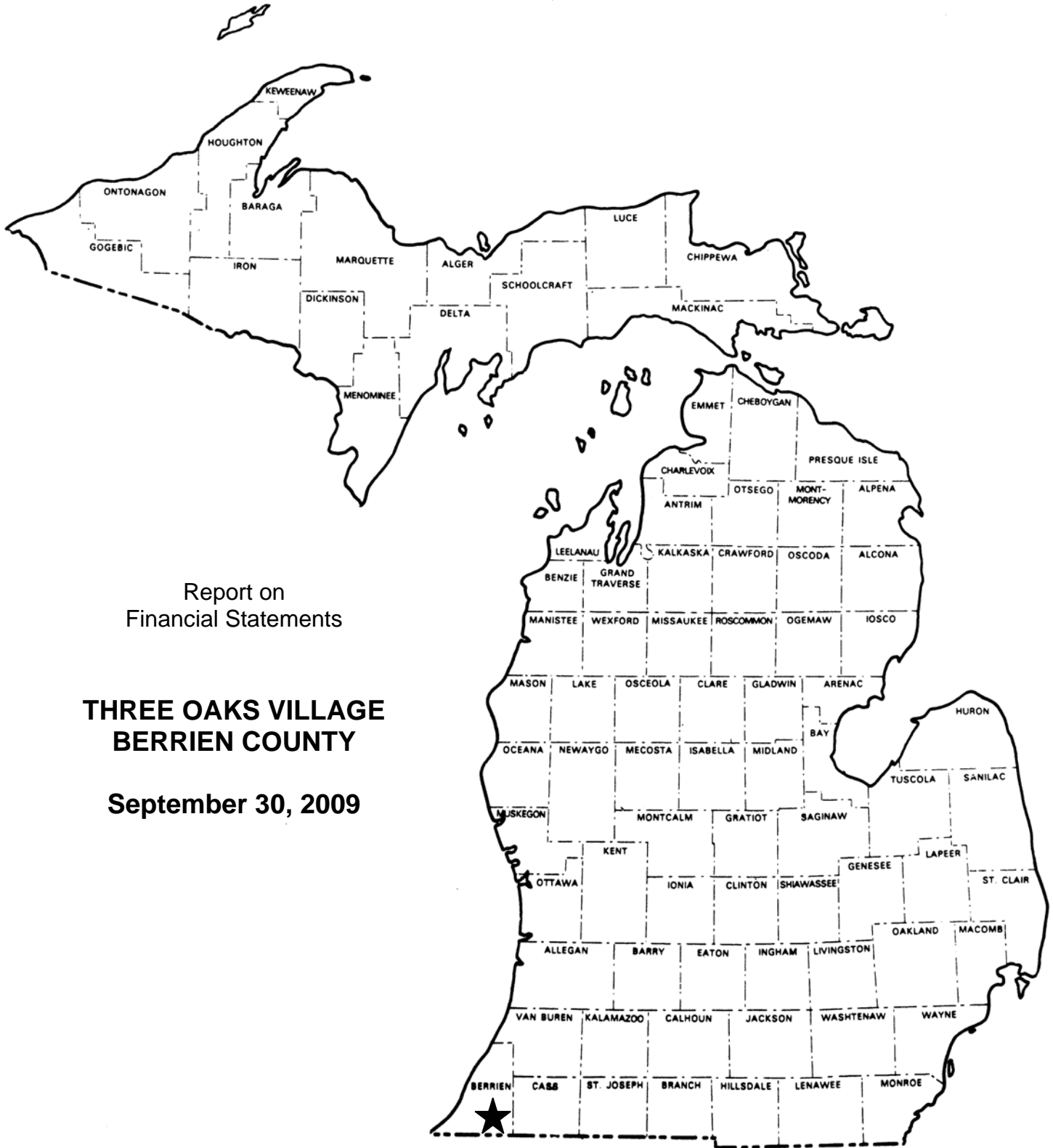


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY
Robert J. Kleine, Treasurer



Report on
Financial Statements

**THREE OAKS VILLAGE
BERRIEN COUNTY**

September 30, 2009

VILLAGE OF THREE OAKS

VILLAGE COUNCIL

David Grosse
President

John Pappa
President

John Kramer
Council Member

Bill Whittaker
Council Member

Sue Bartos
Council Member

Steve Graziano
Council Member

Cheryl Capiak
Council Member

Cynthia Moynihan
Clerk

Darlene Heemstra
Treasurer

VILLAGE POPULATION--2000
1,829

TAXABLE VALUATION--2009
\$38,898,863



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

March 17, 2010

Village Council
Village of Three Oaks
P.O. Box 335
Three Oaks, Michigan 49128

Independent Auditor's Report

Dear Council Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Three Oaks, Berrien County, Michigan, as of and for the fiscal year ended September 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, the component unit, each major fund, and the aggregate remaining fund information of the Village as of September 30, 2009, and the respective changes in financial position and cash flows, where applicable, 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 March 17, 2010 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, 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 6 and the budgetary comparison information (Exhibits J through N) 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 O through R 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 THREE OAKS

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VILLAGE OF THREE OAKS

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 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 increased approximately 84%, or \$689,354, from \$815,901 to \$1,505,255 for the fiscal year ended September 30, 2009. The investment in capital assets-net of related debt decreased \$50,701 due to depreciation on the Village's assets. The restricted assets increased \$489,898 and the unrestricted net assets increased by \$250,157 due to the final repayment on the road preservation projects performed in 2006/2007 and the General Fund's forgiveness of prior year amounts owed from the restricted funds. The Village also sold Watkins Park to the County and subsequently repurchased the park on a land contract increasing the cash reserves of the Village. Finally, the Village received \$56,549 in local revenue sharing from the casino.

Net assets as of the fiscal year ended September 30, 2009 for the governmental activities are as follows:

| | <u>Governmental Activities</u> <u>2008</u> | <u>Governmental Activities</u> <u>2009</u> | <u>Difference</u> | <u>Percent</u> |
|---|---|---|-------------------|----------------|
| Current Assets | \$ 423,071 | \$ 955,435 | \$ 532,364 | 126% |
| Noncurrent Assets | <u>639,266</u> | <u>833,169</u> | <u>193,903</u> | <u>30%</u> |
| Total Assets | <u>1,062,337</u> | <u>1,788,604</u> | <u>726,267</u> | <u>68%</u> |
| Current Liabilities | 229,714 | 22,023 | (207,691) | -90% |
| Noncurrent Liabilities | <u>16,722</u> | <u>261,326</u> | <u>244,604</u> | <u>1463%</u> |
| Total Liabilities | <u>246,436</u> | <u>283,349</u> | <u>36,913</u> | <u>15%</u> |
| Net Assets | | | | |
| Invested in Capital Assets Net of Related Debt | 622,544 | 571,843 | (50,701) | -8% |
| Restricted (Deficit) | (334,443) | 155,455 | 489,898 | -146% |
| Unrestricted | <u>527,800</u> | <u>777,957</u> | <u>250,157</u> | <u>47%</u> |
| Total Net Assets | <u>\$ 815,901</u> | <u>\$ 1,505,255</u> | <u>\$ 689,354</u> | <u>84%</u> |

VILLAGE OF THREE OAKS

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

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, charges 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.

The following table shows the changes of the net assets as of the current fiscal year to the prior fiscal year for the governmental activities:

| | Governmental Activities <u>2008</u> | Governmental Activities <u>2009</u> | <u>Difference</u> | <u>Percent</u> |
|------------------------------------|---|---|--------------------------|----------------------|
| Program Revenues | | | | |
| Charges for Services | \$ 172,352 | \$ 176,656 | \$ 4,304 | 2% |
| Operating Grants and Contributions | 114,034 | 167,604 | 53,570 | 47% |
| General Revenues | | | | |
| Property Taxes | 501,705 | 509,306 | 7,601 | 2% |
| State-Shared Revenues | 187,558 | 180,329 | (7,229) | -4% |
| Unrestricted Investment Earnings | 3,821 | 3,947 | 126 | 3% |
| Rents | 56,421 | 59,708 | 3,287 | 6% |
| Sale of Land | | 250,000 | 250,000 | 100% |
| Other | 65,726 | 5,233 | (60,493) | -92% |
| Tranfers | | 109,022 | 109,022 | 100% |
| Total Revenues | <u>1,101,617</u> | <u>1,461,805</u> | <u>360,188</u> | <u>33%</u> |
| Program Expenses | | | | |
| General Government | 205,238 | 128,911 | (76,327) | -37% |
| Public Safety | 326,353 | 258,904 | (67,449) | -21% |
| Public Works | 485,665 | 339,807 | (145,858) | -30% |
| Community and Economic Development | 18,606 | 2,725 | (15,881) | -85% |
| Recreation and Culture | 33,829 | 30,658 | (3,171) | -9% |
| Other | 70,908 | 9,484 | (61,424) | -87% |
| Interest Expense | 6,052 | 1,962 | (4,090) | -68% |
| Total Expenses | <u>1,146,651</u> | <u>772,451</u> | <u>(374,200)</u> | <u>-33%</u> |
| Change in Net Assets | <u><u>\$ (45,034)</u></u> | <u><u>\$ 689,354</u></u> | <u><u>\$ 734,388</u></u> | <u><u>-1631%</u></u> |

VILLAGE OF THREE OAKS

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

Net assets as of the fiscal year ended September 30, 2009 for the business-type activities are as follows:

| | Business-Type Activities <u>2008</u> | Business-Type Activities <u>2009</u> | <u>Difference</u> | <u>Percent</u> |
|---|--|--|-------------------|----------------|
| Current Assets | \$ 315,561 | \$ 431,954 | \$ 116,393 | 37% |
| Noncurrent Assets | <u>5,846,155</u> | <u>5,749,212</u> | <u>(96,943)</u> | <u>-2%</u> |
| Total Assets | <u>6,161,716</u> | <u>6,181,166</u> | <u>19,450</u> | <u>0%</u> |
| Current Liabilities | | 4,770 | 4,770 | 100% |
| Long-Term Liabilities | <u>3,409,000</u> | <u>3,269,000</u> | <u>(140,000)</u> | <u>-4%</u> |
| Total Liabilities | <u>3,409,000</u> | <u>3,273,770</u> | <u>(135,230)</u> | <u>-4%</u> |
| Net Assets | | | | |
| Invested in Capital Assets Net of Related Debt | 2,264,709 | 2,199,760 | (64,949) | -3% |
| Restricted | 172,446 | 280,452 | 108,006 | 63% |
| Unrestricted | <u>315,561</u> | <u>427,184</u> | <u>111,623</u> | <u>35%</u> |
| Total Net Assets | <u>\$ 2,752,716</u> | <u>\$ 2,907,396</u> | <u>\$ 154,680</u> | <u>6%</u> |

The Village's net assets for the business-type activities increased approximately 6%, or \$154,680, from \$2,752,716 to \$2,907,396 for the fiscal year ended September 30, 2009. The investment in capital assets-net of related debt decreased \$64,949 due to depreciation on the sewer and water system. The restricted assets increased \$108,006 as the Village set aside more funds in restricted cash accounts to comply with the bond requirements set forth by the United States Department of Agriculture. The unrestricted net assets increased by \$111,623 or 35% as the Village increased its rates for the first time in years.

