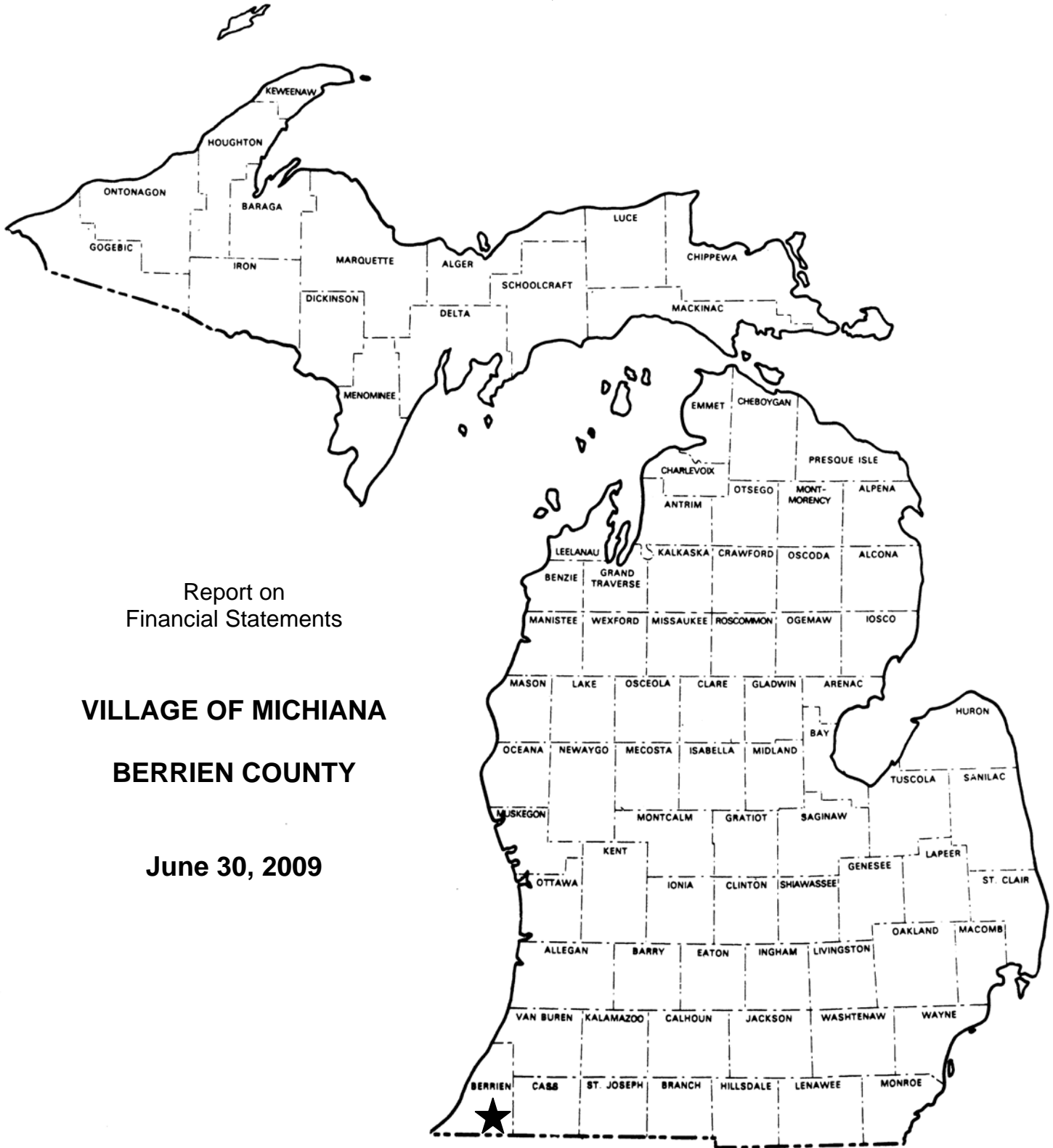


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY
Robert J. Kleine, Treasurer



Report on
Financial Statements

VILLAGE OF MICHIANA
BERRIEN COUNTY

June 30, 2009

VILLAGE OF MICHIANA

BERRIEN COUNTY

VILLAGE COUNCIL

Beverly Bruesch
President

Sheila Stein
President Pro-Tem

Hillary Herbst
Council Member

George Hermelink
Council Member

VILLAGE OFFICIALS

Cathy Ganus
Clerk

Amy Hemphill
Treasurer

VILLAGE POPULATION--2000
200

TAXABLE VALUATION--2008
\$61,162,710



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

October 14, 2009

Village Council
Village of Michiana
4000 Cherokee Drive
Michiana, Michigan 49117

Independent Auditor's Report

Dear Council Members:

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 Village of Michiana, Berrien County, Michigan, as of and for the fiscal year ended June 30, 2009, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village'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 the 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the Village, as of June 30, 2009, and the respective changes in financial position, and where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 14, 2009 on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 5 and the budgetary comparison information (Exhibits H through J) are not a required part 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The accompanying supplementary and related information in Exhibits K through N is presented for purposes of additional analysis 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.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

VILLAGE OF MICHIANA

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VILLAGE OF MICHIANA

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VILLAGE OF MICHIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended June 30, 2009

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village, as a whole, and present a longer-term view of the Village's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

The Village as a Whole

The Village's net assets for the governmental activities decreased approximately 14%, or \$92,783, from \$671,621 to \$578,838 for the year ended June 30, 2009. The investment in capital assets-net of related debt decreased \$31,830 due to depreciation on the Village's assets. The restricted assets decreased \$3,441 due to increased winter expenses related to the street funds. The unrestricted net assets decreased by \$57,512 due to the Village's increasing spending.

The Village's net assets for the business-type activities increased approximately 1%, or \$11,969, from \$819,453 to \$831,422 for the year ended June 30, 2009. The investment in capital assets-net of related debt increased \$86,567 with the purchase of new meters. The unrestricted net assets decreased by \$74,598 or 24% with the down payment made on the capital lease to purchase the new meters.

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specified purpose stipulated in the legislation. All assets as such (except for assets invested in capital assets-net of related debt) are considered restricted.

VILLAGE OF MICHIANA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2009**

Net assets as of year ended June 30, 2009 are as follows:

	Governmental Activities <u>2008</u>	Governmental Activities <u>2009</u>	Difference	Percent
Current Assets	\$ 325,901	\$ 272,053	\$ (53,848)	-17%
Noncurrent Assets	<u>380,043</u>	<u>348,213</u>	<u>(31,830)</u>	<u>-8%</u>
Total Assets	<u>705,944</u>	<u>620,266</u>	<u>(85,678)</u>	<u>-12%</u>
Current Liabilities	<u>34,323</u>	<u>41,428</u>	<u>7,105</u>	<u>21%</u>
Total Liabilities	<u>34,323</u>	<u>41,428</u>	<u>7,105</u>	<u>21%</u>
Net Assets				
Invested in Capital Assets Net of Related Debt	380,043	348,213	(31,830)	-8%
Restricted	214,664	211,223	(3,441)	-2%
Unrestricted	<u>76,914</u>	<u>19,402</u>	<u>(57,512)</u>	<u>-75%</u>
Total Net Assets	<u>\$ 671,621</u>	<u>\$ 578,838</u>	<u>\$ (92,783)</u>	<u>-14%</u>

	Business-Type Activities <u>2008</u>	Business-Type Activities <u>2009</u>	Difference	Percent
Current Assets	\$ 432,923	\$ 259,277	\$ (173,646)	-40%
Noncurrent Assets	<u>504,466</u>	<u>836,049</u>	<u>331,583</u>	<u>66%</u>
Total Assets	<u>937,389</u>	<u>1,095,326</u>	<u>157,937</u>	<u>17%</u>
Current Liabilities	117,936	18,888	(99,048)	-84%
Long-Term Liabilities	<u> </u>	<u>245,016</u>	<u>245,016</u>	<u>100%</u>
Total Liabilities	<u>117,936</u>	<u>263,904</u>	<u>145,968</u>	<u>124%</u>
Net Assets				
Invested in Capital Assets Net of Related Debt	504,466	591,033	86,567	17%
Unrestricted	<u>314,987</u>	<u>240,389</u>	<u>(74,598)</u>	<u>-24%</u>
Total Net Assets	<u>\$ 819,453</u>	<u>\$ 831,422</u>	<u>\$ 11,969</u>	<u>1%</u>

VILLAGE OF MICHIANA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2009**

The following table shows the changes of the net assets as of the current year to the prior year:

	<u>Governmental Activities 2008</u>	<u>Governmental Activities 2009</u>	<u>Difference</u>	<u>Percent</u>
Program Revenues				
Charges for Services	\$ 60,738	\$ 14,843	\$ (45,895)	-76%
Operating Grants and Contributions	46,909	48,389	1,480	3%
General Revenues				
Property Taxes	457,737	469,347	11,610	3%
State-Shared Revenues	14,368	15,348	980	7%
Other Unrestricted Grants	16,325		(16,325)	-100%
Unrestricted Investment Earnings	8,475	1,462	(7,013)	-83%
Rents		17,525	17,525	100%
Franchise Fees		7,182	7,182	100%
Other	50,377	8,941	(41,436)	-82%
Court Ordered Fees--Restitution		10,083	10,083	100%
Total Revenues	<u>654,929</u>	<u>593,120</u>	<u>(61,809)</u>	<u>-9%</u>
Program Expenses				
General Government	301,175	119,707	(181,468)	-60%
Public Safety	293,775	284,033	(9,742)	-3%
Public Works	94,079	183,926	89,847	96%
Community and Economic Development	233		(233)	100%
Recreation and Culture	14,015	44,278	30,263	216%
Other		53,959	53,959	100%
Total Expenses	<u>703,277</u>	<u>685,903</u>	<u>(17,374)</u>	<u>-2%</u>
Change in Net Assets	<u>\$ (48,348)</u>	<u>\$ (92,783)</u>	<u>\$ (44,435)</u>	<u>92%</u>
	<u>Business-Type Activities 2008</u>	<u>Business-Type Activities 2009</u>	<u>Difference</u>	<u>Percent</u>
Program Revenues				
Charges for Services	\$ 329,053	\$415,744	\$ 86,691	26%
General Revenues				
Unrestricted Investment Earnings	14,900	3,569	(11,331)	-76%
Total Revenues	<u>343,953</u>	<u>419,313</u>	<u>75,360</u>	<u>22%</u>
Program Expenses				
Water	356,445	407,345	50,900	14%
Total Expenses	<u>356,445</u>	<u>407,345</u>	<u>50,900</u>	<u>14%</u>
Change in Net Assets	<u>\$ (12,492)</u>	<u>\$ 11,968</u>	<u>\$ 24,460</u>	<u>-196%</u>

VILLAGE OF MICHIANA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2009**

Governmental Activities

The Village's total governmental revenues decreased by \$80,586 or a 12% decrease over all in revenue. However, taxes increased by 3% due to the increase in the Village's taxable value. The expenditures decreased by \$10,888. However, amounts spent on the police for public safety and public works activity increased.

