

Village of Felicity

Clermont County

Regular Audit

January 1, 2003 Through December 31, 2004

Fiscal Years Audited Under GAGAS: 2004 and 2003

BALESTRA, HARR & SCHERER, CPAs, INC.
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**Auditor of State
Betty Montgomery**

Board of Trustees
Village of Felicity
P.O. 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, 2003 through December 31, 2004. 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's Office (AOS). 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 AOS 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 AOS 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 "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

January 12, 2006

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VILLAGE OF FELICITY
CLERMONT COUNTY

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Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Village of Felicity
Clermont County
P.O. Box 613
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, 2004 and 2003. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to 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 opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America. 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.

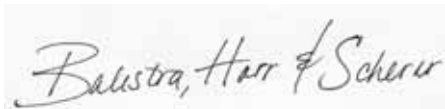
Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and for 2003), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. 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 governments 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 for the year ended December 31, 2004 do not present fairly in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2004, or their changes in financial position for the year then ended.

Also, in our opinion, the financial referred to above present fairly, in all material respect, the combined fund cash balances and reserve for encumbrances, of the Village of Felicity, Clermont County, as of December 31, 2004 and 2003, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 2004. 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 date September 2, 2005 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. 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.



Balestra, Harr & Scherer, CPAs, Inc.
September 2, 2005

**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, 2004**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$ 42,411	\$ 132,944	\$175,355
Intergovernmental Receipts	80,271	20,101	100,372
Charges for Services	30		30
Fines, Licenses, and Permits	17,392	1,762	19,154
Earnings on Investments	4,715	480	5,195
Miscellaneous	5,780	-	5,780
	<u>150,599</u>	<u>155,287</u>	<u>305,886</u>
Total Cash Receipts			
	<u>150,599</u>	<u>155,287</u>	<u>305,886</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	80,587	53,650	134,237
Community Environment	342	7,672	8,014
Public Health Services	1,311	-	1,311
Transportation	21,655	34,824	56,479
General Government	57,977	8,445	66,422
Debt Service:			
Principal Payments	3,671	-	3,671
Interest Payments	108	-	108
Capital Outlay	7,409	378	7,787
	<u>173,060</u>	<u>104,969</u>	<u>278,029</u>
Total Cash Disbursements			
	<u>173,060</u>	<u>104,969</u>	<u>278,029</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(22,461)</u>	<u>50,318</u>	<u>27,857</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(22,461)</u>	<u>50,318</u>	<u>27,857</u>
Fund Cash Balances, January 1	<u>73,226</u>	<u>133,803</u>	<u>207,029</u>
Fund Cash Balances, December 31	<u>\$ 50,765</u>	<u>\$ 184,121</u>	<u>\$ 234,886</u>
Reserves for Encumbrances, December 31	<u>\$ 16,945</u>	<u>\$ 19,849</u>	<u>\$ 36,794</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, 2004**