VILLAGE OF THREE OAKS

**MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2009**

The following table shows the changes of the net assets as of the current fiscal year to the prior fiscal year for the business-type activities:

| | <u>Business-Type Activities 2008</u> | <u>Business-Type Activities 2009</u> | <u>Difference</u> | <u>Percent</u> |
|----------------------------------|--|--|-------------------|----------------|
| Program Revenues | | | | |
| Charges for Services | \$553,005 | \$673,921 | \$120,916 | 22% |
| General Revenues | | | | |
| Unrestricted Investment Earnings | <u>6,005</u> | <u>3,812</u> | <u>(2,193)</u> | <u>-37%</u> |
| Total Revenues | <u>559,010</u> | <u>677,733</u> | <u>118,723</u> | <u>21%</u> |
| Program Expenses | | | | |
| Water and Sewer | <u>537,313</u> | <u>523,053</u> | <u>(14,260)</u> | <u>-3%</u> |
| Total Expenses | <u>537,313</u> | <u>523,053</u> | <u>(14,260)</u> | <u>-3%</u> |
| Change in Net Assets | <u>\$ 21,697</u> | <u>\$154,680</u> | <u>\$132,983</u> | <u>613%</u> |

Business-Type Activities

The Village’s business-type activities consist of the Sewer and Water Fund. The Village provides sewage treatment and water to the majority of its residents. The revenues of the sewer and water system for the year have increased as the Village reviewed and increased the rates to begin to cover the cost of operations and set reserves as required by the bonding agreements. The Village will continue to monitor revenues and expenses in the subsequent year to ensure the funds stay fiscally sound.

Governmental Activities

The Village’s total governmental revenues increased by \$307,169 with the increase in tax base and the sale of Watkins Park mentioned previously. Expenses decreased by \$455,258, as deep cuts, layoffs, and other cost savings measures were put into place to begin to resolve the deficit situations that affected the Village in the prior year.

VILLAGE OF THREE OAKS

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

| | Governmental Activities <u>2008</u> | Governmental Activities <u>2009</u> | Amount Difference | Percent Difference |
|---|---|---|----------------------|-----------------------|
| Revenues | | | | |
| Taxes | \$ 440,397 | \$ 494,901 | \$ 54,504 | 12% |
| Licenses and Permits | 22,205 | 16,221 | (5,984) | -27% |
| State Grants | 301,166 | 289,918 | (11,248) | -4% |
| Charges for Services | 59,021 | 69,157 | 10,136 | 17% |
| Fines and Forfeits | 5,196 | 5,088 | (108) | 100% |
| Interest and Rentals | 60,668 | 64,114 | 3,446 | 6% |
| Other | 140,996 | 397,419 | 256,423 | 182% |
| Total Revenues | <u>1,029,649</u> | <u>1,336,818</u> | <u>307,169</u> | <u>30%</u> |
| Expenses | | | | |
| General Government | 200,296 | 123,969 | (76,327) | -38% |
| Public Safety | 309,623 | 244,757 | (64,866) | -21% |
| Public Works | 443,295 | 304,487 | (138,808) | -31% |
| Community and Economic Development | 18,606 | 2,725 | (15,881) | -85% |
| Recreation and Culture | 20,815 | 17,644 | (3,171) | -15% |
| Other | 70,908 | 9,484 | (61,424) | -87% |
| Capital Outlay | 30,825 | 261,326 | 230,501 | 748% |
| Debt Service | 36,797 | 18,684 | (18,113) | -49% |
| Total Expenses | <u>1,131,165</u> | <u>983,076</u> | <u>(148,089)</u> | <u>-13%</u> |
| Excess of Revenues Over Expenditures | <u>(101,516)</u> | <u>353,742</u> | <u>455,258</u> | <u>-448%</u> |
| Other Financing Sources (Uses) | | | | |
| Land Contract Proceeds | | 261,326 | 261,326 | 100% |
| Operating Transfers In | | 582,426 | 582,426 | 100% |
| Operating Transfers (Out) | | (473,404) | (473,404) | 100% |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>370,348</u> | <u>370,348</u> | <u>100%</u> |
| Beginning Fund Balance | <u>222,905</u> | <u>121,389</u> | <u>(101,516)</u> | <u>-46%</u> |
| Ending Fund Balance | <u>\$ 121,389</u> | <u>\$ 845,479</u> | <u>\$ 724,090</u> | <u>597%</u> |

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, Municipal Street Fund, Rubbish Fund, Sewer Fund, and Water Fund.

VILLAGE OF THREE OAKS

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

The General Fund pays for most of the Village's governmental services. The most significant are for general government, \$123,969; public safety, \$239,052; and public works, \$119,602. 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 Municipal Street Fund accounts for the extra voted millage levied to assist the Major and Local Street Fund maintain the Village's street system. The Sewer and Water Fund are described above.

General Fund Budgetary Highlights

Over the course of the year, the Village's budget was monitored monthly to continuously evaluate the financial position of the Village. Adjustments were approved throughout the year to try and take into account the activities of the Village for the year. The largest adjustment was to take into account the revenue for the sale of Watkins Park. (See Note H)

Capital Asset and Debt Administration

At the end of 2009, the Village's governmental funds had \$833,169 (net of accumulated depreciation) invested in a broad range of capital assets, including land, buildings, equipment, vehicles, and street infrastructure; and \$5,468,760 invested in the sewer and water system. To pay for Watkins Park owned by the General Fund, the Village entered into a land contract with current debt outstanding of \$261,326. To pay for the sewer and water capital assets, the Village entered into various debt obligations with current outstanding debt totaling \$3,269,000.

Economic Factors and Next Year's Budget and Rates

The Village's budget for 2010 has been designed to continue with the cost savings initiatives to bring the Village back to a sound fiscal status. The only remaining deficit in the Major Street Fund will be resolved during the 2010 year as the 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: P.O. Box 335, Three Oaks, MI 49128 (Phone # 269-756-9221).

VILLAGE OF THREE OAKS--BERRIEN COUNTY
 GOVERNMENT-WIDE STATEMENT OF NET ASSETS
 September 30, 2009

EXHIBIT A

| | PRIMARY GOVERNMENT | | | Component Unit |
|---|-------------------------|--------------------------|--------------|----------------|
| | Governmental Activities | Business-Type Activities | Total | |
| <u>ASSETS</u> | | | | |
| Current Assets | | | | |
| Cash and Cash Equivalents | \$ 842,116 | \$ 388,093 | \$ 1,230,209 | |
| Receivables (Net) | | | | |
| Taxes--Delinquent | 75,713 | | 75,713 | |
| Special Assessments--Delinquent | 12,220 | | 12,220 | |
| Accounts | 1,950 | 37,498 | 39,448 | |
| Due From County | | 12,387 | 12,387 | |
| Due From Other Funds--Primary Government | | | | |
| Internal Balances | 6,024 | (6,024) | - | |
| Due From State | 17,412 | | 17,412 | |
| Total Current Assets | 955,435 | 431,954 | 1,387,389 | \$ - |
| Noncurrent Assets | | | | |
| Reserved Cash | | 280,452 | 280,452 | |
| Capital Assets--Net of Accumulated Depreciation | 833,169 | 5,468,760 | 6,301,929 | |
| Total Assets | 1,788,604 | 6,181,166 | 7,969,770 | - |
| <u>LIABILITIES</u> | | | | |
| Current Liabilities | | | | |
| Accounts Payable | 7,987 | 1,242 | 9,229 | |
| Accrued Liabilities | 11,376 | 3,528 | 14,904 | |
| Escrow Payable | 2,660 | | 2,660 | |
| Total Current Liabilities | 22,023 | 4,770 | 26,793 | - |
| Long-Term Liabilities | | | | |
| Bonds Payable--Due Within One Year | | 140,000 | 140,000 | |
| Bonds Payable--Due in More Than One year | | 3,129,000 | 3,129,000 | |
| Land Contract Payable--Due in More Than One Year | 261,326 | | 261,326 | |
| Total Long-Term Liabilities | 261,326 | 3,269,000 | 3,530,326 | - |
| Total Liabilities | 283,349 | 3,273,770 | 3,557,119 | - |
| <u>NET ASSETS</u> | | | | |
| Investment in Capital Assets--Net of Related Debt | 571,843 | 2,199,760 | 2,771,603 | |
| Restricted for | | | | |
| Major Street | (35,073) | | (35,073) | |
| Local Street | 11,774 | | 11,774 | |
| Municipal Street | 79,009 | | 79,009 | |
| Rubbish | 95,738 | | 95,738 | |
| Nonmajor Governmental | 4,007 | | 4,007 | |
| Downtown Development Authority | | | | - |
| Reserved Cash | | 280,452 | 280,452 | |
| Unrestricted | 777,957 | 427,184 | 1,205,141 | |
| Total Net Assets | \$ 1,505,255 | \$ 2,907,396 | \$ 4,412,651 | \$ - |

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

VILLAGE OF THREE OAKS--BERRIEN COUNTY
 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
 For the Fiscal Year Ended September 30, 2009

