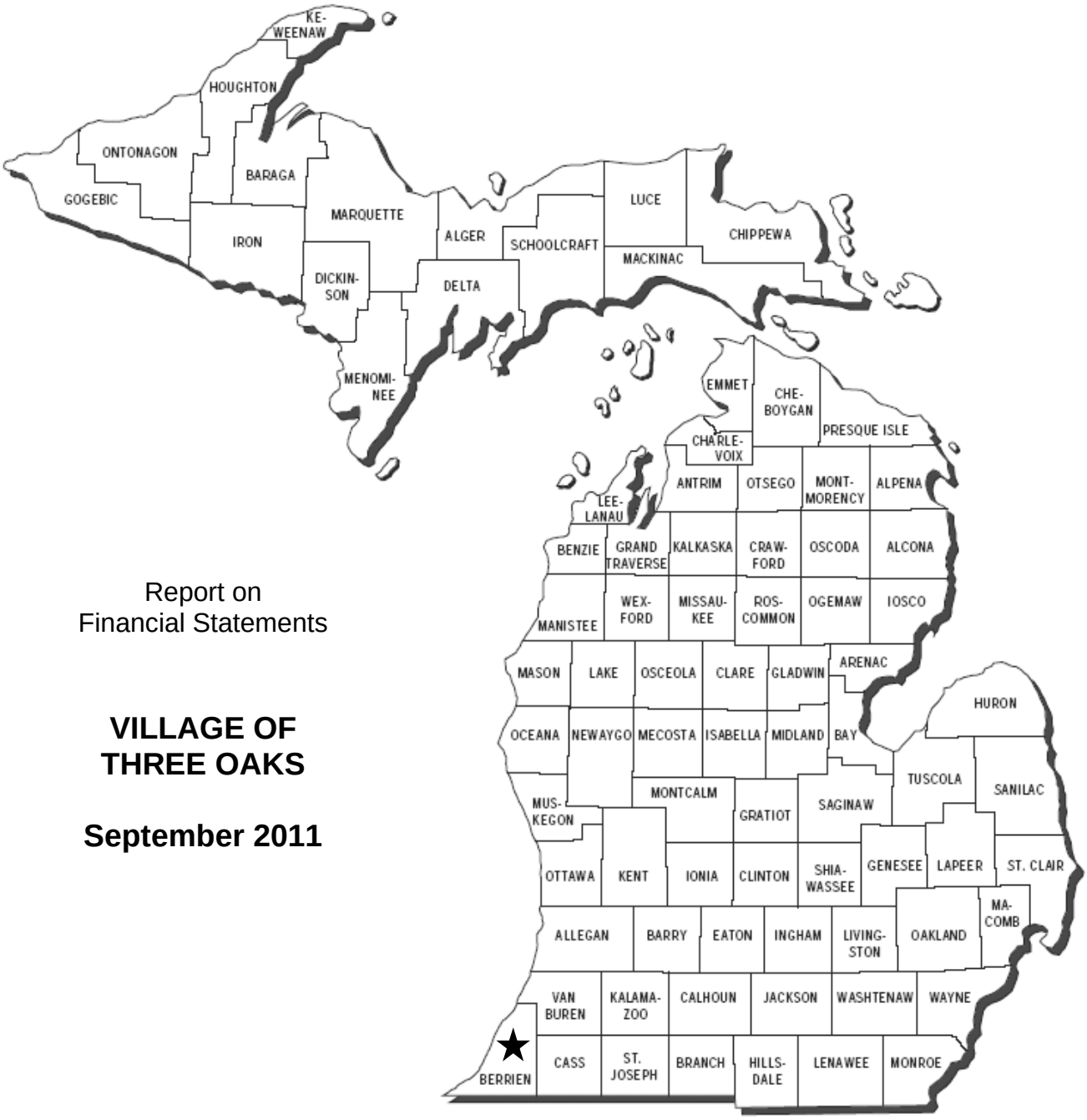
STATE OF MICHIGAN

Rick Snyder, Governor

DEPARTMENT OF TREASURY

Andy Dillon, State Treasurer



Report on
Financial Statements

VILLAGE OF THREE OAKS

September 2011

Local Audit and Finance Division
Bureau of Local Government Services

VILLAGE OF THREE OAKS

VILLAGE COUNCIL

David Grosse
President

Cheryl Capiak
President Pro-Tem

John Kramer
Council Member

Darlene Heemstra
Council Member

John Pappa
Council Member

Steve Graziano
Council Member

Larry Shawver
Council Member

J. Patrick Yoder
Manager

Cynthia Moynihan
Clerk

Amy Hemphill
Treasurer

VILLAGE POPULATION--2010
1,622

TAXABLE VALUATION--2011
$38,396,594

4425 (Rev. 01-11)

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

February 13, 2011

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, 2011, which collectively comprise the Village of Three Oaks' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Three Oaks' 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 opinion.

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 aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Three Oaks, as of September 30, 2011, and the 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 February 13, 2012, on our consideration of the Village of Three Oaks' 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 and the budgetary comparison information (Exhibits H through J) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Village of Three Oaks' basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining and individual non-major fund financial statements are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining, individual non-major fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit 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, 2011

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 of Three Oaks, as a whole, and presents 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 27%, or $485,134, from $1,776,538 to $2,261,672 for the fiscal year ended September 30, 2011. The investment in capital assets-net of related debt increased $296,446 due to the $388,537 spent on the street infrastructure, a new mower, and a new police car less the current year's depreciation on the Village's assets. Restricted assets increased $69,202 due to transfers to the Street Fund to help pay for repaving projects, and a new restriction of funds set aside for future vehicle replacement. Unrestricted net assets increased $119,486 due to no additional transfers being made to remove deficits from other funds.

Net assets as of the fiscal year ended September 30, 2011 for the governmental activities are as follows:

	Governmental Activities 2010	Governmental Activities 2011	Difference	Percent
Current Assets	$ 1,152,293	$ 1,452,525	$ 300,232	26%
Noncurrent Assets	917,465	1,236,254	318,789	35%
Total Assets	2,069,758	2,688,779	619,021	30%
Current Liabilities	26,589	138,133	111,544	420%
Noncurrent Liabilities	266,631	288,974	22,343	8%
Total Liabilities	293,220	427,107	133,887	46%
Net Assets				
Invested in Capital Assets Net of Related Debt	650,834	947,280	296,446	46%
Restricted (Deficit)	508,053	577,255	69,202	14%
Unrestricted	617,651	737,137	119,486	19%
Total Net Assets	$ 1,776,538	$ 2,261,672	$ 485,134	27%

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, and charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specified purpose stipulated in the legislation. All assets as such (except for assets invested in capital assets-net of related debt) are considered restricted.

