

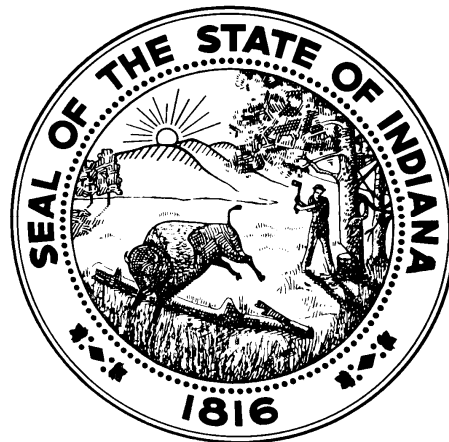
STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

ANNUAL FINANCIAL REPORT

2008

CITY OF MARTINSVILLE

MORGAN COUNTY, INDIANA



FILED
11/18/2009

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Mary Lou Peden	01-01-08 to 12-31-11
Mayor	Phil R. Deckard	01-01-08 to 12-31-11
President of the Board of Public Works	Phil R. Deckard	01-01-08 to 12-31-11
President of the Common Council	Gary Lester	01-01-08 to 12-31-09
Superintendent of Utilities	Kevin Broyer	01-01-08 to 12-31-09
Utility Office Manager	Mary Malone	01-01-08 to 12-31-09



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 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, 2008, 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, 2008, 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 12, 2009, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of

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

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.

The Schedules of Funding Progress, Schedules 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, Schedule of Capital Assets, 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 Capital Assets and Schedule of Long-Term Debt have 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 them.

STATE BOARD OF ACCOUNTS

August 12, 2009



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

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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 12, 2009. 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.

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.

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)

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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the City's management, the Mayor, the Common Council and the Board of Public Works, 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 12, 2009

CITY OF MARTINSVILLE
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2008

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Primary government:							
Governmental activities:							
General government	\$ 2,165,333	\$ 111,659	\$ -	\$ -	\$ (2,053,674)	\$ -	\$ (2,053,674)
Public safety	4,710,358	-	3,268	-	(4,707,090)	-	(4,707,090)
Highways and streets	1,747,711	-	434,899	-	(1,312,812)	-	(1,312,812)
Sanitation	404,811	39,014	-	-	(365,797)	-	(365,797)
Health and welfare	-	9,854	-	-	9,854	-	9,854
Economic development	324,891	-	-	-	(324,891)	-	(324,891)
Culture and recreation	432,273	71,792	-	-	(360,481)	-	(360,481)
Total governmental activities	9,785,377	232,319	438,167	-	(9,114,891)	-	(9,114,891)
Business-type activities:							
Martinsville Water	2,157,428	1,723,641	21,395	481,092	-	68,700	68,700
Martinsville Wastewater	3,792,530	2,539,922	174,405	-	-	(1,078,203)	(1,078,203)
Total business-type activities	5,949,958	4,263,563	195,800	481,092	-	(1,009,503)	(1,009,503)
Total primary government	\$ 15,735,335	\$ 4,495,882	\$ 633,967	\$ 481,092	(9,114,891)	(1,009,503)	(10,124,394)
General receipts:							
Property taxes					4,279,930	-	4,279,930
Intergovernmental					6,007,633	-	6,007,633
Other local sources					768,687	354,833	1,123,520
Grants and contributions not restricted to specific programs					13,511	-	13,511
Investment earnings					57,275	18,225	75,500
Total general receipts, special items, and transfers					11,127,036	373,058	11,500,094
Change in net assets					2,012,145	(636,445)	1,375,700
Net assets - beginning					4,378,059	2,528,463	6,906,522
Net assets - ending					\$ 6,390,204	\$ 1,892,018	\$ 8,282,222
Assets							
Cash and investments					\$ 3,396,589	\$ 701,264	\$ 4,097,853
Restricted assets:							
Cash and investments					2,993,615	1,190,754	4,184,369
Total assets					\$ 6,390,204	\$ 1,892,018	\$ 8,282,222
Net Assets							
Restricted for:							
Public safety					\$ 326,180	\$ -	\$ 326,180
Highways and streets					1,124,765	-	1,124,765
Health and welfare					95,985	-	95,985
Culture and recreation					794,934	-	794,934
Debt service					844	123,400	124,244
Capital outlay					446,762	-	446,762
Other purposes					204,145	1,067,354	1,271,499
Unrestricted					3,396,589	701,264	4,097,853
Total net assets					\$ 6,390,204	\$ 1,892,018	\$ 8,282,222

