



Mary Taylor, CPA  
Auditor of State



VILLAGE OF MARTINSVILLE  
CLINTON COUNTY

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Mary Taylor, CPA  
Auditor of State

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 an 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 adverse 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.

*Mary Taylor*

**Mary Taylor, CPA**  
Auditor of State

December 14, 2009

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# Mary Taylor, CPA

Auditor of State

## 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 the Village of Martinsville, Clinton County, Ohio (the Village), as of and for the years ended December 31, 2008 and 2007. 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.

Except as described in the following paragraph, 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 governments. We believe our audit provides a reasonable basis for our opinion.

We were unable to obtain sufficient evidence to support the completeness of the Water Revenue Fund Charges for Services receipts comprising 83% and 82% of operating receipts in the Enterprise Fund Type for 2008 and 2007, respectively, nor were we able to satisfy ourselves as to the completeness of these receipts by other auditing procedures.

In addition, we were unable to obtain sufficient evidence to support the completeness of the Water Deposit Fund balance at December 31, 2008 and 2007, comprising 39% and 41%, respectively, of the Enterprise Fund Type Fund Balance.

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.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. 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 GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village 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, 2008 and 2007 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, 2008 and 2007, or its changes in financial position or cash flows, where applicable for the years then ended.

Also, in our opinion, except for the effects of adjustments noted in paragraphs three and four above, if any, as might have been determined to be necessary had we been able to examine evidence supporting the Enterprise Fund Charges for Services receipts for 2008 and 2007 and the Water Deposit Fund balance at December 31, 2008 and 2007, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Village of Martinsville, Clinton County, Ohio as of December 31, 2008 and 2007, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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 14, 2009, 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.



**Mary Taylor, CPA**  
Auditor of State

December 14, 2009

**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, 2008**

	<b>General</b>	<b>Special Revenue</b>	<b>Totals (Memorandum Only)</b>
<b>Cash Receipts:</b>			
Property and Local Taxes	\$12,300	\$0	\$12,300
Intergovernmental	19,351	18,476	37,827
Special Assessments		6,976	6,976
Fines, Licenses and Permits	1,903		1,903
Earnings on Investments	125	120	245
Miscellaneous	45		45
Total Cash Receipts	33,724	25,572	59,296
<b>Cash Disbursements:</b>			
Current:			
Security of Persons and Property	3,600	10,147	13,747
Transportation		13,513	13,513
General Government	29,437	13,204	42,641
Total Cash Disbursements	33,037	36,864	69,901
Total Receipts Over/(Under) Disbursements	687	(11,292)	(10,605)
Fund Cash Balances, January 1	7,285	71,573	78,858
<b>Fund Cash Balances, December 31</b>	<b>\$7,972</b>	<b>\$60,281</b>	<b>\$68,253</b>
Reserve for Encumbrances, December 31	\$0	\$895	\$895

*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 - PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Enterprise</u>
<b>Operating Cash Receipts:</b>	
Charges for Services	<u>\$121,187</u>
Total Operating Cash Receipts	<u>121,187</u>
<b>Operating Cash Disbursements:</b>	
Personal Services	14,172
Employee Fringe Benefits	4,349
Contractual Services	82,029
Supplies and Materials	884
Other	<u>7,449</u>
Total Operating Cash Disbursements	<u>108,883</u>
Operating Income	<u>12,304</u>
<b>Non-Operating Cash Disbursements:</b>	
Redemption of Principal	6,667
Interest and Other Fiscal Charges	<u>2,377</u>
Total Non-Operating Cash Disbursements	<u>9,044</u>
Net Receipts Over Disbursements	3,260
Fund Cash Balances, January 1	<u>16,011</u>
<b>Fund Cash Balances, December 31</b>	<b><u><u>\$19,271</u></u></b>
Reserve for Encumbrances, December 31	<u><u>\$79,925</u></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, 2007**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
<b>Cash Receipts:</b>			
Property and Local Taxes	\$13,371	\$0	\$13,371
Intergovernmental	21,721	22,671	44,392
Special Assessments		3,834	3,834
Fines, Licenses and Permits	2,358		2,358
Earnings on Investments	531	1,238	1,769
Miscellaneous	12		12
	<u>37,993</u>	<u>27,743</u>	<u>65,736</u>
<b>Cash Disbursements:</b>			
Current:			
Security of Persons and Property	2,679	7,917	10,596
Transportation		15,700	15,700
General Government	36,582	6,569	43,151
	<u>39,261</u>	<u>30,186</u>	<u>69,447</u>
Total Receipts (Under) Disbursements	<u>(1,268)</u>	<u>(2,443)</u>	<u>(3,711)</u>
Fund Cash Balances, January 1	<u>8,553</u>	<u>74,016</u>	<u>82,569</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$7,285</u></b>	<b><u>\$71,573</u></b>	<b><u>\$78,858</u></b>
Reserve for Encumbrances, December 31	<u>\$4,156</u>	<u>\$0</u>	<u>\$4,156</u>