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 2010	Governmental Activities 2011	Difference	Percent
Program Revenues				
Charges for Services	$ 206,771	$ 204,928	$ (1,843)	-1%
Operating Grants and Contributions	213,063	237,940	24,877	12%
Capital Grants and Contributions		134,236	134,236	100%
General Revenues				
Property Taxes	510,155	504,902	(5,253)	-1%
State-Shared Revenues	160,385	160,385	-	0%
Unrestricted Investment Earnings	1,519	1,550	31	2%
Rents	46,930	73,733	26,803	57%
Other	5,574	8,274	2,700	48%
Tranfers	(30,345)	25,362	55,707	-184%
Total Revenues	1,114,052	1,351,310	237,258	21%
Program Expenses				
General Government	151,057	133,402	(17,655)	-12%
Public Safety	286,378	301,995	15,617	5%
Public Works	362,093	376,261	14,168	4%
Community and Economic Development	2,359	16,237	13,878	588%
Recreation and Culture	32,901	38,281	5,380	16%
Other	7,981		(7,981)	-100%
Total Expenses	842,769	866,176	23,407	3%
Change in Net Assets	$ 271,283	$ 485,134	$ 213,851	79%

Net assets as of the fiscal year ended September 30, 2011 for the business-type activities are as follows:

	Business-Type Activities 2010	Business-Type Activities 2011	Difference	Percent
Current Assets	$ 286,785	$ 450,639	$ 163,854	57%
Noncurrent Assets	5,849,137	8,975,082	3,125,945	53%
Total Assets	6,135,922	9,425,721	3,289,799	54%
Current Liabilities	2,963	180,350	177,387	5987%
Long-Term Liabilities	3,129,000	5,929,000	2,800,000	89%
Total Liabilities	3,131,963	6,109,350	2,977,387	95%
Net Assets				
Invested in Capital Assets Net of Related Debt	2,136,639	2,251,509	114,870	5%
Restricted	583,498	794,573	211,075	36%
Unrestricted	283,822	270,289	(13,533)	-5%
Total Net Assets	$ 3,003,959	$ 3,316,371	$ 312,412	10%

The Village's net assets for the business-type activities increased approximately 10%, or $312,412, from $3,003,959 to $3,316,371 for the fiscal year ended September 30, 2011. The investment in capital assets-net of related debt increased $114,870 due to addition of the new water system less the depreciation on the sewer and water system. Restricted assets increased $211,075 and the unrestricted net assets decreased by $13,533 or 5% as the Village raised water rates and set aside more funds in restricted cash accounts to comply with the bond requirements set forth by the United States Department of Agriculture for vehicle replacement.

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:

	Business-Type Activities 2010	Business-Type Activities 2011	Difference	Percent
Program Revenues				
Charges for Services	$ 664,461	$ 874,197	$209,736	32%
General Revenues				
Unrestricted Investment Earnings	6,256	3,972	(2,284)	-37%
Total Revenues	670,717	878,169	207,452	31%
Program Expenses				
Water and Sewer	574,154	565,757	(8,397)	-1%
Total Expenses	574,154	565,757	(8,397)	-1%
Change in Net Assets	$ 96,563	$ 312,412	$215,849	224%

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 have 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 $172,306 due to the Federal grant received for the Elm Street paving project and the other revenue increased due to a walkability grant received for repairing sidewalks. Expenses increased by $264,286, primarily due to the $298,320 spent on repaving Elm Street and the $47,744 spent on sidewalk improvements.

	Governmental Activities 2010	Governmental Activities 2011	Difference	Difference
Revenues				
Taxes	$ 535,052	$ 498,832	$ (36,220)	-7%
Licenses and Permits	24,700	28,567	3,867	16%
Federal Grants		88,101	88,101	100%
State Grants	271,117	281,527	10,410	4%
Charges for Services	92,301	82,384	(9,917)	-11%
Fines and Forfeits	3,277	7,646	4,369	133%
Interest and Rentals	49,353	76,256	26,903	55%
Other	196,744	281,537	84,793	43%
Total Revenues	1,172,544	1,344,850	172,306	15%
Expenses				
General Government	144,614	126,960	(17,654)	-12%
Public Safety	275,727	287,274	11,547	4%
Public Works	331,805	340,690	8,885	3%
Community and Economic Development	2,359	16,237	13,878	588%
Recreation and Culture	19,887	25,267	5,380	27%
Other	7,981		(7,981)	-100%
Capital Outlay	144,692	388,537	243,845	169%
Debt Service		6,386	6,386	100%
Total Expenses	927,065	1,191,351	264,286	29%
Excess of Revenues Over Expenditures	245,479	153,499	(91,980)	-37%
Other Financing Sources (Uses)				
Land Contract Proceeds	5,305	5,305	-	0%
Installment Purchase Proceeds		23,424	23,424	100%
Operating Transfers In	383,238	195,000	(188,238)	-49%
Operating Transfers (Out)	(413,583)	(195,000)	218,583	-53%
Total Other Financing Sources (Uses)	(25,040)	28,729	53,769	-215%
Beginning Fund Balance	845,479	1,065,918	220,439	26%
Ending Fund Balance	$ 1,065,918	$ 1,248,146	$ 182,228	17%

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 2011 include the General Fund, Major Street Fund, Local Street Fund, Municipal Street Fund, Sewer Fund, and Water Fund.

The General Fund pays for most of the Village's governmental services. The most significant are for general government, $126,960; public safety, $287,274; and public works, $340,690. 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 adjustments were to account for the equipment purchases.

Capital Asset and Debt Administration

At the end of 2011, the Village's governmental activities had $1,236,254 (net of accumulated depreciation) invested in a broad range of capital assets, including land, buildings, equipment, vehicles, and street infrastructure; and $8,180,509 invested in the sewer and water system. The Village entered into a land contract with current debt outstanding of $271,936 to pay for the purchase of Watkins Park and an installment purchase agreement of 17,038 for the purchase of a new police car. To pay for the sewer and water capital assets, the Village entered into various debt obligations with current outstanding debt totaling $5,929,000.

Economic Factors and Next Year's Budget and Rates

The Village's budget for 2012 has been designed to continue to address the Village's infrastructure. More street projects are planned for the upcoming fiscal year and more funds will be set aside as the Village also continues reserving funds to replace older vehicles. The Village will also continue the major renovation to the water system as the Village will continue issuing the bonds for the project.