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, 2008

	General	Motor Vehicle Highway	Food And Beverage	Loit Public Safety	County Economic Development Income Tax	Other Governmental Funds	Totals
Receipts:							
Taxes	\$ 2,505,060	\$ 1,253,557	\$ -	\$ -	\$ -	\$ 521,313	\$ 4,279,930
Licenses and permits	23,389	-	-	-	-	13,380	36,769
Intergovernmental	2,358,395	495,091	1,158,331	824,258	515,129	656,429	6,007,633
Charges for services	107,103	-	-	-	-	420,651	527,754
Fines and forfeits	111,198	-	-	-	-	321,883	433,081
Interfund loans	800,000	300,000	-	-	-	138,000	1,238,000
Other	269,067	166,744	-	-	12,978	28,045	476,834
Total receipts	6,174,212	2,215,392	1,158,331	824,258	528,107	2,099,701	13,000,001
Disbursements:							
General government	1,144,303	-	-	-	-	1,021,030	2,165,333
Public safety	3,917,347	-	-	77,054	-	40,160	4,034,561
Highways and streets	-	1,747,711	-	-	-	-	1,747,711
Sanitation	404,811	-	-	-	-	-	404,811
Culture and recreation	-	-	-	-	-	432,273	432,273
Interfund loans	-	-	550,000	-	550,000	138,000	1,238,000
Capital outlay:							
Public safety	-	-	609,797	-	-	66,000	675,797
Economic development	-	-	-	-	324,891	-	324,891
Total disbursements	5,466,461	1,747,711	1,159,797	77,054	874,891	1,697,463	11,023,377
Excess (deficiency) of receipts over disbursements	707,751	467,681	(1,466)	747,204	(346,784)	402,238	1,976,624
Other financing sources (uses):							
Transfers in	-	-	-	-	-	365,136	365,136
Transfers out	-	-	(365,136)	-	-	-	(365,136)
Total other financing sources (uses)	-	-	(365,136)	-	-	365,136	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	707,751	467,681	(366,602)	747,204	(346,784)	767,374	1,976,624
Cash and investment fund balance - beginning	1,005,592	471,325	521,998	-	878,026	1,332,494	4,209,435
Cash and investment fund balance - ending	\$ 1,713,343	\$ 939,006	\$ 155,396	\$ 747,204	\$ 531,242	\$ 2,099,868	6,186,059
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.							
							204,145
Net assets of governmental activities							\$ 6,390,204
Cash and Investment Assets - Ending							
Cash and investments	\$ 1,713,343	\$ -	\$ 155,396	\$ -	\$ -	\$ 638,892	\$ 2,507,631
Restricted assets:							
Cash and investments	-	939,006	-	747,204	531,242	1,460,976	3,678,428
Total cash and investment assets - ending	\$ 1,713,343	\$ 939,006	\$ 155,396	\$ 747,204	\$ 531,242	\$ 2,099,868	\$ 6,186,059
Cash and Investment Fund Balance - Ending							
Restricted for:							
Public safety	\$ -	\$ -	\$ -	\$ 747,204	\$ -	\$ 324,669	\$ 1,071,873
Highways and streets	-	939,006	-	-	-	185,760	1,124,766
Health and welfare	-	-	-	-	-	95,985	95,985
Culture and recreation	-	-	-	-	-	205,174	205,174
Capital outlay	-	-	-	-	531,242	446,762	978,004
Other purposes	-	-	-	-	-	592,115	592,115
Unrestricted	1,713,343	-	155,396	-	-	249,403	2,118,142
Total cash and investment fund balance - ending	\$ 1,713,343	\$ 939,006	\$ 155,396	\$ 747,204	\$ 531,242	\$ 2,099,868	\$ 6,186,059

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, 2008

	Water Utility	Wastewater Utility	Totals	Internal Service Funds
Operating receipts:				
Water customer receipts	\$ 1,662,625	\$ -	\$ 1,662,625	\$ -
Wastewater customer receipts	-	2,539,922	2,539,922	-
Charges for services	61,016	-	61,016	-
Miscellaneous	26,125	253,809	279,934	1,481,814
Total operating receipts	1,749,766	2,793,731	4,543,497	1,481,814
Operating disbursements:				
Salaries and wages	336,369	544,291	880,660	-
Employee pensions and benefits	176,515	117,629	294,144	-
Utility expense	17,953	140,009	157,962	-
Chemicals	17,152	2,492	19,644	-
Material and supplies	162,600	100,198	262,798	-
Contractual services	698,277	1,507,931	2,206,208	-
Insurance claims and expense	22,022	139,090	161,112	1,446,293
Refunds	1,600	869	2,469	-
Miscellaneous	113,727	-	113,727	-
Total operating disbursements	1,546,215	2,552,509	4,098,724	1,446,293
Excess of operating receipts over operating disbursements	203,551	241,222	444,773	35,521
Nonoperating receipts (disbursements):				
Debt service	(585,319)	(886,083)	(1,471,402)	-
Investment income	340	17,885	18,225	-
Customer deposit receipts	28,700	-	28,700	-
Customer deposit disbursements	(25,894)	-	(25,894)	-
Grant reimbursements	502,487	174,405	676,892	-
Refunds	-	27,261	27,261	-
Escrow receipts	-	18,938	18,938	-
Escrow disbursements	-	(353,938)	(353,938)	-
Interfund loan receipts	-	138,000	138,000	-
Interfund loan repayments	-	(138,000)	(138,000)	-
Total nonoperating receipts (disbursements)	(79,686)	(1,001,532)	(1,081,218)	-
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	123,865	(760,310)	(636,445)	35,521
Cash and investment fund balance - beginning	310,221	2,218,242	2,528,463	168,624
Cash and investment fund balance - ending	<u>\$ 434,086</u>	<u>\$ 1,457,932</u>	<u>\$ 1,892,018</u>	<u>\$ 204,145</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ 93,890	\$ 607,374	\$ 701,264	\$ -
Restricted assets:				
Cash and investments	340,196	850,558	1,190,754	204,145
Total cash and investment assets - December 31	<u>\$ 434,086</u>	<u>\$ 1,457,932</u>	<u>\$ 1,892,018</u>	<u>\$ 204,145</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Debt service	\$ 16,438	\$ 106,962	\$ 123,400	\$ -
Other purposes	323,758	743,596	1,067,354	204,145
Unrestricted	93,890	607,374	701,264	-
Total cash and investment fund balance - December 31	<u>\$ 434,086</u>	<u>\$ 1,457,932</u>	<u>\$ 1,892,018</u>	<u>\$ 204,145</u>