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

**VILLAGE OF MARTINSVILLE  
CLINTONCOUNTY**

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

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$123,079	\$0	\$123,079
Total Operating Cash Receipts	123,079	0	123,079
<b>Operating Cash Disbursements:</b>			
Personal Services	11,699		11,699
Contractual Services	94,266		94,266
Supplies and Materials	2,177		2,177
Other	11,463		11,463
Total Operating Cash Disbursements	119,605	0	119,605
Operating Income/(Loss)	3,474	0	3,474
<b>Non-Operating Cash Receipts:</b>			
Other Non-Operating Cash Receipts		225	225
Total Non-Operating Cash Receipts	0	225	225
<b>Non-Operating Cash Disbursements:</b>			
Redemption of Principal	6,217		6,217
Interest and Other Fiscal Charges	2,813		2,813
Other Non-Operating Cash Disbursements		415	415
Total Non-Operating Cash Disbursements	9,030	415	9,445
Net Receipts (Under) Disbursements	(5,556)	(190)	(5,746)
Fund Cash Balances, January 1	21,567	190	21,757
<b>Fund Cash Balances, December 31</b>	<b><u>\$16,011</u></b>	<b><u>\$0</u></b>	<b><u>\$16,011</u></b>

*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, 2008 AND 2007**

**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 directs the Village. The Village provides general governmental services, street maintenance and water utilities services. The Village contracts with the Clinton County Sheriff to provide security of person and property. Fire protection is provided by the Clark Township Volunteer Fire Department.

The Village participates in a jointly governed organizations and the Public Entities Pool of Ohio public entity risk pool. Notes 7 and 8 to the financial statements provides additional information for these entities. These organizations are:

Public Entity Risk Pool:

Public Entities Pool of Ohio – provides the Village with liability and property insurance coverage.

Jointly Governed Organization:

Clinton County Regional Planning Commission – formulates and reviews plans affecting long and short term social, economic, and governmental development within the region which includes the Village.

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

**B. Accounting Basis**

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. The Village 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 include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

**C. Cash Deposits**

The Village deposits all available funds in a interest bearing checking account at a local commercial bank.

**D. Fund Accounting**

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

**VILLAGE OF MARTINSVILLE  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**1. General Fund**

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

**2. Special Revenue Funds**

These funds account for proceeds from specific sources (other than from private-purpose 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.

**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)**

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village had the following significant agency fund:

Mayor's Court Fund - This fund accounts for the activities of the Village's Mayor's Court. The Mayor's Court was abolished in 2007.

**E. Budgetary Process**

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

**VILLAGE OF MARTINSVILLE  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**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. The 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 individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. 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 2008 and 2007 budgetary activity appears in Note 3.