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 **EXHIBIT A**
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
September 30, 2011

	PRIMARY GOVERNMENT			
ASSETS	Governmental Activities	Business-Type Activities	Total	Component Unit
Current Assets				
Cash and Cash Equivalents	$ 1,363,155	$ 389,140	$ 1,752,295	$ 14,738
Receivables (Net)				
Taxes--Delinquent	56,886		56,886	
Special Assessments--Delinquent	9,360		9,360	
Accounts	1,833	61,499	63,332	
Due From State	18,279		18,279	
Inventory	3,012		3,012	
Total Current Assets	1,452,525	450,639	1,903,164	14,738
Noncurrent Assets				
Reserved Cash		794,573	794,573	
Capital Assets--Net of Accumulated Depreciation	1,236,254	8,180,509	9,416,763	
Total Assets	2,688,779	9,425,721	12,114,500	14,738
LIABILITIES				
Current Liabilities				
Accounts Payable	53,017	180,350	233,367	
Due to State	22,025		22,025	
Escrow Payable	2,226		2,226	
Deferred Revenue	60,865		60,865	
Total Current Liabilities	138,133	180,350	318,483	-
Long-Term Liabilities				
Bonds Payable--Due Within One Year		214,000	214,000	
Bonds Payable--Due in More Than One Year		5,715,000	5,715,000	
Installment Purchase Payable--Due Within One Year	5,347		5,347	
Installment Purchase Payable--Due in More Than One Year	11,691		11,691	
Land Contract Payable--Due Within One Year	18,459		18,459	
Land Contract Payable--Due in More Than One Year	253,477		253,477	
Total Long-Term Liabilities	288,974	5,929,000	6,217,974	-
Total Liabilities	427,107	6,109,350	6,536,457	-
NET ASSETS				
Investment in Capital Assets--Net of Related Debt	947,280	2,251,509	3,198,789	
Restricted for				
Vehicle Replacement	74,653		74,653	
PA 302 Funds	300		300	
Major Street	9,973		9,973	
Local Street	25,875		25,875	
Municipal Street	355,944		355,944	
Nonmajor Governmental	110,510		110,510	
Downtown Development Authority				14,738
Reserved Cash		794,573	794,573	
Unrestricted	737,137	270,289	1,007,426	
Total Net Assets	$ 2,261,672	$ 3,316,371	$ 5,578,043	$ 14,738

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, 2011

EXHIBIT B

		PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
					PRIMARY GOVERNMENT			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Unit
Primary Government								
Governmental Activities								
General Government	$ 133,402	$ 7,852	$ 115,825		$ (9,725)		$ (9,725)	
Public Safety	301,995	107,140	2,834		(192,021)		(192,021)	
Public Works	376,261	88,581	119,281	$ 134,236	(34,163)		(34,163)	
Community and Economic Development	16,237	755			(15,482)		(15,482)	
Recreation and Culture	38,281	600			(37,681)		(37,681)	
Total Governmental Activities	866,176	204,928	237,940	134,236	(289,072)	$ -	(289,072)	
Business-Type Activities								
Sewer	339,977	409,972				69,995	69,995	
Water	225,780	464,225				238,445	238,445	
Total Business-Type Activities	565,757	874,197	-	-	-	308,440	308,440	
Total Primary Government	$ 1,431,933	$ 1,079,125	$ 237,940	$ 134,236	$ (289,072)	$ 308,440	$ 19,368	
Component Units								
Downtown Development Authority	$ 11,914	$ 320	$ 350					$ (11,244)
Total Component Units	$ 11,914	$ 320	$ 350	$ -	$ -	$ -	$ -	$ (11,244)
General Revenues								
Property Taxes					$ 504,902		$ 504,902	
State-Shared Revenues					160,385		160,385	
Unrestricted Investment Earnings					1,550	$ 3,972	5,522	$ 11
Rents					73,733		73,733	
Sale of Capital Assets					8,274		8,274	
Other Revenues					25,362		25,362	
Total General Revenues--Special Items and Transfers					774,206	3,972	778,178	11
Change in Net Assets					485,134	312,412	797,546	(11,233)
Net Assets--Beginning					1,776,538	3,003,959	4,780,497	25,971
Net Assets--Ending					$ 2,261,672	$ 3,316,371	$ 5,578,043	$ 14,738

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

VILLAGE OF THREE OAKS--BERRIEN COUNTY **EXHIBIT C**
BALANCE SHEET-- GOVERNMENTAL FUNDS AND
AND RECONCILIATION TO STATEMENT OF NET ASSETS
September 30, 2011

	MAJOR FUNDS					
	General	Major Street	Local Street	Municipal Street	Nonmajor Funds	Total Governmental Funds
ASSETS						
Cash and Cash Equivalents	$ 779,724	$ 15,307	$ 21,518	$ 443,927	$ 102,679	$ 1,363,155
Receivables						
Taxes--Delinquent	40,881			16,005		56,886
Special Assessments--Delinquent					9,360	9,360
Accounts	1,833					1,833
Due From State		12,463	5,816			18,279
Due From Other Funds		107,000				107,000
Inventory				3,012		3,012
Total Assets	$ 822,438	$ 134,770	$ 27,334	$ 462,944	$ 112,039	$ 1,559,525
LIABILITIES AND FUND EQUITY						
Liabilities						
Accounts Payable	$ 8,122	$ 41,907	$ 1,459		$ 1,529	$ 53,017
Due to State		22,025				22,025
Due to Other Funds				$ 107,000		107,000
Escrows Payable	2,226					2,226
Deferred Revenue	40,881	60,865		16,005	9,360	127,111
Total Liabilities	51,229	124,797	1,459	123,005	10,889	311,379
Fund Equity						
Fund Balances (Deficits)						
Nonspendable				3,012		3,012
Restricted for						
Major Street		9,973				9,973
Local Street			25,875			25,875
Municipal Street				336,927		336,927
Nonmajor Governmental					101,150	101,150
Assigned						
Vehicle Replacement	74,653					74,653
PA 302 Funds	300					300
Unassigned	696,256					696,256
Total Fund Equity	771,209	9,973	25,875	339,939	101,150	1,248,146
Total Liabilities and Fund Equity	$ 822,438	$ 134,770	$ 27,334	$ 462,944	$ 112,039	$ 1,559,525

Fund Balances--Total Governmental Funds	$ 1,248,146
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,236,254
Revenues that do not provide current financial resources are not reported as revenue in the funds--delinquent property taxes.	66,246
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	(288,974)
Net Assets of Governmental Activities	$ 2,261,672

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

VILLAGE OF THREE OAKS--BERRIEN COUNTY **EXHIBIT D**
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES--GOVERNMENTAL FUNDS
AND RECONCILIATION TO STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2011

