

**VILLAGE OF MARTINSBURG
KNOX COUNTY, OHIO**

*Financial Statements
(Audited)*

For The Years Ended
December 31, 2007 and 2006

DEDRA KIDWELL, FISCAL OFFICER



Mary Taylor, CPA

Auditor of State

Village Council
Village of Martinsburg
24491 Deal Road
Martinsburg, Ohio 43037

We have reviewed the *Independent Auditor's Report* of the Village of Martinsburg, Knox County, prepared by Julian & Grube, Inc., for the audit period January 1, 2006 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditor's Report* on your financial statements. While the Auditor of State 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. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditor's Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Martinsburg is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

June 24, 2008

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**VILLAGE OF MARTINSBURG
KNOX COUNTY, OHIO**

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Julian & Grube, Inc.
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Independent Auditor's Report

Members of Council and Mayor
Village of Martinsburg
P.O. Box 68
Martinsburg, Ohio 43037

We have audited the accompanying financial statements of the Village of Martinsburg, Knox County, Ohio, as of and for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Village of Martinsburg'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. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 2, the Village of Martinsburg 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.

Instead of the combined funds the accompanying financial statements present for December 31, 2007 and 2006, GAAP requires presenting entity wide statements and also presenting the Village of Martinsburg's larger (i.e. major) funds separately for December 31, 2007 and 2006. While the Village of Martinsburg does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village of Martinsburg has elected not to follow GAAP statement formatting requirements. 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.

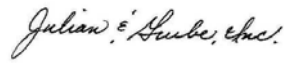
In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2007 and 2006, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village of Martinsburg, as of December 31, 2007 and 2006, or its changes in financial position or cash flows of its proprietary fund type for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Martinsburg, Knox County, Ohio, as of and for the years ended December 31, 2007 and 2006, and its combined cash receipts and disbursements and combined budgeted and actual receipts and budgeted and actual disbursements for the years then ended on the accounting basis Note 2 describes.

Independent Auditor's Report
Village of Martinsburg
Page 2

The Village of Martinsburg 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 April 24, 2008, on our consideration of the Village of Martinsburg'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.



Julian & Grube, Inc.
April 24, 2008

**VILLAGE OF MARTINSBURG
KNOX COUNTY, OHIO**

COMBINED STATEMENT OF CASH FUND BALANCES
ALL FUND TYPES
DECEMBER 31, 2007 AND 2006

<u>Cash and Cash Equivalents</u>	<u>2007</u>	<u>2006</u>
Cash and Cash Equivalents	\$ 32,398	\$ 66,654
Total Cash and Cash Equivalents	<u>\$ 32,398</u>	<u>\$ 66,654</u>
 <u>Cash Fund Balances</u>		
<u>Governmental Fund Types:</u>		
General	\$ 2,277	\$ 18,122
Special Revenue	<u>20,443</u>	<u>30,758</u>
Total Governmental Fund Types	<u>22,720</u>	<u>48,880</u>
 <u>Proprietary Fund Type:</u>		
Enterprise	<u>9,678</u>	<u>17,774</u>
Total Fund Balances	<u>\$ 32,398</u>	<u>\$ 66,654</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF MARTINSBURG
KNOX COUNTY, OHIO**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007

	Governmental Fund Types		Total (Memorandum Only)
	General	Special Revenue	
Cash receipts:			
Local taxes	\$ 10,038	\$ 592	\$ 10,630
Intergovernmental	15,813	3,590	19,403
Interest	35	89	124
Donations and contributions	-	770	770
Total cash receipts	25,886	5,041	30,927
Cash disbursements:			
Current:			
Public health services	1,050	-	1,050
Leisure time activities	3,057	-	3,057
Basic utility services	3,034	2,218	5,252
Transportation	-	13,138	13,138
General government	34,590	-	34,590
Total cash disbursements	41,731	15,356	57,087
Total cash receipts over/(under) cash disbursements	(15,845)	(10,315)	(26,160)
Cash fund balances, January 1, 2007	18,122	30,758	48,880
Cash fund balances, December 31, 2007	\$ 2,277	\$ 20,443	\$ 22,720

