

Martinsville, Virginia
A CITY WITHOUT LIMITS



COMPREHENSIVE ANNUAL
FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2018

CITY OF MARTINSVILLE, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2018

PREPARED BY:

Finance Department

CITY OF MARTINSVILLE, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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CITY OF MARTINSVILLE, VIRGINIA

City Council

Gene Teague, Mayor
Chad Martin, Vice-Mayor

Sharon Brooks-Hodge

Kathy Lawson

Jennifer Bowles

School Board

Joan Montgomery, Chairperson
Donna Dillard, Vice-Chairman

Eric Hruza

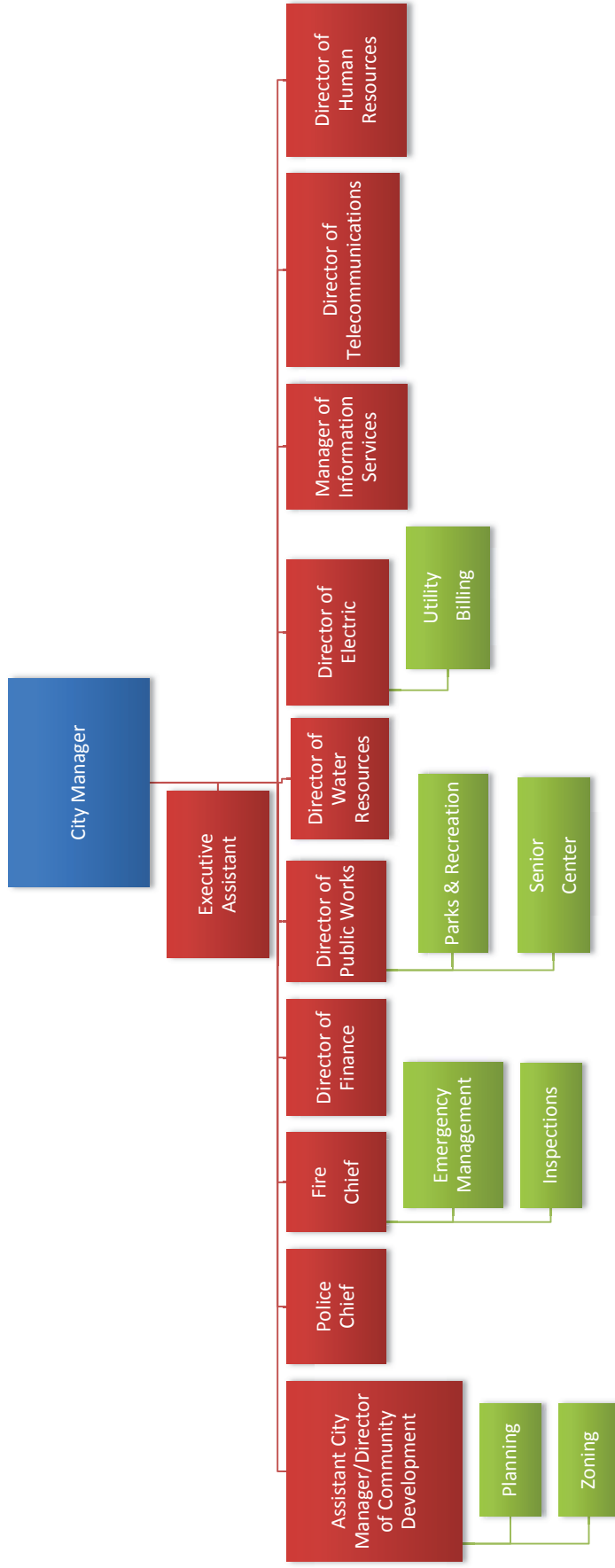
Sammy Redd

Tonya Jones

Other Officials

City Manager Leon E. Towarnicki
Clerk of the Circuit Court Ashby R. Pritchett
City Attorney Eric H. Monday
Commissioner of the Revenue Ruth Easley
Treasurer Cindy Dickerson
Police Chief..... Eddie Cassady
Superintendent of Schools..... Zebadee Talley
Clerk of the School Board..... Janie Fulcher
Director of Finance Linda H. Conover
Sheriff..... Steve M. Draper
Commonwealth's Attorney Glen A. Hall
Public Works Director Chris Morris
Electric Director Durwin Joyce
Purchasing Agent Karen H. Mays
Fire Chief Ted Anderson
Water Resources Andy Lash

City of Martinsville Organizational Chart



Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the 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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Martinsville, Virginia, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 19 to the financial statements, in 2018, the City adopted new accounting guidance, GASB Statement Nos. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, and 85, *Omnibus 2017*. Our opinion is not modified with respect to this matter.

Restatement of Beginning Balances

As described in Note 19 of the financial statements, in 2018, the City restated beginning balances to reflect the requirements of GASB Statement No. 75. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension and OPEB funding on pages 11-22, 123-124, and 125-137 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Martinsville, Virginia's basic financial statements. The introductory section, other supplementary information and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

Other Matters (Continued)

Supplementary and Other Information (Continued)

The other supplementary Information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary Information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2018, 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 solely 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 effectiveness of City of Martinsville, Virginia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Martinsville, Virginia's internal control over financial reporting and compliance.

Robinson, Farnell, Cox Associates

Charlottesville, Virginia

November 23, 2018

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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, 2018. 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

- In 2018, the City adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. To reflect the requirements of GASB Statement No. 75, it was necessary to restate beginning net position. As a result of restatement, net position decreased by \$3,507,043, \$822,196, and \$3,553,000 for the governmental activities, business-type activities, and component unit School Board, respectively. The restated amounts were utilized for purposes of discussion and analysis herein.
- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$29,141,159 (total net position).
- The Governmental activities net position was \$664,820 of the City's total, an increase of \$744,258 from net position of (\$79,438) at June 30, 2017.
- Net position of the City's various business-type activities totaled \$28,476,339. This is a decrease of \$42,767 or 1.50% compared to net position of \$28,519,106 at June 30, 2017.

Fund Financial Statements

The Governmental Funds, on a current financial resource basis, reported revenues and other financing sources in excess of expenditures and other financing uses by \$965,276 (Exhibit 4) after making direct contributions totaling \$6,150,281 to the School Board. Additionally, \$1,366,176 was expended from the Meals Tax Fund to retire School related debt. A total of \$7,516,457 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 \$7,930,162, which is an increase of \$965,276 in comparison with the prior fiscal year.
- At the close of the current fiscal year, the unassigned fund balance for the General Fund was \$4,660,378 or 14.37% of total general fund expenditures.
- The combined long-term Governmental activities obligations decreased \$5,175,167 or approximately 14% during the current fiscal year. This is mostly due to a decrease in the actuarially determined net pension liability.

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 Position and (2) The Statement of Activities.

The Statement of Net position (exhibit one) presents information on all of the City's assets and liabilities. The difference between assets and liabilities is reported as net position. Net position is presented in three categories: net investment in capital assets, restricted and unrestricted. Over time, increases or decreases in net position 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 position changed during the fiscal year. All changes in net position 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 position 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, Telecommunications, 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 three funds considered Non-major funds. These are the Community Development Block Grant Fund (CDBG), the Capital Reserve Fund, and the Meals Tax Fund. For reporting purposes, the CDBG Fund is called the City Grants Fund. The Capital Reserve Fund and the Meals Tax Fund are combined to form the Capital Projects Funds. Together the Special Revenue Funds and the Capital Projects Funds comprise the City's Non-major Governmental Funds. Information on these funds is contained in **Exhibits 24, 25, and 26**. 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 position may serve as a useful indicator of a City's financial position over time. For the City in FY2018, (1) assets and deferred outflows of resources exceeded (2) liabilities and deferred inflows of resources by \$29,141,159 at the close of the fiscal year as presented in the Table below. This was a decrease of \$3,627,448 or 11.1% less than the FY2017 closing amount of \$32,768,907.

City of Martinsville, Virginia
Schedule of Assets, Liabilities and Net Position
Governmental and Business-Type Activities
For the Years Ended June 30, 2018 and 2017

	Governmental		Business-type		Totals	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 11,944,553	\$ 11,236,203	\$ 15,766,476	\$ 17,441,978	\$ 27,711,029	\$ 28,678,181
Capital assets	<u>22,412,578</u>	<u>24,058,621</u>	<u>42,337,966</u>	<u>35,657,380</u>	<u>64,750,544</u>	<u>59,716,001</u>
Total assets	\$ 34,357,131	\$ 35,294,824	\$ 58,104,442	\$ 53,099,358	\$ 92,461,573	\$ 88,394,182
Deferred outflows of resources	<u>1,761,927</u>	<u>3,624,257</u>	<u>836,916</u>	<u>611,689</u>	<u>2,598,843</u>	<u>4,235,946</u>
Total assets and deferred outflows of resources	<u>\$ 36,119,058</u>	<u>\$ 38,919,081</u>	<u>\$ 58,941,358</u>	<u>\$ 53,711,047</u>	<u>\$ 95,060,416</u>	<u>\$ 92,630,128</u>
Long-term liabilities outstanding	\$ 30,339,279	\$ 31,884,242	\$ 27,588,674	\$ 21,979,497	\$ 57,927,953	\$ 53,863,739
Current liabilities	<u>3,030,107</u>	<u>3,063,419</u>	<u>2,475,859</u>	<u>1,968,159</u>	<u>5,505,966</u>	<u>5,031,578</u>
Total liabilities	\$ 33,369,386	\$ 34,947,661	\$ 30,064,533	\$ 23,947,656	\$ 63,433,919	\$ 58,895,317
Deferred inflows of resources	<u>\$ 2,084,852</u>	<u>\$ 543,815</u>	<u>\$ 400,486</u>	<u>\$ 422,089</u>	<u>\$ 2,485,338</u>	<u>\$ 965,904</u>
Net position:						
Net investment in capital assets	\$ 10,317,087	\$ 10,624,972	\$ 21,620,820	\$ 20,155,003	\$ 31,937,907	\$ 30,779,975
Unrestricted	<u>(9,652,267)</u>	<u>(7,197,367)</u>	<u>6,855,519</u>	<u>9,186,299</u>	<u>-2,796,748</u>	<u>1,988,932</u>
Total net position	<u>\$ 664,820</u>	<u>\$ 3,427,605</u>	<u>\$ 28,476,339</u>	<u>\$ 29,341,302</u>	<u>\$ 29,141,159</u>	<u>\$ 32,768,907</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 36,119,058</u>	<u>\$ 38,919,081</u>	<u>\$ 58,941,358</u>	<u>\$ 53,711,047</u>	<u>\$ 95,060,416</u>	<u>\$ 92,630,128</u>

At the end of FY2018, the City's net investment in capital assets is \$31,937,907, which exceeds total net position of \$29,141,159. 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 as net investment in capital assets, 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 net investment in capital assets is \$10,317,087.

Restricted Assets represent resources subject to external restrictions on how they may be used. In FY2018, the City held cash restricted for Electric and Water customer deposits totaling \$321,440.

Government-wide Financial Analysis (Continued)

Governmental Activities - Governmental activities increased Martinsville City's net position by \$744,258. The key elements of this increase are found in exhibit 2.

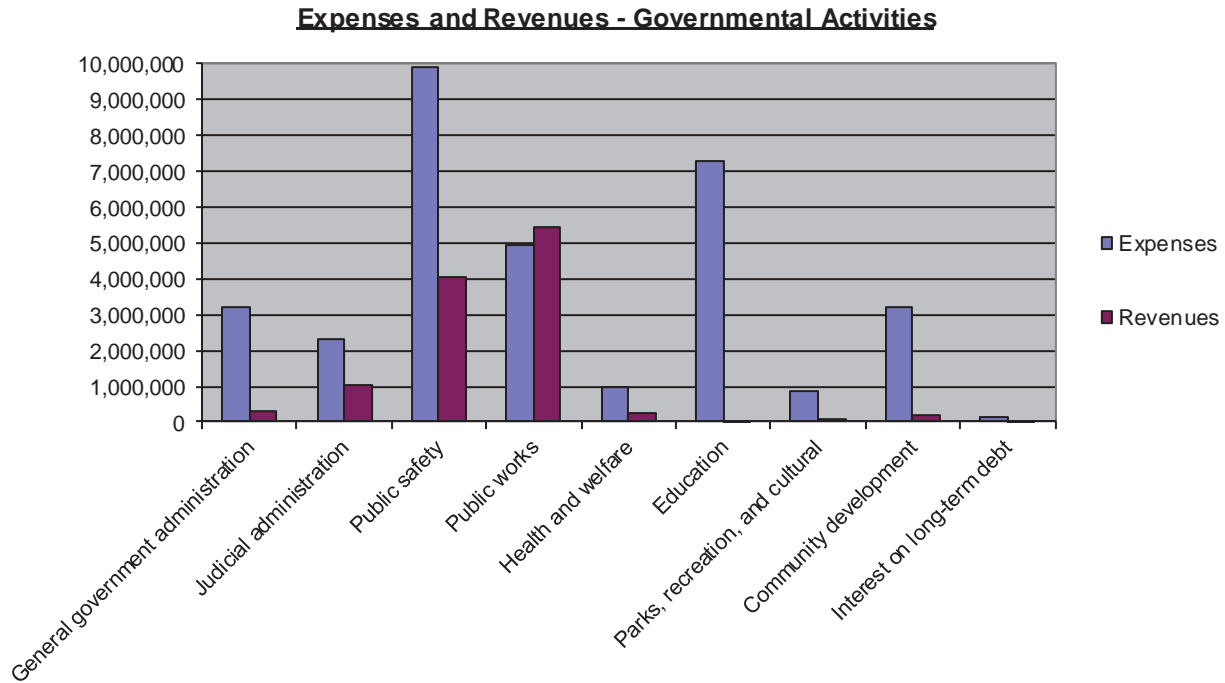
City of Martinsville, Virginia
Changes in Net Position
Governmental and Business-Type Activities
For the Years Ended June 30, 2018 and 2017

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2,338,374	\$ 2,151,850	\$ 28,792,347	\$ 28,820,046	\$ 31,130,721	\$ 30,971,896
Operating grants and contributions	8,573,217	8,599,743	-	-	8,573,217	8,599,743
Capital grants and contributions	327,400	199,426	-	-	327,400	199,426
General revenues:						
General property taxes	8,964,713	9,072,495	-	-	8,964,713	9,072,495
Other local taxes	7,376,919	7,121,375	-	-	7,376,919	7,121,375
Commonwealth non-categorical aid	1,577,765	1,605,957	-	-	1,577,765	1,605,957
Other general revenues	1,575,425	1,283,176	42,833	27,061	1,618,258	1,310,237
Total revenues	\$ 30,733,813	\$ 30,034,022	\$ 28,835,180	\$ 28,847,107	\$ 59,568,993	\$ 58,881,129
Expenses:						
General government administration	\$ 3,201,860	\$ 3,245,979	\$ -	\$ -	\$ 3,201,860	\$ 3,245,979
Judicial administration	2,314,974	2,322,293	-	-	2,314,974	2,322,293
Public safety	9,902,833	9,805,711	-	-	9,902,833	9,805,711
Public works	4,926,615	3,659,946	-	-	4,926,615	3,659,946
Health and welfare	960,166	859,053	-	-	960,166	859,053
Education	7,305,996	7,401,665	-	-	7,305,996	7,401,665
Parks, recreation, and cultural	883,520	923,286	-	-	883,520	923,286
Community development	3,231,968	3,381,324	-	-	3,231,968	3,381,324
Interest on long-term debt	153,162	184,109	-	-	153,162	184,109
Electric	-	-	18,842,419	16,860,239	18,842,419	16,860,239
Water	-	-	1,998,279	1,979,099	1,998,279	1,979,099
Sewer	-	-	3,352,971	3,279,987	3,352,971	3,279,987
Refuse collection/landfill	-	-	1,792,739	1,765,041	1,792,739	1,765,041
Total expenses	\$ 32,881,094	\$ 31,783,366	\$ 25,986,408	\$ 23,884,366	\$ 58,867,502	\$ 55,667,732
Change in net position before transfers	\$ (2,147,281)	\$ (1,749,344)	\$ 2,848,772	\$ 4,962,741	\$ 701,491	\$ 3,213,397
Transfers	2,891,539	750,079	(2,891,539)	(750,079)	-	-
Change in net position	\$ 744,258	\$ (999,265)	\$ (42,767)	\$ 4,212,662	\$ 701,491	\$ 3,213,397
Net position - beginning, as restated	(79,438)	4,426,870	28,519,106	25,128,640	28,439,668	29,555,510
Net position - ending	\$ 664,820	\$ 3,427,605	\$ 28,476,339	\$ 29,341,302	\$ 29,141,159	\$ 32,768,907

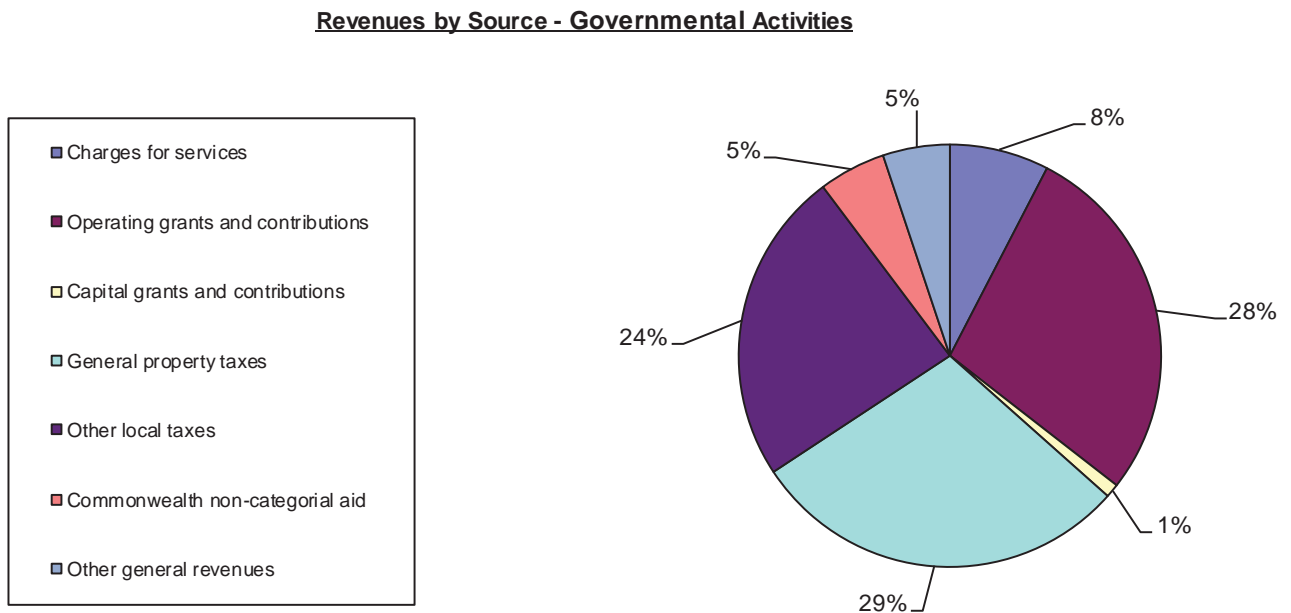
Revenues and transfers in governmental activities totaled \$33,625,352 with operating grants and contributions (27.90%), general property taxes (29.17%), and other local taxes (24.00%) comprising 81.07% of the City's revenues. Expenses for public safety (30.12%), education (22.22%), public works (14.98%), community development (9.83%), and general government administration (9.75%), account for 86.89% of total governmental expenses of \$32,881,094.

Government-wide Financial Analysis (Continued)

The chart below compares the revenues and expenses by program for governmental activities. It is common throughout the Commonwealth for expenses to outpace the revenues 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 chart below portrays the Sources of Revenue for the Governmental Activities of the City.



Business-type Activities increased the City's net position by \$2,848,772 after deducting \$2,891,539 in transfers to the General and Capital Reserve Funds. Transfers out of business-type activities increased by \$2,141,460 compared to the prior fiscal year.

Financial Analysis of the City's Funds

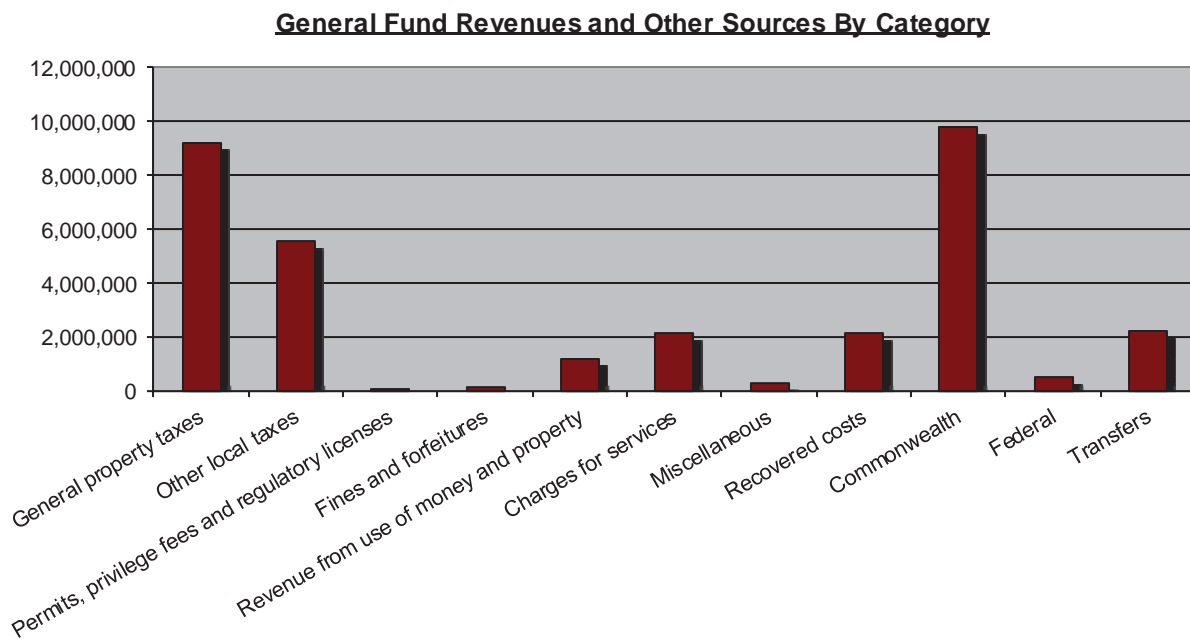
As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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 \$7,930,162, an increase of \$965,276 when compared to the prior year. \$4,660,378, or 58.8%, of the combined governmental fund balance is unassigned. The remaining \$3,269,784, or 41.2%, of the total fund balance is non-spendable, committed or assigned to show it is not available for spending because it has been designated as non-spendable, committed or assigned for future projects.

The General Fund is the operating fund of the City. The General Fund reports a fund balance at June 30, 2018 of \$6,714,323. This is an increase from the prior year of \$657,204. The General Fund expenditures exceeded revenues in the current year by \$1,345,484; the expenditures exceeded revenues in FY17 by \$1,461,278. The transfer amounts into the General Fund of \$2,190,901 increased by \$1,440,822 compared to FY17. During FY18, transfers from the Proprietary Funds were kept to a minimum to allow those funds to accrue reserves. There were transfers out of the General Fund totaling \$188,213. \$4,660,378, representing 69.4% of the total fund balance is unassigned, an increase of \$1,629,023, compared to \$3,031,355 of unassigned fund balance from June 30, 2017. As a measure of the General Funds liquidity, it is useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 14.4% of total General Fund expenditures, while total fund balance is 20.7% of that same amount.

General Fund Revenues and Other Sources by Category

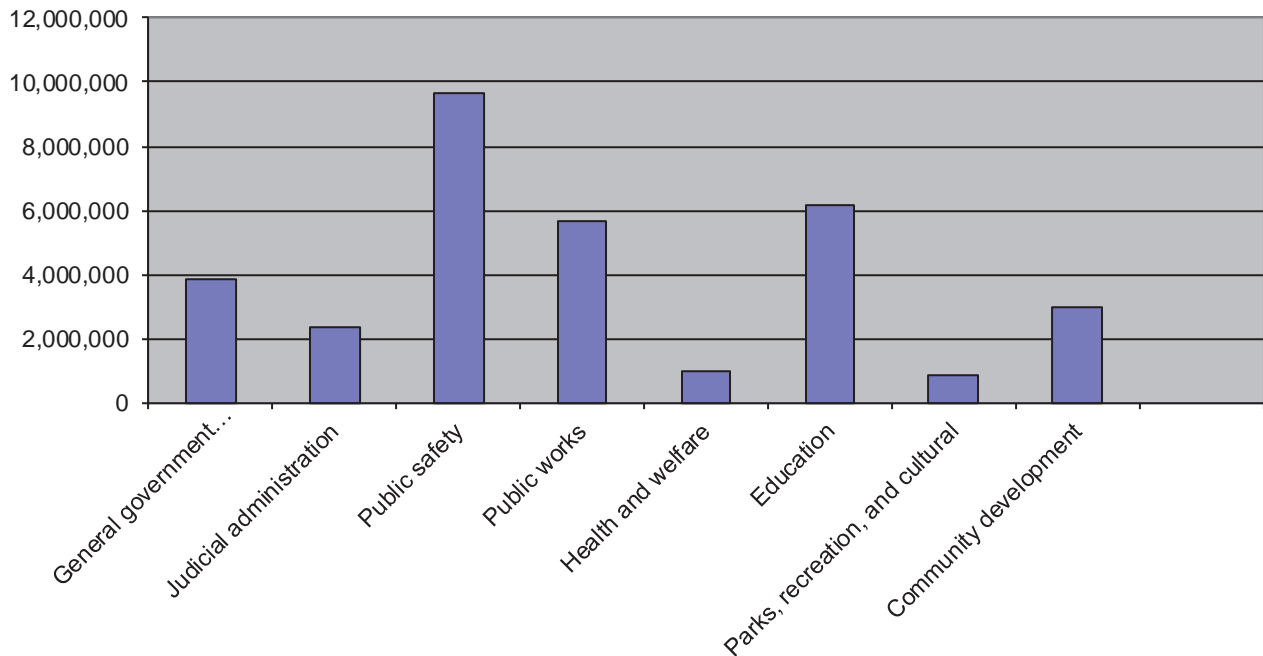
The following graph depicts General Fund revenues and other sources by categories. Total revenues and other sources are \$33,254,966, including transfers into the fund of \$2,190,901.



General Fund Revenues and Other Sources by Category (Continued)

The graph below displays General Fund expenditures and other uses by category. Total expenditures and uses are \$32,409,549.

General Fund Expenditures and Other Sources By Category



Proprietary funds – reported combined ending net position of \$28,476,339, a decrease of \$42,767 in comparison with the amount reported on June 30, 2017. The Electric Fund decreased \$55,085; the Refuse Fund increased \$83,599; the Water Fund increased \$234,377; and the Sewer Fund decreased \$304,658.

The Enterprise Funds contributed \$2,891,539 in the support of other City operations. Transfers were made to the General Fund and Capital Reserve Fund in FY2018.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were as follows. Revenues were increased by \$962,242 or 3.31%, while expenditures increased by \$2,785,640 or 8.93%.

The Revenue increases (decreases) were as follows:

- \$5,247 in Fines & Forfeitures
- \$5,171 in Use of Money & Property
- \$6,656 in Miscellaneous Revenue
- \$130,045 in Recovered Costs
- \$421,382 in Intergovernmental revenues from the Commonwealth
- \$393,741 in Intergovernmental revenues from the Federal Government

General Fund Budgetary Highlights: (Continued)

The Expenditure amendments were as follows:

- \$22,000 in General government administration
- \$44,800 in Judicial administration
- \$382,283 in Public Safety
- \$1,395,547 in Public Works
- \$634,794 in Education
- \$9,872 in Parks, Recreation, and Cultural
- \$296,344 in Community development

During the year, actual revenues were greater than budgeted by \$1,044,592 or 3.48%; actual expenditures were less than the budget by \$1,575,838 or 4.64%. The result was a positive variance of \$2,620,430 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, 2018, is \$64,750,544 (net of accumulated depreciation) as listed in the table below. This investment in capital assets includes land, buildings and improvements, infrastructure, and machinery and equipment. Significant capital asset events during FY2018 were: patrol cars, trucks, trencher, mower, wastewater pump, infrastructure improvements, and continuing facility renovations.

City of Martinsville, Virginia's Capital Assets June 30, 2018 and 2017

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Land	\$ 4,379,094	\$ 4,379,094	\$ 683,624	\$ 683,624	\$ 5,062,718	\$ 5,062,718
Construction in progress	-	81,850	5,994,446	6,937,948	5,994,446	7,019,798
Buildings and improvements	18,614,946	19,483,749	6,779,238	6,746,204	25,394,184	26,229,953
Infrastructure	34,731,414	34,731,414	75,946,730	67,297,371	110,678,144	102,028,785
Equipment	10,140,028	10,151,826	8,982,098	8,851,876	19,122,126	19,003,702
Total	\$ 67,865,482	\$ 68,827,933	\$ 98,386,136	\$ 90,517,023	\$ 166,251,618	\$ 159,344,956
Less: accumulated depreciation	45,452,904	44,769,312	56,048,170	54,859,643	101,501,074	99,628,955
Net capital assets	<u>\$ 22,412,578</u>	<u>\$ 24,058,621</u>	<u>\$ 42,337,966</u>	<u>\$ 35,657,380</u>	<u>\$ 64,750,544</u>	<u>\$ 59,716,001</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 FY2018, Martinsville City had total outstanding obligations (not including pension or OPEB obligations) of \$37,053,923. Of this amount, \$17,199,777 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 and lease purchase agreements.

During the Fiscal Year, there was net increase in the City’s long-term debt of \$3,941,379. This amount does not include increases and decreases of the City’s pension and OPEB obligations.

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, 2018 the City's ratio of Net General Obligation Debt to Assessed Value was 3.55%. This was a decrease from the previous fiscal year.

Additional information on the Martinsville City's long-term debt can be found in Note 8 of this report.

Economic Factors Influencing FY2018 Budget and Tax Rates

The FY18 budget continued the strategy of streamlining expenses, funding essential capital expenditures, reviewing personnel reductions through attrition wherever possible, and evaluating all vacancies on a case-by-case basis. The FY18 budget included reductions in public safety funding, engineering, and senior services, and continued an internal cost allocation plan to ensure costs attributed to utility operations are fairly and accurately recovered in the City's General Fund. While basic tax rates remain unchanged, the budget included an increase in the Meals Tax from 6.5% to 7% and an increase in Cigarette Tax from \$0.20/pack to \$0.30/pack. Meals Tax revenue is generally applied to School debt service and capital needs while Cigarette Tax revenue simply accrues to General Fund revenue. One new position was added to the City's Telecom operation to address expanding customer service obligations and growth of the City's system.

Looking Ahead – The Outlook for FY2019 - Opportunities and Challenges

The City faces both opportunities and challenges in FY19, including the following issues:

- 1. Unemployment, under-employment, and other workforce challenges** – Martinsville continues to consistently experience higher unemployment relative to other localities around the state but continues to show steady improvement - the unemployment rate for the City on June 30, 2018 was 5.6% compared to 6.9% for June 30, 2017, 7.4% for June 30, 2016, and 9.1% the previous year. The City's unemployment rate still compares unfavorably to the state (3.3%) and national averages (4%), but despite the higher-than-average rate, challenges continue to be reported by employers in filling vacant positions throughout the community with qualified individuals. Workforce issues will continue to be a challenge as economic growth and expansion occurs.
- 2. Reductions in state aid** – A continuing concern for the City is in regard to potential reductions in state aid during periods when state revenue fails to meet budget projections. This practice is unpredictable and creates additional financial stress for the City as announcements of such reductions typically occur in mid-year, requiring City budget adjustments. Additionally, the state's practice of failing to honor financial commitments to localities (HB599 funding, for example) simply adds fiscal stress to already-stretched budgets.
- 3. Personnel Costs** –The City continues to evaluate the rising cost of employee health care, market-related adjustments in the pay/classification plan to remain competitive, and changes in funding related to Virginia Retirement System contributions, all of which has a significant impact on the City's budget. Remaining competitive in the regional market for employee talent is a growing challenge, and not necessarily unique to Martinsville alone.

