

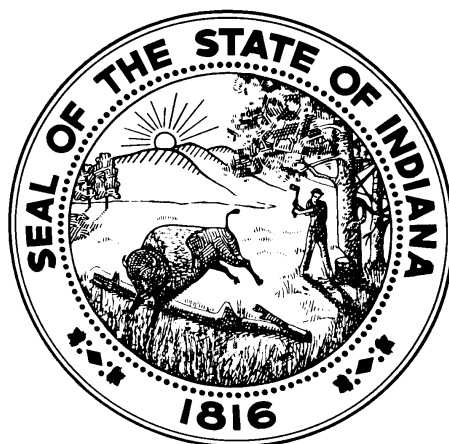
STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

ANNUAL FINANCIAL REPORT

2006

CITY OF MARTINSVILLE

MORGAN COUNTY, INDIANA



FILED
11/30/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Mary Lou Peden	01-01-04 to 12-31-07
Mayor	Shannon L. Buskirk	01-01-04 to 12-31-07
President of the Board of Public Works	Shannon L. Buskirk	01-01-04 to 12-31-07
President of the Common Council	Gary Lester	01-01-06 to 12-31-07
Superintendent of Utilities	Ron Kivett	01-01-04 to 12-31-07
Utility Office Manager	Mindy Martlage	01-01-06 to 12-31-07



STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Martinsville (City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions 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 obtain reasonable assurance about 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 that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the City prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of December 31, 2006, and the respective cash receipts and cash disbursements during the year then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated August 21, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

The Schedules of Funding Progress, Schedule of Contributions From the Employer and Other Contributing Entities as listed in the Table of Contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining Schedules, as listed in the Table of Contents, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Long-Term Debt has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

August 21, 2007



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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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Martinsville (City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 21, 2007. 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 City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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
(Continued)

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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.

This report is intended solely for the information and use of the City's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

August 21, 2007

CITY OF MARTINSVILLE
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2006

Functions/Programs	Program Receipts			Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Primary government:						
Governmental activities:						
General government	\$ 2,637,509	\$ 1,881,023	\$ 2,192,338	\$ 1,435,852	\$ -	\$ 1,435,852
Public safety	4,102,438	400,913	87,881	(3,613,644)	-	(3,613,644)
Highways and streets	1,811,929	-	668,061	(1,143,868)	-	(1,143,868)
Sanitation	1,018,432	338,505	-	(679,927)	-	(679,927)
Urban redevelopment and housing	190,392	402,719	-	212,327	-	212,327
Culture and recreation	731,106	97,583	4,158	(629,365)	-	(629,365)
Interest on long-term debt	12,655	-	-	(12,655)	-	(12,655)
Total governmental activities	10,504,461	3,120,743	2,952,438	(4,431,280)	-	(4,431,280)
Business-type activities:						
Water	2,295,376	1,019,357	-	-	(1,276,019)	(1,276,019)
Wastewater	2,618,534	2,002,192	-	-	(616,342)	(616,342)
Total business-type activities	4,913,910	3,021,549	-	-	(1,892,361)	(1,892,361)
Total primary government	\$ 15,418,371	\$ 6,142,292	\$ 2,952,438	(4,431,280)	(1,892,361)	(6,323,641)
General receipts:						
Property taxes				4,132,842	-	4,132,842
Other local sources				171,782	1,263,986	1,435,768
Bonds and loans				-	225,067	225,067
Unrestricted investment earnings				-	67,190	67,190
Total general receipts				4,304,624	1,556,243	5,860,867
Change in net assets				(126,656)	(336,118)	(462,774)
Net assets - beginning				3,801,963	3,457,396	7,259,359
Net assets - ending				\$ 3,675,307	\$ 3,121,278	\$ 6,796,585
Assets						
Cash and investments				\$ 1,391,754	\$ 589,929	\$ 1,981,683
Restricted assets:						
Cash and investments				2,283,553	2,531,349	4,814,902
Total assets				\$ 3,675,307	\$ 3,121,278	\$ 6,796,585
Net Assets						
Restricted for:						
Public safety				\$ 256,136	\$ -	\$ 256,136
Highways and streets				426,566	-	426,566
Sanitation				160,873	-	160,873
Economic development				607,090	-	607,090
Culture and recreation				148,244	-	148,244
Debt service				28,108	310,500	338,608
Other purposes				656,536	2,220,849	2,877,385
Unrestricted				1,391,754	589,929	1,981,683
Total net assets				\$ 3,675,307	\$ 3,121,278	\$ 6,796,585

