

Village of Felicity

Clermont County

Regular Audit

January 1, 2005 Through December 31, 2006

Fiscal Years Audited Under GAGAS: 2006 and 2005

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Mary Taylor, CPA

Auditor of State

Members of Council
Village of Felicity
PO Box 613
Felicity, Ohio 45120

We have reviewed the *Independent Auditor's Report* of the Village of Felicity, Clermont County prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2005 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

September 13, 2007

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VILLAGE OF FELICITY
CLERMONT COUNTY

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INDEPENDENT AUDITOR'S REPORT

Members of Council
Village of Felicity
415 Walnut Street
Felicity, Ohio 45120

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America. Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2006 and 2005. Instead of the combined funds the accompanying financial statements present for 2006 and 2005, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2006 and 2005. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2006 and 2005, or its changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserve for encumbrances of the Village of Felicity as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2006 and 2005. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2007 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Balestra, Harr & Scherer, CPAs, Inc.

June 29, 2007

**VILLAGE OF FELICITY
CLERMONT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$ 44,064	\$ 120,947	\$ 165,011
Intergovernmental Receipts	102,432	139,401	241,833
Charges for Services	3,075	-	3,075
Fines, Licenses, and Permits	15,026	2,490	17,516
Earnings on Investments	5,518	517	6,035
Miscellaneous	28,851	383	29,234
	<u>198,966</u>	<u>263,738</u>	<u>462,704</u>
Total Cash Receipts			
	<u>198,966</u>	<u>263,738</u>	<u>462,704</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	73,505	96,974	170,479
Community Environment	-	5,416	5,416
Public Health Services	757	-	757
Transportation	31,356	40,442	71,798
Leisure Time Activities	327	-	327
Basic Utility Services	-	2,829	2,829
General Government	69,259	9,698	78,957
Capital Outlay	7,447	124,165	131,612
	<u>182,651</u>	<u>279,524</u>	<u>462,175</u>
Total Cash Disbursements			
	<u>182,651</u>	<u>279,524</u>	<u>462,175</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>16,315</u>	<u>(15,786)</u>	<u>529</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	16,315	(15,786)	529
Fund Cash Balances, January 1	<u>39,119</u>	<u>139,305</u>	<u>178,424</u>
Fund Cash Balances, December 31	<u>\$ 55,434</u>	<u>\$ 123,519</u>	<u>\$ 178,953</u>
Reserves for Encumbrances, December 31	<u>\$ 21,676</u>	<u>\$ 36,710</u>	<u>\$ 58,386</u>

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

**VILLAGE OF FELICITY
CLERMONT COUNTY**

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

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$ 254,262	\$ -	\$ 254,262
Total Operating Cash Receipts	<u>254,262</u>	<u>-</u>	<u>254,262</u>
Operating Cash Disbursements:			
Personal Services	61,654	-	61,654
Contractual Services	73,140	-	73,140
Supplies and Materials	31,544	-	31,544
Fringe Benefits	34,259	-	34,259
Other	1,081	-	1,081
Total Operating Cash Disbursements	<u>201,678</u>	<u>-</u>	<u>201,678</u>
Operating Cash Receipts Over (Under) Operating Cash Disbursements	<u>52,584</u>	<u>-</u>	<u>52,584</u>
Non-Operating Cash Receipts:			
Earnings on Investments	1,559	-	1,559
Other Non-Operating Cash Receipts	-	20,830	20,830
Total Non-Operating Cash Receipts	<u>1,559</u>	<u>20,830</u>	<u>22,389</u>
Non-Operating Cash Disbursements:			
Debt Service:			
Principal	20,000	-	20,000
Interest	21,036	-	21,036
Other Non-Operating Cash Disbursements	-	22,236	22,236
Total Non-Operating Cash Disbursements	<u>41,036</u>	<u>22,236</u>	<u>63,272</u>
Excess of Cash Receipts Over/(Under) Cash Disbursements Before Interfund Transfers	13,107	(1,406)	11,701
Transfers-In	50,661	-	50,661
Transfers-Out	(50,661)	-	(50,661)
Net Cash Receipts Over/(Under) Cash Disbursements	13,107	(1,406)	11,701
Fund Cash Balances, January 1	<u>565,554</u>	<u>2,633</u>	<u>568,187</u>
Fund Cash Balances, December 31	<u>\$ 578,661</u>	<u>\$ 1,227</u>	<u>\$ 579,888</u>
Reserves for Encumbrances, December 31	<u>\$ 28,594</u>	<u>\$ -</u>	<u>\$ 28,594</u>

