$ 57,068	\$ 57,068	\$ 63,502	\$ 6,434
Special education - pre-school incentive	7,162	7,162	6,809	(353)
Special education - flow through	593,333	593,333	619,748	26,415
ROTC instructors	36,995	36,995	45,880	8,885
Assistive Technology	-	-	20,128	20,128
NASA program	-	43,000	84,624	41,624
21st century grant	-	-	92,683	92,683
Blue ridge east tech grant	-	-	24,636	24,636
Workforce investment act	88,628	88,628	116,807	28,179
<b>Total categorical aid</b>	<b>\$ 783,186</b>	<b>\$ 826,186</b>	<b>\$ 1,074,817</b>	<b>\$ 248,631</b>
<b>Total revenue from the federal government</b>	<b>\$ 783,186</b>	<b>\$ 826,186</b>	<b>\$ 1,074,817</b>	<b>\$ 248,631</b>
<b>Total School Operating Fund</b>	<b>\$ 22,786,514</b>	<b>\$ 23,524,339</b>	<b>\$ 23,580,881</b>	<b>\$ 56,542</b>

Governmental Funds and Discretely Presented Component Unit - School Board  
 Schedule of Revenues -- Budget and Actual  
 Year Ended June 30, 2007 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
<b>Component Unit-School Board: (Continued)</b>				
<b>School Cafeteria Fund:</b>				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ 8,500	\$ 8,500	\$ 12,698	\$ 4,198
Charges for services:				
Cafeteria sales	\$ 376,000	\$ 376,000	\$ 475,744	\$ 99,744
Recovered costs:				
Recovered costs	\$ -	-	1,958	1,958
Revenue from the Commonwealth:				
Categorical aid:				
School food	\$ 16,833	\$ 16,833	\$ 19,619	\$ 2,786
Revenue from the federal government:				
Categorical aid:				
School food	\$ 579,654	\$ 579,654	\$ 684,126	\$ 104,472
<b>Total School Cafeteria Fund</b>	<b>\$ 980,987</b>	<b>\$ 980,987</b>	<b>\$ 1,194,145</b>	<b>\$ 213,158</b>
<b>School Grants Fund:</b>				
Revenue from the federal government:				
Categorical aid:				
Title I	\$ -	\$ 765,745	\$ 849,313	\$ 83,568
Title II - teacher quality	-	156,606	156,678	72
Title II - technology	-	7,634	5,744	(1,890)
Title V - innovative program	-	6,639	5,675	(964)
Title VI - rural education	-	73,021	88,670	15,649
Drug free schools	-	15,026	15,005	(21)
Reading first	-	-	66,709	66,709
Class size reduction	-	257,551	330,406	72,855
Language acquisition state grant	-	11,970	13,034	1,064
Total revenue from the federal government	\$ -	\$ 1,294,192	\$ 1,531,234	\$ 237,042
<b>Total School Grants Fund</b>	<b>\$ -</b>	<b>\$ 1,294,192</b>	<b>\$ 1,531,234</b>	<b>\$ 237,042</b>
<b>Grand Total Revenues--Component Unit - School Board</b>	<b>\$ 23,767,501</b>	<b>\$ 25,799,518</b>	<b>\$ 26,306,260</b>	<b>\$ 506,742</b>

Governmental Funds and Discretely Presented Component Unit - School Board  
Schedule of Expenditures - Budget and Actual  
Year Ended June 30, 2007

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
<b>Primary Government:</b>				
<b>General Fund:</b>				
General Government Administration:				
Legislative:				
City council	\$ 44,380	\$ 69,380	\$ 40,583	\$ 28,797
General and Financial Administration:				
Clerk of council	\$ -	\$ -	\$ 1,223	\$ (1,223)
City manager's office	239,692	242,557	251,216	(8,659)
Legal services	72,970	72,970	49,421	23,549
Human resources	150,535	153,611	154,474	(863)
Employment services	246,987	246,987	218,404	28,583
Customer services	53,615	53,615	47,137	6,478
Communications	119,254	125,333	115,171	10,162
Commissioner of the Revenue	368,283	368,283	348,692	19,591
Assessor	6,741	6,741	5,787	954
Treasurer	259,246	259,246	258,667	579
Finance director	96,178	99,798	97,759	2,039
Accounting	190,268	196,251	192,802	3,449
Utility billing	383,716	383,716	353,192	30,524
Information services	290,474	294,924	289,017	5,907
Central garage	505,420	505,420	474,971	30,449
Purchasing	263,145	263,145	253,918	9,227
Risk management	168,000	168,000	160,376	7,624
General expenses	606,193	423,569	154,117	269,452
Total general and financial administration	<u>\$ 4,020,717</u>	<u>\$ 3,864,166</u>	<u>\$ 3,426,344</u>	<u>\$ 437,822</u>
Board of Elections:				
Electoral board and officials	\$ 24,972	\$ 24,972	\$ 12,234	\$ 12,738
Registrar	96,462	98,928	75,904	23,024
Total board of elections	<u>\$ 121,434</u>	<u>\$ 123,900</u>	<u>\$ 88,138</u>	<u>\$ 35,762</u>
Total general government administration	<u>\$ 4,186,531</u>	<u>\$ 4,057,446</u>	<u>\$ 3,555,065</u>	<u>\$ 502,381</u>
Judicial Administration:				
Courts:				
Circuit court	\$ 80,124	\$ 81,873	\$ 67,847	\$ 14,026
General district court	20,250	20,250	25,313	(5,063)
Juvenile and domestic relations court	7,480	7,480	5,886	1,594
Clerk of the circuit court	343,894	352,687	341,410	11,277
Sheriff - courts	724,334	734,024	704,702	29,322
Total Courts	<u>\$ 1,176,082</u>	<u>\$ 1,196,314</u>	<u>\$ 1,145,158</u>	<u>\$ 51,156</u>

Governmental Funds and Discretely Presented Component Unit - School Board  
Schedule of Expenditures - Budget and Actual  
Year Ended June 30, 2007 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
<b>Primary Government: (Continued)</b>				
<b>General Fund: (Continued)</b>				
Commonwealth Attorney:				
Commonwealth attorney	\$ 436,513	\$ 580,913	\$ 561,256	\$ 19,657
Victim witness program	<u>70,740</u>	<u>70,740</u>	<u>73,365</u>	<u>(2,625)</u>
Total Commonwealth attorney	<u>\$ 507,253</u>	<u>\$ 651,653</u>	<u>\$ 634,621</u>	<u>\$ 17,032</u>
Total judicial administration	<u>\$ 1,683,335</u>	<u>\$ 1,847,967</u>	<u>\$ 1,779,779</u>	<u>\$ 68,188</u>
Public Safety:				
Law Enforcement and Traffic Control:				
Police department	\$ 3,629,146	\$ 3,813,851	\$ 3,722,432	\$ 91,419
Transportation safety commission	1,500	1,500	1,543	(43)
E-911 communication center	<u>289,423</u>	<u>289,423</u>	<u>254,096</u>	<u>35,327</u>
Total law enforcement and traffic control	<u>\$ 3,920,069</u>	<u>\$ 4,104,774</u>	<u>\$ 3,978,071</u>	<u>\$ 126,703</u>
Fire and Rescue Services:				
Fire services	\$ 1,743,808	\$ 1,837,597	\$ 1,779,238	\$ 58,359
Emergency medical services	<u>161,027</u>	<u>177,850</u>	<u>153,752</u>	<u>24,098</u>
Total fire and rescue services	<u>\$ 1,904,835</u>	<u>\$ 2,015,447</u>	<u>\$ 1,932,990</u>	<u>\$ 82,457</u>
Correction and Detention:				
Sheriff -corrections	\$ 2,287,840	\$ 2,291,336	\$ 2,088,117	\$ 203,219
Sheriff -jail annex	159,450	162,553	158,579	3,974
Probation office	<u>264,234</u>	<u>264,234</u>	<u>267,036</u>	<u>(2,802)</u>
Total correction and detention	<u>\$ 2,711,524</u>	<u>\$ 2,718,123</u>	<u>\$ 2,513,732</u>	<u>\$ 204,391</u>
Inspections:				
Building and other	<u>\$ 275,658</u>	<u>\$ 369,228</u>	<u>\$ 304,529</u>	<u>\$ 64,699</u>
Other Protection:				
Safety	<u>\$ 77,376</u>	<u>\$ 85,895</u>	<u>\$ 80,333</u>	<u>\$ 5,562</u>
Total other protection	<u>\$ 77,376</u>	<u>\$ 85,895</u>	<u>\$ 80,333</u>	<u>\$ 5,562</u>
Total public safety	<u>\$ 8,889,462</u>	<u>\$ 9,293,467</u>	<u>\$ 8,809,655</u>	<u>\$ 483,812</u>
Public Works:				
Maintenance of highways, streets, bridges and sidewalks:				
Director of public works	<u>\$ 107,747</u>	<u>\$ 110,481</u>	<u>\$ 109,644</u>	<u>\$ 837</u>