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

CITY OF MARTINSVILLE
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2006

	General	Motor Vehicle Highway	County Economic Development Income Tax	Other Governmental Funds	Totals
Receipts:					
Taxes	\$ 2,306,381	\$ 1,226,943	\$ -	\$ 599,518	\$ 4,132,842
Licenses and permits	21,046	-	-	14,721	35,767
Intergovernmental	2,161,738	458,241	402,719	711,928	3,734,626
Charges for services	92,955	-	-	464,816	557,771
Fines and forfeits	112,379	-	-	257,971	370,350
Other	99,185	15,704	-	58,008	172,897
Total receipts	4,793,684	1,700,888	402,719	2,106,962	9,004,253
Disbursements:					
General government	642,602	-	-	467,196	1,109,798
Public safety	3,604,409	-	-	498,029	4,102,438
Highways and streets	-	1,564,424	-	247,505	1,811,929
Sanitation	641,657	-	-	376,775	1,018,432
Culture and recreation	132,656	-	-	478,450	611,106
Urban redevelopment and housing	-	-	190,392	-	190,392
Debt service:					
Principal	-	-	-	120,000	120,000
Interest	-	-	-	12,655	12,655
Total disbursements	5,021,324	1,564,424	190,392	2,200,610	8,976,750
Excess (deficiency) of receipts over disbursements	(227,640)	136,464	212,327	(93,648)	27,503
Other financing sources (uses):					
Transfers in	-	-	-	4,000	4,000
Transfers out	-	-	-	(4,000)	(4,000)
Total other financing sources (uses)	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(227,640)	136,464	212,327	(93,648)	27,503
Cash and investment fund balance - beginning	1,448,277	263,788	388,617	1,333,215	3,433,897
Cash and investment fund balance - ending	\$ 1,220,637	\$ 400,252	\$ 600,944	\$ 1,239,567	3,461,400
Amounts reported for governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis are different because:					
Internal services funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis.					
					213,907
Net assets of governmental activities					\$ 3,675,307
Cash and Investment Assets - December 31					
Cash and investments	\$ 1,220,637	\$ -	\$ -	\$ 171,117	\$ 1,391,754
Restricted assets:					
Cash and investments	-	400,252	600,944	1,068,450	2,069,646
Total cash and investment assets - December 31	\$ 1,220,637	\$ 400,252	\$ 600,944	\$ 1,239,567	\$ 3,461,400
Cash and Investment Fund Balance - December 31					
Restricted for:					
Public Safety	\$ -	\$ -	\$ -	\$ 257,389	\$ 257,389
Highways and streets	-	400,252	-	26,314	426,566
Sanitation	-	-	-	160,873	160,873
Economic development	-	-	600,944	6,146	607,090
Culture and recreation	-	-	-	148,244	148,244
Debt service	-	-	-	28,108	28,108
Other purposes	-	-	-	442,629	442,629
Unrestricted	1,220,637	-	-	169,864	1,390,501
Total cash and investment fund balance - December 31	\$ 1,220,637	\$ 400,252	\$ 600,944	\$ 1,239,567	\$ 3,461,400

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

CITY OF MARTINSVILLE
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUNDS
As of and for the Year Ended December 31, 2006

	Water Utility	Wastewater Utility	Totals	Internal Service Funds
Operating receipts:				
Water customer receipts	\$ 961,227	\$ -	\$ 961,227	\$ -
Water taps	8,000	-	8,000	-
Service fees	14,120	-	14,120	-
Tank water fees	3,617	-	3,617	-
Private sprinkler revenue	15,408	-	15,408	-
Wastewater customer receipts	-	1,903,694	1,903,694	-
Other	16,985	98,498	115,483	1,373,552
Total operating receipts	1,019,357	2,002,192	3,021,549	1,373,552
Operating disbursements:				
Salaries and wages	331,952	493,989	825,941	-
Employee pensions and benefits	156,400	141,761	298,161	-
Purchased power	20,521	135,050	155,571	-
Utility expense	45,276	-	45,276	-
Chemicals	25,652	17,382	43,034	-
Material and supplies	146,912	117,994	264,906	-
Contractual services	835,985	1,184,456	2,020,441	-
Transportation disbursements	15,796	-	15,796	-
Insurance disbursements	15,587	-	15,587	1,527,711
Miscellaneous disbursements	10,112	67,270	77,382	-
Total operating disbursements	1,604,193	2,157,902	3,762,095	1,527,711
Excess (deficiency) of operating receipts over operating disbursements	(584,836)	(155,710)	(740,546)	(154,159)
Nonoperating receipts (disbursements):				
Loan proceeds	164,750	60,317	225,067	-
Temporary loan from Wastewater Utility to Water Utility	250,000	(250,000)	-	-
Interest and investment receipts	3,514	63,676	67,190	-
Miscellaneous receipts	14,460	38,481	52,941	-
Customer deposit receipts	23,329	-	23,329	-
Customer deposit reimbursements	(21,414)	-	(21,414)	-
Escrow receipts	596,624	591,092	1,187,716	-
Escrow disbursements	(596,624)	(164,750)	(761,374)	-
Interest and investment disbursement	(73,145)	(294,763)	(367,908)	-
Miscellaneous disbursements	-	(1,119)	(1,119)	-
Total nonoperating receipts (disbursements)	361,494	42,934	404,428	-
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	(223,342)	(112,776)	(336,118)	(154,159)
Transfers in	100,000	100,000	200,000	-
Transfers out	(100,000)	(100,000)	(200,000)	-
Excess (deficiency) of receipts, contributions and transfers in over disbursements and transfers out	(223,342)	(112,776)	(336,118)	(154,159)
Cash and investment fund balance - beginning	771,292	2,686,104	3,457,396	368,066
Cash and investment fund balance - ending	\$ 547,950	\$ 2,573,328	\$ 3,121,278	\$ 213,907
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ 182,359	\$ 407,570	\$ 589,929	\$ -
Restricted assets:				
Cash and investments	365,591	2,165,758	2,531,349	213,907
Total cash and investment assets - December 31	\$ 547,950	\$ 2,573,328	\$ 3,121,278	\$ 213,907
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Debt service	\$ 145,980	\$ 164,520	\$ 310,500	\$ -
Other purposes	219,611	2,001,238	2,220,849	213,907
Unrestricted	182,359	407,570	589,929	-
Total cash and investment fund balance - December 31	\$ 547,950	\$ 2,573,328	\$ 3,121,278	\$ 213,907