EXHIBIT B

| Functions/Programs | PROGRAM REVENUES | | | NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS | | | |
|---|---------------------|----------------------|------------------------------------|---|--------------------------|---------------------|------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | PRIMARY GOVERNMENT | | | Component Unit |
| | | | | Governmental Activities | Business-Type Activities | Total | |
| Primary Government | | | | | | | |
| Governmental Activities | | | | | | | |
| General Government | \$ 128,911 | \$ 8,069 | \$ 57,556 | \$ (63,286) | | \$ (63,286) | |
| Public Safety | 258,904 | 80,452 | 3,071 | (175,381) | | (175,381) | |
| Public Works | 339,807 | 86,190 | 106,977 | (146,640) | | (146,640) | |
| Community and Economic Development | 2,725 | 870 | | (1,855) | | (1,855) | |
| Recreation and Culture | 30,658 | 1,075 | | (29,583) | | (29,583) | |
| Other | 9,484 | | | (9,484) | | (9,484) | |
| Interest | 1,962 | | | (1,962) | | (1,962) | |
| Total Governmental Activities | <u>772,451</u> | <u>176,656</u> | <u>167,604</u> | <u>(428,191)</u> | <u>\$ -</u> | <u>(428,191)</u> | |
| Business-Type Activities | | | | | | | |
| Sewer | 331,289 | 416,785 | | | 85,496 | 85,496 | |
| Water | 191,764 | 257,136 | | | 65,372 | 65,372 | |
| Total Business-Type Activities | <u>523,053</u> | <u>673,921</u> | <u>-</u> | <u>-</u> | <u>150,868</u> | <u>150,868</u> | |
| Total Primary Government | <u>\$ 1,295,504</u> | <u>\$ 850,577</u> | <u>\$ 167,604</u> | <u>\$ (428,191)</u> | <u>\$ 150,868</u> | <u>\$ (277,323)</u> | |
| Component Units | | | | | | | |
| Downtown Development Authority | \$ 836 | | | | | | \$ (836) |
| Total Component Units | <u>\$ 836</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (836)</u> |
| General Revenues | | | | | | | |
| Property Taxes | | | | \$ 509,306 | | \$ 509,306 | |
| State-Shared Revenues | | | | 180,329 | | 180,329 | |
| Unrestricted Investment Earnings | | | | 3,947 | \$ 3,812 | 7,759 | \$ 329 |
| Rents | | | | 59,708 | | 59,708 | |
| Sale of Land | | | | 250,000 | | 250,000 | |
| Other Revenues | | | | 5,233 | | 5,233 | |
| Transfers | | | | 109,022 | | 109,022 | (109,022) |
| Total General Revenues--Special Items and Transfers | | | | <u>1,117,545</u> | <u>3,812</u> | <u>1,121,357</u> | <u>(108,693)</u> |
| Change in Net Assets | | | | 689,354 | 154,680 | 844,034 | (109,529) |
| Net Assets--Beginning | | | | <u>815,901</u> | <u>2,752,716</u> | <u>3,568,617</u> | <u>109,529</u> |
| Net Assets--Ending | | | | <u>\$ 1,505,255</u> | <u>\$ 2,907,396</u> | <u>\$ 4,412,651</u> | <u>\$ -</u> |

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

VILLAGE OF THREE OAKS--BERRIEN COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2009

EXHIBIT C

| | MAJOR FUNDS | | | | | Nonmajor Funds | Total Governmental Funds |
|---|--------------------|------------------|-------------------|---------------------|------------------|-------------------|--------------------------------|
| | General | Major Street | Local Street | Municipal Street | Rubbish | | |
| <u>ASSETS</u> | | | | | | | |
| Cash and Cash Equivalents | \$ 683,410 | \$ 25,073 | \$ 70,193 | \$ 42,288 | \$ 14,098 | \$ 7,054 | \$ 842,116 |
| Receivables | | | | | | | |
| Taxes--Delinquent | 54,296 | | | 21,417 | | | 75,713 |
| Special Assessments--Delinquent Accounts | 1,950 | | | | 12,220 | | 12,220 |
| Due From State | | 11,904 | 5,508 | | | | 17,412 |
| Due From Other Funds--Primary Government | 147,048 | | 35,943 | 15,304 | 69,420 | | 267,715 |
| Total Assets | \$ 886,704 | \$ 36,977 | \$ 111,644 | \$ 79,009 | \$ 95,738 | \$ 7,054 | \$ 1,217,126 |
| <u>LIABILITIES AND FUND EQUITY</u> | | | | | | | |
| Liabilities | | | | | | | |
| Accounts Payable | \$ 6,764 | | | | | \$ 1,223 | \$ 7,987 |
| Due to Other Funds--Primary Government | 88,055 | \$ 71,942 | \$ 99,870 | | | 1,824 | 261,691 |
| Accrued Liabilities | 11,268 | 108 | | | | | 11,376 |
| Escrows Payable | 2,660 | | | | | | 2,660 |
| Deferred Revenue | 54,296 | | | \$ 21,417 | \$ 12,220 | | 87,933 |
| Total Liabilities | 163,043 | 72,050 | 99,870 | 21,417 | 12,220 | 3,047 | 371,647 |
| Fund Equity | | | | | | | |
| Fund Balances (Deficits) | | | | | | | |
| Reserved for | | | | | | | |
| Major Street | | (35,073) | | | | | (35,073) |
| Local Street | | | 11,774 | | | | 11,774 |
| Municipal Street | | | | 57,592 | | | 57,592 |
| Rubbish | | | | | 83,518 | | 83,518 |
| Nonmajor Governmental | | | | | | 4,007 | 4,007 |
| Unreserved--Undesignated | 723,661 | | | | | | 723,661 |
| Total Fund Equity | 723,661 | (35,073) | 11,774 | 57,592 | 83,518 | 4,007 | 845,479 |
| Total Liabilities and Fund Equity | \$ 886,704 | \$ 36,977 | \$ 111,644 | \$ 79,009 | \$ 95,738 | \$ 7,054 | \$ 1,217,126 |
| Fund Balances--Total Governmental Funds | | | | | | | \$ 845,479 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds | | | | | | | 833,169 |
| Revenues that do not provide current financial resources are not reported as revenue in the funds--delinquent property taxes. | | | | | | | 87,933 |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds. | | | | | | | (261,326) |
| Net Assets of Governmental Activities | | | | | | | <u>\$ 1,505,255</u> |

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

VILLAGE OF THREE OAKS--BERRIEN COUNTY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended September 30, 2009

EXHIBIT D

| | MAJOR FUNDS | | | | | | Total Governmental Funds |
|--|--------------------|--------------------|------------------|---------------------|------------------|--------------------|--------------------------------|
| | General | Major Street | Local Street | Municipal Street | Rubbish | Non-Major Funds | |
| Revenues | | | | | | | |
| Taxes | \$ 355,503 | | | \$ 139,398 | | | \$ 494,901 |
| Licenses and Permits | 8,829 | | | | | \$ 7,392 | 16,221 |
| State Grants | 183,388 | \$ 73,319 | \$ 33,211 | | | | 289,918 |
| Charges for Services | 69,157 | | | | | | 69,157 |
| Fines and Forfeits | 5,048 | | | | | 40 | 5,088 |
| Interest and Rentals | 63,655 | 70 | 55 | 194 | \$ 128 | 12 | 64,114 |
| Other Revenue | 312,789 | | | | 84,630 | | 397,419 |
| Total Revenues | 998,369 | 73,389 | 33,266 | 139,592 | 84,758 | 7,444 | 1,336,818 |
| Expenditures | | | | | | | |
| Current | | | | | | | |
| General Government | 123,969 | | | | | | 123,969 |
| Public Safety | 239,052 | | | | | 5,705 | 244,757 |
| Public Works | 119,602 | 66,739 | 40,687 | | 77,459 | | 304,487 |
| Community and Economic Development | 2,725 | | | | | | 2,725 |
| Recreation and Cultural | 17,644 | | | | | | 17,644 |
| Other | 9,484 | | | | | | 9,484 |
| Capital Outlay | 261,326 | | | | | | 261,326 |
| Debt Service | 18,684 | | | | | | 18,684 |
| Total Expenditures | 792,486 | 66,739 | 40,687 | - | 77,459 | 5,705 | 983,076 |
| Excess of Revenues Over (Under) Expenditures | 205,883 | 6,650 | (7,421) | 139,592 | 7,299 | 1,739 | 353,742 |
| Other Financing Sources (Uses) | | | | | | | |
| Land Contract Proceeds | 261,326 | | | | | | 261,326 |
| Interfund Transfers In | 109,022 | 97,000 | 190,000 | 94,459 | 91,945 | | 582,426 |
| Interfund Transfers (Out) | (336,404) | | | (137,000) | | | (473,404) |
| Total Other Financing Sources (Uses) | 33,944 | 97,000 | 190,000 | (42,541) | 91,945 | - | 370,348 |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | 239,827 | 103,650 | 182,579 | 97,051 | 99,244 | 1,739 | 724,090 |
| Fund Balance (Deficit)--October 1, 2008 | 483,834 | (138,723) | (170,805) | (39,459) | (15,726) | 2,268 | 121,389 |
| Fund Balance (Deficit)--September 30, 2009 | <u>\$ 723,661</u> | <u>\$ (35,073)</u> | <u>\$ 11,774</u> | <u>\$ 57,592</u> | <u>\$ 83,518</u> | <u>\$ 4,007</u> | <u>\$ 845,479</u> |
| Net Change in Fund Balances--Total Governmental Funds | | | | | | | \$ 724,090 |
| 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 | | | | | | | 261,326 |
| Deduct--Depreciation Expense | | | | | | | (67,423) |
| Net increase in revenue between the 2009 delinquent taxes and the 2008 delinquent taxes collected during 2009. | | | | | | | 15,965 |
| Repayments of installment purchase agreements is an expenditure in the governmental funds, but not in the Statement of Activities (where it reduces the long-term debt). | | | | | | | (244,604) |
| Change in Net Assets of Governmental Activities | | | | | | | <u>\$ 689,354</u> |

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

VILLAGE OF THREE OAKS--BERRIEN COUNTY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2009

EXHIBIT E

| | ENTERPRISE FUNDS | | Total Enterprise Funds |
|--|-------------------------|-------------------|------------------------------|
| | Major Funds | | |
| | Sewer | Water | |
| <u>ASSETS</u> | | | |
| Current Assets | | | |
| Cash and Cash Equivalents | \$ 138,935 | \$ 249,158 | \$ 388,093 |
| Accounts Receivable | 20,983 | 16,515 | 37,498 |
| Due From County | 6,118 | 6,269 | 12,387 |
| Due From Other Funds | 3,331 | 908 | 4,239 |
| Total Current Assets | <u>169,367</u> | <u>272,850</u> | <u>442,217</u> |
| Noncurrent Assets | | | |
| Reserved Cash | 256,429 | 24,023 | 280,452 |
| Capital Assets--Net of Accumulated Depreciation | <u>4,812,459</u> | <u>656,301</u> | <u>5,468,760</u> |
| Total Noncurrent Assets | <u>5,068,888</u> | <u>680,324</u> | <u>5,749,212</u> |
| Total Assets | <u>5,238,255</u> | <u>953,174</u> | <u>6,191,429</u> |
| <u>LIABILITIES</u> | | | |
| Current Liabilities | | | |
| Accounts Payable | 492 | 750 | 1,242 |
| Due to Other Funds | 908 | 9,355 | 10,263 |
| Accrued Wages | <u>1,411</u> | <u>2,117</u> | <u>3,528</u> |
| Total Current Liabilities | <u>2,811</u> | <u>12,222</u> | <u>15,033</u> |
| Noncurrent Liabilities | | | |
| Bonds Payable--Due Within One Year | 115,000 | 25,000 | 140,000 |
| Bonds Payable--Due in More Than One Year | <u>2,454,000</u> | <u>675,000</u> | <u>3,129,000</u> |
| Total Noncurrent Liabilities | <u>2,569,000</u> | <u>700,000</u> | <u>3,269,000</u> |
| Total Liabilities | <u>2,571,811</u> | <u>712,222</u> | <u>3,284,033</u> |
| <u>NET ASSETS</u> | | | |
| Invested in Capital Assets | | | |
| Net of Related Debt | 2,243,459 | (43,699) | 2,199,760 |
| Restricted | 256,429 | 24,023 | 280,452 |
| Unrestricted | <u>166,556</u> | <u>260,628</u> | <u>427,184</u> |
| Total Net Assets | <u>\$ 2,666,444</u> | <u>\$ 240,952</u> | <u>\$ 2,907,396</u> |

