

Martinsville, Virginia
A CITY WITHOUT LIMITS



COMPREHENSIVE ANNUAL
FINANCIAL REPORT

YEAR ENDED JUNE 30, 2006

CITY OF MARTINSVILLE, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2006

PREPARED BY:

W.W. Bartlett, Finance Director

CITY OF MARTINSVILLE, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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CITY OF MARTINSVILLE, VIRGINIA

City Council

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

Terry L. Roop

James W. Clark

J. Ronald Ferrill

School Board

James H. Johnson, Chairman
Bill R. Manning

Nancy L. Baker
Sandra L. Haley

Cynthia W. Ingram

Industrial Development Authority

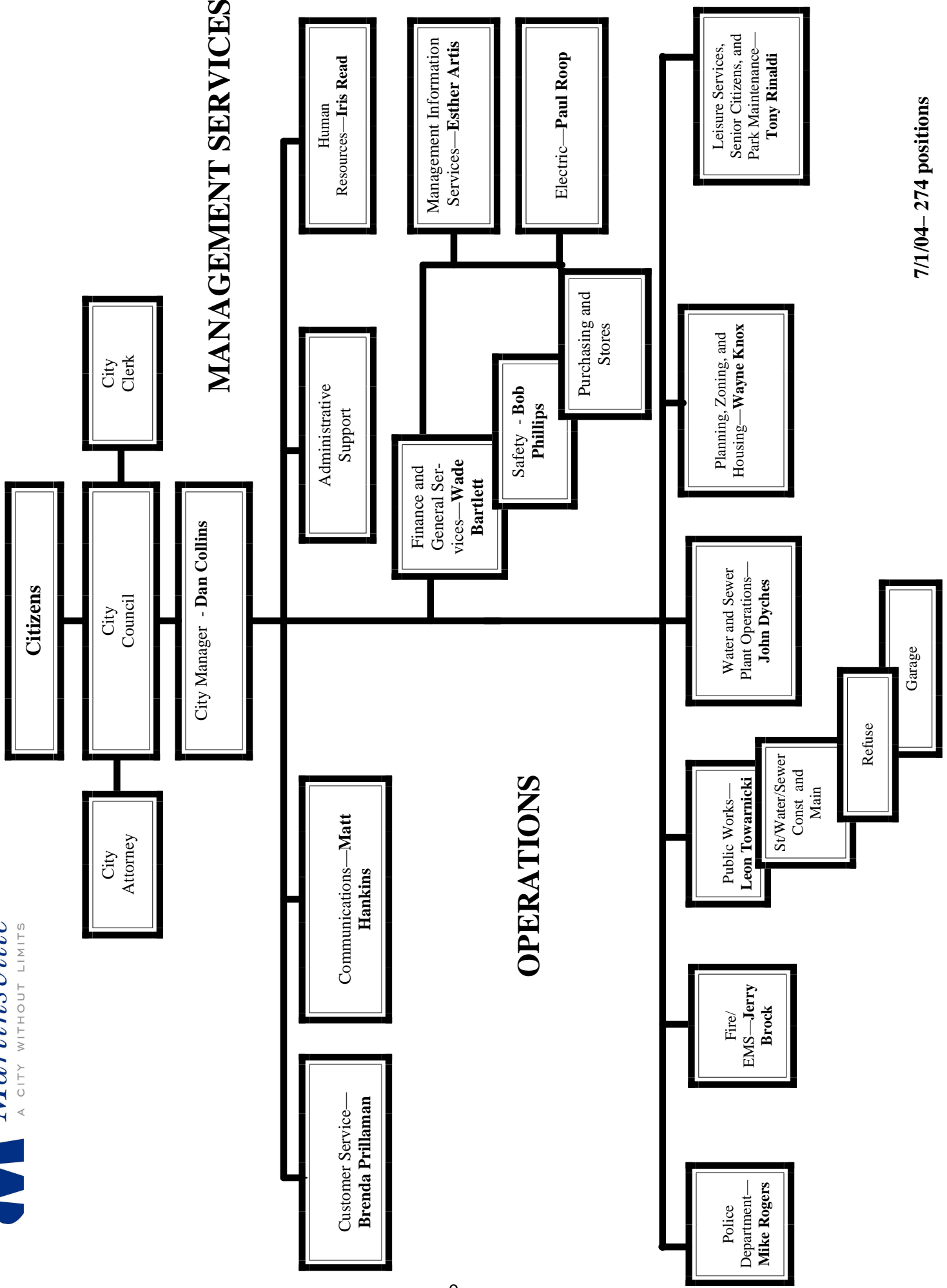
Kim Adkins
Vern Berry

Mark Stroud
Agnes Mobile Hairston

Monroe Ridenhour
Robert L. Brown
Allan McClain

Other Officials

City Manager	Robert R. Collins
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	W. W. Bartlett
Director of Social Services.....	Joyce Martin Grogan
Sheriff	Steve M. Draper
Commonwealth's Attorney.....	Joan Ziglar
Public Works Department Director	Leon E. Towarnicki
Water Resources Department Director.....	John H. Dyches
Chief of Electric Operation.....	Paul R. Roop
Purchasing Agent	Karen H. Mays
Fire Chief	Jerry W. Brock



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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Martinsville,
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

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



Carla E. Perry

President

Jeffrey R. Egan

Executive Director

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December 6, 2006

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, 2006. 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, 2006 has been completed and no material internal control weaknesses or material violations of laws and regulations have been identified.

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

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

THE REPORTING ENTITY AND ITS SERVICES

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

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

LOCAL ECONOMY

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

Based on available economic data the local economy is stagnant. The local unemployment rate was 7.2% at June 30, 2006, a decrease over the rate of 9.9% at June 30, 2005. This rate is still much higher than the state and national rates of 3.3% and 4.3% respectively. Much of the decrease can be attributed to a shrinking labor force. The labor force shrunk by 2.2% over the same time frame while the numbers actually employed increased by less than one percent.

The City has responded to the economic declines by implementing a proactive economic development program. The City has faith this effort will improve the local economy but it has been slow to deliver results. Assessed value of taxable property has increased by 9.6% 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 decreased by 2.1% 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 the textile industry.

MAJOR INITIATIVES

For Fiscal Year 2006: Following the goals and objectives established by the City of Martinsville Council, and with the assistance and guidance of the City Manager, City staff and agencies implemented and continued a number of specific "*programs*" designed to provide City residents with cost efficient government while enhancing their home and employment environment.

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

- Regional Economic Development Agreements
- Closed the operation of the Landfill
- Attempt to purchase the local cable TV operation
- Renovate an Elementary School
- Signed agreements with Henry County to provide water and treat wastewater
- Transportation system improvements

Regional Economic Development Agreements

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

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

Closed the operation of the Landfill. The City's landfill reached capacity during the 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 now operates a transfer station to dispose of its garbage. Thus the refuse department's ability to generate revenues for the City was greatly reduced.

Attempt to purchase the local cable TV operation. The City's franchise agreement with Adelphia allows the City to match any buyout offer. With Adelphia declaring bankruptcy and basically selling itself, the City decided to attempt to enforce this right in the bankruptcy proceedings. It was envisioned the City could replace the revenue lost from the closing of the landfill mentioned above.

Renovate Elementary School. The City Council approved the borrowing of \$2.5 million to be used for the renovation of an Elementary School. This will allow the consolidation of two schools with the Administrative Staff of the School system moving from a rented building to the building that will no longer be used as a school.

MAJOR INITIATIVES: (CONTINUED)

Water/Wastewater. Henry County surrounds the City and has experienced the same downsizing of its textile and furniture industries. Both the City and County's water and wastewater systems had considerable excess capacity after several textile plants ceased production. Recognizing the under utilization of both systems the City and County signed agreements whereby the City's wastewater treatment plant would treat all County waste and the City's water plant would provide additional water to County residents. The water portion of this project was completed in fiscal year 2005 and the City's water revenues increased by \$132,000 annually. The wastewater portion of the project was completed this 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

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

Prospects for the Future. For fiscal year 2007 the City Council has approved a General Fund Budget of \$28,941,806. The fiscal year 2007 plan increased the real estate tax rate of \$0.94 per \$100 of assessed value to \$1.08. All other tax rates remain the same

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

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

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

This forced the City to raise Electric rates charged to our customers by approximately 50% over the last 3 years. The result has been our rates are around 30% higher than the adjacent utility. The outlook for the future is for even higher wholesale rates. The choice will be to increase electric rates even more placing us in even a worse position in attracting new business or reducing the transfer from the Electric Fund. This last action will place great pressure on the City to raise tax rates or cut services to our citizens. In an effort to reduce our reliance on the high priced and volatile wholesale electric market we are beginning to explore City owned electric generation. This will be a process extending over several years and will not alleviate the pressures mentioned above.

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

OTHER INFORMATION

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

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

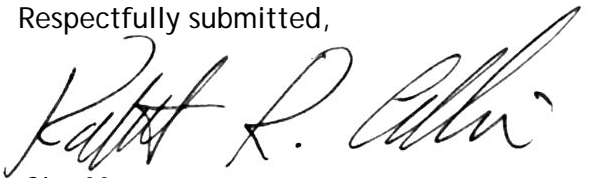
Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Martinsville for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005. The Certificate 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, a government must publish an easily readable and efficiently organized 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,



Kathy R. Allen
City Manager



W W Bartlett
Director of Finance

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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, 2006, 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, 2006, 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 September 1, 2006, on our consideration of the City of Martinsville, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
September 1, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The management of the City of Martinsville, Virginia, presents this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2006. 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 \$24,604,156 (total net assets). Of this amount \$10,565,735 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The Governmental activities net assets were \$2,028,887 of the City's total, a decrease of \$97,103 or 4.8% in comparison with net assets of \$2,125,990 at June 30, 2005.
- Net assets of the City's various business type activities totaled \$22,575,269. This is an increase of \$1,289,050 or 6.1% from net assets reported on June 30, 2005.
- The School Board's assets exceeded its liabilities by \$6,621,714 an increase of \$315,502 when compared to the amount on June 30, 2005. However, \$4,886,135 of this amount reflects the School Board's net investment in capital assets leaving \$1,735,579 in unrestricted assets available to meet ongoing obligations. This is a decrease of \$238,081 or 12.1% in the School Board's unrestricted assets for the fiscal year.

Fund Financial Statements

The Governmental Funds, on a current financial resource basis, reported expenditures in excess of revenues and other financing sources by \$469,612 (Exhibit 4) after making direct contributions totaling \$6,685,806 to the School Board. An additional \$1,203,861 was expended from the Meals Tax Fund with \$1,067,121 used to retire School related debt and \$136,740 used for School maintenance and improvement projects. Another \$2,270,508 was expended from the Capital Reserve for the renovation of Patrick Henry Elementary School and funded by new debt. A total of \$10,160,175 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 \$818,496, which is a decrease of \$469,612 in comparison with the prior fiscal year.
- At the close of the current fiscal year, the unreserved fund balance for the general fund was \$954,301 or three and one-half of a percent (3.5%) of total general fund expenditures.
- The combined long-term Governmental obligations increased \$1,054,673 or 7.4% during the current fiscal year. This increase was primarily caused by the additional \$2 million in new debt incurred for the renovation of the elementary school.

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 FY2006, assets exceeded liabilities by \$24,604,156 at the close of the fiscal year as presented in the Table below. This was an increase of \$1,191,947 or 5.1% over the FY2005 closing amount of \$23,412,209.

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, 2006 and 2005

	Governmental		Business-type		Totals	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 4,233,332	\$ 3,610,971	\$ 14,624,159	\$ 10,766,137	\$ 18,857,491	\$ 14,377,108
Capital assets	<u>14,598,668</u>	<u>13,471,139</u>	<u>14,161,621</u>	<u>14,603,260</u>	<u>28,760,289</u>	<u>28,074,399</u>
Total assets	<u>\$ 18,832,000</u>	<u>\$ 17,082,110</u>	<u>\$ 28,785,780</u>	<u>\$ 25,369,397</u>	<u>\$ 47,617,780</u>	<u>\$ 42,451,507</u>
Long-term liabilities						
outstanding	\$ 14,056,062	\$ 12,936,113	\$ 2,790,635	\$ 3,117,474	\$ 16,846,697	\$ 16,053,587
Current liabilities	<u>2,747,051</u>	<u>2,020,007</u>	<u>3,419,876</u>	<u>965,704</u>	<u>6,166,927</u>	<u>2,985,711</u>
Total liabilities	<u>\$ 16,803,113</u>	<u>\$ 14,956,120</u>	<u>\$ 6,210,511</u>	<u>\$ 4,083,178</u>	<u>\$ 23,013,624</u>	<u>\$ 19,039,298</u>
Net assets:						
Invested in capital assets,						
net of related debt	\$ (123,200)	\$ (241,412)	\$ 14,161,621	\$ 14,603,260	\$ 14,038,421	\$ 14,361,848
Unrestricted	<u>2,152,087</u>	<u>2,367,402</u>	<u>8,413,648</u>	<u>6,682,959</u>	<u>10,565,735</u>	<u>9,050,361</u>
Total net assets	<u>\$ 2,028,887</u>	<u>\$ 2,125,990</u>	<u>\$ 22,575,269</u>	<u>\$ 21,286,219</u>	<u>\$ 24,604,156</u>	<u>\$ 23,412,209</u>

At the end of FY2006, the City's investment in capital assets, net of related debt is \$14,038,421 and represents fifty seven and one tenth of a percent (57.1%) 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 (\$123,200). This negative amount is due to the recording of liabilities with no assets such as accrued leave, current year depreciation expense and joint tenancy assets transferred to the School Board.

Restricted Assets represent resources subject to external restrictions on how they may be used. The City had no restricted assets at the end of the Fiscal Year. The remaining balance of unrestricted net assets in the amount of \$10,565,735 or 42.9% of total assets, may be used to meet the government's ongoing obligations.

Governmental Activities - Governmental activities decreased Martinsville City's net assets by \$97,103. The key elements of this decrease are found in exhibit 5. There were three primary causes of this decrease (1) the issuance of debt exceeded the retirement debt by \$1,009,317; (2) the fund balance declined by \$469,612; (3) The transfer of assets to the Schools in the amount of \$647,297. This represents the amount of school related debt, net of accumulated depreciation, retired during the fiscal year. Per Virginia law once the debt on a school

Government-wide Financial Analysis (Continued)

asset is paid the asset must be transferred to the Schools. These factors were almost completely mitigated since the purchase of capital assets exceeding depreciation by \$1,774,826.

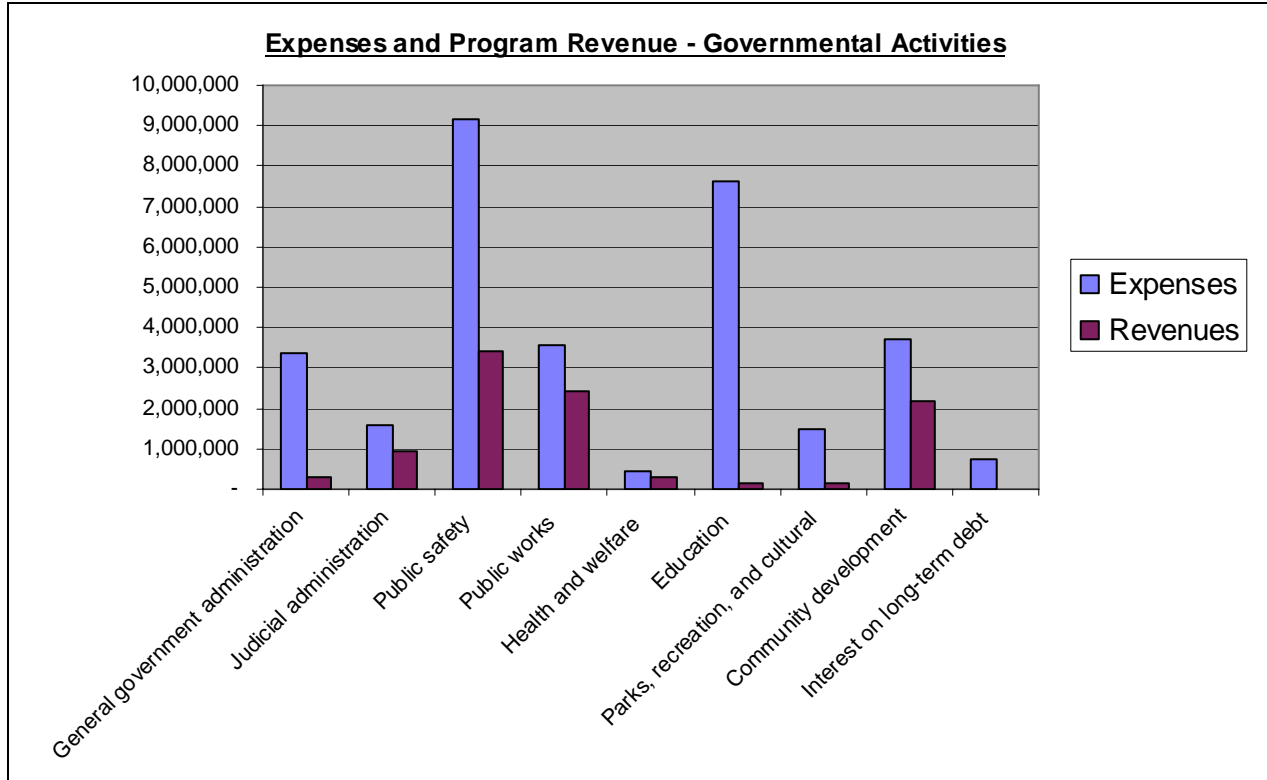
City of Martinsville, Virginia
Changes in Net Assets
Governmental and Business-Type Activities
For the Years Ended June 30, 2006 and 2005

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:						
Program revenues:						
Charges for services	\$ 890,327	\$ 679,140	\$ 23,200,306	\$ 19,875,353	\$ 24,090,633	\$ 20,554,493
Operating grants and contributions	8,772,998	8,428,348	-	-	8,772,998	8,428,348
Capital grants and contributions	139,368	139,919	-	25,728	139,368	165,647
General revenues:						
General property taxes	7,677,907	7,460,249	-	-	7,677,907	7,460,249
Other local taxes	7,566,200	7,352,810	-	-	7,566,200	7,352,810
Commonwealth non-categorical aid	732,396	669,189	-	-	732,396	669,189
Other general revenues	1,212,568	952,580	108,482	-	1,321,050	952,580
Total revenues	<u>\$ 26,991,764</u>	<u>\$ 25,682,235</u>	<u>\$ 23,308,788</u>	<u>\$ 19,901,081</u>	<u>\$ 50,300,552</u>	<u>\$ 45,583,316</u>
Expenses:						
General government administration	\$ 3,368,586	\$ 3,657,672	\$ -	\$ -	\$ 3,368,586	\$ 3,657,672
Judicial administration	1,565,300	1,461,196	-	-	1,565,300	1,461,196
Public safety	9,145,017	8,221,961	-	-	9,145,017	8,221,961
Public works	3,544,843	2,982,834	-	-	3,544,843	2,982,834
Health and welfare	630,735	448,218	-	-	630,735	448,218
Education	7,609,659	7,324,102	-	-	7,609,659	7,324,102
Parks, recreation, and cultural	1,472,756	1,106,306	-	-	1,472,756	1,106,306
Community development	3,544,537	3,566,228	-	-	3,544,537	3,566,228
Interest on long-term debt	757,926	471,184	-	-	757,926	471,184
Electric	-	-	11,533,301	7,738,232	11,533,301	7,738,232
Water	-	-	1,819,844	1,656,305	1,819,844	1,656,305
Sewer	-	-	2,552,257	2,188,736	2,552,257	2,188,736
Refuse collection/landfill	-	-	1,563,843	1,742,857	1,563,843	1,742,857
Total expenses	<u>\$ 31,639,359</u>	<u>\$ 29,239,701</u>	<u>\$ 17,469,245</u>	<u>\$ 13,326,130</u>	<u>\$ 49,108,604</u>	<u>\$ 42,565,831</u>
Increase in net assets before transfers	\$ (4,647,596)	\$ (3,557,466)	\$ 5,839,543	\$ 6,574,951	\$ 1,191,947	\$ 3,017,485
Transfers	4,550,493	4,743,334	(4,550,493)	(4,743,334)	-	-
Increase in net assets	\$ (97,103)	\$ 1,185,868	\$ 1,289,050	\$ 1,831,617	\$ 1,191,947	\$ 3,017,485
Net assets-beginning	2,125,990	940,122	21,286,219	19,454,602	23,412,209	20,394,724
Net assets - ending	<u>\$ 2,028,887</u>	<u>\$ 2,125,990</u>	<u>\$ 22,575,269</u>	<u>\$ 21,286,219</u>	<u>\$ 24,604,156</u>	<u>\$ 23,412,209</u>

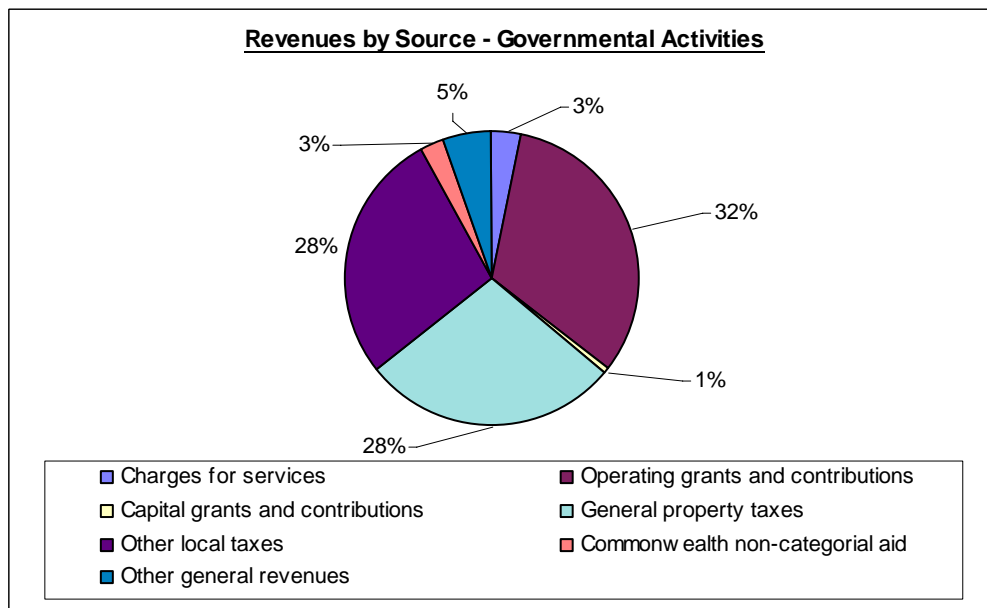
Revenues from governmental activities totaled \$26,991,764 with operating grants and contributions (32.5%), general property taxes (28.4%), and other local taxes (28%) comprising 89% of the City's revenues. Expenses for public safety (28.9%), education (24.1%), community development (11.7%), public works (11.2%) and general government administration (10.6%), account for 86.5% of total governmental expenses of \$31,639,359.