	MAJOR FUNDS					
	General	Major Street	Local Street	Municipal Street	Non-Major Funds	Total Governmental Funds
Revenues						
Taxes	$ 358,647			$ 140,185		$ 498,832
Licenses and Permits	8,587				$ 19,980	28,567
Federal Grants		$ 88,101				88,101
State Grants	163,201	83,982	$ 34,344			281,527
Charges for Services	82,384					82,384
Fines and Forfeits	7,646					7,646
Interest and Rentals	75,283	93	47	702	131	76,256
Other Revenue	125,508	70,088			85,941	281,537
Total Revenues	821,256	242,264	34,391	140,887	106,052	1,344,850
Expenditures						
Current						
General Government	126,960					126,960
Public Safety	268,221				19,053	287,274
Public Works	159,662	72,773	32,157		76,098	340,690
Community and Economic Development	16,237					16,237
Recreation and Cultural	25,267					25,267
Capital Outlay	42,473	346,064				388,537
Debt Service	6,386					6,386
Total Expenditures	645,206	418,837	32,157	-	95,151	1,191,351
Excess of Revenues Over (Under) Expenditures	176,050	(176,573)	2,234	140,887	10,901	153,499
Other Financing Sources (Uses)						
Land Contract Proceeds	5,305					5,305
Installment Loan Proceeds	23,424					23,424
Interfund Transfers In		135,000		60,000		195,000
Interfund Transfers (Out)	(60,000)			(135,000)		(195,000)
Total Other Financing Sources (Uses)	(31,271)	135,000	-	(75,000)	-	28,729
Net Change in Fund Balances	144,779	(41,573)	2,234	65,887	10,901	182,228
Fund Balance (Deficit)--October 1, 2010	626,430	51,546	23,641	274,052	90,249	1,065,918
Fund Balance (Deficit)--September 30, 2011	$ 771,209	$ 9,973	$ 25,875	$ 339,939	$ 101,150	$ 1,248,146

Net Change in Fund Balances--Total Governmental Funds	$ 182,228
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	388,537
Deduct--Depreciation Expense	(69,748)
Net increase in revenue between the 2010 delinquent taxes and the 2009 delinquent taxes collected during 2010.	6,460
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).	(22,343)
Change in Net Assets of Governmental Activities	$ 485,134

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

VILLAGE OF THREE OAKS--BERRIEN COUNTY **EXHIBIT E**
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2011

	ENTERPRISE FUNDS		
	Major Funds		Total Enterprise Funds
ASSETS	Sewer	Water	
Current Assets			
Cash and Cash Equivalents	$ 137,123	$ 252,017	$ 389,140
Accounts Receivable	29,771	31,728	61,499
Total Current Assets	166,894	283,745	450,639
Noncurrent Assets			
Reserved Cash	460,262	334,311	794,573
Capital Assets--Net of Accumulated Depreciation	4,476,077	3,704,432	8,180,509
Total Noncurrent Assets	4,936,339	4,038,743	8,975,082
Total Assets	5,103,233	4,322,488	9,425,721
LIABILITIES			
Current Liabilities			
Accounts Payable	2,107	178,243	180,350
Total Current Liabilities	2,107	178,243	180,350
Noncurrent Liabilities			
Bonds Payable--Due Within One Year	122,000	92,000	214,000
Bonds Payable--Due in More Than One Year	2,216,000	3,499,000	5,715,000
Total Noncurrent Liabilities	2,338,000	3,591,000	5,929,000
Total Liabilities	2,340,107	3,769,243	6,109,350
NET ASSETS			
Invested in Capital Assets Net of Related Debt	2,138,077	113,432	2,251,509
Restricted	460,262	334,311	794,573
Unrestricted	164,787	105,502	270,289
Total Net Assets	$ 2,763,126	$ 553,245	$ 3,316,371

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

VILLAGE OF THREE OAKS--BERRIEN COUNTY **EXHIBIT F**
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS--PROPRIETARY FUNDS
For the Fiscal Year Ended September 30, 2011

	ENTERPRISE FUNDS		
	Major Funds		Total Enterprise Funds
	Sewer	Water	
Operating Revenues			
Charges for Services	$ 409,972	$ 464,225	$ 874,197
Total Operating Revenues	409,972	464,225	874,197
Operating Expenses			
Wages and Fringes	58,484	97,488	155,972
Operating Expenses	16,215	20,119	36,334
Repairs and Maintenance	6,975	3,451	10,426
Contracted Services	859	5,267	6,126
Utilities	7,274	14,028	21,302
Insurance	1,894	3,598	5,492
Depreciation	167,396	33,787	201,183
Total Operating Expenses	259,097	177,738	436,835
Operating Income (Loss)	150,875	286,487	437,362
Nonoperating Revenues (Expenses)			
Interest Earned on Investments	2,895	1,077	3,972
Interest Expense	(80,880)	(48,042)	(128,922)
Total Nonoperating Revenues (Expenses)	(77,985)	(46,965)	(124,950)
Income (Loss) Before Contributions	72,890	239,522	312,412
Change in Net Assets	72,890	239,522	312,412
Total Net Assets--October 1, 2010	2,690,236	313,723	3,003,959
Total Net Assets--September 30, 2011	$ 2,763,126	$ 553,245	$ 3,316,371

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

VILLAGE OF THREE OAKS--BERRIEN COUNTY **EXHIBIT G**
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended September 30, 2011

	ENTERPRISE FUNDS		
	Major Funds		Total Enterprise Funds
	Sewer	Water	
Cash Flows From Operating Activities			
Cash Received From Customers	$ 400,845	$ 445,373	$ 846,218
Cash Payments to Employees for Services and Benefits	(58,484)	(97,488)	(155,972)
Cash Payments to Suppliers for Goods and Services	(32,109)	(46,795)	(78,904)
Net Cash Provided by Operating Activities	310,252	301,090	611,342
Cash Flows From Capital and Related Financing Activities			
Acquisition of Capital Assets		(2,939,442)	(2,939,442)
Proceeds From Issuance of Bonds		2,941,000	2,941,000
Reduction of Debt	(116,000)	(25,000)	(141,000)
Interest Paid on Bonds	(80,880)	(48,042)	(128,922)
Net Cash Provided by Capital and Related Financing Activities	(196,880)	(71,484)	(268,364)
Cash Flows From Investing Activities			
Interest on Cash Equivalents	2,895	1,077	3,972
Net Cash Provided by Investing Activities	2,895	1,077	3,972
Net Increase (Decrease) in Cash and Cash Equivalents	116,267	230,683	346,950
Cash and Cash Equivalents at Beginning of Year	481,118	355,645	836,763
Cash and Cash Equivalents at End of Year	$ 597,385	$ 586,328	$ 1,183,713
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	$ 150,875	$ 286,487	$ 437,362
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation Expense	167,396	33,787	201,183
(Increase) Decrease in Accounts Receivable	(9,127)	(18,852)	(27,979)
Increase (Decrease) in Accounts Payable	2,107	(332)	1,775
Increase (Decrease) in Accrued Liabilities	(999)	-	(999)
Net Cash Provided by Operating Activities	$ 310,252	$ 301,090	$ 611,342