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

	<u>2008</u>	<u>2007</u>
Demand deposits	<u>\$87,524</u>	<u>\$94,869</u>

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

**VILLAGE OF MARTINSVILLE  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007  
(Continued)**

**3. Budgetary Activity**

Budgetary activity for the years ending December 31, 2008 and 2007 follows:

2008 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$39,700	\$33,724	(\$5,976)
Special Revenue	27,000	25,572	(1,428)
Enterprise	140,000	121,187	(18,813)
Total	\$206,700	\$180,483	(\$26,217)

2008 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$52,342	\$33,037	\$19,305
Special Revenue	79,850	37,759	42,091
Enterprise	149,427	197,852	(48,425)
Total	\$281,619	\$268,648	\$12,971

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$41,500	\$37,993	(\$3,507)
Special Revenue	30,000	27,743	(2,257)
Enterprise	125,000	123,079	(1,921)
Total	\$196,500	\$188,815	(\$7,685)

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$50,068	\$43,417	\$6,651
Special Revenue	82,450	30,186	52,264
Enterprise	142,810	128,635	14,175
Total	\$275,328	\$202,238	\$73,090

Contrary to Ohio law, the Village did not obtain the certification of the fiscal officer to certify the availability of funds for all purchase commitments. During 2008, expenditures exceeded appropriations by \$52,262 in the Water Revenue Fund and by \$714 in the Refuse Fund. At December 31, 2008, and 2007, the Village had estimated receipts that exceeded actual receipts and the deficiency reduced available resources below the current level of appropriations.

**VILLAGE OF MARTINSVILLE  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007  
(Continued)**

**4. Property Tax**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted 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 financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half 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.

Tangible personal property tax is assessed by the property owners, who must file a list of such 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 behalf of the Village.

**5. Debt**

Debt outstanding at December 31, 2008 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan	\$27,295	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, is scheduled as follows:

2009	4,526	
2010	9,069	
2011	9,087	
2012	9,106	
Total	\$31,788	

**6. Retirement Systems**

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

The Ohio Revised Code also prescribes contribution rates. For 2008 and 2007, OPERS members contributed 10 and 9.5% respectively, of their gross salaries and the Village contributed an amount equaling 14 and 13.85%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2008.

**VILLAGE OF MARTINSVILLE  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007  
(Continued)**

**7. Risk Management**

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

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

For an occurrence prior to January 1, 2006 PEP retains casualty risks up to \$250,000 per occurrence, including claim 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 \$10,000,000 in the aggregate per year.

For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (prior to January 1, 2006) or \$3,000,000 (on or subsequent to January 1, 2006) as noted above.

Property Coverage

Beginning in 2005, APEEP established a risk-sharing property program. Under the program, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. This amount was increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. For 2006, APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will then reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

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 government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

**VILLAGE OF MARTINSVILLE  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007  
(Continued)**

**7. Risk Management (Continued)**

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, 2007 and 2006 (the latest information available):

	<u>2007</u>	<u>2006</u>
Assets	\$37,560,071	\$36,123,194
Liabilities	<u>(17,340,825)</u>	<u>(16,738,904)</u>
Net Assets	<u>\$20,219,246</u>	<u>\$19,384,290</u>

At December 31, 2007 and 2006, respectively, the liabilities above include approximately \$15.9 million and \$15.0 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$15.0 million and \$14.4 million of unpaid claims to be billed to approximately 443 member governments in the future, as of December 31, 2007 and 2006, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Government's share of these unpaid claims collectible in future years is approximately \$5,135. This payable includes the subsequent year's contribution due if the Government terminates participation, as described in the last paragraph below.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

<u>Contributions to PEP</u>	
2006	\$6,379
2007	\$4,713
2008	\$4,465

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

**VILLAGE OF MARTINSVILLE  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007  
(Continued)**

**8. Jointly Governed Organization**

The constitution and laws of the State of Ohio establish the rights and privileges for the Clinton County Regional Planning Commission, Clinton County, Ohio (the Commission), as a body corporate and politic. An appointed 13 member Board governs the Commission. The Board consists of representatives from participating political subdivisions, the county commissioners, and appointed citizens. The Commission formulates and reviews plans affecting long and short term social, economic, and governmental development within the region. The participating subdivisions are:

Clinton County	Village of Midland	Village of Clarksville
City of Wilmington	Village of Blanchester	Village of Sabina
Village of Martinsville	Village of Port William	Village of New Vienna
Union Township		

**9. Compliance**

- The Village did not maintain records in accordance with Ohio Rev. Code Section 733.28 and Ohio Admin. Code Section 117-2-02 (D).
- The Village did not establish adequate water rates in accordance with the the Cooperative Agreement For State Planning Project 5-95, Section 3.2 (a).