	Governmental Activities <u>2008</u>	Governmental Activities <u>2009</u>	Amount Difference	Percent Difference
Revenues				
Taxes	\$ 457,737	\$ 469,347	\$ 11,610	3%
Licenses and Permits	56,822	21,464	(35,358)	-62%
State Grants	63,315	62,500	(815)	-1%
Charges for Services	3,916	104	(3,812)	-97%
Fines and Forfeits		457	457	100%
Interest and Rentals	11,926	20,165	8,239	69%
Other	66,702	5,795	(60,907)	-91%
Total Revenues	<u>660,418</u>	<u>579,832</u>	<u>(80,586)</u>	<u>-12%</u>
Expenditures				
General Government	250,594	105,867	(144,727)	-58%
Public Safety	299,264	279,465	(19,799)	-7%
Public Works	94,079	177,209	83,130	88%
Community and Economic Development	233		(233)	-100%
Recreation and Culture	14,015	27,457	13,442	96%
Other		53,959	53,959	100%
Capital Outlay	6,776	10,116	3,340	49%
Total Expenditures	<u>664,961</u>	<u>654,073</u>	<u>(10,888)</u>	<u>-2%</u>
Excess of Revenues Over (Under) Expenditures	<u>(4,543)</u>	<u>(74,241)</u>	<u>(69,698)</u>	<u>1534%</u>
Beginning Fund Balance	<u>296,121</u>	<u>291,578</u>	<u>(4,543)</u>	<u>-2%</u>
Ending Fund Balance	<u>\$ 291,578</u>	<u>\$ 217,337</u>	<u>\$ (74,241)</u>	<u>-25%</u>

Business-Type Activities

The Village's business-type activities consist of the Water Fund. The Village provides water to its residents and some residents outside the Village. The revenues for the water system have increased as the Village increased its service charge and is now assessing the hydrant fee to all residents.

VILLAGE OF MICHIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended June 30, 2009

The Village's Funds

Our analysis of the Village's major funds is listed in the audit report, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major funds for 2009 include the General Fund, Major Street Fund, Local Street Fund, and Water Fund.

The General Fund pays for most of the Village's governmental services. The most significant are for general government, \$104,716; public safety, \$262,467; and public works, \$140,227. These services are supported by the operating millage and State shared revenues. The Major Street Fund and the Local Street Fund account for the Michigan Transportation Funds received from the State and the maintenance performed on the Village's street system. The Water Fund is described above.

General Fund Budgetary Highlights

Over the course of the year, the Village's budget was not monitored and no amendments were made.

Capital Asset and Debt Administration

At the end of 2009, the Village's governmental funds had \$348,213 (net of accumulated depreciation) invested in a broad range of capital assets, including land, buildings, equipment, vehicles, and street infrastructure; and \$836,049 invested in the water system. To pay for new meters for the Water Fund, the Village entered into a capital lease agreement with current debt outstanding of \$245,016.

Economic Factors and Next Year's Budget and Rates

The Village's budget for 2010 has been modified to reflect the prior years' activities in a more accurate manner. The new Village Council will continue to monitor the budget on a monthly basis to ensure fiscal responsibility.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village's office at: 4000 Cherokee Drive, Michiana, MI, 49117 (Phone 269-469-4600).

VILLAGE OF MICHIANA
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2009

EXHIBIT A

<u>ASSETS</u>	Governmental Activities	Business-Type Activities	Total
Current Assets			
Cash and Cash Equivalents	\$ 140,627	\$ 72,413	\$ 213,040
Investments		120,908	120,908
Receivables (Net)			
Accounts	7,826	131,521	139,347
Court Ordered	10,083		10,083
Internal Balances	76,737	(76,737)	-
Due From State	36,780		36,780
Due From Other Units of Government		11,172	11,172
Total Current Assets	<u>272,053</u>	<u>259,277</u>	<u>531,330</u>
Noncurrent Assets			
Capital Assets--Net of Accumulated Depreciation	348,213	836,049	1,184,262
Total Assets	<u>620,266</u>	<u>1,095,326</u>	<u>1,715,592</u>
<u>LIABILITIES</u>			
Current Liabilities			
Accounts Payable	20,968	18,888	39,856
Accrued Liabilities	20,460		20,460
Total Current Liabilities	<u>41,428</u>	<u>18,888</u>	<u>60,316</u>
Long-Term Liabilities			
Capital Lease Payable--Due Within One Year		24,220	24,220
Capital Lease Payable--Due in More Than One Year		220,796	220,796
Total Long-Term Liabilities	<u>-</u>	<u>245,016</u>	<u>245,016</u>
Total Liabilities	<u>41,428</u>	<u>263,904</u>	<u>305,332</u>
<u>NET ASSETS</u>			
Investment in Capital Assets--Net of Related Debt	348,213	591,033	939,246
Restricted for			
Major Street	103,419		103,419
Local Street	37,675		37,675
Other Purposes	70,129		70,129
Unrestricted	19,402	240,389	259,791
Total Net Assets	<u>\$ 578,838</u>	<u>\$ 831,422</u>	<u>\$ 1,410,260</u>

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF MICHIANA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2009**

EXHIBIT C

	MAJOR FUNDS			Nonmajor Governmental Funds	Total Governmental Funds
	General	Major Street	Local Street		
<u>ASSETS</u>					
Cash and Cash Equivalents	\$ 11,214	\$ 44,236	\$ 37,775	\$ 47,402	\$ 140,627
Receivables					
Accounts	7,826				7,826
Court Ordered	10,083				10,083
Due From State	4,002	22,397	10,381		36,780
Due From Other Funds	81,353	50,921	14,135	22,727	169,136
Total Assets	<u>\$ 114,478</u>	<u>\$ 117,554</u>	<u>\$ 62,291</u>	<u>\$ 70,129</u>	<u>\$ 364,452</u>
<u>LIABILITIES AND FUND EQUITY</u>					
Liabilities					
Accounts Payable	\$ 20,968				\$ 20,968
Due to Other Funds	53,648	\$ 14,135	\$ 24,616		92,399
Accrued Liabilities	20,460				20,460
Deferred Revenue	13,288				13,288
Total Liabilities	<u>108,364</u>	<u>14,135</u>	<u>24,616</u>	<u>\$ -</u>	<u>147,115</u>
Fund Equity					
Fund Balances					
Reserved for					
Major Street		103,419			103,419
Local Street			37,675		37,675
Nonmajor Governmental				70,129	70,129
Unreserved--Undesignated	6,114				6,114
Total Fund Equity	<u>6,114</u>	<u>103,419</u>	<u>37,675</u>	<u>70,129</u>	<u>217,337</u>
Total Liabilities and Fund Equity	<u>\$ 114,478</u>	<u>\$ 117,554</u>	<u>\$ 62,291</u>	<u>\$ 70,129</u>	<u>\$ 364,452</u>
Fund Balances--Total Governmental Funds					\$ 217,337
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds					348,213
Revenues that do not provide current financial resources are not reported as revenue in the funds.					
Long-Term Receivables					<u>13,288</u>
Net Assets of Governmental Activities					<u>\$ 578,838</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF MICHIANA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2009

EXHIBIT D

	MAJOR FUNDS			Nonmajor Governmental Funds	Total Governmental Funds
	General	Major Street	Local Street		
Revenues					
Taxes	\$ 469,347				\$ 469,347
Licenses and Permits	8,047			\$ 13,417	21,464
State Grants	15,348	\$ 32,922	\$ 14,230		62,500
Charges for Services	104				104
Fines and Forfeits	457				457
Interest and Rentals	18,987	526	287	365	20,165
Other Revenue	5,736			59	5,795
Total Revenues	518,026	33,448	14,517	13,841	579,832
Expenditures					
Current					
General Government	104,716			1,151	105,867
Public Safety	262,467			16,998	279,465
Public Works	140,227	21,618	15,364		177,209
Community and Economic Development	-				-
Recreation and Culture	27,457				27,457
Other	53,959				53,959
Capital Outlay		10,116			10,116
Total Expenditures	588,826	31,734	15,364	18,149	654,073
Excess of Revenues Over (Under) Expenditures	(70,800)	1,714	(847)	(4,308)	(74,241)
Other Financing Sources (Uses)					
Interfund Transfers In					-
Interfund Transfers (Out)					-
Total Other Financing Sources (Uses)	-	-	-	-	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(70,800)	1,714	(847)	(4,308)	(74,241)
Fund Balance--July 1, 2008	76,914	101,705	38,522	74,437	291,578
Fund Balance--June 30, 2009	\$ 6,114	\$ 103,419	\$ 37,675	\$ 70,129	\$ 217,337
Net Change in Fund Balances--Total Governmental Funds					\$ (74,241)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add--Capital Outlay	10,116
Deduct--Depreciation Expense	(41,946)
Increase of revenue to record balance of long-term receivables.	<u>13,288</u>
Change in Net Assets of Governmental Activities	<u>\$ (92,783)</u>

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF MICHIANA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2009**