Government-wide Financial Analysis: (Continued)

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.



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



Business-type Activities increased the City's net assets by \$1,289,050 even after deducting \$4,550,493 in transfers to the General and Capital Reserve Funds. Transfers decreased \$192,841 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.

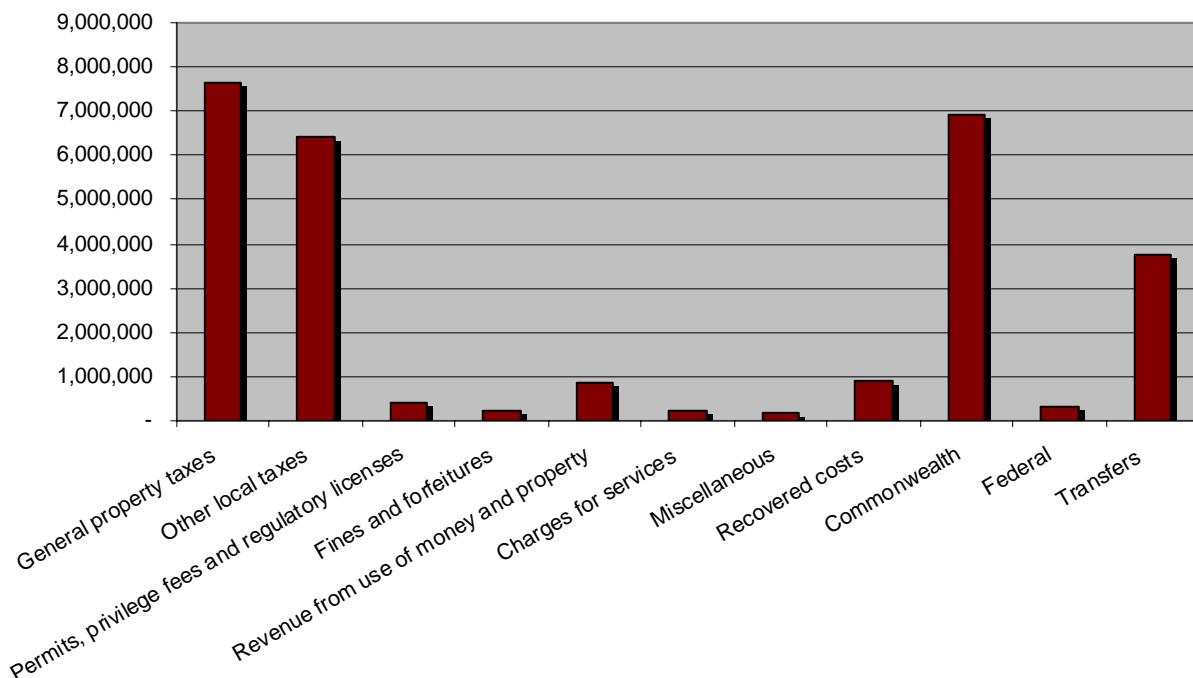
Governmental Funds - The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances at the end of the fiscal year can be used to measure net resources available for expenditure. Governmental Funds reported a combined ending fund balance of \$818,496 a decrease of \$469,612 when compared to the prior year. Eighty-one percent (\$664,398) of the combined governmental fund balance is unreserved. The remaining nineteen 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, 2006 of \$1,108,130. This is an increase from the prior year of \$599,625. The General Funds deficiency of revenues over expenditures actually increased by \$572,364 for the Fiscal Year. The increase in fund balance was the result of increasing transfers into the General Fund by \$776,889 and decreasing transfers out of the General Fund by \$700,000. The increase transfer into the General Fund was provided by the Electric Fund. The decreased transfer out of the General fund came at the expense of the Capital Reserve Fund. Eighty-six percent or \$954,031 of the total fund balance is unreserved, an increase of \$599,625 from June 30, 2005. 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 3.95% of total General Fund expenditures, while total fund balance is 4.6% of that same amount.

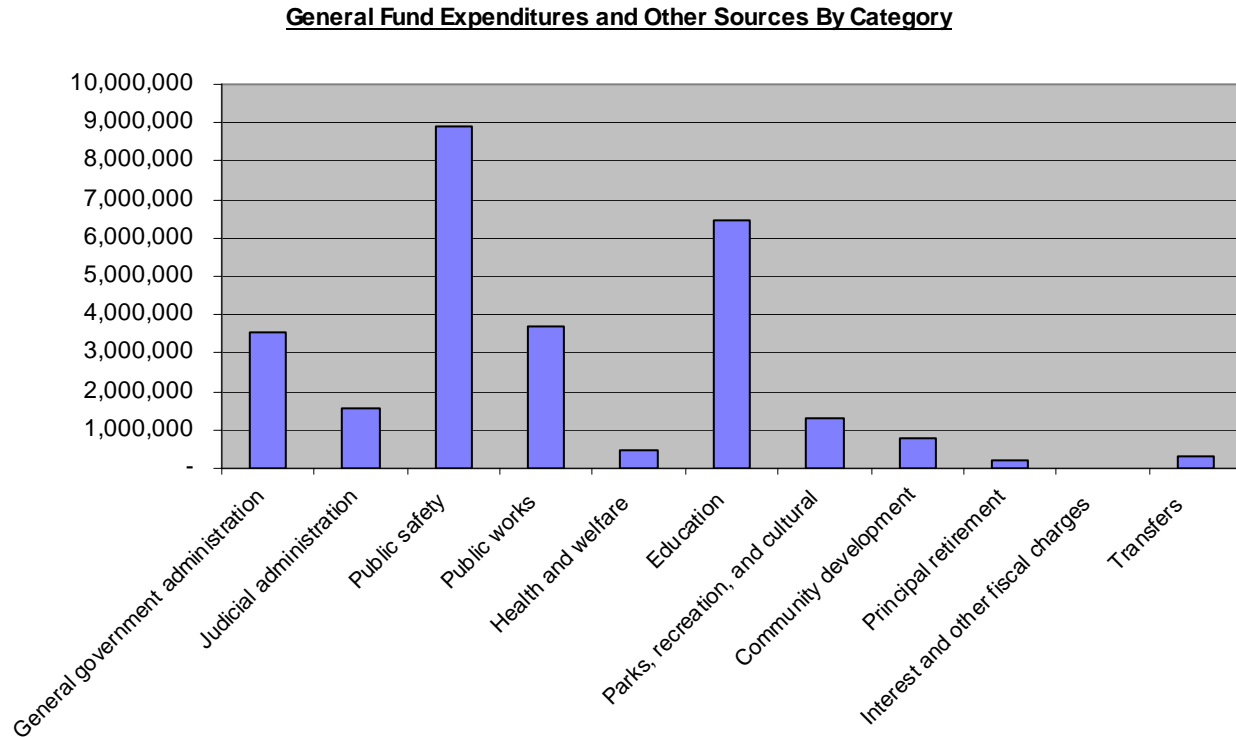
GENERAL FUND REVENUES AND OTHER SOURCES BY CATEGORY

The following graph depicts General Fund revenues and other sources by categories. Total revenues and other sources are \$27,875,612 including transfers into the fund of \$3,757,603.

General Fund Revenues and Other Sources By Category



The graph below displays General Fund expenditures and other uses by category. Total expenditures and uses are \$27,275,987 including transfers out of the fund of \$308,950.



Proprietary funds - reported combined ending net assets of \$22,575,269: an increase of \$1,289,050 in comparison with the amount reported on June 30, 2005. The Electric Fund increased \$795,194, the Refuse Fund increased \$390,435 and the Water Fund increased \$255,459. The Sewer Fund experienced a decrease of \$152,038.

The decrease in the Sewer Fund was caused by transferring an amount from that fund greater than its Operating Income.

The Enterprise Funds contributed \$4,550,493 in the support of other City operations. Of that amount \$3,757,603 or 82.6% was transferred to the General Fund, and \$675,602 or 14.8% was transferred to the Capital Reserve Fund. The remaining 2.6% or \$117,288 was transferred to the Meals Tax Fund.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor. Revenues were increased by \$729,373 or 3.1% while expenditures increased by \$846,960 or 3.1%. More than half of the increases in both revenues and expenditures were caused by the City acting as the recipient for a Dental Grant from the Federal Government. The City acted as the fiscal agent for the grant with the funds being controlled by an independent board. The Revenue increases were as follows:

- \$2,497 in use of Money and Property
- \$994 in Fines and Forfeitures
- \$60,771 in Miscellaneous
- \$19,659 in Recovered costs
- \$81,720 in Intergovernmental Revenues from the Commonwealth
- \$563,732 in Intergovernmental revenues from the Federal Government.

General Fund Budgetary Highlights: (Continued)

The Expenditure amendments were as follows:

- \$295,634 in decreases in General government administration
- \$39,853 in increases in Judicial administration
- \$579,455 in increases Public Safety
- \$504,483 in increases in Public Works
- \$68,273 in increases in Parks, Recreation, and Cultural
- \$49,470 in decreases in Community development

The various increases had a net effect of increasing the budgeted use of the fund balance by \$117,587. During the year, however, revenues exceeded the budget by \$65,084 or .2% and expenditures were less than the budget by \$1,052,130 or 3.8%. The result was a positive variance of \$1,117,214 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, 2006, is \$28,760,289 (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 FY2006 were: The demolition of the former YMCA, purchase of a Lime feed for the water plant, two tractors, car and transport Van for the Sheriff, Painting a water tank, Police Car, In-car cameras for Police, Two Electric breakers and three transformers, dump truck, replacement of several servers and a significant portion of our personal computers, upgrades to MINET, re-hose a bucket truck, two flat bed trucks.

**City of Martinsville, Virginia's
Capital Assets
June 30, 2006 and 2005**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 1,531,372	\$ 1,531,372	\$ 683,624	\$ 683,624	\$ 2,214,996	\$ 2,214,996
Buildings and improvements	15,402,118	14,160,915	3,090,656	3,040,200	18,492,774	17,201,115
Infrastructure	179,296	56,100	47,992,429	47,222,531	48,171,725	47,278,631
Equipment	6,498,750	6,105,713	5,696,378	6,286,056	12,195,128	12,391,769
Total	\$ 23,611,536	\$ 21,854,100	\$ 57,463,087	\$ 57,232,411	\$ 81,074,623	\$ 79,086,511
Less: accumulated depreciation	9,012,868	8,382,961	43,301,466	42,629,151	52,314,334	51,012,112
Net capital assets	<u>\$ 14,598,668</u>	<u>\$ 13,471,139</u>	<u>\$ 14,161,621</u>	<u>\$ 14,603,260</u>	<u>\$ 28,760,289</u>	<u>\$ 28,074,399</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 FY2006, Martinsville City had total outstanding obligations of \$20,790,168. Of this amount \$15,824,714 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 increased its long-term obligations by \$2,966,473 or 16.6%. The City's obligations decreased \$3,709,898 while \$6,529,764 in new debt was issued. The new debt consisted of \$2,000,000 to close the landfill, \$2,000,000 to renovate an elementary school and \$2,529,764 to refinance an existing bond. Other obligations increased by \$146,607.

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, 2006 the City's ratio of Net General Obligation Debt to Assessed Value was 2.18%. This was the first increase in the City's debt ratio in seven years.

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

Economic Factors Influencing FY2007 Budgets and Tax Rates

The unemployment rate for the City on June 30, 2006 was 7.2%. This was a decrease of 2.7% year to year. Still the City's unemployment rate compares unfavorably to the state's average unemployment rate of 3.3% and the national average of 4.3% 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.

The landfill reached capacity and was closed during the 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 our 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 2007 fiscal year.

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

- Increased Refuse rates approximately 9%
- Increased Electric rates 10%
- Increased Water and Sewer rates 50%
- Increased Meals tax rate from 5% to 6%
- Increased the vehicle license fee from \$20 to \$29
- Increased the Real Estate tax rate from \$.94 to \$1.08
- Increased the transfers out of the Water and Sewer funds by \$1 million each
- Transferred \$417,762 from the Meals Tax Fund to the Refuse Fund
- Decreased the transfer out of the Electric Fund by \$1,365,387
- Eliminated all transfers out of the Refuse Fund a reduction of \$672,890

The additional revenues raised by the tax and rate increases mentioned above were not adequate to balance the budget. After deducting for depreciation, a non-cash expense, approximately \$2.4 million was required to be drawn from the fund balances to balance the City's various funds.

Requests for Information

This financial report is designed to provide a general overview of the City of Martinsville's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Martinsville, Director of Financial and General Services, 55 West Church Street, Martinsville, Virginia 24114.

Basic Financial Statements

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Government-wide Financial Statements

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Statement of Net Assets
June 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	School Board
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 1,816,169	\$ 9,777,901	\$ 11,594,070	\$ 2,087,385
Receivables (net of allowance for uncollectibles):				
Property taxes	441,378	-	441,378	-
Accounts receivable	222,648	3,036,277	3,258,925	47,015
Inventory	2,130,950	921,469	3,052,419	-
Internal balances	(888,512)	888,512	-	-
Due from other governments	510,699	-	510,699	818,793
Total Current Assets	<u>\$ 4,233,332</u>	<u>\$ 14,624,159</u>	<u>\$ 18,857,491</u>	<u>\$ 2,953,193</u>
Noncurrent Assets				
Capital assets (net of accumulated depreciation):				
Land	\$ 1,531,372	\$ 683,624	\$ 2,214,996	\$ 47,172
Buildings and improvements	9,478,241	914,280	10,392,521	4,223,030
Equipment	3,416,579	1,345,370	4,761,949	538,945
Construction in progress	-	-	-	76,988
Infrastructure	172,476	11,218,347	11,390,823	-
Total Capital Assets	<u>\$ 14,598,668</u>	<u>\$ 14,161,621</u>	<u>\$ 28,760,289</u>	<u>\$ 4,886,135</u>
Total Assets	<u>\$ 18,832,000</u>	<u>\$ 28,785,780</u>	<u>\$ 47,617,780</u>	<u>\$ 7,839,328</u>
LIABILITIES				
Current Liabilities				
Accounts payable and other current liabilities	\$ 1,312,482	\$ 612,116	\$ 1,924,598	\$ 1,156,072
Accrued interest payable	223,952	29,906	253,858	-
Unearned revenue	45,000	-	45,000	61,542
Current portion of long-term obligations	1,165,617	2,777,854	3,943,471	-
Total Current Liabilities	<u>\$ 2,747,051</u>	<u>\$ 3,419,876</u>	<u>\$ 6,166,927</u>	<u>\$ 1,217,614</u>
Noncurrent Liabilities				
Noncurrent portion of long-term obligations	14,056,062	2,790,635	16,846,697	-
Total Liabilities	<u>\$ 16,803,113</u>	<u>\$ 6,210,511</u>	<u>\$ 23,013,624</u>	<u>\$ 1,217,614</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ (123,200)	\$ 14,161,621	\$ 14,038,421	\$ 4,886,135
Unrestricted assets	2,152,087	8,413,648	10,565,735	1,735,579
Total Net Assets	<u>\$ 2,028,887</u>	<u>\$ 22,575,269</u>	<u>\$ 24,604,156</u>	<u>\$ 6,621,714</u>
Total Liabilities and Net Assets	<u>\$ 18,832,000</u>	<u>\$ 28,785,780</u>	<u>\$ 47,617,780</u>	<u>\$ 7,839,328</u>

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

CITY OF MARTINSVILLE, VIRGINIA

Statement of Activities
 Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government administration	\$ 3,368,586	\$ 57,777	\$ 242,419	\$ -
Judicial administration	1,565,300	276,702	645,010	-
Public safety	9,145,017	339,337	3,083,108	-
Public works	3,544,843	90,364	2,337,755	-
Health and welfare	630,735	-	277,439	-
Education	7,609,659	-	-	139,368
Parks, recreation, and cultural	1,472,756	126,146	18,964	-
Community development	3,544,537	-	2,168,303	-
Interest on long-term debt	757,926	-	-	-
Total government activities	\$ 31,639,359	\$ 890,327	\$ 8,772,998	\$ 139,368
Business-type activities:				
Electric	\$ 11,533,301	\$ 15,356,098	\$ -	\$ -
Water	1,819,844	2,575,303	-	-
Sewer	2,552,257	2,735,337	-	-
Refuse collection / landfill	1,563,843	2,533,568	-	-
Total business-type activities	\$ 17,469,245	\$ 23,200,306	\$ -	\$ -
Total primary government	\$ 49,108,604	\$ 24,090,633	\$ 8,772,998	\$ 139,368
COMPONENT UNIT:				
School Board	\$ 24,664,342	\$ 602,261	\$ 16,879,222	\$ -

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

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

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Unit	
Governmental Activities	Business Type Activities	Total	School Board	Functions/Programs
PRIMARY GOVERNMENT:				
Governmental activities:				
\$ (3,068,390)	\$ -	\$ (3,068,390)	\$ -	General government administration
(643,588)	-	(643,588)	-	Judicial administration
(5,722,572)	-	(5,722,572)	-	Public safety
(1,116,724)	-	(1,116,724)	-	Public works
(353,296)	-	(353,296)	-	Health and welfare
(7,470,291)	-	(7,470,291)	-	Education
(1,327,646)	-	(1,327,646)	-	Parks, recreation, and cultural
(1,376,234)	-	(1,376,234)	-	Community development
(757,926)	-	(757,926)	-	Interest on long-term debt
<u>\$ (21,836,667)</u>	<u>\$ -</u>	<u>\$ (21,836,667)</u>	<u>\$ -</u>	Total government activities
Business-type activities:				
\$ -	\$ 3,822,797	\$ 3,822,797	\$ -	Electric
-	755,459	755,459	-	Water
-	183,080	183,080	-	Sewer
-	969,725	969,725	-	Refuse collection / landfill
<u>\$ -</u>	<u>\$ 5,731,061</u>	<u>\$ 5,731,061</u>	<u>\$ -</u>	Total business-type activities
<u>\$ (21,836,667)</u>	<u>\$ 5,731,061</u>	<u>\$ (16,105,606)</u>	<u>\$ -</u>	Total primary government
COMPONENT UNIT:				
			<u>\$ (7,182,860)</u>	School Board
General revenues:				
\$ 7,677,907	\$ -	\$ 7,677,907	\$ -	General property taxes
2,145,605	-	2,145,605	-	Local sales tax
1,713,541	-	1,713,541	-	Business license tax
1,155,170	-	1,155,170	-	Meals tax
768,590	-	768,590	-	Consumer utility tax
559,954	-	559,954	-	Telephone tax
1,223,340	-	1,223,340	-	Other local taxes
965,674	108,482	1,074,156	40,108	Unrestricted revenues from use of money and property
246,894	-	246,894	146,879	Miscellaneous
732,396	-	732,396	-	Commonwealth of Virginia non-categorical aid
-	-	-	7,311,375	City contribution to the school board, unrestricted
4,550,493	(4,550,493)	-	-	Transfers
<u>\$ 21,739,564</u>	<u>\$ (4,442,011)</u>	<u>\$ 17,297,553</u>	<u>\$ 7,498,362</u>	Total general revenues and transfers
<u>\$ (97,103)</u>	<u>\$ 1,289,050</u>	<u>\$ 1,191,947</u>	<u>\$ 315,502</u>	Change in net assets
<u>2,125,990</u>	<u>21,286,219</u>	<u>23,412,209</u>	<u>6,306,212</u>	Net assets - beginning
<u>\$ 2,028,887</u>	<u>\$ 22,575,269</u>	<u>\$ 24,604,156</u>	<u>\$ 6,621,714</u>	Net assets - ending

