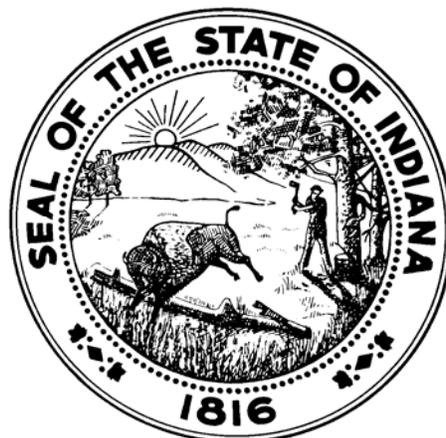


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

EXAMINATION REPORT
OF
CITY OF MARTINSVILLE
MORGAN COUNTY, INDIANA
January 1, 2005 to December 31, 2005



FILED
12/29/2006

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Accountant's Report	3
Financial Information:	
Schedule of Receipts, Disbursements, and Cash and Investment Balances	4
Notes to Financial Information.....	5-8
Examination Results and Comments:	
Accounts Receivable	9
Appropriations.....	9
Capital Asset Records	9
Errors on Annual Report	9-10
Temporary Transfer of Funds	10-11
Exit Conference	12

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Mary Lou Peden	01-01-04 to 12-31-07
President of the Common Council	Gary Lester	01-01-05 to 12-31-06
Mayor	Hon. Shannon Buskirk	01-01-04 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF MARTINSVILLE, MORGAN COUNTY, INDIANA

We have examined the financial information presented herein of the City of Martinsville (City), for the period of January 1, 2005 to December 31, 2005. The City's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the City for the year ended December 31, 2005, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

STATE BOARD OF ACCOUNTS

November 29, 2006

CITY OF MARTINSVILLE
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES
As Of And For The Year Ended December 31, 2005

	Cash and Investments 01-01-05	Receipts	Disbursements	Cash and Investments 12-31-05
Governmental Funds:				
General	\$ 541,452	\$ 5,495,544	\$ 4,588,719	\$ 1,448,277
Motor Vehicle Highway	611,209	897,820	1,245,241	263,788
Local Road and Street	173,254	252,214	361,468	64,000
Law Enforcement Continuing Education	8,228	13,189	15,032	6,385
Riverboat	-	-	-	-
Rainy Day	-	-	-	-
Donation Canine	275	-	-	275
Donation Thermal Imagery	10,915	5,078	-	15,993
Pretrial Diversion	52,406	176,392	136,289	92,509
Court User Fees	36,823	11,010	11,544	36,289
Auditors Court Costs	-	71,389	71,389	-
Record Perpetuation	41,774	11,615	-	53,389
Parking Control	17,232	-	-	17,232
Police Camera	500	1,000	-	1,500
Recording Fees	126	17,020	-	17,146
Planning and Zoning	93,694	-	4,150	89,544
Fire Hydrant Maintenance	18,316	-	-	18,316
Police Grant	2,378	-	650	1,728
Block Law Enforcement Grant	6,315	7,098	9,671	3,742
Dare	1,542	1,480	998	2,024
Criminal Justice	12,282	40,825	50,343	2,764
Bail Bond Administration Fee	-	660	-	660
Judicial Salaries Fees	-	5,854	-	5,854
Economic Development Tax	-	388,617	-	388,617
City Park	209,509	316,989	356,166	170,332
City Park Cumulative Capital	496	-	-	496
Police Drug Evidence	8,761	210	338	8,633
Industrial Park	40,397	-	-	40,397
Environmental Project	1,146	-	-	1,146
Downtown Renovation	1,300	-	-	1,300
Food and Beverage	-	64,388	-	64,388
Park Bond	33,239	112,036	127,715	17,560
Operation Pullover	559	4,388	4,934	13
Riverboat Fund	127,735	73,765	16,573	184,927
City Availability Fees	76,858	25,083	-	101,941
Developer Availability Fees	77,427	25,083	16,875	85,635
Cumulative Capital Improvement	-	68,268	14,758	53,510
Cumulative Capital Development	-	-	-	-
Cumulative Building and Fire Fighting Equipment	197,606	30,702	66,000	162,308
Wastewater Utility - Transfer Station	426,017	292,217	519,381	198,853
Proprietary Funds:				
Water Utility - Operating	9,131	1,111,386	1,087,710	32,807
Water Utility - Bond and Interest	1,249	173,232	162,298	12,183
Water Utility - Depreciation	125,172	-	-	125,172
Water Utility - Customer Deposit	62,562	22,192	23,203	61,551
Water Utility - Construction	1,110,238	301,846	1,380,739	31,345
Water Utility - Improvement	30,753	-	-	30,753
Water Utility - Bond Anticipation Note	-	3,505,708	3,028,228	477,480
Wastewater Utility - Operating	52,600	1,883,298	1,495,302	440,596
Wastewater Utility - Bond and Interest	3,412	252,439	241,008	14,843
Wastewater Utility - Depreciation	109,785	-	-	109,785
Wastewater Utility - Customer Deposit	-	-	-	-
Wastewater Utility - Construction	2,429,443	58,638	808,224	1,679,857
Wastewater Utility - Improvement	11,766	-	50	11,716
Utility Clearance	122,151	2,787,682	2,708,489	201,344
Plant Expansion	9,396	36,120	5,128	40,388
Internal Service Fund	291,819	1,173,943	1,097,696	368,066
Fiduciary Funds:				
Police Officers' Pension	149,995	108,790	156,929	101,856
Firefighters' Pension	136,248	106,858	175,297	67,809
City Court	44,498	747,778	747,928	44,348
Payroll	79,974	4,361,972	4,370,709	71,237
Totals	\$ 7,609,963	\$ 25,041,816	\$ 25,107,172	\$ 7,544,607

