VILLAGE OF MARTINSVILLE
CLINTON COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2006-2005

Mary Taylor, CPA
Auditor of State

VILLAGE OF MARTINSVILLE
HIGHLAND COUNTY

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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

April 9, 2008

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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 Village of Martinsville, Clinton County, Ohio (the Village), as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Government 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.

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.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242
Telephone: (513) 361-8550 (800) 368-7419 Fax: (513) 361-8577
www.auditor.state.oh.us

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, 2006 and 2005 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, 2006 and 2005, or its changes in financial position or cash flows 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 and reserves for encumbrances of the Village of Martinsville, Clinton County, as of December 31, 2006 and 2005, 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 April 9, 2008, 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

Mary Taylor, CPA
Auditor of State

April 9, 2008

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, 2006

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts:			
Property and Local Taxes	$13,582		$13,582
Intergovernmental	18,241	$24,206	42,447
Special Assessments		8,844	8,844
Fines, Licenses and Permits	3,223		3,223
Earnings on Investments	967	1,294	2,261
Miscellaneous	615		615
Total Cash Receipts	36,628	34,344	70,972
Cash Disbursements:			
Current:			
Security of Persons and Property	7,521	8,124	15,645
Transportation		40,189	40,189
General Government	39,398	1,200	40,598
Total Cash Disbursements	46,919	49,513	96,432
Total Receipts Over/(Under) Disbursements	(10,291)	(15,169)	(25,460)
Fund Cash Balances, January 1	18,844	89,185	108,029
Fund Cash Balances, December 31	**$8,553**	**$74,016**	**$82,569**
Reserve for Encumbrances, December 31	$882	$0	$882

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

VILLAGE OF MARTINSVILLE
CLINTON COUNTY

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

	Proprietary Fund Types	Fiduciary Fund Types	
	Enterprise	Agency	Totals (Memorandum Only)
Operating Cash Receipts:			
Charges for Services	$106,159	$0	$106,159
Total Operating Cash Receipts	106,159	0	106,159
Operating Cash Disbursements:			
Personal Services	13,169		13,169
Contractual Services	59,765		59,765
Supplies and Materials	24,349		24,349
Other	1,222		1,222
Total Operating Cash Disbursements	98,505	0	98,505
Operating Income/(Loss)	7,654	0	7,654
Non-Operating Cash Receipts:			
Other Non-Operating Cash Receipts		1,087	1,087
Total Non-Operating Cash Receipts	0	1,087	1,087
Non-Operating Cash Disbursements:			
Redemption of Principal	5,798		5,798
Interest and Other Fiscal Charges	3,218		3,218
Other Non-Operating Cash Disbursements		1,511	1,511
Total Non-Operating Cash Disbursements	9,016	1,511	10,527
Net Receipts Over/(Under) Disbursements	(1,362)	(424)	(1,786)
Fund Cash Balances, January 1	22,929	614	23,543
Fund Cash Balances, December 31	**$21,567**	**$190**	**$21,757**
Reserve for Encumbrances, December 31	$4,133	$0	$4,133

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, 2005

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts:			
Property and Local Taxes	$12,530		$12,530
Intergovernmental	19,200	$24,132	43,332
Special Assessments		8,283	8,283
Fines, Licenses and Permits	3,913		3,913
Earnings on Investments	986	418	1,404
Miscellaneous	849		849
Total Cash Receipts	37,478	32,833	70,311
Cash Disbursements:			
Current:			
Security of Persons and Property	8,800	7,145	15,945
Transportation		8,921	8,921
General Government	28,930	450	29,380
Total Cash Disbursements	37,730	16,516	54,246
Total Receipts Over/(Under) Disbursements	(252)	16,317	16,065
Fund Cash Balances, January 1	19,096	72,868	91,964
Fund Cash Balances, December 31	**$18,844**	**$89,185**	**$108,029**
Reserve for Encumbrances, December 31	$0	$1,555	$1,555