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

CITY OF MARTINSVILLE
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For The Year Ended December 31, 2006

	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Additions:		
Contributions:		
Employer	\$ 189,043	\$ -
Plan members	6,542	-
State	<u>172,575</u>	<u>-</u>
Total contributions	<u>368,160</u>	<u>-</u>
Agency fund additions	<u>-</u>	<u>5,628,117</u>
Total additions	<u>368,160</u>	<u>5,628,117</u>
Deductions:		
Benefits	343,725	-
Agency fund deductions	<u>-</u>	<u>5,623,301</u>
Total deductions	<u>343,725</u>	<u>5,623,301</u>
Excess (deficiency) of total additions over total deductions	24,435	4,816
Cash and investment fund balance - beginning	<u>169,667</u>	<u>115,585</u>
Cash and investment fund balance - ending	<u>\$ 194,102</u>	<u>\$ 120,401</u>

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

CITY OF MARTINSVILLE
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides the following services: public safety (police and fire), highways and streets, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, and urban redevelopment and housing.

These financial statements present the City (primary government). There are no significant component units which require inclusion.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The motor vehicle highway fund is used for the construction, reconstruction, repair and maintenance of the city's highways.

The county economic development income tax fund is used to finance the city's economic development projects.

The City reports the following major proprietary funds:

The water utility fund accounts for the operation of the water distribution system.

The wastewater utility fund accounts for the operation of the wastewater treatment plant, pumping stations, and collection systems.

CITY OF MARTINSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Additionally, the City reports the following fund types:

The Employee Benefit Trust Fund, an internal service fund, is used to account for medical and dental benefits for city employees.

The pension trust funds account for the activities of the 1925 police officer's pension fund and the 1937 firefighters' pension fund which accumulate resources for pension benefit payments.

Agency funds account for assets held by the City as an agent for the State and County for court fees and to the various taxing and insurance agencies for payroll related withholdings.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund, and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the water and wastewater functions. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements. Internal service funds are used to account for activities provided to other departments or agencies primarily with the government.

CITY OF MARTINSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

3. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

4. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the City's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

CITY OF MARTINSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities and Net Assets – Cash and Investment Basis.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

CITY OF MARTINSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Prior to the first required publication, the fiscal officer of the City submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the City receives approval of the Indiana Department of Local Government Finance.

The City's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

B. Cash and Investment Balance Deficits

At December 31, 2006, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines and state statute:

Fund	2006
Riverboat	\$ 44,118
Law Enforcement Block Grant	1,253

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements; these deficits are to be repaid from future receipts.

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2006, the City had no investments.

CITY OF MARTINSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Investment Policies

Indiana Code 5-13-9 authorizes the City to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the City to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the City and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the City may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the City's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

The City has no investments as of December 31, 2006.

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2006, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>2006</u>
Wastewater Utility	Water Utility	\$ 100,000
Water Utility	Wastewater Utility	100,000
Other governmental	Other governmental	<u>4,000</u>
Total		<u>\$ 204,000</u>

The City typically uses transfers for cash flow purposes as provided by various statutory provisions.

CITY OF MARTINSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Temporary Loans Between Utilities

The Wastewater Utility loaned the Water Utility \$250,000 on November 27, 2006. The temporary loan bears no interest and is to be repaid in 2007.

IV. Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

The City has chosen to establish a risk financing fund for risks associated with medical and dental benefits. The risk financing fund is accounted for in the Self Insurance Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$25,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Amounts are paid into the fund by all funds with payrolls and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each fund's gross wages, and are reported as quasi-external interfund transactions.

Job Related Illness or Injuries to Employees

During 1992, the City joined together with other governmental entities to form the Indiana Public Employers' Plan, a public entity risk pool currently operating as a common risk management and insurance program for member governmental entities. The risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of job related illness or injuries to employees. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event.

B. Rate Structure – Enterprise Funds

Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on January 5, 2005.

Wastewater Utility

The current rate structure was approved by the City Council on March 6, 2006.

CITY OF MARTINSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Pension Plans

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

a. 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 the 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 member's 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. The 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 plan members for PERF are established by the Board of Trustees of PERF. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Utilities is not available.

b. 1925 Police Officers' Pension Plan

Plan Description

The City 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.