**10. Subsequent Events**

At December 31, 2008, the Village had an unpaid balance due to the Highland County Water, Inc. in the amount of \$75,925 and the Water Revenue Fund had a cash fund balance of \$8,764. This unpaid balance is included in the outstanding encumbrance on the financial statements.



# Mary Taylor, CPA

## Auditor of State

### 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 year ended December 31, 2008 and 2007, and have issued our report thereon dated December 14, 2009, 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 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. 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 governments. We qualified our opinion on the Enterprise Fund Type Charges for Services for 2008 and 2007 due to an inability to obtain sufficient evidence to support the completeness of Charges for Services receipts. We also qualified our opinion on the December 31, 2008 and 2007 Water Deposit Fund balance due to an inability to obtain sufficient evidence to support the completeness of the water deposits held by the Village. Except as discussed in the preceding two sentences, 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in 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'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 the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider findings 2008-001 through 2008-004 and 2008-007 described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

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 material weaknesses. We believe findings number 2008-001, 2008-002, 2008-004 and 2008-007 are also material weaknesses.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated December 14, 2009.

### **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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2008-001, 2008-002, 2008-005 through 2008-007.

We did note certain noncompliance or other matters that we reported to the Village's management in a separate letter dated December 14, 2009.

We intend this report solely for the information and use of the management and Village Council. We intend it for no one other than these specified parties.

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

**Mary Taylor, CPA**  
Auditor of State

December 14, 2009

**VILLAGE OF MARTINSVILLE  
CLINTON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2008 AND 2007**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2008-001**

**NonCompliance Citation/Material Weakness**

**Ohio Rev. Code, Section 733.28**, states that the village fiscal officer must keep the books of the village, exhibit accurate statements of all moneys received and expended, all property owned by the Village and income derived thereof, and all taxes and assessments.

**Ohio Admin. Code, Section 117-2-02(D)**, states all local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records should include the following:

(2) Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.

(4)(b)Utilities billing records including:

- i. Master file of service address, account numbers, billing address, type of services provided, and billing rates;
- ii. Accounts receivable ledger for each service type, including for each customer account, the outstanding balance due as of the end of each billing period (with an aging schedule for past due amounts), current usage and billing amount, delinquent or late fees due, payments received and non-cash adjustments, each maintained by date and amount;
- iii. Cash receipts records, recording cash received and date received on each account. This information should be used to post payments to individual accounts in the accounts receivable ledger described above

**Ohio Rev. Code, Section 149.351 (A)**, provides that all records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Sections 149.38 to 149.42 of the Revised Code. During the Audit Period, the Village did not provide complete documentation of the following items:

- Adequate utility receipt records;
- Billing invoices for all utility payments;
- Delinquent, disconnect, and adjustment reports.

We were unable to audit the utility receipts to ensure completeness of the Water Revenue Fund charges for services receipts reported as part of the Enterprise Fund Type on the financial statements. These Water Revenue Fund charges for services comprise 83% of the total Enterprise Fund Type Charges for 2008 and 82% of the total Enterprise Fund Type Charges for Services for 2007. Utility records were either lost or destroyed and not presented for audit. We recommend the Village develop policies and procedures outlining the security of all records or take a written inventory of all records noting the records description and location. All records should be maintained in a secure central location such as locked cabinets or in a locked office, with access limited to specific officials and or personnel. Disposal of records should only be made in accordance with an approved records retention schedule.