Governmental Funds and Discretely Presented Component Unit - School Board  
Schedule of Expenditures - Budget and Actual  
Year Ended June 30, 2007 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
<b>Primary Government: (Continued)</b>				
<b>General Fund: (Continued)</b>				
Highways, streets, bridges and sidewalks:				
Engineering	\$ 204,583	\$ 204,583	\$ 199,062	\$ 5,521
Street maintenance	1,471,944	1,471,944	1,515,659	(43,715)
Street marking and signs	182,444	182,444	144,404	38,040
Traffic signals	346,289	350,581	338,197	12,384
Street cleaning	414,224	414,224	431,113	(16,889)
VDOT reserve	112,000	112,000	30,166	81,834
Street construction	360,376	361,376	344,145	17,231
Thoroughfare construction	483,960	483,960	482,228	1,732
Total highways, streets, bridges and sidewalks	<u>\$ 3,683,567</u>	<u>\$ 3,691,593</u>	<u>\$ 3,594,618</u>	<u>\$ 96,975</u>
Maintenance of buildings and grounds:				
Uptown maintenance	\$ 42,990	\$ 42,990	\$ 43,008	\$ (18)
City hall maintenance	451,418	459,597	417,129	42,468
Social services building maintenance	-	-	196	(196)
Dental clinic	-	283,631	284,548	(917)
Public health center	10,000	10,000	5,634	4,366
Total maintenance of buildings and grounds	<u>\$ 504,408</u>	<u>\$ 796,218</u>	<u>\$ 750,515</u>	<u>\$ 45,703</u>
Total public works	<u>\$ 4,187,975</u>	<u>\$ 4,487,811</u>	<u>\$ 4,345,133</u>	<u>\$ 142,678</u>
Health and Welfare				
Health:				
Contribution to local health department	\$ 163,988	\$ 163,988	\$ 163,988	\$ -
State and local hospitalization	5,231	5,231	4,991	240
Total health	<u>\$ 169,219</u>	<u>\$ 169,219</u>	<u>\$ 168,979</u>	<u>\$ 240</u>
Mental Health and Mental Retardation:				
Chapter X board	\$ 50,138	\$ 50,138	\$ 50,138	\$ -
Welfare/Social Services:				
Regional social services board	\$ 290,941	\$ 290,941	\$ 290,941	\$ -
Total welfare/social services	<u>\$ 290,941</u>	<u>\$ 290,941</u>	<u>\$ 290,941</u>	<u>\$ -</u>
Total health and welfare	<u>\$ 510,298</u>	<u>\$ 510,298</u>	<u>\$ 510,058</u>	<u>\$ 240</u>
Education:				
Contributions to community colleges	\$ 12,675	\$ 12,675	\$ 12,675	\$ -
Contributions to School Board Component Unit	6,331,237	6,331,237	6,436,625	(105,388)
Total education	<u>\$ 6,343,912</u>	<u>\$ 6,343,912</u>	<u>\$ 6,449,300</u>	<u>\$ (105,388)</u>

Governmental Funds and Discretely Presented Component Unit - School Board  
Schedule of Expenditures - Budget and Actual  
Year Ended June 30, 2007 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
<b>Primary Government: (Continued)</b>				
<b>General Fund: (Continued)</b>				
Parks, Recreation, and Cultural:				
Parks and recreation:				
Leisure services	\$ 169,051	\$ 181,549	\$ 182,334	\$ (785)
Park maintenance	346,606	346,606	330,773	15,833
Hooker field	194,420	194,420	212,707	(18,287)
Senior center	184,798	193,458	184,820	8,638
Armory	66,079	82,684	85,088	(2,404)
Total parks and recreation	<u>\$ 960,954</u>	<u>\$ 998,717</u>	<u>\$ 995,722</u>	<u>\$ 2,995</u>
Library:				
Regional library	\$ 337,320	\$ 337,320	\$ 337,320	\$ -
Total parks, recreation and cultural	<u>\$ 1,298,274</u>	<u>\$ 1,336,037</u>	<u>\$ 1,333,042</u>	<u>\$ 2,995</u>
Community Development:				
Planning and Community Development:				
Economic development	\$ -	\$ -	\$ -	\$ -
Housing / community development	89,810	139,426	118,065	21,361
Miscellaneous development expenses	125,300	125,300	101,213	24,087
Planning and zoning	119,195	123,864	83,595	40,269
Contributions to local organizations	643,790	643,790	798,563	(154,773)
Total planning and community development	<u>\$ 978,095</u>	<u>\$ 1,032,380</u>	<u>\$ 1,101,436</u>	<u>\$ (69,056)</u>
Cooperative Extension Program:				
Horticulture and family resources	\$ 9,000	\$ 9,000	\$ 9,000	\$ -
Total community development	<u>\$ 987,095</u>	<u>\$ 1,041,380</u>	<u>\$ 1,110,436</u>	<u>\$ (69,056)</u>
Debt service:				
Principal retirement	\$ 195,950	\$ 195,950	\$ 97,581	\$ 98,369
Interest and other debt costs	19,944	19,944	12,925	7,019
Total debt service	<u>\$ 215,894</u>	<u>\$ 215,894</u>	<u>\$ 110,506</u>	<u>\$ 105,388</u>
<b>Total General Fund</b>	<u>\$ 28,302,776</u>	<u>\$ 29,134,212</u>	<u>\$ 28,002,974</u>	<u>\$ 1,131,238</u>
<b>Special Revenue Funds:</b>				
<b>City Grants Fund:</b>				
Health and Welfare:				
Comprehensive services	\$ -	\$ -	\$ 90,075	\$ (90,075)
Planning and Community Development:				
Community development block grant	\$ 205,325	\$ 423,825	\$ 429,886	\$ (6,061)
Indoor plumbing program	209,139	209,139	64,830	144,309
Total planning and community development	<u>\$ 414,464</u>	<u>\$ 632,964</u>	<u>\$ 494,716</u>	<u>\$ 138,248</u>
<b>Total City Grants Fund</b>	<u>\$ 414,464</u>	<u>\$ 632,964</u>	<u>\$ 584,791</u>	<u>\$ 48,173</u>