Looking Ahead – The Outlook for FY2019 - Opportunities and Challenges: (Continued)

4. **Policy** - The City Council approves the annual budget following staff recommendations, its own analysis of the needs of the City including the City's overall financial position and economic conditions, and after careful consideration of input and comments from the citizens. This methodical process has led to the development of conservative budget principles of minimizing increases in taxes and fees and the continuation of offering the same levels of service that citizens are accustomed to receiving. Management and Council realizes that the trend of providing current levels of services cannot continue indefinitely without increasing revenues/fees for service and/or without making changes in the manner at which local funds are expended.
5. **Exploration of new revenue opportunities** – With direction from City Council, staff will continue to explore opportunities for revenue growth. Continued expansion/growth of the City's fiber optic system shows potential and positive net revenue growth is occurring. Expansion opportunities are generally considered on a case by case basis in regard to the investment required, ROI/pay back, and the ability of City staff to provide the highest level of customer support. Consideration is being given to a continued marketing strategy for the MiNet system and using the system capabilities as an economic development tool.
6. **Exploration of opportunities to reduce costs/outsource** – City staff continues to investigate options for outsourcing certain governmental functions/operations in areas where service can be provided at least as good if not better at less cost than providing the same service internally. Outsourcing housing functions, changes in management of the City's baseball team, the Martinsville Mustangs, and continuing to contract with the Martinsville Chamber of Commerce's Partnership for Economic Growth for small business development are several examples. The City just recently contracted with Martinsville Henry County YMCA to provide management of recreation services, again at a substantial savings while keeping services unchanged.
7. **Uptown Revitalization Projects** – The City continues to support New College while NCI continues with efforts related to advanced manufacturing training and meeting the ever-changing educational needs of the community and region.

In an effort to accelerate redevelopment of vacant or underutilized properties, the City is taking a more aggressive position on property acquisitions with the plan to leverage available funding through grants and/or other sources to repurpose properties for betterment of the community, and in many cases, the Uptown area specifically.

The City's continued partnership with the Martinsville-Henry County Chamber of Commerce's – Partnership for Economic Growth for management of West Piedmont Business Development Center – a business incubator located in the heart of Uptown Martinsville is proving to be beneficial as CPEG continually maintains the Incubator at or near full capacity. Additionally, the City will be continuing its partnership with CPEG in FY19 regarding small business development with the goal of creating opportunities for small business growth and development in the Uptown area and other areas of the City. The third year of a successful community business launch project recently resulted in the startup or expansion of a number of new businesses in Martinsville.

8. **Job Creation**—The City continues to partner with Henry County in economic development. Going into FY19, efforts will continue to retain current business and industry, provide an atmosphere conducive to expansion, as well as to attract new business and industry.

Looking Ahead – The Outlook for FY2019 - Opportunities and Challenges: (Continued)

9. Industrial Park Development—The City and Henry County partner in economic development through joint funding of the Martinsville-Henry County Economic Development Corporation and also through a revenue sharing agreement at County industrial parks. Under the agreement, the City is to receive one-third of the tax revenue generated after Henry County recoups its initial investment. One particular industrial park, Commonwealth Crossing Business Centre (CCBC), a 726 acre rail-served site, has become the focus of aggressive development efforts and grading of the site is complete. CCAT, the Commonwealth Center for Advanced Training, a 26,000 sf advanced manufacturing training facility is currently under construction and CCBC's first tenant, Press Glass recently announced a \$43.5 million investment for a 280,000 sf manufacturing facility at CCBC. Additionally, First Piedmont Corporation has acquired a 12 acre tract in the City's Clearview Business Park and construction is underway for a new FPC garage facility

10. Infrastructure Needs – In early FY15, investigation regarding two important projects occurred – (1) an engineering assessment of an approximate 6 mile section of 36- and 42-inch diameter sewer line, and (2) the need for replacement of the City's aging water and electric meters. Combined, the two projects represent approximately \$30 million. The meter replacement project which also included replacement of street lighting has been completed and the cost savings generated by efficiencies of the new equipment covers the debt service for the project. Work continues on the sewer project and completion is expected in early 2019. The City is also moving forward with an approximately \$1.5 million project at the closed City Landfill to remediate environmental issues.

For fiscal year 2019, City Council approved a General Fund Budget of \$30,902,180 with no changes in the basic tax rates and an increase in the Electric PCA (power cost adjustment) of \$.00556, which is an average increase of 4.64%.

Requests for Information

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

Basic Financial Statements

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Government-wide Financial Statements

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Statement of Net Position
At June 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	School Board
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 7,333,891	\$ 10,618,130	\$ 17,952,021	\$ 2,399,245
Cash and cash equivalents - restricted	-	321,440	321,440	-
Receivables (net of allowance for uncollectibles):				
Property taxes	1,101,227	-	1,101,227	-
Accounts receivable	115,070	3,611,595	3,726,665	970
Inventory	2,786,187	1,215,311	4,001,498	-
Due from other governments	602,903	-	602,903	580,655
Prepaid items	5,275	-	5,275	-
Total Current Assets	\$ 11,944,553	\$ 15,766,476	\$ 27,711,029	\$ 2,980,870
Noncurrent Assets:				
Capital assets (net of accumulated depreciation):				
Land and land improvements	\$ 4,379,094	\$ 683,624	\$ 5,062,718	\$ 47,172
Construction in progress	-	5,994,446	5,994,446	-
Buildings and improvements	10,930,339	2,945,819	13,876,158	10,420,047
Equipment	2,416,732	2,118,953	4,535,685	958,258
Infrastructure	4,686,413	30,595,124	35,281,537	-
Total Net Capital Assets	\$ 22,412,578	\$ 42,337,966	\$ 64,750,544	\$ 11,425,477
Total Noncurrent Assets	\$ 22,412,578	\$ 42,337,966	\$ 64,750,544	\$ 11,425,477
Total Assets	\$ 34,357,131	\$ 58,104,442	\$ 92,461,573	\$ 14,406,347
DEFERRED OUTFLOWS OF RESOURCES:				
Items related to:				
Pension	\$ 1,708,766	\$ 825,009	\$ 2,533,775	\$ 2,699,556
OPEB	53,161	11,907	65,068	207,217
Total deferred outflows of resources	\$ 1,761,927	\$ 836,916	\$ 2,598,843	\$ 2,906,773
Total assets and deferred outflows of resources	\$ 36,119,058	\$ 58,941,358	\$ 95,060,416	\$ 17,313,120
LIABILITIES				
Current Liabilities:				
Accounts payable and other current liabilities	\$ 1,477,328	\$ 1,320,284	\$ 2,797,612	\$ 1,317,665
Accrued interest payable	232,311	81,753	314,064	-
Unearned revenues	-	-	-	22,793
Current portion of long-term obligations	1,320,468	1,073,822	2,394,290	-
Total Current Liabilities	\$ 3,030,107	\$ 2,475,859	\$ 5,505,966	\$ 1,340,458
Noncurrent Liabilities:				
Noncurrent portion of long-term obligations	\$ 30,339,279	\$ 27,588,674	\$ 57,927,953	\$ 23,074,767
Total Liabilities	\$ 33,369,386	\$ 30,064,533	\$ 63,433,919	\$ 24,415,225
DEFERRED INFLOWS OF RESOURCES				
Deferred revenue - property taxes	\$ 63,983	\$ -	\$ 63,983	\$ -
Items related to:				
Pension	1,906,664	374,908	2,281,572	3,774,361
OPEB	114,205	25,578	139,783	212,000
Total deferred inflows of resources	\$ 2,084,852	\$ 400,486	\$ 2,485,338	\$ 3,986,361
NET POSITION				
Net investment in capital assets	\$ 10,317,087	\$ 21,620,820	\$ 31,937,907	\$ 11,425,477
Unrestricted	(9,652,267)	6,855,519	(2,796,748)	(22,513,943)
Total Net Position	\$ 664,820	\$ 28,476,339	\$ 29,141,159	\$ (11,088,466)
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 36,119,058	\$ 58,941,358	\$ 95,060,416	\$ 17,313,120

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

CITY OF MARTINSVILLE, VIRGINIA

Statement of Activities
For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government administration	\$ 3,201,860	\$ 54,132	\$ 230,181	\$ -
Judicial administration	2,314,974	216,855	808,053	-
Public safety	9,902,833	570,985	3,446,573	24,793
Public works	4,926,615	1,483,813	3,628,653	302,607
Health and welfare	960,166	-	241,134	-
Education	7,305,996	-	-	-
Parks, recreation, and cultural	883,520	12,589	34,468	-
Community development	3,231,968	-	184,155	-
Interest on long-term debt	153,162	-	-	-
Total governmental activities	<u>\$ 32,881,094</u>	<u>\$ 2,338,374</u>	<u>\$ 8,573,217</u>	<u>\$ 327,400</u>
Business-type activities:				
Electric	\$ 18,842,419	\$ 18,787,334	\$ -	\$ -
Water	1,998,279	3,497,724	-	-
Sewer	3,352,971	4,269,547	-	-
Refuse collection / landfill	1,792,739	2,237,742	-	-
Total business-type activities	<u>\$ 25,986,408</u>	<u>\$ 28,792,347</u>	<u>\$ -</u>	<u>\$ -</u>
Total primary government	<u>\$ 58,867,502</u>	<u>\$ 31,130,721</u>	<u>\$ 8,573,217</u>	<u>\$ 327,400</u>
COMPONENT UNIT:				
School Board	<u>\$ 23,605,147</u>	<u>\$ 208,803</u>	<u>\$ 18,644,239</u>	<u>\$ -</u>
General revenues:				
General property taxes				
Local sales tax				
Business license tax				
Meals tax				
Consumer utility tax				
Other local taxes				
Unrestricted revenues from use of money and property				
Miscellaneous				
Grants and contributions not restricted to specific programs				
City contribution to the school board, unrestricted				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position - beginning, as restated				
Net position - ending				

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

Net (Expense) Revenue and Changes in Net Position				
Primary Government			Component Unit	
Governmental Activities	Business-type Activities	Total	School Board	Functions/Programs
PRIMARY GOVERNMENT:				
Governmental activities:				
\$ (2,917,547)	\$ -	\$ (2,917,547)	\$ -	General government administration
(1,290,066)	-	(1,290,066)	-	Judicial administration
(5,860,482)	-	(5,860,482)	-	Public safety
488,458	-	488,458	-	Public works
(719,032)	-	(719,032)	-	Health and welfare
(7,305,996)	-	(7,305,996)	-	Education
(836,463)	-	(836,463)	-	Parks, recreation, and cultural
(3,047,813)	-	(3,047,813)	-	Community development
(153,162)	-	(153,162)	-	Interest on long-term debt
<u>\$ (21,642,103)</u>	<u>\$ -</u>	<u>\$ (21,642,103)</u>	<u>\$ -</u>	Total government activities
Business-type activities:				
\$ -	\$ (55,085)	\$ (55,085)	\$ -	Electric
-	1,499,445	1,499,445	-	Water
-	916,576	916,576	-	Sewer
-	445,003	445,003	-	Refuse collection / landfill
<u>\$ -</u>	<u>\$ 2,805,939</u>	<u>\$ 2,805,939</u>	<u>\$ -</u>	Total business-type activities
<u>\$ (21,642,103)</u>	<u>\$ 2,805,939</u>	<u>\$ (18,836,164)</u>	<u>\$ -</u>	Total primary government
COMPONENT UNIT:				
\$ -	\$ -	\$ -	\$ (4,752,105)	School Board
General revenues:				
\$ 8,964,713	\$ -	\$ 8,964,713	\$ -	General property taxes
1,968,475	-	1,968,475	-	Local sales tax
1,984,863	-	1,984,863	-	Business license tax
1,804,893	-	1,804,893	-	Meals tax
656,804	-	656,804	-	Consumer utility tax
961,884	-	961,884	-	Other local taxes
1,225,674	27,638	1,253,312	78,991	Unrestricted revenues from use of money and property
349,751	15,195	364,946	162,180	Miscellaneous
1,577,765	-	1,577,765	-	Grants and contributions not restricted to specific programs
-	-	-	6,150,281	City contribution to the school board, unrestricted
<u>2,891,539</u>	<u>(2,891,539)</u>	<u>-</u>	<u>-</u>	Transfers
<u>\$ 22,386,361</u>	<u>\$ (2,848,706)</u>	<u>\$ 19,537,655</u>	<u>\$ 6,391,452</u>	Total general revenues and transfers
<u>\$ 744,258</u>	<u>\$ (42,767)</u>	<u>\$ 701,491</u>	<u>\$ 1,639,347</u>	Change in net position
<u>(79,438)</u>	<u>28,519,106</u>	<u>28,439,668</u>	<u>(12,727,813)</u>	Net position - beginning, as restated
<u>\$ 664,820</u>	<u>\$ 28,476,339</u>	<u>\$ 29,141,159</u>	<u>\$ (11,088,466)</u>	Net position - ending

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Fund Financial Statements

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Balance Sheet - Governmental Funds
At June 30, 2018

	General	Meals Tax Fund	Nonmajor Governmental Funds	Total
ASSETS				
Cash and cash equivalents	\$ 6,076,306	\$ 483,381	\$ 774,204	\$ 7,333,891
Receivables (net of allowance for uncollectibles):				
Taxes, including penalties	1,101,227	-	-	1,101,227
Accounts	107,790	-	7,280	115,070
Inventory	1,197,331	-	-	1,197,331
Due from other governments	602,903	-	-	602,903
Prepaid items	5,275	-	-	5,275
Total assets	<u>\$ 9,090,832</u>	<u>\$ 483,381</u>	<u>\$ 781,484</u>	<u>\$ 10,355,697</u>
LIABILITIES				
Accounts payable and other current liabilities	\$ 1,428,302	-	49,026	\$ 1,477,328
Total liabilities	<u>\$ 1,428,302</u>	<u>\$ -</u>	<u>\$ 49,026</u>	<u>\$ 1,477,328</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-property taxes	\$ 948,207	-	-	\$ 948,207
FUND BALANCES				
Nonspendable:				
Inventory	\$ 1,197,331	-	-	\$ 1,197,331
Prepaid items	5,275	-	-	5,275
Committed:				
General government administration	16,400	-	-	16,400
Judicial administration	7,632	-	-	7,632
Public safety	285,351	-	-	285,351
Public works	248,257	-	-	248,257
Education	197,728	-	-	197,728
Community development	95,971	-	-	95,971
Assigned:				
Capital reserve fund	-	-	681,863	681,863
Special revenue	-	-	50,595	50,595
Meals tax fund	-	483,381	-	483,381
Unassigned	4,660,378	-	-	4,660,378
Total fund balances	<u>\$ 6,714,323</u>	<u>\$ 483,381</u>	<u>\$ 732,458</u>	<u>\$ 7,930,162</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 9,090,832</u>	<u>\$ 483,381</u>	<u>\$ 781,484</u>	<u>\$ 10,355,697</u>

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

Total fund balances per exhibit 3 - Balance Sheet - Governmental Funds	\$ 7,930,162
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.	22,412,578
Inventory of land and buildings held for resale	1,588,856
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	
Unavailable revenue - property taxes	884,224
Items related to the measurement of the net pension and group life insurance OPEB liabilities are considered deferred outflows and deferred inflows and will be amortized and recognized as expenses in future periods.	
Deferred outflows related to:	
Pension items	\$ 1,708,766
Group life insurance OPEB items	53,161
	1,761,927
Deferred inflows related to:	
Pension items	\$ (1,906,664)
Group life insurance OPEB items	(114,205)
	(2,020,869)
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 position.	(31,659,747)
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(232,311)
Net position of General Government Activities	<u>\$ 664,820</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
 For the Year Ended June 30, 2018

	General	Meals Tax Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
General property taxes	\$ 9,180,279	\$ -	\$ -	\$ 9,180,279
Other local taxes	5,572,026	1,804,893	-	7,376,919
Permits, privilege fees and regulatory licenses	56,503	-	-	56,503
Fines and forfeitures	170,759	-	-	170,759
Revenue from use of money and property	1,189,891	-	35,783	1,225,674
Charges for services	2,111,112	-	-	2,111,112
Miscellaneous	322,485	-	27,266	349,751
Recovered costs	2,173,575	-	-	2,173,575
Intergovernmental:				
Commonwealth	9,765,734	-	59,793	9,825,527
Federal	521,701	369,164	131,155	1,022,020
Total revenues	<u>\$ 31,064,065</u>	<u>\$ 2,174,057</u>	<u>\$ 253,997</u>	<u>\$ 33,492,119</u>
Expenditures:				
Current:				
General government administration	\$ 3,826,367	\$ 51,697	\$ 141,901	\$ 4,019,965
Judicial administration	2,332,335	-	-	2,332,335
Public safety	9,674,509	-	317,930	9,992,439
Public works	5,630,329	-	367,170	5,997,499
Health and welfare	993,510	-	-	993,510
Education	6,170,116	-	-	6,170,116
Parks, recreation, and cultural	837,001	-	-	837,001
Community development	2,945,382	-	254,021	3,199,403
Debt service:				
Principal retirement	-	1,016,803	321,355	1,338,158
Interest and other fiscal charges	-	504,873	33,083	537,956
Total expenditures	<u>\$ 32,409,549</u>	<u>\$ 1,573,373</u>	<u>\$ 1,435,460</u>	<u>\$ 35,418,382</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (1,345,484)</u>	<u>\$ 600,684</u>	<u>\$ (1,181,463)</u>	<u>\$ (1,926,263)</u>
Other financing sources (uses):				
Transfers in	\$ 2,190,901	\$ -	\$ 1,288,851	\$ 3,479,752
Transfers (out)	<u>(188,213)</u>	<u>(400,000)</u>	<u>-</u>	<u>(588,213)</u>
Total other financing sources (uses)	<u>\$ 2,002,688</u>	<u>\$ (400,000)</u>	<u>\$ 1,288,851</u>	<u>\$ 2,891,539</u>
Changes in fund balances	\$ 657,204	\$ 200,684	\$ 107,388	\$ 965,276
Fund balances at beginning of year	<u>6,057,119</u>	<u>282,697</u>	<u>625,070</u>	<u>6,964,886</u>
Fund balances at end of year	<u><u>\$ 6,714,323</u></u>	<u><u>\$ 483,381</u></u>	<u><u>\$ 732,458</u></u>	<u><u>\$ 7,930,162</u></u>

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

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities - Governmental Funds
For the Year Ended June 30, 2018

		<u>Primary Governmental Funds</u>
Amounts reported for governmental activities in the Statement of Activities are different because:		
Net change in fund balances - total governmental funds	\$	965,276
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 depreciation exceeded capital outlays in the current year.		
Capital outlays	\$ 342,751	
Depreciation expense	<u>(1,119,992)</u>	(777,241)
Transfer of joint tenancy assets from Primary Government to the Component Unit		(868,803)
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 following:		
Change in unavailable tax revenue	\$ (215,566)	
Change in deferred inflows related to the measurement of:		
Pension items	(1,522,578)	
Group life insurance OPEB items	<u>(114,205)</u>	(1,852,349)
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 position. Also, governmental funds report the effect of premiums, discounts, similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
Details supporting this adjustment are as follows:		
Principal retired on debt on state literary fund loans	\$ 375,000	
Principal retired on general obligation bonds	374,400	
Principal retired on capital lease	94,955	
Principal retired on VPA subsidy bonds	<u>493,803</u>	1,338,158
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds. The following is a summary of items supporting this adjustment:		
Change in compensated absences	\$ (3,653)	
Change in deferred outflows related to:		
Pension items	(1,915,491)	
Group life insurance OPEB items	2,069	
Change in net pension liability	3,634,091	
Change in net OPEB liability - group life insurance	160,788	
Change in total Pay-as-you-Go OPEB liability	45,783	
Change in accrued interest payable	<u>15,630</u>	<u>1,939,217</u>
Change in net position of governmental activities	\$	<u><u>744,258</u></u>

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

Proprietary Funds
Statement of Net Position
At June 30, 2018

	Electric Fund	Water Fund	Sewer Fund	Refuse Collection/ Landfill Fund	Total
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 290,557	\$ 2,899,231	\$ 1,907,096	\$ 5,521,246	\$ 10,618,130
Cash and cash equivalents - restricted	279,080	42,360	-	-	321,440
Receivables (net of allowance for uncollectibles):	2,514,953	449,708	404,689	242,245	3,611,595
Inventory	1,036,066	179,245	-	-	1,215,311
Total current assets	\$ 4,120,656	\$ 3,570,544	\$ 2,311,785	\$ 5,763,491	\$ 15,766,476
Noncurrent Assets					
Capital assets:					
Land	\$ -	\$ 658,224	\$ 25,400	\$ -	\$ 683,624
Construction in progress	-	-	5,994,446	-	5,994,446
Buildings and improvements	586,744	1,993,728	1,230,905	2,967,861	6,779,238
Equipment	2,825,212	1,760,045	2,507,130	1,889,711	8,982,098
Infrastructure	36,719,746	15,474,125	23,752,859	-	75,946,730
Accumulated depreciation	(24,435,544)	(12,074,703)	(16,902,116)	(2,635,807)	(56,048,170)
Total capital assets (net of accumulated depreciation)	\$ 15,696,158	\$ 7,811,419	\$ 16,608,624	\$ 2,221,765	\$ 42,337,966
Total assets	\$ 19,816,814	\$ 11,381,963	\$ 18,920,409	\$ 7,985,256	\$ 58,104,442
Deferred Outflows of Resources					
Items related to:					
Pension	\$ 279,278	\$ 75,074	\$ 372,304	\$ 98,353	\$ 825,009
OPEB	3,423	2,330	5,066	1,088	11,907
Total deferred outflows of resources	\$ 282,701	\$ 77,404	\$ 377,370	\$ 99,441	\$ 836,916
Total assets and deferred outflows of resources	\$ 20,099,515	\$ 11,459,367	\$ 19,297,779	\$ 8,084,697	\$ 58,941,358
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 78,510	\$ 72,883	\$ 792,057	\$ 55,394	\$ 998,844
Customers' deposits	279,080	42,360	-	-	321,440
Interest payable	45,823	25,996	573	9,361	81,753
Current portion of long-term obligations	265,313	172,381	518,970	117,158	1,073,822
Total current liabilities	\$ 668,726	\$ 313,620	\$ 1,311,600	\$ 181,913	\$ 2,475,859
Noncurrent liabilities:					
Noncurrent portion of long-term obligations	5,531,250	3,280,845	14,208,352	4,568,227	27,588,674
Total liabilities	\$ 6,199,976	\$ 3,594,465	\$ 15,519,952	\$ 4,750,140	\$ 30,064,533
Deferred Inflows of Resources					
Items related to:					
Pension	\$ 98,953	\$ 97,781	\$ 145,889	\$ 32,285	\$ 374,908
OPEB	7,353	5,005	10,883	2,337	25,578
Total deferred inflows of resources:	\$ 106,306	\$ 102,786	\$ 156,772	\$ 34,622	\$ 400,486
NET POSITION					
Net investment in capital assets	\$ 11,178,158	\$ 5,246,419	\$ 3,746,603	\$ 1,449,640	\$ 21,620,820
Unrestricted	2,615,075	2,515,697	(125,548)	1,850,295	6,855,519
Total net position	\$ 13,793,233	\$ 7,762,116	\$ 3,621,055	\$ 3,299,935	\$ 28,476,339
Total liabilities, deferred inflows of resources and net position	\$ 20,099,515	\$ 11,459,367	\$ 19,297,779	\$ 8,084,697	\$ 58,941,358

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

Proprietary Funds
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2018

	Electric Fund	Water Fund	Sewer Fund	Refuse Collection/ Landfill Fund	Total
Operating revenues:					
Charges for services	\$ 18,743,476	\$ 3,345,108	\$ 4,265,385	\$ 1,643,949	\$ 27,997,918
Miscellaneous	43,858	152,616	4,162	593,793	794,429
Total operating revenues	\$ 18,787,334	\$ 3,497,724	\$ 4,269,547	\$ 2,237,742	\$ 28,792,347
Operating expenses:					
Personnel services	\$ 719,218	\$ 536,250	\$ 977,257	\$ 231,851	\$ 2,464,576
Fringe benefits	241,729	7,974	149,296	72,032	471,031
Contractual services	174,191	141,904	147,945	140,639	604,679
Other charges	17,072,858	939,791	1,847,756	1,142,377	21,002,782
Depreciation	519,722	306,775	229,087	183,636	1,239,220
Total operating expenses	\$ 18,727,718	\$ 1,932,694	\$ 3,351,341	\$ 1,770,535	\$ 25,782,288
Operating income (loss)	\$ 59,616	\$ 1,565,030	\$ 918,206	\$ 467,207	\$ 3,010,059
Nonoperating revenues (expenses):					
Interest income	\$ -	\$ -	\$ 27,638	\$ -	\$ 27,638
Sale of property	-	-	15,195	-	15,195
Interest expense	(114,701)	(65,585)	(1,630)	(22,204)	(204,120)
Total nonoperating revenues (expenses)	\$ (114,701)	\$ (65,585)	\$ 41,203	\$ (22,204)	\$ (161,287)
Income (loss) before transfers	\$ (55,085)	\$ 1,499,445	\$ 959,409	\$ 445,003	\$ 2,848,772
Transfers:					
Transfers (out)	-	(1,265,068)	(1,265,067)	(361,404)	(2,891,539)
Change in net position	\$ (55,085)	\$ 234,377	\$ (305,658)	\$ 83,599	\$ (42,767)
Net position at beginning of year, as restated	13,848,318	7,527,739	3,926,713	3,216,336	28,519,106
Net position at end of year	\$ 13,793,233	\$ 7,762,116	\$ 3,621,055	\$ 3,299,935	\$ 28,476,339

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

Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2018

	Electric Fund	Water Fund	Sewer Fund	Refuse Collection/ Landfill Fund	Total
Cash Flows From Operating Activities:					
Receipts from customers and users	\$ 18,819,958	\$ 3,548,056	\$ 4,311,320	\$ 2,260,551	\$ 28,939,885
Payments to suppliers and other operating expenses	(17,257,808)	(1,300,652)	(1,559,593)	(1,234,671)	(21,352,724)
Payments to employees (including fringe benefits)	(939,020)	(710,795)	(1,356,929)	(320,074)	(3,326,818)
Net cash provided by (used for) operating activities	\$ 623,130	\$ 1,536,609	\$ 1,394,798	\$ 705,806	\$ 4,260,343
Cash Flows From Capital and Related Financing Activities:					
Purchase and construction of capital assets	\$ (810,472)	\$ (424,478)	\$ (6,651,822)	\$ (33,034)	\$ (7,919,806)
Proceeds from sale of property	-	-	15,195	-	15,195
Issuance of water and sewer revenue bonds	-	-	5,922,341	-	5,922,341
Retirement of general obligation bonds	(244,000)	-	(18,170)	(110,830)	(373,000)
Retirement of revenue bonds	-	-	(178,571)	-	(178,571)
Retirement of capital lease obligations	-	(156,000)	-	-	(156,000)
Interest expense	(117,159)	(67,209)	(1,812)	(23,505)	(209,685)
Net cash provided by (used for) capital and related financing activities	\$ (1,171,631)	\$ (647,687)	\$ (912,839)	\$ (167,369)	\$ (2,899,526)
Cash Flows From Noncapital Financing Activities:					
Transfers	\$ -	\$ (1,265,068)	\$ (1,265,067)	\$ (361,404)	\$ (2,891,539)
Net cash provided by (used for) noncapital financing activities	\$ -	\$ (1,265,068)	\$ (1,265,067)	\$ (361,404)	\$ (2,891,539)
Cash Flows From Investing Activities:					
Interest income	\$ -	\$ -	\$ 27,638	\$ -	\$ 27,638
Net Increase (decrease) in cash and cash equivalents	\$ (548,501)	\$ (376,146)	\$ (755,470)	\$ 177,033	\$ (1,503,084)
Cash and cash equivalents at beginning of year	1,118,138	3,317,737	2,662,566	5,344,213	12,442,654
Cash and cash equivalents at end of year	\$ 569,637	\$ 2,941,591	\$ 1,907,096	\$ 5,521,246	\$ 10,939,570
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ 59,616	\$ 1,565,030	\$ 918,206	\$ 467,207	\$ 3,010,059
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	\$ 519,722	\$ 306,775	\$ 229,087	\$ 183,636	\$ 1,239,220
Changes in operating activities:					
(Increase) decrease in:					
Accounts receivable	79,821	54,267	41,773	22,809	198,670
Inventory	(39,847)	13,595	-	-	(26,252)
Increase (decrease) in:					
Accounts payable	29,088	(232,552)	436,108	(15,169)	217,475
Deferred outflows of resources	(86,026)	54,305	(133,341)	(48,723)	(213,785)
Deferred inflows of resources	86,961	(41,595)	(78,209)	11,240	(21,603)
Net pension liability	35,664	(170,768)	4,615	23,295	(107,194)
Net OPEB liability - group life insurance	(10,352)	(7,046)	(15,321)	(3,290)	(36,009)
Total Pay-as-you-Go OPEB liability	(2,940)	(2,007)	(4,329)	(942)	(10,218)
Compensated absences	(1,380)	540	(3,791)	2,229	(2,402)
Landfill closure and post-closure liability	-	-	-	63,514	63,514
Customer deposits	(47,197)	(3,935)	-	-	(51,132)
Total adjustments	\$ 563,514	\$ (28,421)	\$ 476,592	\$ 238,599	\$ 1,250,284
Net cash provided by (used for) operating activities	\$ 623,130	\$ 1,536,609	\$ 1,394,798	\$ 705,806	\$ 4,260,343

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

Statement of Fiduciary Net Position --
Agency Funds
At June 30, 2018

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ <u>1,603,146</u>
Total assets	\$ <u><u>1,603,146</u></u>
LIABILITIES	
Accounts payable	\$ 115,449
Amounts held for others	<u>1,487,697</u>
Total liabilities	\$ <u><u>1,603,146</u></u>

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

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CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018

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

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

Government-wide and Fund Financial Statements

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

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

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

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

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

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

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

A. Financial Reporting Entity

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

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

B. Individual Component Unit Disclosures

Blended Component Unit. The City has no blended component units at June 30, 2018.

Discretely Presented Component Unit School Board. The School Board members are appointed by the City Council and are responsible for the operations of the City's School System within the City boundaries. The School Board is fiscally dependent on the City. The City has the ability to approve its budget and any amendments. The primary funding is from the General Fund of the City. The School Fund does not issue a separate financial report. The financial statements of the School Board are presented as a discrete presentation of the City financial statements for the fiscal year ended June 30, 2018.

C. Other Related Organizations

Included in the City's Financial Report

None

Excluded from the City's Financial Report

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

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 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.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

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

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

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

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

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

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as unavailable 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.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

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

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

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

1. Governmental Funds

Governmental Funds are those through which most governmental functions typically are financed. The City reports the following governmental funds.

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

The Meals Tax fund is a Capital Projects Fund of the City. This fund accounts for and reports financial resources that are restricted, committed or assigned to expenditure for the acquisition or construction of major capital facilities.

The City reports the following nonmajor governmental funds:

Special Revenue Funds: Special Revenue Funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The nonmajor Special Revenue Fund is the City Grants Fund.

Capital Projects Funds - The Capital Projects Funds account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, except for those financed by proprietary funds or for assets held in trust for individuals, private organizations, or other governments. The only nonmajor Capital Projects Fund is the Capital Reserve Fund.

2. 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.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

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

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

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

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

Fiduciary Funds – (Trust and Agency Funds) – account for assets held by the City unit in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. These funds include Agency Funds. Agency funds utilize the accrual basis of accounting to recognize receivables and payables. Fiduciary funds are not included in the government-wide financial statements. Agency funds include the Insurance Trust Fund, Inmate Welfare Fund, Police Academy Fund, Southern Virginia Recreation Facility Authority Fund, Blue Ridge Regional Library Fund, and Dan River ASAP Fund.

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

E. Cash and Cash Equivalents

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

F. Investments

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

Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposit (CDs) and external investment pools are measured at amortized cost. All other investments are reported at fair value. Investments in custody of others include unspent bond proceeds and accumulated interest that the City intends to use for the electric and water meter installation projects.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

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

G. Receivables and payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (i.e. the current portion of interfund loans). All other outstanding balances between funds are reported as “advances to/from other funds” (i.e. the noncurrent portion of interfund loans).

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 \$1,602,065 at June 30, 2018, and is composed of the following:

General Fund

Allowance for uncollectible property taxes	\$ <u>172,974</u>
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Enterprise Funds

Allowance for uncollectible accounts:

Electric Fund	\$ 994,213
Water Fund	170,584
Sewer Fund	164,762
Refuse Collection/Landfill Fund	<u>99,532</u>

Total allowance for uncollectible accounts – Enterprise funds	\$ <u>1,429,091</u>
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Total allowance for uncollectible accounts	\$ <u><u>1,602,065</u></u>
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Real and Personal Property Tax Data:

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

	Real Property	Personal Property
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, 2018 (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. Prepaid Items

Payments made for services that will benefit periods beyond June 30 are reported as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

J. Capital Assets

Capital assets, which include property, plant and equipment and infrastructure, 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 at acquisition 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 the asset's life 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, 2018 was immaterial.