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Fund Financial Statements

Balance Sheet - Governmental Funds
At June 30, 2006

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 1,026,462	\$ 789,707	\$ 1,816,169
Receivables (Net of allowances for uncollectibles):			
Taxes, including penalties	441,378	-	441,378
Accounts	216,672	5,976	222,648
Inventory	397,417	-	397,417
Due from other governmental units	429,962	80,737	510,699
	<u>2,511,891</u>	<u>876,420</u>	<u>3,388,311</u>
Total assets	<u>\$ 2,511,891</u>	<u>\$ 876,420</u>	<u>\$ 3,388,311</u>
LIABILITIES			
Accounts payable	\$ 1,034,941	\$ 277,541	\$ 1,312,482
Due to other funds	-	888,512	888,512
Deferred revenue	368,820	-	368,820
	<u>1,403,761</u>	<u>1,166,053</u>	<u>2,569,814</u>
Total liabilities	<u>\$ 1,403,761</u>	<u>\$ 1,166,053</u>	<u>\$ 2,569,814</u>
FUND BALANCES			
Unreserved, designated for:			
Development reserve	\$ 45,037	\$ -	\$ 45,037
Subdivision improvements	20,000	-	20,000
Thoroughfare construction	89,062	-	89,062
Undesignated reported in:			
General fund	954,031	-	954,031
Special revenue funds (deficit)	-	(459,576)	(459,576)
Capital projects	-	169,943	169,943
	<u>1,108,130</u>	<u>(289,633)</u>	<u>818,496</u>
Total fund balances	<u>\$ 1,108,130</u>	<u>\$ (289,633)</u>	<u>\$ 818,496</u>
Total liabilities and fund balances	<u>\$ 2,511,891</u>	<u>\$ 876,420</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.	14,598,668
Inventory of land and buildings held for resale	1,733,533
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(223,952)
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.	323,820
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>(15,221,679)</u>
Net assets of General Government Activities	<u>\$ 2,028,887</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, 2006

	<u>General</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
General property taxes	\$ 7,642,006	\$ -	\$ 7,642,006
Other local taxes	6,411,030	1,155,170	7,566,200
Permits, privilege fees and regulatory licenses	418,210	-	418,210
Fines and forfeitures	235,837	-	235,837
Revenue from use of money and property	838,163	127,511	965,674
Charges for services	236,278	-	236,278
Miscellaneous	203,324	43,570	246,894
Recovered costs	894,882	-	894,882
Intergovernmental:			
Commonwealth	6,929,313	246,888	7,176,201
Federal	308,966	2,159,595	2,468,561
Total revenues	<u>\$ 24,118,009</u>	<u>\$ 3,732,734</u>	<u>\$ 27,850,743</u>
Expenditures:			
Current:			
General government administration	\$ 3,540,635	\$ 383,875	\$ 3,924,510
Judicial administration	1,566,000	-	1,566,000
Public safety	8,880,925	319,212	9,200,137
Public works	3,698,176	122,169	3,820,345
Health and welfare	494,217	148,023	642,240
Education	6,469,813	2,270,508	8,740,321
Parks, recreation, and cultural	1,297,173	161,877	1,459,050
Community development	804,105	2,922,687	3,726,792
Debt service:			
Principal retirement	196,041	987,008	1,183,049
Interest and other fiscal charges	19,952	618,451	638,403
Total expenditures	<u>\$ 26,967,037</u>	<u>\$ 7,933,810</u>	<u>\$ 34,900,847</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (2,849,028)</u>	<u>\$ (4,201,076)</u>	<u>\$ (7,050,105)</u>
Other financing sources (uses):			
Proceeds from debt issued	\$ -	\$ 2,000,000	\$ 2,000,000
Payment to refunded bond escrow agent	-	(2,499,764)	(2,499,764)
Issuance of refunding bonds	-	2,529,764	2,529,764
Transfers in	3,757,603	1,101,840	4,859,443
Transfers (out)	(308,950)	-	(308,950)
Total other financing sources (uses)	<u>\$ 3,448,653</u>	<u>\$ 3,131,840</u>	<u>\$ 6,580,493</u>
Changes in fund balances	\$ 599,625	\$ (1,069,236)	\$ (469,612)
Fund balances at beginning of year	<u>508,505</u>	<u>779,603</u>	<u>1,288,108</u>
Fund balances at end of year	<u>\$ 1,108,130</u>	<u>\$ (289,633)</u>	<u>\$ 818,496</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, 2006

		<u>Primary Governmental Funds</u>
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
Net change in fund balances - total governmental funds	\$	(469,612)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current year.</p>		
Capital outlay	\$ 2,577,986	
Depreciation expense	<u>(803,160)</u>	1,774,826
Inventory of land and buildings purchased during the year and held for resale		220,908
Transfer of joint tenancy assets from Primary Government to the Component Unit		(647,297)
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.		35,901
<p>The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.</p>		
<p>Details supporting this adjustment are as follows:</p>		
Principal retired on debt on literary fund loans	\$ 663,525	
Principal retired on general obligation bonds	2,500,000	
Principal retired on capital lease obligations	333,377	
Principal retired on VPSA subsidy bonds	23,545	
Proceeds from indebtedness	<u>(4,529,764)</u>	(1,009,317)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds. The following is a summary of items supporting this adjustment:</p>		
Change in accrued leave	\$ (45,357)	
Change in interest payable	<u>42,845</u>	<u>(2,512)</u>
Change in net assets of governmental activities	\$	<u><u>(97,103)</u></u>

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

Proprietary Funds
Statement of Net Assets
At June 30, 2006

ASSETS	Electric Fund	Water Fund	Sewer Fund	Refuse Collection/ Landfill Fund	Total
Current Assets:					
Cash and cash equivalents	\$ 1,270,690	\$ 279,981	\$ 565,056	\$ 7,662,174	\$ 9,777,901
Receivables:					
Accounts - net	2,164,388	346,499	365,736	159,654	3,036,277
Due from other funds	-	-	-	888,512	888,512
Inventory	771,425	150,044	-	-	921,469
Total current assets	\$ 4,206,503	\$ 776,524	\$ 930,792	\$ 8,710,340	\$ 14,624,159
Noncurrent Assets					
Capital assets:					
Land	\$ -	\$ 658,224	\$ 25,400	\$ -	\$ 683,624
Buildings and improvements	586,744	1,205,571	1,062,876	235,465	3,090,656
Equipment	1,994,453	1,162,349	1,091,330	1,448,246	5,696,378
Infrastructure	22,211,953	10,510,290	15,270,186	-	47,992,429
Less accumulated depreciation	(19,937,079)	(9,333,847)	(12,942,680)	(1,087,860)	(43,301,466)
Total capital assets (net of accumulated depreciation)	\$ 4,856,071	\$ 4,202,587	\$ 4,507,112	\$ 595,851	\$ 14,161,621
Total assets	\$ 9,062,574	\$ 4,979,111	\$ 5,437,904	\$ 9,306,191	\$ 28,785,780
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 39,320	\$ 47,000	\$ 153,265	\$ 54,152	\$ 293,737
Customers' deposits payable	277,199	40,880	300	-	318,379
Interest payable	-	-	-	29,906	29,906
Current portion of long-term obligations	5,539	5,157	4,547	2,762,612	2,777,854
Total current liabilities	\$ 322,058	\$ 93,037	\$ 158,112	\$ 2,846,670	\$ 3,419,876
Noncurrent liabilities:					
Noncurrent portion of long-term obligations	49,847	46,409	40,925	2,653,453	2,790,635
Total liabilities	\$ 371,905	\$ 139,446	\$ 199,037	\$ 5,500,123	\$ 6,210,511
NET ASSETS					
Invested in capital assets, net of related debt	\$ 4,856,071	\$ 4,202,587	\$ 4,507,112	\$ 595,851	\$ 14,161,621
Unrestricted assets	3,834,598	637,078	731,755	3,210,217	8,413,648
Total Net Assets	\$ 8,690,669	\$ 4,839,665	\$ 5,238,867	\$ 3,806,068	\$ 22,575,269
Total Liabilities and Net Assets	\$ 9,062,574	\$ 4,979,111	\$ 5,437,904	\$ 9,306,191	\$ 28,785,780

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, 2006

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Refuse Collection/ Landfill Fund</u>	<u>Total</u>
Operating revenues:					
Charges for services	\$ 15,249,879	\$ 2,530,877	\$ 2,717,287	\$ 2,512,942	\$ 23,010,985
Miscellaneous	<u>106,219</u>	<u>44,426</u>	<u>18,050</u>	<u>20,626</u>	<u>189,321</u>
Total operating revenues	<u>\$ 15,356,098</u>	<u>\$ 2,575,303</u>	<u>\$ 2,735,337</u>	<u>\$ 2,533,568</u>	<u>\$ 23,200,306</u>
Operating expenses:					
Personal services	\$ 553,527	\$ 622,619	\$ 691,069	\$ 350,908	\$ 2,218,123
Fringe benefits	170,092	210,808	242,659	115,754	739,313
Contractual services	172,636	33,940	15,756	262,815	485,147
Other charges	10,105,851	730,571	1,080,110	691,055	12,607,587
Depreciation	<u>531,195</u>	<u>221,906</u>	<u>522,663</u>	<u>86,995</u>	<u>1,362,759</u>
Total operating expenses	<u>\$ 11,533,301</u>	<u>\$ 1,819,844</u>	<u>\$ 2,552,257</u>	<u>\$ 1,507,527</u>	<u>\$ 17,412,929</u>
Operating income	<u>\$ 3,822,797</u>	<u>\$ 755,459</u>	<u>\$ 183,080</u>	<u>\$ 1,026,041</u>	<u>\$ 5,787,377</u>
Non-operating revenues (expenses):					
Interest income	\$ -	\$ -	\$ 14,882	\$ 93,600	\$ 108,482
Interest expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(56,316)</u>	<u>(56,316)</u>
Total non-operating revenues (expenses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,882</u>	<u>\$ 37,284</u>	<u>\$ 52,166</u>
Income (loss) before transfers	<u>\$ 3,822,797</u>	<u>\$ 755,459</u>	<u>\$ 197,962</u>	<u>\$ 1,063,325</u>	<u>\$ 5,839,543</u>
Transfers:					
Transfers (out)	<u>(3,027,603)</u>	<u>(500,000)</u>	<u>(350,000)</u>	<u>(672,890)</u>	<u>(4,550,493)</u>
Changes in net assets	<u>\$ 795,194</u>	<u>\$ 255,459</u>	<u>\$ (152,038)</u>	<u>\$ 390,435</u>	<u>\$ 1,289,050</u>
Net assets at beginning of year	<u>7,895,475</u>	<u>4,584,206</u>	<u>5,390,905</u>	<u>3,415,633</u>	<u>21,286,219</u>
Net assets at end of year	<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>

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

Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2006

	Electric Fund	Water Fund	Sewer Fund	Refuse Collection/ Landfill Fund	Total
Cash Flows From Operating Activities:					
Receipts from customers and users	\$ 14,904,053	\$ 2,566,594	\$ 2,657,186	\$ 2,917,825	\$ 23,045,658
Payments to suppliers and other operating expenses	(10,255,189)	(736,899)	(1,002,750)	(880,067)	(12,874,905)
Payments to employees (including fringe benefits)	(726,776)	(828,216)	(925,080)	(473,464)	(2,953,536)
Net cash provided by operating activities	<u>\$ 3,922,088</u>	<u>\$ 1,001,479</u>	<u>\$ 729,356</u>	<u>\$ 1,564,294</u>	<u>\$ 7,217,217</u>
Cash Flows From Capital and Related Financing Activities:					
Acquisition and construction of capital assets	\$ (787,559)	\$ (207,350)	\$ (161,716)	\$ (142,988)	\$ (1,299,613)
Retirements of general obligation bonds	-	-	-	(92,100)	(92,100)
Proceeds from sale of assets	-	-	-	378,493	378,493
Issuance of general obligation bonds	-	-	-	2,000,000	2,000,000
Interest paid on debt	-	-	-	(56,316)	(56,316)
Net cash provided (used) by capital and related financing activities	<u>\$ (787,559)</u>	<u>\$ (207,350)</u>	<u>\$ (161,716)</u>	<u>\$ 2,087,089</u>	<u>\$ 930,464</u>
Cash Flows From Noncapital Financing Activities:					
Transfers	\$ (3,027,603)	\$ (500,000)	\$ (350,000)	\$ (672,890)	\$ (4,550,493)
Interest income	-	-	14,882	93,600	108,482
Decrease in due from other funds	-	-	-	497,375	497,375
Due to other funds	-	(14,148)	-	-	(14,148)
Net cash provided (used) by noncapital financing activities	<u>\$ (3,027,603)</u>	<u>\$ (514,148)</u>	<u>\$ (335,118)</u>	<u>\$ (81,915)</u>	<u>\$ (3,958,784)</u>
Increase in cash and cash equivalents	<u>\$ 106,926</u>	<u>\$ 279,981</u>	<u>\$ 232,522</u>	<u>\$ 3,569,468</u>	<u>\$ 4,188,897</u>
Cash and cash equivalents at beginning of year	<u>1,163,764</u>	<u>-</u>	<u>332,534</u>	<u>4,092,706</u>	<u>5,589,004</u>
Cash and cash equivalents at end of year	<u>\$ 1,270,690</u>	<u>\$ 279,981</u>	<u>\$ 565,056</u>	<u>\$ 7,662,174</u>	<u>\$ 9,777,901</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income	\$ 3,822,797	\$ 755,459	\$ 183,080	\$ 1,026,041	\$ 5,787,377
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation	\$ 531,195	\$ 221,906	\$ 522,663	\$ 86,995	\$ 1,362,759
Changes in operating assets and liabilities:					
(Increase) decrease in accounts receivable	(449,748)	(8,709)	(78,151)	384,257	(152,351)
Increase (decrease) in:					
Accounts and interest payable	23,298	27,612	93,116	73,803	217,829
Accrued leave	(3,157)	5,211	8,648	(6,802)	3,900
Customer deposits	(2,297)	-	-	-	(2,297)
Total adjustments	<u>\$ 99,291</u>	<u>\$ 246,020</u>	<u>\$ 546,276</u>	<u>\$ 538,253</u>	<u>\$ 1,429,840</u>
Net cash provided by operating activities	<u>\$ 3,922,088</u>	<u>\$ 1,001,479</u>	<u>\$ 729,356</u>	<u>\$ 1,564,294</u>	<u>\$ 7,217,217</u>

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

Statement of Fiduciary Net Assets --
Agency Funds
At June 30, 2006

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ <u>731,618</u>
Total assets	\$ <u><u>731,618</u></u>
LIABILITIES	
Accounts payable	\$ 12,393
Amounts held for others	<u>719,225</u>
Total liabilities	\$ <u><u>731,618</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, 2006

Note 1—Summary of Significant Accounting Policies:

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

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

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

Government-wide and Fund Financial Statements

Government-wide financial statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government'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, 2006 (Continued)

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

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

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

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

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, 2006 (Continued)

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

A. Financial Reporting Entity

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

B. Individual Component Unit Disclosures

Blended Component Unit. The Martinsville Industrial Development Authority is included as a blended component unit for 2006.

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

Discretely Presented Component Units. The School Board members are appointed by the City Council and are responsible for the operations of the City's School System within the City boundaries. The School Board is fiscally dependent on the City. The City has the ability to approve its budget and any amendments. The primary funding is from the General Fund of the City. The School Fund does not issue a separate financial report. The financial statements of the School Board are presented as a discrete presentation of the City financial statements for the fiscal year ended June 30, 2006.

Included in the City's Financial Report

None

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2006 (Continued)

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

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, 2006 (Continued)

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

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, 2006 (Continued)

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

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, 2006 (Continued)

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

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, 2006 (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 \$849,332 at June 30, 2006 is composed solely of the following:

General Fund

Allowance for uncollectible property taxes	\$ <u>331,639</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>849,322</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, 2006 (Continued)

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

H. Inventory

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

I. 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, 2006 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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2006 (Continued)

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

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, 2006 (Continued)

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

O. Net Assets

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

P. Long-term Obligations

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

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

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

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

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

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2006 (Continued)

Note 2—Stewardship, Compliance, and Accounting:

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

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2006 (Continued)

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

Expenditures and Appropriations

Expenditures exceed appropriations as follows for the fiscal year ended June 30, 2006:

<u>Fund/ Function</u>	<u>Appropriations</u>	<u>Expenditures</u>	Excess of Expenditures Over Appropriations
General			
Principal Retirement	\$ 195,950	\$ 196,041	\$ (91)
Interest	<u>19,944</u>	<u>19,952</u>	<u>(8)</u>
	<u>\$ 215,894</u>	<u>\$ 215,993</u>	<u>\$ (99)</u>

Fund Deficits

The following funds had deficit balances at June 30, 2006:

City Grants Fund	\$ 831,114
School Grants Fund	20,758

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 \$2,087,385 at June 30, 2006.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2006 (Continued)

Note 4—Due from Other Governments:

At June 30, 2006 the City has receivables from other governments as follows:

	<u>Primary Government</u>	<u>Component Unit School Board</u>
Commonwealth of Virginia:		
Local Sales Tax	\$ 156,944	\$ -
Fringe Benefits	-	-
State Sales Tax	-	216,318
Constitutional officer reimbursements	219,327	-
Miscellaneous grants	53,534	17,219
Comprehensive service	58,544	-
Federal Government:		
School fund grants	-	585,256
Other federal grants	22,350	-
	<u>510,699</u>	<u>818,793</u>
Total due from other governments	\$ <u>510,699</u>	\$ <u>818,793</u>

Note 5—Inventory:

At June 30, 2006 the City has inventory recorded in the various funds as follows:

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>
Expendable supplies	\$ 397,417	\$ 921,469
Land and building inventory held for resale:		
83 Commercial residential lots held for resale	1,524,742	-
5 Commercial buildings held for resale	196,562	-
47 acre parcel in Henry County, Virginia	12,229	-
Totals	\$ <u>2,130,950</u>	\$ <u>921,469</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2006 (Continued)

Note 6—Capital Assets:

The following is a summary of changes in capital assets for the fiscal year ending June 30, 2006:

Primary Government:

Governmental Activities:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>
Capital assets, not being depreciated:				
Land	\$ 1,531,372	\$ -	\$ -	\$ 1,531,372
Capital assets being depreciated:				
Buildings	\$ 4,696,314	\$ 61,753	\$ -	\$ 4,758,067
Equipment	6,105,713	393,037	-	6,498,750
Infrastructure	56,100	123,196	-	179,296
Jointly owned assets	<u>9,464,601</u>	<u>2,000,000</u>	<u>820,550</u>	<u>10,644,051</u>
Total capital assets being depreciated	\$ <u>20,322,728</u>	\$ <u>2,577,986</u>	\$ <u>820,550</u>	\$ <u>22,080,164</u>
Less accumulated depreciation for:				
Buildings	\$ 2,584,605	\$ 78,603	\$ -	\$ 2,663,208
Equipment	4,132,524	497,566	-	4,630,090
Infrastructure	1,870	4,950	-	6,820
Jointly owned assets	<u>1,663,962</u>	<u>222,041</u>	<u>173,253</u>	<u>1,712,750</u>
Total accumulated depreciation	\$ <u>8,382,961</u>	\$ <u>803,160</u>	\$ <u>173,253</u>	\$ <u>9,012,868</u>
Total capital assets being depreciated, net	\$ <u>11,939,767</u>	\$ <u>1,774,826</u>	\$ <u>647,297</u>	\$ <u>13,067,296</u>
Governmental capital assets, net	<u>\$ 13,471,139</u>	<u>\$ 1,774,826</u>	<u>\$ 647,297</u>	<u>\$ 14,598,668</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2006 (Continued)

Note 6—Capital Assets: (Continued)

Primary Government:

Business-Type Activities:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>
Electric Fund:				
Capital assets being depreciated:				
Buildings and improvements	\$ 586,744	\$ -	\$ -	\$ 586,744
Equipment	1,781,456	212,997	19,777	1,974,676
Infrastructure	<u>21,637,391</u>	<u>574,562</u>	<u>-</u>	<u>22,211,953</u>
 Total capital assets being depreciated	 <u>\$ 24,005,591</u>	 <u>\$ 787,559</u>	 <u>\$ 19,777</u>	 <u>\$ 24,773,373</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 585,455	\$ 129	\$ -	\$ 585,584
Equipment	1,633,709	77,289	19,777	1,691,221
Infrastructure	<u>17,186,720</u>	<u>453,777</u>	<u>-</u>	<u>17,640,497</u>
 Total accumulated depreciation	 <u>\$ 19,405,884</u>	 <u>\$ 531,195</u>	 <u>\$ 19,777</u>	 <u>\$ 19,917,302</u>
 Total capital assets being depreciated, net	 <u>\$ 4,599,707</u>	 <u>\$ 256,364</u>	 <u>\$ -</u>	 <u>\$ 4,856,071</u>
 Electric fund capital assets, net	 <u>\$ 4,599,707</u>	 <u>\$ 256,364</u>	 <u>\$ -</u>	 <u>\$ 4,856,071</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2006 (Continued)

Note 6—Capital Assets: (Continued)

Primary Government: (Continued)

Business-Type Activities: (Continued)

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>
Water Fund:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 658,224	\$ -	\$ -	\$ 658,224
Capital assets being depreciated:				
Buildings and improvements	\$ 1,186,449	\$ 19,122	\$ -	\$ 1,205,571
Equipment	1,087,119	75,230	-	1,162,349
Infrastructure	<u>10,397,292</u>	<u>112,998</u>	<u>-</u>	<u>10,510,290</u>
Total capital assets being depreciated	\$ <u>12,670,860</u>	\$ <u>207,350</u>	\$ <u>-</u>	\$ <u>12,878,210</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 825,817	\$ 15,235	\$ -	\$ 841,052
Equipment	674,209	38,337	-	712,546
Infrastructure	<u>7,611,916</u>	<u>168,333</u>	<u>-</u>	<u>7,780,249</u>
Total accumulated depreciation	\$ <u>9,111,942</u>	\$ <u>221,905</u>	\$ <u>-</u>	\$ <u>9,333,847</u>
Total capital assets being depreciated, net	\$ <u>3,558,918</u>	\$ <u>(14,555)</u>	\$ <u>-</u>	\$ <u>3,544,363</u>
Water fund capital assets, net	<u>\$ 4,217,142</u>	<u>\$ (14,555)</u>	<u>\$ -</u>	<u>\$ 4,202,587</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2006 (Continued)

Note 6—Capital Assets: (Continued)

Primary Government: (Continued)

Business-Type Activities: (Continued)

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>
Sewer Fund:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 25,400	\$ -	\$ -	\$ 25,400
Capital assets being depreciated:				
Buildings and improvements	\$ 1,031,542	\$ 31,334	\$ -	\$ 1,062,876
Equipment	1,043,287	48,043	-	1,091,330
Infrastructure	<u>15,187,848</u>	<u>82,338</u>	<u>-</u>	<u>15,270,186</u>
Total capital assets being depreciated	\$ <u>17,262,677</u>	\$ <u>161,715</u>	\$ <u>-</u>	\$ <u>17,424,392</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 677,586	\$ 17,647	\$ -	\$ 695,233
Equipment	844,342	49,769	-	894,111
Infrastructure	<u>10,898,089</u>	<u>455,247</u>	<u>-</u>	<u>11,353,336</u>
Total accumulated depreciation	\$ <u>12,420,017</u>	\$ <u>522,663</u>	\$ <u>-</u>	\$ <u>12,942,680</u>
Total capital assets being depreciated, net	\$ <u>4,842,660</u>	\$ <u>(360,948)</u>	\$ <u>-</u>	\$ <u>4,481,712</u>
Sewer fund capital asset, net	<u>\$ 4,868,060</u>	<u>\$ (360,948)</u>	<u>\$ -</u>	<u>\$ 4,507,112</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2006 (Continued)

Note 6—Capital Assets: (Continued)

Primary Government: (Continued)

Business-Type Activities: (Continued)

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>
Refuse Collection/Landfill Fund:				
Capital assets, not being depreciated:				
Buildings and improvements	\$ 235,465	\$ -	\$ -	\$ 235,465
Equipment	<u>2,374,194</u>	<u>142,988</u>	<u>1,068,936</u>	<u>1,448,246</u>
 Total capital assets being depreciated	 <u>\$ 2,609,659</u>	 <u>\$ 142,988</u>	 <u>\$ 1,068,936</u>	 <u>\$ 1,683,711</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 48,317	\$ 6,190	\$ -	\$ 54,507
Equipment	<u>1,642,991</u>	<u>80,805</u>	<u>690,443</u>	<u>1,033,353</u>
 Total accumulated depreciation	 <u>\$ 1,691,308</u>	 <u>\$ 86,995</u>	 <u>\$ 690,443</u>	 <u>\$ 1,087,860</u>
 Total capital assets being depreciated, net	 <u>\$ 918,351</u>	 <u>\$ 55,993</u>	 <u>\$ 378,493</u>	 <u>\$ 595,851</u>
 Refuse collection/landfill fund capital assets, net	 <u>\$ 918,351</u>	 <u>\$ 55,993</u>	 <u>\$ 378,493</u>	 <u>\$ 595,851</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2006 (Continued)

Note 6—Capital Assets: (Continued)

Discretely Presented Component Unit—School Board:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>
Discretely Presented				
Component Unit-School Board:				
Capital assets, not being depreciated:				
Land	\$ 47,172	\$ -	\$ -	\$ 47,172
Construction in Progress	<u>-</u>	<u>76,988</u>	<u>-</u>	<u>76,988</u>
Total capital assets being depreciated	<u>\$ 47,172</u>	<u>\$ 76,988</u>	<u>\$ -</u>	<u>\$ 124,160</u>
Capital assets being depreciated:				
Buildings	\$ 6,842,778	\$ 107,932	\$ -	\$ 6,950,710
Equipment	1,561,414	22,020	-	1,583,434
Jointly owned assets	<u>2,428,358</u>	<u>820,550</u>	<u>-</u>	<u>3,248,908</u>
Total capital assets being depreciated	<u>\$ 10,832,550</u>	<u>\$ 950,502</u>	<u>\$ -</u>	<u>\$ 11,783,052</u>
Less accumulated depreciation for:				
Buildings	\$ 5,248,880	\$ 202,726	\$ -	\$ 5,451,606
Equipment	946,561	97,928	-	1,044,489
Jointly owned assets	<u>351,729</u>	<u>173,253</u>	<u>-</u>	<u>524,982</u>
Total accumulated depreciation	<u>\$ 6,547,170</u>	<u>\$ 473,907</u>	<u>\$ -</u>	<u>\$ 7,021,077</u>
Total capital assets being depreciated, net	<u>\$ 4,285,380</u>	<u>\$ 476,595</u>	<u>\$ -</u>	<u>\$ 4,761,975</u>
School Board capital assets, net	<u>\$ 4,332,552</u>	<u>\$ 553,583</u>	<u>\$ -</u>	<u>\$ 4,886,135</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2006 (Continued)

Note 6—Capital Assets: (Continued)

The following is a summary of depreciation expense for the year ended June 30, 2006:

Governmental activities:

General government	\$	83,441
Public safety		266,875
Public works		131,452
Health and welfare		8,647
Education		222,041
Parks, recreation and cultural		43,356
Community development		<u>47,348</u>
Total Governmental activities	\$	<u><u>803,160</u></u>

Enterprise activities:

Electric	\$	531,195
Water		207,790
Sewer		517,913
Refuse collection / landfill		<u>86,995</u>
Total Enterprise activities	\$	<u><u>1,343,893</u></u>

Component Unit School Board	\$	<u><u>300,654</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 \$173,253 for the year ending June 30, 2006 when added to depreciation expense above totals \$473,907 accumulated depreciation previous page.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2006 (Continued)

Note 7—Interfund Transfers/Obligations:

Interfund transfers for the year ended June 30, 2006, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ 3,757,603	\$ 308,950
City grants	108,950	-
Capital reserve	875,602	-
Meals tax	117,288	-
Electric	-	3,027,603
Water	-	500,000
Sewer	-	350,000
Refuse collection/landfill	-	672,890
	<u> </u>	<u> </u>
Total	\$ <u>4,859,443</u>	\$ <u>4,859,443</u>

Interfund receivables and payable balances relative to working capital loans at June 30, 2006 are presented below:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
Primary Government:		
City grants	\$ -	\$ 888,512
Refuse Collection Landfill	888,512	-
	<u> </u>	<u> </u>
Total	\$ <u>888,512</u>	\$ <u>888,512</u>
Component Unit - School Board		
School Fund	\$ 538,761	\$ -
School Grants	-	538,761
	<u> </u>	<u> </u>
Total	\$ <u>538,761</u>	\$ <u>538,761</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, 2006 (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, 2006:

	Amounts Payable at July 1, 2005	Increases	Decreases	Amounts Payable at June 30, 2006	Amounts Due Within One Year
Governmental Obligations:					
Incurred by City					
Claims, judgments and compensated absences and payable	\$ 454,455	\$ 126,396	\$ 81,040	\$ 499,811	\$ 49,981
G.O. Bonds	3,435,000	2,529,764	2,500,000	3,464,764	188,061
Capital lease obligations	<u>812,950</u>	<u>-</u>	<u>199,897</u>	<u>613,053</u>	<u>205,621</u>
Total incurred by City	<u>\$ 4,702,405</u>	<u>\$ 2,656,160</u>	<u>\$ 2,780,937</u>	<u>\$ 4,577,628</u>	<u>\$ 443,663</u>
Incurred by School Board:					
State Literary Fund Loans	\$ 9,115,575	\$ -	\$ 663,525	\$ 8,452,050	\$ 663,525
Virginia Public Authority Subsidy Bonds	181,364	-	23,545	157,819	24,247
GO Note	-	2,000,000	-	2,000,000	-
Capital lease	<u>167,662</u>	<u>-</u>	<u>133,480</u>	<u>34,182</u>	<u>34,182</u>
Total incurred by School Board	<u>\$ 9,464,601</u>	<u>\$ 2,000,000</u>	<u>\$ 820,550</u>	<u>\$ 10,644,051</u>	<u>\$ 721,954</u>
Total Governmental Obligations	<u>\$ 14,167,006</u>	<u>\$ 4,656,160</u>	<u>\$ 3,601,487</u>	<u>\$ 15,221,679</u>	<u>\$ 1,165,617</u>
Enterprise Obligations:					
Compensated absences	\$ 162,305	\$ 20,211	\$ 16,311	\$ 166,205	\$ 16,620
General obligation bond	-	2,000,000	92,100	1,907,900	173,100
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>\$ 3,656,689</u>	<u>\$ 2,020,211</u>	<u>\$ 108,411</u>	<u>\$ 5,568,489</u>	<u>\$ 2,777,854</u>
Total Primary Government	<u>\$ 17,823,695</u>	<u>\$ 6,676,371</u>	<u>\$ 3,709,898</u>	<u>\$ 20,790,168</u>	<u>\$ 3,943,471</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, 2006 (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			
	General Obligation Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2007	\$ 188,061	\$ 130,312	\$ 205,621	\$ 16,405
2008	198,732	122,026	211,516	10,510
2009	204,428	113,206	104,341	5,321
2010	215,151	103,884	91,575	2,013
2011	225,900	93,933	-	-
2012	235,527	84,488	-	-
2013	243,880	75,739	-	-
2014	251,945	66,690	-	-
2015	259,701	57,352	-	-
2016	267,127	47,737	-	-
2017	279,098	37,769	-	-
2018	290,621	27,372	-	-
2019	296,842	16,649	-	-
2020	307,751	5,616	-	-
Total	\$ <u>3,464,764</u>	\$ <u>982,773</u>	\$ <u>613,053</u>	\$ <u>34,249</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2006 (Continued)

Note 8—Long-Term Obligations: (Continued)

Primary Government: (Continued)

School Obligations								
Year Ending June 30	State Literary Fund Loans		Virginia Public School Authority Subsidy Bonds		Capital Leases		General Obligation Note	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 663,525	\$ 254,332	\$ 24,247	\$ 9,616	\$ 34,182	\$ 220	-	\$ 584,000
2008	663,525	234,041	24,998	7,991	-	-	-	584,000
2009	625,000	213,750	25,799	6,315	-	-	2,000,000	584,000
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	\$ 8,452,050	\$ 1,849,623	\$ 157,819	\$ 32,245	\$ 34,182	\$ 220	\$ 2,000,000	\$ 1,752,000

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2006 (Continued)

Note 8—Long-Term Obligations: (Continued)

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%	\$ 935,000
\$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>2,529,764</u>
Total general obligation bonds	<u>\$ 3,464,764</u>

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%	\$ 68,187
\$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%	196,952
\$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>347,914</u>
Total capital lease obligations	<u>\$ 613,053</u>
Compensated absences	<u>\$ 499,811</u>
Total Incurred by City	<u>\$ 4,577,628</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2006 (Continued)

Note 8—Long-Term Obligations: (Continued)

Primary Government: (Continued)

Incurred by School Board:

General Obligation Bonds:

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%	\$ 2,750,000
\$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%	14,800
\$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%	9,600
\$67,413 State Literary Fund Loan issued May 19, 1987, due in annual principal installments of \$3,400 through 2008; interest payable at 4%	6,800
\$109,471 State Literary Fund Loan issued June 15, 1987, due in annual installments of \$5,700 through 2008; interest payable annually at 4%	11,400
\$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%	26,000
\$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%	8,450
\$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>5,625,000</u>
Total State Literary Fund Loans	<u>\$ 8,452,050</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2006 (Continued)

Note 8—Long-Term Obligations: (Continued)

Primary Government: (Continued)

Incurred by School Board:

General Obligation Bonds:

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 \$ 157,819

Capital Lease Obligation:

\$624,802 lease obligation for the purchase of buses, payable in monthly installments of \$11,467 through September 12, 2006 interest at 3.86% \$ 34,182

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 \$ 10,644,051

Total Governmental Obligations \$ 15,221,679

Enterprise Obligations:

\$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% \$ 1,907,900

Compensated absences 166,205

Landfill closure and postclosure costs 3,494,384

Total enterprise obligations \$ 5,568,489

On September 21, 2005 the City of Martinsville, Virginia refunded \$2,335,000 of General Obligation Bonds, Series 1999 Bonds. As a result the 1999 Bonds maturing annually on July 15, 2011 to July 15, 2019 are considered to be defeased in substance and the liability for those bonds has been removed from the financial statements. This advance refunding was undertaken to reduce the total debt service payments over the next 14 years by \$89,353 and resulted in an economic gain of \$71,432. At June 30, 2006 the defeased bonds had balances outstanding of \$2,335,000.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2006 (Continued)

Note 9—Landfill Closure and Postclosure Costs:

State and federal laws and regulations require the City to place a final cover on each phase of its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste. In accordance with Statement 18 of the Governmental Accounting Standards Board entitled Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs, the City reported a liability for a portion of these closure and postclosure care costs based on landfill capacity used. The \$3,494,384 reported as landfill closure and postclosure care liability at June 30, 2006 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 2006. Actual closure and postclosure care costs may be higher due to inflation, changes in technology, or changes in regulations.

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

Note 10—Deferred Revenue:

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Deferred revenue totaling \$430,362 is comprised of the following:

Deferred Property Tax Revenue - Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$323,820 at June 30, 2006.

Deferred revenue represents unexpended grant funds \$45,000.

Discretely Presented School Board – Deferred revenue represented unexpended NASA grant funds totaling \$61,542 at June 30, 2006.

Note 11—Contingent Liabilities:

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2006 (Continued)

Note 11—Contingent Liabilities: (Continued)

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

Note 12—Litigation:

At June 30, 2006, there were no matters of litigation involving the City or which would materially affect the City's financial position should any court decisions on pending matters not be favorable to such entities.

Note 13—Risk Management:

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

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

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

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2006 (Continued)

Note 14—Defined Benefit Pension Plan:

Primary Government:

A. Plan Description

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

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

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

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their reported compensation to the VRS. This 5% member contribution may be assumed by the employer. In addition, the City and School Board are required to contribute the remaining amounts necessary to fund participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The City and School Board non-professional employees contribution rates for the fiscal year ended 2006 were 11.62% and 17.25% of annual covered payroll, respectively.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2006 (Continued)

Note 14—Defined Benefit Pension Plan: (Continued)

Primary Government:

B. Funding Policy: (Continued)

The School Board contributed \$2,333,754, \$684,393, and \$432,833 to the teacher cost-sharing pool for the fiscal years ended June 30, 2006, 2005 and 2004 respectively and these contributions represented 14%, 6.03%, and 3.77% respectively, of current covered payroll.

C. Annual Pension Cost

For fiscal 2006, the City’s annual pension cost of \$1,486,308 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 2006, the City School Board’s annual pension cost for the Board’s non-professional employees was \$108,228 which was equal to the Board’s required and actuarial contributions. The required contributions were determined as a part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method.

	<u>City</u>	<u>Non-Professional School Board Employees</u>
Valuation date	June 30, 2005	June 30, 2005
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percent, open	Level percent, open
Payroll growth rate	3%	3%
Remaining amortization period	21 years	21 years
Asset valuation method	Modified market	Modified market
Actuarial assumptions:		
Investment rate of return ¹	7.5%	7.5%
Projected salary increases: ¹		
Non LEO Employees	3.5% to 5.73%	3.5% to 5.73%
LEO Employees	3.5% to 4.71%	3.5% to 4.71%
Cost-of-living adjustments	2.5%	2.5%

¹ Includes inflation at 2.5%

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2006 (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, 2006	\$ 1,486,308	100%	\$ -
June 30, 2005	1,585,376	100%	-
June 30, 2004	1,165,747	100%	-
School Board:			
Non-Professional:			
June 30, 2006	\$ 108,228	100%	\$ -
June 30, 2005	75,896	100%	-
June 30, 2004	66,852	100%	-

(1) Employer portion only

Note 15—Surety Bonds:

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

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Required Supplementary Information

Note to Required Supplementary Information:

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

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General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual
Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Budget As Amended</u>	<u>Actual</u>	<u>Variance From Final Budget Positive (Negative)</u>
Revenues:				
General property taxes	\$ 7,541,219	\$ 7,541,219	\$ 7,642,006	\$ 100,787
Other local taxes	6,251,475	6,251,475	6,411,030	159,555
Permits, privilege fees and regulatory licenses	441,616	441,616	418,210	(23,406)
Fines and forfeitures	222,000	222,994	235,837	12,843
Revenue from use of money and property	517,500	519,997	838,163	318,166
Charges for services	350,720	350,720	236,278	(114,442)
Miscellaneous	175,154	235,925	203,324	(32,601)
Recovered costs	900,422	920,081	894,882	(25,199)
Intergovernmental:				
Commonwealth	6,668,924	6,750,644	6,929,313	178,669
Federal	254,522	818,254	308,966	(509,288)
Total revenues	<u>\$ 23,323,552</u>	<u>\$ 24,052,925</u>	<u>\$ 24,118,009</u>	<u>\$ 65,084</u>
Expenditures:				
Current:				
General government administration	\$ 4,007,558	\$ 3,711,924	\$ 3,540,635	\$ 171,289
Judicial administration	1,598,481	1,638,334	1,566,000	72,334
Public safety	8,707,663	9,287,118	8,880,925	406,193
Public works	3,469,872	3,974,355	3,698,176	276,179
Health and welfare	494,407	494,407	494,217	190
Education	6,469,912	6,469,912	6,469,813	99
Parks, recreation, and cultural	1,241,202	1,309,475	1,297,173	12,302
Community development	967,218	917,748	804,105	113,643
Debt service:				
Principal retirement	195,950	195,950	196,041	(91)
Interest and other fiscal charges	19,944	19,944	19,952	(8)
Total expenditures	<u>\$ 27,172,207</u>	<u>\$ 28,019,167</u>	<u>\$ 26,967,037</u>	<u>\$ 1,052,130</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (3,848,655)</u>	<u>\$ (3,966,242)</u>	<u>\$ (2,849,028)</u>	<u>\$ 1,117,214</u>
Other financing sources (uses):				
Transfers in	\$ 3,757,603	\$ 3,757,603	\$ 3,757,603	\$ -
Transfers (out)	<u>(200,000)</u>	<u>(308,950)</u>	<u>(308,950)</u>	<u>-</u>
Total other financing sources (uses)	<u>\$ 3,557,603</u>	<u>\$ 3,448,653</u>	<u>\$ 3,448,653</u>	<u>\$ -</u>
Changes in fund balances	\$ (291,052)	\$ (517,589)	\$ 599,625	\$ 1,117,214
Fund balances at beginning of year	<u>291,052</u>	<u>517,589</u>	<u>508,505</u>	<u>(9,084)</u>
Fund balances at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,108,130</u>	<u>\$ 1,108,130</u>