Governmental Funds and Discretely Presented Component Unit - School Board  
Schedule of Expenditures - Budget and Actual  
Year Ended June 30, 2007 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
<b>Primary Government: (Continued)</b>				
<b>Special Revenue Funds: (Continued)</b>				
<b>Housing Choice Fund:</b>				
Planning and Community Development:				
Housing choice voucher program	\$ 1,711,688	\$ 1,732,208	\$ 1,725,832	\$ 6,376
<b>Total Housing Choice Fund</b>	<u>\$ 1,711,688</u>	<u>\$ 1,732,208</u>	<u>\$ 1,725,832</u>	<u>\$ 6,376</u>
<b>Total Special Revenue Funds</b>	<u>\$ 2,126,152</u>	<u>\$ 2,365,172</u>	<u>\$ 2,310,623</u>	<u>\$ 54,549</u>
<b>Capital Project Funds:</b>				
<b>Capital Reserve Fund:</b>				
Capital outlays and projects:				
General Government Administration:				
Communications equipment	\$ 58,400	\$ 64,400	\$ 17,182	\$ 47,218
ADP equipment - information services	70,000	70,000	68,507	1,493
ADP equipment - central computer replacement	-	55,000	56,109	(1,109)
Central garage - projects	75,000	166,702	116,665	50,037
Inspections	7,500	7,500	-	7,500
Fiber optic network	20,000	20,000	19,245	755
Minet - phone system	20,000	20,000	20,611	(611)
Total general government administration	<u>\$ 250,900</u>	<u>\$ 403,602</u>	<u>\$ 298,319</u>	<u>\$ 105,283</u>
Public Safety:				
Law Enforcement and Traffic Control:				
Police department - equipment	37,850	82,545	23,643	58,902
Police department - motor vehicles	64,099	64,099	64,099	-
Total law enforcement and traffic control	<u>\$ 101,949</u>	<u>\$ 146,644</u>	<u>\$ 87,742</u>	<u>\$ 58,902</u>
Fire and Rescue Services:				
Fire services - equipment	\$ 26,700	\$ 62,154	\$ 25,213	\$ 36,941
Fire services - physical plant expansion	9,700	9,700	10,000	(300)
Total fire and rescue services	<u>\$ 36,400</u>	<u>\$ 71,854</u>	<u>\$ 35,213</u>	<u>\$ 36,641</u>
Correction and Detention:				
Sheriff -corrections - equipment	\$ 90,500	\$ 302,891	\$ 230,098	\$ 72,793
Sheriff -corrections - motor vehicles	35,000	35,000	28,405	6,595
Total correction and detention	<u>\$ 125,500</u>	<u>\$ 337,891</u>	<u>\$ 258,503</u>	<u>\$ 79,388</u>
Total public safety	<u>\$ 263,849</u>	<u>\$ 556,389</u>	<u>\$ 381,458</u>	<u>\$ 174,931</u>

Governmental Funds and Discretely Presented Component Unit - School Board  
Schedule of Expenditures - Budget and Actual  
Year Ended June 30, 2007 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
<b>Primary Government: (Continued)</b>				
<b>Capital Projects Funds: (Continued)</b>				
Public Works:				
Highways, streets, bridges and sidewalks:				
Motor vehicles	\$ 80,000	\$ 80,000	\$ 79,193	\$ 807
Street construction - motor vehicles	109,000	109,000	93,750	15,250
Total public works	<u>\$ 189,000</u>	<u>\$ 189,000</u>	<u>\$ 172,943</u>	<u>\$ 16,057</u>
Education:				
School maintenance / improvements	\$ -	\$ -	\$ 246,101	\$ (246,101)
Total education	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 246,101</u>	<u>\$ (246,101)</u>
Parks, Recreation, and Cultural:				
Parks and recreation:				
Street construction	\$ 50,000	\$ 50,000	\$ -	\$ 50,000
City hall	60,000	60,000	57,254	2,746
Stores	-	-	51,050	(51,050)
Land acquisition	-	200,000	-	200,000
Economic development	50,000	200,000	50,000	150,000
Total parks, recreation and cultural	<u>\$ 160,000</u>	<u>\$ 510,000</u>	<u>\$ 158,304</u>	<u>\$ 351,696</u>
Community Development:				
Planning and Community Development:				
Uptown rail program	\$ 250,000	\$ 250,000	\$ 38,296	\$ 211,704
Virginia Economic Development Partnership	-	703,000	703,000	-
Piedmont arts	25,000	38,425	10,867	27,558
Cable project	20,000	470,000	433,576	36,424
Total community development	<u>\$ 295,000</u>	<u>\$ 1,461,425</u>	<u>\$ 1,185,739</u>	<u>\$ 275,686</u>
Debt service:				
Principal retirement	\$ 297,576	\$ 297,576	\$ 292,802	\$ 4,774
Interest and other debt costs	84,788	84,788	84,469	319
Total debt service	<u>\$ 382,364</u>	<u>\$ 382,364</u>	<u>\$ 377,271</u>	<u>\$ 5,093</u>
<b>Total Capital Reserve Fund</b>	<u>\$ 1,541,113</u>	<u>\$ 3,502,780</u>	<u>\$ 2,820,135</u>	<u>\$ 682,645</u>

Governmental Funds and Discretely Presented Component Unit - School Board  
Schedule of Expenditures - Budget and Actual  
Year Ended June 30, 2007 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
<b>Primary Government: (Continued)</b>				
<b>Capital Projects Funds: (Continued)</b>				
<b>Meals Tax Fund:</b>				
General Government Administration:				
Meals tax administration	\$ 35,190	\$ 35,190	\$ 35,190	\$ -
Debt service:				
Principal retirement	\$ 719,301	\$ 719,301	\$ 712,680	\$ 6,621
Interest and other debt costs	375,931	375,931	384,715	(8,784)
Total debt service	\$ 1,095,232	\$ 1,095,232	\$ 1,097,395	\$ (2,163)
<b>Total Meals Tax Fund</b>	<b>\$ 1,130,422</b>	<b>\$ 1,130,422</b>	<b>\$ 1,132,585</b>	<b>\$ (2,163)</b>
<b>Total Capital Project Funds</b>	<b>\$ 2,671,535</b>	<b>\$ 4,633,202</b>	<b>\$ 3,952,720</b>	<b>\$ 680,482</b>
<b>Grand Total Expenditures - Primary Government</b>	<b>\$ 33,100,463</b>	<b>\$ 36,132,586</b>	<b>\$ 34,266,317</b>	<b>\$ 1,866,269</b>
<b>Component Unit - School Board</b>				
<b>School Operating Fund:</b>				
Education:				
Instruction	\$ 15,615,487	\$ 15,960,637	\$ 16,140,509	\$ (179,872)
Administration, attendance and health	3,670,035	3,752,962	3,423,870	329,092
Pupil transportation	835,485	857,702	866,381	(8,679)
Operation and maintenance of school plant	2,665,507	2,953,038	2,977,716	(24,678)
Total operating costs	\$ 22,786,514	\$ 23,524,339	\$ 23,408,476	\$ 115,863
Total School Operating Fund	\$ 22,786,514	\$ 23,524,339	\$ 23,408,476	\$ 115,863
<b>School Cafeteria Fund:</b>				
Education:				
School food services	\$ 980,987	\$ 980,987	\$ 1,167,120	\$ (186,133)
<b>School Grants Fund:</b>				
Education:				
Instruction costs	\$ -	\$ 1,294,192	\$ 1,552,742	\$ (258,550)
<b>Grand Total Expenditures - Component Unit - School</b>	<b>\$ 23,767,501</b>	<b>\$ 25,799,518</b>	<b>\$ 26,128,338</b>	<b>\$ (328,820)</b>

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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
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Governmental Activities Tax Revenues by Source--(Accrual Basis of Accounting)	3
Fund Balances of Governmental Funds	4
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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 Rates	8
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Property Tax Levies and Collections	10

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.

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Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita	12
Computation of Direct and Overlapping Bonded Debt	13

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. Demographic and Economic Statistics

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.