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

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

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

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category. It is comprised of certain items related to the measurement of the net pension liability and net OPEB liabilities and contributions to the pension and OPEB plans made during the current year and subsequent to the net pension liability and net OPEB liability measurement date. For more detailed information on these items, reference the related notes.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30 and amounts prepaid on the 2nd half installments and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, amounts prepaid on the 2nd half installments are reported as deferred inflows of resources. In addition, certain items related to the measurement of the net pension liability and net OPEB liabilities are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

L. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's and School Board's Retirement Plan and the additions to/deductions from the City's and School Board's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

M. OPEB

Group Life Insurance

The Virginia Retirement System (VRS) Group Life Insurance (GLI) Program provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI Program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The GLI Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net GLI Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the GLI OPEB, and GLI OPEB expense, information about the fiduciary net position of the VRS GLI Program OPEB and the additions to/deductions from the VRS GLI OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Teacher Employee Health Insurance Credit Program

The Virginia Retirement System (VRS) Teacher Employee Health Insurance Credit (HIC) Program was established pursuant to §51.1-1400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The Teacher HIC Program is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired teachers. For purposes of measuring the net Teacher HIC OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Teacher HIC OPEB, and the related HIC OPEB expense, information about the fiduciary net position of the VRS Teacher Employee HIC Program; and the additions to/deductions from the VRS Teacher Employee HIC Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

N. 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 Position. 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.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

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

O. 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.

P. 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.

Q. Fund Equity

The City reports fund balance in accordance with GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

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

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

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

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

Q. Fund Equity: (Continued)

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

R. Net Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

S. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

T. Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. 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 during the current period. The face amount of debt issued and premiums on issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

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

U. 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 Position, 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 position of the City. The corresponding capital assets are reported as assets of the Component Unit—School Board (title holder), thereby increasing its net position.

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.

V. Adoption of Accounting Principles

The City implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* during the fiscal year ended June 30, 2018. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to postemployment benefits other than pensions (other postemployment benefits or OPEB). Note disclosure and required supplementary information requirements about OPEB are also addressed. The requirements of this Statement will improve accounting and financial reporting by state and local governments for OPEB. In addition, the City implemented Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017* during the fiscal year ended June 30, 2018. This Statement addresses practice issues identified during implementation and application of certain GASB statements for a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). The implementation of these Statements resulted in a restatement of net position.

W. Upcoming Pronouncements

Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

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

W. Upcoming Pronouncements: (Continued)

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 87, *Leases*, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, clarifies which liabilities governments should include when disclosing information related to debt. It defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, it requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

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

W. Upcoming Pronouncements: (Continued)

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

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.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 2—Stewardship, Compliance, and Accounting:

8. All budgetary data presented in the accompanying financial statements is the original to the current comparison of the final budget and actual results.

Expenditures and Appropriations

Expenditures exceeded appropriations in the following functions and funds at June 30, 2018:

<u>Fund / Function</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess of Expenditures Over Appropriations</u>
Health and Welfare	\$ 758,076	\$ 993,510	\$ (235,434)
City Grants Fund	144,184	219,021	(74,837)
School Grants Fund	<u>1,878,270</u>	<u>2,026,114</u>	<u>(147,844)</u>
	<u>\$ 2,780,530</u>	<u>\$ 3,238,645</u>	<u>\$ (458,115)</u>

Note 3—Deposits and Investments:

Deposits:

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

Restricted cash and cash equivalents at June 30, 2018 consist of the following:

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Total</u>
Proprietary Funds:			
Utility customer deposits	\$ <u>279,080</u>	\$ <u>42,360</u>	\$ <u>321,440</u>
Total	<u>\$ 279,080</u>	<u>\$ 42,360</u>	<u>\$ 321,440</u>

The component unit school board is part of the City’s pooled cash and has a net balance in the amount of \$2,399,245 at June 30, 2018.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 4—Due from Other Governments:

At June 30, 2018 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	\$ 165,477	\$ -
State sales tax	-	183,255
State recordation tax	3,870	-
Railroad stock tax	39	-
Constitutional officer reimbursements	246,100	-
Miscellaneous grants	5,330	13,413
Comprehensive service	71,330	-
Communication taxes	66,484	-
Auto rental tax	8,568	-
Federal Government:		
Appalachian Regional Commission grant	8,000	-
Brownfields grant	9,019	-
Miscellaneous grants	18,686	-
School fund grants	-	383,987
Total due from other governments	<u>\$ 602,903</u>	<u>\$ 580,655</u>

Note 5—Inventory:

At June 30, 2018 the City has inventory recorded in the various funds as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Expendable supplies	\$ 1,197,331	\$ 1,215,311
Land and building inventory held for resale:		
77 Commercial & residential lots held for resale	1,392,294	-
5 Commercial & residential buildings held for resale	196,562	-
Totals	<u>\$ 2,786,187</u>	<u>\$ 1,215,311</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 6—Capital Assets:

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2018:

Primary Government:

Governmental Activities:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
Capital assets, not being depreciated:				
Land	\$ 4,379,094	\$ -	\$ -	\$ 4,379,094
Construction in progress	<u>81,850</u>	<u>16,150</u>	<u>98,000</u>	<u>-</u>
Total capital assets not being depreciated	<u>\$ 4,460,944</u>	<u>\$ 16,150</u>	<u>\$ 98,000</u>	<u>\$ 4,379,094</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 7,931,855	\$ -	\$ -	\$ 7,931,855
Equipment	10,151,826	424,601	436,399	10,140,028
Infrastructure	34,731,414	-	-	34,731,414
Jointly owned assets	<u>11,551,894</u>	<u>-</u>	<u>868,803</u>	<u>10,683,091</u>
Total capital assets being depreciated	<u>\$ 64,366,989</u>	<u>\$ 424,601</u>	<u>\$ 1,305,202</u>	<u>\$ 63,486,388</u>
Accumulated depreciation:				
Buildings and improvements	\$ 4,192,999	\$ 201,215	\$ -	\$ 4,394,214
Equipment	7,697,566	462,129	436,399	7,723,296
Infrastructure	29,855,431	189,570	-	30,045,001
Jointly owned assets	<u>3,023,316</u>	<u>267,077</u>	<u>-</u>	<u>3,290,393</u>
Total accumulated depreciation	<u>\$ 44,769,312</u>	<u>\$ 1,119,991</u>	<u>\$ 436,399</u>	<u>\$ 45,452,904</u>
Total capital assets being depreciated, net	<u>\$ 19,597,677</u>	<u>\$ (695,390)</u>	<u>\$ 868,803</u>	<u>\$ 18,033,484</u>
Governmental activities capital assets, net	<u>\$ 24,058,621</u>	<u>\$ (679,240)</u>	<u>\$ 966,803</u>	<u>\$ 22,412,578</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 6—Capital Assets: (Continued)

Primary Government:

Business-type Activities:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
Electric Fund:				
Capital assets being depreciated:				
Buildings and improvements	\$ 586,744	\$ -	\$ -	\$ 586,744
Equipment	2,779,971	81,528	36,287	2,825,212
Infrastructure	<u>35,990,802</u>	<u>728,944</u>	<u>-</u>	<u>36,719,746</u>
Total capital assets being depreciated	<u>\$ 39,357,517</u>	<u>\$ 810,472</u>	<u>\$ 36,287</u>	<u>\$ 40,131,702</u>
Accumulated depreciation:				
Buildings and improvements	\$ 586,744	\$ -	\$ -	\$ 586,744
Equipment	2,381,752	108,933	36,287	2,454,398
Infrastructure	<u>20,983,613</u>	<u>410,789</u>	<u>-</u>	<u>21,394,402</u>
Total accumulated depreciation	<u>\$ 23,952,109</u>	<u>\$ 519,722</u>	<u>\$ 36,287</u>	<u>\$ 24,435,544</u>
Total capital assets being depreciated, net	<u>\$ 15,405,408</u>	<u>\$ 290,750</u>	<u>\$ -</u>	<u>\$ 15,696,158</u>
Electric fund capital assets, net	<u>\$ 15,405,408</u>	<u>\$ 290,750</u>	<u>\$ -</u>	<u>\$ 15,696,158</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 6—Capital Assets: (Continued)

Primary Government: (Continued)

Business-type Activities: (Continued)

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
Water Fund:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 658,224	\$ -	\$ -	\$ 658,224
Construction in progress	<u>253,000</u>	<u>356,625</u>	<u>609,625</u>	<u>-</u>
Total capital assets not being depreciated	<u>\$ 911,224</u>	<u>\$ 356,625</u>	<u>\$ 609,625</u>	<u>\$ 658,224</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 1,993,728	\$ -	\$ -	\$ 1,993,728
Equipment	1,706,597	67,854	14,406	1,760,045
Infrastructure	<u>14,864,501</u>	<u>609,624</u>	<u>-</u>	<u>15,474,125</u>
Total capital assets being depreciated	<u>\$ 18,564,826</u>	<u>\$ 677,478</u>	<u>\$ 14,406</u>	<u>\$ 19,227,898</u>
Accumulated depreciation:				
Buildings and improvements	\$ 1,216,593	\$ 38,045	\$ -	\$ 1,254,638
Equipment	1,177,395	65,610	14,406	1,228,599
Infrastructure	<u>9,388,346</u>	<u>203,120</u>	<u>-</u>	<u>9,591,466</u>
Total accumulated depreciation	<u>\$ 11,782,334</u>	<u>\$ 306,775</u>	<u>\$ 14,406</u>	<u>\$ 12,074,703</u>
Total capital assets being depreciated, net	<u>\$ 6,782,492</u>	<u>\$ 370,703</u>	<u>\$ -</u>	<u>\$ 7,153,195</u>
Water fund capital assets, net	<u>\$ 7,693,716</u>	<u>\$ 727,328</u>	<u>\$ 609,625</u>	<u>\$ 7,811,419</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 6—Capital Assets: (Continued)

Primary Government: (Continued)

Business-type Activities: (Continued)

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
Sewer Fund:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 25,400	\$ -	\$ -	\$ 25,400
Construction in progress	<u>6,684,948</u>	<u>6,620,289</u>	<u>7,310,791</u>	<u>5,994,446</u>
Total capital assets not being depreciated	<u>\$ 6,710,348</u>	<u>\$ 6,620,289</u>	<u>\$ 7,310,791</u>	<u>\$ 6,019,846</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 1,230,905	\$ -	\$ -	\$ 1,230,905
Equipment	2,475,597	31,533	-	2,507,130
Infrastructure	<u>16,442,068</u>	<u>7,310,791</u>	<u>-</u>	<u>23,752,859</u>
Total capital assets being depreciated	<u>\$ 20,148,570</u>	<u>\$ 7,342,324</u>	<u>\$ -</u>	<u>\$ 27,490,894</u>
Accumulated depreciation:				
Buildings and improvements	\$ 915,796	\$ 18,659	\$ -	\$ 934,455
Equipment	1,521,214	80,709	-	1,601,923
Infrastructure	<u>14,236,019</u>	<u>129,719</u>	<u>-</u>	<u>14,365,738</u>
Total accumulated depreciation	<u>\$ 16,673,029</u>	<u>\$ 229,087</u>	<u>\$ -</u>	<u>\$ 16,902,116</u>
Total capital assets being depreciated, net	<u>\$ 3,475,541</u>	<u>\$ 7,113,237</u>	<u>\$ -</u>	<u>\$ 10,588,778</u>
Sewer fund capital asset, net	<u>\$ 10,185,889</u>	<u>\$ 13,733,526</u>	<u>\$ 7,310,791</u>	<u>\$ 16,608,624</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 6—Capital Assets: (Continued)

Primary Government: (Continued)

Business-type Activities: (Continued)

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
Refuse Collection/Landfill Fund:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 2,934,827	\$ 33,034	\$ -	\$ 2,967,861
Equipment	<u>1,889,711</u>	<u>-</u>	<u>-</u>	<u>1,889,711</u>
Total capital assets being depreciated	\$ <u>4,824,538</u>	\$ <u>33,034</u>	\$ <u>-</u>	\$ <u>4,857,572</u>
Accumulated depreciation:				
Buildings and improvements	\$ 918,442	\$ 139,140	\$ -	\$ 1,057,582
Equipment	<u>1,533,729</u>	<u>44,496</u>	<u>-</u>	<u>1,578,225</u>
Total accumulated depreciation	\$ <u>2,452,171</u>	\$ <u>183,636</u>	\$ <u>-</u>	\$ <u>2,635,807</u>
Total capital assets being depreciated, net	\$ <u>2,372,367</u>	\$ <u>(150,602)</u>	\$ <u>-</u>	\$ <u>2,221,765</u>
Refuse collection/landfill fund capital assets, net	<u>\$ 2,372,367</u>	<u>\$ (150,602)</u>	<u>\$ -</u>	<u>\$ 2,221,765</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 6—Capital Assets: (Continued)

Primary Government: (Continued)

Business-type Activities: (Continued)

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
Total Business-type Activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 683,624	\$ -	\$ -	\$ 683,624
Construction in progress	<u>6,937,948</u>	<u>6,976,914</u>	<u>7,920,416</u>	<u>5,994,446</u>
Total capital assets not being depreciated	<u>\$ 7,621,572</u>	<u>\$ 6,976,914</u>	<u>\$ 7,920,416</u>	<u>\$ 6,678,070</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 6,746,204	\$ 33,034	\$ -	\$ 6,779,238
Equipment	8,851,876	180,915	50,693	8,982,098
Infrastructure	<u>67,297,371</u>	<u>8,649,359</u>	<u>-</u>	<u>75,946,730</u>
Total capital assets being depreciated	<u>\$ 82,895,451</u>	<u>\$ 8,863,308</u>	<u>\$ 50,693</u>	<u>\$ 91,708,066</u>
Accumulated depreciation:				
Buildings and improvements	\$ 3,637,575	\$ 195,844	\$ -	\$ 3,833,419
Equipment	6,614,090	299,748	50,693	6,863,145
Infrastructure	<u>44,607,978</u>	<u>743,628</u>	<u>-</u>	<u>45,351,606</u>
Total accumulated depreciation	<u>\$ 54,859,643</u>	<u>\$ 1,239,220</u>	<u>\$ 50,693</u>	<u>\$ 56,048,170</u>
Total capital assets being depreciated, net	<u>\$ 28,035,808</u>	<u>\$ 7,624,088</u>	<u>\$ -</u>	<u>\$ 35,659,896</u>
Total Business-type capital assets, net	<u>\$ 35,657,380</u>	<u>\$ 14,601,002</u>	<u>\$ 7,920,416</u>	<u>\$ 42,337,966</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 6—Capital Assets: (Continued)

Discretely Presented Component Unit—School Board:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
Discretely Presented				
Component Unit-School Board:				
Capital assets, not being depreciated:				
Land	\$ 47,172	\$ -	\$ -	\$ 47,172
Capital assets being depreciated:				
Buildings and improvements	\$ 8,096,308	\$ -	\$ -	\$ 8,096,308
Equipment	3,681,599	216,867	424,354	3,474,112
Jointly owned assets	12,184,864	868,803	-	13,053,667
Total capital assets being depreciated	<u>\$ 23,962,771</u>	<u>\$ 1,085,670</u>	<u>\$ 424,354</u>	<u>\$ 24,624,087</u>
Accumulated depreciation:				
Buildings and improvements	\$ 6,033,697	\$ 107,744	\$ -	\$ 6,141,441
Equipment	2,769,270	170,938	424,354	2,515,854
Jointly owned assets	4,262,145	326,342	-	4,588,487
Total accumulated depreciation	<u>\$ 13,065,112</u>	<u>\$ 605,024</u>	<u>\$ 424,354</u>	<u>\$ 13,245,782</u>
Total capital assets being depreciated, net	<u>\$ 10,897,659</u>	<u>\$ 480,646</u>	<u>\$ -</u>	<u>\$ 11,378,305</u>
School Board capital assets, net	<u>\$ 10,944,831</u>	<u>\$ 480,646</u>	<u>\$ -</u>	<u>\$ 11,425,477</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 6—Capital Assets: (Continued)

The following is a summary of depreciation expense for the year ended June 30, 2018:

Governmental activities:

General government administration	\$	110,433
Judicial administration		10,532
Public safety		289,071
Public works		308,368
Health and welfare		9,596
Education		267,077
Parks, recreation and cultural		59,128
Community development		<u>65,786</u>
Total Governmental activities	\$	<u><u>1,119,991</u></u>

Business-type activities:

Electric	\$	519,722
Water		306,775
Sewer		229,087
Refuse collection / landfill		<u>183,636</u>
Total Business-type activities	\$	<u><u>1,239,220</u></u>

Component Unit School Board \$ 278,682 *

* Note accumulated depreciation transferred from the Primary Government to the Component Unit School Board on Jointly owned assets totals \$326,342 for the year ending June 30, 2018 when added to depreciation expense above totals \$605,024 total depreciation per the previous page.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 7—Interfund Transfers/Obligations:

Interfund transfers for the year ended June 30, 2018, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
Governmental Activities:		
General Fund	\$ 2,190,901	\$ 188,213
Meals tax	-	400,000
Nonmajor governmental funds:		
Capital reserve	1,288,851	-
Proprietary Funds:		
Water	-	1,265,068
Sewer	-	1,265,067
Refuse Collection/Landfill	-	361,404
	<u> </u>	<u> </u>
Total	\$ <u>3,479,752</u>	\$ <u>3,479,752</u>

Interfund receivables and payable balances relative to working capital loans at June 30, 2018 are presented below:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
Component Unit - School Board:		
School Operating Fund	\$ 267,380	\$ -
School Grants	-	267,380
	<u> </u>	<u> </u>
Total	\$ <u>267,380</u>	\$ <u>267,380</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, 2018 (Continued)

Note 8—Long-Term Obligations:

Primary Government:

The following is a summary of change in long-term obligations for the fiscal year ended June 30, 2017:

	Restated Balance July 1, 2017	Issuances/ Additions	Retirements/ Deletions	Balance June 30, 2018	Due Within One Year
Governmental Activities Obligations:					
Incurred by City					
Compensated absences	\$ 543,791	\$ 108,758	\$ 105,105	\$ 547,444	\$ 54,744
General obligation bonds	1,786,800	-	374,400	1,412,400	378,600
Net pension liability	19,125,339	6,240,286	9,874,377	15,491,248	-
Net OPEB liability - group life insurance	983,512	4,508	165,296	822,724	-
Total Pay-as-you-Go OPEB liability	2,748,623	151,248	197,031	2,702,840	-
Capital lease	94,955	-	94,955	-	-
Total incurred by City	<u>\$ 25,283,020</u>	<u>\$ 6,504,800</u>	<u>\$ 10,811,164</u>	<u>\$ 20,976,656</u>	<u>\$ 433,344</u>
Incurred by School Board:					
State Literary Fund Loans	\$ 1,500,000	\$ -	\$ 375,000	\$ 1,125,000	\$ 375,000
VPA subsidy bonds	10,051,894	-	493,803	9,558,091	512,124
Total incurred by School Board	<u>\$ 11,551,894</u>	<u>\$ -</u>	<u>\$ 868,803</u>	<u>\$ 10,683,091</u>	<u>\$ 887,124</u>
Total Governmental Activities Obligations	<u>\$ 36,834,914</u>	<u>\$ 6,504,800</u>	<u>\$ 11,679,967</u>	<u>\$ 31,659,747</u>	<u>\$ 1,320,468</u>
Business-type Activities Obligations:					
Compensated absences	\$ 193,218	\$ 38,644	\$ 41,044	\$ 190,818	\$ 19,082
General obligation bonds	1,011,000	-	148,000	863,000	151,000
Revenue bonds	7,066,376	5,922,341	178,571	12,810,146	495,739
Capital lease	7,425,000	-	381,000	7,044,000	408,000
Net pension liability	3,571,287	1,949,263	2,056,457	3,464,093	-
Net OPEB liability - group life insurance	220,264	1,010	37,019	184,255	-
Total Pay-as-you-Go OPEB liability	613,377	33,752	43,969	603,160	-
Landfill closure and post-closure costs	3,439,510	63,514	-	3,503,024	-
Total Business-type Activities Obligations	<u>\$ 23,540,032</u>	<u>\$ 8,008,524</u>	<u>\$ 2,886,060</u>	<u>\$ 28,662,496</u>	<u>\$ 1,073,821</u>
Total Primary Government	<u>\$ 60,374,946</u>	<u>\$ 14,513,324</u>	<u>\$ 14,566,027</u>	<u>\$ 60,322,243</u>	<u>\$ 2,394,289</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, 2018 (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,	Governmental Activities Obligations		Business-type Activities Obligations					
	General Obligation Bonds		General Obligation Bonds		Revenue Bonds		Capital Lease	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 378,600	\$ 31,346	\$ 151,000	\$ 22,439	\$ 495,739	-	\$ 408,000	\$ 173,987
2020	386,800	23,110	155,000	18,499	634,336	-	416,000	163,910
2021	85,100	17,793	139,000	14,669	634,336	-	445,000	153,634
2022	87,400	15,452	41,000	10,931	634,336	-	504,000	142,643
2023	89,800	13,049	43,000	9,776	634,336	-	515,000	130,194
2024	92,300	10,579	44,000	8,580	634,336	-	522,000	117,473
2025	94,800	8,041	45,000	7,356	634,336	-	570,000	104,580
2026	97,500	5,434	46,000	6,105	634,336	-	638,000	90,501
2027	100,100	2,753	48,000	4,813	634,336	-	494,000	74,743
2028	-	-	49,000	3,479	634,336	-	501,000	62,541
2029	-	-	50,000	2,118	634,336	-	530,000	50,166
2030	-	-	52,000	715	634,336	-	561,000	37,075
2031	-	-	-	-	634,336	-	592,000	23,218
2032	-	-	-	-	634,336	-	348,000	8,596
2033	-	-	-	-	634,336	-	-	-
2034	-	-	-	-	634,336	-	-	-
2034	-	-	-	-	634,336	-	-	-
2036	-	-	-	-	634,336	-	-	-
2037	-	-	-	-	634,336	-	-	-
2038	-	-	-	-	634,336	-	-	-
2039	-	-	-	-	634,336	-	-	-
2040	-	-	-	-	634,336	-	-	-
2041	-	-	-	-	634,336	-	-	-
2042	-	-	-	-	634,336	-	-	-
2043	-	-	-	-	634,336	-	-	-
2044	-	-	-	-	634,336	-	-	-
2045	-	-	-	-	634,336	-	-	-
2046	-	-	-	-	455,763	-	-	-
2047	-	-	-	-	277,190	-	-	-
Total	\$ 1,412,400	\$ 127,557	\$ 863,000	\$ 109,480	\$ 17,721,428	\$ -	\$ 7,044,000	\$ 1,333,261

*

*This is the full amortization schedule for revenue bonds -- at June 30, 2018 a total of \$12,988,717 had been drawn and \$12,810,146 was outstanding.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 8—Long-Term Obligations: (Continued)

Primary Government: (Continued)

Year Ending June 30,	School Board Obligations			
	State Literary Fund Loans		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2019	\$ 375,000	\$ 33,750	\$ 512,124	\$ 447,512
2020	375,000	22,500	528,439	442,528
2021	375,000	11,250	701,458	437,414
2022	-	-	1,092,959	432,163
2023	-	-	777,465	427,179
2024	-	-	780,079	422,065
2025	-	-	783,241	416,403
2026	-	-	786,569	410,575
2027	-	-	790,070	404,574
2028	-	-	793,755	398,389
2029	-	-	670,644	395,250
2030	-	-	670,644	395,250
2031	-	-	670,644	197,624
Total	\$ <u>1,125,000</u>	\$ <u>67,500</u>	\$ <u>9,558,091</u>	\$ <u>5,226,926</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 8—Long-Term Obligations: (Continued)

Primary Government: (Continued)

Incurred by City:

General Obligation Bonds:

\$1,752,167 general obligation refunding bonds series 2014A bonds maturing in various annual installments of \$290,000 to \$304,398 through July 15, 2019, interest payable semi-annually at 2.37%	\$ 602,000
\$1,250,000 general obligation bond, Series 2012 issued (for Municipal building renovations) January 26, 2012, maturing in various annual installments of \$76,300 to \$100,100 through February 1, 2027, interest payable semi-annually at 2.75%	<u>810,400</u>
Total general obligation bonds	<u>\$ 1,412,400</u>
Compensated absences	<u>\$ 547,444</u>
Net pension liability	<u>\$ 15,491,248</u>
Net OPEB liability - group life insurance	<u>\$ 822,724</u>
Total Pay-as-you-Go OPEB liability	<u>\$ 2,702,840</u>
Total Incurred by City	<u>\$ 20,976,656</u>

Incurred by School Board:

State Literary Fund Loan:

\$7,500,000 State Literary Fund Loan issued (for Albert Harris Elementary) September 1, 2000, due in annual principal installments of \$375,000 through 2021; interest payable annually at 3%	<u>\$ 1,125,000</u>
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General Obligation Bonds:

\$1,936,758 Virginia Public Authority Subsidy Bonds issued (for Patrick Henry Elementary School) November 1, 2007, due in annual installments of varying amounts through 2028; interest payable semi-annually at 4.38%	\$ 1,088,698
\$9,300,000 Qualified School Construction Bonds issued (for renovations to Martinsville High School) December 15, 2011, due in annual installments of varying amounts through December 1, 2030 interest free as a federal tax credit is provided to bondholders	<u>8,469,393</u>
Total General Obligation Bonds	<u>\$ 9,558,091</u>
Total Incurred by the School Board	<u>\$ 10,683,091</u>
Total Governmental Activities Obligations	<u>\$ 31,659,747</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 8—Long-Term Obligations: (Continued)

Primary Government: (Continued)

Business-type Activities Obligations:

Revenue Bonds:

\$10,000,000 water and sewer revenue bonds series 2016 bonds maturing in various semi-annual installments of \$178,571 beginning May 1, 2018 through November 1, 2045, interest payable at 0.00%. At June 30, 2017 only \$7,036,786 has been received of this loan. \$ 9,821,429

\$7,900,000 water and sewer revenue bonds series 2017 bonds maturing in various semi-annual installments of \$138,596 beginning April 1, 2019 through April 1, 2047, interest payable at 0.00%. At June 30, 2017 only \$29,590 has been received of this loan. 2,988,717

Total revenue bonds \$ 12,810,146

General Obligation Bonds:

\$112,833 general obligation refunding bonds series 2014A bonds, (acquired bucket truck for Electric) maturing in various annual installments of \$19,000 to \$20,000 through July 15, 2019, interest payable semi-annually at 2.37% \$ 39,000

\$679,000 capital-related general obligation refunding series 2014B bonds maturing in various annual installments of \$36,000 to \$52,000 through July 15, 2029, interest payable semi-annually at 2.37% 535,000

\$880,000 capital-related general obligation series 2010 bonds maturing in various annual installments of \$76,000 to \$99,000 through February 1, 2021, interest payable semi-annually at 2.65% 289,000

Total general obligation bonds \$ 863,000

Capital Lease:

The City entered into a lease agreement as lessee for financing the acquisition of various water and electric meters. The meters costs \$7,425,000 which included issuance costs. Annual requirements to amortize City long-term lease obligations are disclosed within this note. Details of this lease are as follows:

\$7,425,000 obligation for the purchase of a utility meters for electric and water, payable in various annual installments of \$348,000 to \$638,000 beginning February 1, 2018 through February 1, 2032, interest at 2.46% \$ 7,044,000

Compensated absences \$ 190,818

Net pension liability \$ 3,464,093

Net OPEB liability - group life insurance \$ 184,255

Total Pay-as-you-Go OPEB liability \$ 603,160

Landfill closure and postclosure costs \$ 3,503,024

Total business-type activities obligations \$ 28,662,496

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 8—Long-Term Obligations: (Continued)

Discretely Presented Component Unit-School Board

The following is a summary of changes in long-term obligations of the Discretely Presented Component Unit-School Board for the fiscal year ended June 30, 2018:

	Restated Beginning Balance July 1, 2017	Additions	Deletions	Ending Balance June 30, 2018	Amounts Due Within One Year
Net pension liability - nonprofessional	\$ 1,588,431	\$ 333,742	\$ 551,406	\$ 1,370,767	-
Net pension liability - professional	21,328,000	4,104,000	7,315,000	18,117,000	-
Net OPEB liability - group life insurance	1,173,000	8,000	195,000	986,000	-
Net OPEB liability - health insurance credit	1,930,000	144,000	207,000	1,867,000	-
Total Pay-as-you-Go OPEB liability	<u>734,000</u>	<u>48,000</u>	<u>48,000</u>	<u>734,000</u>	-
Total	<u>\$ 26,753,431</u>	<u>\$ 4,637,742</u>	<u>\$ 8,316,406</u>	<u>\$ 23,074,767</u>	<u>\$ -</u>

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 \$3,503,024 reported as landfill closure and postclosure care liability at June 30, 2018 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 2018. Actual closure and postclosure care costs may be higher due to inflation, changes in technology, or changes in regulations.

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

The City demonstrated financial assurance requirements for closure, post-closure care, and corrective action costs through the submission of a Local Governmental Financial Test to the Virginia Department of Environmental Quality in accordance with Section 9VA C20-70 of the Virginia Administrative Code.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 10—Unearned and Deferred/Unavailable Revenue:

The following is a summary of unearned revenue for the year ended June 30, 2018:

	<u>Government- wide Statements Governmental Activities</u>	<u>Balance Sheet Governmental Funds</u>	<u>Component Unit School Board</u>
Deferred/Unavailable revenue:			
Unearned revenue representing uncollected property tax billings for which asset recognition criteria has not been met. The uncollected tax billings are not available for the funding of current expenditures	\$ -	\$ 884,224	\$ -
Prepaid property tax revenues representing collections received for property taxes that are applicable to the subsequent budget year	<u>63,983</u>	<u>63,983</u>	<u>-</u>
Total deferred/unavailable revenue	<u>\$ 63,983</u>	<u>\$ 948,207</u>	<u>\$ -</u>
Unearned revenue:			
Harvest Foundation grant funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,793</u>
Total	<u>\$ 63,983</u>	<u>\$ 948,207</u>	<u>\$ 22,793</u>

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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements.

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

Note 12—Litigation:

At June 30, 2018, there were no matters of litigation involving the City or which would materially affect the City's financial position should any court decisions on pending matters not be favorable to such entities.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 13—Risk Management:

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

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

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

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

Note 14—Pension Plan:

Plan Description

All full-time, salaried permanent employees of the City and (nonprofessional) employees of the public school divisions are automatically covered by the VRS Retirement Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. However, several entities whose financial information is not included in the primary government report participate in the VRS plan through City of Martinsville, Virginia and the participating entities report their proportionate information on the basis of a cost-sharing plan.

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Retirement Plan upon employment. This is a cost-sharing multiple employer plan administered by the Virginia Retirement System (the system).

Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Plan Description: (Continued)

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.</p>	<p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> • The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* • School division employees • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees. <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>
<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as Plan 1</p>	<p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the</p>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Creditable Service (Cont.)</p>	<p>Creditable Service (Cont.)</p>	<p>Creditable Service (Cont.) <u>Defined Benefit Component:</u> <u>(Cont.)</u></p> <p>health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p>Defined Contribution Component: Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting (Cont.)	Vesting (Cont.)	<p>Vesting (Cont.) <u>Defined Contribution Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member’s average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit See definition under Plan 1</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1.</p> <p><u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p>Average Final Compensation A member’s average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member’s average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p>	<p>Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p>Sheriffs and regional jail superintendents: Same as Plan 1.</p>	<p>Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p>Sheriffs and regional jail superintendents: Not applicable.</p>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Political subdivision hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Not applicable.</p>
<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age Defined Benefit Component: VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility Defined Benefit Component: VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p> <p>Defined Benefit Component: VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p>Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p>Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). 	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p>Eligibility: Same as Plan 1.</p> <p>Exceptions to COLA Effective Dates: Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p>Eligibility: Same as Plan 1 and Plan 2.</p> <p>Exceptions to COLA Effective Dates: Same as Plan 1 and Plan 2.</p>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><u>Exceptions to COLA Effective Dates: (Cont.)</u></p> <ul style="list-style-type: none"> • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member’s survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 	<p><u>Exceptions to COLA Effective Dates: (Cont.)</u></p>	<p><u>Exceptions to COLA Effective Dates: (Cont.)</u></p>
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p>	<p>Disability Coverage Employees of political subdivisions and School divisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. <p><u>Defined Contribution Component:</u> Not applicable.</p>

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report-pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Contributions: (Continued)

The City's contractually required employer contribution rate for the year ended June 30, 2018 was 16.14% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$1,969,272 and \$1,955,760 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

At June 30, 2018, the City reported a liability of \$18,955,341 for its proportionate share of the net pension liability. The City's net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017. In order to allocate the net pension liability to all employers included in the plan, the City is required to determine its proportionate share of the net pension liability. Creditable compensation as of June 30, 2017 and 2016 was used as a basis for allocation to determine the City's proportionate share of the net pension liability. At June 30, 2017 and 2016, the City's proportion was 91.95% and 93.61%, respectively.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the City's Retirement Plan and the City Public Schools Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary increases, including inflation	3.5% – 5.35%
Investment rate of return	7.0%, net of pension plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Actuarial Assumptions – General Employees: (Continued)

Mortality rates:

Largest 10 – Non-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates, females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

All Others (Non 10 Largest) – Non-Hazardous Duty: 15% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; 110% of rates; females 125% of rates.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Actuarial Assumptions – General Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

All Others (Non 10 Largest) – Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the City's Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary increases, including inflation	3.5% – 4.75%
Investment rate of return	7.0%, net of pension plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Largest 10 – Hazardous Duty: 70% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits

Mortality rates: (Continued)

All Others (Non 10 Largest) – Hazardous Duty: 45% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

All Others (Non 10 Largest) – Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return</u>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	<u>15.00%</u>	9.53%	<u>1.43%</u>
Total	<u>100.00%</u>		<u>4.80%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>7.30%</u>

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the City Retirement Plan, City Public Schools Retirement Plan, and the VRS Teacher Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability using the discount rate of 7.00%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	1% Decrease	Current Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)
City's proportionate share of the Net Pension Liability (Asset)	\$ 29,395,810	\$ 18,955,341	\$ 10,169,959

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the City recognized pension expense of \$1,382,280. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: (Continued)

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Primary Government	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 10,077	\$ 547,334
Change in assumptions	111,361	-
Net difference between projected and actual earnings on pension plan investments	-	968,189
Changes in proportion	190,862	1,018,252
Employer contributions subsequent to the measurement date	<u>1,969,272</u>	<u>-</u>
Total	<u>\$ 2,281,572</u>	<u>\$ 2,533,775</u>

\$1,969,272 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year Ended June 30	Primary Government
2019	\$ (1,073,035)
2020	159,000
2021	(44,461)
2022	(758,573)
2023	-
Thereafter	-

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Component Unit School Board (nonprofessional)

Plan Description

Additional information related to the plan description, plan contribution requirements, actuarial assumptions, long-term expected rate of return, and discount rate is included in the first section of this note.

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Component Unit School Board Nonprofessional
Inactive members or their beneficiaries currently receiving benefits	67
Inactive members:	
Vested inactive members	4
Non-vested inactive members	4
Inactive members active elsewhere in VRS	21
Total inactive members	29
Active members	19
Total covered employees	115

Contributions

The Component Unit School Board's contractually required employer contribution rate for nonprofessional employees for the year ended June 30, 2018 was 27.68% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Component Unit School Board's nonprofessional employees were \$128,395 and \$130,309 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

The Component Unit School Board's (nonprofessional) net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Changes in Net Pension Liability

	Component School Board (nonprofessional)		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2016	\$ 4,158,478	\$ 2,570,047	\$ 1,588,431
Changes for the year:			
Service cost	\$ 41,329	\$ -	\$ 41,329
Interest	279,172	-	279,172
Differences between expected and actual experience	(100,879)	-	(100,879)
Assumption changes	11,088	-	11,088
Contributions - employer	-	127,356	(127,356)
Contributions - employee	-	21,782	(21,782)
Net investment income	-	301,389	(301,389)
Benefit payments, including refunds	(340,625)	(340,625)	-
Administrative expenses	-	(1,891)	1,891
Other changes	-	(262)	262
Net changes	\$ (109,915)	\$ 107,749	\$ (217,664)
Balances at June 30, 2017	\$ 4,048,563	\$ 2,677,796	\$ 1,370,767

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Component Unit School Board (nonprofessional) using the discount rate of 7.00%, as well as what the Component Unit School Board's (nonprofessional) net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Component Unit School Board (nonprofessional) Net Pension Liability	1,765,959	1,370,767	1,033,629

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Component Unit School Board (nonprofessional): (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the Component Unit School Board (nonprofessional) recognized pension expense of \$10,899. At June 30, 2018, the Component Unit School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Component Unit School Board (nonprofessional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 10,808
Change in assumptions	1,188	-
Net difference between projected and actual earnings on pension plan investments	-	35,553
Employer contributions subsequent to the measurement date	<u>128,395</u>	<u>-</u>
Total	<u>\$ 129,583</u>	<u>\$ 46,361</u>

\$128,395 reported as deferred outflows of resources related to pensions resulting from the Component Unit School Board's (nonprofessional) contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year Ended June 30</u>	<u>Component Unit School Board (nonprofessional)</u>
2019	\$ (38,117)
2020	15,930
2021	2,665
2022	(25,651)
2023	-
Thereafter	-

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Component Unit School Board (professional)

Plan Description

Additional information related to the plan description, plan contribution requirements, long-term expected rate of return, and discount rate is included in the first section of this note.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Each school division's contractually required employer contribution rate for the year ended June 30, 2018 was 16.32% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and reflects the transfer in June 2015 of \$192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the school division were \$1,867,973 and \$1,706,857 for the years ended June 30, 2018 and June 30, 2017, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the school division reported a liability of \$18,117,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2017 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the school division's proportion was .14732% as compared to .15219% at June 30, 2016.

For the year ended June 30, 2018, the school division recognized pension expense of \$1,107,000. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Component Unit School Board (professional): (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: (Continued)

At June 30, 2018, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,283,000
Change in assumptions	264,000	-
Net difference between projected and actual earnings on pension plan investments	-	658,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	438,000	1,787,000
Employer contributions subsequent to the measurement date	<u>1,867,973</u>	<u>-</u>
Total	<u>\$ 2,569,973</u>	<u>\$ 3,728,000</u>

\$1,867,973 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2019	\$ (941,000)
2020	(373,000)
2021	(693,000)
2022	(883,000)
2023	(136,000)

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Component Unit School Board (professional): (Continued)

Actuarial Assumptions

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary increases, including inflation	3.5% – 5.95%
Investment rate of return	7.0%, net of pension plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; 115% of rates for males and females.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Component Unit School Board (professional): (Continued)

Actuarial Assumptions: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2017, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

		Teacher Employee Retirement Plan
		<hr/>
Total Pension Liability	\$	45,417,520
Plan Fiduciary Net Position		33,119,545
Employers' Net Pension Liability (Asset)	\$	<hr/> <hr/> 12,297,975
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		72.92%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 14—Pension Plan: (Continued)

Component Unit School Board (professional): (Continued)

Sensitivity of the School Division’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the school division’s proportionate share of the net pension liability using the discount rate of 7.00%, as well as what the school division’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	1% Decrease	Current Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)
School division's proportionate share of the VRS Teacher Employee Retirement Plan Net Pension Liability	27,055,000	18,117,000	10,724,000

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan’s Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 15—Group Life Insurance (GLI) Program (OPEB Plan):

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members’ paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 15—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Plan Description: (Continued)

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
<p>Eligible Employees</p> <p>The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:</p> <ul style="list-style-type: none">• City of Richmond• City of Portsmouth• City of Roanoke• City of Norfolk• Roanoke City School Board <p>Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.</p>
<p>Benefit Amounts</p> <p>The benefits payable under the Group Life Insurance Program have several components.</p> <ul style="list-style-type: none">• Natural Death Benefit - The natural death benefit is equal to the employee’s covered compensation rounded to the next highest thousand and then doubled.• Accidental Death Benefit – The accidental death benefit is double the natural death benefit.• Other Benefit Provisions – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:<ul style="list-style-type: none">○ Accidental dismemberment benefit○ Safety belt benefit○ Repatriation benefit○ Felonious assault benefit○ Accelerated death benefit option
<p>Reduction in Benefit Amounts</p> <p>The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.</p>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 15—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Plan Description: (Continued)

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS (CONTINUED)

Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)
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For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. The amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.
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Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program were \$64,569 and \$64,171 for the years ended June 30, 2018 and June 30, 2017, respectively, for the City; \$2,553 and \$2,448 for the years ended June 30, 2018 and June 30, 2017, respectively, for the component unit school board (nonprofessional); and \$61,187 and \$60,485 for the years ended June 30, 2018 and June 30, 2017, respectively, for the component unit school board (professional).

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

At June 30, 2018, liabilities of \$1,006,978, \$38,000, and \$948,000 were reported for the City, component unit school board (nonprofessional), and component unit school board (professional), respectively, for the proportionate shares of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employers' proportion was 0.06690%, 0.00255%, and 0.06306% as compared to 0.06880%, 0.00248%, 0.06460% at June 30, 2016, for the City, component unit school board (nonprofessional), and component unit school board (professional), respectively.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 15—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB: (Continued)

For the year ended June 30, 2018, the participating employers recognized GLI OPEB expense of \$5,518, \$1,000, and \$7,000, for the City, component unit school board (nonprofessional), and component unit school board (professional), respectively. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the employers reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Primary Government		Component Unit School Board (nonprofessional)		Component Unit School Board (professional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 22,990	\$ -	\$ 1,000	\$ -	\$ 21,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	37,704	-	1,000	-	36,000
Change in assumptions	-	51,498	-	2,000	-	49,000
Changes in proportion	499	27,591	-	-	-	23,000
Employer contributions subsequent to the measurement date	64,569	-	2,553	-	61,187	-
Total	\$ 65,068	\$ 139,783	\$ 2,553	\$ 4,000	\$ 61,187	\$ 129,000

\$64,569, \$2,553, and \$61,187, for the City, component unit school board (nonprofessional), and component unit school board (professional), respectively, reported as deferred outflows of resources related to the GLI OPEB resulting from the employers' contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ended June 30	Primary Government	Component Unit School Board (nonprofessional)	Component Unit School Board (professional)
2019	\$ (28,508)	\$ (1,000)	\$ (26,000)
2020	(28,508)	(1,000)	(26,000)
2021	(28,508)	(1,000)	(26,000)
2022	(28,508)	(1,000)	(26,000)
2023	(19,312)	-	(17,000)
Thereafter	(6,436)	-	(8,000)

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 15—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary increases, including inflation:	
General state employees	3.5% – 5.35%
Teachers	3.5%-5.95%
SPORS employees	3.5%-4.75%
VaLORS employees	3.5%-4.75%
JRS employees	4.5%
Locality - General employees	3.5%-5.35%
Locality - Hazardous Duty employees	3.5%-4.75%
Investment rate of return	7.0%, net of investment expenses, including inflation*

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of OPEB liabilities.

Mortality Rates – General State Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males 115% of rates; females 130% of rates.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 15—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – General State Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Mortality Rates – Teachers

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; 115% of rates for males and females.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 15—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Teachers: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Mortality Rates – SPORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 15—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – SPORS Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

Mortality Rates – VaLORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 15—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – VaLORS Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Mortality Rates – JRS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males 115% of rates; females 130% of rates.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 15—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – JRS Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Mortality Rates – Largest Ten Locality Employers – General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 15—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Largest Ten Locality Employers – General Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Mortality Rates – Non-Largest Ten Locality Employers – General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 15—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Non-Largest Ten Locality Employers – General Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Mortality Rates – Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 15—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Largest Ten Locality Employers – Hazardous Duty Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Mortality Rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 15—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

NET GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total GLI OPEB Liability	\$ 2,942,426
Plan Fiduciary Net Position	1,437,586
Employers' Net GLI OPEB Liability (Asset)	<u>\$ 1,504,840</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	48.86%

The total GLI OPEB liability is calculated by the System’s actuary, and each plan’s fiduciary net position is reported in the System’s financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System’s notes to the financial statements and required supplementary information.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 15—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the System’s investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System’s investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return</u>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	<u>100.00%</u>		<u>4.80%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>7.30%</u>

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB’s fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 15—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Sensitivity of the Employers’ Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the employers’ proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the employers’ proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
City's proportionate share of the Group Life Insurance Program Net OPEB Liability	\$ 1,302,175	\$ 1,006,978	\$ 766,959
Component Unit School Board (nonprofessional) proportionate share of the Group Life Insurance Program Net OPEB Liability	\$ 49,000	\$ 38,000	\$ 29,000
Component Unit School Board (professional) proportionate share of the Group Life Insurance Program Net OPEB Liability	\$ 1,227,000	\$ 948,000	\$ 723,000

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program’s Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 16—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan):

Plan Description

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Employee Health Insurance Credit Program. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree’s death.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 16—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Plan Description: (Continued)

The specific information for the Teacher Health Insurance Credit Program OPEB, including eligibility, coverage, and benefits is set out in the table below:

TEACHER EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM PLAN PROVISIONS
<p>Eligible Employees</p> <p>The Teacher Employee Retiree Health Insurance Credit Program was established July 1, 1993 for retired Teacher Employees covered under VRS who retire with at least 15 years of service credit.</p> <p>Eligible employees are enrolled automatically upon employment. They include:</p> <ul style="list-style-type: none">• Full-time permanent (professional) salaried employees of public school divisions covered under VRS.
<p>Benefit Amounts</p> <p>The Teacher Employee Retiree Health Insurance Credit Program provides the following benefits for eligible employees:</p> <ul style="list-style-type: none">• <u>At Retirement</u> – For Teacher and other professional school employees who retire, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount.• <u>Disability Retirement</u> – For Teacher and other professional school employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is either:<ul style="list-style-type: none">○ \$4.00 per month, multiplied by twice the amount of service credit, or○ \$4.00 per month, multiplied by the amount of service earned had the employee been active until age 60, whichever is lower.
<p>Health Insurance Credit Program Notes:</p> <ul style="list-style-type: none">• The monthly Health Insurance Credit benefit cannot exceed the individual premium amount.• Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 16—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Contributions

The contribution requirements for active employees is governed by §51.1-1401(E) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Each school division's contractually required employer contribution rate for the year ended June 30, 2018 was 1.23% of covered employee compensation for employees in the VRS Teacher Employee Health Insurance Credit Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the school division to the VRS Teacher Employee Health Insurance Credit Program were \$143,477 and \$128,900 for the years ended June 30, 2018 and June 30, 2017, respectively.

Teacher Employee Health Insurance Credit Program OPEB Liabilities, Teacher Employee Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Teacher Employee Health Insurance Credit Program OPEB

At June 30, 2018, the school division reported a liability of \$1,867,000 for its proportionate share of the VRS Teacher Employee Health Insurance Credit Program Net OPEB Liability. The Net VRS Teacher Employee Health Insurance Credit Program OPEB Liability was measured as of June 30, 2017 and the total VRS Teacher Employee Health Insurance Credit Program OPEB liability used to calculate the Net VRS Teacher Employee Health Insurance Credit Program OPEB Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net VRS Teacher Employee Health Insurance Credit Program OPEB Liability was based on the school division's actuarially determined employer contributions to the VRS Teacher Employee Health Insurance Credit Program OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the school division's proportion of the VRS Teacher Employee Health Insurance Credit Program was 0.14714% as compared to 0.15218% at June 30, 2016.

For the year ended June 30, 2018, the school division recognized VRS Teacher Employee Health Insurance Credit Program OPEB expense of \$144,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017, a portion of the VRS Teacher Employee Health Insurance Credit Program Net OPEB expense was related to deferred amounts from changes in proportion.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 16—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Teacher Employee Health Insurance Credit Program OPEB Liabilities, Teacher Employee Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Teacher Employee Health Insurance Credit Program OPEB: (Continued)

At June 30, 2018, the school division reported deferred outflows of resources and deferred inflows of resources related to the VRS Teacher Employee Health Insurance Credit Program OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on Teacher HIC OPEB plan investments	-	3,000
Change in assumptions	-	20,000
Change in proportion	-	56,000
Employer contributions subsequent to the measurement date	<u>143,477</u>	<u>-</u>
Total	<u>\$ 143,477</u>	<u>\$ 79,000</u>

\$143,477 reported as deferred outflows of resources related to the Teacher Employee HIC OPEB resulting from the school division’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Teacher Employee HIC OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Teacher Employee HIC OPEB will be recognized in the Teacher Employee HIC OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2019	\$ (12,000)
2020	(12,000)
2021	(12,000)
2022	(12,000)
2023	(11,000)
Thereafter	(20,000)

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 16—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Actuarial Assumptions

The total Teacher Employee HIC OPEB liability for the VRS Teacher Employee Health Insurance Credit Program was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary increases, including inflation: Teacher employees	3.5%-5.95%
Investment rate of return	7.0%, net of investment expenses, including inflation*

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of OPEB liabilities.

Mortality Rates – Teachers

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; 115% of rates for males and females.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 16—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Teachers: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Net Teacher Employee HIC OPEB Liability

The net OPEB liability (NOL) for the Teacher Employee Health Insurance Credit Program represents the program’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the VRS Teacher Employee Health Insurance Credit Program is as follows (amounts expressed in thousands):

		Teacher Employee HIC OPEB Plan
Total Teacher Employee HIC OPEB Liability	\$	1,364,702
Plan Fiduciary Net Position		96,091
Teacher Employee net HIC OPEB Liability (Asset)	\$	<u>1,268,611</u>
Plan Fiduciary Net Position as a Percentage of the Total Teacher Employee HIC OPEB Liability		7.04%

The total Teacher Employee HIC OPEB liability is calculated by the System’s actuary, and the plan’s fiduciary net position is reported in the System’s financial statements. The net Teacher Employee HIC OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System’s notes to the financial statements and required supplementary information.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 16—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the VRS System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return</u>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	<u>15.00%</u>	9.53%	<u>1.43%</u>
Total	<u>100.00%</u>		<u>4.80%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>7.30%</u>

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total Teacher Employee HIC OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by each school division for the VRS Teacher Employee Health Insurance Credit Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the Teacher Employee HIC OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total Teacher Employee HIC OPEB liability.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 16—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Sensitivity of the School Division’s Proportionate Share of the Teacher Employee HIC Net OPEB Liability to Changes in the Discount Rate

The follow presents the school division’s proportionate share of the VRS Teacher Employee Health Insurance Credit Program net HIC OPEB liability using the discount rate of 7.00%, as well as what the school division’s proportionate share of the net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
School division's proportionate share of the VRS Teacher Employee HIC OPEB Plan Net HIC OPEB Liability	\$ 2,084,000	\$ 1,867,000	\$ 1,683,000

Teacher Employee HIC OPEB Fiduciary Net Position

Detailed information about the VRS Teacher Employee Health Insurance Credit Program’s Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 17—Pay-as-you-Go (OPEB Plan) – Medical Insurance:

Primary Government:

Plan Description

In addition to the pension benefits described in Note 14, the City administers a single-employer defined benefit healthcare plan, the City of Martinsville Post-Retirement Medical Plan (CMPRMP). The plan provides postemployment health care benefits to all eligible permanent employees who meet the requirements under the City’s pension plan. The plan does not issue a publicly available financial report.

Benefits Provided

Postemployment benefits that are provided to eligible retirees includes Medical insurance. The benefits that are provided for active employees are the same for eligible retirees, spouses and dependents of eligible retirees. Retired employees, who were hired before July 1, 2005, who participated in the City’s medical program with at least 15 years of continuous service and who retire under the VRS plan are eligible to elect post-retirement coverage in the CMPRMP. The CMPRMP is closed to new entrants.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 17—Pay-as-you-Go (OPEB Plan) – Medical Insurance: (Continued)

Primary Government: (Continued)

Plan Membership

At July 1, 2017 (measurement date), the following employees were covered by the benefit terms:

	Primary Government
Total active employees with coverage	140
Total active employees without coverage	15
Total retirees with coverage	<u>38</u>
Total	<u><u>193</u></u>

Contributions

The City holds assets accumulated for OPEB purpose in a fiduciary capacity. As required, the City reports these assets in an agency fund. At June 30, 2018 the City held assets amounting to \$542,889 for OPEB purposes. The City Council establishes employer contribution rates for plan participants as part of the budgetary process each year. Council also determines how the plan will be funded each year whether it will partially fund the plan or fully fund the plan. Again this is determined annually as part of the budgetary process. For retirees hired prior to July 1, 2000 with 15 years of uninterrupted service, the City pays 100% of the designated contribution towards the monthly single only coverage premium and the retiree contributes the remaining balance. Retirees hired on or after July 1, 2000 but prior to July 1, 2005, with 14 or less years of continuous service are not eligible for the designated contribution. For retirees hired in this same time frame with 15 through 19 years of continuous service, the City contributes 50% of the designated contribution and the retiree contributes the remaining balance. For retirees hired in this time frame with 20 or more years of continuous service, the City contributes 75% of the designated contribution and the retiree contributes the remaining balance. Retirees hired on or after July 1, 2005 are not eligible for the designated contribution.

Total OPEB Liability

The City's total OPEB liability was measured as of July 1, 2017. The total OPEB liability was determined by an actuarial valuation as of July 1, 2016.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 17—Pay-as-you-Go (OPEB Plan) – Medical Insurance: (Continued)

Primary Government: (Continued)

Actuarial Assumptions

The total OPEB liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate	3.56%, which represents the Municipal GO AA 20-year yield curve rate as of June 30, 2017.
Salary Scale	2.50%
Healthcare Cost Trend Rates:	(1.50)% for fiscal year end 2018, then 6.50% for fiscal year end 2019, decreasing 0.50% per year to an ultimate rate of 4.50%
Mortality	RP-2014 Mortality Table fully generational, with base year 2006, projected using two-dimensional mortality improvement scale MP-2017.
Actuarial Cost Method:	Entry Age Actuarial Cost Method.

The date of the most recent actuarial experience study for which significant assumptions were based is not available.

Discount Rate

The final equivalent single discount rate used for this year's valuation is 3.56% as of the end of the fiscal year with the expectation that the City will continue contributing the Actuarially Determined Contribution and paying the pay-go cost.

Changes in Total OPEB Liability

	<u>Primary Government</u>
	<u>Total OPEB Liability</u>
Balances at June 30, 2017	\$ 3,362,000
Changes for the year:	
Service cost	67,000
Interest	118,000
Benefit payments	<u>(241,000)</u>
Net changes	<u>(56,000)</u>
Balances at June 30, 2018	<u>\$ 3,306,000</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 17—Pay-as-you-Go (OPEB Plan) – Medical Insurance: (Continued)

Primary Government: (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following amounts present the total OPEB liability of the City, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.56%) or one percentage point higher (4.56%) than the current discount rate:

Rate		
<u>1% Decrease (2.56%)</u>	<u>Current Discount Rate (3.56%)</u>	<u>1% Increase (4.56%)</u>
\$ 3,513,000	\$ 3,306,000	\$ 3,113,000

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the City, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (-2.50%) or one percentage point higher (-0.50%) than the current healthcare cost trend rates:

Rates		
Healthcare Cost		
<u>1% Decrease (-2.50%)</u>	<u>Trend (-1.50%)</u>	<u>1% Increase (-0.50%)</u>
\$ 3,043,000	\$ 3,306,000	\$ 3,602,000

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2018, the City recognized OPEB expense in the amount of \$185,000. At June 30, 2018, the City had no deferred outflows of resources and deferred inflows of resources related to OPEB to report.

Component Unit School Board:

Plan Description

In addition to the pension benefits described in Note 14, the School Board administers a single-employer defined benefit healthcare plan, the City of Martinsville School Board Post-Retirement Medical Plan (CMSBPRMP). The plan provides postemployment health care benefits to all eligible permanent employees who meet the requirements under the School Board's pension plan. The plan does not issue a publicly available financial report.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 17—Pay-as-you-Go (OPEB Plan) – Medical Insurance: (Continued)

Component Unit School Board: (Continued)

Benefits Provided

Postemployment benefits that are provided to eligible retirees includes Medical insurance. The benefits that are provided for active employees are the same for eligible retirees, spouses and dependents of eligible retirees. Retired employees, who were hired before July 1, 2005, who participated in the School Board’s medical program with at least 15 years of continuous service and who retire under the VRS plan are eligible to elect post-retirement coverage in the CMSBPRMP. The CMSBPRMP is closed to new entrants.

Plan Membership

At July 1, 2017 (measurement date), the following employees were covered by the benefit terms:

	<u>Component Unit School Board</u>
Total active employees with coverage	91
Total active employees without coverage	10
Total retirees with coverage	<u>9</u>
Total	<u><u>110</u></u>

Contributions

The School Board, in conjunction with the City, holds assets accumulated for OPEB purposes in a fiduciary capacity. The School Board establishes employer contribution rates for plan participants as part of the budgetary process each year. The School Board also determines how the plan will be funded each year, whether it will partially fund the plan or fully fund the plan. Again this is determined annually as part of the budgetary process. For retirees hired prior to July 1, 2000 with 15 years of uninterrupted service, the School Board pays 100% of the designated contribution towards the monthly single only coverage premium and the retiree contributes the remaining balance. Retirees hired on or after July 1, 2000 but prior to July 1, 2005, with 14 or less years of continuous service are not eligible for the designated contribution. For retirees hired in this same time frame with 15 through 19 years of continuous service, the School Board contributes 50% of the designated contribution and the retiree contributes the remaining balance. For retirees hired in this time frame with 20 or more years of continuous service, the Board contributes 75% of the designated contribution and the retiree contributes the remaining balance. Retirees hired on or after July 1, 2005 are not eligible for the designated contribution.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 17—Pay-as-you-Go (OPEB Plan) – Medical Insurance: (Continued)

Component Unit School Board: (Continued)

Total OPEB Liability

The School Board's total OPEB liability was measured as of July 1, 2017. The total OPEB liability was determined by an actuarial valuation as of July 1, 2016.

Actuarial Assumptions

The total OPEB liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate	3.56%, which represents the Municipal GO AA 20-year yield curve rate as of June 30, 2017.
Salary Scale	2.50%
Healthcare Cost Trend Rates:	7.00% for fiscal year end 2018, then 6.50% for fiscal year end 2019, decreasing 0.50% per year to an ultimate rate of 4.50%
Mortality	RP-2014 Mortality Table fully generational, with base year 2006, projected using two-dimensional mortality improvement scale MP-2017.
Actuarial Cost Method:	Entry Age Actuarial Cost Method.

The date of the most recent actuarial experience study for which significant assumptions were based is not available.

Discount Rate

The final equivalent single discount rate used for this year's valuation is 3.56% as of the end of the fiscal year with the expectation that the School Board will continue contributing the Actuarially Determined Contribution and paying the pay-go cost.

Changes in Total OPEB Liability

	Component Unit School Board Total OPEB Liability
Balances at June 30, 2017	\$ 734,000
Changes for the year:	
Service cost	22,000
Interest	26,000
Benefit payments	(48,000)
Net changes	-
Balances at June 30, 2018	\$ <u>734,000</u>

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 17—Pay-as-you-Go (OPEB Plan) – Medical Insurance: (Continued)

Component Unit School Board: (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following amounts present the total OPEB liability of the School Board, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.56%) or one percentage point higher (4.56%) than the current discount rate:

			Rate		
			Current Discount		
1% Decrease (2.56%)				Rate (3.56%)	1% Increase (4.56%)
\$	779,000	\$	734,000	\$	692,000

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the School Board, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (6.00% decreasing by 0.50% annually to an ultimate rate of 3.50%) or one percentage point higher (8.00% decreasing by 0.50% annually to an ultimate rate of 5.50%) than the current healthcare cost trend rates:

			Rates		
			Healthcare Cost		
1% Decrease (6.00% decreasing to 3.50%)				Trend (7.00% decreasing to 4.50%)	1% Increase (8.00% decreasing to 5.50%)
\$	670,000	\$	734,000	\$	809,000

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2018, the School Board recognized OPEB expense in the amount of \$48,000. At June 30, 2018, the School Board had no deferred outflows of resources and deferred inflows of resources related to OPEB to report.

Additional disclosures on changes in net OPEB liability, related ratios, and employer contributions can be found in the required supplementary information following the notes to the financial statements.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

Note 18—Surety Bonds:

	<u>Amount</u>
Travelers Casualty and Surety Company of America - Surety Faithful Performance of Duty Schedule Position Bond:	
Commonwealth Funds	
Ashby R. Pritchett, Clerk of the Circuit Court	\$ 103,000
Cindy Dickerson, Treasurer and/or Linda Conover, Director of Finance	500,000
Ruth Easley, Commissioner of the Revenue	3,000
Steve M. Draper, Sheriff	30,000
Lumberman's Mutual Casualty Company - Surety City funds	
Cindy Dickerson, Treasurer	250,000
Virginia Municipal League - Surety	
All School Board employees - blanket bond	
VACORP - Surety	
All City employees - blanket bond	
Honesty	100,000
Faithful performance	1,000,000

Note 19—Restatement of Net Position:

The City's net position was restated as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit School Board</u>
Net position at June 30, 2017, as originally reported	\$ 3,427,605	\$ 29,341,302	\$ (9,174,813)
Implementation of GASB 75	<u>(3,507,043)</u>	<u>(822,196)</u>	<u>(3,553,000)</u>
Net position at June 30, 2017, as restated	\$ <u>(79,438)</u>	\$ <u>28,519,106</u>	\$ <u>(12,727,813)</u>

Note 20—Commitments and Contingencies:

At June 30, 2018, the City had the following major projects underway:

<u>Project</u>	<u>Contract Amount</u>	<u>Expenditures to Date</u>	<u>Balance of Contract</u>
Smith River Interceptor CMP Rehab	\$ 11,225,854	\$ 6,914,046	\$ 4,311,808
Design Commonwealth Blvd over Dick & Willie Trail	222,368	162,289	60,079

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.