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

City

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded (Excess Funded) Actuarial Accrued Liability	Funded Ratio (2)/(3)	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2005	\$ 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%
6/30/2003	48,121,238	57,424,641	9,303,403	83.80%	11,211,271	82.98%

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

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded (Excess Funded) Actuarial Accrued Liability	Funded Ratio (2)/(3)	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2005	\$ 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%
6/30/2003	2,899,074	3,530,640	631,566	82.11%	747,072	84.54%

Other Supplementary Information

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Combining and Individual Fund Statements and Schedules

Nonmajor Governmental Funds
 Combining Balance Sheet
 At June 30, 2006

	Special Revenue Funds		Capital Projects Funds		Total
	City Grants Fund	Housing Choice Fund	Capital Reserve Fund	Meals Tax Fund	
ASSETS					
Cash and cash equivalents	\$ -	\$ 372,824	\$ 278,582	\$ 138,301	\$ 789,707
Accounts receivable	157	-	5,193	626	5,976
Due from other governments	80,737	-	-	-	80,737
Total assets	<u>\$ 80,894</u>	<u>\$ 372,824</u>	<u>\$ 283,775</u>	<u>\$ 138,927</u>	<u>\$ 876,420</u>
LIABILITIES					
Accounts payable and other current liabilities	\$ 23,496	\$ 1,286	\$ 252,615	\$ 144	\$ 277,541
Due to other funds	888,512	-	-	-	888,512
Total liabilities	<u>\$ 912,008</u>	<u>\$ 1,286</u>	<u>\$ 252,615</u>	<u>\$ 144</u>	<u>\$ 1,166,053</u>
FUND BALANCES					
Fund balances:					
Unreserved, undesignated reported in:					
Special revenue funds	\$ (831,114)	\$ 371,538	\$ -	\$ -	\$ (459,576)
Capital projects	-	-	31,160	138,783	169,943
Total fund balances	<u>\$ (831,114)</u>	<u>\$ 371,538</u>	<u>\$ 31,160</u>	<u>\$ 138,783</u>	<u>\$ (289,633)</u>
Total liabilities and fund balances	<u>\$ 80,894</u>	<u>\$ 372,824</u>	<u>\$ 283,775</u>	<u>\$ 138,927</u>	<u>\$ 876,420</u>

Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2006

	<u>Special Revenue Funds</u>		<u>Capital Projects Funds</u>		<u>Total</u>
	<u>City Grants Fund</u>	<u>Housing Choice Fund</u>	<u>Capital Reserve Fund</u>	<u>Meals Tax Fund</u>	
Revenues:					
Other local taxes	\$ -	\$ -	\$ -	\$ 1,155,170	\$ 1,155,170
Revenue from use of money and property	51,594	2,649	73,268	-	127,511
Miscellaneous	2,646	8,162	32,465	297	43,570
Intergovernmental:					
Commonwealth	107,520	-	-	139,368	246,888
Federal	343,696	1,815,899	-	-	2,159,595
Total revenues	<u>\$ 505,456</u>	<u>\$ 1,826,710</u>	<u>\$ 105,733</u>	<u>\$ 1,294,835</u>	<u>\$ 3,732,734</u>
Expenditures:					
General government administration	\$ -	\$ -	\$ 348,685	\$ 35,190	\$ 383,875
Public safety	-	-	319,212	-	319,212
Public works	-	-	122,169	-	122,169
Health and welfare	148,023	-	-	-	148,023
Education	-	-	2,270,508	-	2,270,508
Parks, recreation, and cultural	-	-	161,877	-	161,877
Planning and community development	779,343	1,625,663	517,681	-	2,922,687
Debt service:					
Principal retired on debt	-	-	279,508	707,500	987,008
Interest and fiscal charges	-	-	122,090	496,361	618,451
Total expenditures	<u>\$ 927,366</u>	<u>\$ 1,625,663</u>	<u>\$ 4,141,730</u>	<u>\$ 1,239,051</u>	<u>\$ 7,933,810</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (421,910)</u>	<u>\$ 201,047</u>	<u>\$ (4,035,997)</u>	<u>\$ 55,784</u>	<u>\$ (4,201,076)</u>
Other financing sources:					
Proceeds from debt issued	\$ -	\$ -	\$ 2,000,000	\$ -	\$ 2,000,000
Issuance of refunding bonds	-	-	2,529,764	-	2,529,764
Payment to refunded bond escrow agent	-	-	(2,499,764)	-	(2,499,764)
Transfers in	108,950	-	875,602	117,288	1,101,840
Total other financing sources (uses)	<u>\$ 108,950</u>	<u>\$ -</u>	<u>\$ 2,905,602</u>	<u>\$ 117,288</u>	<u>\$ 3,131,840</u>
Changes in fund balances	<u>\$ (312,960)</u>	<u>\$ 201,047</u>	<u>\$ (1,130,395)</u>	<u>\$ 173,072</u>	<u>\$ (1,069,236)</u>
Fund balances at beginning of year	<u>(518,154)</u>	<u>170,491</u>	<u>1,161,555</u>	<u>(34,289)</u>	<u>779,603</u>
Fund balances at end of year	<u><u>\$ (831,114)</u></u>	<u><u>\$ 371,538</u></u>	<u><u>\$ 31,160</u></u>	<u><u>\$ 138,783</u></u>	<u><u>\$ (289,633)</u></u>

CITY OF MARTINSVILLE, VIRGINIA

Nonmajor Governmental Funds
 Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual
 Year Ended June 30, 2006

	City Grants Fund				Housing Choice Fund			
	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Revenues:								
Other local taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue from use of money and property	35,537	35,537	51,594	16,057	-	-	2,649	2,649
Miscellaneous	-	-	2,646	2,646	3,479	3,479	8,162	4,683
Intergovernmental:								
Commonwealth	155,600	155,600	107,520	(48,080)	-	-	-	-
Federal	782,179	782,179	343,696	(438,483)	1,883,425	1,883,425	1,815,899	(67,526)
Total revenues	\$ 973,316	\$ 973,316	\$ 505,456	\$ (467,860)	\$ 1,886,904	\$ 1,886,904	\$ 1,826,710	\$ (60,194)
Expenditures:								
General government administration	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-	-	-	-	-
Public works	-	-	-	-	-	-	-	-
Health and welfare	-	-	148,023	(148,023)	-	-	-	-
Education	-	-	-	-	-	-	-	-
Parks, recreation, and cultural	-	-	-	-	-	-	-	-
Planning and community development	990,807	990,807	779,343	211,464	1,902,068	1,902,068	1,625,663	276,405
Debt service:								
Principal retired on debt	-	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-	-
Total expenditures	\$ 990,807	\$ 990,807	\$ 927,366	\$ 63,441	\$ 1,902,068	\$ 1,902,068	\$ 1,625,663	\$ 276,405
Excess (deficiency) of revenues over expenditures	\$ (17,491)	\$ (17,491)	\$ (421,910)	\$ (404,419)	\$ (15,164)	\$ (15,164)	\$ 201,047	\$ 216,211
Other financing sources:								
Proceeds from debt issued	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Issuance of refunding bonds	-	-	-	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-	-	-	-
Transfers in	-	-	108,950	108,950	-	-	-	-
Transfers (out)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	\$ -	\$ -	\$ 108,950	\$ 108,950	\$ -	\$ -	\$ -	\$ -
Changes in fund balances	\$ (17,491)	\$ (17,491)	\$ (312,960)	\$ (295,469)	\$ (15,164)	\$ (15,164)	\$ 201,047	\$ 216,211
Fund balances at beginning of year	17,491	17,491	(518,154)	(535,645)	15,164	15,164	170,491	155,327
Fund balances at end of year	\$ -	\$ -	\$ (831,114)	\$ (831,114)	\$ -	\$ -	\$ 371,538	\$ 371,538

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)
\$ -	\$ -	\$ -	\$ -	\$ 1,133,129	\$ 1,133,129	\$ 1,155,170	\$ 22,041
-	-	73,268	73,268	-	-	-	-
-	12,175	32,465	20,290	-	297	297	-
-	585,454	-	(585,454)	139,227	139,227	139,368	141
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 597,629</u>	<u>\$ 105,733</u>	<u>\$ (491,896)</u>	<u>\$ 1,272,356</u>	<u>\$ 1,272,653</u>	<u>\$ 1,294,835</u>	<u>\$ 22,182</u>
\$ 449,953	\$ 561,834	\$ 348,685	\$ 213,149	\$ 35,190	\$ 35,190	\$ 35,190	\$ -
365,432	353,616	319,212	34,404	-	-	-	-
124,054	103,300	122,169	(18,869)	-	-	-	-
-	-	-	-	-	-	-	-
-	2,500,000	2,270,508	229,492	-	-	-	-
27,600	220,323	161,877	58,446	-	-	-	-
25,000	1,075,760	517,681	558,079	-	-	-	-
82,500	282,337	279,508	2,829	707,500	707,500	707,500	-
81,063	133,252	122,090	11,162	646,954	647,251	496,361	150,890
<u>\$ 1,155,602</u>	<u>\$ 5,230,422</u>	<u>\$ 4,141,730</u>	<u>\$ 1,088,692</u>	<u>\$ 1,389,644</u>	<u>\$ 1,389,941</u>	<u>\$ 1,239,051</u>	<u>\$ 150,890</u>
<u>\$ (1,155,602)</u>	<u>\$ (4,632,793)</u>	<u>\$ (4,035,997)</u>	<u>\$ 596,796</u>	<u>\$ (117,288)</u>	<u>\$ (117,288)</u>	<u>\$ 55,784</u>	<u>\$ 173,072</u>
\$ -	\$ 2,500,000	\$ 2,000,000	\$ (500,000)	\$ -	\$ -	\$ -	\$ -
-	2,529,764	2,529,764	-	-	-	-	-
-	(2,499,764)	(2,499,764)	-	-	-	-	-
755,602	875,602	875,602	-	117,288	117,288	117,288	-
-	-	-	-	-	-	-	-
<u>\$ 755,602</u>	<u>\$ 3,405,602</u>	<u>\$ 2,905,602</u>	<u>\$ (500,000)</u>	<u>\$ 117,288</u>	<u>\$ 117,288</u>	<u>\$ 117,288</u>	<u>\$ -</u>
\$ (400,000)	\$ (1,227,191)	\$ (1,130,395)	\$ 96,796	\$ -	\$ -	\$ 173,072	\$ 173,072
400,000	1,227,191	1,161,556	(65,635)	-	-	(34,289)	(34,289)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,160</u>	<u>\$ 31,160</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 138,783</u>	<u>\$ 138,783</u>

Combining Schedule of Fiduciary Net Assets -
 Agency Funds
 At June 30, 2006

	<u>Insurance Fund</u>	<u>Sheriff's Fund</u>	<u>West Piedmont Business Development Center Fund</u>	<u>Police Academy Fund</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 188,719	\$ 116,126	\$ 47,675	\$ 379,098	\$ 731,618
Total assets	<u>\$ 188,719</u>	<u>\$ 116,126</u>	<u>\$ 47,675</u>	<u>\$ 379,098</u>	<u>\$ 731,618</u>
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ 6,591	\$ 5,802	\$ 12,393
Amounts held for others	<u>188,719</u>	<u>116,126</u>	<u>41,084</u>	<u>373,296</u>	<u>719,225</u>
Total liabilities	<u>\$ 188,719</u>	<u>\$ 116,126</u>	<u>\$ 47,675</u>	<u>\$ 379,098</u>	<u>\$ 731,618</u>

Agency Funds
Statement of Changes in Assets and Liabilities
Year Ended June 30, 2006

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
Insurance Fund:				
Assets:				
Cash	\$ 64,832	\$ 2,626,187	\$ 2,502,300	\$ 188,719
Total assets	<u>\$ 64,832</u>	<u>\$ 2,626,187</u>	<u>\$ 2,502,300</u>	<u>\$ 188,719</u>
Liabilities:				
Amounts held for others	\$ 64,832	\$ 2,626,187	\$ 2,502,300	\$ 188,719
Total liabilities	<u>\$ 64,832</u>	<u>\$ 2,626,187</u>	<u>\$ 2,502,300</u>	<u>\$ 188,719</u>
Sheriff Funds:				
Assets:				
Cash	\$ 112,055	\$ 339,748	\$ 335,677	\$ 116,126
Total assets	<u>\$ 112,055</u>	<u>\$ 339,748</u>	<u>\$ 335,677</u>	<u>\$ 116,126</u>
Liabilities:				
Amounts held for others	\$ 112,055	\$ 339,748	\$ 335,677	\$ 116,126
Total liabilities	<u>\$ 112,055</u>	<u>\$ 339,748</u>	<u>\$ 335,677</u>	<u>\$ 116,126</u>
WPBDC Fund:				
Assets:				
Cash	\$ -	\$ 248,272	\$ 200,597	\$ 47,675
Total assets	<u>\$ -</u>	<u>\$ 248,272</u>	<u>\$ 200,597</u>	<u>\$ 47,675</u>
Liabilities:				
Accounts payable	\$ 10,537	\$ 6,591	\$ 10,537	\$ 6,591
Amounts held for others	(10,537)	241,681	190,060	41,084
Total liabilities	<u>\$ -</u>	<u>\$ 248,272</u>	<u>\$ 200,597</u>	<u>\$ 47,675</u>
Police Academy Fund:				
Assets:				
Cash	\$ 324,192	\$ 249,349	\$ 194,443	\$ 379,098
Total assets	<u>\$ 324,192</u>	<u>\$ 249,349</u>	<u>\$ 194,443</u>	<u>\$ 379,098</u>
Liabilities:				
Accounts payable	\$ 2,992	\$ 5,802	\$ 2,992	\$ 5,802
Amounts held for others	321,200	243,547	191,451	373,296
Total liabilities	<u>\$ 324,192</u>	<u>\$ 249,349</u>	<u>\$ 194,443</u>	<u>\$ 379,098</u>
Total -- All Agency Funds				
Assets:				
Cash	\$ 501,079	\$ 3,463,556	\$ 3,233,017	\$ 731,618
Total assets	<u>\$ 501,079</u>	<u>\$ 3,463,556</u>	<u>\$ 3,233,017</u>	<u>\$ 731,618</u>
Liabilities:				
Accounts payable	\$ 13,529	\$ 12,393	\$ 13,529	\$ 12,393
Amounts held for others	487,550	3,451,163	3,219,488	719,225
Total liabilities	<u>\$ 501,079</u>	<u>\$ 3,463,556</u>	<u>\$ 3,233,017</u>	<u>\$ 731,618</u>

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Discretely Presented Component Unit—School Board

Combining Balance Sheet
 Discretely Presented Component Unit -- School Board
 At June 30, 2006

	School Operating Fund	School Cafeteria Fund	School Grants Fund	Totals
ASSETS				
Assets:				
Cash and cash equivalents	\$ 1,726,194	\$ 361,191	\$ -	\$ 2,087,385
Accounts receivable	39,162	7,782	71	47,015
Due from other governmental units	233,537	-	585,256	818,793
Due from other funds	538,761	-	-	538,761
Total assets	\$ 2,537,654	\$ 368,973	\$ 585,327	\$ 3,491,954
LIABILITIES				
Accounts payable	\$ 208,409	\$ 6,647	\$ -	\$ 215,056
Deferred revenue	61,542	-	-	61,542
Accrued liabilities	850,546	23,146	67,324	941,016
Due to other funds	-	-	538,761	538,761
Total liabilities	\$ 1,120,497	\$ 29,793	\$ 606,085	\$ 1,756,375
FUND BALANCES				
Unreserved:				
Undesignated (deficit)	\$ 1,417,157	\$ 339,180	\$ (20,758)	\$ 1,735,579
Total fund balances	\$ 1,417,157	\$ 339,180	\$ (20,758)	\$ 1,735,579
Total liabilities and fund balances	\$ 2,537,654	\$ 368,973	\$ 585,327	

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.

	4,886,135
Net assets of General Government Activities	<u>\$ 6,621,714</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds - Discretely Presented Component Unit - School Board
 Year Ended June 30, 2006

	School Operating Fund	School Cafeteria Fund	School Grants Fund	Total
Revenues:				
Revenue from use of money and property	\$ 29,961	\$ 10,147	\$ -	\$ 40,108
Charges for services	80,266	521,995	-	602,261
Miscellaneous	146,879	-	-	146,879
Recovered costs	25,700	-	-	25,700
Intergovernmental:				
Local government	6,457,138	-	-	6,457,138
Commonwealth	13,282,555	16,978	-	13,299,533
Federal	967,130	644,930	1,967,629	3,579,689
	<u>20,989,629</u>	<u>1,194,050</u>	<u>1,967,629</u>	<u>24,151,308</u>
Total revenues	\$ <u>20,989,629</u>	\$ <u>1,194,050</u>	\$ <u>1,967,629</u>	\$ <u>24,151,308</u>
Expenditures:				
Current:				
Education	\$ <u>21,344,542</u>	\$ <u>1,085,862</u>	\$ <u>1,958,984</u>	\$ <u>24,389,388</u>
Total expenditures	\$ <u>21,344,542</u>	\$ <u>1,085,862</u>	\$ <u>1,958,984</u>	\$ <u>24,389,388</u>
Changes in fund balances	\$ (354,913)	\$ 108,188	\$ 8,644	\$ (238,081)
Fund balances at beginning of year	<u>1,772,070</u>	<u>230,992</u>	<u>(29,402)</u>	<u>1,973,660</u>
Fund balances at end of year	<u>\$ 1,417,157</u>	<u>\$ 339,180</u>	<u>\$ (20,758)</u>	<u>\$ 1,735,579</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, 2006

	School Operating Fund			Variance From Final Budget Positive (Negative)
	Original Budget	Budget As Amended	Actual	
Revenues:				
Revenue from use of money and property	\$ 5,500	\$ 12,051	\$ 29,961	\$ 17,910
Charges for services	35,000	46,159	80,266	34,107
Miscellaneous	-	136,239	146,879	10,640
Recovered costs	-	9,800	25,700	15,900
Intergovernmental:				
Local government	6,457,237	6,631,007	6,457,138	(173,869)
Commonwealth	13,953,785	13,865,157	13,282,555	(582,602)
Federal	603,541	886,379	967,130	80,751
Total revenues	\$ 21,055,063	\$ 21,586,792	\$ 20,989,629	\$ (597,163)
Expenditures:				
Current:				
Education	\$ 21,055,063	\$ 21,586,792	\$ 21,344,542	\$ 242,250
Total expenditures	\$ 21,055,063	\$ 21,586,792	\$ 21,344,542	\$ 242,250
Changes in fund balances	\$ -	\$ -	\$ (354,913)	\$ (354,913)
Fund balances at beginning of year	-	-	1,772,070	1,772,070
Fund balances at end of year	\$ -	\$ -	\$ 1,417,157	\$ 1,417,157

School Cafeteria Fund				School Grants Fund			
Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)	Original Budget	Budget As Amended	Actual	Variance From Amended Budget Positive (Negative)
\$ 7,592	\$ 7,592	\$ 10,147	\$ 2,555	\$ -	\$ -	\$ -	\$ -
553,935	599,219	521,995	(77,224)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
16,833	16,833	16,978	145	-	-	-	-
550,423	516,154	644,930	128,776	-	2,049,319	1,967,629	(81,690)
<u>\$ 1,128,783</u>	<u>\$ 1,139,798</u>	<u>\$ 1,194,050</u>	<u>\$ 54,252</u>	<u>\$ -</u>	<u>\$ 2,049,319</u>	<u>\$ 1,967,629</u>	<u>\$ (81,690)</u>
<u>\$ 1,128,783</u>	<u>\$ 1,139,798</u>	<u>\$ 1,085,862</u>	<u>\$ 53,936</u>	<u>\$ -</u>	<u>\$ 2,049,319</u>	<u>\$ 1,958,984</u>	<u>\$ 90,335</u>
<u>\$ 1,128,783</u>	<u>\$ 1,139,798</u>	<u>\$ 1,085,862</u>	<u>\$ 53,936</u>	<u>\$ -</u>	<u>\$ 2,049,319</u>	<u>\$ 1,958,984</u>	<u>\$ 90,335</u>
\$ -	\$ -	\$ 108,188	\$ 108,188	\$ -	\$ -	\$ 8,644	\$ 8,644
<u>-</u>	<u>-</u>	<u>230,992</u>	<u>230,992</u>	<u>-</u>	<u>-</u>	<u>(29,402)</u>	<u>(29,402)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 339,180</u>	<u>\$ 339,180</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (20,758)</u>	<u>\$ (20,758)</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, 2006

Net changes in fund balances - total governmental funds \$ (238,081)

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	206,940
Depreciation expense	(300,654)

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.