CITY OF MARTINSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute. The City's annual pension cost and related information as provided by the actuary is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

c. 1937 Firefighters' Pension Plan

Plan Description

The City 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 City's annual pension cost and related information, as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

Actuarial Information for the Above Plans

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Annual required contribution	\$ 99,166	\$ 258,100	\$ 243,300
Interest on net pension obligation	(10,042)	119,900	96,800
Adjustment to annual required contribution	11,444	(130,700)	(105,600)
Annual pension cost	100,568	247,300	234,500
Contributions made	111,721	112,362	103,039
Increase (decrease) in net pension obligation	(11,153)	134,938	131,461
Net pension obligation, beginning of year	(138,516)	1,776,190	1,434,635
Net pension obligation, end of year	\$ (149,669)	\$ 1,911,128	\$ 1,566,096

CITY OF MARTINSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Contribution rates:			
City	0%	0%	0%
Plan members	3%	6%	6%
Actuarial valuation date	07-01-06	01-01-06	01-01-06
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of projected payroll, closed 40 years	Level percentage of projected payroll, closed 30 years	Level percentage of projected payroll, closed 30 years
Amortization period			
Amortization period (from date)	07-01-97	01-01-05	01-01-05
Asset valuation method	75% of expected actuarial value plus 25% of market value	4 year phase in of unrealized and realized capital	4 year phase in of unrealized and realized capital

Actuarial Assumptions

Investment rate of return	7.25%	6%	6%
Projected future salary increases:			
Total	5%	4%	4%
Attributed to inflation	4%	4%	4%
Attributed to merit/seniority	1%	0%	0%
Cost-of-living adjustments	2%	2.75/4%*	2.75/4%*

*2.75% converted members; 4% nonconverted members

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-04	\$ 84,207	137%	\$ (108,616)
	06-30-05	82,892	136%	(138,516)
	06-30-06	100,568	135%	(149,669)
1925 Police Officers' Pension Plan	12-31-03	308,300	65%	1,565,360
	12-31-04	314,500	33%	1,776,190
	12-31-05	247,300	45%	1,911,128
1937 Firefighters' Pension Plan	12-31-03	286,500	58%	1,270,753
	12-31-04	305,100	46%	1,434,635
	12-31-05	234,500	34%	1,566,096

CITY OF MARTINSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2006, was comprised of the following:

	1925 Police Officers' Pension	1937 Firefighters' Pension
Retirees and beneficiaries currently receiving benefits	8	10
Current active employees	2	1

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plans

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The City 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

Funding Policy and Annual Pension Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the City 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 City are established by the Board of Trustees of PERF. The City's contributions to the plan for the years ending December 31, 2006, 2005, and 2004, were \$343,725, \$332,226, and \$306,163, respectively, equal to the required contributions for each year.

CITY OF MARTINSVILLE
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-04	\$ 1,380,979	\$ 1,515,573	\$ (134,594)	91%	\$ 1,544,291	(9%)
07-01-05	1,470,395	1,755,216	(284,821)	84%	1,590,495	(18%)
07-01-06	1,575,601	1,746,195	(170,594)	90%	1,781,854	(10%)

1925 Police Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-01	\$ 94,949	\$ 3,392,900	\$ (3,297,951)	3%	\$ 66,700	(4,944%)
01-01-02	128,887	3,200,700	(3,071,813)	4%	69,400	(4,426%)
01-01-03	173,468	3,231,100	(3,057,632)	5%	71,500	(4,276%)
01-01-04	95,101	3,292,400	(3,197,299)	3%	73,500	(4,350%)
01-01-05	146,424	3,253,800	(3,107,376)	5%	75,500	(4,116%)
01-01-06	101,856	3,263,200	(3,161,344)	3%	78,200	(4,043%)

1937 Firefighter's Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-01	\$ 69,888	\$ 3,094,000	\$ (3,024,112)	2%	\$ 33,300	(9,081%)
01-01-02	150,712	3,129,200	(2,978,488)	5%	34,700	(8,584%)
01-01-03	177,205	2,989,100	(2,811,895)	6%	35,700	(7,876%)
01-01-04	136,933	3,145,200	(3,008,267)	4%	36,700	(8,197%)
01-01-05	140,067	3,143,100	(3,003,033)	4%	37,800	(7,945%)
01-01-06	67,809	3,237,400	(3,169,591)	2%	39,100	(8,106%)

CITY OF MARTINSVILLE
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS FROM THE
 EMPLOYER AND OTHER CONTRIBUTING ENTITIES

	<u>Year Ending</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>
1925 Police Officers' Pension Plan	12-31-00	\$ 344,900	33%
	12-31-01	358,300	33%
	12-31-02	351,200	51%
	12-31-03	374,000	53%
	12-31-04	393,400	26%
	12-31-05	258,100	44%
1937 Firefighters' Pension Plan	12-31-00	\$ 308,200	51%
	12-31-01	321,600	30%
	12-31-02	336,900	51%
	12-31-03	338,400	49%
	12-31-04	369,200	38%
	12-31-05	243,300	42%