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual
For the Year Ended June 30, 2018

	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Revenues:				
General property taxes	\$ 8,730,000	\$ 8,730,000	\$ 9,180,279	\$ 450,279
Other local taxes	5,448,850	5,448,850	5,572,026	123,176
Permits, privilege fees and regulatory licenses	71,125	71,125	56,503	(14,622)
Fines and forfeitures	100,000	105,247	170,759	65,512
Revenue from use of money and property	1,001,761	1,006,932	1,189,891	182,959
Charges for services	1,985,329	1,985,329	2,111,112	125,783
Miscellaneous	317,028	323,684	322,485	(1,199)
Recovered costs	2,010,572	2,140,617	2,173,575	32,958
Intergovernmental:				
Commonwealth	9,274,648	9,696,030	9,765,734	69,704
Federal	117,558	511,299	521,701	10,402
Total revenues	\$ 29,056,871	\$ 30,019,113	\$ 31,064,065	\$ 1,044,952
Expenditures:				
Current:				
General government administration	\$ 4,015,285	\$ 4,037,285	\$ 3,826,367	\$ 210,918
Judicial administration	2,387,824	2,432,624	2,332,335	100,289
Public safety	9,460,158	9,842,441	9,674,509	167,932
Public works	4,522,163	5,917,710	5,630,329	287,381
Health and welfare	758,076	758,076	993,510	(235,434)
Education	6,457,489	7,092,283	6,170,116	922,167
Parks, recreation, and cultural	867,295	877,167	837,001	40,166
Community development	2,731,457	3,027,801	2,945,382	82,419
Total expenditures	\$ 31,199,747	\$ 33,985,387	\$ 32,409,549	\$ 1,575,838
Excess (deficiency) of revenues over (under) expenditures	\$ (2,142,876)	\$ (3,966,274)	\$ (1,345,484)	\$ 2,620,790
Other financing sources (uses):				
Transfers in	2,190,901	2,190,901	2,190,901	-
Transfers (out)	-	(170,163)	(188,213)	(18,050)
Total other financing sources (uses)	\$ 2,190,901	\$ 2,020,738	\$ 2,002,688	\$ (18,050)
Changes in fund balances	\$ 48,025	\$ (1,945,536)	\$ 657,204	\$ 2,602,740
Fund balances at beginning of year	(48,025)	1,945,536	6,057,119	4,111,583
Fund balances at end of year	\$ -	\$ -	\$ 6,714,323	\$ 6,714,323

Meals Tax Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual

For the Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Budget As Amended</u>	<u>Actual</u>	<u>Variance From Final Budget Positive (Negative)</u>
Revenues:				
Other local taxes	\$ 1,820,000	\$ 1,820,000	\$ 1,804,893	\$ (15,107)
Intergovernmental:				
Federal	<u>367,978</u>	<u>367,978</u>	<u>369,164</u>	<u>1,186</u>
Total revenues	<u>\$ 2,187,978</u>	<u>\$ 2,187,978</u>	<u>\$ 2,174,057</u>	<u>\$ (13,921)</u>
Expenditures:				
Current:				
General government administration	\$ 51,697	\$ 51,697	\$ 51,697	\$ -
Debt service:				
Principal retirement	1,016,803	1,016,803	1,016,803	-
Interest and other fiscal charges	<u>504,873</u>	<u>504,873</u>	<u>504,873</u>	<u>-</u>
Total expenditures	<u>\$ 1,573,373</u>	<u>\$ 1,573,373</u>	<u>\$ 1,573,373</u>	<u>\$ -</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 614,605</u>	<u>\$ 614,605</u>	<u>\$ 600,684</u>	<u>\$ (13,921)</u>
Other financing sources (uses):				
Transfers (out)	<u>\$ (400,000)</u>	<u>\$ (400,000)</u>	<u>\$ (400,000)</u>	<u>\$ -</u>
Changes in fund balances	\$ 214,605	\$ 214,605	\$ 200,684	\$ (13,921)
Fund balances at beginning of year	<u>(214,605)</u>	<u>(214,605)</u>	<u>282,697</u>	<u>497,302</u>
Fund balances at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 483,381</u>	<u>\$ 483,381</u>

Schedule of Employer's Proportionate Share of the Net Pension Liability
 VRS Pension Plan
 For the Years Ended June 30, 2015 through June 30, 2018

Date (1)	Proportion of the Net Pension Liability (NPL) (2)	Proportionate Share of the NPL (3)	Covered Payroll (4)	Proportionate Share of the NPL as a Percentage of Covered Payroll (3)/(4) (5)	Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (6)
Primary Government - City Retirement Plan					
2017	91.95%	\$ 18,955,341	\$ 12,117,472	156.43%	79.02%
2016	93.61%	22,696,623	13,409,915	169.25%	74.76%
2015	93.37%	19,919,054	13,216,981	150.71%	77.41%
2014	93.42%	18,187,446	12,797,381	142.12%	78.66%
Component Unit School Board (professional)					
2017	0.1473%	\$ 18,117,000	\$ 11,642,954	155.60%	72.92%
2016	0.1522%	21,328,000	11,653,559	183.02%	68.28%
2015	0.1667%	20,984,000	11,644,367	180.21%	70.68%
2014	0.1646%	19,896,000	12,040,187	165.25%	70.88%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

Schedule of and Changes in Net Pension Liability and Related Ratios
 Component Unit School Board (nonprofessional)
 For the Years Ended June 30, 2015 through June 30, 2018

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability				
Service cost	\$ 41,329	\$ 45,589	\$ 54,322	\$ 56,141
Interest	279,172	282,746	283,560	284,255
Changes of assumptions	11,088	-	-	-
Differences between expected and actual experience	(100,879)	(43,743)	(5,140)	-
Benefit payments, including refunds of employee contributions	(340,625)	(330,699)	(358,029)	(342,606)
Net change in total pension liability	<u>\$ (109,915)</u>	<u>\$ (46,107)</u>	<u>\$ (25,287)</u>	<u>\$ (2,210)</u>
Total pension liability - beginning	4,158,478	4,204,585	4,229,872	4,232,082
Total pension liability - ending (a)	<u>\$ 4,048,563</u>	<u>\$ 4,158,478</u>	<u>\$ 4,204,585</u>	<u>\$ 4,229,872</u>
Plan fiduciary net position				
Contributions - employer	\$ 127,356	\$ 113,958	\$ 110,982	\$ 119,537
Contributions - employee	21,782	20,903	21,192	25,188
Net investment income	301,389	42,268	123,775	399,239
Benefit payments, including refunds of employee contributions	(340,625)	(330,699)	(358,029)	(342,606)
Administrative expense	(1,891)	(1,784)	(1,895)	(2,295)
Other	(262)	(19)	(23)	21
Net change in plan fiduciary net position	<u>\$ 107,749</u>	<u>\$ (155,373)</u>	<u>\$ (103,998)</u>	<u>\$ 199,084</u>
Plan fiduciary net position - beginning	2,570,047	2,725,420	2,829,418	2,630,334
Plan fiduciary net position - ending (b)	<u>\$ 2,677,796</u>	<u>\$ 2,570,047</u>	<u>\$ 2,725,420</u>	<u>\$ 2,829,418</u>
School Division's net pension liability - ending (a) - (b)	\$ 1,370,767	\$ 1,588,431	\$ 1,479,165	\$ 1,400,454
Plan fiduciary net position as a percentage of the total pension liability	66.14%	61.80%	64.82%	66.89%
Covered payroll	\$ 470,771	\$ 442,484	\$ 426,964	\$ 503,742
School Division's net pension liability as a percentage of covered payroll	291.17%	358.98%	346.44%	278.01%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

Schedule of Employer Contributions
VRS Pension Plan
For the Years Ended June 30, 2009 through June 30, 2018

<u>Date</u>	<u>Contractually Required Contribution (1)</u>	<u>Contributions in Relation to Contractually Required Contribution (2)</u>	<u>Contribution Deficiency (Excess) (3)</u>	<u>Employer's Covered Employee Payroll (4)</u>	<u>Contributions as a % of Covered Employee Payroll (5)</u>
Primary Government					
2018	\$ 1,969,272	\$ 1,969,272	\$ -	\$ 12,201,190	16.14%
2017	1,955,760	1,955,760	-	12,117,472	16.14%
2016	2,368,834	2,368,834	-	13,409,915	18.87%
2015	2,290,963	2,290,963	-	13,216,981	18.87%
2014	2,363,676	2,363,676	-	12,797,381	18.47%
2013	2,303,060	2,303,060	-	12,649,195	18.47%
2012	2,009,573	2,009,573	-	12,622,949	15.92%
2011	2,016,179	2,016,179	-	12,664,438	15.92%
2010	1,945,802	1,945,802	-	13,336,543	14.59%
2009	1,972,135	1,972,135	-	13,517,031	14.59%
Component Unit School Board (nonprofessional)					
2018	\$ 128,395	\$ 128,395	\$ -	\$ 476,016	26.97%
2017	130,309	130,309	-	470,771	27.68%
2016	115,179	115,179	-	442,484	26.03%
2015	111,139	111,139	-	426,964	26.03%
2014	119,538	119,538	-	503,742	23.73%
2013	113,698	113,698	-	479,136	23.73%
2012	87,135	87,135	-	512,559	17.00%
2011	87,198	87,198	-	512,928	17.00%
2010	101,918	101,918	-	615,447	16.56%
2009	115,743	115,743	-	698,934	16.56%
Component Unit School Board (professional)					
2018	\$ 1,867,973	\$ 1,867,973	\$ -	\$ 11,697,771	15.97%
2017	1,706,857	1,706,857	-	11,642,954	14.66%
2016	1,632,707	1,632,707	-	11,653,559	14.01%
2015	1,682,744	1,682,744	-	11,644,367	14.45%
2014	1,403,886	1,403,886	-	12,040,187	11.66%
2013	1,311,060	1,311,060	-	11,244,082	11.66%
2012	735,293	735,293	-	11,615,998	6.33%
2011	1,094,073	1,094,073	-	12,221,764	8.95%
2010	845,047	845,047	-	13,434,229	6.29%
2009	1,168,411	1,168,411	-	13,262,322	8.81%

Notes to Required Supplementary Information
 VRS Pension Plan
 For the Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 – Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement)	Updated to a more current mortality table - RP-2014 projected
Retirement Rates	Lowered rates at older ages and changed final retirement
Withdrawal Rates	Adjusted rates to better fit experience at each year age and
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Largest 10 – Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement)	Updated to a more current mortality table - RP-2014 projected
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

All Others (Non 10 Largest) – Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement)	Updated to a more current mortality table - RP-2014 projected
Retirement Rates	Lowered rates at older ages and changed final retirement
Withdrawal Rates	Adjusted rates to better fit experience at each year age and
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

All Others (Non 10 Largest) – Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement)	Updated to a more current mortality table - RP-2014 projected
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Component Unit School Board - Professional Employees

Mortality Rates (pre-retirement, post-retirement)	Updated to a more current mortality table - RP-2014 projected
Retirement Rates	Lowered rates at older ages and changed final retirement
Withdrawal Rates	Adjusted rates to better fit experience at each year age and
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Schedule of the City of Martinsville, Virginia's Share of Net OPEB Liability
 Group Life Insurance Program
 For the Year Ended June 30, 2018

<u>Date</u>	<u>Employer's Proportion of the Net GLI OPEB Liability</u>	<u>Employer's Proportionate Share of the Net GLI OPEB Liability</u>	<u>Employer's Covered Payroll</u>	<u>Employer's Proportionate Share of the Net GLI OPEB Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability</u>
Primary Government:					
2017	0.06690%	\$ 1,006,978	\$ 12,340,571	8.1599%	48.86%
Component Unit School Board (nonprofessional):					
2017	0.00255%	\$ 38,000	\$ 470,771	8.0719%	48.86%
Component Unit School Board (professional):					
2017	0.06306%	\$ 948,000	\$ 11,631,723	8.1501%	48.86%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

Schedule of Employer Contributions
 Group Life Insurance Program
 For the Years Ended June 30, 2009 through June 30, 2018

<u>Date</u>	<u>Contractually Required Contribution (1)</u>	<u>Contributions in Relation to Contractually Required Contribution (2)</u>	<u>Contribution Deficiency (Excess) (3)</u>	<u>Employer's Covered Employee Payroll (4)</u>	<u>Contributions as a % of Covered Employee Payroll (5)</u>
Primary Government					
2018	\$ 64,569	\$ 64,569	\$ -	\$ 12,417,162	0.52%
2017	64,171	64,171	-	12,340,571	0.52%
2016	59,337	59,337	-	12,361,953	0.48%
2015	58,581	58,581	-	12,204,419	0.48%
2014	56,829	56,829	-	11,839,409	0.48%
2013	55,161	55,161	-	11,491,834	0.48%
2012	32,503	32,503	-	11,608,253	0.28%
2011	32,610	32,610	-	11,646,407	0.28%
2010	25,055	25,055	-	9,279,630	0.27%
2009	33,562	33,562	-	12,430,464	0.27%
Component Unit School Board (nonprofessional)					
2018	\$ 2,553	\$ 2,553	\$ -	\$ 487,266	0.52%
2017	2,448	2,448	-	470,771	0.52%
2016	2,140	2,140	-	445,817	0.48%
2015	2,125	2,125	-	442,703	0.48%
2014	2,451	2,451	-	510,590	0.48%
2013	2,300	2,300	-	479,136	0.48%
2012	1,435	1,435	-	512,559	0.28%
2011	1,436	1,436	-	512,928	0.28%
2010	1,219	1,219	-	451,382	0.27%
2009	1,887	1,887	-	698,934	0.27%
Component Unit School Board (professional)					
2018	\$ 61,187	\$ 61,187	\$ -	\$ 11,676,842	0.52%
2017	60,485	60,485	-	11,631,723	0.52%
2016	55,718	55,718	-	11,607,840	0.48%
2015	59,769	59,769	-	12,451,790	0.48%
2014	58,179	58,179	-	12,120,551	0.48%
2013	54,023	54,023	-	11,254,751	0.48%
2012	32,568	32,568	-	11,631,466	0.28%
2011	34,494	34,494	-	12,319,318	0.28%
2010	25,910	25,910	-	13,455,232	0.19%
2009	35,822	35,822	-	13,267,389	0.27%

Notes to Required Supplementary Information
Group Life Insurance Program
For the Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

General State Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Teachers

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

SPORS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

VaLORS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Notes to Required Supplementary Information
 Group Life Insurance Program
 For the Year Ended June 30, 2018 (Continued)

JRS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Non-Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Schedule of the City of Martinsville, Virginia School Board's Share of Net OPEB Liability
 Teacher Health Insurance Credit Program (HIC)
 For the Year Ended June 30, 2018

<u>Date</u>	<u>Employer's Proportion of the Net GLI OPEB Liability</u>	<u>Employer's Proportionate Share of the Net GLI OPEB Liability</u>	<u>Employer's Covered Payroll</u>	<u>Employer's Proportionate Share of the Net GLI OPEB Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability</u>
2017	0.14714%	\$ 1,867,000	\$ 11,612,639	16.0773%	7.04%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

Schedule of Employer Contributions
 Teacher Health Insurance Credit Program (HIC)
 For the Years Ended June 30, 2009 through June 30, 2018

<u>Date</u>	<u>Contractually Required Contribution (1)</u>	<u>Contributions in Relation to Contractually Required Contribution (2)</u>	<u>Contribution Deficiency (Excess) (3)</u>	<u>Employer's Covered Employee Payroll (4)</u>	<u>Contributions as a % of Covered Employee Payroll (5)</u>
2018	\$ 143,625	\$ 143,625	\$ -	\$ 11,676,842	1.23%
2017	128,900	128,900	-	11,612,639	1.11%
2016	123,000	123,000	-	11,603,738	1.06%
2015	131,395	131,395	-	12,395,708	1.06%
2014	133,646	133,646	-	12,040,187	1.11%
2013	124,748	124,748	-	11,238,585	1.11%
2012	69,696	69,696	-	11,615,998	0.60%
2011	73,331	73,331	-	12,221,764	0.60%
2010	99,756	99,756	-	9,591,908	1.04%
2009	143,341	143,341	-	13,272,347	1.08%

Notes to Required Supplementary Information
 Teacher Health Insurance Credit Program (HIC)
 For the Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Schedule of Changes in Total OPEB Liability and Related Ratios
For the Year Ended June 30, 2018

	<u>2018</u>
Primary Government:	
Total OPEB liability	
Service cost	\$ 67,000
Interest	118,000
Benefit payments, including refunds of employee contributions	(241,000)
Net change in total OPEB liability	<u>\$ (56,000)</u>
Total OPEB liability - beginning	<u>3,362,000</u>
Total OPEB liability - ending	<u><u>\$ 3,306,000</u></u>
Covered payroll	\$ 7,427,000
City's total OPEB liability (asset) as a percentage of covered payroll	44.51%
Component Unit School Board:	
Total OPEB liability	
Service cost	\$ 22,000
Interest	26,000
Benefit payments, including refunds of employee contributions	(48,000)
Net change in total OPEB liability	<u>\$ -</u>
Total OPEB liability - beginning	<u>734,000</u>
Total OPEB liability - ending	<u><u>\$ 734,000</u></u>
Covered payroll	\$ 4,764,000
School's total OPEB liability (asset) as a percentage of covered payroll	15.41%

Schedule is intended to show information for 10 years. Additional years will be included as they become available.

Notes to Required Supplementary Information - City and School's OPEB
 For the Year Ended June 30, 2018

Valuation Date: 7/1/2016
 Measurement Date: 7/1/2017

No assets are accumulated in a trust that meets the criteria in GASB 75 to pay related benefits.

Methods and assumptions used to determine OPEB liability:

Actuarial Cost Method	Entry age normal level % of salary
Discount Rate	3.50% as of June 30, 2017; 3.87% as of June 30, 2018
Inflation	2.50% per year as of June 30, 2017; 2.50% per year as of June 30, 2018
Healthcare Trend Rate - City	The healthcare trend rate assumption starts at (1.50)% in 2018, then 6.50% for 2019 and gradually declines to an ultimate rate of 4.50%.
Healthcare Trend Rate - School Board	The healthcare trend rate assumption starts at 7.00% in 2018 and gradually declines to an ultimate rate of 4.50%.
Salary Increase Rates	The salary increase rate starts at 5.35% salary increase for 1 year of service and gradually declines to 3.50% salary increase for 20 or more years of service
Retirement Age	The average age at retirement is 62
Mortality Rates	The mortality rates for active and healthy retirees was calculated using the RPH-2015 Total Dataset Mortality Table fully generational using scale MP-2015. The mortality rates for disabled retirees and calculated using the PRH-2015 Disabled Mortality Table fully generational using scale MP-2015.

Other Supplementary Information

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Combining and Individual Fund Financial Statements and Schedules

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Nonmajor Governmental Funds
 Combining Balance Sheet
 At June 30, 2018

	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	
	<u>City Grants Fund</u>	<u>Capital Reserve Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 65,594	\$ 708,610	\$ 774,204
Accounts receivable	-	7,280	7,280
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 65,594</u>	<u>\$ 715,890</u>	<u>\$ 781,484</u>
LIABILITIES			
Accounts payable and other current liabilities	\$ 14,999	\$ 34,027	\$ 49,026
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>\$ 14,999</u>	<u>\$ 34,027</u>	<u>\$ 49,026</u>
FUND BALANCES			
Assigned:			
Capital reserve fund	\$ -	\$ 681,863	\$ 681,863
Unassigned	50,595	-	50,595
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>\$ 50,595</u>	<u>\$ 681,863</u>	<u>\$ 732,458</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 65,594</u>	<u>\$ 715,890</u>	<u>\$ 781,484</u>

Nonmajor Governmental Funds
 Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual
 For the Year Ended June 30, 2018

	Special Revenue Funds				Capital Projects Fund			
	City Grants Fund			Variance From Final Budget Positive (Negative)	Capital Reserve Fund			Variance From Final Budget Positive (Negative)
Original Budget	Budget As Amended	Actual	Original Budget		Budget As Amended	Actual		
Revenues:								
Revenue from use of money and property	\$ 12,830	\$ 12,830	\$ 29,313	\$ 16,483	\$ -	\$ 6,734	\$ 6,470	\$ (264)
Miscellaneous	-	-	-	-	-	27,816	27,266	(550)
Intergovernmental:								
Commonwealth	-	-	-	-	-	59,793	59,793	-
Federal	-	125,453	131,155	5,702	-	-	-	-
Total revenues	\$ 12,830	\$ 138,283	\$ 160,468	\$ 22,185	\$ -	\$ 94,343	\$ 93,529	\$ (814)
Expenditures:								
General government administration	\$ -	\$ -	\$ -	\$ -	\$ 95,000	\$ 406,474	\$ 141,901	\$ 264,573
Public safety	-	-	-	-	380,148	567,525	317,930	249,595
Public works	-	-	-	-	271,051	385,017	367,170	17,847
Community development	1,250	144,184	219,021	(74,837)	-	35,000	35,000	-
Debt service:								
Principal retirement	-	-	-	-	321,356	321,356	321,355	1
Interest and fiscal charges	-	-	-	-	33,083	33,083	33,083	-
Total expenditures	\$ 1,250	\$ 144,184	\$ 219,021	\$ (74,837)	\$ 1,100,638	\$ 1,748,455	\$ 1,216,439	\$ 532,016
Excess (deficiency) of revenues over (under) expenditures	\$ 11,580	\$ (5,901)	\$ (58,553)	\$ (52,652)	\$ (1,100,638)	\$ (1,654,112)	\$ (1,122,910)	\$ 531,202
Other financing sources (uses):								
Transfers in	-	-	-	-	1,100,638	1,288,851	1,288,851	-
Changes in fund balances	\$ 11,580	\$ (5,901)	\$ (58,553)	\$ (52,652)	\$ -	\$ (365,261)	\$ 165,941	\$ 531,202
Fund balances at beginning of year	(11,580)	5,901	109,148	103,247	-	365,261	515,922	150,661
Fund balances at end of year	\$ -	\$ -	\$ 50,595	\$ 50,595	\$ -	\$ -	\$ 681,863	\$ 681,863

Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018

	Special Revenue Fund	Capital Projects Fund	
	City Grants Fund	Capital Reserve Fund	Total
Revenues:			
Revenue from use of money and property	\$ 29,313	\$ 6,470	\$ 35,783
Miscellaneous	-	27,266	27,266
Intergovernmental:			
Commonwealth	-	59,793	59,793
Federal	131,155	-	131,155
Total revenues	<u>\$ 160,468</u>	<u>\$ 93,529</u>	<u>\$ 253,997</u>
Expenditures:			
General government administration	\$ -	\$ 141,901	\$ 141,901
Public safety	-	317,930	317,930
Public works	-	367,170	367,170
Planning and community development	219,021	35,000	254,021
Debt service:			
Principal retirement	-	321,355	321,355
Interest and fiscal charges	-	33,083	33,083
Total expenditures	<u>\$ 219,021</u>	<u>\$ 1,216,439</u>	<u>\$ 1,435,460</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (58,553)</u>	<u>\$ (1,122,910)</u>	<u>\$ (1,181,463)</u>
Other financing sources:			
Transfers in	\$ -	\$ 1,288,851	\$ 1,288,851
Total other financing sources	<u>\$ -</u>	<u>\$ 1,288,851</u>	<u>\$ 1,288,851</u>
Changes in fund balances	<u>\$ (58,553)</u>	<u>\$ 165,941</u>	<u>\$ 107,388</u>
Fund balances at beginning of year	<u>109,148</u>	<u>515,922</u>	<u>625,070</u>
Fund balances at end of year	<u><u>\$ 50,595</u></u>	<u><u>\$ 681,863</u></u>	<u><u>\$ 732,458</u></u>

Combining Statement of Fiduciary Net Position -
 Agency Funds
 At June 30, 2018

	<u>Insurance Trust Fund</u>	<u>Inmate Welfare Fund</u>	<u>Police Academy Fund</u>	<u>Southern Virginia Recreation Facility Authority Fund</u>	<u>Blue Ridge Regional Library Fund</u>	<u>Dan River ASAP Fund</u>	<u>Total</u>
ASSETS							
Cash and cash equivalents	\$ 542,889	\$ 190,377	\$ 326,644	\$ 59,435	\$ 304,564	\$ 179,237	\$ 1,603,146
Total assets	<u>\$ 542,889</u>	<u>\$ 190,377</u>	<u>\$ 326,644</u>	<u>\$ 59,435</u>	<u>\$ 304,564</u>	<u>\$ 179,237</u>	<u>\$ 1,603,146</u>
LIABILITIES							
Accounts payable	\$ -	\$ -	\$ 33,225	\$ 12,013	\$ 64,263	\$ 5,948	\$ 115,449
Amounts held for others	<u>542,889</u>	<u>190,377</u>	<u>293,419</u>	<u>47,422</u>	<u>240,301</u>	<u>173,289</u>	<u>1,487,697</u>
Total liabilities	<u>\$ 542,889</u>	<u>\$ 190,377</u>	<u>\$ 326,644</u>	<u>\$ 59,435</u>	<u>\$ 304,564</u>	<u>\$ 179,237</u>	<u>\$ 1,603,146</u>

Agency Funds
Combining Statement of Changes in Assets and Liabilities
For the Year Ended June 30, 2018

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
Insurance Trust Fund:				
Assets:				
Cash and cash equivalents	\$ 373,265	\$ 4,585,054	\$ 4,415,430	\$ 542,889
Total assets	<u>\$ 373,265</u>	<u>\$ 4,585,054</u>	<u>\$ 4,415,430</u>	<u>\$ 542,889</u>
Liabilities:				
Amounts held for others	\$ 373,265	\$ 4,585,054	\$ 4,415,430	\$ 542,889
Total liabilities	<u>\$ 373,265</u>	<u>\$ 4,585,054</u>	<u>\$ 4,415,430</u>	<u>\$ 542,889</u>
Inmate Welfare Funds:				
Assets:				
Cash and cash equivalents	\$ 148,268	\$ 310,788	\$ 268,679	\$ 190,377
Total assets	<u>\$ 148,268</u>	<u>\$ 310,788</u>	<u>\$ 268,679</u>	<u>\$ 190,377</u>
Liabilities:				
Amounts held for others	\$ 148,268	\$ 310,788	\$ 268,679	\$ 190,377
Total liabilities	<u>\$ 148,268</u>	<u>\$ 310,788</u>	<u>\$ 268,679</u>	<u>\$ 190,377</u>
Police Academy Fund:				
Assets:				
Cash and cash equivalents	\$ 315,683	\$ 373,281	\$ 362,320	\$ 326,644
Total assets	<u>\$ 315,683</u>	<u>\$ 373,281</u>	<u>\$ 362,320</u>	<u>\$ 326,644</u>
Liabilities:				
Accounts payable	\$ 7,522	\$ 33,225	\$ 7,522	\$ 33,225
Amounts held for others	308,161	340,056	354,798	293,419
Total liabilities	<u>\$ 315,683</u>	<u>\$ 373,281</u>	<u>\$ 362,320</u>	<u>\$ 326,644</u>
Southern Virginia Recreation Facilities Authority:				
Assets:				
Cash and cash equivalents	\$ 15,441	\$ 667,403	\$ 623,409	\$ 59,435
Total assets	<u>\$ 15,441</u>	<u>\$ 667,403</u>	<u>\$ 623,409</u>	<u>\$ 59,435</u>
Liabilities:				
Accounts payable	\$ 14,963	\$ 12,013	\$ 14,963	\$ 12,013
Amounts held for others	478	655,390	608,446	47,422
Total liabilities	<u>\$ 15,441</u>	<u>\$ 667,403</u>	<u>\$ 623,409</u>	<u>\$ 59,435</u>
Blue Ridge Regional Library:				
Assets:				
Cash and cash equivalents	\$ 271,488	\$ 1,782,083	\$ 1,749,007	\$ 304,564
Total assets	<u>\$ 271,488</u>	<u>\$ 1,782,083</u>	<u>\$ 1,749,007</u>	<u>\$ 304,564</u>
Liabilities:				
Accounts payable	\$ 53,384	\$ 64,263	\$ 53,384	\$ 64,263
Amounts held for others	218,104	1,717,820	1,695,623	240,301
Total liabilities	<u>\$ 271,488</u>	<u>\$ 1,782,083</u>	<u>\$ 1,749,007</u>	<u>\$ 304,564</u>
Dan River ASAP:				
Assets:				
Cash and cash equivalents	\$ 192,974	\$ 253,730	\$ 267,467	\$ 179,237
Total assets	<u>\$ 192,974</u>	<u>\$ 253,730</u>	<u>\$ 267,467</u>	<u>\$ 179,237</u>
Liabilities:				
Accounts payable	\$ 5,948	\$ -	\$ -	\$ 5,948
Amounts held for others	187,026	253,730	267,467	173,289
Total liabilities	<u>\$ 192,974</u>	<u>\$ 253,730</u>	<u>\$ 267,467</u>	<u>\$ 179,237</u>
Total -- All Agency Funds				
Assets:				
Cash and cash equivalents	\$ 1,317,119	\$ 7,972,339	\$ 7,686,312	\$ 1,603,146
Total assets	<u>\$ 1,317,119</u>	<u>\$ 7,972,339</u>	<u>\$ 7,686,312</u>	<u>\$ 1,603,146</u>
Liabilities:				
Accounts payable	\$ 81,817	\$ 109,501	\$ 75,869	\$ 115,449
Amounts held for others	1,235,302	7,862,838	7,610,443	1,487,697
Total liabilities	<u>\$ 1,317,119</u>	<u>\$ 7,972,339</u>	<u>\$ 7,686,312</u>	<u>\$ 1,603,146</u>

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Discretely Presented Component Unit—School Board

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Combining Balance Sheet
Discretely Presented Component Unit -- School Board
At June 30, 2018

	School Operating Fund	School Cafeteria Fund	School Grants Fund	Totals
ASSETS				
Cash and cash equivalents	\$ 744,643	\$ 1,654,602	\$ -	\$ 2,399,245
Accounts receivable	970	-	-	970
Due from other governments	189,486	7,182	383,987	580,655
Due from other funds	267,380	-	-	267,380
	<u>1,202,479</u>	<u>1,661,784</u>	<u>383,987</u>	<u>3,248,250</u>
Total assets	<u>\$ 1,202,479</u>	<u>\$ 1,661,784</u>	<u>\$ 383,987</u>	<u>\$ 3,248,250</u>
LIABILITIES				
Accounts payable	\$ 344,316	\$ 9,227	\$ 18,724	\$ 372,267
Unearned revenue	22,793	-	-	22,793
Accrued liabilities	835,370	24,536	85,492	945,398
Due to other funds	-	-	267,380	267,380
	<u>1,202,479</u>	<u>33,763</u>	<u>371,596</u>	<u>1,607,838</u>
Total liabilities	<u>\$ 1,202,479</u>	<u>\$ 33,763</u>	<u>\$ 371,596</u>	<u>\$ 1,607,838</u>
FUND BALANCES				
Committed:				
School food program	\$ -	\$ 1,628,021	\$ -	\$ 1,628,021
Education	-	-	12,391	12,391
	<u>-</u>	<u>1,628,021</u>	<u>12,391</u>	<u>1,640,412</u>
Total fund balances	<u>\$ -</u>	<u>\$ 1,628,021</u>	<u>\$ 12,391</u>	<u>\$ 1,640,412</u>
Total liabilities and fund balances	<u>\$ 1,202,479</u>	<u>\$ 1,661,784</u>	<u>\$ 383,987</u>	<u>\$ 3,248,250</u>

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

Total Fund balances, above \$ 1,640,412

Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds. 11,425,477

Items related to the measurement of the net pension, group life insurance OPEB, and health insurance OPEB liabilities are considered deferred outflows and will be amortized and recognized as expenses in future periods.

Deferred outflows related to:

Pension items	\$ 2,699,556	
Group life insurance OPEB items	63,740	
Health insurance credit OPEB items	143,477	2,906,773

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 position.

Details supporting this adjustment are as follows:

Net pension liability	(19,487,767)
Net OPEB liability - group life insurance	(986,000)
Net OPEB liability - health insurance credit	(1,867,000)
Total Pay-as-you-Go OPEB liability	(734,000)

Items related to the measurement of the net pension, group life insurance OPEB, and health insurance OPEB liabilities are considered deferred inflows and will be amortized and recognized as expenses in future periods.