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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 Five Fiscal Years  
 (Accrual Basis of Accounting)

	Fiscal Year				
	2003	2004	2005	2006	2007
Governmental activities:					
Invested in capital assets, net of related debt	\$ (1,029,636)	\$ (845,555)	\$ (241,412)	\$ (123,200)	\$ 5,142,385
Unrestricted	1,763,798	1,785,677	2,367,402	2,152,087	4,734,923
Total governmental activities net assets	<u>\$ 734,162</u>	<u>\$ 940,122</u>	<u>\$ 2,125,990</u>	<u>\$ 2,028,887</u>	<u>\$ 9,877,308</u>
Business-type activities:					
Invested in capital assets, net of related debt	\$ 14,975,933	\$ 14,978,661	\$ 14,603,260	\$ 14,161,621	\$ 14,643,741
Unrestricted	2,203,093	4,475,941	6,682,959	8,413,648	8,031,456
Total business-type activities net assets	<u>\$ 17,179,026</u>	<u>\$ 19,454,602</u>	<u>\$ 21,286,219</u>	<u>\$ 22,575,269</u>	<u>\$ 22,675,197</u>
Primary government					
Invested in capital assets, net of related debt	\$ 13,946,297	\$ 14,133,106	\$ 14,361,848	\$ 14,038,421	\$ 19,786,126
Unrestricted	3,966,891	6,261,618	9,050,361	10,565,735	12,766,379
Total primary government	<u>\$ 17,913,188</u>	<u>\$ 20,394,724</u>	<u>\$ 23,412,209</u>	<u>\$ 24,604,156</u>	<u>\$ 32,552,505</u>

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

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

	Fiscal Year				
	2003	2004	2005	2006	2007
<b>Expenses:</b>					
Governmental activities:					
General government administration	\$ 2,810,467	\$ 2,743,168	\$ 3,657,672	\$ 3,368,586	\$ 3,163,344
Judicial administration	1,394,465	1,351,523	1,461,196	1,565,300	1,767,723
Public safety	7,793,368	8,167,425	8,221,961	9,145,017	9,048,222
Public works	3,268,790	3,558,497	2,982,834	3,544,843	4,399,867
Health and welfare	486,640	560,092	448,218	630,735	577,782
Education	8,464,870	7,849,055	7,324,102	7,609,659	7,418,547
Parks, recreation, and cultural	989,475	984,188	1,106,306	1,472,756	1,486,711
Community development	3,481,450	3,309,836	3,566,228	3,544,537	4,303,337
Interest and other fiscal charges	437,490	502,572	471,184	757,926	511,628
Total governmental activities expenses	\$ 29,127,015	\$ 29,026,356	\$ 29,239,701	\$ 31,639,359	\$ 32,677,161
Business-type activities:					
Electric	7,860,760	7,880,557	7,738,232	11,533,301	14,000,303
Water	1,597,226	1,630,847	1,656,305	1,819,844	1,873,437
Sewer	1,934,362	2,016,250	2,188,736	2,552,257	2,775,866
Refuse collection / landfill	1,485,234	1,913,828	1,742,857	1,563,843	1,289,533
Total business-type activities expenses	\$ 12,877,582	\$ 13,441,482	\$ 13,326,130	\$ 17,469,245	\$ 19,939,139
Total primary government expenses	\$ 42,004,597	\$ 42,467,838	\$ 42,565,831	\$ 49,108,604	\$ 52,616,300
<b>Program revenues:</b>					
Governmental activities:					
Charges for services:					
General government administration	\$ 21,978	\$ 12,036	\$ 27,565	\$ 57,777	\$ 80,019
Judicial administration	213,339	243,296	293,337	276,702	260,975
Public safety	97,496	98,329	174,115	339,337	334,052
Public works	423,762	347,456	73,745	90,364	90,002
Parks, recreation, and cultural	37,166	25,188	110,378	126,146	142,074
Community Development	94,369	91,544	-	-	-
Operating grants and contributions:					
General government administration	214,809	212,882	236,395	242,419	272,402
Judicial administration	548,061	243,296	532,023	645,010	786,710
Public safety	2,622,507	98,329	3,032,031	3,083,108	3,535,245
Public works	2,202,666	347,456	2,352,700	2,337,755	2,431,846
Health and welfare	70,337	-	169,150	277,439	360,404
Parks, recreation, and cultural	37,845	25,188	-	18,964	18,227
Community development	1,819,619	91,544	2,106,049	2,168,303	2,426,624
Capital grants and contributions	1,116,848	139,992	139,919	139,368	834,435
Total governmental activities program revenues	\$ 9,520,802	\$ 1,976,536	\$ 9,247,407	\$ 9,802,692	\$ 11,573,015

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

	Fiscal Year				
	2003	2004	2005	2006	2007
Business-type activities:					
Charges for services:					
Electric	\$ 10,741,770	\$ 10,705,777	\$ 11,796,694	\$ 15,356,098	\$ 16,499,732
Water	2,097,486	2,163,749	2,213,187	2,575,303	2,998,529
Sewer	1,825,168	2,040,824	2,211,259	2,735,337	3,300,744
Refuse collection / landfill	3,065,148	3,376,948	3,654,213	2,533,568	1,396,947
Operating grants and contributions	-	243,925	25,728	-	48,003
Total business-type activities program revenues	\$ 17,729,572	\$ 18,531,223	\$ 19,901,081	\$ 23,200,306	\$ 24,243,955
Total primary government program revenues	\$ 27,250,374	\$ 20,507,759	\$ 29,148,488	\$ 33,002,998	\$ 35,816,970
Net (expense) / revenue					
Governmental activities	\$ (19,606,213)	\$ (27,049,820)	\$ (19,992,294)	\$ (21,836,667)	\$ (21,104,147)
Business-type activities	4,851,990	16,617,395	6,574,951	5,731,061	4,304,816
Total primary government net expense	\$ (14,754,223)	\$ (10,432,425)	\$ (13,417,343)	\$ (16,105,606)	\$ (16,799,331)
<b>General Revenues and Other Changes in Net Assets</b>					
Governmental activities:					
General property taxes	\$ 6,747,760	\$ 7,303,536	\$ 7,460,249	\$ 7,677,907	\$ 8,759,342
Local sales and use taxes	2,108,305	2,048,135	2,020,464	2,145,605	2,279,517
Consumer utility taxes	779,646	764,038	769,307	768,590	758,582
Business license taxes	1,615,629	1,488,635	1,750,980	1,713,541	1,757,733
Meals tax	860,452	1,039,988	1,119,338	1,155,170	1,368,860
Telephone taxes	197,430	587,291	598,640	559,954	267,252
Other local taxes	1,326,475	1,184,353	1,094,081	1,223,340	1,428,376
Commonwealth of Virginia non-categorical aid	774,356	741,465	669,189	732,396	734,180
Unrestricted revenues from use of money and property	133,903	75,751	659,907	965,674	1,460,400
Miscellaneous	259,880	340,160	292,673	246,894	320,679
Transfers	4,221,484	3,475,613	4,743,334	4,550,493	4,392,215
Total governmental activities	\$ 19,025,320	\$ 19,048,965	\$ 21,178,162	\$ 21,739,564	\$ 23,527,136
Business-type activities:					
Transfers	\$ (4,221,484)	\$ (3,475,613)	\$ (4,743,334)	\$ (4,550,493)	\$ (4,392,215)
Unrestricted revenues from use of money and property	-	-	-	108,482	187,327
Total business-type activities	\$ (4,221,484)	\$ (3,475,613)	\$ (4,743,334)	\$ (4,442,011)	\$ (4,204,888)
Total primary government	\$ 14,803,836	\$ 15,573,352	\$ 16,434,828	\$ 17,297,553	\$ 19,322,248
<b>Change in Net Assets</b>					
Governmental activities	\$ (580,893)	\$ (8,000,855)	\$ 1,185,868	\$ (97,103)	\$ 2,422,989
Business-type activities	630,506	13,141,782	1,831,617	1,289,050	99,928
Total primary government	\$ 49,613	\$ 5,140,927	\$ 3,017,485	\$ 1,191,947	\$ 2,522,917