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

**VILLAGE OF FELICITY
CLERMONT COUNTY**

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

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$ 39,703	\$ 120,356	\$ 160,059
Intergovernmental Receipts	88,750	55,292	144,042
Charges for Services	57	-	57
Fines, Licenses, and Permits	16,445	740	17,185
Earnings on Investments	5,360	561	5,921
Miscellaneous	3,187	-	3,187
	<u>153,502</u>	<u>176,949</u>	<u>330,451</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Security of Persons and Property	69,466	82,265	151,731
Community Environment	-	5,087	5,087
Public Health Services	814	-	814
Transportation	23,869	44,121	67,990
Leisure Time Activities	463	-	463
Basic Utility Services	78	8,735	8,813
General Government	62,914	8,731	71,645
Capital Outlay	8,877	71,493	80,370
	<u>166,481</u>	<u>220,432</u>	<u>386,913</u>
Total Cash Disbursements			
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(12,979)</u>	<u>(43,483)</u>	<u>(56,462)</u>
Other Financing Receipts and (Disbursements):			
Transfers-In	1,333	3,660	4,993
Transfers-Out	-	(4,993)	(4,993)
Total Other Financing Receipts/(Disbursements)	<u>1,333</u>	<u>(1,333)</u>	<u>-</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(11,646)	(44,816)	(56,462)
Fund Cash Balances, January 1	<u>50,765</u>	<u>184,121</u>	<u>234,886</u>
Fund Cash Balances, December 31	<u>\$ 39,119</u>	<u>\$ 139,305</u>	<u>\$ 178,424</u>
Reserves for Encumbrances, December 31	<u>\$ 17,553</u>	<u>\$ 18,858</u>	<u>\$ 36,411</u>

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

**VILLAGE OF FELICITY
CLERMONT COUNTY**

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

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$ 256,598	\$ -	\$ 256,598
Total Operating Cash Receipts	<u>256,598</u>	<u>-</u>	<u>256,598</u>
Operating Cash Disbursements:			
Personal Services	59,715	-	59,715
Contractual Services	91,623	-	91,623
Supplies and Materials	35,646	-	35,646
Fringe Benefits	23,769	-	23,769
Other	20,729	-	20,729
Total Operating Cash Disbursements	<u>231,482</u>	<u>-</u>	<u>231,482</u>
Operating Cash Receipts Over (Under) Operating Cash Disbursements	<u>25,116</u>	<u>-</u>	<u>25,116</u>
Non-Operating Cash Receipts:			
Proceeds From Sale of Capital Asset	108,000	-	108,000
Earnings on Investments	824	-	824
Other Non-Operating Receipts	-	21,272	21,272
Total Non-Operating Cash Receipts	<u>108,824</u>	<u>21,272</u>	<u>130,096</u>
Non-Operating Cash Disbursements:			
Debt Service:			
Principal	20,000	-	20,000
Interest	22,107	-	22,107
Other Non-Operating Cash Disbursements	-	19,853	19,853
Total Non-Operating Cash Disbursements	<u>42,107</u>	<u>19,853</u>	<u>61,960</u>
Excess of Cash Receipts Over/(Under) Cash Disbursements Before Interfund Transfers	91,833	1,419	93,252
Transfers-In	49,103	-	49,103
Transfers-Out	<u>(49,103)</u>	<u>-</u>	<u>(49,103)</u>
Net Cash Receipts Over/(Under) Cash Disbursements	91,833	1,419	93,252
Fund Cash Balances, January 1*	<u>473,721</u>	<u>1,214</u>	<u>474,935</u>
Fund Cash Balances, December 31	<u>\$ 565,554</u>	<u>\$ 2,633</u>	<u>\$ 568,187</u>
Reserves for Encumbrances, December 31	<u>\$ 25,533</u>	<u>\$ -</u>	<u>\$ 25,533</u>