Deferred inflows related to:

Pension items	\$ (3,774,361)	
Group life insurance OPEB items	(133,000)	
Health insurance credit OPEB items	(79,000)	(3,986,361)

Net position of General Government Activities \$ (11,088,466)

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds - Discretely Presented Component Unit - School Board
 For the Year Ended June 30, 2018

	<u>School Operating Fund</u>	<u>School Cafeteria Fund</u>	<u>School Grants Fund</u>	<u>Total</u>
Revenues:				
Revenue from use of money and property	\$ 38,503	\$ 40,488	\$ -	\$ 78,991
Charges for services	-	208,803	-	208,803
Miscellaneous	162,180	-	-	162,180
Recovered costs	903,724	-	-	903,724
Intergovernmental:				
Local government	6,150,281	-	-	6,150,281
Commonwealth	15,077,218	47,214	-	15,124,432
Federal	8,764	1,484,929	2,026,114	3,519,807
	<u>22,340,670</u>	<u>1,781,434</u>	<u>2,026,114</u>	<u>26,148,218</u>
Total revenues	\$ 22,340,670	\$ 1,781,434	\$ 2,026,114	\$ 26,148,218
Expenditures:				
Current:				
Education	\$ 22,340,670	\$ 1,523,609	\$ 2,026,114	\$ 25,890,393
	<u>22,340,670</u>	<u>1,523,609</u>	<u>2,026,114</u>	<u>25,890,393</u>
Total expenditures	\$ 22,340,670	\$ 1,523,609	\$ 2,026,114	\$ 25,890,393
Changes in fund balances	\$ -	\$ 257,825	\$ -	\$ 257,825
Fund balances at beginning of year	<u>-</u>	<u>1,370,196</u>	<u>12,391</u>	<u>1,382,587</u>
Fund balances at end of year	<u><u>-</u></u>	<u><u>1,628,021</u></u>	<u><u>12,391</u></u>	<u><u>1,640,412</u></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
 For the Year Ended June 30, 2018

Net changes in fund balances - total governmental funds		\$	257,825
<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 depreciation exceeded capital outlays in the current period computed as follows:</p>			
Capital outlays		\$	216,867
Depreciation expense			<u>(605,024)</u>
			(388,157)
Transfer of joint tenancy assets from Primary Government to Component Unit School Board			868,803
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. Details of this item consist of the following:</p>			
Change in deferred inflows related to:			
Pension items		\$	(1,471,181)
Group life insurance OPEB items			(133,000)
Health insurance credit OPEB items			<u>(79,000)</u>
			(1,683,181)
<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 deferred outflows related to:			
Pension items		\$	(1,111,824)
Group life insurance OPEB items			1,740
Health insurance credit OPEB items			15,477
Change in net pension liability			3,428,664
Change in net OPEB liability - group life insurance			187,000
Change in net OPEB liability - health insurance credit			<u>63,000</u>
			<u>2,584,057</u>
Changes in net position of governmental activities		\$	<u>1,639,347</u>

CITY OF MARTINSVILLE, VIRGINIA

Schedule of Revenues, Expenditures and Changes in Fund Balances --
 Budget and Actual -- Discretely Presented Component Unit - School Board
 For the Year Ended June 30, 2018

	School Operating Fund			Variance From Final Budget Positive (Negative)
	Original Budget	Budget As Amended	Actual	
Revenues:				
Revenue from use of money and property	\$ 22,000	\$ 22,000	\$ 38,503	\$ 16,503
Charges for services	2,500	2,500	-	(2,500)
Miscellaneous	-	163,465	162,180	(1,285)
Recovered costs	817,240	817,240	903,724	86,484
Intergovernmental:				
Local government	6,437,654	6,437,654	6,150,281	(287,373)
Commonwealth	14,712,479	14,961,797	15,077,218	115,421
Federal	30,224	30,224	8,764	(21,460)
Total revenues	\$ 22,022,097	\$ 22,434,880	\$ 22,340,670	\$ (94,210)
Expenditures:				
Current:				
Education	\$ 22,156,825	\$ 23,204,402	\$ 22,340,670	\$ 863,732
Total expenditures	\$ 22,156,825	\$ 23,204,402	\$ 22,340,670	\$ 863,732
Changes in fund balances	\$ (134,728)	\$ (769,522)	\$ -	\$ 769,522
Fund balances at beginning of year	134,728	769,522	-	(769,522)
Fund balances at end of year	\$ -	\$ -	\$ -	\$ -

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)
\$ 15,000	\$ 15,000	\$ 40,488	\$ 25,488	\$ -	\$ -	\$ -	\$ -
315,000	315,000	208,803	(106,197)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
46,255	46,255	47,214	959	-	-	-	-
1,185,000	1,185,000	1,484,929	299,929	-	1,878,270	2,026,114	147,844
<u>\$ 1,561,255</u>	<u>\$ 1,561,255</u>	<u>\$ 1,781,434</u>	<u>\$ 220,179</u>	<u>\$ -</u>	<u>\$ 1,878,270</u>	<u>\$ 2,026,114</u>	<u>\$ 147,844</u>
<u>\$ 1,597,955</u>	<u>\$ 1,597,955</u>	<u>\$ 1,523,609</u>	<u>\$ 74,346</u>	<u>\$ -</u>	<u>\$ 1,878,270</u>	<u>\$ 2,026,114</u>	<u>\$ (147,844)</u>
<u>\$ 1,597,955</u>	<u>\$ 1,597,955</u>	<u>\$ 1,523,609</u>	<u>\$ 74,346</u>	<u>\$ -</u>	<u>\$ 1,878,270</u>	<u>\$ 2,026,114</u>	<u>\$ (147,844)</u>
\$ (36,700)	\$ (36,700)	\$ 257,825	\$ 294,525	\$ -	\$ -	\$ -	\$ -
36,700	36,700	1,370,196	1,333,496	-	-	12,391	12,391
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,628,021</u>	<u>\$ 1,628,021</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,391</u>	<u>\$ 12,391</u>

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Supporting Schedules

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Governmental Funds and Discretely Presented Component Unit - School Board
Schedule of Revenues -- Budget and Actual
For the Year Ended June 30, 2018

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government:				
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 6,522,000	\$ 6,522,000	\$ 6,632,670	\$ 110,670
Real and personal public service corporation taxes	253,000	253,000	254,779	1,779
Personal property taxes	755,000	755,000	870,718	115,718
Business equipment	900,000	900,000	1,021,573	121,573
Machinery and tools taxes	110,000	110,000	125,886	15,886
Penalties	105,000	105,000	144,758	39,758
Interest and costs	85,000	85,000	129,895	44,895
Total general property taxes	\$ 8,730,000	\$ 8,730,000	\$ 9,180,279	\$ 450,279
Other local taxes:				
Local sales and use taxes	\$ 2,065,000	\$ 2,065,000	\$ 1,968,475	\$ (96,525)
Consumers' utility taxes	674,300	674,300	656,804	(17,496)
Business license tax	1,755,000	1,755,000	1,984,863	229,863
Franchise license taxes	20,000	20,000	20,000	-
Motor vehicle licenses	325,000	325,000	343,152	18,152
Bank franchise tax	305,000	305,000	359,475	54,475
Taxes on recordation and wills	50,000	50,000	38,538	(11,462)
Grantor tax	15,000	15,000	12,423	(2,577)
Cigarette tax	220,000	220,000	172,399	(47,601)
Rental tax	350	350	265	(85)
Transient room tax	19,200	19,200	15,632	(3,568)
Total other local taxes	\$ 5,448,850	\$ 5,448,850	\$ 5,572,026	\$ 123,176
Permits, privilege fees and regulatory licenses:				
Animal licenses	\$ 3,600	\$ 3,600	\$ 3,488	\$ (112)
Other permits and licenses	67,525	67,525	53,015	(14,510)
Total permits, privilege fees and regulatory licenses	\$ 71,125	\$ 71,125	\$ 56,503	\$ (14,622)
Fines and Forfeitures:				
Court fines and forfeitures	\$ 90,000	\$ 90,000	\$ 155,977	\$ 65,977
Other fines and forfeitures	10,000	15,247	14,782	(465)
Total fines and forfeitures	\$ 100,000	\$ 105,247	\$ 170,759	\$ 65,512

Governmental Funds and Discretely Presented Component Unit - School Board
Schedule of Revenues -- Budget and Actual
For the Year Ended June 30, 2018 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Revenue from use of money and property:				
Revenue from use of money	\$ 250,025	\$ 250,025	\$ 390,239	\$ 140,214
Revenue from use of property	<u>751,736</u>	<u>756,907</u>	<u>799,652</u>	<u>42,745</u>
Total revenue from use of money and property	<u>\$ 1,001,761</u>	<u>\$ 1,006,932</u>	<u>\$ 1,189,891</u>	<u>\$ 182,959</u>
Charges for services:				
Sheriff fees	\$ 3,624	\$ 3,624	\$ 3,625	\$ 1
Courthouse maintenance fees	9,000	9,000	7,818	(1,182)
Court appointed attorney fees	8,000	8,000	8,797	797
Court house security fees	20,000	20,000	25,346	5,346
Ambulance Fees	475,000	475,000	502,568	27,568
Document reproduction fee	2,500	2,500	2,049	(451)
Remote access fee	8,000	8,000	8,094	94
Commonwealth attorney fees	2,900	2,900	4,135	1,235
Other public safety fees	7,650	7,650	8,289	639
Recreation fees	11,000	11,000	12,589	1,589
Prison farm labor / street maintenance	24,000	24,000	24,000	-
Telecom services	1,382,855	1,382,855	1,459,813	76,958
Other charges for services	<u>30,800</u>	<u>30,800</u>	<u>43,989</u>	<u>13,189</u>
Total charges for services	<u>\$ 1,985,329</u>	<u>\$ 1,985,329</u>	<u>\$ 2,111,112</u>	<u>\$ 125,783</u>
Miscellaneous:				
Payment in lieu of tax	\$ 279,028	\$ 279,028	\$ 279,028	-
Other miscellaneous revenue	<u>38,000</u>	<u>44,656</u>	<u>43,457</u>	<u>(1,199)</u>
Total miscellaneous	<u>\$ 317,028</u>	<u>\$ 323,684</u>	<u>\$ 322,485</u>	<u>\$ (1,199)</u>
Recovered costs:				
WW Moore	\$ 35,000	\$ 35,000	\$ 43,478	\$ 8,478
SSI / LIDS	1,000	1,000	400	(600)
Circuit court and J&DR court	1,200	1,200	1,403	203
Meals tax administration	51,697	51,697	51,697	-
Street maintenance overhead	404,712	404,712	404,712	-
Demolition	2,000	2,000	3,429	1,429
Advance / recovered cost	100,000	192,592	211,508	18,916
Health department	1,000	1,000	8,871	7,871
Juror and witness	8,000	8,000	1,740	(6,260)
Sheriff	-	-	10,535	10,535
Medical co-pay reimbursement	7,000	7,000	10,449	3,449
Treasurer	12,000	12,000	20,443	8,443
Project lifesaver	1,000	1,000	1,110	110

Governmental Funds and Discretely Presented Component Unit - School Board
Schedule of Revenues -- Budget and Actual
For the Year Ended June 30, 2018 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Recovered costs: (Continued)				
Traffic reimbursement	\$ 2,000	\$ 2,000	\$ 1,162	\$ (838)
Telecom recovered costs	50,000	66,078	60,455	(5,623)
Collection expense	43,752	43,752	43,752	-
Billing expense	388,772	388,772	388,772	-
Safety expense	15,040	15,040	15,040	-
Communication	4,658	4,658	4,658	-
Public safety	30,000	43,878	43,977	99
Inmate fees	30,000	30,000	26,751	(3,249)
Crisis intervention team	30,000	30,000	24,513	(5,487)
Central garage	193,033	193,033	193,033	-
Other central services	561,483	561,483	561,483	-
Senior citizens	6,500	13,997	7,900	(6,097)
Social services	23,525	23,525	23,526	1
Program income	1,200	1,200	2,025	825
Senior citizens - transportation	2,400	2,400	3,153	753
Fiscal agent fees - regional library	3,600	3,600	3,600	-
Total recovered costs	\$ 2,010,572	\$ 2,140,617	\$ 2,173,575	\$ 32,958
Total revenue from local sources	\$ 19,664,665	\$ 19,811,784	\$ 20,776,630	\$ 964,846
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Rolling stock tax	\$ 9,000	\$ 9,000	\$ 8,436	\$ (564)
Recordation tax	17,000	17,000	11,657	(5,343)
PPTRA	626,428	626,428	626,428	-
Communications tax	840,000	840,000	833,760	(6,240)
Auto rental tax	90,000	90,000	97,484	7,484
Total noncategorical aid	\$ 1,582,428	\$ 1,582,428	\$ 1,577,765	\$ (4,663)
Categorical aid:				
Shared expenses:				
Commonwealth's attorney	\$ 519,402	\$ 536,402	\$ 486,716	\$ (49,686)
Sheriff	1,865,810	1,865,810	1,899,209	33,399
Commissioner of the Revenue	105,411	105,411	105,332	(79)
Treasurer	82,017	82,017	87,450	5,433
Registrar/electoral board	34,400	34,400	37,399	2,999
Clerk of the circuit court	305,317	305,317	321,337	16,020
Total shared expenses	\$ 2,912,357	\$ 2,929,357	\$ 2,937,443	\$ 8,086

Governmental Funds and Discretely Presented Component Unit - School Board
Schedule of Revenues -- Budget and Actual
For the Year Ended June 30, 2018 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
Intergovernmental: (Continued)				
Revenue from the Commonwealth: (Continued)				
Other categorical aid:				
Senior citizens	\$ 12,000	\$ 12,000	\$ 9,400	\$ (2,600)
Confiscated assets	-	18,673	18,673	-
Victim witness	27,686	27,686	27,686	-
House Bill # 599 - police	868,656	868,656	868,656	-
EMS two for life	10,000	10,000	12,295	2,295
Fire grant	40,000	46,206	46,206	-
Street maintenance	3,381,650	3,381,650	3,299,253	(82,397)
Jail per diem	339,871	339,871	347,744	7,873
Comprehensive services	100,000	100,000	241,134	141,134
VDOT highway projects	-	327,103	327,079	(24)
Other categorical aid	-	52,400	52,400	-
Total other categorical aid	<u>\$ 4,779,863</u>	<u>\$ 5,184,245</u>	<u>\$ 5,250,526</u>	<u>\$ 66,281</u>
Total categorical aid	<u>\$ 7,692,220</u>	<u>\$ 8,113,602</u>	<u>\$ 8,187,969</u>	<u>\$ 74,367</u>
Total revenue from the Commonwealth	<u>\$ 9,274,648</u>	<u>\$ 9,696,030</u>	<u>\$ 9,765,734</u>	<u>\$ 69,704</u>
Revenue from the federal government:				
Categorical aid:				
Victim witness	\$ 83,058	\$ 83,058	\$ 83,058	-
Confiscated assets	-	39,669	39,669	-
DMV grant - police	18,000	19,193	13,198	(5,995)
Senior citizens	-	-	22,668	22,668
Viper overtime grant	9,000	9,000	8,051	(949)
Brownfields grant	-	134,906	134,906	-
Street construction	-	114,824	114,824	-
FEMA	7,500	7,500	5,199	(2,301)
Other categorical aid	-	103,149	100,128	(3,021)
Total categorical aid	<u>\$ 117,558</u>	<u>\$ 511,299</u>	<u>\$ 521,701</u>	<u>\$ 10,402</u>
Total revenue from the Federal Government	<u>\$ 117,558</u>	<u>\$ 511,299</u>	<u>\$ 521,701</u>	<u>\$ 10,402</u>
Total General Fund	<u><u>\$ 29,056,871</u></u>	<u><u>\$ 30,019,113</u></u>	<u><u>\$ 31,064,065</u></u>	<u><u>\$ 1,044,952</u></u>
Special Revenue Funds:				
City Grants Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ 800	\$ 800	\$ 353	\$ (447)
Revenue from use of property	12,030	12,030	28,960	16,930
Total revenue from use of money and property	<u>\$ 12,830</u>	<u>\$ 12,830</u>	<u>\$ 29,313</u>	<u>\$ 16,483</u>
Total revenue from local sources	<u>\$ 12,830</u>	<u>\$ 12,830</u>	<u>\$ 29,313</u>	<u>\$ 16,483</u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Revenues -- Budget and Actual
 For the Year Ended June 30, 2018 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
Special Revenue Funds: (Continued)				
City Grants Fund: (Continued)				
Intergovernmental:				
Revenue from the federal government:				
Categorical aid:				
Neighborhood stabilization program	\$ -	\$ -	\$ 5,702	\$ 5,702
Northside neighborhood improvement grant	-	125,453	125,453	-
Total revenue from the Federal Government	\$ -	\$ 125,453	\$ 131,155	\$ 5,702
Total City Grants Fund	<u>\$ 12,830</u>	<u>\$ 138,283</u>	<u>\$ 160,468</u>	<u>\$ 22,185</u>
Total Special Revenue Funds	<u>\$ 12,830</u>	<u>\$ 138,283</u>	<u>\$ 160,468</u>	<u>\$ 22,185</u>
Capital Projects Funds:				
Capital Reserve Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ -	\$ 6,734	\$ 6,470	\$ (264)
Miscellaneous revenue:				
Miscellaneous	\$ -	\$ 27,816	\$ 27,266	\$ (550)
Total revenue from local sources	\$ -	\$ 34,550	\$ 33,736	\$ (814)
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Jail construction reimbursement	\$ -	\$ 24,793	\$ 24,793	\$ -
Tobacco regional opportunity	-	35,000	35,000	-
Total revenue from the Commonwealth	\$ -	\$ 59,793	\$ 59,793	\$ -
Total Capital Reserve Fund	<u>\$ -</u>	<u>\$ 94,343</u>	<u>\$ 93,529</u>	<u>\$ (814)</u>
Meals Tax Fund:				
Revenue from local sources:				
Other local taxes:				
Meals taxes	\$ 1,820,000	\$ 1,820,000	\$ 1,804,893	\$ (15,107)
Total revenue from local sources	\$ 1,820,000	\$ 1,820,000	\$ 1,804,893	\$ (15,107)
Intergovernmental:				
Revenue from the Federal Government				
Categorical aid:				
QSCB tax credit	\$ 367,978	\$ 367,978	\$ 369,164	\$ 1,186
Total revenue from the Federal Government	\$ 367,978	\$ 367,978	\$ 369,164	\$ 1,186
Total Meals Tax Fund	<u>\$ 2,187,978</u>	<u>\$ 2,187,978</u>	<u>\$ 2,174,057</u>	<u>\$ (13,921)</u>
Total Capital Projects Funds	<u>\$ 2,187,978</u>	<u>\$ 2,282,321</u>	<u>\$ 2,267,586</u>	<u>\$ (14,735)</u>
Total Revenues -- Primary Government	<u>\$ 31,257,679</u>	<u>\$ 32,439,717</u>	<u>\$ 33,492,119</u>	<u>\$ 1,052,402</u>

Governmental Funds and Discretely Presented Component Unit - School Board
Schedule of Revenues -- Budget and Actual
For the Year Ended June 30, 2018 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Component Unit-School Board:				
Governmental Funds:				
School Operating Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of property	\$ 22,000	\$ 22,000	\$ 38,503	\$ 16,503
Charges for services:				
Tuition and other charges for services	\$ 2,500	\$ 2,500	-	\$ (2,500)
Miscellaneous revenue:				
Miscellaneous revenue	\$ -	\$ 163,465	\$ 162,180	\$ (1,285)
Recovered costs:				
Recovered costs	\$ 817,240	\$ 817,240	\$ 903,724	\$ 86,484
Total revenue from local sources	\$ 841,740	\$ 1,005,205	\$ 1,104,407	\$ 99,202
Intergovernmental:				
Revenues from local governments:				
Contribution from City of Martinsville, Virginia	\$ 6,437,654	\$ 6,437,654	\$ 6,150,281	\$ (287,373)
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 2,191,811	\$ 2,191,811	\$ 2,207,123	\$ 15,312
Basic school aid	6,307,042	6,307,042	6,334,328	27,286
Share of fringe benefits - Fica	444,636	444,636	446,752	2,116
Share of fringe benefits - VRS	1,021,622	1,021,622	1,026,483	4,861
English as a second language	85,305	85,305	110,638	25,333
Group life insurance benefits	29,742	29,742	29,883	141
Regional tuition special education	118,383	118,383	129,485	11,102
Early reading intervention	94,941	94,941	112,972	18,031
Vocational SOQ payments	157,630	157,630	158,380	750
Special education - basic	905,630	905,630	929,382	23,752
At risk students	686,103	686,103	694,819	8,716
Homebound education	10,939	10,939	8,185	(2,754)
Remedial education	138,334	138,334	117,781	(20,553)
Remediation SOQ payments	579,960	579,960	582,720	2,760
Reduced K-3	655,988	655,988	656,841	853
Preschool initiative	265,761	265,761	265,761	-
Textbooks	163,251	163,251	164,028	777
Technology	160,690	314,690	315,334	644
Other state funds	694,711	790,029	786,323	(3,706)
Total categorical aid	\$ 14,712,479	\$ 14,961,797	\$ 15,077,218	\$ 115,421
Total revenue from the Commonwealth	\$ 14,712,479	\$ 14,961,797	\$ 15,077,218	\$ 115,421

Governmental Funds and Discretely Presented Component Unit - School Board
Schedule of Revenues -- Budget and Actual
For the Year Ended June 30, 2018 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Component Unit-School Board: (Continued)				
Governmental Funds: (Continued)				
School Operating Fund: (Continued)				
Intergovernmental:				
Revenue from the federal government:				
Categorical aid:				
Other federal categorical aid	\$ 30,224	\$ 30,224	\$ 8,764	\$ (21,460)
Total categorical aid	\$ 30,224	\$ 30,224	\$ 8,764	\$ (21,460)
Total revenue from the federal government	\$ 30,224	\$ 30,224	\$ 8,764	\$ (21,460)
Total School Operating Fund	\$ 22,022,097	\$ 22,434,880	\$ 22,340,670	\$ (94,210)
School Cafeteria Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ 15,000	\$ 15,000	\$ 40,488	\$ 25,488
Charges for services:				
Cafeteria sales	\$ 315,000	\$ 315,000	\$ 208,803	\$ (106,197)
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
School food	\$ 46,255	\$ 46,255	\$ 47,214	\$ 959
Revenue from the federal government:				
Categorical aid:				
School food	\$ 1,185,000	\$ 1,185,000	\$ 1,484,929	\$ 299,929
Total School Cafeteria Fund	\$ 1,561,255	\$ 1,561,255	\$ 1,781,434	\$ 220,179
School Grants Fund:				
Intergovernmental:				
Revenue from the federal government:				
Categorical aid:				
Title I	\$ -	\$ 1,065,560	\$ 1,187,263	\$ 121,703
Title II - teacher quality	-	126,793	166,395	39,602
Title III - language acquisition grant	-	9,148	12,700	3,552
Title IV - student support and academic enrichment	-	27,401	-	(27,401)
Title VI - rural education	-	34,992	66,624	31,632
Special education - flow through	-	547,979	526,602	(21,377)
Special education - preschool	-	6,297	3,971	(2,326)
Perkins vocational education	-	60,100	62,559	2,459
Total revenue from the federal government	\$ -	\$ 1,878,270	\$ 2,026,114	\$ 147,844
Total School Grants Fund	\$ -	\$ 1,878,270	\$ 2,026,114	\$ 147,844
Total Revenues--Component Unit - School Board	\$ 23,583,352	\$ 25,874,405	\$ 26,148,218	\$ 273,813

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 For the Year Ended June 30, 2018

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	\$ 43,540	\$ 43,540	\$ 58,692	\$ (15,152)
General and Financial Administration:				
Clerk of council	\$ 4,150	\$ 4,150	\$ 4,786	\$ (636)
City attorney	96,671	96,671	94,674	1,997
City manager's office	255,466	255,466	247,909	7,557
Assistant city manager	16,772	16,772	16,779	(7)
Legal services	5,000	5,000	375	4,625
Human resources	212,278	212,278	183,638	28,640
Employment services	391,953	396,953	339,542	57,411
Communications	21,574	21,574	18,260	3,314
Commissioner of the Revenue	451,430	450,872	434,829	16,043
Assessor	1,305	1,863	1,552	311
Treasurer	291,124	291,124	292,272	(1,148)
Finance director	130,098	130,098	126,896	3,202
Accounting	169,377	169,377	167,585	1,792
Utility billing	373,207	373,207	358,316	14,891
Information services	390,036	390,036	390,867	(831)
Central garage	460,384	460,384	434,519	25,865
Purchasing	170,828	170,828	164,024	6,804
Risk management	242,250	242,250	205,516	36,734
General expenses	137,703	154,703	149,670	5,033
Total general and financial administration	\$ 3,821,606	\$ 3,843,606	\$ 3,632,009	\$ 211,597
Board of Elections:				
Electoral board and officials	\$ 26,449	\$ 26,449	\$ 23,118	\$ 3,331
Registrar	123,690	123,690	112,548	11,142
Total board of elections	\$ 150,139	\$ 150,139	\$ 135,666	\$ 14,473
Total general government administration	\$ 4,015,285	\$ 4,037,285	\$ 3,826,367	\$ 210,918
Judicial Administration:				
Courts:				
Circuit court	\$ 87,111	\$ 87,111	\$ 76,028	\$ 11,083
General district court	32,635	37,235	22,728	14,507
Juvenile and domestic relations court	9,475	9,475	8,784	691
Clerk of the circuit court	431,276	436,076	446,355	(10,279)
Sheriff - courts	984,434	1,006,873	1,009,817	(2,944)
Total Courts	\$ 1,544,931	\$ 1,576,770	\$ 1,563,712	\$ 13,058

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 For the Year Ended June 30, 2018 (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	\$ 729,889	\$ 742,850	\$ 657,542	\$ 85,308
Victim witness program	113,004	113,004	111,081	1,923
Total Commonwealth attorney	\$ 842,893	\$ 855,854	\$ 768,623	\$ 87,231
Total judicial administration	\$ 2,387,824	\$ 2,432,624	\$ 2,332,335	\$ 100,289
Public Safety:				
Law Enforcement and Traffic Control:				
Police department	\$ 3,921,094	\$ 4,189,404	\$ 3,965,210	\$ 224,194
Transportation safety commission	1,500	1,500	1,468	32
Total law enforcement and traffic control	\$ 3,922,594	\$ 4,190,904	\$ 3,966,678	\$ 224,226
Fire and Rescue Services:				
Fire services	\$ 2,016,464	\$ 2,108,447	\$ 1,994,833	\$ 113,614
Emergency medical services	194,049	194,626	194,868	(242)
Total fire and rescue services	\$ 2,210,513	\$ 2,303,073	\$ 2,189,701	\$ 113,372
Correction and Detention:				
Sheriff -corrections	\$ 2,574,600	\$ 2,588,140	\$ 2,737,360	\$ (149,220)
Sheriff -jail annex	157,030	160,318	186,036	(25,718)
Probation office	303,340	303,340	327,564	(24,224)
Total correction and detention	\$ 3,034,970	\$ 3,051,798	\$ 3,250,960	\$ (199,162)
Inspections:				
Building and other	\$ 189,849	\$ 194,434	\$ 180,986	\$ 13,448
Other Protection:				
Safety	\$ 102,232	\$ 102,232	\$ 86,184	\$ 16,048
Total public safety	\$ 9,460,158	\$ 9,842,441	\$ 9,674,509	\$ 167,932
Public Works:				
Maintenance of highways, streets, bridges and sidewalks:				
Director of public works	\$ 132,879	\$ 132,879	\$ 130,686	\$ 2,193
Engineering	81,247	81,247	85,779	(4,532)
Street maintenance	2,478,811	3,032,197	2,748,799	283,398
Street marking and signs	183,677	183,677	143,245	40,432
Traffic signals	365,860	394,987	421,645	(26,658)

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 For the Year Ended June 30, 2018 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Primary Government: (Continued)				
General Fund: (Continued)				
Public Works: (Continued)				
Maintenance of highways, streets, bridges and sidewalks: (Continued)				
Street cleaning	\$ 353,302	\$ 353,302	\$ 336,056	\$ 17,246
VDOT reserve	40,000	853,034	848,618	4,416
Street construction	<u>257,025</u>	<u>257,025</u>	<u>247,609</u>	<u>9,416</u>
Total maintenance of highways, streets, bridges and sidewalks	<u>\$ 3,892,801</u>	<u>\$ 5,288,348</u>	<u>\$ 4,962,437</u>	<u>\$ 325,911</u>
Maintenance of buildings and grounds:				
Uptown maintenance	\$ 43,505	\$ 43,505	\$ 45,754	\$ (2,249)
City hall maintenance	421,132	421,132	466,704	(45,572)
Warehouse / garage complex	105,550	105,550	107,182	(1,632)
WPBDC building	55,800	55,800	41,791	14,009
Housing services building	<u>3,375</u>	<u>3,375</u>	<u>6,461</u>	<u>(3,086)</u>
Total maintenance of buildings and grounds	<u>\$ 629,362</u>	<u>\$ 629,362</u>	<u>\$ 667,892</u>	<u>\$ (38,530)</u>
Total public works	<u>\$ 4,522,163</u>	<u>\$ 5,917,710</u>	<u>\$ 5,630,329</u>	<u>\$ 287,381</u>
Health and Welfare				
Health:				
Contribution to local health department	\$ 198,401	\$ 198,401	\$ 198,401	\$ -
Mental Health and Mental Retardation:				
Chapter X board	<u>\$ 58,125</u>	<u>\$ 58,125</u>	<u>\$ 58,125</u>	<u>\$ -</u>
Welfare/Social Services:				
Comprehensive services	\$ 150,000	\$ 150,000	\$ 410,752	\$ (260,752)
Regional social services board	<u>351,550</u>	<u>351,550</u>	<u>326,232</u>	<u>25,318</u>
Total welfare/social services	<u>\$ 501,550</u>	<u>\$ 501,550</u>	<u>\$ 736,984</u>	<u>\$ (235,434)</u>
Total health and welfare	<u>\$ 758,076</u>	<u>\$ 758,076</u>	<u>\$ 993,510</u>	<u>\$ (235,434)</u>
Education:				
Contributions to community colleges	\$ 19,835	\$ 19,835	\$ 19,835	\$ -
Contributions to School Board Component Unit	<u>6,437,654</u>	<u>7,072,448</u>	<u>6,150,281</u>	<u>922,167</u>
Total education	<u>\$ 6,457,489</u>	<u>\$ 7,092,283</u>	<u>\$ 6,170,116</u>	<u>\$ 922,167</u>

Governmental Funds and Discretely Presented Component Unit - School Board
Schedule of Expenditures - Budget and Actual
For the Year Ended June 30, 2018 (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:				
Parks & Recreation	\$ 95,843	\$ 96,243	\$ 90,716	\$ 5,527
Park maintenance	247,135	247,135	228,518	18,617
Hooker field/Mustangs	63,124	63,124	59,674	3,450
Senior services	168,996	178,468	165,896	12,572
Total parks and recreation	<u>\$ 575,098</u>	<u>\$ 584,970</u>	<u>\$ 544,804</u>	<u>\$ 40,166</u>
Library:				
Regional library	\$ 292,197	\$ 292,197	\$ 292,197	\$ -
Total parks, recreation and cultural	<u>\$ 867,295</u>	<u>\$ 877,167</u>	<u>\$ 837,001</u>	<u>\$ 40,166</u>
Community Development:				
Planning and Community Development:				
Community Development	\$ 235,742	\$ 289,102	\$ 237,909	\$ 51,193
Community Development - Brownfields	-	184,906	183,212	1,694
Telecom system	1,522,403	1,560,481	1,563,074	(2,593)
Planning and zoning	143,117	163,117	160,996	2,121
Contributions to local organizations	822,439	822,439	792,435	30,004
Total planning and community development	<u>\$ 2,723,701</u>	<u>\$ 3,020,045</u>	<u>\$ 2,937,626</u>	<u>\$ 82,419</u>
Cooperative Extension Program:				
Horticulture and family resources	\$ 7,756	\$ 7,756	\$ 7,756	\$ -
Total community development	<u>\$ 2,731,457</u>	<u>\$ 3,027,801</u>	<u>\$ 2,945,382</u>	<u>\$ 82,419</u>
Total General Fund	<u><u>\$ 31,199,747</u></u>	<u><u>\$ 33,985,387</u></u>	<u><u>\$ 32,409,549</u></u>	<u><u>\$ 1,575,838</u></u>
Special Revenue Funds:				
City Grants Fund:				
Community Development:				
Community development block grant	\$ 1,250	\$ 144,184	\$ 219,021	\$ (74,837)
Total City Grants Fund	<u><u>\$ 1,250</u></u>	<u><u>\$ 144,184</u></u>	<u><u>\$ 219,021</u></u>	<u><u>\$ (74,837)</u></u>
Total Special Revenue Funds	<u><u>\$ 1,250</u></u>	<u><u>\$ 144,184</u></u>	<u><u>\$ 219,021</u></u>	<u><u>\$ (74,837)</u></u>

Governmental Funds and Discretely Presented Component Unit - School Board
 Schedule of Expenditures - Budget and Actual
 For the Year Ended June 30, 2018 (Continued)

Fund, Function, Activity and Elements	Original Budget	Budget As Amended	Actual	Variance From Final Budget Positive (Negative)
Capital Projects Funds:				
Capital Reserve Fund:				
General Government Administration:				
Computer software - Commissioner of the Revenue	\$ -	\$ 28,565	\$ 17,713	\$ 10,852
Computer software - information services	75,000	136,561	57,119	79,442
Physical plant expansion - City Hall	20,000	71,185	67,069	4,116
Physical plant expansion - Schools	-	170,163	-	170,163
Total general government administration	<u>\$ 95,000</u>	<u>\$ 406,474</u>	<u>\$ 141,901</u>	<u>\$ 264,573</u>
Public Safety:				
Police department - motor vehicles	\$ 96,000	\$ 96,000	\$ 91,787	\$ 4,213
Computer hardware / software - Police	50,648	50,648	48,118	2,530
Fire department - motor vehicles	35,000	41,734	37,522	4,212
Jail - motor vehicles	64,000	64,000	38,193	25,807
Major tools and equipment - Police department	24,500	24,500	24,255	245
Physical plant expansion - Fire department	10,000	10,000	-	10,000
Physical plant expansion - Sheriff / Jail	100,000	280,643	78,055	202,588
Total public safety	<u>\$ 380,148</u>	<u>\$ 567,525</u>	<u>\$ 317,930</u>	<u>\$ 249,595</u>
Public Works:				
Street maintenance - motor vehicles	\$ 80,000	\$ 146,816	\$ 144,646	\$ 2,170
Computer hardware / software - engineering	12,000	12,000	6,160	5,840
Major tools and equipment - street maintenance	22,000	37,090	34,906	2,184
Major tools and equipment - traffic signals	86,551	86,551	86,428	123
Physical plant expansion - WPBDC building	40,000	71,350	86,745	(15,395)
Physical plant expansion - Warehouse complex	30,500	31,210	8,285	22,925
Total public works	<u>\$ 271,051</u>	<u>\$ 385,017</u>	<u>\$ 367,170</u>	<u>\$ 17,847</u>
Community Development:				
Major equipment - TROF	\$ -	\$ 35,000	\$ 35,000	\$ -
Total community development	<u>\$ -</u>	<u>\$ 35,000</u>	<u>\$ 35,000</u>	<u>\$ -</u>
Debt service:				
Principal retirement	\$ 321,356	\$ 321,356	\$ 321,355	\$ 1
Interest and other debt costs	33,083	33,083	33,083	-
Total debt service	<u>\$ 354,439</u>	<u>\$ 354,439</u>	<u>\$ 354,438</u>	<u>\$ 1</u>
Total Capital Reserve Fund	<u><u>\$ 1,100,638</u></u>	<u><u>\$ 1,748,455</u></u>	<u><u>\$ 1,216,439</u></u>	<u><u>\$ 532,016</u></u>