The accompanying notes are an integral part of the schedule.

CITY OF MARTINSVILLE
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The City was established under the laws of the State of Indiana. The City provides the following services: public safety, health and social services, culture and recreation, general administrative services, water and wastewater services.

Note 2. Fund Accounting

The City uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the City in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the City on or prior to December 31 of the year collected.

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the City to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

CITY OF MARTINSVILLE
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Pension Plans

A. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

1. Public Employees' Retirement Fund

Plan Description

The City contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

2. 1925 Police Officers' Pension Plan

Plan Description

The Town contributes to the 1925 Police Officers' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

CITY OF MARTINSVILLE
NOTES TO FINANCIAL INFORMATION
(Continued)

The use of the pay-as-you-go actuarial cost method by the Town results in significant underfunding of the plan.

3. 1937 Firefighters' Pension Plan

Plan Description

The primary government contributes to the 1937 Firefighters' Pension Plan, which is a single employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute. The primary government's annual pension cost and related information, as provided by the actuary, is presented in this note.

B. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The Town contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

CITY OF MARTINSVILLE
NOTES TO FINANCIAL INFORMATION
(Continued)

Funding Policy and Annual Pension Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the Town is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the Town are established by the Board of Trustees of PERF.

Note 7. Long-Term Debt

The City has entered into debt including water works refunding revenue bonds for construction, sewage works refunding revenue bonds for construction, sewage works revenue bonds for plant expansion, general obligation bonds for a municipal swimming pool, a capital lease for a fire truck, a capital lease for 10 police vehicles, Bond Anticipation Notes of 2004 for Water Utility Improvements, and Bond Anticipation Notes of 2005 for Water Utility Improvements. The outstanding principal at December 31, 2005, was \$1,065,000, \$1,020,000, \$2,550,000, \$245,000, \$316,824, \$143,288, \$1,490,000, and \$2,300,000, respectively).

CITY OF MARTINSVILLE
EXAMINATION RESULTS AND COMMENTS

ACCOUNTS RECEIVABLE

The Aged Trial Balance report for both the Water and the Wastewater Utilities does not agree with the ledger balance of Accounts Receivable at December 31, 2005. A similar comment appeared in the prior Report B26264.