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF MARTINSBURG
KNOX COUNTY, OHIO**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH
FUND BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2007

	Proprietary Fund Type
	Enterprise
Operating cash receipts:	
Charges for services	\$ 21,753
Total operating cash receipts	21,753
Operating cash disbursements:	
Personal services	11,244
Employee fringe benefits	3,363
Contractual services	12,215
Supplies and material	2,699
Miscellaneous	328
Total operating cash disbursements	29,849
Net income/(loss)	(8,096)
Cash fund balances, January 1, 2007	17,774
Cash fund balances, December 31, 2007	\$ 9,678

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

VILLAGE OF MARTINSBURG
KNOX COUNTY, OHIO

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND ENCUMBRANCES COMPARED WITH EXPENDITURE
AUTHORITY - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2007

Fund Types	Receipts					Disbursements					Variance Favorable (Unfavorable)	
	County Certified Unencumbered Cash	Budget	Total Estimated Resources	Actual 2007 Receipts	Variance Favorable (Unfavorable)	Prior Year Carryover Appropriations	2007 Appropriations	Total	Actual 2007 Disbursements	Encumbrances Outstanding at 12/31/07		Total
Governmental:												
General	\$ 17,747	\$ 28,444	\$ 46,191	\$ 25,886	\$ (2,558)	\$ -	\$ 46,007	\$ 46,007	\$ 41,731	\$ -	\$ 41,731	\$ 4,276
Special Revenue	27,788	8,578	36,366	5,041	(3,537)	-	36,366	36,366	15,356	-	15,356	21,010
Proprietary:												
Enterprise	19,210	24,788	43,998	21,753	(3,035)	-	43,998	43,998	29,849	-	29,849	14,149
Total (Memorandum Only)	\$ 64,745	\$ 61,810	\$ 126,555	\$ 52,680	\$ (9,130)	\$ -	\$ 126,371	\$ 126,371	\$ 86,936	\$ -	\$ 86,936	\$ 39,435

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF MARTINSBURG
KNOX COUNTY, OHIO**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Governmental Fund Types</u>		Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash receipts:			
Local taxes	\$ 9,864	\$ 986	\$ 10,850
Intergovernmental	17,004	5,046	22,050
Interest	74	148	222
Miscellaneous	206	-	206
Total cash receipts	<u>27,148</u>	<u>6,180</u>	<u>33,328</u>
Cash disbursements:			
Current:			
Public health services	2,076	-	2,076
Leisure time activities	2,933	-	2,933
Basic utility services	-	2,150	2,150
Transportation	-	13,891	13,891
General government	21,765	-	21,765
Total cash disbursements	<u>26,774</u>	<u>16,041</u>	<u>42,815</u>
Total cash receipts over/(under) cash disbursements	<u>374</u>	<u>(9,861)</u>	<u>(9,487)</u>
Cash fund balances, January 1, 2006	<u>17,748</u>	<u>40,619</u>	<u>58,367</u>
Cash fund balances, December 31, 2006	<u>\$ 18,122</u>	<u>\$ 30,758</u>	<u>\$ 48,880</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF MARTINSBURG
KNOX COUNTY, OHIO**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH
FUND BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2006

	Proprietary Fund Type
	Enterprise
Operating cash receipts:	
Charges for services	\$ 20,800
Total operating cash receipts	20,800
Operating cash disbursements:	
Personal services	9,606
Employee fringe benefits	1,702
Contractual services	10,896
Supplies and material	3,978
Miscellaneous	135
Total operating cash disbursements	26,317
Net income/(loss)	(5,517)
Cash fund balances, January 1, 2006	23,291
Cash fund balances, December 31, 2006	\$ 17,774

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF MARTINSBURG
KNOX COUNTY, OHIO**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND ENCUMBRANCES COMPARED WITH EXPENDITURE
AUTHORITY - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2006