EXHIBIT E

	ENTERPRISE FUND
	<u>Water</u>
<u>ASSETS</u>	
Current Assets	
Cash and Cash Equivalents	\$ 72,413
Investments	120,908
Accounts Receivable	131,521
Due From Other Units of Government	<u>11,172</u>
Total Current Assets	<u>336,014</u>
Noncurrent Assets	
Capital Assets--Net of Accumulated Depreciation	<u>836,049</u>
Total Noncurrent Assets	<u>836,049</u>
Total Assets	<u>1,172,063</u>
<u>LIABILITIES</u>	
Current Liabilities	
Accounts Payable	18,888
Due to Other Funds	<u>76,737</u>
Total Current Liabilities	<u>95,625</u>
Noncurrent Liabilities	
Capital Lease Payable--Due Within One Year	24,220
Capital Lease Payable--Due in More Than One Year	<u>220,796</u>
Total Noncurrent Liabilities	<u>245,016</u>
Total Liabilities	<u>340,641</u>
<u>NET ASSETS</u>	
Invested in Capital Assets	
Net of Related Debt	591,033
Unrestricted	<u>240,389</u>
Total Net Assets	<u><u>\$ 831,422</u></u>

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF MICHIANA
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2009**

EXHIBIT F

	ENTERPRISE FUND
	<u>Water</u>
Operating Revenues	
Charges for Services	<u>\$ 415,744</u>
Total Operating Revenues	<u>415,744</u>
Operating Expenses	
Wages and Fringes	63,612
Operating Expenses	34,290
Repairs and Maintenance	6,202
Contracted Services	226,768
General Insurance	3,106
Utilities	8,593
Depreciation	<u>64,774</u>
Total Operating Expenses	<u>407,345</u>
Operating Income (Loss)	<u>8,399</u>
Nonoperating Revenues (Expenses)	
Interest Earned on Investments	<u>3,569</u>
Total Nonoperating Revenues (Expenses)	<u>3,569</u>
Income (Loss) Before Contributions	<u>11,968</u>
Change in Net Assets	<u>11,968</u>
Total Net Assets--July 1, 2008	777,912
Restatement to Net Assets	<u>41,542</u>
Restated Nets Assets--July 1, 2008	<u>819,454</u>
Total Net Assets--June 30, 2009	<u><u>\$ 831,422</u></u>

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF MICHIANA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2009**

EXHIBIT G

	ENTERPRISE FUND
	<u>Water</u>
Cash Flows From Operating Activities	
Cash Received From Customers	\$ 376,979
Cash Payments to Employees for Services and Benefits	(63,612)
Cash Payments to Suppliers for Goods and Services	<u>(378,006)</u>
Net Cash Provided by Operating Activities	<u>(64,639)</u>
Cash Flows From Noncapital Financing Activities	
Due To Other Funds	<u>48,359</u>
Net Cash Provided by Noncapital Financing Activities	<u>48,359</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition of Capital Assets	(396,358)
Proceeds From Capital Lease	<u>245,016</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(151,342)</u>
Cash Flows From Investing Activities	
Purchase of Investments	201,226
Interest on Cash Equivalents	<u>3,569</u>
Net Cash Provided by Investing Activities	<u>204,795</u>
Net Increase (Decrease) in Cash and Cash Equivalents	37,173
Cash and Cash Equivalents at Beginning of Year	<u>35,240</u>
Cash and Cash Equivalents at End of Year	<u>\$ 72,413</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ 8,399
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation Expense	64,774
(Increase) Decrease in Accounts Receivable	(38,765)
Increase (Decrease) in Accounts Payable	<u>(99,047)</u>
Net Cash Provided by Operating Activities	<u>\$ (64,639)</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF MICHIANA

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2009

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village is located in Berrien County and provides services to its 200 residents in many areas including: public safety (police), public works, and general government. The Village is a general law Village incorporated under Public Act 3 of 1895. The Village is governed by a five member council, including a president, elected by the citizens of the Village. The accounting policies of the Village conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the Village (the primary government). The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading, if data were not included.

There are no other units that should be included in the financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

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.

VILLAGE OF MICHIANA

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2009

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

The Village reports the following major governmental funds:

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

The Major Street Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on major streets.

The Local Street Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on local streets.

VILLAGE OF MICHIANA

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2009

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Village reports the following major proprietary funds:

The Water Fund accounts for the water operations of the Village.

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected to consistently apply all applicable Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989 in accounting and reporting for its proprietary operation.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues 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 revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Fund relate to charges to customers for sales and services. The Water Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and material to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses, not meeting this definition, are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Bank Deposits and Investments

For the purposes of the statement of cash flows, demand deposits and short-term investments with a maturity of three months or less, when acquired, are considered to be cash equivalents.

Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value. Earnings from investments are allocated to numerous funds as required by Federal regulations, State statutes, and local ordinances.

VILLAGE OF MICHIANA

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2009

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's lives are not capitalized.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>
Land Improvements	30 to 40 years	
Building and Building Improvements	15 to 40 years	
Vehicles	3 to 10 years	
Equipment	3 to 10 years	
Infrastructure	20 years	
Water System		40 years

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

VILLAGE OF MICHIANA

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2009

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

In the government-wide financial statements and proprietary fund type statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Budgets are adopted by the Village Council for the General Fund and Special Revenue Funds after a public hearing is held. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget is adopted at the activity level and control is exercised at the activity level. The Village Council does not monitor or amend the budgets as necessary. Unexpended appropriations lapse at year end.

Excess of Expenditures Over Appropriation in Budgeted Funds

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

VILLAGE OF MICHIANA

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2009

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

During the year, the Village incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

<u>Fund, Function and Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess Expenditures</u>
General Fund			
General Government			
Other Professional	\$ 4,000	\$ 6,050	\$ (2,050)
Attorney Fees	5,000	23,355	(18,355)
Clerk	49,088	49,991	(903)
Treasurer		6,236	(6,236)
Public Safety			
Police	210,731	235,098	(24,367)
Fire Protection	27,319	27,369	(50)
Public Works			
Department of Public Works	67,891	92,125	(24,234)
Recreation and Culture			
Parks and Recreation	4,921	21,605	(16,684)
Other			
Unemployment	2,000	22,786	(20,786)
Major Street Fund			
Preservation		10,116	(10,116)
Winter Maintenance	5,606	17,689	(12,083)
Local Street Fund			
Winter Maintenance	4,473	11,782	(7,309)

Legal Noncompliance/Violation of Finance Related Provisions

1. Failure to establish or maintain the Uniform Chart of Accounts in a formal accounting system in accordance with Public Act (PA) 2 of 1968, as amended, (MCL 141.421).
2. Noncompliance with the budgeting act as required by PA 2 of 1968, as amended, (MCL 141.421 through MCL 141.440a).
3. Failure to follow provisions of closed meetings as required by the Open Meetings Act (MCL 15.269).
4. Failure to follow the provisions of PA 51 of 1951, the State Trunkline Highway System Act (MCL 247.664).
5. Failure to adopt a Credit Card Policy (MCL 129.243).
6. Failure to adopt an ACH policy in accordance with PA 738 of 2002 (MCL 124.303)
7. Failure to adopt a Social Security Number Privacy Policy in accordance with PA 454 of 2004 (MCL 445.84, Sec 4 (1)).
8. Failure to adopt an investment policy in accordance with PA 20 of 1943 (MCL 129.95).

VILLAGE OF MICHIANA

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2009

NOTE C--DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Village to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States Banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village has designated two banks for the deposit of Village funds. The Village has not adopted an investment policy in accordance with PA 20 of 1943.

At year end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash and Cash Equivalents	\$140,627	\$ 72,413	\$ 213,040
Investments	<u> </u>	<u>120,908</u>	<u>120,908</u>
Total	<u><u>\$140,627</u></u>	<u><u>\$ 193,321</u></u>	<u><u>\$ 333,948</u></u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 212,840
Investments in Money Market and Government Operating Money Market	120,908
Petty Cash and Cash on Hand	<u>200</u>
Total	<u><u>\$ 333,948</u></u>

The bank balance of the Village's deposits is \$211,893, of which \$211,893 is covered by Federal depository insurance. On October 3, 2008, FDIC deposit insurance temporarily increased from \$100,000 to \$250,000 per depositor through December 31, 2009, and on May 20, 2009 the temporary increase was extended through December 31, 2013.

VILLAGE OF MICHIANA

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2009

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Village manages its exposure to interest rate risk is by participating in money markets which hold diverse investments that are authorized by law for direct investment.

As of June 30, 2009, the Village had the following investments:

	<u>Reported Amount (Fair Value)</u>
Investments	
Money Market (MM)	\$ 30,189
Mutual Fund--Fixed Income	<u>90,719</u>
Total Primary Government	<u>\$120,908</u>

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Government Operating Money Market and Mutual Funds--Fixed Income are not rated.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Village's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker/dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Village's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

VILLAGE OF MICHIANA

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2009

NOTE D--PROPERTY TAXES

The Village's 2008 ad valorem tax is levied and collectible on July 1, 2008. It is the Village's policy to recognize revenues from the current tax levy in the current year when the proceeds of this levy are budgeted and made available for financing of the Village operations. Property taxes are recognized when received. The 2008 taxable valuation of the Village amounted to \$61,162,710, on which ad valorem taxes levied for all Village purposes were \$463,679. There were 7.5912 mills for general operations recognized in the General Fund.

NOTE E--RECEIVABLES

Accounts Receivable

The General Fund has an account receivable amount of \$1,826 for a franchise fee receivable due from the local cable company at June 30, 2009. Another \$6,000 is owed to the Village from the Don Jackson Agency as reimbursements for costs relating to previous auditing services. Within 60 days after fiscal year end, only \$2,000 of the amount owed from the agency has been collected and the remaining \$4,000 is listed as deferred revenue.

Accounts receivables are also recorded in the Water Fund. The receivables are based on the water services provided by the Village. The receivables do not have an allowance for doubtful accounts because any receivables not collected are placed on the customer's tax bill. The receivables for the Water Fund are \$131,521. The receivables are not offset by deferred revenue.

