



**Auditor of State
Betty Montgomery**

VILLAGE OF MARTINSVILLE
CLINTON COUNTY

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**Auditor of State
Betty Montgomery**

Village of Martinsville
Clinton County
101 School Street
Martinsville, Ohio 45146

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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Betty Montgomery
Auditor of State

December 15, 2005

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Martinsville
Clinton County
101 School Street
Martinsville, Ohio 45146

To the Village Council:

We have audited the accompanying financial statements of Village of Martinsville, Clinton County, Ohio (the Village), as of and for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio Villages. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

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In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2004, or its changes in financial position or cash flows of its proprietary funds for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Martinsville, Clinton County, as of December 31, 2004 and 2003, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2005, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Betty Montgomery
Auditor of State

December 15, 2005

**VILLAGE OF MARTINSVILLE
CLINTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$13,011	\$0	\$13,011
Special Assessments	0	8,712	8,712
Intergovernmental Receipts	18,980	21,117	40,097
Fines, Licenses, and Permits	112	0	112
Earnings on Investments	160	89	249
Miscellaneous	1,994	0	1,994
	<u>34,257</u>	<u>29,918</u>	<u>64,175</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Security of Persons and Property	9,456	7,801	17,257
Transportation	0	2,986	2,986
General Government	30,712	27	30,739
	<u>40,168</u>	<u>10,814</u>	<u>50,982</u>
Total Cash Disbursements			
Total Receipts Over/(Under) Disbursements	(5,911)	19,104	13,193
Fund Cash Balances, January 1	<u>25,007</u>	<u>53,764</u>	<u>78,771</u>
Fund Cash Balances, December 31	<u>\$19,096</u>	<u>\$72,868</u>	<u>\$91,964</u>

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

**VILLAGE OF MARTINSVILLE
CLINTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$90,202	\$0	\$90,202
Total Operating Cash Receipts	<u>90,202</u>	<u>0</u>	<u>90,202</u>
Operating Cash Disbursements:			
Personal Services	13,292	0	13,292
Contractual Services	71,773	0	71,773
Other	24,925	0	24,925
Total Operating Cash Disbursements	<u>109,990</u>	<u>0</u>	<u>109,990</u>
Operating Income/(Loss)	<u>(19,788)</u>	<u>0</u>	<u>(19,788)</u>
Non-Operating Cash Receipts:			
Other Non-Operating Receipts	18	235	253
Total Non-Operating Cash Receipts	<u>18</u>	<u>235</u>	<u>253</u>
Non-Operating Cash Disbursements:			
Debt Service	8,991	0	8,991
Other Non-Operating Cash Disbursements	0	160	160
Total Non-Operating Cash Disbursements	<u>8,991</u>	<u>160</u>	<u>9,151</u>
Net Receipts Over/(Under) Disbursements	(28,761)	75	(28,686)
Fund Cash Balances, January 1	<u>65,457</u>	<u>0</u>	<u>65,457</u>
Fund Cash Balances, December 31	<u>\$36,696</u>	<u>\$75</u>	<u>\$36,771</u>

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

**VILLAGE OF MARTINSVILLE
CLINTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$11,809	\$0	\$11,809
Special Assessments	0	7,924	7,924
Intergovernmental Receipts	20,411	21,174	41,585
Fines, Licenses, and Permits	215	0	215
Earnings on Investments	42	0	42
Miscellaneous	2,021	42	2,063
	<u>34,498</u>	<u>29,140</u>	<u>63,638</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Security of Persons and Property	7,833	75	7,908
Transportation	0	5,753	5,753
General Government	26,933	7,142	34,075
	<u>34,766</u>	<u>12,970</u>	<u>47,736</u>
Total Cash Disbursements			
Total Receipts Over/(Under) Disbursements	(268)	16,170	15,902
Fund Cash Balances, January 1	25,275	37,594	62,869
	<u>25,275</u>	<u>37,594</u>	<u>62,869</u>
Fund Cash Balances, December 31	<u>\$25,007</u>	<u>\$53,764</u>	<u>\$78,771</u>

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

**VILLAGE OF MARTINSVILLE
CLINTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Proprietary Fund Types	Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$94,252	\$0	\$94,252
Total Operating Cash Receipts	94,252	0	94,252
Operating Cash Disbursements:			
Personal Services	12,458	0	12,458
Contractual Services	41,537	0	41,537
Supplies and Materials	16,103	0	16,103
Other	210	0	210
Total Operating Cash Disbursements	70,308	0	70,308
Operating Income/(Loss)	23,944	0	23,944
Non-Operating Cash Receipts:			
Other Non-Operating Receipts	0	333	333
Total Non-Operating Cash Receipts	0	333	333
Non-Operating Cash Disbursements:			
Debt Service	9,056	0	9,056
Other Non-Operating Cash Disbursements	0	333	333
Total Non-Operating Cash Disbursements	9,056	333	9,389
Net Receipts Over Disbursements	14,888	0	14,888
Fund Cash Balances, January 1	50,568	0	50,568
Fund Cash Balances, December 31	\$65,456	\$0	\$65,456
Reserve for Encumbrances, December 31	\$7,797	\$0	\$7,797

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

**VILLAGE OF MARTINSVILLE
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Martinsville, Clinton County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides general government services, including water and refuse. The Village has a part time police force to provide security of person and property.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

B. Basis of Accounting

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements adequately disclose material matters the Auditor of State prescribes.

C. Cash Deposits

The available funds of the Village are deposited into an interest bearing checking account with a local commercial bank.