	<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	\$ 262,100	\$ -	\$ 262,100
Miscellaneous	7,883	-	7,883
Total Operating Cash Receipts	<u>269,983</u>	<u>-</u>	<u>269,983</u>
Operating Cash Disbursements:			
Personal Services	79,243	-	79,243
Contractual Services	115,012	-	115,012
Supplies and Materials	30,009	-	30,009
Capital Outlay	90,545	-	90,545
Total Operating Cash Disbursements	<u>314,809</u>	<u>-</u>	<u>314,809</u>
Operating Cash Receipts Over (Under) Operating Cash Disbursements	<u>(44,826)</u>	<u>-</u>	<u>(44,826)</u>
Non-Operating Cash Receipts:			
Intergovernmental	80,804	-	80,804
Earnings on Investments	2,956	-	2,956
Other Non-Operating Cash Receipts	-	23,283	23,283
Total Non-Operating Cash Receipts	<u>83,760</u>	<u>23,283</u>	<u>107,043</u>
Non-Operating Cash Disbursements:			
Debt Service:			
Principal	20,000	-	20,000
Interest	22,477	-	22,477
Other Non-Operating Cash Disbursements	-	24,022	24,022
Total Non-Operating Cash Disbursements	<u>42,477</u>	<u>24,022</u>	<u>66,499</u>
Excess of Cash Receipts Over/(Under) Cash Disbursements Before Interfund Transfers	(3,543)	(739)	(4,282)
Transfers-In	53,171	-	53,171
Transfers-Out	(53,171)	-	(53,171)
Net Cash Receipts Over/(Under) Cash Disbursements	(3,543)	(739)	(4,282)
Fund Cash Balances, January 1	<u>495,284</u>	<u>1,953</u>	<u>497,237</u>
Fund Cash Balances, December 31	<u>\$ 491,741</u>	<u>\$ 1,214</u>	<u>\$ 492,955</u>
Reserves for Encumbrances, December 31	<u>\$ 34,246</u>	<u>\$ -</u>	<u>\$ 34,246</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, 2003**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$ 42,030	\$ 95,766	\$137,796
Intergovernmental Receipts	79,723	17,791	97,514
Charges for Services	40	-	40
Fines, Licenses, and Permits	25,610	1,820	27,430
Earnings on Investments	5,133	457	5,590
Miscellaneous	4,728	2,235	6,963
	<u>157,264</u>	<u>118,069</u>	<u>275,333</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Security of Persons and Property	104,516	13,629	118,145
Community Environment	505	4,710	5,215
Public Health Services	1,358	4,200	5,558
Transportation	20,645	53,196	73,841
General Government	59,081	7,553	66,634
Debt Service:			
Principal Payments	4,235	-	4,235
Interest Payments	300	-	300
Capital Outlay	7,907	18,671	26,578
	<u>198,547</u>	<u>101,959</u>	<u>300,506</u>
Total Cash Disbursements			
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(41,283)</u>	<u>16,110</u>	<u>(25,173)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(41,283)	16,110	(25,173)
Fund Cash Balances, January 1*	<u>114,509</u>	<u>117,693</u>	<u>232,202</u>
Fund Cash Balances, December 31	<u>\$ 73,226</u>	<u>\$ 133,803</u>	<u>\$ 207,029</u>
Reserves for Encumbrances, December 31	<u>\$ 11,218</u>	<u>\$ 12,859</u>	<u>\$ 24,077</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**

**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, 2003**

	<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	\$ 260,368	\$ -	\$ 260,368
Miscellaneous	954	-	954
Total Operating Cash Receipts	<u>261,322</u>	<u>-</u>	<u>261,322</u>
Operating Cash Disbursements:			
Personal Services	70,900	-	70,900
Contractual Services	74,844	-	74,844
Supplies and Materials	26,411	-	26,411
Capital Outlay	217,344	-	217,344
Total Operating Cash Disbursements	<u>389,499</u>	<u>-</u>	<u>389,499</u>
Operating Cash Receipts Over (Under) Operating Cash Disbursements	<u>(128,177)</u>	<u>-</u>	<u>(128,177)</u>
Non-Operating Cash Receipts:			
Intergovernmental	171,049	-	171,049
Earnings on Investments	210	-	210
Other Non-Operating Receipts	-	31,832	31,832
Total Non-Operating Cash Receipts	<u>171,259</u>	<u>31,832</u>	<u>203,091</u>
Non-Operating Cash Disbursements:			
Debt Service:			
Principal	15,000	-	15,000
Interest	23,954	-	23,954
Other Non-Operating Cash Disbursements	-	32,063	32,063
Total Non-Operating Cash Disbursements	<u>38,954</u>	<u>32,063</u>	<u>71,017</u>
Excess of Cash Receipts Over/(Under) Cash Disbursements Before Interfund Transfers	4,128	(231)	3,897
Transfers-In	44,304	-	44,304
Transfers-Out	(44,304)	-	(44,304)
Net Cash Receipts Over/(Under) Cash Disbursements	4,128	(231)	3,897
Fund Cash Balances, January 1*	<u>491,156</u>	<u>2,184</u>	<u>493,340</u>
Fund Cash Balances, December 31	<u>\$ 495,284</u>	<u>\$ 1,953</u>	<u>\$ 497,237</u>
Reserves for Encumbrances, December 31	<u>\$ 15,680</u>	<u>\$ -</u>	<u>\$ 15,680</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, 2004 AND 2003**

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, 2004 AND 2003**

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 of 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, 2004 AND 2003**

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:

	2004	2003
Demand deposits	\$ 415,602	\$ 393,999
Savings Account	279,964	277,174
Total deposits	695,566	671,173
U.S. Treasury Notes	32,275	0
Money Market	0	33,093
Total investments	32,275	33,093
Total deposits and investments	\$727,841	\$704,266

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. Money Market Account funds are not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2004 and 2003 follows:

2004 Budgeted vs. Actual Budgetary Basis Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 151,874	\$ 150,599	\$ (1,275)
Special Revenue	153,112	155,287	2,175
Enterprise	408,177	406,914	(1,263)
	\$ 713,163	\$ 712,800	\$ (363)

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 210,160	\$ 190,005	\$ 20,155
Special Revenue	207,037	124,818	82,219
Enterprise	832,031	444,703	387,328
	\$ 1,249,228	\$ 759,526	\$ 489,702

**VILLAGE OF FELICITY
CLERMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

3. BUDGETARY ACTIVITY (Continued)

2003 Budgeted vs. Actual Budgetary Basis Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 156,458	\$ 157,264	\$ 806
Special Revenue	118,007	118,069	62
Enterprise	418,218	476,885	58,667
	<u>\$ 692,683</u>	<u>\$ 752,218</u>	<u>\$ 59,535</u>

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 242,456	\$ 209,765	\$ 32,691
Special Revenue	181,401	114,818	66,583
Enterprise	894,303	488,437	405,866
	<u>\$ 1,318,160</u>	<u>\$ 813,020</u>	<u>\$ 505,140</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, 2004 AND 2003**

6. DEBT

Debt outstanding at December 31, 2004 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Refunding and Improvement Bonds	330,000	4.5% - 6.875%
Ohio Public Works Commission OPWC	<u>145,000</u>	0%
Total	<u>\$475,000</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
2005	\$32,450	\$5,000
2006	31,820	10,000
2007	31,185	10,000
2008	30,545	10,000
2009	29,900	10,000
2010 - 2014	153,344	50,000
2015 - 2019	152,563	50,000
2020 - 2024	152,156	0
Total	\$613,963	\$145,000

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 2004 and 2003, 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 2004 and 2003. The Village has paid all contributions required through December 31, 2004.

**VILLAGE OF FELICITY
CLERMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

8. RISK POOL MEMBERSHIP

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association with approximately 600 governmental entity members providing a formalized, jointly administered self-insurance risk management program and other administrative services.

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed 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 coverage, 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 uses conventional insurance coverages and reinsures these coverages. Effective September 1, 2002, the Plan retains 5% of the premium and losses on the first \$500,000 casualty treaty (up to \$25,000 of a loss) and 5% of the first \$1,000,000 property treaty (up to \$50,000 of a loss). The Plan also participates in a loss corridor in its first \$500,000 casualty reinsurance. The corridor includes losses paid between 55% and 65% of premiums earned under this treaty. (Reinsurance coverage would resume after a paid loss ratio of 65% is exceeded.) The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

Financial Position

The Plan's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities, and members' equity at December 31, 2004 and 2003.

	2004	2003
Assets	\$6,685,522	\$5,402,167
Liabilities	2,227,808	1,871,123
Members' Equity	\$4,457,714	\$3,531,044

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, 2004.

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, 2004, the custodian held \$13,536 in Village assets. These assets, and the related receipts and disbursements, are not reflected in the accompanying financial statements.

11. RESTATEMENT OF FUND BALANCES

Due to the Village addressing a prior year comment that the Income Tax agency fund be reclassified as a special revenue fund, cash fund balances were restated as follows:

	<u>Fund Cash Balance December 31, 2002</u>	<u>Fund Cash Balance January 1, 2003</u>	<u>Difference:</u>
Agency Funds	\$ 9,984	\$ 2,184	(\$ 7,800)
Special Revenue Funds	\$109,893	\$117,693	\$ 7,800

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Ohio Society of Certified Public Accountants

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
P.O. Box 613
Felicity, Ohio 45120

To the Village Council:

We have audited the financial statements of the Village of Felicity, Clermont County, Ohio (the Village), as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated September 2, 2005, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Village's internal control over financial reporting in order to determine auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*.

We noted other matters that have been reported to the Village's management in a letter dated September 2, 2005.

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



Balestra, Harr & Scherer, CPAs, Inc.

September 2, 2005



**Auditor of State
Betty Montgomery**

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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
FEBRUARY 9, 2006**