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, 2008

	Pension Trust Funds	Agency Funds
Additions:		
Contributions:		
Employer	\$ 381,935	
Deductions:		
Benefits	<u>387,604</u>	
Deficiency of total additions over total deductions	(5,669)	
Cash and investment fund balance - beginning	<u>207,312</u>	
Cash and investment fund balance - ending	<u>\$ 201,643</u>	<u>\$ 792,081</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.

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14 and 39, *The Financial Reporting Entity*. 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, 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 food and beverage fund is used to construct, improve, or renovate city owned capital assets.

The LOIT public safety fund is funded by property taxes and is used for public safety (police and fire) related expenditures.

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

CITY OF MARTINSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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.

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.

CITY OF MARTINSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the City in June and in 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.

3. 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.

4. 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.

5. 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."

CITY OF MARTINSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds and the similar discretely presented component unit 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:

CITY OF MARTINSVILLE
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

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 government-wide 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.

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, 2008, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines and state statute:

Fund	2008
Block Law Enforcement Grant	\$ <u>1,253</u>

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.

CITY OF MARTINSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

III. Detailed Notes on All Funds

Deposits and Investments

A. 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 City does not have a deposit policy for custodial credit risk. At December 31, 2008, the City had deposit balances in the amount of \$9,278,043.

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.

B. Investments

As of December 31, 2008, the City had the following investments:

Investment Type	Primary Government Market Value
Repurchase agreements	\$ 7,608,864

Statutory Authorization for Investments

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

CITY OF MARTINSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy for custodial credit risk for investments.

The following investments held by the City were exposed to custodial credit risks because they are uninsured and unregistered with securities held by the counterparty, or the counterparty's trust department or agent, either in the government's name or not in the government's name:

Primary Government:

Investment Type	2008	
	In the Government's Name	Not in the Government's Name
Repurchase agreements	\$ 7,608,864	\$ -

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City must follow state statute and limit the stated final maturities of the investments to no more than two years. The City does not have a formal investment policy for interest rate risk for investments.

Investment Type	Investment Maturities (in Years)		
	Less Than 1	1-2	More Than 2
Repurchase agreements	\$ 7,608,864	-	-

CITY OF MARTINSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The distribution of securities with credit ratings is summarized below. The City does not have a formal investment policy for credit risk for investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement. The City does not have any investments subject to credit risk.

Foreign Currency Risk

The City does not have a formal policy in regards to foreign currency risk. The City does not have any investments subject to foreign currency risk.

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.

Medical Benefits to Employees, Retirees and Dependents

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 \$35,000 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 inter-fund transactions.

Job Related Illness or Injuries to Employees

During 1992, the City joined together with 724 other governmental entities in 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

CITY OF MARTINSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. Holding Corporation

The City has entered into a capital lease with the City of Martinsville Government Facility Holding Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the City. The lessor has been determined to be a related party of the City. Lease payments to the lessor are scheduled to commence July 15, 2009.

C. Subsequent Events

Beginning in 2009, the State Pension Relief Fund shall pay to each unit of local government with Pre-1977 Local Police and Fire Fighter Pension obligations, the total amount of pension, disability, and survivor benefit payments. The Pre-1977 funds include the 1925 Police Pension Fund, the 1937 Firefighters' Fund, and the 1953 Police Pension Fund. For property taxes due and payable after December 31, 2008, the Department of Local Government Finance shall reduce the maximum permissible property tax levy of any civil taxing unit and special service district by the amount of the payment to be made in 2009 by the State for the obligations.

D. Other Postemployment Benefits

Single-Employer Defined Benefit Healthcare Plan

Plan Description

The City of Martinsville Healthcare Plan is a single-employer defined benefit healthcare plan administered by the Donley Company. The plan provides medical, dental, vision, and prescription to eligible retirees and their spouses. IC 5-10-8-2.6 assigns the authority to establish and amend benefit provisions to the City.