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 Five Fiscal Years  
 (Accrual Basis of Accounting)

<b>Fiscal Year</b>	<b>General Property Taxes</b>	<b>Local Sales and Use Taxes</b>	<b>Consumer Utility Taxes</b>	<b>Business License Taxes</b>	<b>Meals Taxes</b>	<b>Telephone Taxes</b>	<b>Other Local Taxes</b>	<b>Total</b>
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
2004	7,303,536	2,048,135	764,038	1,488,635	1,039,988	587,291	1,184,353	14,415,976
2003	6,747,760	2,108,305	779,646	1,615,629	1,000,556	565,586	6,887,937	19,705,419

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>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
General fund					
Unreserved, designated	\$ -	\$ -	\$ -	\$ 156,109	\$ 156,109
Unreserved, undesignated	<u>154,810</u>	<u>138,300</u>	<u>127,858</u>	<u>691,135</u>	<u>1,157,731</u>
Total general fund	<u>\$ 154,810</u>	<u>\$ 138,300</u>	<u>\$ 127,858</u>	<u>\$ 847,244</u>	<u>\$ 1,313,840</u>
All other governmental funds					
Unreserved, reported in:					
Special revenue funds (deficit)	\$ 52,374	\$ (63,960)	\$ (78,523)	\$ (213,983)	\$ (387,443)
Capital projects funds	<u>3,284,841</u>	<u>6,770,273</u>	<u>2,289,306</u>	<u>1,007,923</u>	<u>71,774</u>
Total all other governmental funds	<u>\$ 3,337,215</u>	<u>\$ 6,706,313</u>	<u>\$ 2,210,783</u>	<u>\$ 793,940</u>	<u>\$ (315,669)</u>

**Table 4**

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<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
\$ 156,694	\$ 154,099	\$ 154,099	\$ 154,099	\$ 154,099
<u>635,008</u>	<u>659,306</u>	<u>354,406</u>	<u>954,031</u>	<u>2,081,470</u>
<u>\$ 791,702</u>	<u>\$ 813,405</u>	<u>\$ 508,505</u>	<u>\$ 1,108,130</u>	<u>\$ 2,235,569</u>
\$ 175,600	\$ 420,396	\$ 1,127,266	\$ (459,576)	\$ 54,241
<u>(225,378)</u>	<u>(170,780)</u>	<u>(347,663)</u>	<u>169,943</u>	<u>1,070,070</u>
<u>\$ (49,778)</u>	<u>\$ 249,616</u>	<u>\$ 779,603</u>	<u>\$ (289,633)</u>	<u>\$ 1,124,311</u>

**CITY OF MARTINSVILLE, VIRGINIA**

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

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<b>Revenues:</b>				
General property taxes	\$ 7,225,353	\$ 7,312,654	\$ 6,583,181	\$ 7,372,892
Other local taxes	6,129,277	6,282,372	6,162,491	6,227,663
Permits, privilege fees and regulatory licenses	27,982	33,552	18,679	17,024
Fines and forfeitures	202,332	197,292	145,992	201,585
Revenue from use of money and property	715,744	782,232	971,459	667,962
Charges for services	448,225	405,475	140,033	87,789
Miscellaneous	453,565	497,153	738,926	695,808
Recovered costs	562,993	655,743	766,081	819,424
<b>Intergovernmental:</b>				
Commonwealth	4,820,259	5,841,026	6,964,447	7,363,865
Federal	866,521	1,042,634	379,770	694,148
<b>Total revenues</b>	<u>\$ 21,452,251</u>	<u>\$ 23,050,133</u>	<u>\$ 22,871,059</u>	<u>\$ 24,148,160</u>
<b>Expenditures:</b>				
General government administration	\$ 2,399,075	\$ 2,818,717	\$ 3,412,307	\$ 2,806,251
Judicial administration	1,183,001	1,489,784	1,532,636	1,755,428
Public safety	6,895,989	7,703,106	7,665,532	7,529,991
Public works	2,582,484	2,834,361	2,492,734	3,203,106
Health and welfare	802,053	967,745	897,445	692,418
Education	7,392,421	8,729,559	8,106,026	7,265,888
Parks, recreation, and cultural	612,875	768,054	938,878	925,040
Community development	2,220,260	1,896,216	1,335,416	1,735,267
Capital Outlays	-	-	6,687,375	-
Capital Projects	4,051,829	5,685,305	-	2,637,869
Non-departmental	239,874	56,990	273,423	212,975
<b>Debt service:</b>				
Principal retirement	293,817	250,000	336,499	456,893
Interest and other fiscal charges	191,372	330,470	480,465	332,187
<b>Total expenditures</b>	<u>\$ 28,865,050</u>	<u>\$ 33,530,307</u>	<u>\$ 34,158,736</u>	<u>\$ 29,553,313</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (7,412,799)</u>	<u>\$ (10,480,174)</u>	<u>\$ (11,287,677)</u>	<u>\$ (5,405,153)</u>
<b>Other financing sources (uses):</b>				
Proceeds from debt issued	\$ 4,000,000	\$ 11,866,815	\$ 1,182,450	\$ 7,500,000
Retirement of commercial loans	-	(4,000,000)	-	-
Retirement of interim financing	-	-	-	(7,500,000)
Sale of property	-	190,000	-	81,060
Refund VDOT grant	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
Transfers in	4,738,849	6,108,884	5,780,696	5,737,232
Transfers (out)	(134,881)	(17,158)	(341,727)	(846,971)
<b>Total other financing sources (uses)</b>	<u>\$ 8,603,968</u>	<u>\$ 14,148,541</u>	<u>\$ 6,621,419</u>	<u>\$ 4,971,321</u>
<b>Net changes in fund balances</b>	<u>\$ 1,191,169</u>	<u>\$ 3,668,367</u>	<u>\$ (4,666,258)</u>	<u>\$ (433,832)</u>
Debt service as a percentage of noncapital expenditures	<u>1.96%</u>	<u>2.08%</u>	<u>2.97%</u>	<u>2.93%</u>

Table 5

	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
\$	6,374,432	\$ 6,754,405	\$ 7,288,727	\$ 7,338,045	\$ 7,642,006	\$ 8,744,282
	6,518,345	6,887,937	7,112,440	7,352,810	7,566,200	7,860,321
	13,360	101,779	69,393	199,679	418,210	436,393
	214,765	188,946	221,076	251,543	235,837	207,286
	603,587	603,793	485,093	659,907	965,674	1,472,629
	118,322	127,495	118,038	213,979	236,278	263,442
	391,409	259,880	340,160	292,673	246,894	320,678
	940,455	964,001	947,939	900,686	894,882	1,084,522
	8,206,223	6,941,379	7,008,991	6,995,579	7,176,201	8,346,744
	1,525,729	2,465,669	2,485,469	2,255,816	2,468,561	3,053,329
\$	<u>24,906,627</u>	<u>\$ 25,295,284</u>	<u>\$ 26,077,326</u>	<u>\$ 26,460,717</u>	<u>\$ 27,850,743</u>	<u>\$ 31,789,626</u>
\$	2,827,411	\$ 2,956,254	\$ 3,123,305	\$ 4,079,407	\$ 3,924,510	\$ 3,888,574
	1,585,234	1,418,241	1,372,696	1,468,873	1,566,000	1,779,779
	7,779,779	7,678,200	7,845,641	8,935,052	9,200,137	9,191,113
	3,266,630	3,366,197	3,667,769	3,551,770	3,820,345	4,518,076
	613,511	497,656	561,968	454,094	642,240	600,133
	7,653,244	7,442,194	6,877,698	6,403,847	8,740,321	6,695,401
	966,334	949,304	969,929	1,157,425	1,459,050	1,491,346
	2,324,440	3,364,924	2,997,166	3,766,058	3,726,792	4,367,037
	915,394	745,583	677,481	-	-	-
	2,125,148	184,620	110,432	-	-	-
	132,802	120,008	-	-	-	-
	765,000	951,135	1,906,339	1,092,255	1,183,049	1,103,063
	533,395	550,070	608,736	497,758	638,403	482,109
\$	<u>31,488,322</u>	<u>\$ 30,224,386</u>	<u>\$ 30,719,160</u>	<u>\$ 31,406,539</u>	<u>\$ 34,900,847</u>	<u>\$ 34,116,631</u>
\$	<u>(6,581,695)</u>	<u>\$ (4,929,102)</u>	<u>\$ (4,641,834)</u>	<u>\$ (4,945,822)</u>	<u>\$ (7,050,105)</u>	<u>\$ (2,327,005)</u>
\$	807,510	\$ 476,888	\$ 127,000	\$ 427,575	\$ 4,529,764	\$ 500,000
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	1,177,000	-	-	-
	(450,000)	-	-	-	-	-
	-	-	-	-	(2,499,764)	-
	5,995,144	4,772,234	3,902,199	5,868,548	4,859,443	5,442,840
	(414,062)	(550,750)	(426,586)	(1,125,214)	(308,950)	(1,200,311)
\$	<u>5,938,592</u>	<u>\$ 4,698,372</u>	<u>\$ 4,779,613</u>	<u>\$ 5,170,909</u>	<u>\$ 6,580,493</u>	<u>\$ 4,742,529</u>
\$	<u>(643,103)</u>	<u>\$ (230,730)</u>	<u>\$ 137,779</u>	<u>\$ 225,087</u>	<u>\$ (469,612)</u>	<u>\$ 2,415,524</u>
	<u>4.56%</u>	<u>5.12%</u>	<u>8.40%</u>	<u>5.30%</u>	<u>5.64%</u>	<u>4.89%</u>