*As Restated, See Note 11 of the Notes to the Financial Statements.

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

**VILLAGE OF FELICITY
CLERMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Felicity, Clermont County, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental services, public safety, maintenance of streets, water and police services.

The Village's management believes these financial statements present all activities for which the Village is financially accountable, except debt service funds maintained by outside custodians are not included in these financial statements. Assets held by custodians are described in Note 10 to the financial statements.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations in Note 3 report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

C. Cash and Investments

U.S. Treasury Notes and the money market account are valued at cost.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

D. Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

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

**VILLAGE OF FELICITY
CLERMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Police Levy Fund – This fund receives levied tax money from the Village of Felicity to equip, maintain and provide service to the Village.

Veterans Walk Fund – This fund receives state tax monies to fund the veterans park project.

PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPE:

Enterprise Funds

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the government under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the government's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Village's only fiduciary fund is an agency fund which accounts for monies received by the Mayor's Court held for the Village and the State of Ohio.

E. Budgetary Process

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

Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund and object level and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be re-appropriated.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Unpaid Vacation and Sick Leave

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

**VILLAGE OF FELICITY
CLERMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2006	2005
Demand deposits	\$ 438,495	\$ 430,468
Savings Account	286,755	283,227
Total deposits	725,250	713,695
U.S. Treasury Notes	33,591	32,916
Total investments	33,591	32,916
Total deposits and investments	\$758,841	\$746,611

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by securities specifically pledged by the financial institution to the Village, or (3) collateralized by the financial institution's public entity deposit pool.

Investments: U.S. Treasury Notes are held in book-entry form by the Federal Reserve, in the name of the Village's financial institution. The financial institution maintains records identifying the Village as owner of these securities.

3. BUDGETARY ACTIVITY

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

2006 Budgeted vs. Actual Budgetary Basis Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 197,996	\$ 198,966	\$ 970
Special Revenue	263,637	263,738	101
Enterprise	306,438	306,482	44
	\$ 768,071	\$ 769,186	\$ 1,115

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 214,693	\$ 204,327	\$ 10,366
Special Revenue	375,708	316,234	59,474
Enterprise	776,333	293,375	482,958
	\$ 1,366,734	\$ 813,936	\$ 552,798

**VILLAGE OF FELICITY
CLERMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

3. BUDGETARY ACTIVITY (Continued)

2005 Budgeted vs. Actual Budgetary Basis Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 153,721	\$ 154,835	\$ 1,114
Special Revenue	168,344	180,609	12,265
Enterprise	414,493	414,525	32
	<u>\$ 736,558</u>	<u>\$ 749,969</u>	<u>\$ 13,411</u>

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 196,305	\$ 184,034	\$ 12,271
Special Revenue	293,015	244,283	48,732
Enterprise	760,677	348,225	412,452
	<u>\$ 1,249,997</u>	<u>\$ 776,542</u>	<u>\$ 473,455</u>

4. PROPERTY TAX

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

Public utilities are also taxed on personal and real property located within the Village.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

5. LOCAL INCOME TAX

The Village levies a municipal income tax of 1% percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually. Proceeds of the tax are credited to the General Fund and the following Special Revenue Funds: Street Maintenance and Repair, Income Tax and Police Levy.