Funding Policy

The contribution requirements of plan members for the Martinsville Healthcare Plan are established by the City's Common Council. The required contribution is based on projected pay-as-you-go financing requirements.

The amount a retiree is required to pay for coverage for themselves is based on the following:

Non-Union Employees

Employees with 20 or more years of service pay the same amount active employees pay for single coverage.

Employees with 15 to 20 years of service pay the active employee rate plus 25% of the rate the City pays for single coverage.

Employees with 10 to 15 years of service pay the active employee rate plus 50% of the rate for single coverage.

CITY OF MARTINSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Coverage for dependents is calculated at 100% of the rate the City pays for single coverage.

Union Employees:

If the employee is covered under the collective bargaining agreement between the City and Teamsters Local Union are subject to the terms of the agreement that is in force between the City and the Union at the time of retirement. All retirees of the City receiving other post employment benefits are nonunion.

The contribution requirements of plan members for the Martinsville Healthcare Plan are established by the City's Common Council. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2008, the City contribution to the plan cannot be determined. Plan members receiving benefits contributed \$16,873 through their required contribution of \$85.80 for retiree-only coverage and \$805.00 for spouse coverage, which approximates all or substantially all of the total premiums of the plan.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) expense has not been calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The City has not engaged an actuary to perform an actuarial valuation of the plan.

Funded Status and Funding Progress

As of December 31, 2008, the plan was not funded and is on a pay-as-you-go basis. An actuarial valuation has not been performed; consequently, the unfunded actuarial accrued liability for benefits is unknown. The covered payroll (annual payroll of active employees covered by the plan) was \$4,637,134.

E. Rate Structure – Enterprise Funds

Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on June 20, 2007.

Wastewater Utility

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

F. 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.

CITY OF MARTINSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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.

CITY OF MARTINSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

	<u>PERF</u>	<u>1925 Police Officers' Pension</u>	<u>1937 Firefighters' Pension</u>
Annual required contribution	\$ 136,147	\$ 268,300	\$ 248,700
Interest on net pension obligation	(11,413)	44,600	37,000
Adjustment to annual required contribution	<u>13,006</u>	<u>(56,300)</u>	<u>(46,700)</u>
Annual pension cost	137,740	256,600	239,000
Contributions made	<u>137,678</u>	<u>180,153</u>	<u>201,782</u>
Increase in net pension obligation	62	76,447	37,218
Net pension obligation, beginning of year	<u>157,420</u>	<u>743,609</u>	<u>616,485</u>
Net pension obligation, end of year	<u>\$ 157,482</u>	<u>\$ 820,056</u>	<u>\$ 653,703</u>

CITY OF MARTINSVILLE
NOTES TO FINANCIAL STATEMENTS
(Continued)

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Contribution rates:			
City	6.75%	326%	604%
Plan members	3%	6%	6%
Actuarial valuation date	07-01-08	01-01-08	01-01-08
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of projected payroll, closed 30 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

<u>Actuarial Assumptions</u>	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
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	06-30-06	\$ 100,568	111%	\$ (149,669)
	06-30-07	116,585	107%	(157,420)
	06-30-08	137,740	100%	(157,358)
1925 Police Officers' Pension Plan	12-31-06	250,100	72%	656,870
	12-31-07	252,400	67%	743,609
	12-31-08	256,600	70%	820,056
1937 Firefighters' Pension Plan	12-31-06	236,300	80%	565,230
	12-31-07	239,700	79%	616,485
	12-31-08	239,000	84%	653,703

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, 2008, was comprised of the following:

	1925 Police Officers' Pension	1937 Firefighters' Pension
Retirees and beneficiaries currently receiving benefits	9	8
Current active employees	1	1

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

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, 2008, 2007, and 2006, were \$309,742, \$239,789, and \$278,612, 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)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-06	\$ 1,575,601	\$ 1,749,195	\$ (173,594)	90%	\$ 1,781,854	(10%)
07-01-07	1,787,025	2,022,049	(235,024)	88%	2,008,481	(12%)
07-01-08	1,875,131	2,345,708	(470,577)	80%	2,075,104	(23%)

1925 Police Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
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%)
01-01-07	118,676	3,249,000	(3,130,324)	4%	80,300	(3,898%)
01-01-08	119,481	3,292,400	(3,172,919)	4%	82,400	(3,851%)

1937 Firefighters' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
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%)
01-01-07	75,425	3,258,400	(3,182,975)	2%	40,200	(7,918%)
01-01-08	87,831	3,232,300	(3,144,469)	3%	41,200	(7,632%)

