

Village of Martinsburg

Knox County, Ohio

Regular Audit

For the Years Ended December 31, 2005 and 2004

BALESTRA, HARR & SCHERER, CPAs, INC.

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**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of the Village of Martinsburg, Knox County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2004 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

November 21, 2006

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**VILLAGE OF MARTINSBURG
KNOX COUNTY**

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Ohio Society of Certified Public Accountants

Independent Auditor's Report

Village Council
Village of Martinsburg
Knox County
P.O. Box 68
Martinsburg, Ohio 43037

We have audited the accompanying financial statements of the Village of Martinsburg, Knox County, (the Village) as of and for the years ended December 31, 2005 and 2004. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 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 accounting principles generally accepted in the United States of America, we presume they are material.

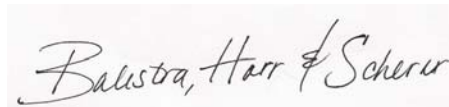
Revisions to GAAP require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards require us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the two preceding paragraphs, the financial statements referred to above for the years ended December 31, 2005 and 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2005 and 2004, or its changes in financial position or cash flows of its proprietary funds 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 Village of Martinsburg, Knox County, as of December 31, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion & Analysis for the years ended December 31, 2005 and 2004. The Village has not presented Management's Discussion & 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 September 29, 2006, 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. That report describes scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. The 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.



Balestra, Harr & Scherer, CPAs, Inc.

September 29, 2006

**VILLAGE OF MARTINSBURG
KNOX COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Fund Type</u>		Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$ 10,750	\$ 1,834	\$ 12,584
Intergovernmental	15,374	5,478	20,852
Earnings on Investments	949	141	1,090
Other Revenue	783	-	783
	<u>27,856</u>	<u>7,453</u>	<u>35,309</u>
Cash Disbursements:			
Current:			
Security of Persons & Property	84	-	84
Public Health Service	5,238	-	5,238
Leisure Time Activities	4,005	-	4,005
Basic Utility Services	-	2,031	2,031
Transportation	-	14,593	14,593
General Government	20,651	572	21,223
Total Cash Disbursements	<u>29,978</u>	<u>17,196</u>	<u>47,174</u>
Total Cash Receipts Over/(Under) Cash Disbursements	(2,122)	(9,743)	(11,865)
Fund Cash Balances, January 1	<u>19,870</u>	<u>50,362</u>	<u>70,232</u>
Fund Cash Balances, December 31	<u>\$ 17,748</u>	<u>\$ 40,619</u>	<u>\$ 58,367</u>

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

**VILLAGE OF MARTINSBURG
KNOX COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 23,892
Total Operating Cash Receipts	23,892
Operating Cash Disbursements:	
Personal Services	7,727
Employee Fringe Benefits	1,394
Contractual Services	11,635
Supplies and Materials	3,153
Other	170
Total Operating Cash Disbursements	24,079
Operating Income/(Loss)	(187)
Fund Cash Balances, January 1	23,478
Fund Cash Balances, December 31	\$ 23,291

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

**VILLAGE OF MARTINSBURG
KNOX COUNTY**

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

	<u>Governmental Fund Type</u>		Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$ 10,814	\$ 4,605	\$ 15,419
Intergovernmental	15,227	5,498	20,725
Earnings on Investments	28	63	91
Other Revenue	638	-	638
	<u>26,707</u>	<u>10,166</u>	<u>36,873</u>
Cash Disbursements:			
Current:			
Public Health Service	2,710	-	2,710
Leisure Time Activities	4,402	-	4,402
Basic Utility Services	450	2,067	2,517
Transportation	-	6,834	6,834
General Government	18,870	-	18,870
Total Cash Disbursements	<u>26,432</u>	<u>8,901</u>	<u>35,333</u>
Total Cash Receipts Over/(Under) Cash Disbursements	275	1,265	1,540
Fund Cash Balances, January 1	<u>19,595</u>	<u>49,097</u>	<u>68,692</u>
Fund Cash Balances, December 31	<u>\$ 19,870</u>	<u>\$ 50,362</u>	<u>\$ 70,232</u>
Reserve for Encumbrances, December 31	<u>\$ 2,311</u>	<u>\$ 3,543</u>	<u>\$ 5,854</u>

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

**VILLAGE OF MARTINSBURG
KNOX COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN MODIFIED-CASH BASIS FUND BALANCES
PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 23,835
Total Operating Cash Receipts	23,835
Operating Cash Disbursements:	
Personal Services	9,879
Employee Fringe Benefits	1,416
Contractual Services	14,076
Supplies and Materials	1,488
Other	25
Total Operating Cash Disbursements	26,884
Operating Income/(Loss)	(3,049)
Fund Cash Balances, January 1	26,527
Fund Cash Balances, December 31	\$ 23,478
Reserve for Encumbrances, December 31	\$ 2,271

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

**VILLAGE OF MARTINSBURG
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

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

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

B. Basis of Accounting

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

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

The Village maintains interest-bearing checking accounts.