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

VILLAGE OF MARTINSVILLE
CLINTON COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES FOR THE YEAR ENDED DECEMBER 31, 2005

	Proprietary Fund Types	Fiduciary Fund Types	
	Enterprise	**Agency**	**Totals (Memorandum Only)**
Operating Cash Receipts:			
Charges for Services	$104,157	$0	$104,157
Total Operating Cash Receipts	104,157	0	104,157
Operating Cash Disbursements:			
Personal Services	29,662		29,662
Contractual Services	52,395		52,395
Supplies and Materials	26,204		26,204
Other	660		660
Total Operating Cash Disbursements	108,921	0	108,921
Operating Income/(Loss)	(4,764)	0	(4,764)
Non-Operating Cash Receipts:			
Other Non-Operating Cash Receipts		3,423	3,423
Total Non-Operating Cash Receipts	0	3,423	3,423
Non-Operating Cash Disbursements:			
Redemption of OWDA Principal	5,406		5,406
Interest and Other Fiscal Charges	3,597		3,597
Other Non-Operating Cash Disbursements		2,884	2,884
Total Non-Operating Cash Disbursements	9,003	2,884	11,887
Net Receipts Over/(Under) Disbursements	(13,767)	539	(13,228)
Fund Cash Balances, January 1	36,696	75	36,771
Fund Cash Balances, December 31	**$22,929**	**$614**	**$23,543**
Reserve for Encumbrances, December 31	$433	$0	$433

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

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 and park operations. 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'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 and 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 and investments that are restricted as to use. The Village classifies its funds into the following types:

1. General Fund

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

2. Special Revenue 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 Fund:

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

1. Summary of Significant Accounting Policies (Continued)

3. Enterprise Funds

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

Sewer Fund - This fund receives the monthly user fee established by Ordinance 2004-08.

4. Fiduciary Fund (Agency Fund)

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 Mayor's Court.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. 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. Contrary to Ohio law, the Village did not obtain prior certification of the fiscal officer for all purchase commitments.

A summary of 2006 and 2005 budgetary activity appears in Note 3.

1. Summary of Significant Accounting Policies (Continued)

F. Property, Plant, and Equipment

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

2. Equity in Pooled Cash

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

	2006	2005
Demand deposits	$104,326	$131,572

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

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2006 and 2005 follows:

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	$34,748	$36,628	$1,880
Special Revenue	30,000	34,344	4,344
Enterprise	100,500	106,159	5,659
Total	$165,248	$177,131	$11,883

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	$52,996	$47,801	$5,195
Special Revenue	54,955	49,513	5,442
Enterprise	117,127	111,654	5,473
Total	$225,078	$208,968	$16,110

3. Budgetary Activity (Continued)

2005 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	$26,135	$37,478	$11,343
Special Revenue	27,200	32,833	5,633
Enterprise	94,000	104,157	10,157
Total	$147,335	$174,468	$27,133

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	$41,846	$37,730	$4,116
Special Revenue	53,400	18,071	35,329
Enterprise	124,827	118,357	6,470
Total	$220,073	$174,158	$45,915

Contrary to Ohio law, the Village did not obtain prior certification of the fiscal officer for all purchase commitments.

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, 2006 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan	$40,180	7%

5. Debt (Continued)

The Ohio Public Works Commission (OPWC) loan relates to a water plant expansion project the Ohio Environmental Protection Agency mandated. The OPWC loan was originally obtained in 1991 for $94,908 to be repaid in semiannual installments over a 20 year period beginning in 1993. Wate receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

Amortization of the above debt, including interest, is scheduled as follows:

Year ending December 31:	OWDA Loan
2007	$9,030
2008	9,045
2009	9,061
2010	9,078
2011	9,097
2012	4,553
Total	$49,864

6. Retirement Systems

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

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, the OPERS member contributed 9 and 8.5%, respectively, of his gross salary and the Village contributed an amount equaling 13.7 and 13.55%, respectively, of the participant's gross salary. The Village has paid all contributions required through December 31, 2006, except for $77 of employee withholdings and $122 employer matching share. The Village failed to pay these amounts because of an error in the amount of earnings reported on the February 2005 OPERS Report of Contributions.