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

VILLAGE OF THREE OAKS--BERRIEN COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS--PROPRIETARY FUNDS
For the Fiscal Year Ended September 30, 2009

EXHIBIT F

| | ENTERPRISE FUNDS | | Total Enterprise Funds |
|--|-------------------------|------------|------------------------------|
| | Major Funds | | |
| | Sewer | Water | |
| Operating Revenues | | | |
| Charges for Services | \$ 416,785 | \$ 257,136 | \$ 673,921 |
| Total Operating Revenues | 416,785 | 257,136 | 673,921 |
| Operating Expenses | | | |
| Wages and Fringes | 46,037 | 78,070 | 124,107 |
| Operating Expenses | 11,721 | 16,567 | 28,288 |
| Repairs and Maintenance | 6,596 | 1,566 | 8,162 |
| Contracted Services | 1,462 | 598 | 2,060 |
| Utilities | 7,539 | 12,921 | 20,460 |
| Insurance | 1,718 | 1,420 | 3,138 |
| Depreciation | 168,986 | 35,963 | 204,949 |
| Total Operating Expenses | 244,059 | 147,105 | 391,164 |
| Operating Income (Loss) | 172,726 | 110,031 | 282,757 |
| Nonoperating Revenues (Expenses) | | | |
| Interest Earned on Investments | 2,499 | 1,313 | 3,812 |
| Interest Expense | (87,230) | (44,659) | (131,889) |
| Total Nonoperating Revenues (Expenses) | (84,731) | (43,346) | (128,077) |
| Income (Loss) Before Contributions | 87,995 | 66,685 | 154,680 |
| Change in Net Assets | 87,995 | 66,685 | 154,680 |
| Total Net Assets--October 1, 2008 | 2,578,449 | 174,267 | 2,752,716 |
| Total Net Assets--September 30, 2009 | \$ 2,666,444 | \$ 240,952 | \$ 2,907,396 |

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

VILLAGE OF THREE OAKS--BERRIEN COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended September 30, 2009

EXHIBIT G

| | ENTERPRISE FUNDS | | Total Enterprise Funds |
|--|-------------------------|-------------------|------------------------------|
| | Major Funds | | |
| | Sewer | Water | |
| Cash Flows From Operating Activities | | | |
| Cash Received From Customers | \$ 425,420 | \$ 259,922 | \$ 685,342 |
| Cash Payments to Employees for Services and Benefits | (45,545) | (75,953) | (121,498) |
| Cash Payments to Suppliers for Goods and Services | (27,625) | (32,322) | (59,947) |
| Net Cash Provided by Operating Activities | <u>352,250</u> | <u>151,647</u> | <u>503,897</u> |
| Cash Flows From Noncapital Financing Activities | | | |
| Due From Other Funds | <u>20,793</u> | <u>35,540</u> | <u>56,333</u> |
| Net Cash Provided by Noncapital Financing Activities | <u>20,793</u> | <u>35,540</u> | <u>56,333</u> |
| Cash Flows From Capital and Related Financing Activities | | | |
| Reduction of Debt | (115,000) | (25,000) | (140,000) |
| Interest Paid on Bonds | (87,230) | (44,659) | (131,889) |
| Net Cash Provided by Capital and Related Financing Activities | <u>(202,230)</u> | <u>(69,659)</u> | <u>(271,889)</u> |
| Cash Flows From Investing Activities | | | |
| Interest on Cash Equivalents | <u>2,499</u> | <u>1,313</u> | <u>3,812</u> |
| Net Cash Provided by Investing Activities | <u>2,499</u> | <u>1,313</u> | <u>3,812</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 173,312 | 118,841 | 292,153 |
| Cash and Cash Equivalents at Beginning of Year | <u>222,052</u> | <u>154,340</u> | <u>376,392</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 395,364</u> | <u>\$ 273,181</u> | <u>\$ 668,545</u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | | | |
| Operating Income (Loss) | \$ 172,726 | \$ 110,031 | \$ 282,757 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities | | | |
| Depreciation Expense | 168,986 | 35,963 | 204,949 |
| (Increase) Decrease in Accounts Receivable | 8,635 | 2,786 | 11,421 |
| Increase (Decrease) in Accounts Payable | 492 | 750 | 1,242 |
| Increase (Decrease) in Accrued Liabilities | 1,411 | 2,117 | 3,528 |
| Net Cash Provided by Operating Activities | <u>\$ 352,250</u> | <u>\$ 151,647</u> | <u>\$ 503,897</u> |

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

**VILLAGE OF THREE OAKS--BERRIEN COUNTY
STATEMENT OF NET ASSETS
COMPONENT UNIT
September 30, 2009**

EXHIBIT H

| | <u>Downtown Development Authority</u> |
|---------------------------|---|
| <u>ASSETS</u> | |
| Total Assets | \$ - |
| <u>LIABILITIES</u> | |
| Total Liabilities | - |
| <u>NET ASSETS</u> | |
| Total Net Assets | \$ - |

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

VILLAGE OF THREE OAKS--BERRIEN COUNTY
STATEMENT OF ACTIVITIES
COMPONENT UNIT
For the Fiscal Year Ended September 30, 2009

EXHIBIT I

| | <u>Downtown Development Authority</u> |
|------------------------|---|
| Program Expenses | |
| Public Works | <u>\$ 836</u> |
| Total Program Expenses | <u>836</u> |
| Net Program Revenue | <u>(836)</u> |
| General Revenue | |
| Interest | <u>329</u> |
| Total General Revenue | <u>329</u> |
| Transfers (Out) | <u>(109,022)</u> |
| Change in Net Assets | (109,529) |
| Net Assets | |
| Beginning of Year | <u>109,529</u> |
| End of Year | <u><u>\$ -</u></u> |

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

VILLAGE OF THREE OAKS

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

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village is located in Berrien County and provides services to its 1,829 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 seven member council, including a president elected by the citizens of the Village. The accounting policies of the Village of Three Oaks (Village) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village.

Reporting Entity

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. Based on the above criteria, these financial statements present the financial statements of the Village (the primary government) and its component unit.

The individual component unit discussed below is included in the Village's reporting entity because of the significance of their operational or financial relationships with the Village. The following discretely presented component unit is reported within the "component unit" column in the government-wide financial statements.

Discretely Presented Component Unit

The Downtown Development Authority is the Village's only discretely presented component unit. A discretely presented component unit is an entity that is legally separate from the Village, but for which the Village is financially accountable, or its relationship with the Village is such that exclusion would cause the financial statements to be misleading or incomplete.

The Downtown Development Authority was created as a tax increment financing district to correct and prevent deterioration in the downtown district, encourage historical preservation and to promote economic growth in the downtown area of the Village. The authority was governed by a five-member board selected by the Village Council. In addition, the Authority's budget was subject to the approval of the Village Council. During the 2009 fiscal year, the Village Council approved to dissolve the Authority as its projects had been completed, and approved the transfer of the remaining fund balance to the primary government's General Fund.

VILLAGE OF THREE OAKS

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

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

Basis of Presentation--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 and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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 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.

VILLAGE OF THREE OAKS

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

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

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.

The Municipal Street Fund accounts for the extra voted millage restricted for use on both the major and local streets.

The Rubbish Fund accounts for the special assessments used to pay for the rubbish collection.

The Village reports the following major proprietary funds:

The Sewer Fund accounts for the sewer operations of the Village.

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

VILLAGE OF THREE OAKS

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

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

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. The statement of cash flows includes both restricted and unrestricted cash.

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 THREE OAKS

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 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 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 | |
| Sewer System | | 50 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 THREE OAKS

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 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 monitors and amends 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 THREE OAKS

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 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 | | | |
| Clerk | \$ 26,100 | \$ 26,623 | \$ (523) |
| Treasurer | 22,762 | 23,430 | (668) |
| Public Works | | | |
| Street Lights | 18,400 | 18,624 | (224) |
| Community and Economic Development | | | |
| Planning Commission | 2,450 | 2,725 | (275) |
| Capital Outlay | | 261,326 | (261,326) |
| Debt Service | | | |
| Principal | | 16,722 | (16,722) |
| Transfers (Out) | 75,500 | 336,404 | (260,904) |

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 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 adopt an ACH policy in accordance with PA 738 of 2002 (MCL 124.303)

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.

VILLAGE OF THREE OAKS

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

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

The Village has designated three banks for the deposit of Village funds. The investment policy adopted by the Village Council in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Village's deposits and investment policy are in accordance with statutory authority.

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> | <u>Component Unit</u> |
|----------------------------------|------------------------------------|-------------------------------------|---------------------|-----------------------------|
| Cash and Cash Equivalents | \$842,116 | \$ 388,093 | \$ 1,230,209 | |
| Restricted Assets--Reserved Cash | <u> </u> | <u>280,452</u> | <u>280,452</u> | <u> </u> |
| Total | <u>\$842,116</u> | <u>\$ 668,545</u> | <u>\$ 1,510,661</u> | <u>\$ -</u> |

The breakdown between deposits and investments is as follows:

| | <u>Primary Government</u> |
|---|-------------------------------|
| Bank Deposits (Checking and Savings Accounts, Certificates of Deposit) | \$1,510,461 |
| Petty Cash and Cash on Hand | <u>200</u> |
| Total | <u>\$1,510,661</u> |

The bank balance of the Village's deposits is \$1,523,287, of which \$361,234 is covered by Federal depository insurance. The remaining \$1,162,053 is uncollateralized. 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.

Investments Authorized by the Village's Investment Policy

The Village's investment policy only authorizes investment in all those that are authorized by law. The Village currently has no investments. The investment policy does not contain any specific provisions intended to limit the exposure to interest rate risk and credit risk.

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.

VILLAGE OF THREE OAKS

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

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

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 investment policy of the Village contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

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.

NOTE D--PROPERTY TAXES

The Village's 2009 ad valorem tax was levied and collectible on July 1, 2009. 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 operations. Property taxes are recognized when received. The 2009 State taxable valuation amounted to \$38,898,863, on which ad valorem taxes levied for all Village purposes were \$494,901. There were 9.2450 mills for general operations and 3.6978 mills for street improvements. These taxes were recognized in the respective General and Municipal Street Funds.

Uncollected real property taxes, which become delinquent October 1, are purchased by Berrien County and paid to the Village in May of the subsequent year. The delinquent taxes at September 30th are recorded as delinquent taxes receivable and are offset by deferred revenue.