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

VILLAGE OF THREE OAKS--BERRIEN COUNTY **EXHIBIT H**
STATEMENT OF NET ASSETS
COMPONENT UNIT
September 30, 2011

	Downtown Development Authority
ASSETS	
Cash and Cash Equivalents	$ 14,738
Total Assets	14,738
LIABILITIES	
Total Liabilities	-
NET ASSETS	
Unrestricted	14,738
Total Net Assets	$ 14,738

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

VILLAGE OF THREE OAKS--BERRIEN COUNTY **EXHIBIT I**
STATEMENT OF ACTIVITIES
COMPONENT UNIT
For the Fiscal Year Ended September 30, 2011

	Downtown Development Authority
Program Expenses	
Public Works	$ 11,914
Total Program Expenses	11,914
Program Revenue	
Charges for Services	320
Operating Grants and Contributions	350
Total Program Revenue	670
Net Program Revenue	(11,244)
General Revenue	
Interest	11
Total General Revenue	11
Change in Net Assets	(11,233)
Net Assets	
Beginning of Year	25,971
End of Year	$ 14,738

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

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Three Oaks is located in Berrien County and provides services to its 1,622 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 following component unit is reported within the "component unit" column in the combined financial statements. The 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.

Downtown Development Authority

The Downtown Development Authority (Authority) exists to encourage economic development in the downtown area of the Village. The governing body of the component unit is appointed by the Village Council. The component unit maintains a general fund as its sole operating fund. Separate financial statements of the individual component unit have not been issued as management believes these general purpose financial statements, including disclosures, contain complete information to constitute a fair presentation of the component unit.

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.

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 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.

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.

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

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.

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."

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

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:

	Governmental Funds	Enterprise Funds
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.

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.

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

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.

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:

Fund, Function and Activity	Budget	Actual	Excess Expenditures
General Fund			
General Government			
Village Council	$ 11,000	$ 11,489	$ (489)
Village Manager	47,000	48,244	(1,244)
Clerk	22,000	23,271	(1,271)
Elections		330	(330)
Public Safety			
Police	217,000	217,421	(421)
Community Development			
Community Development		150	(150)
Recreational and Cultural			
Community Picnic		497	(497)
Capital Outlay	20,000	42,473	(22,473)
Debt Service		6,386	(6,386)
Major Street Fund			
Public Works			
Capital Outlay	319,000	346,064	(27,064)
Local Street Fund			
Public Works			
Routine and Preventive Maintenance	16,000	17,119	(1,119)
Traffic		102	(102)
Winter Routine and Preventive Maintenance	7,000	14,175	(7,175)
Drug Forfeiture			
Public Safety		2,129	(2,129)

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.

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:

	Governmental Activities	Business-Type Activities	Total	Component Unit
Cash and Cash Equivalents	$ 1,363,155	$ 389,140	$ 1,752,295	$ 14,738
Restricted Assets--Reserved Cash		794,573	794,573	
Total	$ 1,363,155	$ 1,183,713	$ 2,546,868	$ 14,738

The breakdown between deposits and investments is as follows:

	Primary Government
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	$2,546,568
Petty Cash and Cash on Hand	300
Total	$2,546,868

The bank balance of the Village's deposits is $3,028,830, of which $360,904 is covered by Federal depository insurance. The remaining $2,667,926 is uncollateralized. The bank balance of the component unit's deposits is $15,262, of which $15,262 is covered by FDIC insurance.

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.

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 2011 ad valorem tax was levied and collectible on July 1, 2011. 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 2011 State taxable valuation amounted to $38,396,594, on which ad valorem taxes levied for all Village purposes were $554,972. 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 30 are recorded as delinquent taxes receivable and are offset by deferred revenue.

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, 2011, consist of uncollected real property taxes and special assessments levied July 1, 2011, which had not been collected by November 30, 2011. The delinquent property taxes for the General and Municipal Street Funds are $40,881 and $16,005, respectively, and the delinquent special assessments for the Rubbish Fund are $9,360, and are offset by deferred revenue in the governmental fund financial statements.

Accounts Receivable

The General Fund has an account receivable amount of $1,833 for a franchise fee receivable due from the local cable company at September 30, 2011.

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 $29,771 and the receivable for the Water Fund is $31,728. The receivables are not offset by deferred revenue.

NOTE F--INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The amounts of the interfund receivables and payables between funds of the primary government and component units are as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
Primary Government			
Major Street	$ 107,000	Municipal Street	$ 107,000
Total Primary Government	$ 107,000		$ 107,000

The interfund balance is related to a deposit made to the incorrect street fund.

The transfers for the primary government are as follows:

Fund	Transfers In	Fund	Transfers (Out)
Primary Government		Primary Government	
Major Street	$ 135,000	General	$ 60,000
Municipal Street	60,000	Municipal Street	135,000
Total Primary Government	$ 195,000	Total Primary Government	$ 195,000

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

Interfund transfers are used to 1) transfer revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; 2) transfer receipts restricted to debt service from the funds collecting the receipts to the debt service funds as debt service payments become due; and 3) transfer unrestricted revenues collected in the General Fund to other funds to finance various programs accounted for in the other funds in accordance with budgetary authorizations.

NOTE G--CAPITAL ASSETS

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

Governmental Activities	Account Balances 10/01/10	Additions	Deductions	Account Balances 09/30/11
Capital Assets Not Being Depreciated				
Land	$ 266,631	$ 5,305		$ 271,936
Total	266,631	5,305	$ -	271,936
Capital Assets Being Depreciated				
Land Improvements	47,086			47,086
Buildings and Building Improvements	397,261			397,261
Equipment	173,040	13,744	14,562	172,222
Vehicles	388,086	23,424	44,026	367,484
Infrastructure--Roads	394,509	346,064		740,573
Total	1,399,982	383,232	58,588	1,724,626
Less Accumulated Depreciation				
Land Improvements	13,581	1,233		14,814
Buildings and Building Improvements	211,842	16,951		228,793
Equipment	149,807	8,812	14,562	144,057
Vehicles	334,975	23,026	44,026	313,975
Infrastructure--Roads	38,943	19,726		58,669
Total	749,148	69,748	58,588	760,308
Net Capital Assets Being Depreciated	650,834	383,232	69,748	964,318
Governmental Activities Capital Total				
Capital Assets--Net of Depreciation	$ 917,465	$ 388,537	$ 69,748	$ 1,236,254

The depreciation expense was $69,748 during the year.