NOTE F--INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The interfund receivables and payables for the Village are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 81,353	General	\$ 53,648
Major Street	50,921	Major Street	14,135
Local Street	14,135	Local Street	24,616
Nonmajor Governmental	<u>22,727</u>	Water	<u>76,737</u>
Total Primary Government	<u>\$ 169,136</u>	Total Primary Government	<u>\$ 169,136</u>

VILLAGE OF MICHIANA

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2009

NOTE G--CAPITAL ASSETS

Capital asset activity of the Village for the current year was as follows:

<u>Governmental Activities</u>	<u>Account Balances 07/01/08</u>	<u>Additions</u>	<u>Deductions</u>	<u>Account Balances 06/30/09</u>
Capital Assets Not Being Depreciated				
Land	\$ 33,115			\$ 33,115
Subtotal	<u>33,115</u>	<u>\$ -</u>	<u>\$ -</u>	<u>33,115</u>
Capital Assets Being Depreciated				
Land Improvements	83,530			83,530
Buildings and Building Improvements	473,589			473,589
Equipment	163,294			163,294
Vehicles	73,315			73,315
Infrastructure--Roads		10,116		10,116
Total	<u>793,728</u>	<u>10,116</u>	<u>-</u>	<u>803,844</u>
Less Accumulated Depreciation				
Land Improvements	21,227	8,164		29,391
Buildings and Building Improvements	271,821	11,840		283,661
Equipment	93,666	14,868		108,534
Vehicles	60,086	6,568		66,654
Infrastructure--Roads		506		506
Total	<u>446,800</u>	<u>41,946</u>	<u>-</u>	<u>488,746</u>
Net Capital Assets Being Depreciated	<u>346,928</u>	<u>10,116</u>	<u>41,946</u>	<u>315,098</u>
Governmental Activities Capital Total				
Capital Assets--Net of Depreciation	<u>\$380,043</u>	<u>\$10,116</u>	<u>\$41,946</u>	<u>\$348,213</u>

The depreciation expense was \$41,946 during the year.

VILLAGE OF MICHIANA

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2009

NOTE G--CAPITAL ASSETS (Continued)

<u>Business-Type Activities</u>	<u>Account Balances 07/01/08</u>	<u>Additions</u>	<u>Deductions</u>	<u>Account Balances 06/30/09</u>
Capital Assets Not Being Depreciated				
Land	\$ 3,049			\$ 3,049
Construction in Progress	275,825		\$275,825	-
Subtotal	<u>278,874</u>	<u>\$ -</u>	<u>275,825</u>	<u>3,049</u>
Capital Assets Being Depreciated				
Building and Improvements	32,300			32,300
Equipment	35,972			35,972
Infrastructure	787,113	672,183		1,459,296
Total	<u>855,385</u>	<u>672,183</u>	<u>-</u>	<u>1,527,568</u>
Less Accumulated Depreciation				
Building and Improvements	24,778	295		25,073
Equipment	35,972			35,972
Infrastructure	569,044	64,479		633,523
Total	<u>629,794</u>	<u>64,774</u>	<u>-</u>	<u>694,568</u>
Net Capital Assets Being Depreciated	<u>225,591</u>	<u>672,183</u>	<u>64,774</u>	<u>833,000</u>
Business-Type Activities Capital Total				
Capital Assets--Net of Depreciation	<u>\$ 504,465</u>	<u>\$ 672,183</u>	<u>\$340,599</u>	<u>\$ 836,049</u>

The depreciation expense was \$64,774 during the year.

Depreciation expense was charged to programs of the Village as follows:

Governmental Activities	
General Government	\$ 13,840
Public Safety	4,568
Public Works	6,717
Recreation and Culture	16,821
Total Governmental Activities	<u>\$41,946</u>
Business-Type Activities	
Water	<u>\$ 64,774</u>
Total Business-Type Activities	<u>\$ 64,774</u>

VILLAGE OF MICHIANA

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2009

NOTE H--LONG-TERM DEBT

The individual long-term debt of the Village and the changes therein, may be summarized as follows:

	<u>Balance</u> <u>07/01/08</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>06/30/09</u>	<u>Due Within</u> <u>One Year</u>
<u>Business-Type Activities</u>				
Capital Lease paid in quarterly installments of \$14,591.10 for six years at an interest rate of 6.95% for new meters.	\$ -	\$ 245,016	\$ 245,016	\$ 24,220
Total Business-Type Activities	<u>\$ -</u>	<u>\$ 245,016</u>	<u>\$ 245,016</u>	<u>\$ 24,220</u>

Annual Principal and Interest Requirements

The annual requirements to pay the principal and interest on the Village's long-term debt obligations outstanding at June 30, 2009, are as follows:

Capital Lease Payable

Date of Issue: December 30, 2008
Amount: \$245,016
Purpose: Water Meters

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual</u> <u>Total</u>
2010	\$ 24,220	\$ 19,553	\$ 43,773
2011	47,598	10,766	58,364
2012	50,171	8,193	58,364
2013	52,884	5,481	58,365
2013	55,743	2,622	58,365
2014	14,400	191	14,591
	<u>\$ 245,016</u>	<u>\$ 46,806</u>	<u>\$ 291,822</u>

NOTE I--RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, and errors and omissions and employees injuries (workers' compensation). The Village has purchased commercial insurance coverage through various policies for general liability, property, vehicle and workman's' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

VILLAGE OF MICHIANA

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2009

NOTE I--RISK MANAGEMENT (Continued)

The Michigan Township's Participating Plan (Plan) operates as an insurance pool for local units of government in Michigan. The Plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

NOTE J--RESTATEMENT OF NET ASSETS

Restatement of Water Fund's Net Assets

In the prior year, an allowance for an uncollectible amount for the Water Fund's accounts receivable was recorded. According to the Village's new personnel, the entire receivable balance should be recorded and no allowance should be recorded as unpaid amounts will be placed on the tax roll.

	<u>Water Fund</u>
From Exhibit F	
Net Assets--July 1, 2008	\$777,912
Remove Allowance and Increase Receivable	<u>41,542</u>
Restated Net Assets--July 1, 2008	<u><u>\$819,454</u></u>

NOTE K--COURT ORDERED RECEIVABLE

During the fiscal year, the Village was alerted by its financial institution of a questionable disbursement made by the former clerk/treasurer. This individual was able to cut a check to herself, and then disguise the transaction by modifying the computerized accounting records to make it appear that the check was actually paid to a legitimate vendor. The net effect of the activity is recorded in the financial statements as cash short/loss from embezzlement of \$1,561, which is a decrease in other revenue. The individual was prosecuted and the courts ruled that restitution of \$10,083 was to be paid to the Village. As of fiscal year end, this balance has been recorded as the court ordered receivable. Within 60 days of fiscal year end, \$795 has been received and the remaining \$9,288 is classified as deferred revenue.

NOTE L--CONTINGENCY

The Village has received an invoice from the previous audit firm for \$6,800 which was the final bill for additional hours to complete prior audits. The Village is currently disputing the amount owed and feels they have paid what is owed. The balance has not been recorded as a liability, but may cause a future expenditure of the Village once the situation is resolved.

**VILLAGE OF MICHIANA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Fiscal Year Ended June 30, 2009**

EXHIBIT H

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	Original Budget	Final Amended Budget	Actual	
Revenues				
Taxes	\$ 476,706	\$ 476,706	\$ 469,347	\$ (7,359)
Licenses and Permits	6,500	6,500	8,047	1,547
State Grants	16,375	16,375	15,348	(1,027)
Charge for Services	2,350	2,350	104	(2,246)
Fines and Forfeitures	500	500	457	(43)
Interest and Rentals	17,500	17,500	18,987	1,487
Other Revenue	18,600	18,600	5,736	(12,864)
Total Revenue	538,531	538,531	518,026	(20,505)
Expenditures				
General Government	92,158	92,158	104,716	(12,558)
Public Safety	238,050	238,050	262,467	(24,417)
Public Works	124,337	124,337	140,227	(15,890)
Community and Economic Development	100	100	-	100
Recreation and Culture	14,083	14,083	27,457	(13,374)
Other	47,181	47,181	53,959	(6,778)
Total Expenditures	515,909	515,909	588,826	(72,917)
Excess of Revenues Over (Under) Expenditures	22,622	22,622	(70,800)	(93,422)
Other Financing Sources (Uses)				
Operating Transfers (Out)	(20,000)	(20,000)	-	20,000
Total Other Financing Sources (Uses)	(20,000)	(20,000)	-	20,000
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	2,622	2,622	(70,800)	(73,422)
Fund Balance--July 1, 2008	209,933	209,933	76,914	(133,019)
Fund Balance--June 30, 2009	\$ 212,555	\$ 212,555	\$ 6,114	\$ (206,441)

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF MICHIANA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET--MAJOR SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2009**

EXHIBIT I

	<u>BUDGETED AMOUNTS</u>			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
Revenues				
State Grants				
Michigan Transportation Funds	\$ 34,100	\$ 34,100	\$ 30,703	\$ (3,397)
Metro Funds			2,219	2,219
Interest and Rentals	1,700	1,700	526	(1,174)
Total Revenues	35,800	35,800	33,448	(2,352)
Expenditures				
Public Works				
Preservation			10,116	(10,116)
Routine and Preventive Maintenance	10,858	10,858	2,558	8,300
Winter				-
Routine and Preventive Maintenance	5,606	5,606	17,689	(12,083)
Administrative	1,600	1,600	1,371	229
Total Expenditures	18,064	18,064	31,734	(13,670)
Excess of Revenues Over (Under) Expenditures	17,736	17,736	1,714	(16,022)
Other Financing Sources (Uses)				
Interfund Transfers (Out)	(8,275)	(8,275)	-	8,275
Total Other Financing Sources (Uses)	(8,275)	(8,275)	-	8,275
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	9,461	9,461	1,714	(7,747)
Fund Balance--July 1, 2008	-	-	101,705	101,705
Fund Balance--June 30, 2009	\$ 9,461	\$ 9,461	\$ 103,419	\$ 93,958

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF MICHIANA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET--MAJOR SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2009**