VILLAGE OF THREE OAKS

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

NOTE E--RECEIVABLES

Taxes/Special Assessment Receivable--Delinquent

The delinquent taxes receivable in the General Fund and Municipal Street Fund along with the delinquent special assessments receivable in the Rubbish Fund at September 30, 2009, consist of uncollected real property taxes and special assessments levied July 1, 2009, which were not been collected by November 30, 2009. The delinquent property taxes for the General and Municipal Street Funds are \$54,296 and \$21,417, respectively, and the delinquent special assessments for the Rubbish Fund are \$12,220; and are offset by deferred revenue in the governmental fund financial statements.

Accounts Receivable

The General Fund has an account receivable amount of \$1,950 for a franchise fee receivable due from the local cable company at September 30, 2009.

Accounts receivable are also recorded in the Sewer and Water Funds. The receivables are based on the sewer and 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 receivable for the Sewer Fund is \$20,983 and the receivable for the Water Fund is \$16,515. The receivables are not offset by deferred revenue.

NOTE F--INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The interfund receivables and payables for the primary government are as follows:

| <u>Fund</u> | <u>Interfund Receivable</u> | <u>Fund</u> | <u>Interfund Payable</u> |
|--------------------------|---------------------------------|--------------------------|------------------------------|
| Primary Government | | Primary Government | |
| General | \$ 147,048 | General | \$ 88,055 |
| Local Street | 35,943 | Major Street | 71,942 |
| Municipal Street | 15,304 | Local Street | 99,870 |
| Rubbish | 69,420 | Nonmajor Governmental | 1,824 |
| Sewer | 3,331 | Sewer | 908 |
| Water | <u>908</u> | Water | <u>9,355</u> |
| Total Primary Government | <u>\$ 271,954</u> | Total Primary Government | <u>\$271,954</u> |

VILLAGE OF THREE OAKS

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

NOTE F--INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)

The transfers for the primary government are as follows:

| <u>Fund</u> | <u>Transfers In</u> | <u>Fund</u> | <u>Transfers (Out)</u> |
|--------------------------|-------------------------|--------------------------------|----------------------------|
| Primary Government | | Primary Government | |
| Major Street | \$ 97,000 | General | \$ 336,404 |
| Local Street | 190,000 | Municipal Street | 137,000 |
| Municipal Street | 94,459 | | |
| Rubbish | 91,945 | | |
| Total Primary Government | <u>\$473,404</u> | Total Primary Government | <u>\$ 473,404</u> |
| Primary Government | | Component Unit | |
| General | \$109,022 | Downtown Development Authority | \$ 109,022 |
| Total Primary Government | <u>\$109,022</u> | Total Component Unit | <u>\$ 109,022</u> |

NOTE G--CAPITAL ASSETS

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

| <u>Governmental Activities</u> | <u>Account Balances 10/01/08</u> | <u>Additions</u> | <u>Deductions</u> | <u>Account Balances 09/30/09</u> |
|---------------------------------------|--|-------------------|-------------------|--|
| Capital Assets Not Being Depreciated | | | | |
| Land | | \$ 261,326 | | \$ 261,326 |
| Total | \$ - | 261,326 | \$ - | 261,326 |
| Capital Assets Being Depreciated | | | | |
| Land Improvements | 47,086 | | | 47,086 |
| Buildings and Building Improvements | 397,261 | | | 397,261 |
| Equipment | 168,540 | | | 168,540 |
| Vehicles | 388,086 | | | 388,086 |
| Infrastructure--Roads | 259,622 | | | 259,622 |
| Total | 1,260,595 | - | - | 1,260,595 |
| Less Accumulated Depreciation | | | | |
| Land Improvements | 11,114 | 1,233 | | 12,347 |
| Buildings and Building Improvements | 177,939 | 16,951 | | 194,890 |
| Equipment | 130,334 | 9,813 | | 140,147 |
| Vehicles | 288,961 | 26,445 | | 315,406 |
| Infrastructure--Roads | 12,981 | 12,981 | | 25,962 |
| Total | 621,329 | 67,423 | - | 688,752 |
| Net Capital Assets Being Depreciated | 639,266 | - | 67,423 | 571,843 |
| Governmental Activities Capital Total | | | | |
| Capital Assets--Net of Depreciation | <u>\$ 639,266</u> | <u>\$ 261,326</u> | <u>\$ 67,423</u> | <u>\$ 833,169</u> |

The depreciation expense was \$67,423 during the year.

VILLAGE OF THREE OAKS

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

NOTE G--CAPITAL ASSETS (Continued)

| <u>Business-Type Activities</u> | <u>Account Balances 10/01/08</u> | <u>Additions</u> | <u>Deductions</u> | <u>Account Balances 09/30/09</u> |
|---|--|--------------------|-------------------------|--|
| Capital Assets Not Being Depreciated | | | | |
| Land--Sewer System | \$ 30,017 | | | \$ 30,017 |
| Land--Water System | 24,500 | | | 24,500 |
| Subtotal | <u>54,517</u> | <u>\$ -</u> | <u>\$ -</u> | <u>54,517</u> |
| Capital Assets Being Depreciated | | | | |
| Sewer System | 6,895,048 | | | 6,895,048 |
| Sewer Equipment | 159,705 | | | 159,705 |
| Water System | 1,630,301 | | | 1,630,301 |
| Water Equipment | <u>52,491</u> | | | <u>52,491</u> |
| Total | <u>8,737,545</u> | <u>-</u> | <u>-</u> | <u>8,737,545</u> |
| Less Accumulated Depreciation | | | | |
| Sewer System | 1,966,582 | 162,710 | | 2,129,292 |
| Sewer Equipment | 136,744 | 6,276 | | 143,020 |
| Water System | 962,536 | 35,963 | | 998,499 |
| Water Equipment | <u>52,491</u> | | | <u>52,491</u> |
| Total | <u>3,118,353</u> | <u>204,949</u> | <u>-</u> | <u>3,323,302</u> |
| Net Capital Assets Being Depreciated | <u>5,619,192</u> | <u>-</u> | <u>204,949</u> | <u>5,414,243</u> |
| Business-Type Activities Capital Total Capital Assets--Net of Depreciation | <u><u>\$5,673,709</u></u> | <u><u>\$ -</u></u> | <u><u>\$204,949</u></u> | <u><u>\$5,468,760</u></u> |

The depreciation expense was \$204,949 during the year.

Depreciation expense was charged to programs of the primary government as follows:

| | |
|--------------------------------|--------------------------|
| Governmental Activities | |
| General Government | \$ 4,942 |
| Public Safety | 14,147 |
| Public Works | 35,320 |
| Recreation and Culture | <u>13,014</u> |
| Total Governmental Activities | <u>\$ 67,423</u> |
| Business-Type Activities | |
| Sewer | \$ 168,986 |
| Water | <u>35,963</u> |
| Total Business-Type Activities | <u><u>\$ 204,949</u></u> |

VILLAGE OF THREE OAKS

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

NOTE H--LONG-TERM DEBT

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

| | <u>Balance</u> <u>10/01/08</u> | <u>Additions</u> <u>(Reductions)</u> | <u>Balance</u> <u>09/30/09</u> | <u>Due Within</u> <u>One Year</u> |
|---|-----------------------------------|---|-----------------------------------|--------------------------------------|
| <u>Governmental Activities</u> | | | | |
| Village of Three Oaks Note Payable of \$75,467 for four years at an interest rate of 5.8% due in annual installments for the purchase of a new CAT Loader | \$ 16,722 | \$ (16,722) | - | |
| Village of Three Oaks Land Contract of \$275,914 for nine years at an interest rate of 2% due in semi-annual installments of \$21,218 beginning in 2012. | | 261,326 | \$ 261,326 | |
| Total Governmental Activities | <u>\$ 16,722</u> | <u>\$ 244,604</u> | <u>\$ 261,326</u> | <u>\$ -</u> |
| <u>Business-Type Activities</u> | | | | |
| Village of Three Oaks bonds due in annual installments of \$90,000 to \$135,000 for 20 years at an interest rate at 2.5% for the sewer sanitary clean water program. | \$ 1,615,000 | \$ (100,000) | \$ 1,515,000 | \$ 100,000 |
| Village of Three Oaks bonds due in annual installments of \$13,000 to \$63,000 for 40 years at an interest rate at 4.5% for the expansion of the sewer system. | 1,069,000 | (15,000) | 1,054,000 | 15,000 |
| Village of Three Oaks bonds due in annual installments of \$15,000 for 30 years at an interest rate at 5.0% for the expansion of the water system. | 120,000 | (15,000) | 105,000 | 15,000 |
| Village of Three Oaks bonds due in semi-annual installments of \$10,000 to \$50,000 for 30 years at an interest rate at 6.625% for the expansion of the water system. | 605,000 | (10,000) | 595,000 | 10,000 |
| Total Business-Type Activities | <u>\$ 3,409,000</u> | <u>\$ (140,000)</u> | <u>\$ 3,269,000</u> | <u>\$ 140,000</u> |

VILLAGE OF THREE OAKS

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

NOTE H--LONG-TERM DEBT (Continued)

Annual Principal and Interest Requirements

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

Land Contract

The Village entered into a land contract with Berrien County for the sale and repurchase of Watkins Park in order to provide cash flow for the Village during its financial difficulties. The park was purchased for \$260,000 at an interest rate of 2% with semi-annual payments of \$21,218.12 to begin in 2012. From June 2009 through June 2012, the land contract will accrue interest of \$15,914.08 bringing the total principal balance of the land contract to \$275,914.08.

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Annual Total</u> |
|------------------------|-------------------|------------------|-------------------------|
| 2012 | \$ 18,459 | \$ 2,759 | \$ 21,218 |
| 2013 | 37,474 | 4,963 | 42,437 |
| 2014 | 38,227 | 4,209 | 42,436 |
| 2015 | 38,995 | 3,441 | 42,436 |
| 2016 | 39,779 | 2,657 | 42,436 |
| 2017-2019 | 102,980 | 2,900 | 105,880 |
| | <u>\$ 275,914</u> | <u>\$ 20,929</u> | <u>\$ 296,843</u> |

2001 Sewer Clean Water Loan

The 2001 Sanitary Sewer Clean Water Loan was issued to finance a sewer clean water improvement project for the Village. The total bond issue approved by the Michigan Municipal Bond Authority, is \$2,155,000 with interest payable at 2.5% per annum with interest payable semi-annually. There is no set interest schedule printed for bond issues because it changes based upon when the payment is delivered.

| <u>Fiscal Year</u> | <u>April 1 Principal</u> |
|------------------------|------------------------------|
| 2010 | \$ 100,000 |
| 2011 | 100,000 |
| 2012 | 105,000 |
| 2013 | 110,000 |
| 2014 | 110,000 |
| 2015-2019 | 595,000 |
| 2020-2024 | 395,000 |
| | <u>\$1,515,000</u> |

VILLAGE OF THREE OAKS

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

NOTE H--LONG-TERM DEBT (Continued)

2001 Sewer Revenue Bonds

The 2001 Sanitary Sewer System Revenue Bonds were issued in accordance with the provisions of Public Act 185 of 1957, as amended, to finance a sewer system improvement project for the Village. The total bond issue was approved by the U.S. Department of Agriculture, Rural Development with interest payable at 4.5% per annum with interest payable semi-annually. There is no set interest schedule printed for bond issues because it changes based upon when the payment is delivered to the USDA.