Fund Types	Receipts				Disbursements					Variance Favorable (Unfavorable)		
	County Certified Unencumbered Cash	Budget	Total Estimated Resources	Actual 2006 Receipts	Variance Favorable (Unfavorable)	Prior Year Carryover Appropriations	2006 Appropriations	Total	Actual 2006 Disbursements		Encumbrances Outstanding at 12/31/06	Total
Governmental:												
General	\$ 17,748	\$ 27,585	\$ 45,333	\$ 27,148	\$ (437)	\$ -	\$ 45,057	\$ 45,057	\$ 26,774	\$ -	\$ 26,774	\$ 18,283
Special Revenue	40,619	14,996	55,615	6,180	(8,816)	-	44,994	44,994	16,041	-	16,041	28,953
Proprietary:												
Enterprise	23,291	24,543	47,834	20,800	(3,743)	-	47,834	47,834	26,317	-	26,317	21,517
Total (Memorandum Only)	\$ 81,658	\$ 67,124	\$ 148,782	\$ 54,128	\$ (12,996)	\$ -	\$ 137,885	\$ 137,885	\$ 69,132	\$ -	\$ 69,132	\$ 68,753

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF MARTINSBURG
KNOX COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 1 - DESCRIPTION OF THE ENTITY

The Village of Martinsburg, Knox County, Ohio (the "Village"), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general government services, including water utilities and street maintenance.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The most significant of the Village's accounting policies are described below.

A. BASIS OF PRESENTATION - FUND ACCOUNTING

The accounts of the Village are maintained on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts. The following fund types are used by the Village:

Governmental Fund Types

General Fund

The general fund is used to account for all activities of the Village not required to be included in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds

These funds are used to account for proceeds of specific revenue sources that are legally restricted to expenditure for specific purposes.

The Village had the following significant special revenue funds:

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

Permissive Motor Vehicle License Fund - This fund receives permissive tax and motor vehicle tax money for constructing, maintaining and repairing village streets.

Proprietary Fund Type

Enterprise Funds - The enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the Village is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**VILLAGE OF MARTINSBURG
KNOX COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The Village had the following Enterprise Fund:

Water Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

B. BASIS OF ACCOUNTING

These financial statements follow the basis of accounting which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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 include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. BUDGETARY PROCESS

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, (except for Agency funds) are legally required to be budgeted and appropriated). The primary level of budgetary control is at the item level. Any budgetary modifications at this level may only be made by resolution of the Village's Council.

Tax Budget:

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year. The expressed purpose of the tax budget is to reflect the need for existing (or increased) tax rates. The Knox County Budget Commission granted the Village an extension for filing their tax budget for both 2006 and 2007.

Estimated Resources:

The County Budget Commission determines if the budget substantiates a need to levy the full amount of authorized property tax rates and reviews receipt estimates. The County Budget Commission certifies its actions to the Village by September 1. As part of this certification, the Village receives the official certificate of estimated resources, which states the projected receipts of each fund. On or about January 1, the certificate is amended to include unencumbered fund balances at December 31 of the preceding year. Further amendments may be made during the year if the Village determines that receipts collected will be greater than or less than the prior estimates and the Budget Commission find the revised estimates to be reasonable. Prior to December 31, the Village must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

**VILLAGE OF MARTINSBURG
KNOX COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Appropriations:

A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriations measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources. The Village had appropriation modifications in 2006 and none in 2007.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated. The Village had no outstanding encumbrances at December 31, 2007 and 2006.

D. CASH AND CASH EQUIVALENTS

For reporting purposes, the Village considers "Cash and Cash Equivalents" to be cash on hand, demand deposits, and all investments held by the Village with a maturity date less than or equal to three months from the date of purchase. Interest income earned and received by the Village totaled \$124 and \$222 for the years ended December 31, 2007 and 2006, respectively.

E. PROPERTY, PLANT AND EQUIPMENT

Capital assets are not capitalized in any of the Village's funds. Instead, capital acquisition and construction costs are reflected as expenditures in the fund in the year expended. The costs of normal maintenance and repairs are also expended, along with improvements. Depreciation is not recorded by the Village.

F. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursable basis are recorded when received in accordance with the Village's cash basis method of accounting.

G. TOTAL COLUMNS ON FINANCIAL STATEMENTS

Total columns on the financial statements are captioned "Total (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis.

**VILLAGE OF MARTINSBURG
KNOX COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 3 - CASH AND CASH EQUIVALENTS

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

	<u>2007</u>	<u>2006</u>
Deposits:		
Demand deposits	<u>\$ 32,398</u>	<u>\$ 66,654</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

NOTE 4 - COMPLIANCE

- i.* The Village did not certify the proper beginning fund balances to the County Auditor in noncompliance with Ohio Revised Code Section 5705.36 at January 1, 2007.
- ii.* Contrary to Ohio Revised Code Section 5705.36(A)(4), the Village had appropriations in excess of actual resources for the years ended December 31, 2007 and 2006.
- iii.* The Village had expenditures in excess of appropriations for the year ended December 31, 2007 in noncompliance with Ohio Revised Code Section 5705.41(B) and 5705.40.
- iv.* The Village did not properly complete clerk certificates for the years ended December 31, 2007 and 2006 in noncompliance with Ohio Revised Code Section 5705.41(D).

NOTE 5 - PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due on the following June 20.

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

Tangible personal property tax revenues received in 2007 and 2006 (other than public utility property) represent the collection of 2007 and 2006 taxes, respectively. Tangible personal property taxes received in 2007 and 2006 were levied after October 1, 2006 and 2005, respectively, on the true value as of December 31, 2006 and 2005, respectively. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, was 18.75% for 2006. This percentage was reduced to 12.5% for 2007, and will be 6.25% for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

**VILLAGE OF MARTINSBURG
KNOX COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 5 - PROPERTY TAX - (Continued)

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the Village due to the phasing out of the tax. In calendar years 2006-2010, the Village will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

NOTE 6 - RETIREMENT SYSTEM

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2007 and 2006, members of OPERS contributed 9.5% and 9.00%, respectively, of gross wages. The Village contributed an amount equal to 13.85% and 13.70%, respectively, of participants' gross wages. The Village has paid all contributions required through December 31, 2007.

NOTE 7 - RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

NOTE 8 - CONTINGENT LIABILITIES

The Village is currently not involved in litigation.



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**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***

Members of Council and Mayor
Village of Martinsburg
P.O. Box 68
Martinsburg, Ohio 43037

We have audited the financial statements of the Village of Martinsburg, Knox County, Ohio, as of and for the fiscal years ended December 31, 2007 and 2006, and have issued our report thereon dated April 24, 2008, wherein we noted the Village of Martinsburg followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. 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 *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village of Martinsburg's ability to initiate, authorize, record, process or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that a misstatement of the Village of Martinsburg's financial statements that is more than inconsequential will not be prevented or detected by the Village of Martinsburg's internal control. We consider the deficiencies described as items 2007-VOM-001, 2007-VOM-002, 2007-VOM-003 and 2007-VOM-004 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

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

Members of Council and Mayor
Village of Martinsburg

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies describe above, we consider items 2007-VOM-001, 2007-VOM-002, 2007-VOM-003 and 2007-VOM-004 to be material weaknesses.

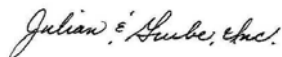
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Martinsburg's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed five instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and responses as items 2007-VOM-005, 2007-VOM-2006, 2007-VOM-007, 2007-VOM-008 and 2007-VOM-009.

We noted certain matters that we reported to the management of the Village of Martinsburg in a separate letter dated April 24, 2008.

The Village of Martinsburg's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Village of Martinsburg's responses, and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management and Council of the Village of Martinsburg and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.
April 24, 2008

**VILLAGE OF MARTINSBURG
KNOX COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2007 AND 2006**

1. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2007-VOM-001

Significant Deficiency/Material Weakness

In May of 2006, the American Institute of Certified Public Accountants (AICPA), the national professional organization for certified public accountants, issued its Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit*. This standard became effective for audits of financial statements for periods ending on or after December 15, 2006.