EXHIBIT J

	<u>BUDGETED AMOUNTS</u>			Variance With
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
Revenues				
State Grants				
Michigan Transportation Funds	\$ 16,500	\$ 16,500	\$ 14,230	\$ (2,270)
Interest and Rentals	1,000	1,000	287	(713)
Total Revenues	17,500	17,500	14,517	(2,983)
Expenditures				
Public Works				
Routine and Preventive Maintenance	12,898	12,898	2,426	10,472
Winter				-
Routine and Preventive Maintenance	4,473	4,473	11,782	(7,309)
Administrative	1,700	1,700	1,156	544
Total Expenditures	19,071	19,071	15,364	3,707
Excess of Revenues Over (Under) Expenditures	(1,571)	(1,571)	(847)	724
Other Financing Sources (Uses)				
Interfund Transfers In	8,275	8,275	-	(8,275)
Total Other Financing Sources (Uses)	8,275	8,275	-	(8,275)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	6,704	6,704	(847)	(7,551)
Fund Balance--July 1, 2008	4,980	4,980	38,522	33,542
Fund Balance--June 30, 2009	\$ 11,684	\$ 11,684	\$ 37,675	\$ 25,991

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF MICHIANA
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2009**

EXHIBIT K

	<u>SPECIAL REVENUE</u>		
	<u>Building Department</u>	<u>Capital Project</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 5,958	\$ 41,444	\$ 47,402
Due From Other Funds	21,065	1,662	22,727
Total Assets	<u>\$27,023</u>	<u>\$ 43,106</u>	<u>\$ 70,129</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balances			
Unreserved--Undesignated	<u>27,023</u>	<u>43,106</u>	<u>70,129</u>
Total Fund Balances	<u>27,023</u>	<u>43,106</u>	<u>70,129</u>
Total Liabilities and Fund Balances	<u>\$27,023</u>	<u>\$ 43,106</u>	<u>\$ 70,129</u>

**VILLAGE OF MICHIANA
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2009**

EXHIBIT L

	<u>SPECIAL REVENUE</u>		
	<u>Building</u> <u>Department</u>	<u>Capital</u> <u>Project</u>	<u>Total</u>
Revenues			
Licenses and Permits	\$ 13,417		\$ 13,417
Interest and Rentals	69	\$ 296	365
Other		59	59
	<hr/>		
Total Revenues	13,486	355	13,841
	<hr/>		
Expenditures			
General Government		1,151	1,151
Public Safety	16,998		16,998
	<hr/>		
Total Expenditures	16,998	1,151	18,149
	<hr/>		
Excess of Revenue Over (Under)			
Expenditures	(3,512)	(796)	(4,308)
	<hr/>		
Fund Balance--July 1, 2008	30,535	43,902	74,437
	<hr/>		
Fund Balance--June 30, 2009	<u>\$ 27,023</u>	<u>\$ 43,106</u>	<u>\$ 70,129</u>

**VILLAGE OF MICHIANA
SCHEDULE OF REVENUES--BY SOURCE
BUDGET AND ACTUAL--GENERAL FUND
For the Fiscal Year Ended June 30, 2009**

EXHIBIT M

<u>REVENUES</u>	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
Property Taxes				
Current Taxes	\$ 471,987	\$ 471,987	\$ 463,679	\$ (8,308)
Interest and Penalties			1,025	1,025
Administrative Fees	4,719	4,719	4,643	(76)
Total Property Taxes	476,706	476,706	469,347	(7,359)
Licenses and Permits				
Tree and Fence Permits	500	500	200	(300)
Sign Permits	500	500	665	165
Cable Franchise Fees	5,500	5,500	7,182	1,682
Total Licenses and Permits	6,500	6,500	8,047	1,547
State Grants				
Revenue Sharing	16,000	16,000	15,348	(652)
Police Training Grants	375	375	-	(375)
Total State Grants	16,375	16,375	15,348	(1,027)
Charge for Services				
Zoning Board of Appeals	2,250	2,250	-	(2,250)
Copies			104	104
Tennis Tags	100	100	-	(100)
Total Charge for Services	2,350	2,350	104	(2,246)
Fines and Forfeitures				
Cost and Fines--County	500	500	457	(43)
Total Fines and Forfeitures	500	500	457	(43)
Interest and Rentals				
Interest	3,500	3,500	1,462	(2,038)
Hall Rental	8,000	8,000	1,000	(7,000)
Building Department Rental	6,000	6,000	500	(5,500)
Vehicle Rental			16,025	16,025
Total Interest and Rentals	17,500	17,500	18,987	1,487
Other Revenue				
Refunds	-	-	5,310	5,310
Cash Short/Loss From Embezzlement	-	-	(1,561)	(1,561)
Court Ordered Fees--Restitution	-	-	795	795
Other	18,600	18,600	1,192	(17,408)
Total Other Revenue	18,600	18,600	5,736	(12,864)
Total Revenue	\$ 538,531	\$ 538,531	\$ 518,026	\$ (20,505)

VILLAGE OF MICHIANA
SCHEDULE OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Fiscal Year Ended June 30, 2009

EXHIBIT N

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
General Government				
Village Council	\$ 1,100	\$ 1,100	\$ 26	\$ 1,074
Elections	1,000	1,000	220	780
Other Professional	4,000	4,000	6,050	(2,050)
Attorney Fees	5,000	5,000	23,355	(18,355)
Clerk	49,088	49,088	49,991	(903)
Treasurer	-	-	6,236	(6,236)
Building and Grounds	31,970	31,970	18,838	13,132
Total General Government	92,158	92,158	104,716	(12,558)
Public Safety				
Police	210,731	210,731	235,098	(24,367)
Fire Protection	27,319	27,319	27,369	(50)
Total Public Safety	238,050	238,050	262,467	(24,417)
Public Works				
Department of Public Works	67,891	67,891	92,125	(24,234)
Tree and Fence Inspection	800	800	320	480
Refuse Collection	55,646	55,646	47,782	7,864
Total Public Works	124,337	124,337	140,227	(15,890)
Community and Economic Development				
Planning	100	100	-	100
Total Community and Economic Development	100	100	-	100
Recreation and Culture				
Parks and Recreation	4,921	4,921	21,605	(16,684)
Beaches	9,162	9,162	5,852	3,310
Total Recreation and Culture	14,083	14,083	27,457	(13,374)
Other				
Insurance and Bonds	26,700	26,700	17,079	9,621
Unemployment	2,000	2,000	22,786	(20,786)
Other Expenditures	18,481	18,481	14,094	4,387
Total Other	47,181	47,181	53,959	(6,778)
Other Financing Uses				
Operating Transfers (Out)	20,000	20,000	-	20,000
Total Other Financing Uses	20,000	20,000	-	20,000
Total Expenditures and Other Uses	\$ 535,909	\$ 535,909	\$ 588,826	\$ (62,917)



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

October 14, 2009

Village Council
Village of Michiana
4000 Cherokee Drive
Michiana, Michigan 49117

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With Government Auditing Standards

Dear Council Members:

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 Village of Michiana, Berrien County, Michigan, as of and for the year ended June 30, 2009, which collectively comprise Village's basic financial statements and have issued our report thereon dated October 14, 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 Village'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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as Findings 2008-1 through 2008-7 and 2009-1 through 2009-3 to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as Findings 2009-4 through 2009-6 to be significant deficiencies.

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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Responses as Findings 2009-7 through 2009-16.

The Village's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Village's responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Village Council, management and others within the Village, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

ROBERT J. KLEINE
STATE TREASURER

October 14, 2009

Village Council
Village of Michiana
4000 Cherokee Drive
Michiana, Michigan 49117

Re: Report to Those Charged With Governance

Dear Council Members:

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 Village of Michiana, Berrien County, Michigan for the year ended June 30, 2009, and have issued our report thereon dated October 14, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in the engagement letter dated July 7, 2009 and amended September 17, 2009 our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Village. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Village's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures to specifically identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 31, 2009.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year ending June 30, 2009. We noted a transaction entered into by the Village during the year for which there was a lack of authoritative guidance or consensus (See Finding 2008-6). There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of the depreciation is based on the straight-line method in accordance with General Accepted Accounting Principles. We evaluated the key factors and assumptions used to develop the estimated depreciation in determining that it is reasonable in relation to the financial statements, taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, some of the misstatements detected as a result of the audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 14, 2009.

Management Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Village Council and management of the Village and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

VILLAGE OF MICHIANA

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended June 30, 2009

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Listed below are material weaknesses and significant deficiencies in the internal control.

The Village is small in size. Therefore, there is an overall lack of segregation of duties which should be considered when reviewing the material weaknesses and significant deficiencies listed below. Segregation of duties requires that key duties and responsibilities be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

MATERIAL WEAKNESSES

Preparation of Financial Statements in Accordance with GAAP

Finding 2008-1

Condition: As is the case with many smaller and medium-sized entities, the Village has historically relied on its independent external auditors to assist in the preparation of the government wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Village's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the Village's internal controls.

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Village's management. The preparation of financial statements in accordance with GAAP requires internal controls over both: 1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records); and 2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Cause: This condition was caused by the Village's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for Village personnel to perform this task internally.

VILLAGE OF MICHIANA

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended June 30, 2009

Effect: As a result of this condition, the Village lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation: We recommend that the Village Council evaluate the cost versus benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determine if it is in the best interests of the Village to outsource this duty to its external auditors. If the Village continues to rely on its external auditors to prepare the financial statements, we recommend that the Village Council designate a responsible Village official to carefully review the draft financial statements, including the notes, prior to approving them and accepting responsibility for their content and presentation.

Management's Response: The Village has determined that the cost versus benefit of establishing internal controls over the preparation of financial statement in accordance with GAAP are not in the best interests of the Village and, therefore, would prefer to outsource this duty to its external auditors and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation. The costs of training Village employees in the preparation of financial statements far outweigh the overall benefits provided to the Village in this instance.

Material Audit Adjustments

Finding 2008-2

Condition: As noted in prior audits, we identified and proposed numerous material adjustments, which were approved and posted by management, to reconcile the Village's general ledger to the audited balances. These adjustments included recording the effect of prior year accruals for receivables and payables, recording current year accruals for receivables and payables, balancing interfund transactions and properly allocating tax revenue.

Criteria: Management is responsible for maintaining the Village's accounting records in accordance with generally accepted accounting principles (GAAP).

Effect: As a result of this condition, the Village's accounting records were initially misstated by amounts material to the financial statements.