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:

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds:

These funds are used to account for proceeds from specific sources (other than from trusts of 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 receipts gasoline tax and motor vehicle license tax money to construct, maintain and repair Village streets.

**VILLAGE OF MARTINSBURG
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (continued)

3. Enterprise Funds:

These funds account for operations that are similar to private business enterprise where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village had the following significant enterprise funds:

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

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund 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 commitments are made. Encumbrances outstanding at year end are carried over, and need not be re-appropriated. The Village did not properly encumber funds during the audit period.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

Acquisitions of property, plant, and equipment are recorded as disbursements (capital outlays) when paid. These items are not reflected as assets in the accompanying financial statements.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

**VILLAGE OF MARTINSBURG
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	<u>2005</u>	<u>2004</u>
Demand deposits	\$81,658	\$93,710

Deposits: The Village's deposits are insured by the Federal Deposit Insurance Corporation.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2005 and 2004 follows:

2005 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$32,539	\$27,856	(\$4,683)
Special Revenue	5,200	7,453	2,253
Enterprise	24,000	23,892	(108)
Total	\$61,739	\$59,201	(\$2,538)

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$37,825	\$29,978	\$7,847
Special Revenue	46,935	17,196	29,739
Enterprise	44,765	24,079	20,686
Total	\$129,525	\$71,253	\$58,272

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$24,984	\$26,707	\$1,723
Special Revenue	9,050	10,166	1,116
Enterprise	22,800	23,835	1,035
Total	\$56,834	\$60,708	\$3,874

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$30,860	\$28,743	\$2,117
Special Revenue	18,500	12,444	6,056
Enterprise	44,065	29,155	14,910
Total	\$93,425	\$70,342	\$23,083

**VILLAGE OF MARTINSBURG
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

4. PROPERTY TAX

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

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. RETIREMENT SYSTEMS

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2005 and 2004, members of PERS contributed 8.5% of gross wages, The Village contributed an amount equal to 13.55% of participants' gross wages. The Village has paid all contributions required through December 31, 2005.

6. RISK MANAGEMENT

Risk Pool Membership

The Village has obtained commercial insurance coverage for the following risks:

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

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage from last year.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the financial statements of the Village of Martinsburg, Knox County, Ohio (the Village), as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated September 29, 2006, 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we considered to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2005-002.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe the reportable condition described above is a material weakness.

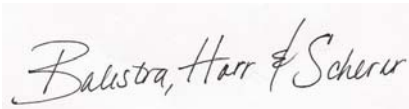
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, and which is described in the schedule of findings as item number 2005-001.

Members of Council
Village of Martinsburg
Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Governmental Auditing Standards*
Page 2

We noted certain matters that have been reported to the management of the Village in a separate letter dated September 29, 2006.

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

September 29, 2006

**VILLAGE OF MARTINSBURG
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2005-001

Material Noncompliance:

Ohio Revised Code § 5705.41 (D) requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the Clerk.

This section also provides for two exceptions to the above requirement:

- A. Then and Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Village Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.

- B. If the amount involved is less than \$3,000 the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of the Village Council, if such expenditure is otherwise valid.

Purchase orders were not issued until after the invoice date for several disbursements tested and no then and now certificate was issued.

The Clerk should issue a purchase order or blanket certificate to certify that the amount required has been lawfully appropriated and is in the treasury or in the process of collection.

Client Response:

The Village will properly issue purchase orders in the future and will issue a then and now certificate when deemed necessary.

FINDING NUMBER 2005-002

Material Weakness

Several disbursements made throughout the audit period did not have documentation such as an invoice to support the disbursement. Not maintaining the invoice with the voucher package, the Village could mistakenly pay an invoice more than once and cannot support that the disbursement was for a proper public purpose. The Village Clerk should maintain all supporting documentation for all disbursements made.

Client Response:

The Village Clerk will attach supporting documentation to all disbursement packages in the future.



**Auditor of State
Betty Montgomery**

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VILLAGE OF MARTINSBURG

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 5, 2006**