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

<b>Fiscal Year</b>	<b>General Property Taxes</b>	<b>Local Sales and Use Taxes</b>	<b>Consumer Utility Taxes</b>	<b>Business License Taxes</b>	<b>Meals Taxes</b>	<b>(Telephone) E-911 Taxes</b>	<b>Other Local Taxes</b>	<b>Total</b>
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
2001	7,372,892	1,969,909	773,679	1,208,205	845,740	467,106	963,024	13,600,555
2000	6,583,181	2,014,469	741,872	1,102,351	813,267	510,845	980,687	12,746,672
1999	7,312,654	2,027,641	750,223	1,141,623	823,866	379,617	1,159,402	13,595,026
1998	7,225,353	2,002,661	737,150	1,201,859	794,515	376,316	1,016,775	13,354,629

Assessed Value of Taxable Property  
Last Ten Fiscal Years

<b>Fiscal Year(1)</b>	<b>Real Estate</b>	<b>Direct Property Rate</b>	<b>Personal Property</b>	<b>Direct Property Rate</b>	<b>Machinery and Tools</b>	<b>Public Service</b>	<b>Total</b>
2007	\$ 593,669,976	\$ 1.08	\$ 100,582,016	\$ 2.30	\$ 15,146,780	\$ 21,340,984	\$ 730,739,759
2006	588,988,194	0.94	98,478,170	2.30	12,831,665	25,709,402	726,007,434
2005	559,497,600	0.94	101,861,411	2.30	12,083,426	27,043,443	700,485,883
2004	556,169,600	0.94	94,124,537	2.30	13,754,159	29,719,298	693,767,597
2003	531,125,500	0.94	89,785,700	1.92	13,854,533	27,763,786	662,529,522
2002	500,132,200	0.94	91,886,053	1.92	17,253,822	27,821,178	637,093,256
2001	499,376,500	0.94	87,362,958	1.92	47,211,356	27,313,555	661,264,372
2000	492,377,750	0.94	87,198,592	1.92	50,918,879	26,135,117	656,630,341
1999	483,149,200	0.94	85,925,407	1.92	45,790,992	23,191,676	638,057,278
1998	485,331,000	0.94	79,598,067	1.92	49,009,925	23,304,634	637,243,629

(1) 100% fair market value.

Property Tax Rates (1)  
Last Ten Fiscal Years

Fiscal Years Ending June 30,	Real Estate	Personal Property	Machinery and Tools	Public Service	
				Real	Personal
2007	\$ 1.08	\$ 2.30	\$ 1.85	\$ 1.08	\$ 2.30
2006	0.94	2.30	1.85	0.94	2.30
2005	0.94	2.30	1.85	0.94	2.30
2004	0.94	2.30	1.85	0.94	2.30
2003	0.94	1.92	1.85	0.94	1.92
2002	0.94	1.92	1.85	0.94	1.92
2001	0.94	1.92	1.85	0.94	1.92
2000	0.94	1.92	1.85	0.94	1.92
1999	0.94	1.92	1.85	0.94	1.92
1998	0.94	1.92	1.85	0.94	1.92

(1) Per \$100 of assessed value

Principal Taxpayers  
At June 30, 2007

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Assessed Valuation</u>	<u>% of Total Assessed Valuation</u>
PHC - Martinsville Inc.	Hospital	\$ 80,101,400	12.57%
Liberty Fair Va. LP	Shopping Mall	25,788,700	4.05%
Lester Lumber Co. Inc.	Commercial	16,134,300	2.53%
Central Telephone Company of Va.	Utility	16,126,532	2.53%
Blue Ridge Nursing Center	Medical	8,511,900	1.34%
Hooker Furniture Corporation	Commercial /Industrial	6,608,300	1.04%
Commonwealth Blvd. Associates, LLC	Commercial	5,083,800	0.80%
R C Realty Corp.	Commercial	3,243,500	0.51%
CHS, Inc.	Medical	3,177,600	0.50%
Daral LLC	Commercial	2,993,000	0.47%
		<u>\$ 167,769,032</u>	<u>26.33%</u>

Source - Commissioner of the Revenue

**CITY OF MARTINSVILLE, VIRGINIA**

Property Tax Levies and Collections  
Last Ten Fiscal Years

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<b>Fiscal Year</b>	<b>Total (1) Tax Levy</b>	<b>Current Tax (1), (3) Collections</b>	<b>Percent of Levy Collected</b>	<b>Delinquent (1) Tax (2) Collections</b>
2007	\$ 9,236,582	\$ 8,819,854	95.49%	\$ 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
2001	7,546,250	6,596,153	87.41%	954,232
2000	7,525,350	6,301,132	83.73%	320,798
1999	7,294,688	6,950,292	95.28%	263,040
1998	7,245,084	6,827,121	94.23%	246,449

(1) Exclusive of penalties and interest.

(2) Does not include land redemptions.

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

Table 10

	<b>Total Tax Collections</b>	<b>Percent of Total Tax Collections to Tax Levy</b>	<b>Outstanding Delinquent Taxes (1)</b>	<b>Percent of Delinquent Taxes to Tax Levy</b>
\$	9,216,944	99.79%	\$ 1,042,455	11.29%
	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%
	7,550,385	100.05%	923,231	12.23%
	6,621,930	87.99%	1,466,633	19.49%
	7,213,332	98.88%	684,915	9.39%
	7,073,570	97.63%	667,413	9.21%

**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
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
2000	4,145,000	7,500,000	4,558,200	290,162	382,304	1,232,865
1999	4,145,000	7,500,000	4,846,725	310,492	221,815	488,306
1998	-	-	5,135,250	330,458	-	4,260,363