Cause: The Village has historically relied on its independent external auditors to assist with the process of making necessary year end adjustments to present its financial statements in accordance with GAAP.

Recommendation: We recommend that the Village Council provide for appropriate training for its accounting personnel. This will provide management with the necessary skills for reconciling all Village accounts both at year end and throughout the fiscal year. This will result in more accurate and meaningful data to the Village Council for decision making and to reduce the cost of the annual audit.

VILLAGE OF MICHIANA

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended June 30, 2009

Management's Response: The Village has hired a clerk and a treasurer with multiple years experience in municipal finance/governmental operations. The Village's position is that in light of the hiring of experienced staff this finding should be reconciled, beginning with clear beginning balances for this fiscal year going forward.

Ability to Modify Computerized Transactions

Finding 2008-3

Condition: The Village's accounting software (QuickBooks) does not prevent the deletion or modification of posted transactions. Management has not been making use of the "audit trail" feature available in the software package to track any modifications or deletions made to posted transactions. This is a repeated comment, but became much more evident with the modification of the transaction that led to the embezzlement.

Criteria: Computerized accounting systems should have some type of feature that either prevents the modification of transactions once posted, or provides some type of audit trail for a reviewer to be able to track any changes made to computerized transactions after posting.

Cause: This condition is the result of a limitation in the software package used by the Village to maintain its accounting records.

Effect: As a result of this condition, the Village lacks internal controls over the alteration of posted general ledger and other transactions.

Recommendation: The Village should contact the creators of the accounting software and inquire of any features included in the present version that could mitigate the risks associated with this issue. If no such feature is available, we recommend that management consider taking other action to address this risk up to and including possible replacement of the software package.

Management's Response: The Village has purchased municipal fund accounting software from BS&A Software of Bath, Michigan. This finding should be reconciled beginning with clear beginning balances for this fiscal year going forward. Additionally, policies and procedures have been put in place to provide additional assurance that posted transactions are accurate and unaltered.

Segregation of Incompatible Duties

Finding 2008-4

Condition: As is the case with many organizations of similar size, the Village lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

VILLAGE OF MICHIANA

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended June 30, 2009

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

Findings: In our review of the Village's operating procedures, we found the following lack of segregation of duties.

- The treasurer writes receipts, prepares deposits, makes deposits, investigates discrepancies related to cash, maintains the cash receipts journal, reconciles the bank statements, and can post journal entries to the general ledger.
- The clerk is responsible for opening the mail, reviewing and authorizing invoices, initiating checks for expenditure, preparing checks, mailing checks, editing the vendor master file, and investigating discrepancies relating to expenditures.
- The clerk initiates payroll checks, prepares payroll checks, posts payroll to the general ledger, disburses payroll checks, resolves employee payroll inquiries, and edits the payroll master file.

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Village's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept given the Village's unique circumstances.

Cause: This condition is a result of the Village's limited resources and the small size of its accounting staff.

Effect: As a result of this condition, the Village is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely basis.

Recommendation: While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

Management's Response: The current clerk and treasurer have instituted checks and balances and have delegated job duties so as to minimize the risk of misstatements or misappropriations to the extent possible with limited staffing resources available. It should be noted that prior to any disbursement of funds, two members of the Village Council must review, reconcile, and approve the checks for payment. Neither the clerk nor the treasurer is listed as personnel authorized to sign checks.

VILLAGE OF MICHIANA

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended June 30, 2009

Utility Billings

Finding 2008-5

Condition: The outdated software the Village uses for utility billing does not permit management to accurately track outstanding balances. During the 2008 audit, the previous auditor attempted to confirm the outstanding unpaid balances with various customers, and found an unacceptably high rate of inaccurate and disputed charges. During the 2009 audit, we found that the Village is still using the same outdated software; however, the procedures being used became inconsistent with the turnover at the clerk and treasurer positions.

The Village also has not fully implemented any method of enforcement to ensure the amounts billed are collected.

Criteria: Utility billings represent a significant source of revenue for the Village. The Village is responsible for maintaining accurate utility billing records for amounts that have been billed and collected in order to provide accurate accounts receivable balances.

The Village also has the right to assess penalties on late payments, shut off the water flow, and, if necessary, apply the outstanding balances to the Village's tax roll.

Recommendation: We recommend that the Village consider the possibility of upgrading its utility system and begin performing monthly reconciliations of the amounts billed and still outstanding between the utility billing system and the general ledger. We also recommend that the Village Council adopt a resolution to establish procedures for water shut offs, penalties, and applying balances to the tax rolls to assure that the Village receives all billed water revenue to continue to operate the system.

Finally, we recommend that each amount currently outstanding be reviewed by the Village Council to determine the outcome of the balance as some are older balances. If they are to be collected, the Village Council should determine how by applying the methods described above. If they are to be forgiven or deemed uncollectible, then the Village Council needs to approve, by motion, to write off the individual accounts so that the outstanding receivable balances accurately reflect the amount expected to be received.

Management's Response: The Village clerk continues to review the accounts of over 900+ customers currently served by the Michiana Water Authority to ensure correct billing. The Village has purchased municipal utility billing software from BS&A Software of Bath, Michigan. Upon reconciliation of all water accounts, the Village will then switch to the new utility billing software. Once the new system is implemented, the Village clerk and treasurer will institute checks and balances for monthly reconciliation of the amounts billed and still outstanding between the utility billing system and the general ledger. It should be noted that the clerk has drafted delinquent utility correspondence to all customers with balances that have not been paid within the last year. Upon compilation of a list of delinquent utility customers, the clerk will forward same to the Village Council for their disposition.

VILLAGE OF MICHIANA

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended June 30, 2009

Fraudulent Activity

Finding 2008-6

Condition: During the fiscal year, the Village was alerted by its financial institution of a questionable disbursement made by the former clerk/treasurer. Relying on the control deficiencies described in findings 2008-3 and 2008-4, this individual was able to cut a check to herself, and then disguise the transaction by modifying the computerized accounting records to make it appear that the check was actually paid to a legitimate vendor. The former clerk/treasurer obtained an unauthorized signature stamp with which to sign checks, and had been using it for some time prior to this fraud being discovered.

Criteria: The Village is responsible for establishing internal controls to provide reasonable assurance that the Village's assets are properly safeguarded, and to detect or prevent misstatements caused by fraud.

Cause: This condition was caused by the lack of segregation of duties and lack of sufficiently detailed oversight of the Village's finances by the Village Council.

Effect: As a result of this condition, the Village was exposed to an increased risk of fraud and embezzlement, culminating in an actual loss of funds during the fiscal year. It appears that had the Village's financial institution not detected this particular disbursement and brought it to the Village Council's attention, the Village may well have experienced continued losses in the future.

Recommendation: Since this condition, the Village Council has separated the clerk and treasurer into two different positions held by two individuals and now two council members sign the disbursements. We recommend that this procedure be continued, but also consider the conditions that still exist listed here in the Schedule of Findings and Responses and understand that the monitoring process of the council must be continuous.

Management's Response: It is the intention of the Village to continue the procedure regarding internal controls to provide reasonable assurance that the Village's assets are properly safeguarded and to detect or prevent misstatements caused by fraud. Please note that these procedures may be amended to effect tighter controls but will not be lowered.

Journal Entries

Finding 2008-7

Condition: The Village's lack of policies and procedures during the fiscal year did not require any independent review or approval of journal entries made by the Village clerk/treasurer and still does not with the current personnel.

VILLAGE OF MICHIANA

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended June 30, 2009

Criteria: Management is responsible for establishing effective internal controls to safeguard the Village's assets, and to prevent or detect misstatements to the financial statements. Journal entries, while an essential part of any accounting system, represent an opportunity to enter information into the Village's records in a way that bypasses normal internal controls. Accordingly, the Village should have a system in place to ensure that all journal entries and similar adjustments made to the Village's accounting records are reviewed and approved by an appropriate member of management independent of the preparer.

Cause: This condition is caused by the lack of segregation of duties and lack of sufficiently detailed oversight by the Village Council.

Effect: While we are not aware of any actual misstatements caused by this condition, the Village was nevertheless exposed to an increased risk that misstatements, whether caused by error or fraud, could occur and not be detected or prevented.

Recommendation: We recommend that all journal entries be reviewed and approved by an individual other than the preparer.

Management's Response: The Village clerk and treasurer have designated job duties regarding the posting of journal entries. The clerk and treasurer are both present when journal entries are posted and the clerk and treasurer both sign a copy of the journal entry posting in an effort to minimize exposure.

Failure to Reconcile Bank Statement and Cash Balances

Finding 2009-1

Condition: The Village's investment account for the Water Fund has not been reconciled since the down payment for the new meters was written from the account in December 2008. As of June 30, 2009, this created an overstatement of \$74,099 in the investment line-item. The Village was also still reporting that the Major Street Fund had an open certificate of deposit (CD) for \$20,000. This CD had been closed out and deposited into the Water Fund to "cover expenses." Finally, the Village had three cash line-items in various funds showing cash balances without any correlating bank accounts, overstating and understating these fund's assets.

Criteria: The Standards for Internal Control for the Federal Government (which is a good general standard for all types of municipalities) states that reconciliations must be performed as part of internal controls. This is further enhanced by the Uniform Accounting Procedures Manual which states that, "All cash accounts should be reconciled to their respective bank statements monthly."

Also, PA 51 of 1951 requires the establishment of the Major Street Fund to account for transportation funds received from the State. These funds are restricted by PA 51 and cannot be used for any other purpose other than those detailed by PA 51.

VILLAGE OF MICHIANA

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended June 30, 2009

Cause: The amount relating to the Village's investment account was due to the uncertainty of how to post the payment for the new meters. The CD was used to "cover expenses" in the Water Fund by taking cash resources from other funds. Finally, incorrect line-items were the result of the turnover of all the employees and the closing out of extra bank accounts, and balances not being reviewed in their entirety.

Effect: Overstated and incorrectly reported cash balances can cause the Village Council to make decisions based on incorrect balances and cause an overspending of available funds.