Governmental Funds and Discretely Presented Component Unit - School Board
Schedule of Expenditures - Budget and Actual
For the Year Ended June 30, 2018 (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	\$ 51,697	\$ 51,697	\$ 51,697	\$ -
Debt service:				
Principal retirement	\$ 1,016,803	\$ 1,016,803	\$ 1,016,803	\$ -
Interest and other debt costs	504,873	504,873	504,873	-
Total debt service	\$ 1,521,676	\$ 1,521,676	\$ 1,521,676	\$ -
Total Meals Tax Fund	\$ 1,573,373	\$ 1,573,373	\$ 1,573,373	\$ -
Total Capital Projects Funds	\$ 2,674,011	\$ 3,321,828	\$ 2,789,812	\$ 532,016
Total Expenditures - Primary Government	\$ 33,875,008	\$ 37,451,399	\$ 35,418,382	\$ 2,033,017
Component Unit - School Board				
School Operating Fund:				
Education:				
Instruction	\$ 15,906,766	\$ 16,524,600	\$ 15,472,840	\$ 1,051,760
Administration, attendance and health	1,323,891	1,333,891	1,271,010	62,881
Pupil transportation	1,038,624	1,198,293	1,190,026	8,267
Operation and maintenance of school plant	2,335,200	2,441,274	2,708,518	(267,244)
Nutrition	5,000	5,000	-	5,000
Technology	1,547,344	1,701,344	1,698,276	3,068
Total operating costs	\$ 22,156,825	\$ 23,204,402	\$ 22,340,670	\$ 863,732
Total School Operating Fund	\$ 22,156,825	\$ 23,204,402	\$ 22,340,670	\$ 863,732
School Cafeteria Fund:				
Education:				
School food services	\$ 1,597,955	\$ 1,597,955	\$ 1,523,609	\$ 74,346
School Grants Fund:				
Education:				
Instruction costs	\$ -	\$ 1,878,270	\$ 2,026,114	\$ (147,844)
Total Expenditures - Component Unit - School Board	\$ 23,754,780	\$ 26,680,627	\$ 25,890,393	\$ 790,234

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<u>Section</u>	<u>Description / Table Name</u>	<u>Table Number</u>
<u>Financial Trends</u>		
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 Position by Component	1
	Changes in Net Position	2
	Level of Unrestricted Net Position	3
	Governmental Activities Tax Revenues by Source--(Accrual Basis of Accounting)	4
	Fund Balances of Governmental Funds	5
	Fund Balance Summary	6
	Changes in Fund Balances of Governmental Funds	7
	Level of Unreserved/Unassigned Fund Balance	8
	Governmental Activities Tax Revenues by Source (Modified Accrual Basis of Accounting)	9
	Local Sales Tax Growth	10
	Utility Analysis of Unrestricted Net Position	11
<u>Revenue Capacity</u>		
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 and Tax Rates	12
	Property Tax Levies and Collections	13
<u>Debt Capacity</u>		
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	14
	Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita	15
	Computation of Direct and Overlapping Bonded Debt	16
	Expenditures Per Capita Ratios	17
<u>Demographic and Economic Information</u>		
	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.	18
<u>Operating Information</u>		
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.		
	Full-time Equivalent City Government Employees by Function--Last Ten Fiscal Years	19
	Operating Indicators by Function--Last Nine Fiscal Years	20
	Capital Asset Statistics by Function--Last Nine Fiscal Years	21

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Net Position by Component
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Governmental activities:										
Net investment in capital assets	\$ 5,351,713	\$ 4,986,603	\$ 5,095,179	\$ 5,239,010	\$ 7,783,672	\$ 9,025,281	\$ 8,309,912	\$ 10,250,210	\$ 10,624,972	\$ 10,317,087
Unrestricted	<u>5,938,838</u>	<u>5,095,384</u>	<u>5,709,696</u>	<u>10,833,837</u>	<u>9,266,186</u>	<u>11,321,289</u>	<u>(4,717,533)</u>	<u>(5,823,340)</u>	<u>(7,197,367)</u>	<u>(9,652,267)</u>
Total governmental activities net position	<u>\$ 11,290,551</u>	<u>\$ 10,081,987</u>	<u>\$ 10,804,875</u>	<u>\$ 16,072,847</u>	<u>\$ 17,049,858</u>	<u>\$ 20,346,570</u>	<u>\$ 3,592,379</u>	<u>\$ 4,426,870</u>	<u>\$ 3,427,605</u>	<u>\$ 664,820</u>
Business-type activities:										
Net investment in capital assets	\$ 15,210,773	\$ 14,419,532	\$ 15,002,561	\$ 17,011,598	\$ 17,668,620	\$ 17,998,885	\$ 18,933,157	\$ 20,792,962	\$ 20,155,003	\$ 21,620,820
Unrestricted	<u>6,452,916</u>	<u>7,012,823</u>	<u>7,017,111</u>	<u>8,058,407</u>	<u>10,467,030</u>	<u>9,385,092</u>	<u>6,106,918</u>	<u>4,335,678</u>	<u>9,186,299</u>	<u>6,855,519</u>
Total business-type activities net position	<u>\$ 21,663,689</u>	<u>\$ 21,432,355</u>	<u>\$ 22,019,672</u>	<u>\$ 25,070,005</u>	<u>\$ 28,135,650</u>	<u>\$ 27,383,977</u>	<u>\$ 25,040,075</u>	<u>\$ 25,128,640</u>	<u>\$ 29,341,302</u>	<u>\$ 28,476,339</u>
Primary government										
Net investment in capital assets	\$ 20,562,486	\$ 19,406,135	\$ 20,097,740	\$ 22,250,608	\$ 25,452,292	\$ 27,024,166	\$ 27,243,069	\$ 31,043,172	\$ 30,779,975	\$ 31,937,907
Unrestricted	<u>12,391,754</u>	<u>12,108,207</u>	<u>12,726,807</u>	<u>18,892,244</u>	<u>19,733,216</u>	<u>20,706,381</u>	<u>1,389,385</u>	<u>(1,487,662)</u>	<u>1,988,932</u>	<u>(2,796,748)</u>
Total primary government	<u>\$ 32,954,240</u>	<u>\$ 31,514,342</u>	<u>\$ 32,824,547</u>	<u>\$ 41,142,852</u>	<u>\$ 45,185,508</u>	<u>\$ 47,730,547</u>	<u>\$ 28,632,454</u>	<u>\$ 29,555,510</u>	<u>\$ 32,768,907</u>	<u>\$ 29,141,159</u>

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

Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)

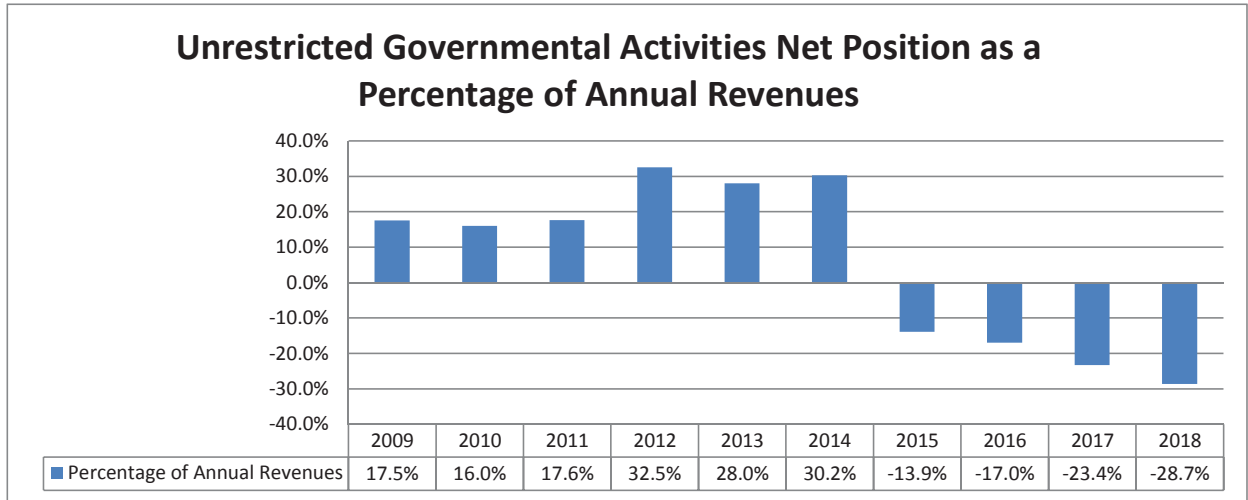
	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Expenses:										
Governmental activities:										
General government administration	\$ 4,276,071	\$ 4,093,661	\$ 3,814,802	\$ 3,637,285	\$ 3,632,201	\$ 3,652,928	\$ 3,800,766	\$ 4,612,205	\$ 3,245,979	\$ 3,201,860
Judicial administration	2,000,159	1,885,494	1,878,258	1,918,028	1,981,577	2,165,263	2,096,773	2,250,373	2,322,293	2,314,974
Public safety	9,696,451	9,472,187	8,997,810	9,228,325	9,393,253	9,418,417	9,176,453	9,837,593	9,805,711	9,902,833
Public works	4,692,221	4,304,621	4,178,766	4,011,222	4,957,877	4,265,599	3,456,455	4,246,016	3,659,946	4,926,615
Health and welfare	582,129	1,292,705	606,262	563,668	748,961	679,779	674,858	770,780	859,053	960,166
Education	7,679,809	6,778,437	6,400,860	3,525,833	5,800,158	6,876,345	7,794,188	7,091,099	7,401,665	7,305,996
Parks, recreation, and cultural	1,096,975	1,149,286	1,340,515	1,254,795	1,085,674	1,044,516	930,080	941,835	923,286	883,520
Community development	3,954,587	3,755,520	4,117,538	3,498,547	3,705,549	5,390,512	4,958,922	3,373,272	3,381,324	3,231,968
Interest and other fiscal charges	514,838	402,996	348,232	395,761	488,284	688,152	616,888	216,619	184,109	153,162
Total governmental activities expenses	\$ 34,493,240	\$ 33,134,907	\$ 31,683,043	\$ 28,033,464	\$ 31,793,534	\$ 34,181,511	\$ 33,505,383	\$ 33,339,792	\$ 31,783,366	\$ 32,881,094
Business-type activities:										
Electric	15,660,263	16,432,597	17,175,908	14,987,140	13,609,901	16,329,938	15,552,584	16,266,023	16,860,239	18,842,419
Water	2,135,742	1,874,519	1,694,197	1,713,386	1,756,400	1,744,194	1,576,999	1,817,456	1,979,099	1,998,279
Sewer	3,105,291	2,996,728	2,652,619	2,712,919	2,762,385	3,107,701	3,063,555	3,104,212	3,279,987	3,352,971
Refuse collection / landfill	2,368,403	1,138,147	1,095,958	1,262,415	1,566,262	1,490,749	1,454,477	1,586,815	1,765,041	1,792,739
Total business-type activities expenses	\$ 23,269,699	\$ 22,441,991	\$ 22,618,682	\$ 20,675,860	\$ 19,694,948	\$ 22,672,582	\$ 21,647,615	\$ 22,774,506	\$ 23,884,366	\$ 25,986,408
Total primary government expenses	\$ 57,762,939	\$ 55,576,898	\$ 54,301,725	\$ 48,709,324	\$ 51,488,482	\$ 56,854,093	\$ 55,152,998	\$ 56,114,298	\$ 55,667,732	\$ 58,867,502
Program revenues:										
Governmental activities:										
Charges for services:										
General government administration	\$ 113,848	\$ 143,120	\$ 191,123	\$ 186,019	\$ 210,744	\$ 27,323	\$ 71,257	\$ 58,315	\$ 54,221	\$ 54,132
Judicial administration	252,763	273,737	202,053	209,709	215,326	177,396	220,001	170,680	199,722	216,855
Public safety	361,662	421,844	509,000	599,126	603,156	502,374	556,608	533,667	557,825	570,985
Public works	92,071	109,045	24,000	24,000	24,000	24,000	367,457	1,239,954	1,327,920	1,483,813
Parks, recreation, and cultural	141,895	162,368	139,931	148,883	51,468	224,677	13,847	10,735	12,162	12,589
Operating grants and contributions:										
General government administration	267,032	234,313	277,056	423,555	275,042	310,483	230,355	228,325	218,070	230,181
Judicial administration	780,735	736,621	713,051	719,769	721,469	738,874	766,853	789,944	793,561	808,053
Public safety	3,955,895	3,397,090	3,239,401	3,283,016	3,189,324	3,229,434	3,192,089	3,366,678	3,600,720	3,446,573
Public works	2,642,578	2,625,314	3,395,752	3,274,179	2,937,259	3,183,251	3,139,103	3,220,499	3,267,296	3,628,653
Health and welfare	12,258	23,973	0	51,227	146,616	106,284	107,481	171,032	201,601	241,134
Parks, recreation, and cultural	17,467	21,545	36,342	34,633	29,024	34,111	27,393	31,257	43,729	34,468
Community development	2,378,903	2,280,439	2,081,905	2,179,828	1,816,471	3,566,872	1,840,583	884,321	474,766	184,155
Capital grants and contributions	138,691	590,000	0	-	2,051,086	1,900,918	1,099,371	2,641	199,426	327,400
Total governmental activities program revenues	\$ 11,155,798	\$ 11,019,409	\$ 10,809,614	\$ 11,133,944	\$ 12,270,985	\$ 14,025,997	\$ 11,632,398	\$ 10,708,048	\$ 10,951,019	\$ 11,238,991

Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Business-type activities:										
Charges for services:										
Electric	\$ 16,728,961	\$ 16,624,330	\$ 17,549,813	\$ 17,005,502	\$ 16,737,265	\$ 17,196,837	\$ 17,630,862	\$ 17,770,846	\$ 18,680,678	\$ 18,787,334
Water	3,216,234	2,912,964	3,090,420	3,108,345	3,223,717	3,268,689	3,301,837	3,284,234	3,602,775	3,497,724
Sewer	3,876,929	3,763,519	3,611,687	4,036,668	3,917,792	3,840,429	3,929,737	4,226,823	4,255,883	4,269,547
Refuse collection / landfill	1,431,649	1,698,501	1,651,673	1,678,419	1,599,297	2,080,731	2,199,089	2,232,517	2,280,710	2,237,742
Capital grants and contributions	-	-	-	1,878,298	-	15,894	-	-	-	-
Total business-type activities program revenues	\$ 25,253,773	\$ 24,999,314	\$ 25,903,593	\$ 27,707,232	\$ 25,478,071	\$ 26,402,580	\$ 27,061,525	\$ 27,514,420	\$ 28,820,046	\$ 28,792,347
Total primary government program revenues	\$ 36,273,182	\$ 35,808,928	\$ 37,037,537	\$ 39,978,217	\$ 39,504,068	\$ 38,034,978	\$ 37,769,573	\$ 38,465,439	\$ 39,771,065	\$ 40,031,338
Net (expense) / revenue										
Governmental activities	\$ (23,337,441)	\$ (20,873,429)	\$ (16,899,520)	\$ (19,522,549)	\$ (20,155,514)	\$ (21,872,985)	\$ (22,631,744)	\$ (20,832,347)	\$ (20,832,347)	\$ (21,642,103)
Business-type activities	2,811,782	2,380,632	5,227,733	8,012,284	2,805,489	4,754,965	4,287,019	3,630,054	4,935,680	2,805,939
Total primary government net expense	\$ (20,525,659)	\$ (18,492,797)	\$ (11,671,787)	\$ (11,510,265)	\$ (17,350,025)	\$ (17,118,020)	\$ (18,344,725)	\$ (17,202,293)	\$ (15,896,667)	\$ (18,836,164)
General Revenues and Other Changes in Net Position										
Governmental activities:										
General property taxes	\$ 9,443,548	\$ 9,036,094	\$ 8,878,758	\$ 8,667,298	\$ 8,815,665	\$ 9,063,889	\$ 8,984,049	\$ 8,949,568	\$ 9,072,495	\$ 8,964,713
Local sales and use taxes	2,015,151	1,759,239	1,911,276	1,891,909	1,886,892	2,017,806	1,921,102	2,033,632	2,046,701	1,968,475
Consumer utility taxes	735,458	718,563	710,361	695,041	684,046	669,664	678,862	654,989	640,608	656,804
Business license taxes	1,849,974	1,676,826	1,947,085	1,720,315	1,769,645	1,807,604	1,607,168	1,715,637	1,770,305	1,984,863
Meals tax	1,430,326	1,390,907	1,409,442	1,434,966	1,552,032	1,583,889	1,665,418	1,717,249	1,738,415	1,804,893
Other local taxes	1,792,617	1,738,173	816,634	878,807	787,788	838,603	895,763	884,145	925,346	961,884
Grants and contributions not restricted to specific programs	704,371	695,066	1,657,430	1,631,430	1,642,941	1,634,436	1,629,988	1,622,427	1,605,957	1,577,765
Unrestricted revenues from use of money and property	732,669	714,804	612,256	725,358	684,989	925,705	649,438	958,834	1,024,325	1,225,674
Miscellaneous	441,675	374,241	916,783	510,730	263,000	403,029	243,521	249,786	258,851	349,751
Transfers	3,649,442	2,803,021	2,736,292	4,011,638	2,743,691	4,507,601	3,946,547	4,679,968	750,079	2,891,539
Total governmental activities	\$ 22,795,231	\$ 20,906,934	\$ 21,596,317	\$ 22,167,492	\$ 20,830,689	\$ 23,452,226	\$ 22,221,856	\$ 23,466,235	\$ 19,833,082	\$ 22,386,361
Business-type activities:										
Transfers	\$ (3,649,442)	\$ (2,803,021)	\$ (2,736,292)	\$ (4,011,638)	\$ (2,743,691)	\$ (4,507,601)	\$ (3,946,547)	\$ (4,679,968)	\$ (750,079)	\$ (2,891,539)
Unrestricted revenues from use of money and property	5,505	14,364	38,698	30,599	26,213	25,930	23,386	28,619	27,061	27,638
Miscellaneous	-	-	-	-	-	-	-	-	-	15,195
Total business-type activities	\$ (3,643,937)	\$ (2,788,657)	\$ (2,697,594)	\$ (3,981,039)	\$ (2,717,478)	\$ (4,481,671)	\$ (3,923,161)	\$ (4,651,349)	\$ (723,018)	\$ (2,848,706)
Total primary government	\$ 19,151,294	\$ 18,118,277	\$ 18,898,723	\$ 18,186,453	\$ 18,113,211	\$ 18,970,555	\$ 18,298,695	\$ 18,814,886	\$ 19,110,064	\$ 19,537,655
Change in Net Position										
Governmental activities	\$ (542,210)	\$ (1,208,565)	\$ 4,696,797	\$ 2,644,943	\$ 675,175	\$ 1,579,241	\$ (409,888)	\$ 2,633,888	\$ (999,265)	\$ 744,258
Business-type activities	(1,659,863)	(231,334)	2,530,139	4,031,245	88,011	273,294	363,858	(1,021,295)	4,212,662	(42,767)
Total primary government	\$ (2,202,073)	\$ (1,439,899)	\$ 7,226,936	\$ 6,676,188	\$ 763,186	\$ 1,852,535	\$ (46,030)	\$ 1,612,593	\$ 3,213,397	\$ 701,491

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

Level of Unrestricted Net Position
 Last Ten Fiscal Years
 (Accrual Basis of Accounting)



Unrestricted net position represent the resources that are neither invested in capital assets or whose use is constrained to a particular purpose. These net position can be used for any purpose, though they are not necessarily liquid.

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

Fiscal Year	General Property Taxes	Local Sales and Use Taxes	Consumer Utility Taxes	Business License Taxes	Meals Taxes	Other Local Taxes	Total
2018	\$ 8,964,713	\$ 1,968,475	\$ 656,804	\$ 1,984,863	\$ 1,804,893	\$ 961,884	\$ 16,341,632
2017	9,072,495	2,046,701	640,608	1,770,305	1,738,415	925,346	16,193,870
2016	8,949,568	2,033,632	654,989	1,715,637	1,717,249	884,145	15,955,220
2015	8,984,049	1,921,102	678,862	1,607,168	1,665,418	895,763	15,752,362
2014	9,063,889	2,017,806	669,664	1,807,604	1,583,889	838,603	15,981,455
2013	8,815,665	1,886,892	684,046	1,769,645	1,552,032	787,788	15,496,068
2012	8,667,298	1,891,909	695,041	1,720,315	1,434,966	878,807	15,288,336
2011	8,878,758	1,911,276	710,361	1,947,085	1,409,442	816,634	15,673,556
2010	9,036,094	1,759,239	718,563	1,676,826	1,390,907	1,738,173	16,319,802
2009	9,443,548	2,015,151	735,458	1,849,974	1,430,326	1,792,617	17,267,074

CITY OF MARTINSVILLE, VIRGINIA

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

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
General fund					
Unreserved, designated	\$ 154,099	\$ 154,099	\$ -	\$ -	-
Unreserved, undesignated	2,959,209	2,090,139	-	-	-
Nonspendable	-	-	512,136	795,619	841,646
Committed	-	-	1,690,400	1,690,400	1,698,115
Assigned	-	-	154,099	154,099	154,099
Unassigned	-	-	774,240	4,734,167	4,535,327
Total general fund	<u>\$ 3,113,308</u>	<u>\$ 2,244,238</u>	<u>\$ 3,130,875</u>	<u>\$ 7,374,285</u>	<u>\$ 7,229,187</u>
All other governmental funds					
Unreserved, reported in:					
Special revenue funds (deficit)	\$ 116,818	\$ (230,984)	\$ -	\$ -	-
Capital projects funds	1,177,707	1,171,520	-	-	-
Nonspendable	-	-	-	-	477,955
Restricted for:					
Capital projects	-	-	-	10,053,594	2,274,054
Committed, reported in:					
Special revenue funds	-	-	161,982	280,061	11,809
Assigned, reported in:					
Capital projects funds	-	-	1,196,779	705,957	318,876
Special revenue funds	-	-	-	-	-
Unassigned, reported in:					
Special revenue funds (deficit)	-	-	(587,971)	(583,105)	(592,879)
Total all other governmental funds	<u>\$ 1,294,525</u>	<u>\$ 940,536</u>	<u>\$ 770,790</u>	<u>\$ 10,456,507</u>	<u>\$ 2,489,815</u>
Total governmental funds	<u>\$ 4,407,833</u>	<u>\$ 3,184,774</u>	<u>\$ 3,901,665</u>	<u>\$ 17,830,792</u>	<u>\$ 9,719,002</u>

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

Table 5

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
- \$	- \$	- \$	- \$	-
-	-	-	-	-
993,900	759,894	1,123,501	1,205,350	1,202,606
2,043,941	2,267,064	1,218,099	1,820,414	851,339
25,000	25,000	25,000	-	-
<u>4,568,620</u>	<u>4,122,660</u>	<u>4,401,718</u>	<u>3,031,355</u>	<u>4,660,378</u>
<u>7,631,461</u> \$	<u>7,174,618</u> \$	<u>6,768,318</u> \$	<u>6,057,119</u> \$	<u>6,714,323</u>
- \$	- \$	- \$	- \$	-
-	-	-	-	-
-	-	-	-	-
190,981	-	-	-	-
395,408	53,123	-	-	-
1,260,911	1,523,314	1,424,363	798,619	1,165,244
-	-	3,381	109,148	50,595
<u>(23,767)</u>	<u>(53,031)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>1,823,533</u> \$	<u>1,523,406</u> \$	<u>1,427,744</u> \$	<u>907,767</u> \$	<u>1,215,839</u>
<u>9,454,994</u> \$	<u>8,698,024</u> \$	<u>8,196,062</u> \$	<u>6,964,886</u> \$	<u>7,930,162</u>

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Fund Balance Summary
 Year Ended June 30, 2018
 (Modified accrual basis of accounting)

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

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

	General Fund	City Grants Fund	Capital Reserve Fund	Meals Tax Fund	Total
Nonspendable:					
Inventory	\$ 1,197,331	\$ -	\$ -	\$ -	\$ 1,197,331
Prepaid items	5,275	-	-	-	5,275
Committed to:					
General Gov't Administration	16,400	-	-	-	16,400
Judicial Administration	7,632	-	-	-	7,632
Public Safety	285,351	-	-	-	285,351
Public Works	248,257	-	-	-	248,257
Education	197,728	-	-	-	197,728
Community development	95,971	-	-	-	95,971
Assigned to:					
Capital reserve fund	-	-	681,863	-	681,863
Special revenue fund	-	50,595	-	-	50,595
Meals tax fund	-	-	-	483,381	483,381
Unassigned	4,660,378	-	-	-	4,660,378
Total fund balance	<u>\$ 6,714,323</u>	<u>\$ 50,595</u>	<u>\$ 681,863</u>	<u>\$ 483,381</u>	<u>\$ 7,930,162</u>

CITY OF MARTINSVILLE, VIRGINIA

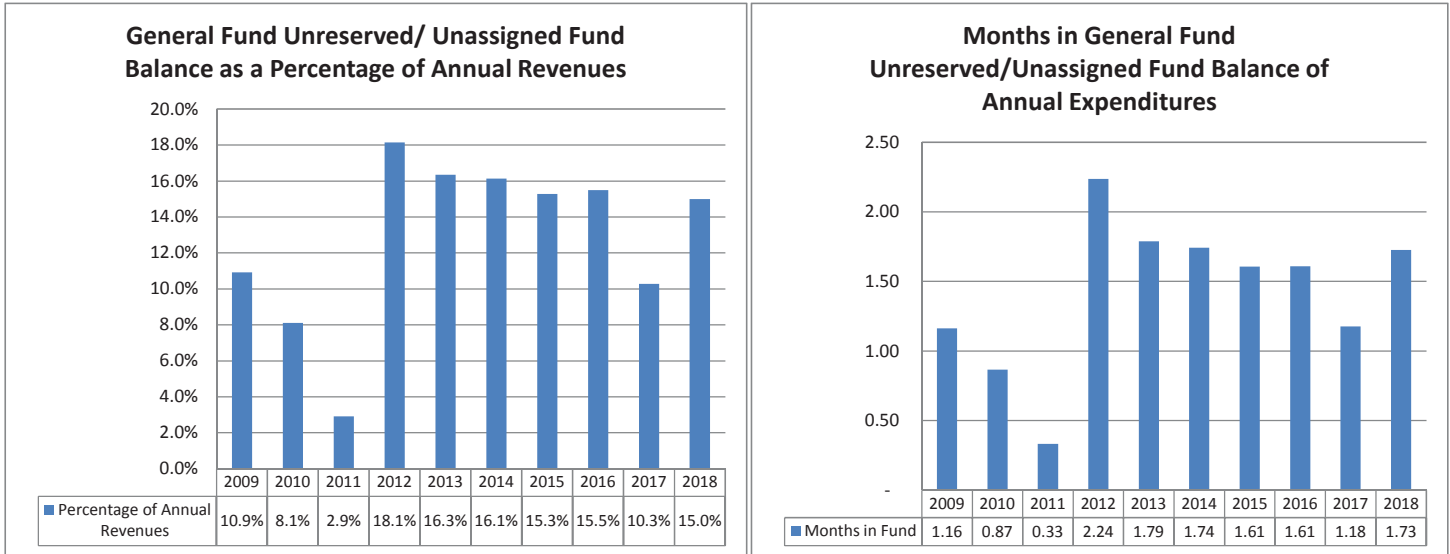
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Revenues:				
General property taxes	\$ 9,305,221	\$ 9,080,208	\$ 8,941,108	\$ 8,622,900
Other local taxes	7,823,526	6,345,922	6,794,798	6,621,038
Permits, privilege fees and regulatory licenses	447,276	560,910	505,375	594,763
Fines and forfeitures	180,298	172,344	151,231	163,118
Revenue from use of money and property	732,669	714,804	612,256	725,358
Charges for services	334,665	376,859	409,501	409,856
Miscellaneous	441,676	374,241	938,783	510,730
Recovered costs	995,822	1,077,895	974,492	1,126,724
Intergovernmental:				
Commonwealth	7,764,295	8,968,309	9,079,756	8,840,678
Federal	3,133,635	2,573,838	2,321,181	2,939,213
Total revenues	\$ 31,159,083	\$ 30,245,330	\$ 30,728,481	\$ 30,554,378
Expenditures:				
General government administration	\$ 5,012,363	\$ 4,769,772	\$ 4,320,113	\$ 5,501,331
Judicial administration	2,000,189	1,885,975	1,887,939	1,917,844
Public safety	9,874,293	9,399,480	9,005,610	9,046,810
Public works	4,911,994	4,141,317	4,084,984	3,993,552
Health and welfare	605,854	1,396,264	627,135	604,746
Education	6,891,809	6,039,577	5,697,421	3,638,582
Parks, recreation, and cultural	1,108,760	1,165,186	1,500,498	1,218,913
Community development	3,950,792	4,173,213	4,066,774	3,474,873
Debt service:				
Principal retirement	3,660,350	1,251,510	1,188,028	1,207,842
Interest and other fiscal charges	528,333	389,116	369,380	582,396
Total expenditures	\$ 38,544,737	\$ 34,611,410	\$ 32,747,882	\$ 31,186,889
Excess (deficiency) of revenues over expenditures	\$ (7,385,654)	\$ (4,366,080)	\$ (2,019,401)	\$ (632,511)
Other financing sources (uses):				
Issuance of debt	\$ 2,972,053	\$ 340,000	\$ -	\$ 10,550,000
Transfers in	3,773,941	3,096,834	2,957,692	4,256,202
Transfers (out)	(124,499)	(293,813)	(221,400)	(244,564)
Total other financing sources (uses)	\$ 6,621,495	\$ 3,143,021	\$ 2,736,292	\$ 14,561,638
Net changes in fund balances	\$ (764,159)	\$ (1,223,059)	\$ 716,891	\$ 13,929,127
Debt service as a percentage of noncapital expenditures	11.02%	4.88%	4.79%	5.81%

Table 7

	2013	2014	2015	2016	2017	2018
\$	8,760,993	8,683,569	\$ 9,083,158	\$ 8,745,402	\$ 8,877,122	\$ 9,180,279
	6,680,403	6,917,566	6,768,313	7,005,652	7,121,375	7,376,919
	145,833	83,931	94,162	100,068	93,979	56,503
	164,533	126,049	174,262	109,396	140,171	170,759
	684,989	925,705	649,438	958,834	1,144,249	1,225,674
	794,328	745,790	960,746	1,803,887	1,917,701	2,111,112
	263,000	403,029	243,521	249,786	258,852	349,751
	991,218	1,041,507	1,490,324	1,735,766	2,108,095	2,173,575
	8,927,696	9,150,812	9,827,014	9,746,076	9,231,666	9,825,527
	4,259,593	5,553,851	2,206,202	939,421	1,541,438	1,022,020
\$	<u>31,672,586</u>	<u>33,631,809</u>	<u>\$ 31,497,140</u>	<u>\$ 31,394,288</u>	<u>\$ 32,434,648</u>	<u>\$ 33,492,119</u>
\$	4,745,980	4,284,558	\$ 4,633,537	\$ 6,277,216	\$ 4,042,520	\$ 4,019,965
	1,983,255	2,164,763	2,144,310	2,319,579	2,293,175	2,332,335
	9,579,378	9,845,689	9,712,097	10,320,222	10,131,848	9,992,439
	6,637,533	6,098,946	4,403,469	4,639,584	4,775,364	5,997,499
	792,657	720,419	725,947	812,079	874,554	993,510
	12,477,628	7,341,781	6,587,543	5,957,670	6,267,041	6,170,116
	1,068,617	1,027,633	1,185,463	927,402	861,036	837,001
	3,817,336	5,035,599	4,932,864	3,447,169	3,293,876	3,199,403
	1,167,732	2,913,705	1,243,918	1,271,763	1,305,581	1,338,158
	717,951	722,325	631,509	603,532	570,908	537,956
\$	<u>42,988,067</u>	<u>40,155,418</u>	<u>\$ 36,200,657</u>	<u>\$ 36,576,216</u>	<u>\$ 34,415,903</u>	<u>\$ 35,418,382</u>
\$	<u>(11,315,481)</u>	<u>(6,523,609)</u>	<u>\$ (4,703,517)</u>	<u>\$ (5,181,928)</u>	<u>(1,981,255)</u>	<u>(1,926,263)</u>
\$	460,000	1,752,000	\$ -	\$ -	\$ -	\$ -
	3,062,864	5,357,541	4,440,920	5,191,579	1,845,097	3,479,752
	(319,173)	(849,940)	(494,373)	(511,611)	(1,095,018)	(588,213)
\$	<u>3,203,691</u>	<u>6,259,601</u>	<u>\$ 3,946,547</u>	<u>\$ 4,679,968</u>	<u>750,079</u>	<u>\$ 2,891,539</u>
\$	<u>(8,111,790)</u>	<u>(264,008)</u>	<u>(756,970)</u>	<u>(501,960)</u>	<u>(1,231,176)</u>	<u>965,276</u>
	<u>5.81%</u>	<u>10.02%</u>	<u>5.32%</u>	<u>5.27%</u>	<u>5.61%</u>	<u>5.43%</u>

Level of Unreserved/Unassigned Fund Balance
 Last Ten Fiscal Years
 (Modified Accrual Basis of Accounting)



The level of unreserved fund balance is an indication of the amount of unexpended, unencumbered and available resources the government has at a point in time to carryover into the next fiscal year to fund budgetary emergencies, shortfalls, or other unexpected needs. Beginning in fiscal year ending June 30, 2011, the definition of fund balance changed from unreserved to unassigned. In this analysis, only the General Fund is considered.