7. Risk Management

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

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

The Government 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.

7. Risk Management (Continued)

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, including loss adjustment expenses. 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 (for claims prior to January 1, 2006) or $3,000,000 (for claims on or after January 1, 2006) as noted above.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to $100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding $100,000 up to $500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding $250,000 up to $600 million per occurrence. 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, Travelers will reinsure specific losses exceeding $100,000 up to their $600 million per occurrence limit. The aggregate stop-loss limit for 2006 was $1,901,127.

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.

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, 2006 and 2005.

7. Risk Management (Continued)

Casualty Coverage	2006	2005
Assets	$30,997,868	$29,719,675
Liabilities	(15,875,741)	(15,994,168)
Retained earnings	$15,122,127	$13,725,507

Property Coverage	2006	2005
Assets	$5,125,326	$4,443,332
Liabilities	(863,163)	(1,068,245)
Retained earnings	$4,262,163	$3,375,087

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately $14.4 million and $14.3 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately $14.4 million and $14.3 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2006 and 2005, 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 $12,758. 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.

Contributions to PEP	
2004	$6,205
2005	$6,275
2006	$6,379

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they give 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.

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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, 2006 and 2005, and have issued our report thereon dated April 9, 2008, 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. 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in 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 significant deficiencies.

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.

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 that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the Village's management in a separate letter dated April 9, 2008.

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 that we must report under *Government Auditing Standards* that are described in the accompanying schedule of findings as items 2006-001 and 2006-002.

We did note certain noncompliance or other matters that we reported to the Village's management in a separate letter dated April 9, 2008.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 9, 2008

SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005

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

FINDING NUMBER 2006-001

Noncompliance Citation

Ohio Revised Code, § 5705.41(D), prohibits a subdivision or taxing unit from making any contract or giving 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 resolution.

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

2. Blanket Certificate **–** Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. 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 9 of 15 transactions tested for 2006 and 1 of the 15 transactions tested for 2005. Failure to certify the availability of funds can result in overspending funds and negative cash balances.

FINDING NUMBER 2006-001
(Continued)

We recommend the Village personnel obtain the fiscal officer's certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

Officials' Response:

We did not receive a response from officials regarding this finding.

FINDING NUMBER 2006-002

Noncompliance Citation

Ohio Revised Code, § 135.21, requires that all interest earned must be placed in the General Fund except as otherwise provided by law. Article XII, Section 5a, Ohio Constitution and 1982 Op.Att'y Gen.. No. 82-031, provide that interest earned on money derived from motor vehicle license or fuel tax must be paid into the fund to which the principal belongs. The Village failed to credit the interest earned on the motor vehicle license and fuel tax during 2006 in the amount of $1,110 to the Street Construction, Maintenance and Repair Fund and in the amount of $185 to the State Highway Fund. Adjustments were posted from the General Fund to the Street Construction, Maintenance and Repair Fund and the State Highway Fund in the aforementioned amounts.

Failure to properly record interest in the proper fund can lead to incorrect fund balances in the Village records.

The Village should credit interest earned on the balances of the Street Construction, Maintenance and Repair Fund and the State Highway Fund to those funds as required by law.

Officials' Response:

We did not receive a response from officials regarding this finding.

VILLAGE OF MARTINSVILLE
CLINTON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006 AND 2005

0Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2004-001	Section 5705.41(D) Prior certification not obtained for all expenditures and encumbrances not posted in appropriation ledger	No	Repeated as 2006-001

Mary Taylor, CPA
Auditor of State

VILLAGE OF MARTINSVILLE

CLINTON COUNTY

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 13, 2008

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us