**FINDING NUMBER 2008-001  
(Continued)**

No utility billing subsidiary ledger and supporting documentation was maintained and provided for audit. As a result, the records maintained by the Fiscal Officer were not an accurate reflection of all moneys received. We were unable to obtain sufficient evidential matter regarding the Water Revenue Enterprise Fund's Charges for Services receipts or to perform alternative auditing procedures to ensure completeness over the applicable receipts.

Failure to accurately prepare and reconcile the accounting records 1) reduces the accountability over Village funds, 2) reduces the Councils' ability to monitor financial activity and make informed financial decisions, 3) increases the likelihood that moneys will be misappropriated and not detected, and 4) increases the likelihood that the Village's financial statements will be misstated.

We recommend the Village Fiscal Officer accurately maintain the Village's accounting records in accordance with the Ohio Administrative Code. The Village should develop policies and procedures outlining the security of all records or take a written inventory of all records noting the records description and location. All records and supportive documentation should be maintained in a secure central location, such as locked file cabinets or in a locked office, with access limited to specific officials and/or personnel. Disposal of records should only be made in accordance with an approved records retention schedule.

**FINDING NUMBER 2008-002**

**Noncompliance Citation/Material Weakness**

**Ohio Rev. Code, Section § 5705.41(D)(1)**, 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.

**FINDING NUMBER 2008-002  
(Continued)**

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. 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.

Contrary to the above requirement, the availability of funds was not certified for 20 of 20 (100%) transactions tested for 2007 and 17 of the 25 (68%) transactions tested for 2008. Failure to certify the availability of funds can result in overspending funds and negative cash balances. Adjustments have been posted to the financial statements to record outstanding encumbrances of \$80,820 at December 31, 2008 and \$4,156 at December 31, 2007.

Prior certification is not only required by statute but also is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify that funds are or will be available prior to obligation by the Village. When prior certification is not possible, “then and now” certification should be used.

**FINDING NUMBER 2008-003**

**Significant Deficiency**

When designing the public office's system of internal control and the specific control activities, management should consider the following:

- Ensure that all transactions are properly authorized in accordance with management's policies.
- Ensure that accounting records are properly designed.
- Plan for adequate segregation of duties or compensating controls.
- Perform analytical procedures to determine the reasonableness of financial data.
- Ensure the collection and compilation of the data needed for the timely preparation of financial statements.

The small size of the Village did not allow for an adequate segregation of duties. The fiscal officer processes all the financial record keeping including receipting, posting, and reconciling to the depository. Bookkeeping errors occurred without the detection of management. It is, therefore, important that Council monitor financial activity.

**FINDING NUMBER 2008-003  
(Continued)**

The following weaknesses were noted:

- A detailed list of items purchased was not always attached to the voucher packet to Council for their review;
- Invoices were not always attached to the voucher packet to support the validity of the expenditure. We were able to perform alternative audit procedures to determine that expenditures were for a proper public purpose;
- During 2008, the Village hired a fiscal officer from another village to provide training for the Village's new Fiscal Officer at a rate of \$15.00 per hour. Checks issued did not contain any detail to support the amount of hours charged;
- The Village did not approve a contract with the Water Administrator which outlines his duties and his rate of pay;
- Council members did not sign or initial the vouchers as evidence that they had reviewed the bills. The risk of improper or undocumented expenditures increases when officials do not review the actual bills.

Alternative audit procedures were performed to ensure the expenditures were for a proper public purpose and accurately posted to the accounting records and financial statements.

Failure to accurately prepare the accounting records 1) reduces the accountability over Village funds, 2) reduces the Council's ability to monitor financial activity and make informed financial decisions, 3) increases the likelihood that moneys will be misappropriated and not detected, and 4) increases the likelihood that the financial statements will be misstated. To help strengthen the Village's internal control structure and reduce the likelihood of undetected errors, we recommend the Village's officials and management implement the following controls:

- A detailed list of items should be maintained and attached to the voucher packet. When invoices are received, a comparison should be made between the goods/services included on the invoice and the goods/services received. The official/department head which received the goods should perform this comparison and indicate his/her review by initializing the invoice. The initials indicate the goods/services were received and the invoice is approved for payment;
- Once invoices have been approved for payment, the Fiscal Officer should issue the corresponding check and stamp the invoice "Paid." The invoice should be filed with the voucher packet. Voucher packets should be signed by the Council;
- We recommend that when the Village is paying someone for training at an hourly rate they provide a detailed time sheet, which is approved by Council for payment. The Village should also issue 1099's to these individuals when applicable.
- Officials should periodically review the accounting records and financial statements to determine accuracy and to assure themselves that proper procedures are followed by the fiscal officer;
- The Village should be posting all receipts into the UAN system in a timely manner. This will help assure that the Village can properly and accurately prepare monthly reconciliations.

## FINDING NUMBER 2008-004

### Material Weakness

In addition to the utility weaknesses noted in Finding 2008-007, we also noted the following weaknesses in the collection and refunding of water deposits:

- The Village maintains a register of water deposits, but it does not keep a current record of all customers that have a water deposit;
- The Village refunded two customers the current utility deposit rate when they had paid a lesser deposit amount;
- The Village made two payments to customers that were not actually refunds to customers. One check said that it was for delinquent accounts, but the Village did not attach any supporting documentation to the checks to validate the amount of money forfeited.

The Village keeps the water deposits in a separate Water Deposit Fund which is reported as part of the Enterprise Fund Type on the financial statements. Other than the four payments listed above, we were able to trace 2007 and 2008 deposits received and deposits repaid to activity posted in the Water Deposit Fund. However, due to the Village's failure to maintain a record of all customers that have a water deposit on-hand with the Village, we were unable to gain assurances on the completeness of the fund balance in the Water Deposit Fund at December 31, 2008 and 2007. The Water Deposit Fund balance at December 31, 2008 was \$7,521 and at December 31, 2007 was \$6,571, comprising 39% and 41%, respectively, of the Enterprise Fund Type Fund Balance.

We recommend the Village maintain a listing of all users and the amount of water deposit that is being held or when the deposit was refunded. The total amount of the listing should reconcile to the Water Deposit Fund Balance. Since water deposit amounts fluctuate, it is essential to have supporting documentation that reconciles to the Water Deposit Fund and to help ensure that the Village has sufficient funds to cover refunds and to refund deposits accurately. We also recommend the Village certify balances to the County Auditor for delinquent water accounts in an attempt to collect on any outstanding balances.

In addition, the Village bills for water and trash together. While on the old utility system, if a customer paid more than was owed, it was applied to a column that was labeled credit. When the money was posted in the UAN system it was not allocated between the water and trash as the next bill would have been. Currently, the Village is using Quick Books which does not apply amounts specifically. The Fiscal Officer informed us that she is manually splitting the amounts. She applies all the past due amounts received to the trash fund first, but has no way to check to see what she has posted to ensure that the total past due collections are allocated properly. We recommend that the Village develop a policy to ensure that the amounts allocated between water and trash revenue are completed appropriately.

Furthermore, the Village has a contract with Waste Management to provide refuse service to the Village residents at a flat rate of \$1,669 per month. The Village's one hundred fifty three customers are charged \$11.50 per month. This amounts to \$1,760 per month in revenue that the Village should be collecting for trash pickup. The monthly service charge does not account for overhead or for delinquent customers. As a result, the Village's General Fund may have to fund any deficits due to delinquent accounts and overhead expenses. We recommend the Village review the cost of providing trash pickup to the residents and establish a rate to cover all operating costs.

**FINDING 2008-005**

**Noncompliance Citation**

**Ohio Rev. 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, 2008, and 2007, the Village had estimated receipts that exceeded actual receipts and the deficiency reduced available resources below the current level of appropriations. Failure to monitor budgetary activity could result in overspending and negative fund balances. We recommend that the Village comply with the above Ohio Revised Code Section and obtain an amended certificate when necessary.