The AICPA establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of state and local governments. SAS No. 112 establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client's internal control over financial reporting. This new standard requires the audit to report *in writing* to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses. To this end, SAS No. 112 lists specific control deficiencies that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control. One of those deficiencies, which is applicable to the Village is the following:

Of 2006 disbursements examined, 58 of 87 did not have documentation such as an invoice and/or voucher to support the disbursement. Through additional audit procedures performed, the expenditures appeared to be of proper public purpose.

We recommend the Village incorporate a system where all supporting documentation is kept and filed in an organized filing system so it is easily accessible.

Client Response: A misplacement of records occurred during a transition to a new fiscal officer. The new fiscal officer is maintaining all required documentation in an orderly fashion.

Finding Number	2007-VOM-002
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Significant Deficiency/Material Weakness

We identified misstatements in the financial statements for the year under audit that were not initially identified by the Village's internal control. The audit adjustments were necessary to correct errors in the Village's financial statements and notes. A description of each adjustment follows:

2006

- A. General Fund Tax Receipts - Audit adjustments were necessary to include amounts that should be recorded as auditor and treasurer fees in the amount of \$393. Local taxes included \$1,527 that should be recorded as intergovernmental.
- B. General Fund General Government - An audit adjustment was necessary to record cash of \$339 which was due to two checks that were written and later voided.

**VILLAGE OF MARTINSBURG
KNOX COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2007 AND 2006**

1. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2007-VOM-002 - (Continued)

C. Street Fund Street Transportation - An audit adjustment was necessary to record cash of \$2,970 which was due to a check that was written and later voided.

2007

A. General Fund Tax Receipts - An audit adjustment was necessary to record \$564 in local taxes that were recorded in Homestead and Rollback.

B. General Fund General Government - An audit adjustment was necessary to record \$770 on the Village books due to a Village Council person opened a bank account that was not recorded.

The presentation of materially correct financial statements and the related footnotes is the responsibility of management. We recommend that the Village implement control procedures that enable management to identify, prevent, detect and correct potential misstatements in the financial statements and footnotes.

Client Response: The Village will make an effort to properly record such items in the future.

Finding Number	2007-VOM-003
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Significant Deficiency/Material Weakness

Record Storage and Retrieval

Accounting records frequently could not be located for the year ended December 31, 2006. The causes of the problem were numerous:

- Lack of a clearly specified system for filing records
- Failure of those who removed records from the files to indicate who took the record
- Failure to return the record to the files or misfiling it when it was returned
- Lack of specific policies for removing prior year records from the files to a designated storage space

The result was that employees spent nonproductive time searching for needed documents. The condition could also present problems when auditors or government agencies need documentation, such as 941 reports, water consumption reports and other reports subject to audit. We recommend the following steps be taken:

- Decide on a systematic manner of filing documents, e.g., monthly folders consisting of vendor bills filed in numeric order, receipts filed in numeric order, all approved bank statements and reconciliations with all attached supporting documentation, etc.
- Describe the system in the accounting manual or post a description on the filing cabinets or storage room so employees will know how to find and refile documents
- Institute use of sign-out cards to be filled out when a document is removed from a file, showing who took the record.
- Establish a policy in accordance with the Ohio Revised Code specifying which records should be retained permanently, which records should be kept only for a given period before being destroyed, and how long the period of time should be for the various documents' termination.

**VILLAGE OF MARTINSBURG
KNOX COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2007 AND 2006**

1. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
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Finding Number	2007-VOM-003 - (Continued)
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- Decide when unneeded records should be removed to other storage areas to create room for needed records.
- Assign personnel the responsibility of periodically cleaning out the files in accordance with the established policy.

Implementation and communication of the above will help enable the Village to operate more effectively and efficiently.

Client Response: The Village will attempt to retain all necessary documentation.