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

	Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	
			City	State
1925 Police Officers' Pension Plan	12-31-03	\$ 374,000	53%	0%
	12-31-04	393,400	26%	0%
	12-31-05	250,200	43%	2%
	12-31-06	258,100	67%	2%
	12-31-07	262,000	61%	3%
	12-31-08	268,300	63%	5%
1937 Firefighters' Pension Plan	12-31-03	338,400	49%	0%
	12-31-04	369,200	38%	0%
	12-31-05	233,800	44%	1%
	12-31-06	243,300	78%	2%
	12-31-07	247,900	72%	4%
	12-31-08	248,700	76%	6%

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, 2008

	Local Road and Street	Planning and Zoning	Law Enforcement Continuing Education	Riverboat	Speed Grant	Parks and Recreation	Fire Donation
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 393,199	\$ -
Licenses and permits	-	7,150	6,230	-	-	-	-
Intergovernmental	127,434	-	-	73,382	-	39,901	-
Charges for services	-	-	2,059	-	-	70,904	-
Fines and forfeits	-	-	1,505	-	-	-	-
Interfund loans	-	-	-	-	-	138,000	-
Other	-	274	-	-	-	25,926	600
Total receipts	127,434	7,424	9,794	73,382	-	667,930	600
Disbursements:							
General government	-	7,500	-	975	-	-	-
Public safety	-	-	23,252	-	-	-	-
Culture and recreation	-	-	-	-	-	432,273	-
Interfund loans	-	-	-	-	-	138,000	-
Capital outlay:							
Public safety	-	-	-	-	-	-	-
Total disbursements	-	7,500	23,252	975	-	570,273	-
Excess (deficiency) of receipts over disbursements	127,434	(76)	(13,458)	72,407	-	97,657	600
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	127,434	(76)	(13,458)	72,407	-	97,657	600
Cash and investment fund balance - beginning	58,326	126,422	27,655	29,647	2,287	106,354	1,001
Cash and investment fund balance - ending	<u>\$ 185,760</u>	<u>\$ 126,346</u>	<u>\$ 14,197</u>	<u>\$ 102,054</u>	<u>\$ 2,287</u>	<u>\$ 204,011</u>	<u>\$ 1,601</u>
Cash and Investment Assets - Ending							
Cash and investments	\$ -	\$ -	\$ -	\$ 102,054	\$ -	\$ -	\$ -
Restricted assets:							
Cash and investments	185,760	126,346	14,197	-	2,287	204,011	1,601
Total cash and investment assets - ending	\$ 185,760	\$ 126,346	\$ 14,197	\$ 102,054	\$ 2,287	\$ 204,011	\$ 1,601
Cash and Investment Fund Balance - Ending							
Restricted for:							
Public safety	\$ -	\$ -	\$ 14,197	\$ -	\$ 2,287	\$ -	\$ 1,601
Highways and streets	185,760	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	204,011	-
Capital outlay	-	-	-	-	-	-	-
Other purposes	-	126,346	-	-	-	-	-
Unrestricted	-	-	-	102,054	-	-	-
Total cash and investment fund balance - ending	\$ 185,760	\$ 126,346	\$ 14,197	\$ 102,054	\$ 2,287	\$ 204,011	\$ 1,601

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, 2008
 (Continued)

	Rainy Day	Tri-Glass Escrow	Dare	Criminal Justice-State	Operation Pullover	Reserve Police Grant	Block Law Enforcement Grant
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	370,346	-	-	-	3,268	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-
Other	-	14	-	-	-	-	-
Total receipts	370,346	14	-	-	3,268	-	-
Disbursements:							
General government	221,744	2,052	-	-	-	-	-
Public safety	-	-	3,031	-	3,868	-	-
Culture and recreation	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-
Capital outlay:							
Public safety	-	-	-	-	-	-	-
Total disbursements	221,744	2,052	3,031	-	3,868	-	-
Excess (deficiency) of receipts over disbursements	148,602	(2,038)	(3,031)	-	(600)	-	-
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	148,602	(2,038)	(3,031)	-	(600)	-	-
Cash and investment fund balance - beginning	-	2,038	3,031	2,764	830	385	(1,253)
Cash and investment fund balance - ending	<u>\$ 148,602</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,764</u>	<u>\$ 230</u>	<u>\$ 385</u>	<u>\$ (1,253)</u>
Cash and Investment Assets - Ending							
Cash and investments	\$ 148,602	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,253)
Restricted assets:							
Cash and investments	-	-	-	2,764	230	385	-
Total cash and investment assets - ending	<u>\$ 148,602</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,764</u>	<u>\$ 230</u>	<u>\$ 385</u>	<u>\$ (1,253)</u>
Cash and Investment Fund Balance - Ending							
Restricted for:							
Public safety	\$ -	\$ -	\$ -	\$ 2,764	\$ 230	\$ 385	\$ -
Highways and streets	-	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Other purposes	-	-	-	-	-	-	-
Unrestricted	148,602	-	-	-	-	-	(1,253)
Total cash and investment fund balance - ending	<u>\$ 148,602</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,764</u>	<u>\$ 230</u>	<u>\$ 385</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, 2008
 (Continued)