From February to December 2005, the incorrect amount for receipts was posted to the ledger balance for the Wastewater Utility. The amount posted to the ledger balance was actually the amount for the Water Utility receipts.

At all times, the manual and computerized records, subsidiary ledgers, control ledger and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

APPROPRIATIONS

The appropriations in the Local Road and Street Fund were exceeded by \$111,468. There was a disbursement charged entirely to the Local Road and Street Fund for bituminous paving which could have been split between the Local Road and Street Fund and the Motor Vehicle Highway Fund, but was not.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

CAPITAL ASSET RECORDS

As stated in prior Reports B24380 and B26264, the Water Utility and Wastewater Utility do not maintain sufficient detailed records of capital assets. Upon purchase, the costs of the capital assets are added to an aggregate capital asset account, and to subsidiary accounts for land, buildings, etc., in the general ledger. However, records providing historical costs for some of the Utilities' capital assets are not available, and records classifying and summarizing the Utilities' capital assets are incomplete. Deletions or disposals of capital assets are not recorded.

Also, the City does not maintain any capital asset records.

The City has contracted with TM Valuation Services to compile a complete capital asset listing for the City and the Utilities.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ERRORS ON ANNUAL REPORT

The City's Annual Report (CTAR) did not include all City funds. The Donation Canine Fund, Police Camera Fund, and a component of the Payroll Fund were not shown on the CTAR.

CITY OF MARTINSVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

The total beginning fund balance did not agree with the ending fund balance shown on the prior (2004) CTAR. The State and County distributions were posted correct in the cashbook but most were not reported correctly on the CTAR.

Some sections of the CTAR were not completed, including Part 8 - the Statement of Federal Grant Receipts.

Indiana Code 5-3-1-3 provides the Clerk-Treasurer or Controller of each city and town shall have published an annual report of the receipts and expenditures of such city or town, showing the same "by funds and appropriations," within sixty days after the close of each calendar year. The total indebtedness at December 31 of such municipality must also be shown in this published report.

In cooperation with the Bureau of Census, United States Department of Commerce, United States Department of the Treasury and the Indiana Department of Local Government Finance, the State Board of Accounts in 1981 designed a new set of report forms and they were prescribed. Preparation and completion of these forms satisfied statutory requirements and replaced various forms and reports that were previously required by the aforementioned federal and state agencies and departments.

The following is a listing of the forms included in the package which is mailed to all fiscal officers:

Annual City and Town Financial Report - CTAR-1

- Cover Page - Certification
- Part 1 Statement of Receipts, Disbursements, Cash Balances and Investment Balances (Include Utilities)
- 2 Receipt Report - Actual Receipts by Fund
- 3A Disbursements - All Funds (Except Utilities and Departmental Budget for General Fund)
- 3B Disbursements by Departmental Budget for General Fund
- 4 Municipal Utilities - Actual Receipts and Disbursements by Fund
- 5 Cash and Investments (On Hand) December 31
- 6 Long-Term Indebtedness as of December 31
- 7 Intergovernmental Expenditures
- 8 Statement of Federal Grant Receipts
- 9 Statement of State Grant Receipts
- 10 Report on Capital Assets Purchased From Governmental Funds
- 11 Report of Financial Assistance to Nongovernmental Entities

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TEMPORARY TRANSFER OF FUNDS

A temporary transfer of \$50,000 was made in 2003 from the General Fund to the Water Operations Fund. The loan has not been repaid as of October 30, 2006.

A temporary transfer of \$100,000 was made in 2005 from the Water Utility to the Motor Vehicle Highway Fund. The loan has not been repaid as of October 30, 2006.

This Comment also appeared in prior Report B26264.

CITY OF MARTINSVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 36-1-8-4 concerning temporary transfer states in part:

"(a) . . . (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs. (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . ."

"(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.
 - (B) A brief description of the grounds for the emergency.
 - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

CITY OF MARTINSVILLE
EXIT CONFERENCE

The contents of this report were discussed on November 29, 2006, with Mary Lou Peden, Clerk-Treasurer; and Shannon Buskirk, Mayor. The officials concurred with our findings.