<b>2008</b>	<b>Available Resources plus Beginning Cash Fund Balances</b>	<b>Current Year Appropriations plus Prior Year Carryover Appropriations</b>	<b>Excess</b>
<b>General Fund</b>	<b>\$42,245</b>	<b>\$52,342</b>	<b>\$10,097</b>
<b>Water Fund</b>	<b>107,183</b>	<b>123,627</b>	<b>15,784</b>

<b>2007</b>	<b>Available Resources plus Beginning Cash Fund Balances</b>	<b>Current Year Appropriations plus Prior Year Carryover Appropriations</b>	<b>Excess</b>
<b>General Fund</b>	<b>\$46,958</b>	<b>\$50,068</b>	<b>\$3,110</b>
<b>Water Fund</b>	<b>107,666</b>	<b>115,260</b>	<b>7,594</b>

**FINDING NUMBER 2008-006**

**Noncompliance Citation**

**Ohio Rev. Code, Section 5705.41(B)**, prohibits a subdivision from making an expenditure unless it has been properly appropriated. The following funds had expenditures which exceeded appropriations:

<b>2008</b>	<b>Prior Year Carryover Appropriations plus Current Year Appropriations</b>	<b>Disbursements plus Outstanding Encumbrances</b>	<b>Variance</b>
Water Revenue Fund	\$123,627	\$175,889	(\$52,262)
Refuse Fund	20,800	21,514	(714)

**FINDING 2008-007**

**Material Noncompliance/Material Weakness**

The OWDA loan Cooperative Agreement for State Planning Project 5-95, Section 3.2 (a) requires the Village to prescribe and charge such rates for the services of the system as shall result in pledged revenues at least adequate to provide for the payments required for the loan. Due to the Village's former utility billing system being deleted when an update was made to the UAN system, we are unable to determine if the Village charged rates sufficient to provide for the payments required for the OWDA loan.

As noted below, the purchasing water in excess of collections and large utility delinquencies indicate the rates charged may not be sufficient to meet the loan payments as required.

- The Village did not collect sufficient revenue to offset the additional cost of supplying water to the Village residents. In addition, the Village did not monitor the meter readings by comparing gallons purchased from Highland County Water Inc. (HCW) to the gallons the customers used. The Village purchases water from (HCW) to supply the Village residents with water. HCW bills the Village each month for the total amount of water that runs through the Village's master meter. The Village bills each resident a flat rate on a monthly basis. The utility receipts are collected and deposited into the Village's Water Fund. During 2008, we noted the Village purchased water in excess of the amount billed to the Village's customers. During 2008, the Highland County Water Inc., (HCW) billed the Village \$133,060, but the Village only paid HCW \$57,135. The Village owed \$75,925 to Highland Water Company at December 31, 2008, however the adjusted Water Revenue Fund's balance was only \$8,764.
- The Village did not have a complete list of utility customers or the related delinquencies as of December 31, 2008. When the utility records were deleted, to recreate a new list of utility users the Village used aged receivable records. Several council members reviewed and signed off the new customer list. There was no assurance the customer list is complete, that all users are being billed or, if necessary, included on the delinquency list.

Monitoring the usage and purchasing of water is essential to ensure that the Village is able to properly assess the rates being charged and to monitor for leaks in a timely manner. Failure to monitor prevents the Village from being able to determine if there is a leak or just increases in usage. The officials must review the cost of maintaining and supplying water to the residents and establish rates based on the cost of maintaining the water system. The Village should continue to monitor their water usage and to work towards a solution to correct the water consumption. In addition, the Village should develop effective billing and collection procedures to reduce the customer delinquency amount and verify the listing of all meters/taps and the addresses to ensure that all houses receiving utility services are being billed.

**We did not receive a response from officials to the findings above.**

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**VILLAGE OF MARTINSVILLE  
CLINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2008 AND 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2006-001	Ohio Rev. Code Section 5705.41(D) the Village did not properly encumber funds.	No	Reissued as Finding 2008-002
2006-002	Ohio Rev. Code Section 135.21 the Village did not properly allocate interest.	No	Reissued as Finding 2008-003





**Mary Taylor, CPA**  
Auditor of State

**VILLAGE OF MARTINSBURG**

**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 31, 2009**