	Historical Preservation Grant	Parking Control	Record Perpetuation	Court User Fees	Pretrial Diversion	Police Camera
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	12,172	29,972	189,661	-
Interfund loans	-	-	-	-	-	-
Other	97	-	-	-	-	-
Total receipts	97	-	12,172	29,972	189,661	-
Disbursements:						
General government	-	-	-	42,900	163,471	-
Public safety	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-
Capital outlay:						
Public safety	-	-	-	-	-	-
Total disbursements	-	-	-	42,900	163,471	-
Excess (deficiency) of receipts over disbursements	97	-	12,172	(12,928)	26,190	-
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	97	-	12,172	(12,928)	26,190	-
Cash and investment fund balance - beginning	222	17,232	68,657	24,721	174,126	1,500
Cash and investment fund balance - ending	<u>\$ 319</u>	<u>\$ 17,232</u>	<u>\$ 80,829</u>	<u>\$ 11,793</u>	<u>\$ 200,316</u>	<u>\$ 1,500</u>
Cash and Investment Assets - Ending						
Cash and investments	\$ -	\$ 17,232	\$ 80,829	\$ 11,793	\$ 200,316	\$ 1,500
Restricted assets:						
Cash and investments	319	-	-	-	-	-
Total cash and investment assets - ending	\$ 319	\$ 17,232	\$ 80,829	\$ 11,793	\$ 200,316	\$ 1,500
Cash and Investment Fund Balance - Ending						
Restricted for:						
Public safety	\$ -	\$ -	\$ -	\$ 11,793	\$ 200,316	\$ 1,500
Highways and streets	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-
Culture and recreation	319	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Other purposes	-	17,232	80,829	-	-	-
Unrestricted	-	-	-	-	-	-
Total cash and investment fund balance - ending	\$ 319	\$ 17,232	\$ 80,829	\$ 11,793	\$ 200,316	\$ 1,500

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, 2008
 (Continued)

	Canine Donations	Fire Hydrant Maintenance	Auditors Court Costs	Recording Fees	Bail Bond Admin	Judicial Salaries
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	9,310	-	-	-	-
Fines and forfeits	-	-	65,916	-	2,240	16,127
Interfund loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total receipts	-	9,310	65,916	-	2,240	16,127
Disbursements:						
General government	-	-	65,916	2,282	-	3,117
Public safety	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-
Capital outlay:						
Public safety	-	-	-	-	-	-
Total disbursements	-	-	65,916	2,282	-	3,117
Excess (deficiency) of receipts over disbursements	-	9,310	-	(2,282)	2,240	13,010
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	9,310	-	(2,282)	2,240	13,010
Cash and investment fund balance - beginning	275	6,411	-	2,408	4,360	39,641
Cash and investment fund balance - ending	<u>\$ 275</u>	<u>\$ 15,721</u>	<u>\$ -</u>	<u>\$ 126</u>	<u>\$ 6,600</u>	<u>\$ 52,651</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ 275	\$ 15,721	\$ -	\$ 126	\$ 6,600	\$ 52,651
Restricted assets:						
Cash and investments	-	-	-	-	-	-
Total cash and investment assets - ending	<u>\$ 275</u>	<u>\$ 15,721</u>	<u>\$ -</u>	<u>\$ 126</u>	<u>\$ 6,600</u>	<u>\$ 52,651</u>
<u>Cash and Investment Fund Balance - Ending</u>						
Restricted for:						
Public safety	\$ 275	\$ 15,721	\$ -	\$ -	\$ 6,600	\$ 52,651
Highways and streets	-	-	-	-	-	-
Health and welfare	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Other purposes	-	-	-	126	-	-
Unrestricted	-	-	-	-	-	-
Total cash and investment fund balance - ending	<u>\$ 275</u>	<u>\$ 15,721</u>	<u>\$ -</u>	<u>\$ 126</u>	<u>\$ 6,600</u>	<u>\$ 52,651</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, 2008
 (Continued)

	Environmental Renovation	Downtown Renovation	Transfer Station	Food and Beverage Debt Reserve	Police Drug Evidence	Police Drug Acquisition
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	338,378	-	-	-
Fines and forfeits	-	-	-	-	1,174	3,116
Interfund loans	-	-	-	-	-	-
Other	-	-	1,112	-	-	21
Total receipts	-	-	339,490	-	1,174	3,137
Disbursements:						
General government	-	-	508,759	-	2,314	-
Public safety	-	-	-	-	-	10,009
Culture and recreation	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-
Capital outlay:						
Public safety	-	-	-	-	-	-
Total disbursements	-	-	508,759	-	2,314	10,009
Excess (deficiency) of receipts over disbursements	-	-	(169,269)	-	(1,140)	(6,872)
Other financing sources (uses):						
Transfers in	-	-	-	365,136	-	-
Total other financing sources (uses)	-	-	-	365,136	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	-	(169,269)	365,136	(1,140)	(6,872)
Cash and investment fund balance - beginning	1,146	1,300	265,254	-	10,064	12,297
Cash and investment fund balance - ending	<u>\$ 1,146</u>	<u>\$ 1,300</u>	<u>\$ 95,985</u>	<u>\$ 365,136</u>	<u>\$ 8,924</u>	<u>\$ 5,425</u>
Cash and Investment Assets - Ending						
Cash and investments	\$ 1,146	\$ 1,300	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and investments	-	-	95,985	365,136	8,924	5,425
Total cash and investment assets - ending	\$ 1,146	\$ 1,300	\$ 95,985	\$ 365,136	\$ 8,924	\$ 5,425
Cash and Investment Fund Balance - Ending						
Restricted for:						
Public safety	\$ -	\$ -	\$ -	\$ -	\$ 8,924	\$ 5,425
Highways and streets	-	-	-	-	-	-
Health and welfare	-	-	95,985	-	-	-
Culture and recreation	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Other purposes	1,146	1,300	-	365,136	-	-
Unrestricted	-	-	-	-	-	-
Total cash and investment fund balance - ending	\$ 1,146	\$ 1,300	\$ 95,985	\$ 365,136	\$ 8,924	\$ 5,425