CITY OF MARTINSVILLE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2006

	Local Road and Street	Park and Recreation	Local Law Enforcement Continuing Education	Riverboat	Canine Donation	Thermal Imagery Donation	Police Drug Evidence
Receipts:							
Taxes	\$ -	\$ 324,280	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	3,096	-	-	-	-
Intergovernmental	209,819	4,158	-	73,613	-	-	-
Charges for services	-	97,583	19,428	-	-	4,650	-
Fines and forfeits	-	-	-	-	-	-	-
Other	-	29,745	-	-	-	1,114	15,937
Total receipts	209,819	455,766	22,524	73,613	-	5,764	15,937
Disbursements:							
General government	-	-	-	302,658	-	-	-
Public safety	-	-	18,517	-	-	21,756	9,294
Highways and streets	247,505	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Culture and recreation	-	478,350	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Total disbursements	247,505	478,350	18,517	302,658	-	21,756	9,294
Excess (deficiency) of receipts over disbursements	(37,686)	(22,584)	4,007	(229,045)	-	(15,992)	6,643
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(37,686)	(22,584)	4,007	(229,045)	-	(15,992)	6,643
Cash and investment fund balance - beginning	64,000	170,332	6,385	184,927	275	15,993	8,633
Cash and investment fund balance - ending	<u>\$ 26,314</u>	<u>\$ 147,748</u>	<u>\$ 10,392</u>	<u>\$ (44,118)</u>	<u>\$ 275</u>	<u>\$ 1</u>	<u>\$ 15,276</u>
Cash and Investment Assets - December 31							
Cash and investments	\$ -	\$ -	\$ -	\$ (44,118)	\$ -	\$ -	\$ -
Restricted assets:							
Cash and investments	26,314	147,748	10,392	-	275	1	15,276
Total cash and investment assets - December 31	\$ 26,314	\$ 147,748	\$ 10,392	\$ (44,118)	\$ 275	\$ 1	\$ 15,276
Cash and Investment Fund Balance - December 31							
Restricted for:							
Public safety	\$ -	\$ -	\$ 10,392	\$ -	\$ 275	\$ 1	\$ 15,276
Highways and streets	26,314	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-
Culture and recreation	-	147,748	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Other purposes	-	-	-	-	-	-	-
Unrestricted	-	-	-	(44,118)	-	-	-
Total cash and investment fund balance - December 31	\$ 26,314	\$ 147,748	\$ 10,392	\$ (44,118)	\$ 275	\$ 1	\$ 15,276

CITY OF MARTINSVILLE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2006
 (Continued)

	Food and Beverage	Operation Pullover	Pretrial Diversion	Court User's Fees	Auditor's Court Costs	Record Perpetuation	Parking Control
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	284,783	3,300	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	146,100	8,643	73,324	11,241	-
Other	-	-	-	-	-	-	-
Total receipts	<u>284,783</u>	<u>3,300</u>	<u>146,100</u>	<u>8,643</u>	<u>73,324</u>	<u>11,241</u>	<u>-</u>
Disbursements:							
General government	133,936	-	-	-	-	-	-
Public safety	-	3,304	110,196	9,222	73,324	-	-
Highways and streets	-	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Total disbursements	<u>133,936</u>	<u>3,304</u>	<u>110,196</u>	<u>9,222</u>	<u>73,324</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>150,847</u>	<u>(4)</u>	<u>35,904</u>	<u>(579)</u>	<u>-</u>	<u>11,241</u>	<u>-</u>
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>150,847</u>	<u>(4)</u>	<u>35,904</u>	<u>(579)</u>	<u>-</u>	<u>11,241</u>	<u>-</u>
Cash and investment fund balance - beginning	<u>64,388</u>	<u>13</u>	<u>92,509</u>	<u>36,289</u>	<u>-</u>	<u>53,389</u>	<u>17,232</u>
Cash and investment fund balance - ending	<u>\$ 215,235</u>	<u>\$ 9</u>	<u>\$ 128,413</u>	<u>\$ 35,710</u>	<u>\$ -</u>	<u>\$ 64,630</u>	<u>\$ 17,232</u>
<u>Cash and Investment Assets - December 31</u>							
Cash and investments	\$ 215,235	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:							
Cash and investments	-	9	128,413	35,710	-	64,630	17,232
Total cash and investment assets - December 31	<u>\$ 215,235</u>	<u>\$ 9</u>	<u>\$ 128,413</u>	<u>\$ 35,710</u>	<u>\$ -</u>	<u>\$ 64,630</u>	<u>\$ 17,232</u>
<u>Cash and Investment Fund Balance - December 31</u>							
Restricted for:							
Public safety	\$ -	\$ 9	\$ 128,413	\$ 35,710	\$ -	\$ -	\$ 17,232
Highways and streets	-	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-
Other purposes	-	-	-	-	-	64,630	-
Unrestricted	<u>215,235</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash and investment fund balance - December 31	<u>\$ 215,235</u>	<u>\$ 9</u>	<u>\$ 128,413</u>	<u>\$ 35,710</u>	<u>\$ -</u>	<u>\$ 64,630</u>	<u>\$ 17,232</u>

CITY OF MARTINSVILLE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2006
 (Continued)

	Police Camera	Recording Fees	Planning and Zoning	Fire Hydrant Maintenance	Police Grant	Law Enforcement Block Grant
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	11,625	-	-	-
Intergovernmental	-	-	-	-	-	18,158
Charges for services	-	-	-	4,650	-	-
Fines and forfeits	-	-	-	-	-	-
Other	-	-	-	1,116	-	-
Total receipts	-	-	11,625	5,766	-	18,158
Disbursements:						
General government	-	-	2	-	-	-
Public safety	-	-	-	17,673	1,258	23,153
Highways and streets	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total disbursements	-	-	2	17,673	1,258	23,153
Excess (deficiency) of receipts over disbursements	-	-	11,623	(11,907)	(1,258)	(4,995)
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	-	11,623	(11,907)	(1,258)	(4,995)
Cash and investment fund balance - beginning	1,500	126	106,564	18,318	1,728	3,742
Cash and investment fund balance - ending	<u>\$ 1,500</u>	<u>\$ 126</u>	<u>\$ 118,187</u>	<u>\$ 6,411</u>	<u>\$ 470</u>	<u>\$ (1,253)</u>
Cash and Investment Assets - December 31						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and investments	1,500	126	118,187	6,411	470	(1,253)
Total cash and investment assets - December 31	<u>\$ 1,500</u>	<u>\$ 126</u>	<u>\$ 118,187</u>	<u>\$ 6,411</u>	<u>\$ 470</u>	<u>\$ (1,253)</u>
Cash and Investment Fund Balance - December 31						
Restricted for:						
Public safety	\$ 1,500	\$ -	\$ -	\$ -	\$ 470	\$ -
Highways and streets	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Economic development	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Other purposes	-	126	118,187	6,411	-	-
Unrestricted	-	-	-	-	-	(1,253)
Total cash and investment fund balance - December 31	<u>\$ 1,500</u>	<u>\$ 126</u>	<u>\$ 118,187</u>	<u>\$ 6,411</u>	<u>\$ 470</u>	<u>\$ (1,253)</u>