NOTE G--CAPITAL ASSETS (Continued)

Business-Type Activities	Account Balances 10/01/10	Additions	Deductions	Account Balances 09/30/11
Capital Assets Not Being Depreciated				
Land--Sewer System	$ 30,017			$ 30,017
Land--Water System	24,500			24,500
Construction in Progress		$ 3,116,054		3,116,054
Subtotal	54,517	3,116,054	$ -	3,170,571
Capital Assets Being Depreciated				
Sewer System	6,895,048			6,895,048
Sewer Equipment	159,705			159,705
Water System	1,630,301		244,566	1,385,735
Water Equipment	52,491			52,491
Total	8,737,545	-	244,566	8,492,979
Less Accumulated Depreciation				
Sewer System	2,292,002	162,710		2,454,712
Sewer Equipment	149,295	4,686		153,981
Water System	1,032,635	33,788	244,566	821,857
Water Equipment	52,491			52,491
Total	3,526,423	201,184	244,566	3,483,041
Net Capital Assets Being Depreciated	5,211,122	-	201,184	5,009,938
Business-Type Activities Capital Total Capital Assets--Net of Depreciation	$5,265,639	$ 3,116,054	$201,184	$8,180,509

The depreciation expense was $201,184 during the year.

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

Governmental Activities	
General Government	$ 6,442
Public Safety	14,721
Public Works	35,571
Recreation and Culture	13,014
Total Governmental Activities	$ 69,748
Business-Type Activities	
Sewer	$ 167,396
Water	33,788
Total Business-Type Activities	$ 201,184

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:

	Balance 10/01/10	Additions (Reductions)	Balance 09/30/11	Due Within One Year
Governmental Activities				
Land Contract with Berrien County for $275,914 for nine years at an interest rate of 2% due in semi-annual installments of $21,218 beginning in 2012.	$ 266,631	$ 5,305	$ 271,936	$ 18,459
Installment Purchase Payable for four years at an interest rate of 6.1% due in annual installment of $6,386.		23,424 (6,386)	17,038	5,347
Total Governmental Activities	$ 266,631	$ 22,343	$ 288,974	$ 23,806
Business-Type Activities				
2001 Sanitary Sewer Clean Water Loan with 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.	$ 1,415,000	$ (100,000)	$ 1,315,000	$ 105,000
2001 Sanitary Sewer System Revenue Bonds 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.	1,039,000	(16,000)	1,023,000	17,000
1978 Water Supply System Revenue Bonds with annual installments of $15,000 for 30 years at an interst rate of 5.0% for the expansion of the water system.	90,000	(15,000)	75,000	15,000
1992 Water System Revenue 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.	585,000	(10,000)	575,000	10,000
2010 Water System Revenue Bonds due in semi-annual installments of $59,000 to $171,000 for 40 years at an interest rate at 3% for the expansion of the water system. Face value of the bonds is $4,176,000, however only $2,941,000 has been drawndown.		2,941,000	2,941,000	67,000
Total Business-Type Activities	$ 2,800,000	$ 2,800,000	$ 5,929,000	$ 214,000

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, 2011, are as follows:

	GOVERNMENTAL ACTIVITIES			BUSINESS-TYPE ACTIVITIES		
Fiscal Year	Principal	Interest	Annual Total	Principal	Interest	Annual Total
2012	$ 23,806	$ 3,798	$ 27,604	$ 219,000	$ 124,275	$ 343,275
2013	43,147	5,676	48,823	216,000	122,385	338,385
2014	44,245	4,577	48,822	219,000	120,585	339,585
2015	38,995	3,441	42,436	226,000	118,740	344,740
2016	39,779	2,657	42,436	230,000	116,835	346,835
2017-2021	102,980	2,900	105,880	1,195,000	553,650	1,748,650
2022-2026				825,000	497,265	1,322,265
2027-2031				838,000	432,555	1,270,555
2032-2036				800,000	358,350	1,158,350
2037-2041				887,000	273,075	1,160,075
2042-2046				701,000	174,915	875,915
2047-2050				808,000	61,980	869,980
	$ 292,952	$ 23,049	$ 316,001	$ 7,164,000	$ 2,954,610	$ 10,118,610

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. Remaining capitalized interest for 2012 is $3,978.

Fiscal Year	Principal	Interest	Annual Total
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
	$ 275,914	$ 20,929	$ 296,843

NOTE H--LONG-TERM DEBT (Continued)

Installment Purchase Agreement

The Village entered into an installment purchase agreement for the purchase of a new police vehicle for $23,424 at an interest rate of 6.1% with annual payments of $6,386.

Fiscal Year	Principal	Interest	Annual Total
2012	$ 5,347	$ 1,039	$ 6,386
2013	5,673	713	6,386
2014	6,018	368	6,386
	$ 17,038	$ 2,120	$ 19,158

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.

Fiscal Year	April 1 Principal
2012	$ 105,000
2013	110,000
2014	110,000
2015	115,000
2016	115,000
2017-2021	625,000
2022	135,000
	$ 1,315,000

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.

Fiscal Year	May 1 Principal
2012	$ 17,000
2013	17,000
2014	18,000
2015	19,000
2016	20,000
2017-2021	115,000
2022-2026	142,000
2027-2031	177,000
2032-2036	220,000
2037-2041	278,000
	$ 1,023,000

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.

Fiscal Year	January 1 Principal
2012	$ 15,000
2013	15,000
2014	15,000
2015	15,000
2016	15,000
	$ 75,000

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.

Fiscal Year	January 1 Principal
2012	$ 15,000
2013	15,000
2014	15,000
2015	15,000
2016	15,000
2017-2021	105,000
2022-2026	145,000
2027-2031	200,000
2032	50,000
	$575,000

2010 Water Revenue Bonds

The 2010 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 3% per annum with interest payable semi-annually. As of September 30, 2011, only $2,941,000 has been drawn down.