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, 2008
 (Continued)

	Park District Bond	Cumulative Capital Development	Cumulative Capital Improvement	Park and Recreation Improvements	Industrial Park	Totals
Receipts:						
Taxes	\$ -	\$ 128,114	\$ -	\$ -	\$ -	\$ 521,313
Licenses and permits	-	-	-	-	-	13,380
Intergovernmental	-	3,395	38,703	-	-	656,429
Charges for services	-	-	-	-	-	420,651
Fines and forfeits	-	-	-	-	-	321,883
Interfund loans	-	-	-	-	-	138,000
Other	1	-	-	-	-	28,045
Total receipts	1	131,509	38,703	-	-	2,099,701
Disbursements:						
General government	-	-	-	-	-	1,021,030
Public safety	-	-	-	-	-	40,160
Culture and recreation	-	-	-	-	-	432,273
Interfund loans	-	-	-	-	-	138,000
Capital outlay:						
Public safety	-	66,000	-	-	-	66,000
Total disbursements	-	66,000	-	-	-	1,697,463
Excess (deficiency) of receipts over disbursements	1	65,509	38,703	-	-	402,238
Other financing sources (uses):						
Transfers in	-	-	-	-	-	365,136
Total other financing sources (uses)	-	-	-	-	-	365,136
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	1	65,509	38,703	-	-	767,374
Cash and investment fund balance - beginning	843	196,847	104,810	496	40,397	1,332,494
Cash and investment fund balance - ending	<u>\$ 844</u>	<u>\$ 262,356</u>	<u>\$ 143,513</u>	<u>\$ 496</u>	<u>\$ 40,397</u>	<u>\$ 2,099,868</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 638,892
Restricted assets:						
Cash and investments	844	262,356	143,513	496	40,397	1,460,976
Total cash and investment assets - ending	\$ 844	\$ 262,356	\$ 143,513	\$ 496	\$ 40,397	\$ 2,099,868
<u>Cash and Investment Fund Balance - Ending</u>						
Restricted for:						
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 324,669
Highways and streets	-	-	-	-	-	185,760
Health and welfare	-	-	-	-	-	95,985
Culture and recreation	844	-	-	-	-	205,174
Capital outlay	-	262,356	143,513	496	40,397	446,762
Other purposes	-	-	-	-	-	592,115
Unrestricted	-	-	-	-	-	249,403
Total cash and investment fund balance - ending	\$ 844	\$ 262,356	\$ 143,513	\$ 496	\$ 40,397	\$ 2,099,868

CITY OF MARTINSVILLE
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 PENSION TRUST FUNDS
 For The Year Ended December 31, 2008

	<u>Police Pension</u>	<u>Fire Pension</u>	<u>Totals</u>
Additions:			
Contributions:			
Employer	\$ 180,153	\$ 201,782	\$ 381,935
Deductions:			
Benefits	<u>209,563</u>	<u>178,041</u>	<u>387,604</u>
Excess (deficiency) of total additions over total deductions	(29,410)	23,741	(5,669)
Cash and investment fund balance - beginning	<u>119,481</u>	<u>87,831</u>	<u>207,312</u>
Cash and investment fund balance - ending	<u>\$ 90,071</u>	<u>\$ 111,572</u>	<u>\$ 201,643</u>

CITY OF MARTINSVILLE
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For The Year Ended December 31, 2008

	Martinsville City Court	Payroll	Fire Station Escrow	Infrastructure Escrow	Bowen Eng. Escrow	Cb&I Construction Escrow	Reed and Sons Escrow	Totals
Additions:								
Agency fund additions	\$ 842,173	\$ 5,412,984	\$ 171,854	\$ 96,256	\$ 116,621	\$ 328,069	\$ 42,445	\$ 7,010,402
Deductions:								
Agency fund deductions	843,045	5,239,989	8	8	33	260,316	33	6,343,432
Excess (deficiency) of total additions over total deductions	(872)	172,995	171,846	96,248	116,588	67,753	42,412	666,970
Cash and investment fund balance - beginning	47,724	77,387	-	-	-	-	-	125,111
Cash and investment fund balance - ending	<u>\$ 46,852</u>	<u>\$ 250,382</u>	<u>\$ 171,846</u>	<u>\$ 96,248</u>	<u>\$ 116,588</u>	<u>\$ 67,753</u>	<u>\$ 42,412</u>	<u>\$ 792,081</u>