CITY OF MARTINSVILLE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2006
 (Continued)

	DARE	Criminal Justice	Bail Bond Administration Fee	Judicial Salaries Fees	Industrial Park	Environmental Project
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	27,418	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	1,760	16,903	-	-
Other	3,725	-	-	-	-	-
Total receipts	3,725	27,418	1,760	16,903	-	-
Disbursements:						
General government	-	-	-	-	-	-
Public safety	2,954	22,318	-	-	-	-
Highways and streets	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total disbursements	2,954	22,318	-	-	-	-
Excess (deficiency) of receipts over disbursements	771	5,100	1,760	16,903	-	-
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	-	(4,000)	-	-	-	-
Total other financing sources (uses)	-	(4,000)	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	771	1,100	1,760	16,903	-	-
Cash and investment fund balance - beginning	2,024	2,764	660	5,854	40,397	1,146
Cash and investment fund balance - ending	<u>\$ 2,795</u>	<u>\$ 3,864</u>	<u>\$ 2,420</u>	<u>\$ 22,757</u>	<u>\$ 40,397</u>	<u>\$ 1,146</u>
Cash and Investment Assets - December 31						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and investments	2,795	3,864	2,420	22,757	40,397	1,146
Total cash and investment assets - December 31	<u>\$ 2,795</u>	<u>\$ 3,864</u>	<u>\$ 2,420</u>	<u>\$ 22,757</u>	<u>\$ 40,397</u>	<u>\$ 1,146</u>
Cash and Investment Fund Balance - December 31						
Restricted for:						
Public safety	\$ 2,795	\$ 3,864	\$ 2,420	\$ 22,757	\$ -	\$ -
Highways and streets	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Economic development	-	-	-	-	-	1,146
Culture and recreation	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Other purposes	-	-	-	-	40,397	-
Unrestricted	-	-	-	-	-	-
Total cash and investment fund balance - December 31	<u>\$ 2,795</u>	<u>\$ 3,864</u>	<u>\$ 2,420</u>	<u>\$ 22,757</u>	<u>\$ 40,397</u>	<u>\$ 1,146</u>

CITY OF MARTINSVILLE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2006
 (Continued)

	Downtown Renovation	Speed Grant	Historical Preservation Education	Police Drug Acquisition	Wellspring Grant	Transfer Station
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	36,541	30,600	-
Charges for services	-	-	-	-	-	338,505
Fines and forfeits	-	-	-	-	-	-
Other	-	-	3,800	15	-	290
Total receipts	-	-	3,800	36,556	30,600	338,795
Disbursements:						
General government	-	-	-	-	30,600	-
Public safety	-	1,713	-	22,568	-	-
Highways and streets	-	-	-	-	-	-
Sanitation	-	-	-	-	-	376,775
Culture and recreation	-	-	100	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total disbursements	-	1,713	100	22,568	30,600	376,775
Excess (deficiency) of receipts over disbursements	-	(1,713)	3,700	13,988	-	(37,980)
Other financing sources (uses):						
Transfers in	-	4,000	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	4,000	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	2,287	3,700	13,988	-	(37,980)
Cash and investment fund balance - beginning	1,300	-	-	-	-	198,853
Cash and investment fund balance - ending	<u>\$ 1,300</u>	<u>\$ 2,287</u>	<u>\$ 3,700</u>	<u>\$ 13,988</u>	<u>\$ -</u>	<u>\$ 160,873</u>
Cash and Investment Assets - December 31						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and investments	1,300	2,287	3,700	13,988	-	160,873
Total cash and investment assets - December 31	<u>\$ 1,300</u>	<u>\$ 2,287</u>	<u>\$ 3,700</u>	<u>\$ 13,988</u>	<u>\$ -</u>	<u>\$ 160,873</u>
Cash and Investment Fund Balance - December 31						
Restricted for:						
Public safety	\$ -	\$ 2,287	\$ -	\$ 13,988	\$ -	\$ -
Highways and streets	-	-	-	-	-	-
Sanitation	-	-	-	-	-	160,873
Economic development	1,300	-	3,700	-	-	-
Culture and recreation	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Other purposes	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-
Total cash and investment fund balance - December 31	<u>\$ 1,300</u>	<u>\$ 2,287</u>	<u>\$ 3,700</u>	<u>\$ 13,988</u>	<u>\$ -</u>	<u>\$ 160,873</u>