Recommendation: We recommend that all bank accounts be reconciled on a timely basis with the accounting records. The activity in the bank should reconcile back to the general ledger and provide a means to correct errors in posting. The Village must be able to determine how much money each fund has in a particular bank and/or investment account.

We direct the Village to immediately pay back, to the Major Street Fund, the \$20,000 restricted by PA 51 that was deposited into the Water Fund.

Management's Response: With regard to the bank reconciliations, it should be noted that the Water Fund is the only fund that was not reconciled in a timely manner. This has been very difficult to complete as both the current clerk and current treasurer were certain that the computerized financial accounts were misstated within the computer software system. The Village shall immediately repay the Major Street Fund \$20,000, which were funds deposited into a CD (which were originally restricted by PA 51) and then cashed out and deposited into the Water Fund.

Capital Assets

Finding 2009-2

Condition: The Village does not maintain adequate internal controls for capital assets and a capital asset listing is not maintained in accordance with generally accepted accounting principles. The balances reported in the Village's audit report are maintained by the Village's auditor.

The Village has not adopted a capitalization policy to determine a "threshold" to capitalize an asset or record it as an expenditure.

Criteria: It is the responsibility of the Village to update the capital assets listing for additions and deletions. For the governmental funds, assets purchased during the year and recorded as capital outlay should equal the additions to the capital asset records. For the enterprise funds, assets purchased during the year should be recorded as increases in the capital asset account and not as an expense. Depreciation expense is also to be recorded for the enterprise funds. Depreciation for governmental capital assets should be recorded on the capital asset schedule. Disposals should equal the reductions to the capital asset records.

VILLAGE OF MICHIANA

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended June 30, 2009

Cause: The Village has relied upon its auditors to update and maintain the listing.

Effect: The Village cannot readily determine or value the assets owned by the Village.

Recommendation: We recommend that the Village implement procedures to record the assets and depreciation expense as listed above.

Management's Response: The Village shall investigate the adoption of a capitalization policy to determine a threshold to capitalize an asset or record it as an expenditure.

Due To/Due From Accounts

Findings 2009-3

Condition: The “due to/due from” accounts did not agree with each other. Numerous errors were posted to these accounts that overstated and understated revenues and expenses. The Village also has not repaid these balances for numerous years.

Criteria: These accounts are set up to record short-term amounts “due to/due from” other accounts and appropriations being transferred from one fund to another. An entry made in one fund should have an equal offsetting entry made into another fund. Essentially, “due to accounts” should equal “due from accounts.”

Further, the Uniform Chart of Accounts defines these accounts “to record short-term amounts due to/from other funds within the local unit.”

Cause: Village personnel did not review these balances.

Effect: Revenues and expenses were overstated and understated making the financial statements inaccurate.

Recommendation: We recommend that these accounts be periodically reviewed to ensure that they are in balance throughout the year. Further, we recommend that these balances be repaid to the funds making the short-term loans or that the balances be reclassified as long-term advances.

Management's Response: The Village shall periodically review due to/due from accounts to ensure that they are in balance throughout the year. The Village shall also repay the balances to the funds making them short-term loans and/or reclassify the balances as long-term advances.

VILLAGE OF MICHIANA

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended June 30, 2009

SIGNIFICANT DEFICIENCIES

Accruals

Finding 2009-4

Condition: Accruals (the recording of accounts receivable and accounts payable, and related revenues and expenses in the accounting period to which they relate) were not recorded.

Criteria: Governmental funds are to be maintained on the modified accrual basis of accounting. Generally accepted accounting principles also require that accounts receivable and accounts payable be established to properly match the fiscal year's revenues and expenses. Enterprise funds are to be maintained on the full accrual basis of accounting.

Effect: The corresponding revenue and expense accounts are misstated.

Cause: Village personnel did not complete their fiscal year end responsibilities, including the posting of accruals.

Recommendation: We recommend that the Village record accruals. The accruals should be reconciled to subsidiary records to support the balances in the respective general ledger accounts.

Management's Response: In light of the Village's financial position and the lack of an official audit report for fiscal year ending June 30, 2008, the normal accruals were not recorded. This was due in part to the financial software currently being used by the Village for its fund accounting. There were misstatements of finances recorded and the current clerk and current treasurer did not have good financial balances with which to begin reconciliation. From this point forward, the Village will record accruals to subsidiary records to support the balances in the respective general ledger accounts.

Imprest Cash

Finding 2009-5

Condition: The Village has two imprest cash balances. The first is \$100 posted to the General Fund and the second is \$100 posted to the Water Fund. Each is in the custody of the Village clerk. The accounts are not reconciled to either set amount as both imprest cash boxes contain less than the \$100 recorded.

Criteria: According to the Uniform Accounting Procedures Manual, the Village Council should adopt a policy statement or resolution regarding imprest cash. The amount posted as imprest cash in the general ledger of the Village must agree with the board established amounts. The imprest balances on hand should then be reconciled timely to the established balances.

Cause: The imprest cash has not been reviewed or addressed for an extended period of time.

VILLAGE OF MICHIANA

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended June 30, 2009

Effect: The General Fund and Water Fund will have to replace the unaccounted funds to reestablish the imprest cash balances to the correct amounts.

Recommendation: We recommend that the Village Council first establish a policy statement or resolution stating the imprest cash balances to be used by the Village. Second, the Village should adjust its general ledger to reflect the balances of the imprest cash. Third, the Village Council should establish procedures to reconcile the imprest cash balances.

Management's Response: Prior to the separation of duties of the clerk and the treasurer, there were no mechanisms in place to track imprest cash. The Village Council shall establish an Imprest Cash Policy stating the imprest cash balances to be used by the Village. The Village shall then adjust its general ledger to reflect the balances of the imprest cash. The clerk and treasurer have instituted procedures for the tracking of imprest cash.

Payroll Withholding Liability Accounts

Finding 2009-6

Condition: The Village is not monitoring the liability accounts used to record the amounts due to the State and Federal governments, and other entities for payroll withholdings.

Criteria: When payroll is processed, the employees' portion of the State, Federal, and other withholdings are recorded in liability accounts. At the time of payment to the State, IRS, or other entity, the employees' portion of the taxes and other withholdings due should be removed from the liability line-item reducing the balance of the accounts to zero.

Cause: These balances were created during the turnover of employees and the accounts going unmonitored during the fiscal year.

Effect: The liabilities are recorded incorrectly affecting all financial statements.

Recommendation: We recommend that the Village begin monitoring the payroll withholding liability line-items to verify the accuracy of the postings and to make certain the accounts are reaching a zero balance after the payments are made.

Management's Response: Prior to the separation of duties of the clerk and the treasurer, there were no mechanisms in place to verify that liability accounts used to record the amounts due to the State and Federal governments and other entities for payroll withholding were returned to a zero balance. Practices have been instituted wherein the payroll liabilities are paid at the time of payroll distribution, therefore reducing the liability accounts each payroll to a zero balance.

VILLAGE OF MICHIANA

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2009

STATUTORY NONCOMPLIANCE

Noncompliance with the Uniform Chart of Accounts

Finding 2009-7

Condition: The Village is not in compliance with the Uniform Chart of Accounts. The Village currently uses the following accounts 6560-Payroll Expenses, 945-IRA Expenses, 947-Holiday/Sick/Vacation, 951-Hospitalization, 955-Workers' Compensation, 956-Unemployment Compensation, and 957-FICA-Village Share to lump payments and fringe benefits to employees instead of posting the expenses to their respective activities (clerk, police, DPW). The Village also has other activity and account numbers that are not in accordance with the Uniform Chart of Accounts.

Criteria: MCL 141.421 states: "The state treasurer shall prescribe uniform charts of accounts for all local units of similar size, function, or service designed to fulfill the requirements of good accounting practices relating to general government... The official who by law or charter is charged with the responsibility for the financial affairs of the local unit shall insure that the local unit accounts are maintained and kept in accordance with the chart of accounts."

Effect: The Village is in noncompliance with State statute. Payroll is not being posted correctly and the true cost to provide each activity (clerk, police, DPW) cannot be determined under the current system.

Cause: The Village is in noncompliance during its use of the Quick-Books software package which is not a governmental accounting software and not used as such to be in accordance with the Uniform Chart of Accounts.

Directive: We direct the Village to post the payroll expenditures to the activities related to the activities of the employees instead of lumping them together. We also direct the Village to correct the activity and account numbers to comply with the State statute and the Uniform Chart of Accounts.

VILLAGE OF MICHIANA

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended June 30, 2009

	<u>Village Activity No.</u>	<u>Uniform Chart of Accounts Activity No.</u>
External Audit	101	223
Attorney	101	266
Planning	202	721
Tree and Fence Inspection	210	372
Treasurer	215	253

	<u>Village Account No.</u>	<u>Uniform Chart of Accounts Account No.</u>
Refunds and Rebates	466	676
Tree and Fence Permits	610	477
Sign Permits	630	478
CATV Franchise Fee Income	672	472
Tennis Tags	671	642
Cost and Fines--County	600	656
Court Ordered Costs	606	657
Vehicle Rental	676	667
Hall Rental Fees	701	668
Building Inspector Rent Income	702	669

Management's Response: The Village has purchased municipal fund accounting software from BS&A Software of Bath, Michigan. This finding should be reconciled beginning with clear beginning balances for this fiscal year going forward. The current clerk and treasurer felt that the chart of accounts contained in the present financial software was highly flawed but starting with correct beginning balances and going forward was the best position to take in light of the condition of the computerized financial information.

Vehicle Rental Expense

Finding 2009-8

Condition: Prior to the start of the audit, the Village had not recorded any of the vehicle rental expense for the current fiscal year.

Criteria: According to MCL 247.664: "All county road commissions and cities and Villages shall keep accurate and uniform records on all road and street work."

VILLAGE OF MICHIANA

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended June 30, 2009

Effect: The Village is in noncompliance with State statute. The General Fund is not being reimbursed for the equipment it has purchased that is being utilized by other funds.

Cause: The Village did not maintain any records or provide any means to record the usage of the vehicle rental.

Directive: We direct the Village to begin recording the vehicle rental expense to properly charge the street funds to comply with State statutes and reimburse the General Fund for the equipment it owns.