CITY OF MARTINSVILLE
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 For The Year Ended December 31, 2008

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

General infrastructure assets are included if acquired (purchased, constructed, or donated) after July 1, 1980, or if they received major renovations, restorations, or improvements after that date. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are reported at historical cost.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 2,868,015
Infrastructure	7,192,946
Buildings	54,753
Improvements other than buildings	890,487
Machinery and equipment	<u>3,029,468</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 14,035,669</u>
<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Improvements other than buildings	\$ 7,893,884
Machinery and equipment	<u>38,958</u>
 Total Water Utility capital assets	 <u>7,932,842</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	516,550
Buildings	18,783,415
Improvements other than buildings	4,179,929
Machinery and equipment	<u>3,794,235</u>
 Total Wastewater Utility capital assets	 <u>27,274,129</u>
 Total business-type activities capital assets	 <u>\$ 35,206,971</u>

CITY OF MARTINSVILLE
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2008

The City has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:		
Capital leases:		
Fire station lease with Government Facility Building Corp	\$ 2,490,000	\$ -
Fire truck	154,025	66,000
Police cars	148,887	80,975
Bobcat loader	24,993	9,410
Bonds payable:		
General obligation bonds:		
Fire station	1,525,000	236,750
Temporary loans from other funds	<u>1,100,000</u>	<u>1,100,000</u>
Total governmental activities debt	<u>\$ 5,442,905</u>	<u>\$ 1,493,135</u>
Business-type activities:		
Water Utility:		
Revenue bonds:		
Water Works Refunding Bonds of 2004	<u>\$ 740,000</u>	<u>\$ 69,171</u>
Wastewater Utility:		
Revenue bonds:		
Sewage Works Refunding Bonds of 2004	765,000	60,026
Sewage Works Bonds of 2004	<u>2,385,000</u>	<u>155,835</u>
Total Wastewater Utility	<u>3,150,000</u>	<u>215,861</u>
Total business-type activities debt:	<u>\$ 3,890,000</u>	<u>\$ 285,032</u>

The water utility has entered into a loan agreement with the State of Indiana through its revolving loan program to finance water improvement projects. The funds are loaned as the construction costs are incurred.

The agreement provide for maximum loans of \$9,965,000. Annual debt service requirements for the uncompleted loan will not be established until the construction projects are completed. Therefore the outstanding loan balance can not be determined as of December 31, 2008.

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 \$8,300,000. As of December 31, 2008, the outstanding loan balance can not be determine.

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

TEMPORARY LOANS NOT REPAID

A temporary loan of \$400,000 was made in 2008 from the Food and Beverage Fund to the General Fund and not repaid by December 31, 2008.

A temporary loan of \$150,000 was made in 2008 from the Food and Beverage Fund to the MVH Fund and not repaid by December 31, 2008.

A temporary loan of \$400,000 was made in 2008 from the EDIT Fund to the General Fund and not repaid by December 31, 2008.

A temporary loan of \$150,000 was made in 2008 from the EDIT Fund to the MVH Fund and not repaid by December 31, 2008.

The loans have not been repaid as of December 31, 2008.

IC 36-1-8-4 concerning temporary loans 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."

OVERDRAWN FUND BALANCE

The Block Law Enforcement Grant Fund was overdrawn by \$1,253 in 2008.

The fund balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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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, 2008. 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 non-compliance 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, 2008.

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, the Mayor, the Common Council, and the Board of Public Works 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 12, 2009

CITY OF MARTINSVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2008

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. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-Through Indiana Finance Authority			
Capitalization Grants for Clean Water State Revolving Funds State Revolving Fund Loan 2006 Series	66.458	WW0557551	\$ 14,767
Capitalization Grants for Drinking Water State Revolving Funds State Revolving Fund Loan 2007 Series	66.468	DW10222101	<u>2,547,484</u>
Total for federal grantor agency			<u>2,562,251</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Pass-Through Indiana Department of Homeland Security			
Disaster Grants - Public Assistance (Presidentially Declared Disasters) Disaster Assistance	97.036	1766-DR	<u>539,480</u>
Total federal awards expended			<u>\$ 3,101,731</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
 Significant deficiencies 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
 Significant deficiencies 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
66.468	Capitalization Grants for Drinking Water State Revolving Funds
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)

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

Auditee qualified as low-risk auditee? yes

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 October 1, 2009, with Mary Lou Peden, Clerk-Treasurer; Phil R. Deckard, Mayor; and Gary Lester, Council member. The officials concurred with our audit findings.