| <u>Fiscal Year</u> | <u>May 1 Principal</u> |
|------------------------|----------------------------|
| 2010 | \$ 15,000 |
| 2011 | 16,000 |
| 2012 | 17,000 |
| 2013 | 17,000 |
| 2014 | 18,000 |
| 2015-2019 | 105,000 |
| 2020-2024 | 130,000 |
| 2025-2029 | 162,000 |
| 2030-2034 | 202,000 |
| 2035-2039 | 252,000 |
| 2040-2041 | <u>120,000</u> |
| | <u><u>\$1,054,000</u></u> |

1978 Water Revenue Bonds

The 1978 Water Supply System Revenue Bonds were issued to finance a water system improvement project for the Village. The total bond issue was approved with interest payable at 5.0% per annum with interest payable semi-annually. There is no set interest schedule printed for bond issues because it changes based upon when the payment is delivered.

| <u>Fiscal Year</u> | <u>January 1 Principal</u> |
|------------------------|--------------------------------|
| 2010 | \$ 15,000 |
| 2011 | 15,000 |
| 2012 | 15,000 |
| 2013 | 15,000 |
| 2014 | 15,000 |
| 2015-2016 | <u>30,000</u> |
| | <u><u>\$105,000</u></u> |

VILLAGE OF THREE OAKS

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

NOTE H--LONG-TERM DEBT (Continued)

1992 Water Revenue Bonds

The 1992 Water System Revenue Bonds were issued in accordance with the provisions of Public Act 185 of 1957, as amended, to finance a water system improvement project for the Village. The total bond issue was approved by the U.S. Department of Agriculture, Rural Development, with interest payable at 6.625% per annum with interest payable semi-annually. There is no set interest schedule printed for bond issues because it changes based upon when the payment is delivered to the USDA.

| <u>Fiscal Year</u> | <u>January 1 Principal</u> |
|------------------------|--------------------------------|
| 2010 | \$ 10,000 |
| 2011 | 10,000 |
| 2012 | 15,000 |
| 2013 | 15,000 |
| 2014 | 15,000 |
| 2015-2019 | 90,000 |
| 2020-2024 | 125,000 |
| 2025-2029 | 175,000 |
| 2030-2032 | <u>140,000</u> |
| | <u>\$595,000</u> |

NOTE I--RESTRICTED ASSETS

In accordance with Village ordinances, separate bank accounts have been established to create reserved cash balances for the funding of sewer and water bond payments and sewer and water repair, replacement, and improvement to the individual systems. As of September 30, 2009, the reserve cash balances are \$256,429 and \$24,023 in the Sewer and Water Funds, respectively.

NOTE J--DEFINED CONTRIBUTION PENSION PLAN

The Village provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan. Employees are eligible to participate from the date of employment. As established by Village Council, the Village contributes \$1,500 for the eligible 9 employees for a total contribution of \$13,500. The employee's accounts are fully vested after five years of service.

VILLAGE OF THREE OAKS

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

NOTE K--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 workmans' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

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 L--SUBSEQUENT EVENT

On June 13, 2008, the Village submitted a request to the Michigan Department of Treasury requesting a preliminary review be conducted under Public Act 72 of 1990, the Local Government Fiscal Responsibility Act. In August 2008, the Michigan Department of Treasury determined that a serious financial problem existed in the Village. The result of the determination was the appointment of a financial review team by the Governor of the State of Michigan. The financial review team reviewed the financial situation of the Village and recommended to the Governor the appointment of an Emergency Financial Manager. In January 2009, the Governor appointed an Emergency Financial Manager to the Village to oversee its finances and to determine the steps necessary to restore fiscal responsibility to the Village. In December 2009, the Emergency Financial Manager left the Village after determining that the Village's financial situation had recovered enough for the Village Council to resume control of its own finances.

**VILLAGE OF THREE OAKS--BERRIEN COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Fiscal Year Ended September 30, 2009**

EXHIBIT J

| | BUDGETED AMOUNTS | | | Variance With Final Budget Positive (Negative) |
|--|-------------------------|----------------------------|-------------------|---|
| | Original Budget | Final Amended Budget | Actual | |
| Revenues | | | | |
| Taxes | \$ 369,000 | \$ 366,500 | \$ 355,503 | \$ (10,997) |
| Licenses and Permits | 5,300 | 6,000 | 8,829 | 2,829 |
| State Grants | 191,050 | 172,300 | 183,388 | 11,088 |
| Charges for Services | 60,600 | 68,500 | 69,157 | 657 |
| Fines and Forfeitures | 3,000 | 4,000 | 5,048 | 1,048 |
| Interest and Rentals | 53,200 | 62,800 | 63,655 | 855 |
| Other Revenue | | 306,000 | 312,789 | 6,789 |
| Total Revenue | <u>682,150</u> | <u>986,100</u> | <u>998,369</u> | <u>12,269</u> |
| Expenditures | | | | |
| General Government | 158,633 | 133,762 | 123,969 | 9,793 |
| Public Safety | 247,500 | 270,751 | 239,052 | 31,699 |
| Public Works | 77,840 | 131,590 | 119,602 | 11,988 |
| Community and Economic Development | 2,100 | 2,450 | 2,725 | (275) |
| Recreation and Culture | 13,325 | 20,480 | 17,644 | 2,836 |
| Other | 17,100 | 10,000 | 9,484 | 516 |
| Capital Outlay | | | 261,326 | (261,326) |
| Debt Service | | 5,305 | 18,684 | (13,379) |
| Total Expenditures | <u>516,498</u> | <u>574,338</u> | <u>792,486</u> | <u>(218,148)</u> |
| Excess of Revenues Over (Under) Expenditures | <u>165,652</u> | <u>411,762</u> | <u>205,883</u> | <u>(205,879)</u> |
| Other Financing Sources (Uses) | | | | |
| Land Contract Proceeds | | | 261,326 | 261,326 |
| Operating Transfers In | | | 109,022 | 109,022 |
| Operating Transfers (Out) | (63,500) | (75,500) | (336,404) | (260,904) |
| Total Other Financing Sources (Uses) | <u>(63,500)</u> | <u>(75,500)</u> | <u>33,944</u> | <u>109,444</u> |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | 102,152 | 336,262 | 239,827 | (96,435) |
| Fund Balance--October 1, 2008 | <u>-</u> | <u>-</u> | <u>483,834</u> | <u>483,834</u> |
| Fund Balance--September 30, 2009 | <u>\$ 102,152</u> | <u>\$ 336,262</u> | <u>\$ 723,661</u> | <u>\$ 387,399</u> |

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

**VILLAGE OF THREE OAKS--BERRIEN COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET--MAJOR SPECIAL REVENUE FUND
For the Fiscal Year Ended September 30, 2009**

EXHIBIT K

| | <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 | \$ 45,000 | \$ 68,000 | \$ 73,319 | \$ 5,319 |
| Interest and Rentals | | 50 | 70 | 20 |
| Total Revenues | <u>45,000</u> | <u>68,050</u> | <u>73,389</u> | <u>5,339</u> |
| Expenditures | | | | |
| Public Works | | | | |
| Routine and Preventive Maintenance | 44,600 | 30,000 | 21,241 | 8,759 |
| Traffic | 5,740 | 3,900 | 2,883 | 1,017 |
| Winter | | | | |
| Routine and Preventive Maintenance | <u>19,900</u> | <u>44,720</u> | <u>42,615</u> | <u>2,105</u> |
| Total Expenditures | <u>70,240</u> | <u>78,620</u> | <u>66,739</u> | <u>11,881</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(25,240)</u> | <u>(10,570)</u> | <u>6,650</u> | <u>17,220</u> |
| Other Financing Sources (Uses) | | | | |
| Interfund Transfers In | <u>40,000</u> | <u>110,000</u> | <u>97,000</u> | <u>(13,000)</u> |
| Total Other Financing Sources (Uses) | <u>40,000</u> | <u>110,000</u> | <u>97,000</u> | <u>(13,000)</u> |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | 14,760 | 99,430 | 103,650 | 4,220 |
| Fund Balance--(Deficit)--October 1, 2008 | <u>-</u> | <u>-</u> | <u>(138,723)</u> | <u>(138,723)</u> |
| Fund Balance--(Deficit)--September 30, 2009 | <u>\$ 14,760</u> | <u>\$ 99,430</u> | <u>\$ (35,073)</u> | <u>\$ (134,503)</u> |

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

**VILLAGE OF THREE OAKS--BERRIEN COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET--MAJOR SPECIAL REVENUE FUND
For the Fiscal Year Ended September 30, 2009**

EXHIBIT L

| | <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 | \$ 16,000 | \$ 30,400 | \$ 33,211 | \$ 2,811 |
| Interest and Rentals | | 50 | 55 | 5 |
| Total Revenues | <u>\$ 16,000</u> | <u>\$ 30,450</u> | <u>33,266</u> | <u>2,816</u> |
| Expenditures | | | | |
| Public Works | | | | |
| Routine and Preventive Maintenance | 80,800 | 33,609 | 24,304 | 9,305 |
| Traffic | 540 | 40 | - | 40 |
| Winter | | | | |
| Routine and Preventive Maintenance | <u>34,100</u> | <u>18,106</u> | <u>16,383</u> | <u>1,723</u> |
| Total Expenditures | <u>115,440</u> | <u>51,755</u> | <u>40,687</u> | <u>11,068</u> |
| Excess of Revenues Over (Under) Expenditures | (99,440) | (21,305) | (7,421) | 13,884 |
| Other Financing Sources (Uses) | | | | |
| Interfund Transfers In | <u>100,000</u> | <u>200,000</u> | <u>190,000</u> | <u>(10,000)</u> |
| Total Other Financing Sources (Uses) | <u>100,000</u> | <u>200,000</u> | <u>190,000</u> | <u>(10,000)</u> |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | 560 | 178,695 | 182,579 | 3,884 |
| Fund Balance--(Deficit)--October 1, 2008 | <u>-</u> | <u>-</u> | <u>(170,805)</u> | <u>(170,805)</u> |
| Fund Balance--(Deficit)--September 30, 2009 | <u>\$ 560</u> | <u>\$ 178,695</u> | <u>\$ 11,774</u> | <u>\$ (166,921)</u> |

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

**VILLAGE OF THREE OAKS--BERRIEN COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MUNICIPAL STREET--MAJOR SPECIAL REVENUE FUND
For the Fiscal Year Ended September 30, 2009**