Table 11

<b>Business-Type Activities</b>				<b>Total Primary Government</b>	<b>Net Bonded Debt per Capita</b>
<b>Landfill Close &amp; Post- close Costs</b>	<b>General Obligation Bonds</b>	<b>Revenue Bonds</b>	<b>Capital Leases</b>		
\$ 3,494,384	\$ 2,209,500	\$ -	\$ -	\$ 19,810,116	\$ 1,383
3,494,384	1,907,900	-	-	20,124,152	1,405
3,494,384	-	-	-	17,206,935	1,198
3,293,886	-	825,000	114,068	18,610,185	1,275
3,129,625	-	1,615,000	344,371	20,501,082	1,340
-	-	2,375,000	566,725	19,868,465	1,289
-	-	3,100,000	344,943	20,785,295	1,359
-	-	-	451,042	18,559,573	1,204
-	-	-	552,897	18,065,235	1,165
-	-	-	-	9,726,071	627

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

<b>Fiscal Year</b>	<b>Population (1)</b>	<b>Assessed Value (in thousands)(2)</b>	<b>Net Bonded Debt</b>	<b>Ratio of Net General Obligation Debt to Assessed Value</b>	<b>Net Bonded Debt per Capita</b>
2007	14,320	\$ 730,739,759	\$ 15,774,728	2.16%	\$ 1,102
2006	14,320	726,007,434	15,824,714	2.18%	1,105
2005	14,700	700,485,880	12,731,939	1.82%	838
2004	14,600	693,767,594	13,580,355	1.96%	893
2003	15,000	662,529,519	14,414,147	2.18%	942
2002	15,300	637,093,253	15,244,377	2.39%	977
2001	15,300	661,264,369	16,069,098	2.43%	1,042
2000	15,416	656,630,338	16,493,362	2.51%	1,064
1999	15,500	638,057,275	16,802,217	2.63%	1,084
1998	15,500	637,243,626	5,465,708	0.86%	348

## Sources:

(1) US Census Bureau and 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, 2007

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Direct:(1)

City of Martinsville	\$	15,774,728	100%	\$	15,774,728
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The City of Martinsville has no overlapping debt.

Demographic and Economic Statistics  
Last Ten Fiscal Years

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<b>Fiscal Year</b>	<b>Population (1)</b>	<b>City Per Capita Income (2)</b>	<b>School Enrollment (3)</b>	<b>Unemployment Rate (4)</b>
2007	14,320	\$ n/a	2,408	8.40%
2006	14,320	n/a	2,526	7.20%
2005	14,366	n/a	2,575	10.10%
2004	14,600	n/a	2,593	12.00%
2003	15,000	17,251	2,673	10.50%
2002	15,300	17,251	2,655	12.50%
2001	15,300	21,447	2,676	7.80%
2000	15,416	21,154	2,621	7.80%
1999	15,500	20,531	2,661	9.70%
1998	15,500	20,410	2,747	5.30%

n/a - not available at publication

Sources:

- (1) US Census Bureau and the Weldon Cooper Center for Public Service
- (2) Virginia Employment Commission
- (3) School Board Office
- (4) Virginia Employment Commission

Principal Employers  
Current Year and Nine Years Ago

Employer	Fiscal Year 2007		Fiscal Year 1998	
	Employees	Rank	Employees	Rank
Newroads	500-999	1	n/a	n/a
Memorial Hospital of Martinsville	500-999	2	500-999	3
Hooker Furniture Corp.	500-999	3	500-999	2
Advantage Staffing Resources	500-999	4	100-249	18
Martinsville City Schools	500-999	5	250-499	4
GCA Staffing Services Inc.	250-499	6	n/a	n/a
City of Martinsville	250-499	7	250-499	6
Nationwide Homes	250-499	8	250-499	5
NV Warehouse Co. Inc.	250-499	9	n/a	n/a
Piedmont Regional Comm. Services	250-499	10	100-249	15
Tultex Corporation	n/a	n/a	1000+	1
Chi Services	n/a	n/a	250-499	7
Ameristaff	n/a	n/a	250-499	8
Pulaski Furniture Corp.	n/a	n/a	250-499	9
Blue Ridge Rehabilitation Center	n/a	n/a	100-249	10

Source: Virginia Employment Commission  
n/a not applicable

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

Function	Fiscal Year							
	2000	2001	2002	2003	2004	2005	2006	2007
General government	27	27	26	28	25	28	28	26
Public safety								
Police department	60	59	59	58	58	55	57	57
Fire department	27	29	27	29	29	29	31	31
Public works								
General maintenance	40	40	37	44	41	43	41	38
Landfill Operation	7	7	7	6	6	6	0	0
Refuse Collection	0	6	4	4	4	4	0	4
Engineering	5	5	5	3	4	4	4	4
Culture and recreation								
Parks and recreation	10	10	11	10	10	10	10	9
Community development								
Planning	9	11	10	10	9	7	8	8
Totals	<u>185</u>	<u>194</u>	<u>186</u>	<u>192</u>	<u>186</u>	<u>186</u>	<u>179</u>	<u>177</u>

Source: Individual city departments

Operating Indicators by Function  
Last Four Fiscal Years

		2004	2005	2006	2007
Police Protection	Number of stations	1	1	1	1
	Number of police personnel and officers	58	53	53	52
	Number of law violations:				
	Physical arrests	1,784	1,454	2,133	1,562
	Traffic violations	4,454	4,403	3,909	3,469
Fire Protection	Number of stations	2	2	2	2
	Number of fire personnel and officers	38	29	41	41
	Number of call answered	1,787	1,712	2,448	2,498
	Number of inspections conducted	299	1,071	122	246
Streets	Streets (miles)	16	16	16	100
	Streetlights	4,027	4,027	4,027	4,027
Recreation & Culture	Number of parks and recreation facilities	7	7	7	7
	Number of libraries	1	1	1	1
	Number of community centers	1	1	1	1
Water	Service Connections	7,500	7,500	7,500	7,500
	Miles of water mains	120	120	120	120
	Number of fire hydrants	545	520	520	548
	Daily average consumption in gallons	3.0 MGD	3.0 MGD	3.0 MGD	3.0 MGD
	Maximum daily capacity of plant in gallons	10.0 MGD	10.0 MGD	10.0 MGD	10.0 MGD
Sewer	Service Connections	7,000	7,000	7,000	7,000
	Miles of sanitary sewers	140	140	140	140
	Miles of storm sewers	1	1	1	1
	Number of treatment plants	1	1	1	1
	Daily average treatment in gallons	4.5 MGD	4.5 MGD	5.0 MGD	5.0 MGD
	Maximum daily capacity of plant in gallons	8.0 MGD	8.0 MGD	8.0 MGD	8.0 MGD
Electric Distribution Systems	Miles of service	100	100	100	100
	Number of distribution systems	1	1	1	1
Facilities and services not included in the primary government	Number of elementary schools	5	5	2	2
	Number of middle schools	1	1	1	1
	Number of secondary schools	1	1	1	1
Facilities and services not included in the reporting entity	Hospitals:				
	Number of hospitals	1	1	1	1
	Number of patient beds	154	237	220	220

Capital Asset Statistics by Function  
Last Four Fiscal Years

Function	2004	2005	2006	2007
General government				
Administration buildings	4	4	4	4
Vehicles	11	11	11	13
Public safety				
Police department:				
Patrol units	24	24	24	19
Other vehicles	10	10	10	7
Sheriffs department:				
Patrol units	10	10	10	11
Other vehicles	11	11	11	12
Fire department:				
Vehicles	13	13	13	15
Building inspections:				
Vehicles	3	3	3	3
Animal control:				
Vehicles	1	1	1	1
Public works				
General maintenance:				
Trucks/vehicles	43	43	43	38
Refuse:				
Vehicles	10	10	10	14
Sites	1	1	1	1
Culture and recreation				
Parks and recreation:				
Community centers	1	1	1	1
Vehicles	13	13	13	14
Playing Fields	9	9	9	9
Tennis courts	3	3	3	3
Community development				
Planning:				
Vehicles	1	1	1	1
Component Unit - School Board				
Education:				
Schools	6	6	4	4
School buses	33	33	33	33
Other vehicles	29	29	29	29

Source: Individual city departments

# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Martinsville, Virginia, as of and for the year ended June 30, 2007, which collectively comprise the City of Martinsville, Virginia's basic financial statements and have issued our report thereon dated December 21, 2007. 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 opinion 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the 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.