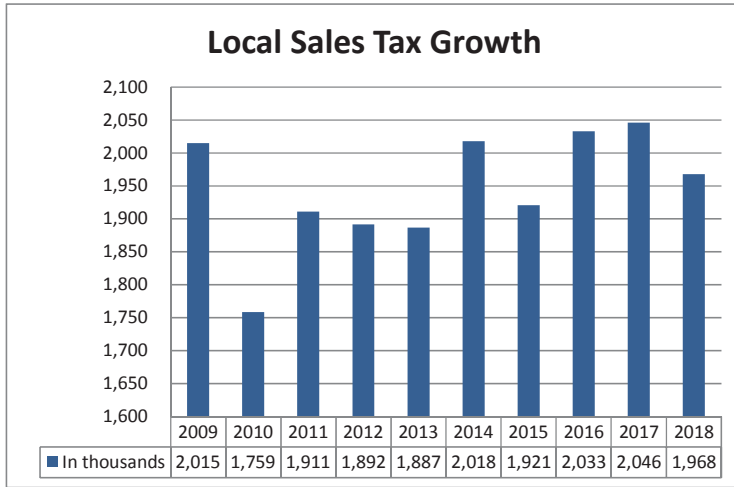
Note:

FY2012 Data includes unexpended bond proceeds of \$8,847,395 and School Operating Fund balance of \$2,254,080 which was transferred to the General Fund as part of the Fund Balance Policy adopted by Council.

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

Fiscal Year	General Property Taxes	Local Sales and Use Taxes	Consumer Utility Taxes	Business License Taxes	Meals Taxes	Communications Taxes	Other Local Taxes	Total
2018	\$ 9,180,279	\$ 1,968,475	\$ 656,804	\$ 1,984,863	\$ 1,804,893	\$ 833,760	\$ 961,884	\$ 17,390,958
2017	8,877,122	2,046,701	640,608	1,770,305	1,738,415	859,331	925,346	16,857,828
2016	8,745,402	2,033,632	654,989	1,715,637	1,717,249	880,952	884,145	16,632,006
2015	9,083,158	1,921,102	678,862	1,607,168	1,665,418	911,387	895,763	16,762,858
2014	8,683,569	2,017,806	669,664	1,807,604	1,583,889	912,783	838,603	16,513,918
2013	8,760,993	1,886,892	684,046	1,769,645	1,552,032	935,756	787,788	16,377,152
2012	8,622,900	1,891,909	695,041	1,720,315	1,434,966	911,484	878,807	16,155,422
2011	8,941,108	1,911,276	710,361	1,947,085	1,409,442	961,470	816,634	16,697,376
2010	9,080,208	1,759,239	718,563	1,676,826	1,390,907	937,786	800,387	16,363,916
2009	9,305,221	2,015,151	735,458	1,849,974	1,430,326	968,924	823,693	17,128,747

Local Sales Tax Growth
 Last Ten Fiscal Years
 (Modified Accrual Basis of Accounting)



Local sales tax growth is a measure of the state of the local economy by comparing revenue collected in the prior year to the current year.

For the year ended June 30, 2018, the City experienced a decrease in sales tax collections of approximately \$78,000 or 3.85%.

Utility Analysis of Unrestricted Net Position
 At June 30, 2018

	Electric Fund	Water Fund	Sewer Fund	Refuse Collection/ Landfill Fund	Total
Net Position at June 30, 2018	\$ 13,793,233	\$ 7,762,116	\$ 3,621,055	\$ 3,299,935	\$ 28,476,339
Less capital assets	(15,696,158)	(7,811,419)	(16,608,624)	(2,221,765)	(42,337,966)
Add current portion of long-term obligations	265,313	172,381	518,970	117,158	1,073,822
Add noncurrent portion of long-term obligations	5,531,250	3,280,845	14,208,352	4,568,227	27,588,674
Less compensated absences	(53,125)	(53,811)	(63,577)	(20,305)	(190,818)
Less net pension liability	(998,935)	(679,914)	(1,467,748)	(317,496)	(3,464,093)
Less net group life insurance OPEB liability	(52,968)	(36,053)	(78,399)	(16,835)	(184,255)
Less net Pay-as-you-Go OPEB liability	(173,535)	(118,448)	(255,577)	(55,600)	(603,160)
Less landfill closure and post-closure costs	-	-	-	(3,503,024)	(3,503,024)
Unrestricted Net Position at June 30, 2018	<u>\$ 2,615,075</u>	<u>\$ 2,515,697</u>	<u>\$ (125,548)</u>	<u>\$ 1,850,295</u>	<u>\$ 6,855,519</u>

CITY OF MARTINSVILLE, VIRGINIA

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

Fiscal Year(1)	Real Estate	Personal Property	Machinery and Tools	Public Service Real Estate	Public Service Pers Prop	Total
2018	\$ 630,238,700	\$ 108,990,284	\$ 6,764,153	\$ 21,839,490	\$ 585,532	\$ 768,418,159
2017	639,432,100	104,500,889	5,684,864	22,387,747	565,832	772,571,432
2016	637,317,000	96,930,746	8,947,408	24,215,061	475,737	767,885,952
2015	640,608,600	93,920,412	9,236,280	23,076,423	294,246	767,135,961
2014	641,502,458	99,431,367	8,222,283	22,511,294	623,124	772,290,526
2013	668,272,729	94,077,288	7,159,164	22,600,872	399,539	792,509,592
2012	666,564,846	98,318,224	9,451,688	22,946,217	353,331	797,634,306
2011	693,753,700	96,212,276	5,676,513	22,370,013	257,936	818,012,502
2010	693,122,800	103,067,671	6,124,366	23,411,431	242,044	825,726,268
2009	645,748,787	113,874,992	6,715,547	22,318,052	*	788,657,378

(1) 100% fair market value.

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

Source: Commissioner of the Revenue

Table 12

Tax Rates					
Real Estate	Personal Property	Machinery and Tools	Public Service R/E	Public Service P/P	
\$ 1.0621	\$ 2.30	\$ 1.85	\$ 1.0621	\$ 2.30	
1.0621	2.30	1.85	1.0621	2.30	
1.0621	2.30	1.85	1.0621	2.30	
1.0621	2.30	1.85	1.0621	2.30	
1.0621	2.30	1.85	1.0621	2.30	
1.01816	2.30	1.85	1.01816	2.30	
1.01816	2.30	1.85	1.01816	2.30	
1.01816	2.30	1.85	1.01816	2.30	
1.08	2.30	1.85	1.08	2.30	
1.08	2.30	1.85	1.08	*	

CITY OF MARTINSVILLE, VIRGINIA

Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total (1) Tax Levy	Current Tax (1), (3) Collections	Percent of Levy Collected	Delinquent (1) Tax (2) Collections
2018	\$ 9,615,111	\$ 8,846,029	92.00%	\$ 587,029
2017	9,596,296	8,834,417	92.06%	513,318
2016	9,465,270	8,763,769	92.59%	392,885
2015	9,424,583	8,873,795	94.16%	547,335
2014	9,329,806	8,683,981	93.08%	426,107
2013	9,515,252	8,730,614	91.75%	463,880
2012	9,663,905	8,670,267	89.72%	437,761
2011	9,654,565	8,926,474	92.46%	437,117
2010	9,790,499	9,082,620	92.77%	453,976
2009	9,960,763	9,330,615	93.67%	428,157

(1) Exclusive of penalties and interest.

(2) Does not include land redemptions.

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

Table 13

	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (1)	Percent of Delinquent Taxes to Tax Levy
\$	9,433,058	98.11%	\$ 1,274,200	13.25%
	9,347,735	97.41%	1,381,163	14.39%
	9,156,654	96.74%	1,314,580	13.89%
	9,421,130	99.96%	1,084,664	11.51%
	9,110,088	97.64%	1,208,189	12.95%
	9,194,494	96.63%	1,027,354	10.80%
	9,108,028	94.25%	1,044,410	10.81%
	9,363,591	96.99%	1,122,427	11.63%
	9,536,596	97.41%	1,463,215	14.95%
	9,758,772	97.97%	1,161,416	11.66%

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
2018	\$ 1,412,400	\$ -	\$ 1,125,000	\$ 9,558,091	\$ -
2017	1,786,800	-	1,500,000	10,051,894	94,955
2016	2,153,100	-	2,125,000	10,272,721	188,409
2015	2,509,400	-	2,750,000	10,471,207	280,386
2014	2,863,700	340,000	3,375,000	10,645,303	370,909
2013	3,161,200	340,000	4,000,000	10,795,417	460,000
2012	3,480,300	340,000	4,625,000	10,921,962	97,087
2011	2,473,800	340,000	5,250,000	1,732,744	325,647
2010	2,707,900	340,000	5,875,000	1,840,897	546,422
2009	2,923,900	-	6,500,000	1,946,566	851,263

n/a - not available at publication

Table 14

Business-type Activities			Total Primary Government	Percentage of Personal Income	Net Bonded Debt per Capita
General Obligation Bonds	Revenue Bonds	Capital Leases			
\$ 863,000	\$ 12,810,146	\$ 7,044,000	\$ 32,812,637	n/a	\$ n/a
1,011,000	7,066,376	7,425,000	28,936,025	n/a	1,630
1,155,000	3,242,399	7,425,000	26,561,629	n/a	1,947
1,444,900	-	-	17,455,893	n/a	1,288
1,880,000	-	-	19,474,912	n/a	1,400
2,279,700	-	-	21,036,317	n/a	1,543
2,683,700	-	65,474	22,213,523	n/a	1,620
3,075,100	-	193,719	13,391,010	661.11%	975
2,502,200	-	318,448	14,130,867	712.98%	952
2,742,800	-	439,756	15,404,285	770.05%	1,038

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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 (3)	Ratio of Net General Obligation Debt to Assessed Value	Net Bonded Debt per Capita
2018	n/a	\$ 768,418,159	\$ 25,768,637	3.35%	\$ n/a
2017	13,142	772,571,432	21,416,070	2.77%	1,630
2016	13,544	767,885,952	18,948,220	2.47%	1,389
2015	13,552	767,135,961	17,175,507	2.24%	1,267
2014	13,583	772,290,526	19,104,003	2.47%	1,374
2013	13,630	792,509,592	20,576,317	2.60%	1,510
2012	13,710	797,634,306	22,050,962	2.76%	1,608
2011	13,729	818,012,502	12,871,644	1.57%	938
2010	13,821	825,726,268	13,265,997	1.61%	960
2009	14,841	788,657,378	14,113,266	1.79%	951

Sources:

(1) Estimates - United States Census Bureau

(2) From Table 12

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

n/a - not available at publication

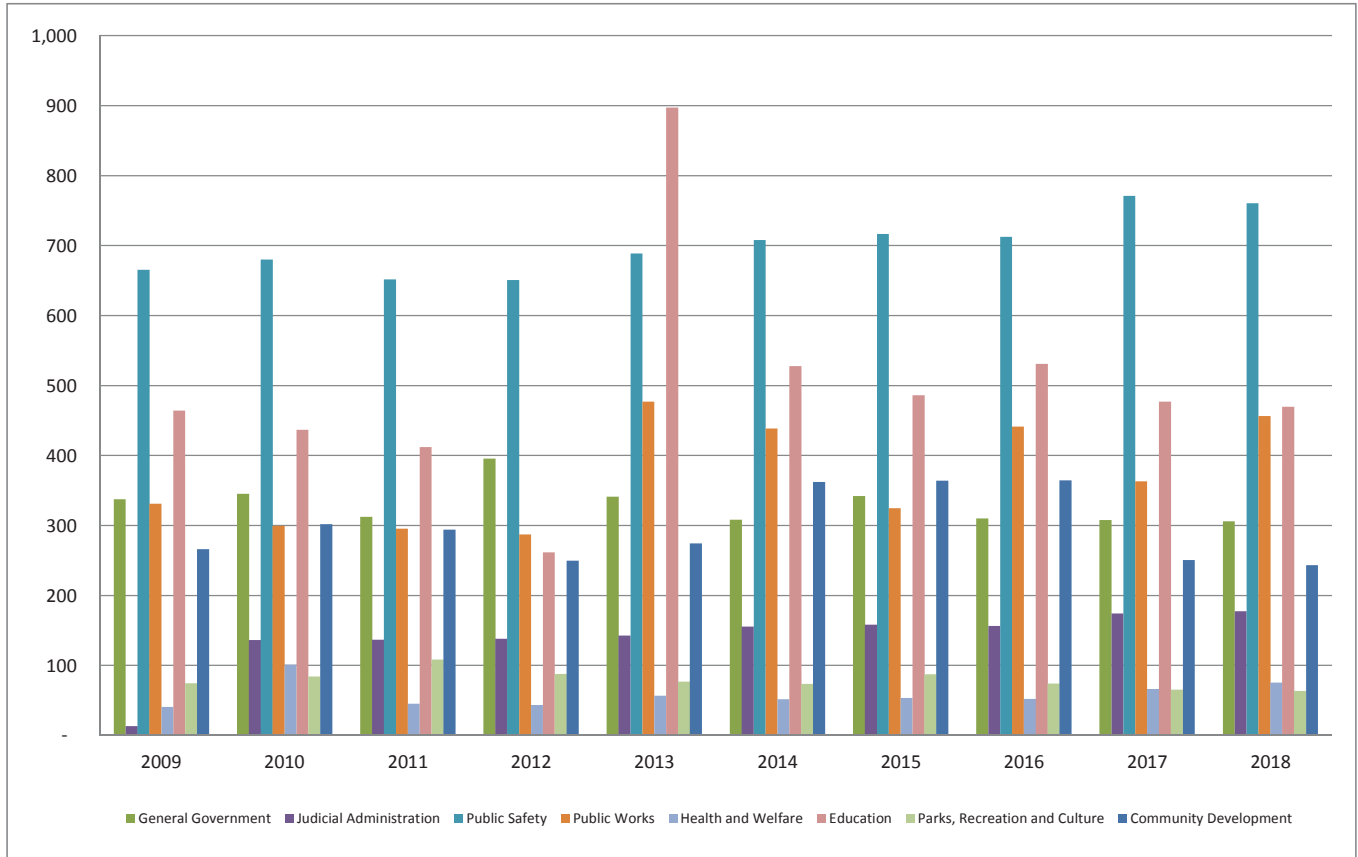
Computation of Direct and Overlapping Bonded Debt
At June 30, 2018

Direct:(1)

City of Martinsville	\$	25,768,637	100%	\$	25,768,637
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The City of Martinsville has no overlapping debt.

Expenditures Per Capita Ratio
Last Ten Fiscal Years



Note:
Information included is governmental expenditures - Table 7
Population - Table 18

Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population (1)	City Per Capita Income (2)	School Enrollment (3)	Unemployment Rate (4)	Personal Income In Thousands (5)
2018	n/a	\$ n/a	1,893	5.10%	n/a
2017	13,142	37,827	2,019	7.30%	n/a
2016	13,544	36,598	2,056	7.00%	n/a
2015	13,552	35,976	2,300	9.58%	2,291,342
2014	13,583	33,439	2,125	10.30%	2,199,995
2013	13,630	32,546	2,137	13.90%	2,160,176
2012	13,710	32,133	2,163	14.30%	2,139,689
2011	13,729	30,097	2,359	17.00%	2,025,548
2010	13,821	29,220	2,324	20.20%	1,981,945
2009	14,841	28,773	2,453	21.60%	2,000,417

n/a - not available at publication

Sources:

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

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

<u>Function</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
General government	24	23	23	23	24	24	26	22	21	20
Public safety										
Police department	57	55	54	53	54	52	50	56	50	51
Fire department	30	29	29	29	29	29	28	27	27	27
Public works										
General maintenance	42	42	42	42	39	42	40	38	35	37
Refuse Collection	4	4	3	3	3	3	3	3	5	5
Engineering	3	2	2	2	2	2	3	3	3	1
Culture and recreation										
Parks and recreation	9	8	7	7	7	7	7	6	5	6
Community development										
Planning	6	5	4	3	3	3	4	2	3	3
Totals	<u>175</u>	<u>168</u>	<u>164</u>	<u>162</u>	<u>161</u>	<u>162</u>	<u>161</u>	<u>157</u>	<u>149</u>	<u>150</u>

Source: Individual city departments

CITY OF MARTINSVILLE, VIRGINIA

Operating Indicators by Function
Last Ten Fiscal Years

		<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Police Protection	Number of stations	1	1	1	1
	Number of police personnel and officers	58	56	56	55
	Number of law violations:				
	Physical arrests	1,933	1,332	1,447	1,677
	Traffic violations	3,336	2,948	2,842	3,389
Fire Protection	Number of stations	2	2	2	2
	Number of fire personnel and officers	40	41	43	46
	Number of calls answered	2,642	2,981	3,136	3,171
	Number of inspections conducted	2,560	50	1,111	1,401
Streets	Streets (miles)	100	100	100	100
	Streetlights	3,300	3,300	3,300	3,300
Recreation & Culture	Number of parks and recreation facilities	7	13	13	13
	Number of libraries	1	1	1	1
	Number of community centers	1	1	1	1
Water	Service Connections	7,300	7,300	7,300	7,300
	Miles of water mains	120	120	120	120
	Number of fire hydrants	548	548	548	548
	Daily average consumption in gallons	2.0 MGD	2.0 MGD	2.0 MGD	2.0 MGD
	Maximum daily capacity of plant in gallons	10.0 MGD	10.0 MGD	10.0 MGD	7.4 MGD
Sewer	Service Connections	6,800	6,800	6,800	6,800
	Miles of sanitary sewers	140	140	140	140
	Miles of storm sewers	1	1	1	1
	Number of treatment plants	1	1	1	1
	Daily average treatment in gallons	4.5 MGD	4.5 MGD	4.5 MGD	4.5 MGD
	Maximum daily capacity of plant in gallons	8.0 MGD	8.0 MGD	8.0 MGD	8.0 MGD
Electric Distribution Systems	Miles of service	100	100	100	100
	Number of distribution systems	1	1	1	1
Facilities and services not included in the primary government					
	Number of elementary schools	2	2	3	3
	Number of middle schools	1	1	2	2
	Number of secondary schools	1	1	1	1
Facilities and services not included in the reporting entity					
	Hospitals:				
	Number of hospitals	1	1	1	1
	Number of patient beds	220	220	220	237

Source: Individual city departments

Table 20

2013	2014	2015	2016	2017	2018
1	1	1	1	1	1
55	52	51	53	50	51
1,580	1,305	1,559	1,394	1,694	2,932
2,430	2,979	3,314	1,772	2,877	3,314
2	2	2	2	2	2
45	46	46	42	41	42
2,935	2,870	3,093	3,041	3,024	3,053
2,006	1,101	790	530	659	581
100	100	100	100	100	100
3,300	3,300	2,721	2,871	3,175	3,069
13	13	13	13	13	13
1	1	1	1	1	1
1	1	1	1	1	1
7,300	7,300	7,300	7,300	7,250	7,250
120	120	120	120	120	120
555	555	555	555	555	555
1.8 MGD	1.8 MGD	1.8 MGD	1.8 MGD	1.8 MGD	1.8 MGD
7.4 MGD	7.4 MGD	7.4 MGD	7.4 MGD	7.4 MGD	7.4 MGD
6,800	6,800	6,800	6,800	6,800	6,800
140	140	140	140	140	140
1	1	1	1	1	1
1	1	1	1	1	1
4.5 MGD	4.5 MGD	4.5 MGD	4.5 MGD	4.5 MGD	4.5 MGD
8.0 MGD	8.0 MGD	8.0 MGD	8.0 MGD	8.0 MGD	8.0 MGD
100	100	100	100	100	100
1	1	1	1	1	1
3	3	3	3	3	3
2	2	2	2	2	2
1	1	1	1	1	1
1	1	1	1	1	1
237	220	220	220	220	220

Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General government										
Administration buildings	6	6	6	6	6	6	6	6	6	6
Vehicles	39	16	4	4	4	4	4	4	3	3
Public safety										
Police department:										
Patrol units	23	13	9	9	19	21	23	22	26	27
Other vehicles*	10	12	16	16	13	10	13	16	15	17
Sheriffs department:										
Patrol units	8	8	0	10	11	12	12	13	13	13
Other vehicles*	14	12	17	7	8	10	10	10	12	12
Fire department:										
Vehicles	14	15	13	12	12	13	12	12	14	14
Building inspections:										
Vehicles	2	2	2	2	2	2	1	1	1	1
Animal control:										
Vehicles	1	1	1	1	1	1	1	1	1	1
Public works										
General maintenance:										
Trucks/vehicles	43	62	80	80	66	64	60	59	59	60
Refuse:										
Vehicles	9	9	8	9	10	10	10	10	9	10
Sites	1	1	1	1	1	1	1	1	1	1
Culture and recreation										
Parks and recreation:										
Community centers	1	1	1	1	1	1	1	1	1	1
Vehicles	12	7	14	7	12	12	13	12	12	12
Playing Fields	9	9	9	9	9	9	9	9	9	9
Tennis courts	3	3	3	3	3	3	3	3	3	3
Community development										
Planning:										
Vehicles	2	2	2	2	2	1	1	1	1	1
Component Unit - School Board										
Education:										
Schools	4	5	5	5	5	5	5	5	5	5
School buses	37	34	35	28	28	28	30	30	31	33
Other vehicles	30	30	29	27	27	23	23	29	25	26

Source: Individual city departments

*Police: includes Admin, CID & K-9

Sheriff: includes Admin, Annex & M/C's

Compliance

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ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the 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, 2018, and the related notes to the financial statements, which collectively comprise the City of Martinsville, Virginia's basic financial statements, and have issued our report thereon dated November 23, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Martinsville, Virginia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Martinsville, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Martinsville, Virginia's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (2018-001).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Martinsville, Virginia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*. This instance is described in the accompanying schedule of findings and questioned costs as item 2018-002.

City of Martinsville, Virginia's Response to Findings

City of Martinsville, Virginia's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Martinsville, Virginia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Farnell, Cox Associates

Charlottesville, Virginia

November 23, 2018

Independent Auditors' Report on Compliance For Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited the City of Martinsville, Virginia's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Martinsville, Virginia's major federal programs for the year ended June 30, 2018. City of Martinsville, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of City of Martinsville, Virginia's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of City of Martinsville, Virginia's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Martinsville, Virginia complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the City of Martinsville, Virginia is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Martinsville, Virginia's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Martinsville, Virginia's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (2018-001).

City of Martinsville, Virginia's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Martinsville, Virginia's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Robinson, Farnell, Cox Associates

Charlottesville, Virginia
November 23, 2018

Schedule of Expenditures of Federal Awards - Primary Government and
Discretely Presented Component Unit
For the Year Ended June 30, 2018

Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
PRIMARY GOVERNMENT:			
<u>DEPARTMENT OF TRANSPORTATION:</u>			
<u>Direct payments:</u>			
Highway Planning and Construction	20.205	N/A	\$ 114,824
<u>Pass through payments:</u>			
Highway Safety Cluster:			
Department of Motor Vehicles:			
State and Community Highway Safety	20.600	OP-2017-57404-7053 SC-2017-57356-7005 FSC-2018-58291-8291	\$ 6,310
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	K8-2017-57410-7059 K8-2018-58290-8290	6,888
Total Department of Transportation			<u>\$ 128,022</u>
<u>DEPARTMENT OF HOMELAND SECURITY:</u>			
<u>Pass through payments:</u>			
Department of Emergency Services:			
Emergency Management Performance Grants	97.042	EMP-2017-EP-00006	\$ 5,199
<u>APPALACHIAN REGIONAL COMMISSION:</u>			
<u>Direct payments:</u>			
Appalachian Research, Technical Assistance, and Demonstration Projects	23.011	N/A	\$ 18,000
<u>ENVIRONMENTAL PROTECTION AGENCY:</u>			
<u>Direct payments:</u>			
Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements	66.814	N/A	\$ 134,906
<u>Pass through payments:</u>			
Virginia Resources Authority:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	Unknown	5,118,350
Total Environmental Protection Agency			<u>\$ 5,253,256</u>
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>			
<u>Pass through payments:</u>			
Department of Housing and Community Development:			
Community Development Block Grants / State's Program and Non-Entitlement Grants in Hawaii	14.228	Unknown	\$ 131,155
<u>DEPARTMENT OF LABOR:</u>			
<u>Pass through payments:</u>			
Department for Aging and Rehabilitative Services:			
Senior Community Service Employment Program	17.235	Unknown	\$ 22,668
<u>DEPARTMENT OF JUSTICE:</u>			
<u>Direct payments:</u>			
Alcohol, Tobacco, and Firearms Training Assistance	16.012	N/A	\$ 8,051
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	73,972
Equitable Sharing Program	16.922	N/A	44,764
<u>Pass through payments:</u>			
Department of Criminal Justice Services:			
Crime Victim Assistance	16.575	16VAGX0039	83,058
Total Department of Justice			<u>\$ 209,845</u>
Total Primary Government			<u><u>\$ 5,768,145</u></u>

Schedule of Expenditures of Federal Awards - Primary Government and
Discretely Presented Component Unit
For the Year Ended June 30, 2018 (Continued)

Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number			Federal Expenditures
COMPONENT UNIT-SCHOOL BOARD:					
<u>DEPARTMENT OF AGRICULTURE:</u>					
<u>Pass through payments:</u>					
Child Nutrition Cluster:					
Virginia Department of Agriculture and Consumer Services:					
Food Distribution - School Nutrition Program	10.555	APE40254	\$	78,845	
Virginia Department of Education:					
National School Lunch Program	10.555	APE40254	<u>942,499</u>	\$	1,021,344
School Breakfast Program	10.553	APE40253	\$	<u>389,614</u>	\$ 1,410,958
Virginia Department of Education:					
Fresh Fruit and Vegetable Program	10.582	APE40251/40252/40256			<u>73,972</u>
Total Department of Agriculture					
					\$ <u>1,484,930</u>
<u>DEPARTMENT OF EDUCATION:</u>					
<u>Direct payments:</u>					
Department of Education:					
Adult Education - National Leadership Activities	84.191	N/A			\$ 8,764
<u>Pass through payments:</u>					
Department of Education:					
Title I Grants to Local Educational Agencies	84.010	APE42901			1,187,263
Special Education Cluster (IDEA):					
Special Education - Grants to States	84.027	APE43071	\$	526,602	
Special Education - Preschool Grants	84.173	APE62521	<u>3,971</u>		530,573
Career and Technical Education - Basic Grants to States	84.048	APE61095			62,559
English Language Acquisition State Grants	84.365	APE43405			12,700
Supporting Effective Instruction State Grant (formerly					
Improving Teacher Quality State Grants)	84.367	APE61480/61481			166,395
Rural Education	84.358	APE43481			<u>66,624</u>
Total Department of Education					
					\$ <u>2,034,878</u>
Total Component Unit School Board					
					\$ <u>3,519,808</u>
Total Expenditures of Federal Awards					
					\$ <u>9,287,953</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF MARTINSVILLE, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards
For The Year Ended June 30, 2018

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of the City of Martinsville, Virginia under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the reporting requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City of Martinsville, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Martinsville, Virginia.

Note 2 - Summary of Significant Accounting Policies

(1) Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

Note 3 - Food Distribution

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

Note 4 - Subrecipients

No awards were passed through to subrecipients.

Note 5 - 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	\$ 521,701
Special Revenue Fund:	
City Grants Fund	131,155
Capital Projects Funds:	
Meals Tax Fund	<u>369,164</u>
Total primary government	\$ <u>1,022,020</u>
Component Unit School Board:	
School Operating Fund	\$ 8,764
School Grants Fund	2,026,114
School Cafeteria Fund	<u>1,484,929</u>
Total component unit school board	\$ 3,519,807
Reconcile federal revenues to expenditures:	
Add: Loan proceeds in the Sewer Fund	5,118,350
Less: Joint Law Enforcement Operation Funds (JLEO formerly CFDA 16.111)	(3,061)
Less: Federal tax credit subsidy on QSCB bond	<u>(369,164)</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards	\$ <u><u>9,287,952</u></u>

Note 6 - De Minimis Cost Rate

The City did not elect to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

Note 7 - Loan Balance

The City has no loans or loan guarantees which are subject to reporting requirements for the current year.

CITY OF MARTINSVILLE, VIRGINIA

Schedule of Findings and Questioned Costs
For The Year Ended June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
66.458	Capitalization Grants Clean Water State Revolving Fund
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

CITY OF MARTINSVILLE, VIRGINIA

Schedule of Findings and Questioned Costs (Continued)
For The Year Ended June 30, 2018

Section II – Financial Statement Findings

2018-001 – Timely Request of Reimbursement for Expenditures Incurred

Criteria: Reimbursement requests for expenditures incurred under all grant funded programs should be filed in a timely manner and, at the very least, within the same year the expenditures are incurred.

Condition: The City requested reimbursement in June 2018 for expenditures related to the Community Development Block Grant (CDBG) program that were incurred as far back as January 2016. Additionally, sufficient notice was not given to the City's Finance Department to account for these transactions in the proper fiscal year.

Cause: The Department responsible for overseeing the CDBG program does not have proper controls in place to ensure that expenditures are being captured in the proper fiscal year and that corresponding reimbursement requests are filed in a timely manner.

Effect: There is more than a remote likelihood that a material misstatement of the City's financial statements will not be prevented, or detected and corrected in a timely manner.

Recommendation: The City should evaluate the controls in place over the CDBG program to ensure that expenditures are being captured in the proper fiscal year and that reimbursement requests are being filed in a timely manner.

Management's Response:

The City will evaluate the current controls in place over the CDBG program and implement procedures to ensure that expenditures are being captured in the proper fiscal year and that reimbursement requests are being filed in a timely manner.

2018-002 – Prompt Payment of Bills by Localities

Criteria: In accordance with Virginia Code Section 2.2-4352 *Prompt Payment of Bills by Localities*, local governments that acquire goods or services, or conducts any other type of contractual business with a nongovernmental, privately owned enterprise, shall promptly pay for the completed delivered goods or services by the required payment date. The required payment date is either the due date of the invoice or, if no due date is note, not more than forty-five days after goods or services are received or not more than forty-five days after the invoice is rendered.

Condition: There were instances where the City was not remitting payment to vendors in a timely manner for goods and services rendered as part of the CDBG program.

Cause: The Department responsible for overseeing the CDBG program does not have proper controls in place to ensure that vendors are being paid for goods and services rendered in a timely manner.

Effect: Late payment to vendors can lead to payment of late fees, interest and the potential for litigation.

Recommendation: The City should evaluate the controls in place over the CDBG program to ensure that vendors are being paid for goods and services rendered in a timely manner.

Management's Response:

The City will evaluate the current controls in place over the CDBG program and implement procedures to ensure that vendors are being paid for goods and services rendered in a timely manner.

CITY OF MARTINSVILLE, VIRGINIA

Schedule of Findings and Questioned Costs (Continued)
For The Year Ended June 30, 2018

Section III – Federal Award Findings and Questioned Costs

2018-001 – Timely Request of Reimbursement for Expenditures Incurred

CFDA Program Title: Community Development Block Grants / State's Program and Non-Entitlement Grants in Hawaii
CFDA Number: 14.228
Federal Award Year: 2017

Reference financial statement finding 2018-001 for details of this finding, recommendations and Management's response.

Section IV – Prior Year Findings

There are no prior year findings.