**VILLAGE OF FELICITY
CLERMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

6. DEBT

Debt outstanding at December 31, 2006 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Refunding and Improvement Bonds	310,000	4.5% - 6.875%
Ohio Public Works Commission OPWC	<u>125,000</u>	0%
Total	<u>\$440,000</u>	

The Water System 1st Mortgage Revenue Refunding and Improvement Bonds, Series 1994, relates to the improvement of the Village's owned water system. The 1994 issued dated August 1, 1994, bears an interest rate of 4.5% to 6.875% and matures August 1, 2024. This series 1994 Bond combines two other outstanding Water System Revenue Bonds issued in 1980 and 1994.

The Ohio Public Works Commission Loan relates to water system improvements for the Village. The original loan amount was \$200,000, dated August 1, 1998, bears 0% interest rate, and matures on January 1 and July 1 of each year until final maturity on July 2019.

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

Year ending December 31:	Refunding and Improvement Bonds	Ohio Public Works Commission
2007	\$31,185	\$10,000
2008	30,545	10,000
2009	29,900	10,000
2010	29,250	10,000
2011	28,563	10,000
2012 - 2016	154,033	50,000
2017 - 2021	154,844	25,000
2022 - 2024	91,344	0
Total	\$549,664	\$125,000

7. RETIREMENT SYSTEMS

The Village's law enforcement officers and firefighters belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. OP&F and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2006 and 2005, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant and 24% of fire participant wages. PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2006 and 2005. The Village has paid all contributions required through December 31, 2006.

**VILLAGE OF FELICITY
CLERMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

8. RISK POOL MEMBERSHIP

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 460 Ohio governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's deductible.

The Plan issues its own policies and reinsures the Plan with A-VII of better rated carriers, except for the 15% casualty and the 10% property portions the Plan retains. The Plan pays the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses. Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

Settlement amounts did not exceed insurance coverage for the past three fiscal years. The Village did not incur any significant reduction in coverage from the prior year.

Plan member are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other obligation to the Plan. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

The Plan's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31:

	<u>2006</u>	<u>2005</u>
Assets	\$9,620,148	\$8,219,430
Liabilities	3,329,620	2,748,639
Members' Equity	\$6,290,528	\$5,470,791

9. CONTINGENCIES

Grants

The Village received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Village at December 31, 2006.

10. DEBT SERVICE TRUSTEED FUNDS

The 1994 Water System First Mortgage Revenue Refunding and Improvement Bonds Trust agreement required the Village to establish various funds to be maintained by a custodian bank. The Village has established these funds. At December 31, 2006, the custodian held \$13,740 in Village assets. These assets, and the related receipts and disbursements, are not reflected in the accompanying financial statements.

VILLAGE OF FELICITY
CLERMONT COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

11. RESTATEMENT OF FUND BALANCES

To correct errors made in prior year, cash fund balances were restated as follows:

	<u>Fund Cash Balance</u> <u>December 31, 2004</u>	<u>Fund Cash Balance</u> <u>January 1, 2005</u>	<u>Difference:</u>
Enterprise Fund	\$ 491,741	\$ 473,721	(\$ 18,020)

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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*

Village of Felicity
Clermont County
415 Walnut Street
Felicity, Ohio 45120

To the Village Council:

We have audited the accompanying financial statements of the Village of Felicity, Clermont County, (the Village), as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated June 29, 2007, wherein we noted the Village follows the accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village'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 Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the accounting basis described in Note 1 such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village'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 presented or detected by the Village'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 material weaknesses, as defined above.

Board of Trustees

Village of Felicity

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*.

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Compliance and Other Matters

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

We noted other matters that have been reported to the Village's management in a letter dated June 29, 2007.

This report is intended solely for the information and use of management and members of the Board and is not intended to be and should not be used by anyone other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

June 29, 2007



Mary Taylor, CPA
Auditor of State

VILLAGE OF FELICITY

CLERMONT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 25, 2007**