647,297

Changes in net assets of governmental activities \$ 315,502

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

Supporting Schedules

Governmental Funds and Discretely Presented Component Unit - School Board
Schedule of Revenues -- Budget and Actual
Year Ended June 30, 2006

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government:				
General Fund:				
General property taxes:				
Real property taxes	\$ 5,646,318	\$ 5,646,318	\$ 5,630,270	\$ (16,048)
Personal property taxes	596,204	596,204	668,892	72,688
Business equipment	950,299	950,299	980,986	30,687
Machinery and tools taxes	213,398	213,398	241,411	28,013
Penalties	80,000	80,000	71,372	(8,628)
Interest and costs	55,000	55,000	49,075	(5,925)
Total general property taxes	<u>\$ 7,541,219</u>	<u>\$ 7,541,219</u>	<u>\$ 7,642,006</u>	<u>\$ 100,787</u>
Other local taxes:				
Local sales and use taxes	\$ 2,100,000	\$ 2,100,000	\$ 2,145,605	\$ 45,605
Consumers' utility taxes	773,690	773,690	768,590	(5,100)
Business license tax	1,541,264	1,541,264	1,713,541	172,277
Franchise license taxes	174,860	174,860	161,768	(13,092)
Motor vehicle licenses	228,000	228,000	224,532	(3,468)
Bank franchise tax	243,134	243,134	296,071	52,937
E-911 surcharge	355,665	355,665	272,513	(83,152)
Taxes on recordation and wills	80,000	80,000	83,387	3,387
Grantor tax	15,000	15,000	17,751	2,751
Telephone tax	590,862	590,862	559,954	(30,908)
Cigarette tax	130,000	130,000	149,816	19,816
Rental tax	4,000	4,000	3,163	(837)
Transient room tax	15,000	15,000	14,339	(661)
Total other local taxes	<u>\$ 6,251,475</u>	<u>\$ 6,251,475</u>	<u>\$ 6,411,030</u>	<u>\$ 159,555</u>
Permits, privilege fees and regulatory licenses:				
Animal licenses	\$ 2,200	\$ 2,200	\$ 3,598	\$ 1,398
Ambulance Fees	350,066	350,066	298,284	(51,782)
Other permits and licenses	89,350	89,350	116,328	26,978
Total permits, privilege fees and regulatory licenses	<u>\$ 441,616</u>	<u>\$ 441,616</u>	<u>\$ 418,210</u>	<u>\$ (23,406)</u>
Fines and Forfeitures:				
Court fines and forfeitures	\$ 220,000	\$ 220,000	\$ 233,527	\$ 13,527
Other fines and forfeitures	2,000	2,994	2,310	(684)
Total fines and forfeitures	<u>\$ 222,000</u>	<u>\$ 222,994</u>	<u>\$ 235,837</u>	<u>\$ 12,843</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 100,000	\$ 100,000	\$ 362,265	\$ 262,265
Revenue from use of property	417,500	419,997	475,898	55,901
Total revenue from use of money and property	<u>\$ 517,500</u>	<u>\$ 519,997</u>	<u>\$ 838,163</u>	<u>\$ 318,166</u>
Charges for services:				
Sheriff fees	\$ 3,624	\$ 3,624	\$ 3,625	\$ 1
Courthouse maintenance fees	16,000	16,000	16,751	751
Court appointed attorney fees	5,000	5,000	6,282	1,282
Court house security fees	18,000	18,000	18,136	136
Document reproduction fee	3,400	3,400	3,689	289

Governmental Funds and Discretely Presented Component Unit - School Board
Schedule of Revenues -- Budget and Actual
Year Ended June 30, 2006 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Charges for services: (Continued)				
Remote access fee	\$ 2,500	\$ 2,500	\$ 2,284	\$ (216)
Commonwealth attorney fees	1,500	1,500	2,006	506
Other public safety fees	7,850	7,850	8,738	888
Recreation fees	24,500	24,500	27,671	3,171
Prison farm labor / street maintenance	24,000	24,000	24,000	-
Martinsville mustangs fees	220,946	220,946	102,042	(118,904)
Other charges for services	23,400	23,400	21,054	(2,346)
Total charges for services	<u>\$ 350,720</u>	<u>\$ 350,720</u>	<u>\$ 236,278</u>	<u>\$ (114,442)</u>
Miscellaneous revenue:				
Payment in lieu of tax	\$ 141,872	\$ 141,872	\$ 141,872	\$ -
Other miscellaneous revenue	33,282	94,053	61,452	(32,601)
Total miscellaneous revenue	<u>\$ 175,154</u>	<u>\$ 235,925</u>	<u>\$ 203,324</u>	<u>\$ (32,601)</u>
Recovered costs:				
Boarding of prisoners	\$ 15,000	\$ 15,000	\$ 14,403	\$ (597)
WW Moore	30,000	30,000	48,056	18,056
SSI / LIDS	2,000	2,000	5,000	3,000
Juvenile and domestic relations court	3,000	3,000	700	(2,300)
Meals tax administration	35,190	35,190	35,190	-
Street maintenance overhead	56,067	56,067	58,711	2,644
Demolition	1,000	1,000	1,120	120
Advance / recovered cost	30,000	46,999	55,605	8,606
Health department	4,000	4,000	-	(4,000)
Juror and witness	14,000	14,000	11,399	(2,601)
Pay phone commissions	-	-	38	38
Medical co-pay reimbursement	12,000	12,000	16,172	4,172
VML self insurance dividend	3,000	3,000	-	(3,000)
Treasurer	2,000	2,000	4,233	2,233
Recovered cost / sheriff	-	-	217	217
DUI reimbursement	3,000	3,000	4,620	1,620
Collection expense	9,000	9,000	9,000	-
Billing expense	369,935	369,935	342,163	(27,772)
Safety expense	71,983	71,983	71,983	-
Communication	123,727	123,727	97,042	(26,685)
Central garage	30,320	30,320	30,320	-
Engineering	63,000	63,000	64,130	1,130
Senior citizens	4,000	6,660	6,660	-
Social services	10,000	10,000	10,842	842
Program income	1,000	1,000	1,178	178
Senior citizens - transportation	4,200	4,200	3,100	(1,100)
Fiscal agent fees - regional library	3,000	3,000	3,000	-
Total recovered costs	<u>\$ 900,422</u>	<u>\$ 920,081</u>	<u>\$ 894,882</u>	<u>\$ (25,199)</u>
Total revenue from local sources	<u>\$ 16,400,106</u>	<u>\$ 16,484,027</u>	<u>\$ 16,879,730</u>	<u>\$ 395,703</u>

Governmental Funds and Discretely Presented Component Unit - School Board
Schedule of Revenues -- Budget and Actual
Year Ended June 30, 2006 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Revenue from the Commonwealth:				
Noncategorical aid:				
ABC profits	\$ 9,037	\$ 9,037	\$ 9,038	\$ 1
Wine taxes	9,473	9,473	9,473	-
PPTRA	584,398	584,398	640,056	55,658
Rolling stock tax	9,000	9,000	8,439	(561)
Auto rental tax	45,000	45,000	49,791	4,791
Recordation tax	14,145	14,145	15,599	1,454
Total noncategorical aid	<u>\$ 671,053</u>	<u>\$ 671,053</u>	<u>\$ 732,396</u>	<u>\$ 61,343</u>
Categorical aid:				
Shared expenses:				
Commonwealth's attorney	\$ 341,080	\$ 351,180	\$ 333,979	\$ (17,201)
Sheriff	1,710,382	1,713,532	1,765,655	52,123
Commissioner of the Revenue	104,081	104,081	105,305	1,224
Treasurer	91,779	91,779	91,277	(502)
Medical examiner	300	300	390	90
Registrar/electoral board	45,424	45,424	45,837	413
Clerk of the circuit court	233,441	240,506	240,291	(215)
Total shared expenses	<u>\$ 2,526,487</u>	<u>\$ 2,546,802</u>	<u>\$ 2,582,734</u>	<u>\$ 35,932</u>
Other categorical aid:				
Senior citizens	\$ 10,854	\$ 10,854	\$ 11,621	\$ 767
Confiscated assets	-	14,946	14,967	21
Victim witness	67,602	70,740	14,148	(56,592)
House Bill # 599 - police	681,869	681,869	681,868	(1)
EMS two for life	7,500	7,500	9,535	2,035
Fire grant	23,000	34,926	34,926	-
Street maintenance	2,317,955	2,317,955	2,337,755	19,800
Jail per diem	350,404	350,404	461,273	110,869
Other categorical aid	12,200	43,595	48,090	4,495
Total other categorical aid	<u>\$ 3,471,384</u>	<u>\$ 3,532,789</u>	<u>\$ 3,614,183</u>	<u>\$ 81,394</u>
Total categorical aid	<u>\$ 5,997,871</u>	<u>\$ 6,079,591</u>	<u>\$ 6,196,917</u>	<u>\$ 117,326</u>
Total revenue from the Commonwealth	<u>\$ 6,668,924</u>	<u>\$ 6,750,644</u>	<u>\$ 6,929,313</u>	<u>\$ 178,669</u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2006 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Revenue from the federal government:				
Categorical aid:				
Victim witness	\$ -	\$ -	\$ 56,592	\$ 56,592
Confiscated assets	-	3,017	4,067	1,050
DMV grant - police	-	4,198	8,066	3,868
Senior citizens	17,358	19,342	18,964	(378)
FEMA / Katrina grant	-	8,707	8,708	1
State criminal alien assistance program	-	2,365	2,365	-
Local law enforcement block grant	-	3,750	3,750	-
Dental clinic grant	-	441,929	158,298	(283,631)
Safer grant	208,737	208,737	-	(208,737)
Incentive grant	-	45,000	-	(45,000)
Vipe overtime grant	-	2,886	4,873	1,987
Terrorism	-	35,040	-	(35,040)
Byrne grant	-	14,856	14,856	-
Homeland security grant	28,427	28,427	28,427	-
Total categorical aid	\$ 254,522	\$ 818,254	\$ 308,966	\$ (509,288)
Total revenue from the Federal Government	\$ 254,522	\$ 818,254	\$ 308,966	\$ (509,288)
Total General Fund	\$ 23,323,552	\$ 24,052,925	\$ 24,118,009	\$ 65,084
Special Revenue Funds:				
Grants Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ 3,758	\$ 3,758	\$ 4,934	\$ 1,176
Revenue from use of property	31,779	31,779	46,660	14,881
Total revenue from use of money and property	\$ 35,537	\$ 35,537	\$ 51,594	\$ 16,057
Miscellaneous revenue:				
Other miscellaneous revenue	-	-	2,646	2,646
Total revenue from local sources	\$ 35,537	\$ 35,537	\$ 54,240	\$ 18,703
Revenue from the Commonwealth:				
Other categorical aid:				
Comprehensive services	\$ -	\$ -	\$ 107,520	\$ 107,520
Indoor plumbing	155,600	155,600	-	(155,600)
Total revenue from the Commonwealth	\$ 155,600	\$ 155,600	\$ 107,520	\$ (48,080)

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2006 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
Special Revenue Funds: (Continued)				
Revenue from the federal government:				
Categorical aid:				
Community development block grant	\$ 375,444	\$ 375,444	\$ 290,796	\$ (84,648)
CDBG - West Church Corridor improvement	406,735	406,735	-	(406,735)
Indoor plumbing	-	-	52,900	52,900
Total revenue from the Federal Government	<u>\$ 782,179</u>	<u>\$ 782,179</u>	<u>\$ 343,696</u>	<u>\$ (438,483)</u>
Total Grants Fund	<u><u>\$ 973,316</u></u>	<u><u>\$ 973,316</u></u>	<u><u>\$ 505,456</u></u>	<u><u>\$ (467,860)</u></u>
Housing Choice Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ -	\$ -	\$ 2,649	\$ 2,649
Miscellaneous revenue:				
Miscellaneous funds	<u>3,479</u>	<u>3,479</u>	<u>8,162</u>	<u>4,683</u>
Total revenue from local sources	<u>\$ 3,479</u>	<u>\$ 3,479</u>	<u>\$ 10,811</u>	<u>\$ 7,332</u>
Revenue from the federal government:				
Categorical aid:				
Housing assistance	\$ 1,553,171	\$ 1,553,171	\$ 1,532,081	\$ (21,090)
Moderate rehab. assistance	113,000	113,000	76,304	(36,696)
Other federal assistance	<u>217,254</u>	<u>217,254</u>	<u>207,514</u>	<u>(9,740)</u>
Total revenue from the Federal Government	<u>\$ 1,883,425</u>	<u>\$ 1,883,425</u>	<u>\$ 1,815,899</u>	<u>\$ (67,526)</u>
Total Housing Choice Fund	<u><u>\$ 1,886,904</u></u>	<u><u>\$ 1,886,904</u></u>	<u><u>\$ 1,826,710</u></u>	<u><u>\$ (60,194)</u></u>
Total Special Revenue Funds	<u><u>\$ 2,860,220</u></u>	<u><u>\$ 2,860,220</u></u>	<u><u>\$ 2,332,166</u></u>	<u><u>\$ (528,054)</u></u>
Capital Projects Funds:				
Capital Reserve Fund:				
Revenue from local sources:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ -	\$ -	\$ 73,268	\$ 73,268
Miscellaneous revenue:				
Miscellaneous	<u>-</u>	<u>12,175</u>	<u>32,465</u>	<u>20,290</u>
Total revenue from local sources	<u>\$ -</u>	<u>\$ 12,175</u>	<u>\$ 105,733</u>	<u>\$ 93,558</u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2006 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
Capital Projects Funds: (Continued)				
Revenue from the Commonwealth:				
Categorical aid:				
Rescue squad assistance	\$ -	\$ 25,454	\$ -	\$ (25,454)
Governor's opportunity fund	-	325,000	-	(325,000)
Tobacco grant	-	235,000	-	(235,000)
Total revenue from the Commonwealth	<u>\$ -</u>	<u>\$ 585,454</u>	<u>\$ -</u>	<u>\$ (585,454)</u>
Total Capital Reserve Fund	<u>\$ -</u>	<u>\$ 597,629</u>	<u>\$ 105,733</u>	<u>\$ (491,896)</u>
Meals Tax Fund:				
Revenue from local sources:				
Other local taxes:				
Meals taxes	\$ 1,133,129	\$ 1,133,129	\$ 1,155,170	\$ 22,041
Miscellaneous revenue:				
Miscellaneous	-	297	297	-
Revenue from the Commonwealth:				
Categorical aid:				
School construction	139,227	139,227	139,368	141
Total Meals Tax Fund	<u>\$ 1,272,356</u>	<u>\$ 1,272,653</u>	<u>\$ 1,294,835</u>	<u>\$ 22,182</u>
Total Capital Projects Funds	<u>\$ 1,272,356</u>	<u>\$ 1,870,282</u>	<u>\$ 1,400,568</u>	<u>\$ (469,714)</u>
Grand Total Revenues -- Primary Government	<u>\$ 27,456,128</u>	<u>\$ 28,783,427</u>	<u>\$ 27,850,743</u>	<u>\$ (932,684)</u>
Component Unit-School Board:				
Governmental Funds:				
School Operating Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of property	\$ 5,500	\$ 12,051	\$ 29,961	\$ 17,910
Charges for services:				
Tuition and other charges for services	35,000	46,159	80,266	34,107
Miscellaneous revenue:				
Miscellaneous revenue	-	136,239	146,879	10,640
Recovered costs:				
Recovered costs	-	9,800	25,700	15,900
Total revenue from local sources	<u>\$ 40,500</u>	<u>\$ 204,249</u>	<u>\$ 282,806</u>	<u>\$ 78,557</u>
Intergovernmental revenue:				
Revenues from local governments:				
Contribution from City of Martinsville, Virginia	\$ 6,457,237	\$ 6,631,007	\$ 6,457,138	\$ (173,869)

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2006 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Component Unit-School Board: (Continued)				
Governmental Funds: (Continued)				
School Operating Fund: (Continued)				
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 2,627,820	\$ 2,627,820	\$ 2,544,630	\$ (83,190)
Basic school aid	6,581,075	6,581,075	6,494,658	(86,417)
Share of fringe benefits - Fica	420,662	420,662	386,134	(34,528)
Share of fringe benefits - VRS	392,056	392,056	362,116	(29,940)
Lottery proceeds	456,813	456,813	445,107	(11,706)
Regional tuition special education	111,594	111,594	100,979	(10,615)
At risk 4 year olds	268,864	268,864	185,832	(83,032)
Vocational SOQ payments	236,565	236,565	234,636	(1,929)
Special education - basic	920,182	920,182	912,680	(7,502)
At risk students	299,731	299,731	310,195	10,464
Remedial education	322,250	322,250	319,623	(2,627)
Reduced K-3	316,691	316,691	300,274	(16,417)
Textbooks	117,575	117,575	116,703	(872)
Technology	180,000	180,000	1,975	(178,025)
Other state funds	701,907	613,279	567,013	(46,266)
Total revenue from the Commonwealth	\$ 13,953,785	\$ 13,865,157	\$ 13,282,555	\$ (582,602)
Revenue from the federal government:				
Categorical aid:				
Vocational education - Carl Perkins	\$ 57,068	\$ 66,059	\$ 75,203	\$ 9,144
Special education - pre-school incentive	8,000	8,000	8,941	941
Special education - flow through	502,556	612,775	614,608	1,833
Special education - sliver grant	-	-	2,739	2,739
ROTC instructors	35,917	35,917	43,762	7,845
Assistive Technology	-	-	9,983	9,983
NASA program	-	75,000	106,250	31,250
Innovative teacher recruitment	-	-	25,000	25,000
Workforce investment act	-	88,628	67,412	(21,216)
Title III, part A	-	-	10,958	10,958
Refuge school impact	-	-	2,274	2,274
Total categorical aid	\$ 603,541	\$ 886,379	\$ 967,130	\$ 80,751
Total revenue from the federal government	\$ 603,541	\$ 886,379	\$ 967,130	\$ 80,751
Total School Operating Fund	\$ 21,055,063	\$ 21,586,792	\$ 20,989,629	\$ (597,163)

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 Year Ended June 30, 2006 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Component Unit-School Board: (Continued)				
School Cafeteria Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ 7,592	\$ 7,592	\$ 10,147	\$ 2,555
Charges for services:				
Cafeteria sales	\$ 553,935	\$ 599,219	\$ 521,995	\$ (77,224)
Revenue from the Commonwealth:				
Categorical aid:				
School food	\$ 16,833	\$ 16,833	\$ 16,978	\$ 145
Revenue from the federal government:				
Categorical aid:				
School food	\$ 550,423	\$ 516,154	\$ 644,930	\$ 128,776
Total School Cafeteria Fund	\$ 1,128,783	\$ 1,139,798	\$ 1,194,050	\$ 54,252
School Grants Fund:				
Revenue from the federal government:				
Categorical aid:				
Title I	\$ -	\$ 823,603	\$ 738,395	\$ (85,208)
Title II - teacher quality	-	160,215	153,631	(6,584)
Title II - technology	-	14,751	33,840	19,089
Title V - innovative program	-	13,777	13,777	-
Title VI - rural education	-	77,574	83,292	5,718
Drug free schools	-	19,291	18,805	(486)
Reading first	-	441,579	433,934	(7,645)
Class size reduction	-	300,000	227,146	(72,854)
Literacy challenge	-	-	2,892	2,892
Even start	-	198,529	202,732	4,203
Mentor teacher program	-	-	13,215	13,215
Blue ridge east tech grant	-	-	45,970	45,970
Total revenue from the federal government	\$ -	\$ 2,049,319	\$ 1,967,629	\$ (81,690)
Total School Grants Fund	\$ -	\$ 2,049,319	\$ 1,967,629	\$ (81,690)
Grand Total Revenues--Component Unit - School Board	\$ 22,183,846	\$ 24,775,909	\$ 24,151,308	\$ (624,601)

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2006

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government:				
General Fund:				
General Government Administration:				
Legislative:				
City council	\$ 48,380	\$ 48,380	\$ 41,905	\$ 6,475
General and Financial Administration:				
Clerk of council	\$ -	\$ -	\$ 178	\$ (178)
City manager's office	227,438	236,798	235,214	1,584
Legal services	72,970	116,142	116,141	1
Human resources	142,113	143,957	136,820	7,137
Employment services	241,619	243,119	240,541	2,578
Customer services	52,208	53,687	46,387	7,300
Communications	116,369	116,369	101,260	15,109
Commissioner of the Revenue	358,153	360,713	346,499	14,214
Assessor	300	150	73	77
Treasurer	247,148	247,148	244,331	2,817
Finance director	91,746	95,129	93,737	1,392
Accounting	178,076	178,076	171,733	6,343
Utility billing	369,935	369,935	342,163	27,772
Information services	263,189	269,581	262,727	6,854
Central garage	469,009	491,924	491,924	-
Purchasing	238,521	269,757	269,757	-
Risk management	157,000	157,000	165,127	(8,127)
General expenses	613,519	194,194	131,948	62,246
Total general and financial administration	<u>\$ 3,839,313</u>	<u>\$ 3,543,679</u>	<u>\$ 3,396,560</u>	<u>\$ 147,119</u>
Board of Elections:				
Electoral board and officials	\$ 24,972	\$ 24,972	\$ 22,905	\$ 2,067
Registrar	94,893	94,893	79,265	15,628
Total board of elections	<u>\$ 119,865</u>	<u>\$ 119,865</u>	<u>\$ 102,170</u>	<u>\$ 17,695</u>
Total general government administration	<u>\$ 4,007,558</u>	<u>\$ 3,711,924</u>	<u>\$ 3,540,635</u>	<u>\$ 171,289</u>
Judicial Administration:				
Courts:				
Circuit court	\$ 79,158	\$ 79,335	\$ 67,341	\$ 11,994
General district court	18,516	19,433	19,433	-
Juvenile and domestic relations court	7,000	11,750	9,822	1,928
Clerk of the circuit court	329,158	336,223	329,300	6,923
Sheriff - courts	674,612	681,371	666,884	14,487
Total Courts	<u>\$ 1,108,444</u>	<u>\$ 1,128,112</u>	<u>\$ 1,092,780</u>	<u>\$ 35,332</u>