Fiscal Year	December 1 Principal	December 1 Interest	June 1 Interest	Total
2012	$ 67,000	$ 62,640	$ 61,635	$ 191,275
2013	59,000	61,635	60,750	181,385
2014	61,000	60,750	59,835	181,585
2015	62,000	59,835	58,905	180,740
2016	65,000	58,905	57,930	181,835
2017-2021	350,000	279,450	274,200	903,650
2022-2026	403,000	251,655	245,610	900,265
2027-2031	461,000	219,735	212,820	893,555
2032-2036	530,000	183,150	175,200	888,350
2037-2041	609,000	141,105	131,970	882,075
2042-2046	701,000	92,715	82,200	875,915
2047-2050	808,000	37,050	24,930	869,980
	$ 4,176,000	$ 1,508,625	$ 1,445,985	$ 7,130,610

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, 2011, the reserve cash balances are $460,262 and $334,311 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 3% of eligible wages for the eligible 8 employees for a total contribution of $9,097. The employee's accounts are fully vested after five years of service.

NOTE K--RISK MANAGEMENT

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

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--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that villages report all Federal and State grants pertaining to their village. During the fiscal year ended September 30, 2011, the Federal grants received and expended by the Village was $88,101 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to Single Audit requirements by the villages, as they are included in MDOT's single audit.

During the fiscal year ended September 30, 2011, the Village received and expended $3,116,054 in Federal Awards in the form of a loan for water system improvements for negotiated (force account) projects. Negotiated projects are defined as projects performed by Village employees or private contractors paid for and administered by the Village. Negotiated projects are subject to Single Audit requirements, if the amount expended is $500,000 or more. A Single Audit was performed during the fiscal year ended September 30, 2011.

NOTE M--FUND BALANCE

In accordance with Government Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Village of Three Oaks classifies governmental fund balances as follows:

- Non-spendable - includes fund balance amounts in governmental funds to designate amounts which are not available for spending, or are legally or contractually required to be maintained. The non-spendable amount reported in the General Fund is related to prepaid expenditures.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance are assigned by the Council.
- Unassigned - includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Village of Three Oaks does not have a formal minimum fund balance policy.

The purpose of the primary government's restricted fund balances and revenue sources are listed below:

Special Revenue Funds

- Major Street Fund - This fund is used to account for revenues from Federal and Michigan Transportation Fund monies distributed which are earmarked by law to control expenditures for the construction and maintenance of the major street system.

- Local Street Fund - This fund is used to account for revenues primarily from Michigan Transportation Fund monies distributed which are earmarked by law to control expenditures for the construction and maintenance of the local street system.

- Municipal Street Fund - This fund is used to account for the revenues from the separate street improvement millage as required by the Michigan Department of Treasury.

- Rubbish Fund - This fund is used to account for the revenues from special assessments for rubbish collection as required by the Michigan Department of Treasury.

- Building and Zoning Fund - This fund is used to account for revenues earmarked by law for building construction code enforcement activities within the Village.

NOTE M--FUND BALANCE (Continued)

- Drug Law Enforcement Fund - This fund is used to account for revenues from seized property involved in the violation of controlled substances statutes, Act 135 PA 1985.

The purpose of the component unit's restricted fund balances and revenue sources are listed below:

- Downtown Development Authority (DDA) - This fund is used to account for the taxes captured by the DDA to administer the activities authorized under the Downtown Development Authority Act.

Unassigned Fund Balance

Unassigned fund balance is the residual classification for the Village's General Fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the Village Council.

NOTE N--CHANGE IN ACCOUNTING PRINCIPLE

In March 2009, the Government Accounting Standards Board (GASB) issued statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved have been replaced with five new classifications: non-spendable, restricted, committed, assigned, and unassigned.

VILLAGE OF THREE OAKS--BERRIEN COUNTY **EXHIBIT J**
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Fiscal Year Ended September 30, 2011

	BUDGETED AMOUNTS			
	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Taxes	$ 360,000	$ 373,000	$ 358,647	$ (14,353)
Licenses and Permits	8,000	8,000	8,587	587
State Grants	146,000	156,800	163,201	6,401
Charges for Services	89,700	80,800	82,384	1,584
Fines and Forfeitures	3,000	5,000	7,646	2,646
Interest and Rentals	50,300	71,100	75,283	4,183
Other Revenue	60,000	121,100	125,508	4,408
Total Revenue	717,000	815,800	821,256	5,456
Expenditures				
General Government	149,762	154,000	126,960	27,040
Public Safety	267,300	269,000	268,221	779
Public Works	187,000	183,000	159,662	23,338
Community and Economic Development	22,400	19,980	16,237	3,743
Recreation and Culture	17,000	25,000	25,267	(267)
Capital Outlay	-	20,000	42,473	(22,473)
Debt Service	-	-	6,386	(6,386)
Total Expenditures	643,462	670,980	645,206	25,774
Excess of Revenues Over (Under) Expenditures	73,538	144,820	176,050	31,230
Other Financing Sources (Uses)				
Land Contract Proceeds	-	5,000	5,305	305
Installment Loan Proceeds	-	-	23,424	23,424
Operating Transfers (Out)	(35,000)	(60,000)	(60,000)	-
Total Other Financing Sources (Uses)	(35,000)	(55,000)	(31,271)	23,729
Net Change in Fund Balance	38,538	89,820	144,779	54,959
Fund Balance--October 1, 2010	626,430	626,430	626,430	-
Fund Balance--September 30, 2011	$ 664,968	$ 716,250	$ 771,209	$ 54,959

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

VILLAGE OF THREE OAKS--BERRIEN COUNTY **EXHIBIT K**
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET--MAJOR SPECIAL REVENUE FUND
For the Fiscal Year Ended September 30, 2011

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Federal Grant - D Funds	$ 150,000	$ 150,000	$ 88,101	$ (61,899)
State Grants				
Michigan Transportation Funds	60,000	60,000	73,790	13,790
Snow Funds	-	-	10,192	10,192
Interest and Rentals	100	100	93	(7)
Other	-	-	70,088	70,088
Total Revenues	210,100	210,100	242,264	32,164
Expenditures				
Public Works				
Sidewalks	-	35,000	10,997	24,003
Routine and Preventive Maintenance	22,000	22,000	17,523	4,477
Traffic	7,000	7,000	3,512	3,488
Winter				
Routine and Preventive Maintenance	37,000	42,000	40,741	1,259
Capital Outlay	349,000	319,000	346,064	(27,064)
Total Expenditures	415,000	425,000	418,837	6,163
Excess of Revenues Over (Under) Expenditures	(204,900)	(214,900)	(176,573)	38,327
Other Financing Sources (Uses)				
Interfund Transfers In	220,000	220,000	135,000	(85,000)
Total Other Financing Sources (Uses)	220,000	220,000	135,000	(85,000)
Net Change in Fund Balance	15,100	5,100	(41,573)	(46,673)
Fund Balance--October 1, 2010	51,546	51,546	51,546	-
Fund Balance--September 30, 2011	$ 66,646	$ 56,646	$ 9,973	$ (46,673)