However, we noted other matters that we have reported to management in a separate letter dated December 21, 2007.

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 21, 2007

# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

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

### **Compliance**

We have audited the compliance of the City of Martinsville, Virginia with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. 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 are applicable to each of its major federal programs for the year ended June 30, 2007.

## 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, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will be prevented or detected by the City's internal control.

Our consideration of internal control over compliance 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 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 21, 2007

Schedule of Expenditures of Federal Awards - Primary Government and  
Discretely Presented Component Units  
Year Ended June 30, 2007

<u>Federal Grantor/State Pass - Through Grantor/ Program Title (Pass - Through Grantor's Number)</u>	<u>Federal Catalog Number</u>	<u>Expenditures</u>
<b>PRIMARY GOVERNMENT:</b>		
<u>DEPARTMENT OF AGRICULTURE:</u>		
<u>Direct payments:</u>		
Rural business enterprise grants	10.769	\$ <u>135,243</u>
<u>DEPARTMENT OF TRANSPORTATION:</u>		
<u>Pass through payments:</u>		
Department of Motor Vehicles:		
State and Community Highway Safety (Section 402 Grants) Alcohol Traffic Open container / alcohol impaired driving grant	20.607	\$ <u>20,073</u>
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>		
<u>Direct payments:</u>		
Housing choice	14.871	\$ 1,548,475
Moderate rehabilitation	14.856	173,264
<u>Pass through payments:</u>		
Department of Housing and Community Development:		
Community development block grant	14.228	338,791
Home investment partnerships program	14.239	56,793
Total Department of Housing and Community Development		\$ <u>2,117,323</u>
<u>DEPARTMENT OF LABOR:</u>		
<u>Pass through payments:</u>		
Governor's Employment and Training Department:		
Senior Community Services Employment Program	17.235	\$ <u>18,227</u>
<u>DEPARTMENT OF JUSTICE:</u>		
<u>Direct payments:</u>		
Vipe grant	16.000	\$ 9,654
Asset forfeiture	16.000	48,297
Bullet proof vest program	16.000	6,098
<u>Pass through payments:</u>		
Department of Criminal Justice Services:		
Crime victim assistance	16.575	55,742
OJP grant	16.580	93,664
Total Department of Justice		\$ <u>213,455</u>
<u>DEPARTMENT OF HOMELAND SECURITY:</u>		
<u>Direct payments:</u>		
Disaster relief public assistance	97.036	\$ 33,452
Fire prevention and safety grants	97.044	1,779
<u>Pass through payments:</u>		
Department emergency management:		
State homeland security grant program	97.004	8,617
Total Department of Homeland Security		\$ <u>43,848</u>

Schedule of Expenditures of Federal Awards - Primary Government and  
Discretely Presented Component Units  
Year Ended June 30, 2007 (Continued)

<u>Federal Grantor/State Pass - Through Grantor/ Program Title (Pass - Through Grantor's Number)</u>	<u>Federal Catalog Number</u>	<u>Expenditures</u>
<u>DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u>		
<u>Direct payments:</u>		
Dental clinic grant	93.887	\$ <u>283,631</u>
<b>Total Primary Government</b>		\$ <u><u>2,831,800</u></u>
<b>COMPONENT UNIT-SCHOOL BOARD:</b>		
<u>DEPARTMENT OF AGRICULTURE:</u>		
<u>Pass through payments:</u>		
Department of Education:		
Food distribution	10.555	\$ 75,018
Department of Education:		
National school breakfast program	10.553	156,339
National school lunch program	10.555	<u>527,788</u>
Total Department of Agriculture		\$ <u>759,145</u>
<u>DEPARTMENT OF LABOR:</u>		
<u>Direct payments:</u>		
Workforce investment act - youth activities	17.259	\$ 116,807
ROTC Instruction	17.000	<u>45,880</u>
Total Department of Labor		\$ <u>162,687</u>
<u>DEPARTMENT OF EDUCATION:</u>		
<u>Pass through payments:</u>		
Department of Education:		
Education Consolidation and Improvement Act of 1981:		
Title 1:		
Financial assistance to meet special educational needs of disadvantaged children - program operated by local education agencies (2E004500, 2E004511, 3E005820)	84.010	\$ 849,313
Comprehensive school reform	84.332	330,406
Title VI-B:		
Assistance to states for education of handicapped children - preschool and school programs (1E002570, 3E001110)	84.027	639,875
Vocational Education:		
Basic grants to states (3E001311)	84.048	63,502

Schedule of Expenditures of Federal Awards - Primary Government and  
Discretely Presented Component Units  
Year Ended June 30, 2007 (Continued)

Federal Grantor/State Pass - Through Grantor/ Program Title (Pass - Through Grantor's Number)	Federal Catalog Number	Expenditures
<b>COMPONENT UNIT-SCHOOL BOARD: (Continued)</b>		
<u>DEPARTMENT OF EDUCATION: (Continued)</u>		
<u>Pass through payments: (Continued)</u>		
Special Education:		
Preschool	84.173	\$ 6,809
Special Projects:		
Drug-free schools and communities (2E004617)	84.186	15,005
English Language acquisition	84.365	13,034
Reading first	84.357	66,709
Improving teacher quality	84.367	156,678
Title VI - Rural and low income schools	84.358	88,670
21st Century Community Learning Centers	84.287	92,683
Technology challenge grant	84.318	30,380
Innovative education program strategies	84.298	<u>5,675</u>
Total Department of Education		\$ <u>2,358,739</u>
<u>NATIONAL AERONAUTICS AND SPACE ADMINISTRATION:</u>		
<u>Direct payments:</u>		
NASA grant	43.001	\$ <u>84,624</u>
<b>Total Component Unit School Board</b>		\$ <u><u>3,365,195</u></u>
<b>Total Federal Assistance</b>		\$ <u><u>6,196,995</u></u>

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**CITY OF MARTINSVILLE, VIRGINIA**

Notes to Schedule of Expenditures of Federal Awards  
For The Year Ended June 30, 2007

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Note 1 - General

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

Note 2 - Basis of Accounting

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

Note 3 - Relationship to Financial Statements

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

Intergovernmental federal revenues per the basic financial statements:	
Primary government:	
General Fund	\$ 524,472
Housing Choice Fund	1,944,890
Capital Reserve Fund	99,762
Housing choice federal revenues not expended in FY 2007	(219,058)
Grants Fund	<u>481,734</u>
Total primary government	\$ <u>2,831,800</u>
Component Unit Public Schools:	
School Operating Fund	\$ 1,074,817
School Grants Fund	1,531,234
School Cafeteria Fund	<u>684,126</u>
Total component unit public schools	\$ <u>3,290,177</u>
Total federal expenditures per basic financial statements	\$ <u>6,121,977</u>
Non-cash expenditures - value of donated commodities	\$ <u>75,018</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards	\$ <u><u>6,196,995</u></u>

**CITY OF MARTINSVILLE, VIRGINIA**

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2007

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

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:  
Material weaknesses identified? No  
Reportable conditions identified not considered  
to be material weaknesses? None reported

Noncompliance material to financial statements noted? No

**Federal Awards**

Internal control over major programs:  
Material weaknesses identified? No  
Reportable conditions identified not considered  
to be material weaknesses? None reported

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

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

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
14.871	Housing choice
14.228	Community development block grant / state's program
84.027	Title VI-B - Special Education Cluster (IDEA)
84.173	Special education preschool grant - Special Education Cluster (IDEA)
84.010	Title I
84.332	Comprehensive school reform
10.555	Food distribution - Child Nutrition Cluster
10.553	National school breakfast program - Child Nutrition Cluster
10.555	National school lunch program - Child Nutrition Cluster

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.

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

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