CITY OF MARTINSVILLE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2006
 (Continued)

	Park Bond	Tri-Glass Escrow	Cumulative Capital Improvement	Cumulative Capital Development	City Park Cumulative Capital	Totals
Receipts:						
Taxes	\$ 140,658	\$ -	\$ 134,580	\$ -	\$ -	\$ 599,518
Licenses and permits	-	-	-	-	-	14,721
Intergovernmental	2,286	-	20,523	729	-	711,928
Charges for services	-	-	-	-	-	464,816
Fines and forfeits	-	-	-	-	-	257,971
Other	259	2,007	-	-	-	58,008
Total receipts	143,203	2,007	155,103	729	-	2,106,962
Disbursements:						
General government	-	-	-	-	-	467,196
Public safety	-	-	-	160,779	-	498,029
Highways and streets	-	-	-	-	-	247,505
Sanitation	-	-	-	-	-	376,775
Culture and recreation	-	-	-	-	-	478,450
Debt service:						
Principal	120,000	-	-	-	-	120,000
Interest	12,655	-	-	-	-	12,655
Total disbursements	132,655	-	-	160,779	-	2,200,610
Excess (deficiency) of receipts over disbursements	10,548	2,007	155,103	(160,050)	-	(93,648)
Other financing sources (uses):						
Transfers in	-	-	-	-	-	4,000
Transfers out	-	-	-	-	-	(4,000)
Total other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	10,548	2,007	155,103	(160,050)	-	(93,648)
Cash and investment fund balance - beginning	17,560	-	21,931	193,887	496	1,333,215
Cash and investment fund balance - ending	\$ 28,108	\$ 2,007	\$ 177,034	\$ 33,837	\$ 496	\$ 1,239,567
Cash and Investment Assets - December 31						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 171,117
Restricted assets:						
Cash and investments	28,108	2,007	177,034	33,837	496	1,068,450
Total cash and investment assets - December 31	\$ 28,108	\$ 2,007	\$ 177,034	\$ 33,837	\$ 496	\$ 1,239,567
Cash and Investment Fund Balance - December 31						
Restricted for:						
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 257,389
Highways and streets	-	-	-	-	-	26,314
Sanitation	-	-	-	-	-	160,873
Economic development	-	-	-	-	-	6,146
Culture and recreation	-	-	-	-	496	148,244
Debt service	28,108	-	-	-	-	28,108
Other purposes	-	2,007	177,034	33,837	-	442,629
Unrestricted	-	-	-	-	-	169,864
Total cash and investment fund balance - December 31	\$ 28,108	\$ 2,007	\$ 177,034	\$ 33,837	\$ 496	\$ 1,239,567

CITY OF MARTINSVILLE
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 PENSION TRUST FUNDS
 For The Year Ended December 31, 2006

	<u>Police Pension</u>	<u>Fire Pension</u>	<u>Totals</u>
Additions:			
Contributions:			
Employer	\$ 93,648	\$ 95,395	\$ 189,043
Plan members	4,364	2,178	6,542
State	<u>81,348</u>	<u>91,227</u>	<u>172,575</u>
Total contributions	<u>179,360</u>	<u>188,800</u>	<u>368,160</u>
Deductions:			
Benefits	<u>162,540</u>	<u>181,185</u>	<u>343,725</u>
Excess of total additions over total deductions	16,820	7,615	24,435
Cash and investment fund balance - beginning	<u>101,858</u>	<u>67,809</u>	<u>169,667</u>
Cash and investment fund balance - ending	<u>\$ 118,678</u>	<u>\$ 75,424</u>	<u>\$ 194,102</u>

CITY OF MARTINSVILLE
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For The Year Ended December 31, 2006

	<u>City Court</u>	<u>Payroll</u>	<u>Totals</u>
Additions:			
Agency fund additions	\$ 784,542	\$ 4,843,575	\$ 5,628,117
Deductions:			
Agency fund deductions	<u>785,676</u>	<u>4,837,625</u>	<u>5,623,301</u>
Excess (deficiency) of total additions over total deductions	(1,134)	5,950	4,816
Cash and investment fund balance - beginning	<u>44,348</u>	<u>71,237</u>	<u>115,585</u>
Cash and investment fund balance - ending	<u>\$ 43,214</u>	<u>\$ 77,187</u>	<u>\$ 120,401</u>

CITY OF MARTINSVILLE
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

For The Year Ended December 31, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Fire Truck	\$ 265,047	\$ 54,227
Bonds payable:		
General obligation bonds:		
Pool Improvements	125,000	125,000
Total governmental activities long-term debt	\$ 390,047	\$ 179,227
Business-type Activities:		
Water Utility		
Revenue bonds:		
Water Works Refunding Bonds of 2004	960,000	110,000
Water Works Bond Anticipation Note of 2006	2,590,000	-
Total Water Utility	3,550,000	110,000
Wastewater Utility		
Revenue bonds:		
Sewage Works Refunding Bonds of 2004	900,000	85,000
Sewage Works Bonds of 2004	2,510,000	40,000
SRF Loan of 2005	588,080	21,080
Total Wastewater Utility	3,998,080	146,080
Total business-type activities long-term debt:	\$ 7,548,080	\$ 256,080

The wastewater utility has made loan agreements with the State of Indiana through its revolving loan program to finance various construction projects. The funds are loaned as the construction costs are incurred.