D. Fund Accounting

The Village uses fund accounting to segregate cash deposits that are restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

These funds account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

Street Construction, Maintenance, and Repair Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

Street Lighting Fund - This fund receives special assessment money for maintaining and repairing the Village street lights.

**VILLAGE OF MARTINSVILLE
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Enterprise Funds

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Funds:

Water Fund - This fund receives charges for services from residents to cover water service costs.

Refuse Fund - This fund receives charges for services from residents to cover sewer service costs.

4. Fiduciary Fund (Agency Fund)

Any fund for which the Village is acting in an agency capacity is classified as an agency fund. The Village had the following significant fiduciary fund:

Agency Fund – This fund accounts for the activities of the Village's Mayor's Court.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2004 and 2003 budgetary activity appears in Note 3.

**VILLAGE OF MARTINSVILLE
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

2. EQUITY IN POOLED CASH AND DEPOSITS

The Village maintains a cash and deposits pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	2004	2003
Demand deposits	\$128,735	\$144,227

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2004 and 2003 follows:

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$19,179	\$34,257	\$15,078
Special Revenue	25,200	29,918	4,718
Enterprise	89,000	90,220	1,220
Total	\$133,379	\$154,395	\$21,016

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$42,246	\$40,168	\$2,078
Special Revenue	52,400	10,814	41,586
Enterprise	155,930	118,981	36,949
Total	\$250,576	\$169,963	\$80,613

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$34,523	\$34,498	(\$25)
Special Revenue	25,200	29,140	3,940
Enterprise	95,266	94,252	(1,014)
Total	\$154,989	\$157,890	\$2,901

**VILLAGE OF MARTINSVILLE
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$39,646	\$34,766	\$4,880
Special Revenue	51,400	12,970	38,430
Enterprise	126,481	87,161	39,320
Total	\$217,527	\$134,897	\$82,630

The Village did not obtain prior certification of the fiscal officer for all purchases nor were commitments properly encumbered as required by Ohio Law.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village.

Property owners assess tangible personal property tax. They must file a list of tangible property to the County by each April 30. The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on the Village's behalf.

5. DEBT

Debt outstanding at December 31, 2004 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan	\$51,384	7.24%

The Ohio Water Development Authority (OWDA) loan relates to a water plant expansion project the Ohio Environmental Protection Agency mandated. The OWDA approved up to \$94,908 in loans to the Village for this project. The Village will repay the loans in semiannual installments of \$9,126, including interest, over 20 years. Water receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements. In May of 2003, OWDA authorized an interest rate subsidy program which effectively reduced the interest rate to 7% on the outstanding balance of the loan.

Amortization of the above debt, including interest, follows:

**VILLAGE OF MARTINSVILLE
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

5. DEBT (Continued)

<u>Year ending December 31:</u>	<u>OWDA Loan</u>
2005	\$9,126
2006	9,126
2007	9,126
2008	9,126
2009	9,126
2010-2012	22,818
Total	<u><u>\$68,448</u></u>

6. RETIREMENT SYSTEMS

The Village's full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2004 and 2003, OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2004.

7. RISK MANAGEMENT

Risk Pool Membership

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

**VILLAGE OF MARTINSVILLE
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

7. RISK MANAGEMENT (Continued)

Property Coverage

PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000 up to \$500,000,000 per occurrence. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective local government.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2004 and 2003:

<u>Casualty Coverage</u>	<u>2004</u>	<u>2003</u>
Assets	\$30,547,049	\$25,288,098
Liabilities	<u>(16,989,918)</u>	<u>(12,872,985)</u>
Retained earnings	<u>\$13,557,131</u>	<u>\$12,415,113</u>

<u>Property Coverage</u>	<u>2004</u>	<u>2003</u>
Assets	\$3,652,970	\$3,158,813
Liabilities	<u>(544,771)</u>	<u>(792,061)</u>
Retained earnings	<u>\$3,108,199</u>	<u>\$2,366,752</u>



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Village of Martinsville
Clinton County
101 School Street
Martinsville, Ohio 45146

To the Village Council:

We have audited the financial statements of the Village of Martinsville, Clinton County, Ohio (the Village), as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated December 15, 2005, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted that the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We do not consider the reportable condition listed above to be a material weakness. In a separate letter to the Village's management dated December 15, 2005, we reported other matters involving internal control over financial reporting which we did not deem to be a reportable condition.

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Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-01. In a separate letter to the Village's management dated December 15, 2005, we reported another matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the management and Village Council. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 15, 2005

VILLAGE OF MARTINSVILLE
CLINTON COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2004-001

Noncompliance Citation/Reportable Condition

Ohio Rev. Code, Section 5705.41 (D), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

**FINDING NUMBER 2004-001
(Continued)**

Noncompliance Citation/Reportable Condition

Contrary to the above requirement, the availability of funds was not certified for 68% of the expenditures tested. Failure to certify the availability of funds and encumber appropriations can result in overspending funds and negative cash balances. Therefore, we recommend the Village obtain approved purchase orders, which contain the Clerk's certification that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

**VILLAGE OF MARTINSVILLE
CLINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 AND 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2002-30414-001	Revised Code Section 5705.41(D), failure to certify funds	No	Repeated as Find 2004-001
2002-30414-002	Revised Code Section 9.38, timely depositing of public money	Yes	
2002-30414-003	Revised Code Section 735.05, failure to properly bid contracts	Yes	



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**VILLAGE OF MARTINSVILLE
CLINTON COUNTY**

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 30, 2005**