EXHIBIT M

| | <u>BUDGETED AMOUNTS</u> | | | Variance With |
|---|-------------------------|------------------|------------------|--|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | Final Budget Positive (Negative) |
| Revenues | | | | |
| Taxes | \$ 145,000 | \$ 143,000 | \$ 139,398 | \$ (3,602) |
| Interest and Rentals | 500 | 500 | 194 | (306) |
| Total Revenues | <u>145,500</u> | <u>143,500</u> | <u>139,592</u> | <u>(3,908)</u> |
| Total Expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess of Revenues Over (Under) Expenditures | <u>145,500</u> | <u>143,500</u> | <u>139,592</u> | <u>(3,908)</u> |
| Other Financing Sources (Uses) | | | | |
| Interfund Transfers In | | 94,459 | 94,459 | - |
| Interfund Transfers (Out) | <u>(140,000)</u> | <u>(160,000)</u> | <u>(137,000)</u> | <u>23,000</u> |
| Total Other Financing Sources (Uses) | <u>(140,000)</u> | <u>(65,541)</u> | <u>(42,541)</u> | <u>23,000</u> |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | <u>5,500</u> | <u>77,959</u> | <u>97,051</u> | <u>19,092</u> |
| Fund Balance--October 1, 2008 | <u>-</u> | <u>-</u> | <u>(39,459)</u> | <u>(39,459)</u> |
| Fund Balance--September 30, 2009 | <u>\$ 5,500</u> | <u>\$ 77,959</u> | <u>\$ 57,592</u> | <u>\$ (20,367)</u> |

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

**VILLAGE OF THREE OAKS--BERRIEN COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
RUBBISH--MAJOR SPECIAL REVENUE FUND
For the Fiscal Year Ended September 30, 2009**

EXHIBIT N

| | <u>BUDGETED AMOUNTS</u> | | | Variance With |
|---|-------------------------|------------------|------------------|--|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | Final Budget Positive (Negative) |
| Revenues | | | | |
| Interest and Rentals | | \$ 120 | \$ 128 | \$ 8 |
| Special Assessments | \$ 86,500 | 86,000 | 84,630 | (1,370) |
| Total Revenues | 86,500 | 86,120 | 84,758 | (1,362) |
| Expenditures | | | | |
| Public Works | 84,000 | 84,000 | 77,459 | 6,541 |
| Total Expenditures | 84,000 | 84,000 | 77,459 | 6,541 |
| Excess of Revenues Over (Under) Expenditures | 2,500 | 2,120 | 7,299 | 5,179 |
| Other Financing Sources (Uses) | | | | |
| Interfund Transfers In | | 15,726 | 91,945 | 76,219 |
| Total Other Financing Sources (Uses) | - | 15,726 | 91,945 | 76,219 |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | 2,500 | 17,846 | 99,244 | 81,398 |
| Fund Balance--October 1, 2008 | - | - | (15,726) | (15,726) |
| Fund Balance--September 30, 2009 | <u>\$ 2,500</u> | <u>\$ 17,846</u> | <u>\$ 83,518</u> | <u>\$ 65,672</u> |

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

**VILLAGE OF THREE OAKS--BERRIEN COUNTY
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 September 30, 2009**

EXHIBIT O

| | <u>SPECIAL REVENUE</u> | | |
|---|--------------------------------|----------------------------|-----------------|
| | <u>Building Department</u> | <u>Drug Forfeiture</u> | <u>Total</u> |
| <u>ASSETS</u> | | | |
| Cash and Cash Equivalents | \$ 4,742 | \$ 2,312 | \$ 7,054 |
| Total Assets | <u>\$ 4,742</u> | <u>\$ 2,312</u> | <u>\$ 7,054</u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | |
| Accounts Payable | \$ 1,223 | | \$ 1,223 |
| Due to Other Funds | <u>1,824</u> | | <u>1,824</u> |
| Total Liabilities | <u>3,047</u> | <u>\$ -</u> | <u>3,047</u> |
| Fund Balances | | | |
| Unreserved--Undesignated | <u>1,695</u> | <u>2,312</u> | <u>4,007</u> |
| Total Fund Balances | <u>1,695</u> | <u>2,312</u> | <u>4,007</u> |
| Total Liabilities and Fund Balances | <u>\$ 4,742</u> | <u>\$ 2,312</u> | <u>\$ 7,054</u> |

**VILLAGE OF THREE OAKS--BERRIEN COUNTY
 COMBINING STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 For the Fiscal Year Ended September 30, 2009**

EXHIBIT P

| | <u>SPECIAL REVENUE</u> | | |
|----------------------------------|--------------------------------|----------------------------|-----------------|
| | <u>Building Department</u> | <u>Drug Forfeiture</u> | <u>Total</u> |
| Revenues | | | |
| Licenses and Permits | \$ 7,392 | | \$ 7,392 |
| Fines and Forfeits | | \$ 40 | 40 |
| Interest and Rentals | <u>8</u> | <u>4</u> | <u>12</u> |
| Total Revenues | <u>7,400</u> | <u>44</u> | <u>7,444</u> |
| Expenditures | | | |
| Public Safety | <u>5,705</u> | | <u>5,705</u> |
| Total Expenditures | <u>5,705</u> | <u>-</u> | <u>5,705</u> |
| Excess of Revenue Over (Under) | | | |
| Expenditures | 1,695 | 44 | 1,739 |
| Fund Balance--October 1, 2008 | <u>-</u> | <u>2,268</u> | <u>2,268</u> |
| Fund Balance--September 30, 2009 | <u>\$ 1,695</u> | <u>\$ 2,312</u> | <u>\$ 4,007</u> |

VILLAGE OF THREE OAKS--BERRIEN COUNTY
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BY SOURCE--BUDGET AND ACTUAL--GENERAL FUND
For the Fiscal Year Ended September 30, 2009

EXHIBIT Q

| | Original Budget | Final Amended Budget | Actual | Variance With Final Budget Positive (Negative) |
|---|--------------------|----------------------------|---------------------|---|
| <u>REVENUES</u> | | | | |
| Property Taxes | | | | |
| Current Taxes | \$ 329,000 | \$ 320,000 | \$ 305,484 | \$ (14,516) |
| Delinquent Taxes | 35,000 | 40,000 | 42,069 | 2,069 |
| Interest and Penalties | | 3,000 | 3,098 | 98 |
| Administrative Fees | <u>5,000</u> | <u>3,500</u> | <u>4,852</u> | <u>1,352</u> |
| Total Property Taxes | <u>369,000</u> | <u>366,500</u> | <u>355,503</u> | <u>(10,997)</u> |
| Licenses and Permits | | | | |
| Zoning Permits | | | 870 | 870 |
| Franchise Fees | <u>5,300</u> | <u>6,000</u> | <u>7,959</u> | <u>1,959</u> |
| Total Licenses and Permits | <u>5,300</u> | <u>6,000</u> | <u>8,829</u> | <u>2,829</u> |
| State Grants | | | | |
| Liquor License | 2,200 | 2,300 | 2,311 | 11 |
| Police Training Grant | - | - | 748 | 748 |
| Revenue Sharing | <u>188,850</u> | <u>170,000</u> | <u>180,329</u> | <u>10,329</u> |
| Total State Grants | <u>191,050</u> | <u>172,300</u> | <u>183,388</u> | <u>11,088</u> |
| Charges for Services | | | | |
| Police | 60,000 | 67,500 | 67,972 | 472 |
| Park | 500 | 1,000 | 1,075 | 75 |
| Other Charges for Services | <u>100</u> | <u>-</u> | <u>110</u> | <u>110</u> |
| Total Charges for Services | <u>60,600</u> | <u>68,500</u> | <u>69,157</u> | <u>657</u> |
| Fines and Forfeitures | | | | |
| Traffic and Ordinance Fines | <u>3,000</u> | <u>4,000</u> | <u>5,048</u> | <u>1,048</u> |
| Total Fines and Forfeitures | <u>3,000</u> | <u>4,000</u> | <u>5,048</u> | <u>1,048</u> |
| Interest and Rentals | | | | |
| Vehicle Rental | 45,000 | 52,000 | 51,144 | (856) |
| Village Rental | 7,200 | 7,200 | 8,564 | 1,364 |
| Interest | <u>1,000</u> | <u>3,600</u> | <u>3,947</u> | <u>347</u> |
| Total Interest and Rentals | <u>53,200</u> | <u>62,800</u> | <u>63,655</u> | <u>855</u> |
| Other Revenue | | | | |
| Local Revenue Sharing--Casino Funds | | 56,000 | 56,549 | 549 |
| Other Donations | | | 1,007 | 1,007 |
| Reimbursements | | | 2,893 | 2,893 |
| Sale of Land | | 250,000 | 250,000 | - |
| Other Miscellaneous | | | <u>2,340</u> | <u>2,340</u> |
| Total Other Revenue | <u>-</u> | <u>306,000</u> | <u>312,789</u> | <u>6,789</u> |
| Total Revenue | <u>682,150</u> | <u>986,100</u> | <u>998,369</u> | <u>12,269</u> |
| Other Financing Sources | | | | |
| Land Contract Proceeds | | | 261,326 | 261,326 |
| Operating Transfers In | | | <u>109,022</u> | <u>109,022</u> |
| Total Other Financing Sources | <u>-</u> | <u>-</u> | <u>370,348</u> | <u>370,348</u> |
| Total Revenue and Other Financing Sources | <u>\$ 682,150</u> | <u>\$ 986,100</u> | <u>\$ 1,368,717</u> | <u>\$ 382,617</u> |

VILLAGE OF THREE OAKS--BERRIEN COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BY ACTIVITY--BUDGET AND ACTUAL--GENERAL FUND
For the Fiscal Year Ended September 30, 2009