Governmental Funds and Discretely Presented Component Unit - School Board
Schedule of Expenditures - Budget and Actual
Year Ended June 30, 2006 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Commonwealth Attorney:				
Commonwealth attorney	\$ 422,435	\$ 439,482	\$ 403,810	\$ 35,672
Victim witness program	67,602	70,740	69,410	1,330
Total Commonwealth attorney	<u>\$ 490,037</u>	<u>\$ 510,222</u>	<u>\$ 473,220</u>	<u>\$ 37,002</u>
Total judicial administration	<u>\$ 1,598,481</u>	<u>\$ 1,638,334</u>	<u>\$ 1,566,000</u>	<u>\$ 72,334</u>
Public Safety:				
Law Enforcement and Traffic Control:				
Police department	\$ 3,322,717	\$ 3,700,579	\$ 3,674,352	\$ 26,227
Transportation safety commission	1,500	2,000	1,994	6
E-911 communication center	426,047	426,047	399,827	26,220
Total law enforcement and traffic control	<u>\$ 3,750,264</u>	<u>\$ 4,128,626</u>	<u>\$ 4,076,173</u>	<u>\$ 52,453</u>
Fire and Rescue Services:				
Fire services	\$ 1,833,511	\$ 1,904,978	\$ 1,756,333	\$ 148,645
Emergency medical services	134,303	149,416	130,660	18,756
Total fire and rescue services	<u>\$ 1,967,814</u>	<u>\$ 2,054,394</u>	<u>\$ 1,886,993</u>	<u>\$ 167,401</u>
Correction and Detention:				
Sheriff -corrections	\$ 2,190,345	\$ 2,202,990	\$ 2,106,420	\$ 96,570
Sheriff -jail annex	145,650	149,650	148,038	1,612
Probation office	269,608	269,608	269,576	32
Total correction and detention	<u>\$ 2,605,603</u>	<u>\$ 2,622,248</u>	<u>\$ 2,524,034</u>	<u>\$ 98,214</u>
Inspections:				
Building and other	\$ 311,999	\$ 407,975	\$ 324,253	\$ 83,722
Other Protection:				
Safety	\$ 71,983	\$ 73,875	\$ 69,472	\$ 4,403
Total other protection	<u>\$ 71,983</u>	<u>\$ 73,875</u>	<u>\$ 69,472</u>	<u>\$ 4,403</u>
Total public safety	<u>\$ 8,707,663</u>	<u>\$ 9,287,118</u>	<u>\$ 8,880,925</u>	<u>\$ 406,193</u>
Public Works:				
Maintenance of highways, streets, bridges and sidewalks:				
Director of public works	\$ 76,762	\$ 80,626	\$ 80,488	\$ 138

Governmental Funds and Discretely Presented Component Unit - School Board
Schedule of Expenditures - Budget and Actual
Year Ended June 30, 2006 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Highways, streets, bridges and sidewalks:				
Engineering	\$ 186,898	\$ 196,154	\$ 196,153	\$ 1
Street maintenance	1,404,789	1,404,789	1,437,526	(32,737)
Street marking and signs	193,655	193,655	162,851	30,804
Traffic signals	323,776	328,235	320,928	7,307
Street cleaning	395,735	401,469	418,000	(16,531)
VDOT reserve	100,527	134,527	123,196	11,331
Street construction	314,664	314,664	347,574	(32,910)
Total highways, streets, bridges and sidewalks	<u>\$ 2,996,806</u>	<u>\$ 3,054,119</u>	<u>\$ 3,086,716</u>	<u>\$ (32,597)</u>
Maintenance of buildings and grounds:				
Uptown maintenance	\$ 42,990	\$ 42,990	\$ 42,988	\$ 2
City hall maintenance	420,076	422,480	401,486	20,994
Social services building maintenance	-	2,837	2,836	1
Dental clinic	-	441,929	158,298	283,631
Public health center	10,000	10,000	5,852	4,148
Total maintenance of buildings and grounds	<u>\$ 473,066</u>	<u>\$ 920,236</u>	<u>\$ 611,460</u>	<u>\$ 308,776</u>
Total public works	<u>\$ 3,469,872</u>	<u>\$ 3,974,355</u>	<u>\$ 3,698,176</u>	<u>\$ 276,179</u>
Health and Welfare				
Health:				
Contribution to local health department	\$ 156,179	\$ 156,179	\$ 156,179	\$ -
State and local hospitalization	6,285	6,285	6,095	190
Total health	<u>\$ 162,464</u>	<u>\$ 162,464</u>	<u>\$ 162,274</u>	<u>\$ 190</u>
Mental Health and Mental Retardation:				
Chapter X board	<u>\$ 50,138</u>	<u>\$ 50,138</u>	<u>\$ 50,138</u>	<u>\$ -</u>
Welfare/Social Services:				
Regional social services board	<u>\$ 281,805</u>	<u>\$ 281,805</u>	<u>\$ 281,805</u>	<u>\$ -</u>
Total welfare/social services	<u>\$ 281,805</u>	<u>\$ 281,805</u>	<u>\$ 281,805</u>	<u>\$ -</u>
Total health and welfare	<u><u>\$ 494,407</u></u>	<u><u>\$ 494,407</u></u>	<u><u>\$ 494,217</u></u>	<u><u>\$ 190</u></u>
Education:				
Contributions to community colleges	\$ 12,675	\$ 12,675	\$ 12,675	\$ -
Contributions to School Board Component Unit	6,457,237	6,457,237	6,457,138	99
Total education	<u>\$ 6,469,912</u>	<u>\$ 6,469,912</u>	<u>\$ 6,469,813</u>	<u>\$ 99</u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2006 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Parks, Recreation, and Cultural:				
Parks and recreation:				
Leisure services	\$ 166,937	\$ 176,968	\$ 172,662	\$ 4,306
Park maintenance	318,752	326,284	325,958	326
Hooker field	220,946	220,946	213,278	7,668
Senior center	154,840	166,027	166,026	1
Armory	56,536	96,059	96,058	1
Total parks and recreation	<u>\$ 918,011</u>	<u>\$ 986,284</u>	<u>\$ 973,982</u>	<u>\$ 12,302</u>
Library:				
Regional library	\$ 323,191	\$ 323,191	\$ 323,191	\$ -
Total parks, recreation and cultural	<u>\$ 1,241,202</u>	<u>\$ 1,309,475</u>	<u>\$ 1,297,173</u>	<u>\$ 12,302</u>
Community Development:				
Planning and Community Development:				
Economic development	\$ -	\$ 3,551	\$ 3,551	\$ -
Housing / community development	86,510	134,414	85,121	49,293
Miscellaneous development expenses	117,185	117,185	62,076	55,109
Planning and zoning	8,325	16,350	7,432	8,918
Contributions to local organizations	746,198	637,248	636,925	323
Total planning and community development	<u>\$ 958,218</u>	<u>\$ 908,748</u>	<u>\$ 795,105</u>	<u>\$ 113,643</u>
Cooperative Extension Program:				
Horticulture and family resources	\$ 9,000	\$ 9,000	\$ 9,000	\$ -
Total community development	<u>\$ 967,218</u>	<u>\$ 917,748</u>	<u>\$ 804,105</u>	<u>\$ 113,643</u>
Debt service:				
Principal retirement	\$ 195,950	\$ 195,950	\$ 196,041	\$ (91)
Interest and other debt costs	19,944	19,944	19,952	(8)
Total debt service	<u>\$ 215,894</u>	<u>\$ 215,894</u>	<u>\$ 215,993</u>	<u>\$ (99)</u>
Total General Fund	<u><u>\$ 27,172,207</u></u>	<u><u>\$ 28,019,167</u></u>	<u><u>\$ 26,967,037</u></u>	<u><u>\$ 1,052,130</u></u>
Special Revenue Funds:				
City Grants Fund:				
Health and Welfare:				
Comprehensive services	\$ -	\$ -	\$ 148,023	\$ (148,023)
Planning and Community Development:				
Community development block grant	\$ 828,987	\$ 828,987	\$ 722,292	\$ 106,695
Indoor plumbing program	161,820	161,820	57,051	104,769
Total planning and community development	<u>\$ 990,807</u>	<u>\$ 990,807</u>	<u>\$ 779,343</u>	<u>\$ 211,464</u>
Total City Grants Fund	<u><u>\$ 990,807</u></u>	<u><u>\$ 990,807</u></u>	<u><u>\$ 927,366</u></u>	<u><u>\$ 63,441</u></u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2006 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
Special Revenue Funds: (Continued)				
Housing Choice Fund:				
Planning and Community Development:				
Housing choice voucher program	\$ 1,902,068	\$ 1,902,068	\$ 1,625,663	\$ 276,405
Total Housing Choice Fund	<u>\$ 1,902,068</u>	<u>\$ 1,902,068</u>	<u>\$ 1,625,663</u>	<u>\$ 276,405</u>
Total Special Revenue Funds	<u>\$ 2,892,875</u>	<u>\$ 2,892,875</u>	<u>\$ 2,553,029</u>	<u>\$ 339,846</u>
Capital Project Funds:				
Capital Reserve Fund:				
Capital outlays and projects:				
General Government Administration:				
Utility billing - equipment	\$ -	\$ 2,320	\$ 2,318	\$ 2
Communications equipment	111,253	18,006	7,839	10,167
ADP equipment - information services	100,000	110,900	109,985	915
ADP equipment - central computer replacement	-	191,908	109,370	82,538
Central garage - projects	110,000	110,000	7,000	103,000
Fiber optic network	73,700	73,700	65,088	8,612
Minet - phone system	55,000	55,000	47,085	7,915
Total general government administration	<u>\$ 449,953</u>	<u>\$ 561,834</u>	<u>\$ 348,685</u>	<u>\$ 213,149</u>
Public Safety:				
Law Enforcement and Traffic Control:				
Police department - equipment	44,335	46,196	46,138	58
Police department - motor vehicles	87,944	97,498	81,641	15,857
Total law enforcement and traffic control	<u>\$ 132,279</u>	<u>\$ 143,694</u>	<u>\$ 127,779</u>	<u>\$ 15,915</u>
Fire and Rescue Services:				
Fire services - equipment	\$ 93,588	\$ 25,454	\$ 25,454	\$ -
Fire services - physical plant expansion	56,500	56,500	54,350	2,150
Total fire and rescue services	<u>\$ 150,088</u>	<u>\$ 81,954</u>	<u>\$ 79,804</u>	<u>\$ 2,150</u>
Correction and Detention:				
Sheriff -corrections - equipment	\$ 30,420	\$ 75,323	\$ 25,981	\$ 49,342
Sheriff -corrections - motor vehicles	52,645	52,645	85,648	(33,003)
Total correction and detention	<u>\$ 83,065</u>	<u>\$ 127,968</u>	<u>\$ 111,629</u>	<u>\$ 16,339</u>
Total public safety	<u>\$ 365,432</u>	<u>\$ 353,616</u>	<u>\$ 319,212</u>	<u>\$ 34,404</u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 Year Ended June 30, 2006 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
Capital Projects Funds: (Continued)				
Public Works:				
Highways, streets, bridges and sidewalks:				
Engineering - equipment	\$ 8,500	\$ 8,500	\$ 7,837	\$ 663
Motor vehicles	27,554	-	-	-
Street construction - motor vehicles	88,000	88,000	98,732	(10,732)
Senior citizen center - motor vehicles	-	6,800	15,600	(8,800)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total public works	\$ 124,054	\$ 103,300	\$ 122,169	\$ (18,869)
Education:				
School maintenance / improvements	\$ -	\$ 2,500,000	\$ 2,270,508	\$ 229,492
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total education	\$ -	\$ 2,500,000	\$ 2,270,508	\$ 229,492
Parks, Recreation, and Cultural:				
Parks and recreation:				
Park maintenance	\$ 18,100	\$ 18,100	\$ 21,772	\$ (3,672)
YMCA redevelopment	-	120,000	111,385	8,615
Stores	9,500	9,500	5,997	3,503
Hooker field	-	22,723	22,723	-
Economic development	-	50,000	-	50,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total parks, recreation and cultural	\$ 27,600	\$ 220,323	\$ 161,877	\$ 58,446
Community Development:				
Planning and Community Development:				
Uptown rail program	\$ -	\$ -	\$ 7,484	\$ (7,484)
Virginia Economic Development Partnership	-	560,000	-	560,000
Piedmont arts	25,000	25,760	25,000	760
Cable project	-	300,000	320,602	(20,602)
Industrial site development	-	190,000	164,595	25,405
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total community development	\$ 25,000	\$ 1,075,760	\$ 517,681	\$ 558,079
Debt service:				
Principal retirement	\$ 82,500	\$ 282,337	\$ 279,508	\$ 2,829
Interest and other debt costs	81,063	133,252	122,090	11,162
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total debt service	\$ 163,563	\$ 415,589	\$ 401,598	\$ 13,991
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Capital Reserve Fund	\$ 1,155,602	\$ 5,230,422	\$ 4,141,730	\$ 1,088,692

Governmental Funds and Discretely Presented Component Unit - School Board
Schedule of Expenditures - Budget and Actual
Year Ended June 30, 2006 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
Capital Projects Funds: (Continued)				
Meals Tax Fund:				
General Government Administration:				
Meals tax administration	\$ 35,190	\$ 35,190	\$ 35,190	\$ -
Debt service:				
Principal retirement	\$ 707,500	\$ 707,500	\$ 707,500	\$ -
Interest and other debt costs	646,954	647,251	496,361	150,890
Total debt service	<u>\$ 1,354,454</u>	<u>\$ 1,354,751</u>	<u>\$ 1,203,861</u>	<u>\$ 150,890</u>
Total Meals Tax Fund	<u>\$ 1,389,644</u>	<u>\$ 1,389,941</u>	<u>\$ 1,239,051</u>	<u>\$ 150,890</u>
Total Capital Project Funds	<u>\$ 2,545,246</u>	<u>\$ 6,620,363</u>	<u>\$ 5,380,781</u>	<u>\$ 1,239,582</u>
Grand Total Expenditures - Primary Government	<u>\$ 32,610,328</u>	<u>\$ 37,532,405</u>	<u>\$ 34,900,847</u>	<u>\$ 2,631,558</u>
Component Unit - School Board				
School Operating Fund:				
Education:				
Instruction	\$ 14,102,039	\$ 15,037,513	\$ 15,135,244	\$ (97,731)
Administration, attendance and health	3,859,634	3,391,960	3,052,906	339,054
Pupil transportation	734,133	758,890	829,878	(70,988)
Operation and maintenance of school plant	<u>2,359,257</u>	<u>2,398,429</u>	<u>2,326,514</u>	<u>71,915</u>
Total operating costs	<u>\$ 21,055,063</u>	<u>\$ 21,586,792</u>	<u>\$ 21,344,542</u>	<u>\$ 242,250</u>
Total School Operating Fund	<u>\$ 21,055,063</u>	<u>\$ 21,586,792</u>	<u>\$ 21,344,542</u>	<u>\$ 242,250</u>
School Cafeteria Fund:				
Education:				
School food services	<u>\$ 1,128,783</u>	<u>\$ 1,139,798</u>	<u>\$ 1,085,862</u>	<u>\$ 53,936</u>
School Grants Fund:				
Education:				
Instruction costs	<u>\$ -</u>	<u>\$ 2,049,319</u>	<u>\$ 1,958,984</u>	<u>\$ 90,335</u>
Grand Total Expenditures - Component Unit - School Board	<u>\$ 22,183,846</u>	<u>\$ 24,775,909</u>	<u>\$ 24,389,388</u>	<u>\$ 386,521</u>

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

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

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

Revenue Capacity

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

Assessed Value of Taxable Property	7
Property Tax Rates	8
Principal Taxpayers	9
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.

Ratios of Outstanding Debt by Type	11
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.

Principal Employers--Current year and nine years ago	15
Full-time Equivalent County Government Employees by Function--Last Seven Fiscal Yea	16
Operating Indicators by Function--Last Three Fiscal Years	17
Capital Asset Statistics by Function--Last Three Fiscal Years	18

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.

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

	Fiscal Year			
	2003	2004	2005	2006
Governmental activities:				
Invested in capital assets, net of related debt	\$ (1,029,636)	\$ (845,555)	\$ (241,412)	\$ (123,200)
Unrestricted	1,763,798	1,785,677	2,367,402	2,152,087
Total governmental activities net assets	<u>\$ 734,162</u>	<u>\$ 940,122</u>	<u>\$ 2,125,990</u>	<u>\$ 2,028,887</u>
Business-type activities:				
Invested in capital assets, net of related debt	\$ 14,975,933	\$ 14,978,661	\$ 14,603,260	\$ 14,161,621
Unrestricted	2,203,093	4,475,941	6,682,959	8,413,648
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>
Primary government				
Invested in capital assets, net of related debt	\$ 13,946,297	\$ 14,133,106	\$ 14,361,848	\$ 14,038,421
Unrestricted	3,966,891	6,261,618	9,050,361	10,565,735
Total primary government	<u>\$ 17,913,188</u>	<u>\$ 20,394,724</u>	<u>\$ 23,412,209</u>	<u>\$ 24,604,156</u>

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

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

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

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

	Fiscal Year			
	2003	2004	2005	2006
Business-type activities:				
Charges for services:				
Electric	\$ 10,741,770	\$ 10,705,777	\$ 11,796,694	\$ 15,356,098
Water	2,097,486	2,163,749	2,213,187	2,575,303
Sewer	1,825,168	2,040,824	2,211,259	2,735,337
Refuse collection / landfill	3,065,148	3,376,948	3,654,213	2,533,568
Operating grants and contributions	-	243,925	25,728	-
Total business-type activities program revenues	\$ 17,729,572	\$ 18,531,223	\$ 19,901,081	\$ 23,200,306
Total primary government program revenues	\$ 27,250,374	\$ 20,507,759	\$ 29,148,488	\$ 33,002,998
Net (expense) / revenue				
Governmental activities	\$ (19,606,213)	\$ (27,049,820)	\$ (19,992,294)	\$ (21,836,667)
Business-type activities	4,851,990	16,617,395	6,574,951	5,731,061
Total primary government net expense	\$ (14,754,223)	\$ (10,432,425)	\$ (13,417,343)	\$ (16,105,606)
General Revenues and Other Changes in Net Assets				
Governmental activities:				
General property taxes	\$ 6,747,760	\$ 7,303,536	\$ 7,460,249	\$ 7,677,907
Local sales and use taxes	2,108,305	2,048,135	2,020,464	2,145,605
Consumer utility taxes	779,646	764,038	769,307	768,590
Business license taxes	1,615,629	1,488,635	1,750,980	1,713,541
Meals tax	860,452	1,039,988	1,119,338	1,155,170
E-911 taxes	197,430	587,291	598,640	559,954
Other local taxes	1,326,475	1,184,353	1,094,081	1,223,340
Commonwealth of Virginia non-categorical aid	774,356	741,465	669,189	732,396
Unrestricted revenues from use of money and property	133,903	75,751	659,907	965,674
Miscellaneous	259,880	340,160	292,673	246,894
Transfers	4,221,484	3,475,613	4,743,334	4,550,493
Total governmental activities	\$ 19,025,320	\$ 19,048,965	\$ 21,178,162	\$ 21,739,564
Business-type activities:				
Transfers	\$ (4,221,484)	\$ (3,475,613)	\$ (4,743,334)	\$ (4,550,493)
Unrestricted revenues from use of money and property	-	-	-	108,482
Total business-type activities	\$ (4,221,484)	\$ (3,475,613)	\$ (4,743,334)	\$ (4,442,011)
Total primary government	\$ 14,803,836	\$ 15,573,352	\$ 16,434,828	\$ 17,297,553
Change in Net Assets				
Governmental activities	\$ (580,893)	\$ (8,000,855)	\$ 1,185,868	\$ (97,103)
Business-type activities	630,506	13,141,782	1,831,617	1,289,050
Total primary government	\$ 49,613	\$ 5,140,927	\$ 3,017,485	\$ 1,191,947