Management's Response: The Village will draft procedures for vehicle rental expense. A comprehensive review of all expenses was completed and the treasurer has recorded the vehicle rental expense to properly charge the street funds to comply with State statutes and reimburse the General Fund for the equipment it owns.

Electronic Transactions of Public Funds

Finding 2009-9

Condition: The Village has not adopted an Automated Clearing House (ACH) policy.

Criteria: According to MCL 124.303: "A local unit shall not be a party to an Automated Clearing House (ACH) arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer or the Electronic Transaction Officer (ETO) of the local unit has presented a written ACH policy to the governing body. The ACH policy shall include all of the following:

- (a) That an officer or employee designated by the treasurer or ETO is responsible for the local unit's ACH agreements, including payment approval, accounting, reporting, and generally for overseeing compliance with the ACH policy.
- (b) That the officer or employee responsible for disbursement of funds shall submit to the local unit documentation detailing the goods or services purchased, the cost of the goods or services, the date of the payment, and the department levels serviced by payment. This report can be contained in the electronic general ledger software system of the local unit or in a separate report to the governing body of the local unit.
- (c) A system of internal accounting controls to monitor the use of ACH transactions made by the local unit.
- (d) The approval of ACH invoices before payment.
- (e) Any other matters the treasurer or ETO considers necessary."

Effect: The Village is electronically transferring funds without legal authority.

Cause: Village personnel were not aware of the State statute.

Directive: We direct the Village Council to adopt a resolution to authorize electronic transactions and to adopt a policy that includes the above mentioned items.

VILLAGE OF MICHIANA

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended June 30, 2009

Management's Response: The Village shall adopt an Automated Clearing House (ACH) policy.

Social Security Number Privacy Policy

Finding 2009-10

Condition: The Village has not adopted a Social Security Number Privacy Policy.

Criteria: According to the Social Security Privacy Act, PA 454 of 2004, MCL 445.84, Section 4 (1), beginning January 1, 2006, a person in the ordinary course of business who obtains or retains information about one or more social security numbers must create a policy that does at least all of the following:

- (a) Ensures to the extent practicable, the confidentiality of the social security numbers.
- (b) Prohibits unlawful disclosure of social security numbers.
- (c) Limits who has access to information or documents that contain the social security numbers.
- (d) Describes how to properly dispose of documents that contain the social security numbers.
- (e) Establishes penalties for violation of the privacy policy.

Section 4, subsection 2, requires a person that creates a privacy policy under subsection 1 shall publish the privacy policy in an employee handbook, in a procedures manual, or in one or more similar documents, which may be made available electronically.

Effect: Social security numbers may be unlawfully disclosed as access to the information is not limited, disposal procedures are not formalized, and no penalties for violating the Act are established.

Cause: Village personnel were not aware of the State statute.

Directive: We direct the Village to adopt a Social Security Number Privacy Policy implementing at least the minimum protections and procedures listed above.

Management's Response: The Village shall adopt a Social Security Number Privacy Policy.

Investment Policy

Finding 2009-11

Condition: As of June 30, 2009, the Village Council has not adopted an investment policy in accordance with State statutes.

Criteria: According to PA 20 of 1943, as amended, a formal investment policy is to be adopted by the Village Council no later than December 31, 1998.

Directive: We direct that an investment policy be established in accordance with PA 20 of 1943, as amended.

Management's Response: The Village shall adopt an Investment Policy.

VILLAGE OF MICHIANA

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2009

Credit Card Policy

Finding 2009-12

Condition: The Village is using credit cards without adopting a credit card policy.

Criteria: Public Act 266 of 1995 requires a local unit to adopt, by **resolution, a written policy** that provides all of the following:

- a) A named officer or employee is responsible for the issuance, accounting, monitoring, and retrieval and generally for overseeing compliance with the credit card policy.
- b) That the credit card may be used only by an officer or employee for the purchase of goods or services for the official business of the local unit.
- c) The officer or employee using the credit card must submit documentation detailing the goods or services purchased, cost, date of the purchase, and the official business.
- d) The officer or employee issued the card is responsible for its protection and custody and shall immediately notify the local unit if the card is lost or stolen.
- e) The officer or employee must immediately surrender the card upon termination.
- f) For a system of internal controls to monitor the use of the credit card.
- g) Approval of credit card invoices **before** payment.
- h) That the balance including interest due on an extension of credit under the credit card arrangement shall be paid for not more than 60 days of the initial statement date. The local unit shall comply with this provision of the credit card policy.
- i) The policy must provide for disciplinary measures consistent with law for unauthorized use.
- j) Any other matters the governing body considers advisable.

Directive: We direct the Village to adopt a credit card policy that includes the items listed above.

Management's Response: The Village shall adopt a credit card policy including the items listed above.

Filing of Act 51 Report

Finding 2009-13

Condition: The Village has not filed its Act 51 report to the Michigan Department of Transportation.

Criteria: According to MCL 247.665, the Village shall file with the director of the State Transportation Department, not more than 120 days after the end of its fiscal year, on forms provided by the director, a report showing the disposition of funds, appropriated, apportioned, or allocated under this act to the Village.

Cause: No one from the Village prepared or submitted the report.

Effect: The Michigan Department of Transportation has withheld the Village's Michigan Transportation Fund payments, reducing the cash inflows to the Major and Local Street Funds.

VILLAGE OF MICHIANA

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended June 30, 2009

Directive: We direct the Village to file the Act 51 report with the Michigan Department of Transportation.

Management's Response: The Village has filed the Act 51 report with the Michigan Department of Transportation.

Failure to File Annual F-65 Reports and Audit Reports

Finding 2009-14

Condition: The Village failed to file the F-65 report and audit report for 2008 with the State of Michigan, Department of Treasury. This has led to the withholding of the statutory portion of the Village's State revenue sharing.

Criteria: MCL 141.421 Section 1 states: "The chief administrative officer of each local unit shall make an annual financial report (local unit fiscal report) which shall be uniform for all local units of the same class." Section 3 states: "One copy of the annual financial report required by subsection (1) shall be filed with the state treasurer within 6 months after the end of the fiscal year of the local unit."

MCL 141.921 further states (1) If a city, Village, township or county fails to provide an annual financial report or audit which conforms with the minimum procedures and standards prescribed by the state treasurer and is required under Act No. 2 of the Public Acts of 1968, as amended, being sections 141.421 to 141.440a of the Michigan Compiled Laws, or Act No. 71 of the Public Acts of 1919, being sections 21.41 to 21.53 of the Michigan Compiled Laws, the payments required under this act may be withheld until the financial report or audit is submitted as required by law.

Cause: No one from the Village prepared or submitted the reports.

Effect: The Michigan Department of Treasury is now withholding the statutory portion of the Village's State revenue sharing payments, reducing the cash inflow to the General Fund.

Directive: We direct that the Village file audit reports and F-65 reports as required by Federal and State governments. Once the reports are filed, we recommend that the Village request the release of State-shared revenues that have been withheld by the State.

Management's Response: The audit for fiscal year ending June 30, 2008 has recently been completed by the audit firm Rehmann Robson. The F-65 reports for fiscal year ending June 30, 2008 and fiscal year ending June 30, 2009 as required by Federal and State governments have been filed by the Village at this time.

VILLAGE OF MICHIANA

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended June 30, 2009

Violation of the Open Meetings Act

Finding 2009-15

Condition: On August 22, 2008, the Village Council meeting minutes indicated that the Council held closed meetings to discuss a personnel matter on the agenda. The minutes did not indicate that this was at the request of any individual.

Criteria: MCL 15.268 section 8 (b) of the Open Meetings Act states, “A public body may meet in a closed session to consider the dismissal, suspension, or disciplining of, or to hear complaints or charges brought against, or to consider a periodic personnel evaluation of, a public officer, employee, staff member, or individual agent, **if the named person requests a closed hearing**. A person requesting a closed hearing may rescind the request at any time, in which case the matter at issue shall be considered after the rescission only in open sessions.” (emphasis added)

MCL 15.267, section 7 (1) of the Open Meetings Act states, in part: “The roll call vote and the purpose or purposes for calling the closed session shall be entered into the minutes of the meeting at which the vote is taken.”

Directive: We direct the Village to discontinue holding closed sessions relating to Village personnel unless held in accordance with the State law above. If a meeting is held in accordance with the Open Meetings Act, the purpose of the closed session should be clearly defined in the minutes of the council meeting.

Management's Response: The Village shall discontinue holding closed sessions relating to Village personnel unless held in accordance with the State law above. If a meeting is held in accordance with the Open Meetings Act, the purpose of the closed session shall be clearly defined in the minutes of the council meeting.

Expenditures in Excess of Appropriations

Finding 2009-16

Condition: The Village’s 2009 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level by the Village. As detailed below, actual 2009 expenditures exceeded the Village Council’s approved budget allocations for several General Fund and Special Revenue Fund activities.

VILLAGE OF MICHIANA

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2009

During the fiscal year ended June 30, 2009, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund and Special Revenue Funds as follows:

<u>Fund, Function and Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess Expenditures</u>
General Fund			
General Government			
Other Professional	\$ 4,000	\$ 6,050	\$ (2,050)
Attorney Fees	5,000	23,355	(18,355)
Clerk	49,088	49,991	(903)
Treasurer		6,236	(6,236)
Public Safety			
Police	210,731	235,098	(24,367)
Fire Protection	27,319	27,369	(50)
Public Works			
Department of Public Works	67,891	92,125	(24,234)
Recreation and Culture			
Parks and Recreation	4,921	21,605	(16,684)
Other			
Unemployment	2,000	22,786	(20,786)
Major Street Fund			
Preservation		10,116	(10,116)
Winter Maintenance	5,606	17,689	(12,083)
Local Street Fund			
Winter Maintenance	4,473	11,782	(7,309)

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Section 17 of Public Act 2 of 1968.

Cause: The Village Council did not monitor its budgets.

Effect: The Village is in noncompliance with State statute. Unavailable funds continued to be spent despite the lack of budgeted funds to support the expenses.

Directive: We direct that the Village develop budgetary control procedures which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.

Management's Response: The Village shall develop budgetary control procedures which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.