EXHIBIT R

| | Original Budget | Final Amended Budget | Actual | Variance With Final Budget Positive (Negative) |
|---|--------------------|----------------------------|--------------|---|
| General Government | | | | |
| Village Council | \$ 9,300 | \$ 150 | \$ 131 | \$ 19 |
| Emergency Financial Manager | 40,000 | 30,000 | 29,215 | 785 |
| Accounting Fees | 15,000 | 8,000 | 7,900 | 100 |
| Attorney Fees | 20,000 | 15,150 | 10,915 | 4,235 |
| Clerk | 40,410 | 26,100 | 26,623 | (523) |
| Treasurer | 13,723 | 22,762 | 23,430 | (668) |
| Elections | 1,700 | 2,400 | 2,062 | 338 |
| Computer and Software | | 1,500 | 750 | 750 |
| Building and Grounds | 7,000 | 10,000 | 8,860 | 1,140 |
| Other General Government | 11,500 | 17,700 | 14,083 | 3,617 |
| Total General Government | 158,633 | 133,762 | 123,969 | 9,793 |
| Public Safety | | | | |
| Police | 197,200 | 220,451 | 201,094 | 19,357 |
| Fire | 50,300 | 50,300 | 37,958 | 12,342 |
| Total Public Safety | 247,500 | 270,751 | 239,052 | 31,699 |
| Public Works | | | | |
| Department of Public Works | 53,840 | 112,990 | 100,827 | 12,163 |
| Drain at Large | | 200 | 151 | 49 |
| Street Lights | 24,000 | 18,400 | 18,624 | (224) |
| Total Public Works | 77,840 | 131,590 | 119,602 | 11,988 |
| Community and Economic Development | | | | |
| Planning | 2,100 | 2,450 | 2,725 | (275) |
| Total Community and Economic Development | 2,100 | 2,450 | 2,725 | (275) |
| Recreation and Culture | | | | |
| Parks and Recreation | 13,325 | 20,480 | 17,644 | 2,836 |
| Total Recreation and Culture | 13,325 | 20,480 | 17,644 | 2,836 |
| Other | | | | |
| Liability Insurance | 17,100 | 10,000 | 9,484 | 516 |
| Total Other | 17,100 | 10,000 | 9,484 | 516 |
| Capital Outlay | - | - | 261,326 | (261,326) |
| Total Capital Outlay | - | - | 261,326 | (261,326) |
| Debt Service | | | | |
| Principal | | | 16,722 | (16,722) |
| Interest | | 5,305 | 1,962 | 3,343 |
| Total Debt Service | - | 5,305 | 18,684 | (13,379) |
| Total Expenditures | 516,498 | 574,338 | 792,486 | (218,148) |
| Other Financing Uses | | | | |
| Operating Transfers (Out) | 63,500 | 75,500 | 336,404 | (260,904) |
| Total Other Financing Uses | 63,500 | 75,500 | 336,404 | (260,904) |
| Total Expenditures and Other Financing Uses | \$ 579,998 | \$ 649,838 | \$ 1,128,890 | \$ (479,052) |



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

March 17, 2010

Village Council
Village of Three Oaks
P.O. Box 335
Three Oaks, Michigan 49128

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, the component unit, each major fund, and the aggregate remaining fund information of the Village of Three Oaks, Berrien County, Michigan, as of and for the fiscal year ended September 30, 2009, and have issued our report thereon dated March 17, 2010. 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 opinions 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.

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 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 2007-1, 2008-2, 2008-5, 2008-10, and 2008-13 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 2008-17, 2008-18, and 2008-21.

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 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



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

March 17, 2010

Village Council
Village of Three Oaks
P.O. Box 335
Three Oaks, Michigan 49128

RE: Report to Those Charged With Governance

Dear Council Members:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Three Oaks for the fiscal year ended September 30, 2009, and have issued our report thereon dated March 17, 2010. 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 August 4, 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 December 15, 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 the fiscal year ending September 30, 2009. We noted no transactions entered into by the Village during the year for which there is a lack of authoritative guidance or consensus. 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 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 March 17, 2010.

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 Village’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 Village’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 THREE OAKS

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended September 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.

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 2007-1

Condition: As many small and medium-sized governmental entities do, the Village has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements, fund financial statements, and notes to financial statements 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 to be 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 the 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 (maintaining internal accounting books and records); and 2) reporting government-wide and fund financial statements, including the related notes to financial statements (external financial reporting).

Effect: 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 duty.

VILLAGE OF THREE OAKS

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended September 30, 2009

MATERIAL WEAKNESSES (Continued)

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 prepare them internally.

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 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-Corrective Action Plan: The Village Council will investigate the cost/benefit of preparing internal financial statements in accordance with GAAP. At a minimum, we will train our accounting personnel in preparation of the statements and have them reviewed by the Village Manager.

Segregation of Duties

Finding 2008-2

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.

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 utility clerk is solely responsible for inputting meter readings into the computerized accounting system, printing bills, making and posting adjustments, receiving payments, posting payments to the system, and preparing deposits.

VILLAGE OF THREE OAKS

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

MATERIAL WEAKNESSES (Continued)

- The Village clerk is responsible for reviewing the payroll, processing the payroll, posting the payroll to the general ledger, distributing checks, distributing all tax withholdings, and preparing required tax forms.

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.

Management's Response-Corrective Action Plan: We are in the process of segregating some of the water clerk's duties. We anticipate the posting and printing of bills to be segregated from the collection of payments and the analysis of aged receivables. However, the complete segregation is dependent on changing over the billing system to a more automated system. This may not be done until mid to late 2011. In the interim, the Village manager will review billings and collections on a monthly basis. While the Village clerk is responsible for preparing and distributing payroll checks, the checks must be signed by the Village president and one member of the Village Council. At the time of signing the check, detail is reviewed by both members for overtime, pay rate, etc. The Village manager will be instructed to seek ways to further strengthen internal controls within budget constraints.

Capital Assets

Finding 2008-5

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.

VILLAGE OF THREE OAKS

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended September 30, 2009

MATERIAL WEAKNESSES (Continued)

The Village has not formally 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 disposals. 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.

Effect: The lack of a comprehensive listing may lead to insurance listings not being updated and the control over assets being limited without documentation of what assets the Village actually owns. Not posting the depreciation expense to the enterprise funds creates a material understatement of the operating expenses.

Cause: The Village has relied upon its external auditor to maintain the listing.

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

Management's Response-Corrective Action Plan: The Village will promptly verify and record all the capital assets and record depreciation as recommended. The depreciation will periodically be recorded on the books of the Village.

Purchasing Policy

Finding 2008-10

Condition: The Village does not have a purchasing policy.

Criteria: A system of internal controls over expenditures depends upon a purchasing policy which results in methods for approving and making expenditures which are under the control of a central oversight agency, the Village Council. A purchasing policy is required to establish guidelines for purchasing functions and procedures.

Cause and Effect: Expenditures may or may not have been made in accordance with the Village’s best interest. The lack of a written policy makes it difficult to determine the validity of expenditures in the future. Adequate control procedures over expenditures require that procedures for expending Village funds be clearly defined and followed by all personnel.

VILLAGE OF THREE OAKS

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

MATERIAL WEAKNESSES (Continued)

Recommendation: We recommend that the Village Council develop a written purchasing policy that clearly defines the following:

- a) An amount that can be expended without explicit council approval;
- b) Documentation required for all expenditures;
- c) The amount of expenditures that require formal bid procedures; and
- d) The amounts and types of purchases that are required to be capitalized.

Other procedures that could be included are ethical standards, expense reimbursements, requisitions and purchase orders, price quotations, bids, advertising, sealed proposals, public opening, awarding, forms of contracts the Village is willing to enter, requests for proposals, emergency purchasing, local supplies preferences, and/or cooperative purchasing.

Developing and implementing a written policy of this nature will not only ensure that expenditures continue to be made in accordance with Village policy, it will also serve as criteria and evidence that officials are conducting the business of the Village appropriately.

Management's Response-Corrective Action Plan: The Emergency Financial Manager issued a purchasing directive when she arrived in December 2008. However, the Village Council did not formally adopt the directive as policy. A formal Purchasing Policy will be adopted at or prior to the March regular council meeting. The current procedures include requiring a purchase order signed by the Village President prior to making purchases other than routine utility bills, emergency purchases or services necessary to maintain public safety and health, and those minor purchases (under \$100) that are required to continue normal day-to-day activities of the Public Works and Police Departments. The clerk matches purchase orders to invoices and delivery receipts are signed by department heads to indicate acceptable delivery. The Village president must initial approval of all invoices prior to payment and checks must be counter signed by the president and a designated council member.

Accruals

Finding 2008-13

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

Criteria: Governmental funds are to be maintained on a modified accrual basis. 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 a full accrual basis of accounting.

Effect: The corresponding revenue and expense accounts are misstated.

VILLAGE OF THREE OAKS

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

MATERIAL WEAKNESSES (Continued)

Cause: Village personnel stopped recording 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-Corrective Action Plan: The Village will record accruals as recommended.

NONCOMPLIANCE WITH STATE STATUTES

Expenditures in Excess of Appropriations

Finding 2008-17

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.

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

| <u>Fund, Function and Activity</u> | <u>Budget</u> | <u>Actual</u> | <u>Excess Expenditures</u> |
|------------------------------------|---------------|---------------|----------------------------|
| General Fund | | | |
| General Government | | | |
| Clerk | \$ 26,100 | \$ 26,623 | \$ (523) |
| Treasurer | 22,762 | 23,430 | (668) |
| Public Works | | | |
| Street Lights | 18,400 | 18,624 | (224) |
| Community and Economic Development | | | |
| Planning Commission | 2,450 | 2,725 | (275) |
| Capital Outlay | | 261,326 | (261,326) |
| Debt Service | | | |
| Principal | | 16,722 | (16,722) |
| Transfers (Out) | 75,500 | 336,404 | (260,904) |

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

VILLAGE OF THREE OAKS

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

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Effect: The Village is in noncompliance with State statute. Unavailable funds were 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-Corrective Action Plan: The minor excess expenditures were due to underestimating the accruals above. Capital outlay is the purchase (land contract) of Watkins Park. We were not aware that the purchase was to be recorded in the current year. This was a misunderstanding of the auditor's explanation. Transfers out was a result of write-offs of "due froms" from the Rubbish Fund and street funds in order to eliminate deficits in those funds faster than was expected and in accordance with the State approved Deficit Elimination Plan. These entries were made during the audit after discussion between the auditor, Village president and Village treasurer. The transfers were not anticipated when preparing or amending the budget.

Noncompliance with the Uniform Chart of Accounts

Finding 2008-18

Condition: The Village is not in compliance 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."

The Uniform Chart of Accounts, issued by the Michigan Department of Treasury, also defines miscellaneous revenue as revenue that cannot be classified in any other account.

Effect: The Village is in noncompliance with State statute.

Cause: Prior to this fiscal year, the Village was in noncompliance during its use of the Quick-Books software package. As the accounts were rolled over into the new BS&A software, the chart of accounts was not completely followed during the setup process.

Directive: We direct to the Village to correct the following fund and account numbers to comply with the State statute above and the Uniform Chart of Accounts.

VILLAGE OF THREE OAKS

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

NONCOMPLIANCE WITH STATE STATUTES (Continued)

| | <u>Village Fund No.</u> | <u>Uniform Chart of Accounts Fund No.</u> |
|-------------------------|---------------------------------|---|
| Municipal Street Fund | 200 | 204 |
| | <u>Village Activity No.</u> | <u>Uniform Chart of Accounts Activity No.</u> |
| External Audit | 190 | 223 |
| Building and Grounds | 190 | 265 |
| General Office Supplies | 190 | Open 259 |
| Attorney | 190 | 266 |
| Insurance and Bonds | 190 | 851 |

Management's Response-Corrective Action Plan: The Village will change the account numbers to agree with the Uniform Chart of Accounts.

Electronic Transactions of Public Funds

Finding 2008-21

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."

VILLAGE OF THREE OAKS

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

NONCOMPLIANCE WITH STATE STATUTES (Continued)

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.

Management's Response-Corrective Action Plan: It was our intention to adopt this policy after reviewing the Schedule of Findings for the 2008 audit. The formal adoption was inadvertently overlooked. We will adopt a formal policy at or prior to the March 2010 regular meeting.