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

CITY OF MARTINSVILLE, VIRGINIA

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

Fiscal Year	General Property Taxes	Local Sales and Use Taxes	Consumer Utility Taxes	Business License Taxes	Meals Taxes
2006	\$ 7,677,907	\$ 2,145,605	\$ 768,590	\$ 1,713,541	1,155,170
2005	7,460,249	2,020,464	769,307	1,750,980	1,119,338
2004	7,303,536	2,048,135	764,038	1,488,635	1,039,988
2003	6,747,760	2,108,305	779,646	1,615,629	1,000,556

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

Table 3

	Telephone Taxes	Other Local Taxes	Total
\$	559,954	\$ 1,223,340	\$ 15,244,107
	598,640	1,094,081	14,813,059
	587,291	1,184,353	14,415,976
	565,586	6,887,937	19,705,419

CITY OF MARTINSVILLE, VIRGINIA

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

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
General fund					
Unreserved, designated	\$ -	\$ -	\$ -	\$ -	\$ 156,109
Unreserved, undesignated	<u>(6,036)</u>	<u>154,810</u>	<u>138,300</u>	<u>127,858</u>	<u>691,135</u>
Total general fund	<u>\$ (6,036)</u>	<u>\$ 154,810</u>	<u>\$ 138,300</u>	<u>\$ 127,858</u>	<u>\$ 847,244</u>
All other governmental funds					
Unreserved, reported in:					
Special revenue funds (deficit)	\$ 29,788	\$ 52,374	\$ (63,960)	\$ (78,523)	\$ (213,983)
Capital projects funds	<u>2,081,766</u>	<u>3,284,841</u>	<u>6,770,273</u>	<u>2,289,306</u>	<u>1,007,923</u>
Total all other governmental funds	<u>\$ 2,111,554</u>	<u>\$ 3,337,215</u>	<u>\$ 6,706,313</u>	<u>\$ 2,210,783</u>	<u>\$ 793,940</u>

Table 4

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
\$ 156,109	\$ 156,694	\$ 154,099	\$ 154,099	\$ 154,099
<u>1,157,731</u>	<u>635,008</u>	<u>659,306</u>	<u>354,406</u>	<u>954,031</u>
<u>\$ 1,313,840</u>	<u>\$ 791,702</u>	<u>\$ 813,405</u>	<u>\$ 508,505</u>	<u>\$ 1,108,130</u>
\$ (387,443)	\$ 175,600	\$ 420,396	\$ 1,127,266	\$ (459,576)
<u>71,774</u>	<u>(225,378)</u>	<u>(170,780)</u>	<u>(347,663)</u>	<u>169,943</u>
<u>\$ (315,669)</u>	<u>\$ (49,778)</u>	<u>\$ 249,616</u>	<u>\$ 779,603</u>	<u>\$ (289,633)</u>

CITY OF MARTINSVILLE, VIRGINIA

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

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Revenues:				
General property taxes	\$ 6,929,431	\$ 7,225,353	\$ 7,312,654	\$ 6,583,181
Other local taxes	5,866,852	6,129,277	6,282,372	6,162,491
Permits, privilege fees and regulatory licenses	17,652	27,982	33,552	18,679
Fines and forfeitures	213,765	202,332	197,292	145,992
Revenue from use of money and property	945,004	715,744	782,232	971,459
Charges for services	470,484	448,225	405,475	140,033
Miscellaneous	574,378	453,565	497,153	738,926
Recovered costs	469,944	562,993	655,743	766,081
Intergovernmental:				
Commonwealth	4,822,129	4,820,259	5,841,026	6,964,447
Federal	1,262,409	866,521	1,042,634	379,770
Total revenues	<u>\$ 21,572,048</u>	<u>\$ 21,452,251</u>	<u>\$ 23,050,133</u>	<u>\$ 22,871,059</u>
Expenditures:				
General government administration	\$ 2,318,569	\$ 2,399,075	\$ 2,818,717	\$ 3,412,307
Judicial administration	1,014,527	1,183,001	1,489,784	1,532,636
Public safety	6,186,934	6,895,989	7,703,106	7,665,532
Public works	2,828,856	2,582,484	2,834,361	2,492,734
Health and welfare	1,889,267	802,053	967,745	897,445
Education	9,152	9,538	997,385	533,852
Parks, recreation, and cultural	609,157	612,875	768,054	938,878
Community development	1,663,019	2,220,260	1,896,216	1,335,416
Capital Outlays	-	-	-	6,687,375
Capital Projects	3,153,271	4,051,829	5,685,305	-
Non-departmental	67,583	239,874	56,990	273,423
Debt service:				
Principal retirement	92,222	293,817	250,000	336,499
Interest and other fiscal charges	252,164	191,372	330,470	480,465
Total expenditures	<u>\$ 20,084,721</u>	<u>\$ 21,482,167</u>	<u>\$ 25,798,133</u>	<u>\$ 26,586,562</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 1,487,327</u>	<u>\$ (29,916)</u>	<u>\$ (2,748,000)</u>	<u>\$ (3,715,503)</u>
Other financing sources (uses):				
Proceeds from debt issued	\$ 5,000,000	\$ 4,000,000	\$ 11,866,815	\$ 1,182,450
Retirement of commercial loans	(5,000,000)	-	(4,000,000)	-
Retirement of interim financing	-	-	-	-
Sale of Property	-	-	190,000	-
Refund VDOT grant	-	-	-	-
Transfer to/from agency funds	5,000	(11,666)	-	-
Operating transfers from/to primary government	(7,286,463)	(7,382,883)	(7,732,174)	(7,572,174)
Payment to refunded bond escrow agent	-	-	-	-
Transfers in	5,367,646	4,738,849	6,108,884	5,780,696
Transfers (out)	(215,312)	(123,215)	(17,158)	(341,727)
Total other financing sources (uses)	<u>\$ (2,129,129)</u>	<u>\$ 1,221,085</u>	<u>\$ 6,416,367</u>	<u>\$ (950,755)</u>
Net changes in fund balances	<u>\$ (641,802)</u>	<u>\$ 1,191,169</u>	<u>\$ 3,668,367</u>	<u>\$ (4,666,258)</u>
Debt service as a percentage of noncapital expenditures	<u>2.03%</u>	<u>2.78%</u>	<u>2.89%</u>	<u>4.11%</u>

Table 5

	2001	2002	2003	2004	2005	2006
\$	7,372,892	\$ 6,374,432	\$ 6,754,405	\$ 7,288,727	\$ 7,338,045	\$ 7,642,006
	6,227,663	6,518,345	6,887,937	7,112,440	7,352,810	7,566,200
	17,024	13,360	101,779	69,393	199,679	418,210
	201,585	214,765	188,946	221,076	251,543	235,837
	667,962	603,587	603,793	485,093	659,907	965,674
	87,789	118,322	127,495	118,038	213,979	236,278
	695,808	391,409	259,880	340,160	292,673	246,894
	819,424	940,455	964,001	947,939	900,686	894,882
	7,363,865	8,206,223	6,941,379	7,008,991	6,995,579	7,176,201
	694,148	1,525,729	2,465,669	2,485,469	2,255,816	2,468,561
\$	<u>24,148,160</u>	<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>
\$	2,806,251	\$ 2,827,411	\$ 2,956,254	\$ 3,123,305	\$ 4,079,407	\$ 3,924,510
	1,755,428	1,585,234	1,418,241	1,372,696	1,468,873	1,566,000
	7,529,991	7,779,779	7,678,200	7,845,641	8,935,052	9,200,137
	3,203,106	3,266,630	3,366,197	3,667,769	3,551,770	3,820,345
	692,418	613,511	497,656	561,968	454,094	642,240
	-	-	7,442,194	6,877,698	6,403,847	8,740,321
	925,040	966,334	949,304	969,929	1,157,425	1,459,050
	1,735,267	2,324,440	3,364,924	2,997,166	3,766,058	3,726,792
	-	915,394	745,583	677,481	-	-
	2,637,869	2,125,148	184,620	110,432	-	-
	212,975	132,802	120,008	-	-	-
	456,893	765,000	951,135	1,906,339	1,092,255	1,183,049
	332,187	533,395	550,070	608,736	497,758	638,403
\$	<u>22,287,425</u>	<u>\$ 23,835,078</u>	<u>\$ 30,224,386</u>	<u>\$ 30,719,160</u>	<u>\$ 31,406,539</u>	<u>\$ 34,900,847</u>
\$	<u>1,860,735</u>	<u>\$ 1,071,549</u>	<u>\$ (4,929,102)</u>	<u>\$ (4,641,834)</u>	<u>\$ (4,945,822)</u>	<u>\$ (7,050,105)</u>
\$	7,500,000	\$ 807,510	\$ 476,888	\$ 127,000	\$ 427,575	\$ 4,529,764
	-	-	-	-	-	-
	(7,500,000)	-	-	-	-	-
	81,060	-	-	1,177,000	-	-
	-	(450,000)	-	-	-	-
	-	-	-	-	-	-
	(7,265,888)	(7,653,244)	-	-	-	-
	-	-	-	-	-	(2,499,764)
	5,737,232	5,995,144	4,772,234	3,902,199	5,868,548	4,859,443
	(846,971)	(414,062)	(550,750)	(426,586)	(1,125,214)	(308,950)
\$	<u>(2,294,567)</u>	<u>\$ (1,714,652)</u>	<u>\$ 4,698,372</u>	<u>\$ 4,779,613</u>	<u>\$ 5,170,909</u>	<u>\$ 6,580,493</u>
\$	<u>(433,832)</u>	<u>\$ (643,103)</u>	<u>\$ (230,730)</u>	<u>\$ 137,779</u>	<u>\$ 225,087</u>	<u>\$ (469,612)</u>
	<u>4.02%</u>	<u>6.24%</u>	<u>5.12%</u>	<u>8.40%</u>	<u>5.06%</u>	<u>5.22%</u>

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

Fiscal Year	General Property Taxes	Local Sales and Use Taxes	Consumer Utility Taxes	Business License Taxes	Meals Taxes	(Telephone) E-911 Taxes	Other Local Taxes	Total
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
1997	6,929,431	2,111,741	728,568	1,129,752	784,033	365,977	746,781	12,796,283

Assessed Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year(1)	Real Estate	Personal Property	Machinery and Tools	Public Service	Total
2006	\$ 588,988,194	\$ 98,478,170	\$ 12,831,665	\$ 25,709,402	\$ 726,007,431
2005	559,497,600	101,861,411	12,083,426	27,043,443	700,485,880
2004	556,169,600	94,124,537	13,754,159	29,719,298	693,767,594
2003	531,125,500	89,785,700	13,854,533	27,763,786	662,529,519
2002	500,132,200	91,886,053	17,253,822	27,821,178	637,093,253
2001	499,376,500	87,362,958	47,211,356	27,313,555	661,264,369
2000	492,377,750	87,198,592	50,918,879	26,135,117	656,630,338
1999	483,149,200	85,925,407	45,790,992	23,191,676	638,057,275
1998	485,331,000	79,598,067	49,009,925	23,304,634	637,243,626
1997	489,100,450	85,210,947	54,173,499	23,425,736	651,910,632

(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
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
1997	0.84	1.92	1.85	0.84	1.92

(1) Per \$100 of assessed value

Principal Taxpayers
At June 30, 2006

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Assessed Valuation</u>	<u>% of Total Assessed Valuation</u>
PHC - Martinsville Inc.	Hospital	\$ 40,766,700	6.40%
Liberty Fair Va. LP	Shopping Mall	25,788,700	4.05%
Lester Lumber Co. Inc.	Commercial	17,892,600	2.81%
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	4,736,100	0.74%
Athena Innovative Solutions	Commercial	3,398,000	0.53%
R C Realty Corp.	Commercial	3,243,500	0.51%
Daral LLC	Commercial	2,993,000	0.47%
		<u>\$ 130,065,332</u>	<u>20.41%</u>

Source - Commissioner of the Revenue

CITY OF MARTINSVILLE, VIRGINIA

Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total (1) Tax Levy	Current Tax (1) Collections	Percent of Levy Collected	Delinquent (1) Tax (2) Collections
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
1997	6,988,863	6,721,278	96.17%	58,536

(1) Exclusive of penalties and interest.

(2) Does not include land redemptions.

Table 10

	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (1)	Percent of Delinquent Taxes to Tax Levy
\$	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%
	6,779,814	97.01%	632,399	9.05%

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
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
1997	-	-	5,423,775	350,091	-	377,034

Table 11

Business-Type Activities				Total Primary Government	Net Bonded Debt per Capita
Landfill Close & Post- close Costs	General Obligation Bonds	Revenue Bonds	Capital Leases		
\$ 3,494,384	\$ 1,907,900	\$ -	\$ -	\$ 20,124,152	\$ 1,369
3,494,384	-	-	-	17,206,935	1,171
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
-	-	-	-	6,150,900	392

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

Fiscal Year	Population (1)	Assessed Value (in thousands)(2)	Net Bonded Debt	Ratio of Net General Obligation Debt to Assessed Value	Net Bonded Debt per Capita
2006	14,700	\$ 726,007,431	\$ 15,824,714	2.18%	\$ 1,077
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
1997	15,700	651,910,632	5,773,866	0.89%	365

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, 2006

Direct:(1)

City of Martinsville	\$	15,824,714	100%	\$	15,824,714
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The City of Martinsville has no overlapping debt.

Demographic and Economic Statistics
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Population (1)</u>	<u>City Per Capita Income (2)</u>	<u>School Enrollment (3)</u>	<u>Unemployment Rate (4)</u>
2006	14,700	\$ n/a	2,526	7.20%
2005	14,700	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%
1997	15,700	19,776	2,818	5.00%

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

<u>Employer</u>	<u>Fiscal Year 2006</u>		<u>Fiscal Year 1997</u>	
	<u>Employees</u>	<u>Rank</u>	<u>Employees</u>	<u>Rank</u>
Memorial Hospital	761	1	500-999	3
Newroads	725	2	n/a	n/a
Hooker Furniture Corp	660	3	500-999	2
Martinsville City Schools	546	4	250-499	4
City of Martinsville	458	5	250-499	7
Nationwide Homes	390	6	250-499	6
Advantage Staffing Resources	355	7	n/a	n/a
Ameristaff	260	8	250-499	10
Piedmont Reg Comm Service	250	9	100-249	20
Blue Ridge Rehab Center	206	10	100-249	11
Totals	<u>4,611</u>			

Source: Individual City departments
n/a not applicable

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

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

Source: Individual city departments

Operating Indicators by Function
 Last Three Fiscal Years

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

Capital Asset Statistics by Function
Last Three Fiscal Years

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

Source: Individual city departments

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Martinsville, Virginia, as of and for the year ended June 30, 2006, which collectively comprise the City of Martinsville, Virginia's basic financial statements and have issued our report thereon dated September 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

However, we noted other matters that we have reported to management in a separate letter dated September 1, 2006.

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

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
September 1, 2006

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

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

Compliance

We have audited the compliance of the City of Martinsville, Virginia with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the fiscal year ended June 30, 2006. The City of Martinsville, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Martinsville, Virginia's management. Our responsibility is to express an opinion on the City of Martinsville, Virginia's compliance based on our audit.

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

In our opinion, the City of Martinsville, Virginia, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2006.

Internal Control Over Compliance

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

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

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

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
September 1, 2006

Schedule of Expenditures of Federal Awards - Primary Government and
Discretely Presented Component Units
Year Ended June 30, 2006

<u>Federal Grantor/State Pass - Through Grantor/ Program Title (Pass - Through Grantor's Number)</u>	<u>Federal Catalog Number</u>	<u>Expenditures</u>
PRIMARY GOVERNMENT:		
<u>DEPARTMENT OF TRANSPORTATION:</u>		
<u>Pass through payments:</u>		
Department of Motor Vehicles:		
State and Community Highway Safety (Section 402 Grants) Alcohol Traffic Open container / alcohol impaired driving grant	20.607	\$ <u>8,066</u>
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>		
<u>Direct payments:</u>		
Housing choice	14.871	\$ 1,535,683
Moderate rehabilitation	14.856	76,304
<u>Pass through payments:</u>		
Department of Housing and Community Development:		
Community development block grant	14.228	290,796
Home investment partnerships program	14.239	<u>13,676</u>
Total Department of Housing and Community Development		\$ <u>1,916,459</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>18,964</u>
<u>DEPARTMENT OF JUSTICE:</u>		
<u>Direct payments:</u>		
Vipe grant	16.000	\$ 4,873
Asset forfeiture	16.000	4,067
State criminal alien assistance program	16.606	2,365
<u>Pass through payments:</u>		
Department of Criminal Justice Services:		
Local law enforcement block grant	16.592	3,750
Crime victim assistance	16.575	56,592
Drug control and system improvement - Byrne Formula Grant	16.579	<u>19,919</u>
Total Department of Justice		\$ <u>91,566</u>
<u>DEPARTMENT OF HOMELAND SECURITY:</u>		
<u>Direct payments:</u>		
Disaster relief public assistance	97.036	\$ 8,708
<u>Pass through payments:</u>		
Department emergency management:		
State homeland security grant program	97.004	<u>28,427</u>
Total Department of Homeland Security		\$ <u>37,135</u>
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>		
<u>Pass through payments:</u>		
Home investment partnerships program	14.239	\$ <u>52,900</u>

Schedule of Expenditures of Federal Awards - Primary Government and
Discretely Presented Component Units
Year Ended June 30, 2006 (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>158,298</u>
Total Primary Government		\$ <u><u>2,283,388</u></u>
COMPONENT UNIT-SCHOOL BOARD:		
<u>DEPARTMENT OF AGRICULTURE:</u>		
<u>Pass through payments:</u>		
Department of Education:		
Food distribution	10.555	\$ 70,738
Department of Education:		
National school breakfast program	10.553	151,392
National school lunch program	10.555	<u>493,538</u>
Total Department of Agriculture		\$ <u>715,668</u>
<u>DEPARTMENT OF LABOR:</u>		
<u>Direct payments:</u>		
Workforce investment act - youth activities	17.259	\$ 67,412
ROTC Instruction	17.000	<u>43,762</u>
Total Department of Labor		\$ <u>111,174</u>
<u>DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u>		
<u>Pass through payments:</u>		
Department of Education:		
Refugee impact grant payments	93.576	\$ <u>2,274</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	\$ 738,395
Even start	84.213	202,732
Comprehensive school reform	84.332	227,146
Title VI-B:		
Assistance to states for education of handicapped children - preschool and school programs (1E002570, 3E001110)	84.027	627,330
Vocational Education:		
Basic grants to states (3E001311)	84.048	75,203

Schedule of Expenditures of Federal Awards - Primary Government and
 Discretely Presented Component Units
 Year Ended June 30, 2006 (Continued)

<u>Federal Grantor/State Pass - Through Grantor/ Program Title (Pass - Through Grantor's Number)</u>	<u>Federal Catalog Number</u>	<u>Expenditures</u>
COMPONENT UNIT-SCHOOL BOARD: (Continued)		
<u>DEPARTMENT OF EDUCATION: (Continued)</u>		
<u>Pass through payments: (Continued)</u>		
Special Education:		
Preschool	84.173	8,941
Special Projects:		
Drug-free schools and communities (2E004617)	84.186	18,805
English Language acquisition	84.365	10,958
Reading first	84.357	433,934
Improving teacher quality	84.367	168,382
Innovative teacher recruitment	84.336	38,215
Title VI - Rural and low income schools	84.358	83,292
Technology challenge grant	84.318	65,059
Innovative education program strategies	84.298	13,777
State assessments and related activities	84.369	<u>2,892</u>
 Total Department of Education		 \$ <u>2,715,061</u>
<u>NATIONAL AERONAUTICS AND SPACE ADMINISTRATION:</u>		
<u>Direct payments:</u>		
NASA grant	43.001	\$ <u>106,250</u>
 Total Component Unit School Board		 \$ <u><u>3,650,427</u></u>
 Total Federal Assistance		 \$ <u><u>5,933,815</u></u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards
For The Year Ended June 30, 2006

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	\$ 308,966
Housing Choice Fund	1,815,899
Housing choice federal revenues not expended in FY 2006	(190,236)
Grants Fund	<u>343,696</u>
Total primary government	\$ <u>2,278,325</u>
Agency funds:	
Police Academy Fund	\$ <u>5,063</u>
Component Unit Public Schools:	
School Operating Fund	\$ 967,130
School Grants Fund	1,967,629
School Cafeteria Fund	<u>644,930</u>
Total component unit public schools	\$ <u>3,579,689</u>
Total federal expenditures per basic financial statements	\$ <u>5,863,077</u>
Non-cash expenditures - value of donated commodities	\$ <u>70,738</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards	\$ <u><u>5,933,815</u></u>

CITY OF MARTINSVILLE, VIRGINIA

Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

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

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

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

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

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