Finding Number	2007-VOM-004
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Significant Deficiency/Material Weakness

Bank Accounts

A bank account was opened October 2, 2007 by a Council Member for the Parks and Recreation Department. The account was to be used for contributions for the construction of a Village skate park. There is no evidence of Council approving the opening of this new bank account. In addition, the bank account was never entered into the Village books.

This account and its related transactions were recorded in the audited financial statements.

The result was that the Village was not accounting for this money, which in turn equates to the Village not presenting the proper cash balances. We recommend the Village adopt a policy for opening new bank accounts and that Council approval should be required prior to opening the account.

Client Response: In the future, all bank accounts will be approved by Council prior to opening.

Finding Number	2007-VOM-005
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Ohio Revised Code Section 5705.36 requires, in part, subdivisions to certify to the County Auditor the amount available from all sources for expenditures from each fund along with any balances which existed at the end of the preceding year on or about the first day of each fiscal year.

The Village did not certify the correct unencumbered fund balances at January 1, 2007.

By not certifying accurate unencumbered cash the Village does not have proper estimated resources in which to appropriate against, which could cause appropriations to exceed estimated resources.

We recommend the Village properly certify all fund balances. This will enable the County Auditor to perform the proper certification with accurate information. This will in turn allow the Village to properly appropriate funds within available resources.

Client Response: The Village will attempt to certify the proper balances to the County Auditor.

**VILLAGE OF MARTINSBURG
KNOX COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2007 AND 2006**

1. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2007-VOM-006

Ohio Revised Code Section 5705.36 (A)(4) states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency.

At December 31, 2007 and 2006, the Village had appropriations greater than actual resources, which consist of actual revenues, beginning unencumbered fund balance and prior year encumbrances appropriated in the following funds:

December 31, 2006

	<u>Appropriations</u>	<u>Actual Resources</u>	<u>Excess</u>
General	\$ 45,057	\$ 44,896	\$ 161
<u>Special Revenue</u>			
Street Construction	40,594	36,785	3,809
State Highway	4,400	4,287	113
<u>Enterprise</u>			
Water Operating	47,834	44,091	3,743

December 31, 2007

	<u>Appropriations</u>	<u>Actual Resources</u>	<u>Excess</u>
General	\$ 46,007	\$ 44,008	\$ 1,999
<u>Special Revenue</u>			
Street Construction	25,409	25,103	306
State Highway	4,929	4,084	845
Permissive Motor Vehicle License	6,028	5,842	186
<u>Enterprise</u>			
Water Operating	43,998	39,527	4,471

By appropriating more funds than actual resources, the Village is at risk of spending more money than is available; this may result in negative fund balances.

We recommend the Village monitor appropriations in comparison to actual resources and obtain decreased amended appropriations as needed. Further guidance may be found in Auditor of State bulletin 97-010.

Client Response: The Village is attempting to monitor the budget more closely.

**VILLAGE OF MARTINSBURG
KNOX COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2007 AND 2006**

1. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2007-VOM-007

Ohio Revised Code Section 5705.41(B) requires in part that no subdivision is to expend monies unless it has been appropriated.

At December 31, 2007, the Village had disbursements in excess of appropriations in the following funds:

<u>General Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
<u>Waste Collection</u>			
Garbage and Trash Removal	\$ 700	\$ 3,034	\$ 2,334
<u>Mayor and Administrative Offices</u>			
Salary - Mayor	3,600	4,500	900
Ohio Public Employees Retirement System	502	624	122
Medicare	53	65	12
<u>Legislative Activities</u>			
Salaries - Council	4,080	5,480	1,400
Ohio Public Employees Retirement System	600	760	160
Medicare	75	94	19
<u>Clerk - Treasurer</u>			
Salary - Clerk/Treasurer	5,000	5,150	150
Ohio Public Employees Retirement System	730	733	3
Training Services	600	826	226
Operating Supplies and Materials	500	1,289	789
<u>Lands and Buildings</u>			
Property Tax Collection Fees	200	210	10
Liability Insurance Premiums	2,000	2,284	284
Other - Other Contractual Services	2,000	4,736	2,736
<u>Enterprise Fund</u>			
<u>Administration - Water</u>			
Compensation of Board and Commission	2,700	3,080	380
Other - Personal Services	4,200	4,700	500
Ohio Public Employees Retirement System	975	998	23
Liability Insurance	1,000	1,791	791
<u>Pumping-Water</u>			
Other - Personal Services	4,500	4,900	400
Ohio Public Employees Retirement System	645	729	84
Medicare	75	77	2
Travel and Transportation	700	757	57
Electricity	2,000	2,100	100
<u>Auditor of State Fees</u>			
Auditing Services	-	1,105	1,105