The agreements provide for maximum loans of \$8,100,000. As of December 31, 2006, the loan principal balances were \$5,864,583.

Annual debt service requirements for the uncompleted loans will not be established until the construction projects are completed.

CITY OF MARTINSVILLE
AUDIT RESULTS AND COMMENTS

ERRORS ON ANNUAL REPORT

The City and Town's Annual Report (CTAR) was not accurately completed and did not include all city funds.

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," . . . In cooperation with the Bureau of Census, United States Department of Commerce, United States Department of the Treasury and the 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)

CITY OF MARTINSVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

DEPOSITS

We noted several instances where receipts were not deposited by the following business day.

Indiana Code 5-13-6-1(d) states: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an ordinance adopted by the city or the town; and (2) approved as depositories of state funds."

ACCOUNTS RECEIVABLE

The Aged Trial Balance report for both the Water and the Wastewater Utilities did not agree with the ledger balance of Accounts Receivable at December 31, 2006. A similar comment for 2005 was included in prior Report B29189.

We noted that, from February to December 2006, the incorrect amount for receipts was posted to the ledger for the Wastewater Utility. The amount posted to the Wastewater ledger 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)

CAPITAL ASSET RECORDS

As stated in prior Reports B24380, B26264 and B29189, the Water Utility and Wastewater Utilities 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 utility's capital assets are not available, and records classifying and summarizing the utility's capital assets are incomplete. Deletions or disposals of capital assets are not recorded. The City does not maintain any capital asset records.

The City contracted with TM Valuation Services to compile a complete capital asset listing for the City and the Utilities. TM Valuation Services had not completed the capital asset listing as of December 31, 2006.

Every governmental unit should have a complete inventory of all capital assets owned which reflects 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)

CITY OF MARTINSVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

OLD OUTSTANDING CHECKS (WARRANTS)

Our review of the bank reconciliations as of December 31, 2006, revealed checks outstanding in excess of two years. Those outstanding included checks issued between the years 1998 and 2003.

Indiana Code 5-11-10.5-2 states in part: "All warrants or checks drawn upon public funds of a political subdivision that are outstanding and unpaid for a period of two (2) or more years as of the last day of December of each year are void."

Indiana Code 5-11-10.5-3 states in part: "Not later than March 1 of each year, the treasurer of each political subdivision shall prepare or cause to be prepared a list in triplicate of all warrants or checks that have been outstanding for a period of two (2) or more years as of December 31 of the preceding year. The original copy of each list shall be filed with the board of finance of the political subdivision or the fiscal body of a city or town. The duplicate copy shall be transmitted to the disbursing officer of the political subdivision. The triplicate copy of each list shall be filed in the office of the treasurer of the political subdivision. If the treasurer serves also as the disbursing officer of the political subdivision, only two (2) copies of each list need be prepared or caused to be prepared by the treasurer."

Indiana Code 5-11-10.5-5 states:

"(a) Upon the preparation and transmission of the copies of the list of the outstanding warrants or checks, the treasurer of the political subdivision shall enter the amounts so listed as a receipt into the fund or funds from which they were originally drawn and shall also remove the warrants or checks from the record of outstanding warrants or checks.

(b) If the disbursing officer does not serve also as treasurer of the political subdivision, the disbursing officer shall also enter the amounts so listed as a receipt into the fund or funds from which the warrants or checks were originally drawn. If the fund from which the warrant or check was originally drawn is not in existence, or cannot be ascertained, the amount of the outstanding warrant or check shall be receipted into the general fund of the political subdivision."

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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 AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the City of Martinsville (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2006. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

A control deficiency in a City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

This report is intended solely for the information and use of the City's management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

August 21, 2007

CITY OF MARTINSVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2006

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Pass-Through Indiana Office of Community and Rural Affairs Community Development Block Grants/State's Program Wellspring Grant	14.228	N/A	\$ <u>30,600</u>
Total for federal grantor agency			<u>30,600</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Criminal Justice Institute Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants Operation Pullover	20.601	N/A	4,400
Fatality Crash Reduction Effort		N/A	<u>26,318</u>
Total for program			<u>30,718</u>
Total for federal grantor agency			<u>30,718</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-Through Indiana Department of Environmental Management Capitalization Grants for Clean Water State Revolving Funds State Revolving Fund Loan 2005 Series	66.458	N/A	68,102
State Revolving Fund Loan 2006 Series		N/A	<u>2,582,745</u>
Total for program			<u>2,650,847</u>
Total for federal grantor agency			<u>2,650,847</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Pass-Through Indiana Department of Homeland Security Homeland Security Grant Program Hurricane Disaster Relief	97.067	N/A	<u>16,126</u>
Total for federal grantor agency			<u>16,126</u>
Total federal awards expended			<u>\$ 2,728,291</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF MARTINSVILLE
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Martinsville (City) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CITY OF MARTINSVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

CITY OF MARTINSVILLE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

CITY OF MARTINSVILLE
EXIT CONFERENCE

The contents of this report were discussed on November 8, 2007, with Shannon L. Buskirk, Mayor; Mary Lou Peden, Clerk-Treasurer; Mindy Martlage, Utility Office Manager; and Diane Selch, Utility Clerk. The officials concurred with our audit findings.