**VILLAGE OF MARTINSBURG
KNOX COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2007 AND 2006**

1. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2007-VOM-007 - (Continued)

With disbursements exceeding appropriations, the Village is spending monies that have not been lawfully appropriated by Village Council. This may result in unnecessary spending or overspending which may result in a negative fund balance.

We recommend that the Village comply with the Ohio Revised Code and the Auditor of State Bulletin 97-010 by monitoring their expenditures so they do not exceed lawful appropriations and amending the budget prior to year end. This may be achieved by monitoring the budget more closely on a continual basis.

Client Response: For 2007, the Fiscal Officer did not pass amended appropriations, which resulted in the expenditures of excess of appropriations in the General and Enterprise funds. The Village Council will attempt to pass amended appropriations as needed in accordance with the Ohio Revised Code.

Finding Number	2007-VOM-008
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Ohio Revised Code Section 5705.41 (D) requires that no orders or contracts involving the disbursement of monies are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The Village did not process clerk certificates for the years ended December 31, 2007 and 2006 prior to expending funds. While a listing of all disbursements are provided to the Council members at each meeting (if applicable) prior to payment, it was noted that no purchase orders were issued.

Without timely certification, the Village may expend more funds than available in the treasury, in the process of collection or than funds appropriated. In addition, by purchasing items prior to Council approval or absent the fiscal officer's certificate process, the potential for unnecessary purchases or items for improper public purpose cannot be prevented if approval is after the fact.

We recommend that the Village implement a policy and procedure for the use of fiscal officer certificates to help ensure that the disbursements are timely certified. This will help ensure that all monies expended are lawfully appropriated and available in the treasury or in the process of collection. The Village should issue approved fiscal officer certificates and consider using regular blanket and super blanket purchase orders, and/or "Then and Now" certificates where applicable.

Client Response: The Village Fiscal Officer will attempt to utilize the fiscal officer certificate system as required by the Ohio Revised Code.

**VILLAGE OF MARTINSBURG
KNOX COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2007 AND 2006**

1. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2007-VOM-009

Ohio Revised Code Section 5705.40 in part requires that any appropriation measure may be amended or supplemented if the entity complies with the same laws used in making the original appropriation. However, no appropriation may be reduced below an amount sufficient to cover all un-liquidated and outstanding contracts or obligations against them.

The Village had total expenditures exceeding the total appropriations throughout the year and at year end for the year ended December 31, 2007.

By not timely and properly modifying the Village's appropriations, the Village is not adequately monitoring its expenditures versus appropriations. This may result in appropriating monies in excess of estimated resources, and having expenditures exceed appropriations, and possibly, fund deficits.

We recommend that the Village comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by keeping more accurate appropriations records and amending the appropriations throughout the year and prior to year end. In addition, the Village should monitor its budgetary process on a regular basis.

Client response: The Village Fiscal Officer is attempting to make appropriation modifications as approved by Council and certify them to the County in a more timely manner.

**VILLAGE OF MARTINSBURG
KNOX COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007 AND 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2005-001	Ohio Revised 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 it has been appropriated.	No	Repeated as finding 2007-VOM-008
2005-002	Several disbursements made throughout the audit period did not have documentation such as an invoice to support the disbursement.	No	Repeated as finding 2007-VOM-001



Mary Taylor, CPA
Auditor of State

VILLAGE OF MARTINSBURG

KNOX 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
JULY 8, 2008**