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

VILLAGE OF THREE OAKS--BERRIEN COUNTY **EXHIBIT L**
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET--MAJOR SPECIAL REVENUE FUND
For the Fiscal Year Ended September 30, 2011

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
State Grants				
Michigan Transportation Funds	$ 30,000	$ 30,000	$ 34,344	$ 4,344
Interest and Rentals	100	100	47	(53)
Total Revenues	30,100	30,100	34,391	4,291
Expenditures				
Public Works				
Sidewalks	-	1,000	761	239
Routine and Preventive Maintenance	24,441	16,000	17,119	(1,119)
Traffic	1,177	-	102	(102)
Winter				
Routine and Preventive Maintenance	18,383	7,000	14,175	(7,175)
Total Expenditures	44,001	24,000	32,157	(8,157)
Excess of Revenues Over (Under) Expenditures	(13,901)	6,100	2,234	(3,866)
Other Financing Sources (Uses)				
Interfund Transfers In	-	20,000	-	(20,000)
Total Other Financing Sources (Uses)	-	20,000	-	(20,000)
Net Change in Fund Balance	(13,901)	26,100	2,234	(23,866)
Fund Balance--October 1, 2010	23,641	23,641	23,641	-
Fund Balance--September 30, 2011	$ 9,740	$ 49,741	$ 25,875	$ (23,866)

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

VILLAGE OF THREE OAKS--BERRIEN COUNTY **EXHIBIT M**
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MUNICIPAL STREET--MAJOR SPECIAL REVENUE FUND
For the Fiscal Year Ended September 30, 2011

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	$ 135,000	$ 145,000	$ 140,185	$ (4,815)
Interest and Rentals	200	-	702	702
Other	-	107,000	-	(107,000)
Total Revenues	135,200	145,000	140,887	(4,113)
Total Expenditures	-	-	-	-
Excess of Revenues Over (Under) Expenditures	135,200	145,000	140,887	(4,113)
Other Financing Sources (Uses)				
Interfund Transfers In		60,000	60,000	-
Interfund Transfers (Out)	(220,000)	(240,000)	(135,000)	105,000
Total Other Financing Sources (Uses)	(220,000)	(180,000)	(75,000)	105,000
Net Change in Fund Balance	(84,800)	(35,000)	65,887	100,887
Fund Balance--October 1, 2010	274,052	274,052	274,052	-
Fund Balance--September 30, 2011	$ 189,252	$ 239,052	$ 339,939	$ 100,887

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

VILLAGE OF THREE OAKS--BERRIEN COUNTY **EXHIBIT N**
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
September 30, 2011

	SPECIAL REVENUE			
	Rubbish	Building Department	Drug Forfeiture	Total
ASSETS				
Cash and Cash Equivalents	$ 91,913	$ 10,577	$ 189	$ 102,679
Delinquent Special Assessments Receivable	9,360			9,360
Total Assets	$ 101,273	$ 10,577	$ 189	$ 112,039
LIABILITIES AND FUND BALANCES				
Accounts Payable		$ 1,529		$ 1,529
Deferred Revenue	$ 9,360			9,360
Total Liabilities	9,360	1,529	$ -	10,889
Fund Balances				
Restricted	91,913	9,048	189	101,150
Total Fund Balances	91,913	9,048	189	101,150
Total Liabilities and Fund Balances	$ 101,273	$ 10,577	$ 189	$ 112,039

VILLAGE OF THREE OAKS--BERRIEN COUNTY **EXHIBIT O**
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
September 30, 2011

	SPECIAL REVENUE			
	Rubbish	Building Department	Drug Forfeiture	Total
Revenues				
Licenses and Permits		$ 19,980		$ 19,980
Interest and Rentals	$ 113	16	$ 2	131
Special Assessments	85,941			85,941
Total Revenues	86,054	19,996	2	106,052
Expenditures				
Public Safety		16,924	2,129	19,053
Public Works	76,098			76,098
Total Expenditures	76,098	16,924	2,129	95,151
Excess of Revenue Over (Under) Expenditures	9,956	3,072	(2,127)	10,901
Fund Balance--October 1, 2010	81,957	5,976	2,316	90,249
Fund Balance--September 30, 2011	$ 91,913	$ 9,048	$ 189	$ 101,150

VILLAGE OF THREE OAKS--BERRIEN COUNTY **EXHIBIT P**
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BY SOURCE--BUDGET AND ACTUAL--GENERAL FUND
September 30, 2011

REVENUES	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
Property Taxes				
Current Taxes	$ 310,000	$ 320,000	$ 314,747	$ (5,253)
Delinquent Taxes	42,000	45,000	35,739	(9,261)
Interest and Penalties	3,000	3,800	3,258	(542)
Administrative Fees	5,000	4,200	4,903	703
Total Property Taxes	360,000	373,000	358,647	(14,353)
Licenses and Permits				
Zoning Permits	-	-	455	455
Planning Reviews	-	-	300	300
Franchise Fees	8,000	8,000	7,832	(168)
Total Licenses and Permits	8,000	8,000	8,587	587
State Grants				
Liquor License	2,000	1,800	2,285	485
Police Training Grant	-	-	531	531
Revenue Sharing	144,000	155,000	160,385	5,385
Total State Grants	146,000	156,800	163,201	6,401
Charges for Services				
Police	87,000	77,800	79,514	1,714
Park	500	800	600	(200)
Grass Cutting/Snow Plowing	2,200	2,200	2,250	50
Other Charges for Services	-	-	20	20
Total Charges for Services	89,700	80,800	82,384	1,584
Fines and Forfeitures				
Traffic and Ordinance Fines	3,000	5,000	7,646	2,646
Total Fines and Forfeitures	3,000	5,000	7,646	2,646
Interest and Rentals				
Vehicle Rental	41,100	41,100	43,240	2,140
Village Rental	7,200	28,000	30,493	2,493
Interest	2,000	2,000	1,550	(450)
Total Interest and Rentals	50,300	71,100	75,283	4,183
Other Revenue				
Local Revenue Sharing--Casino Funds	60,000	89,000	89,542	542
Other Donations	-	25,000	26,283	1,283
Reimbursements	-	1,100	1,409	309
Sale of Capital Assets	-	6,000	8,274	2,274
Total Other Revenue	60,000	121,100	125,508	4,408
Total Revenue	717,000	815,800	821,256	5,456
Other Financing Sources				
Land Contract Proceeds	-	5,000	5,305	305
Installment Purchase Proceeds	-	-	23,424	23,424
Total Other Financing Sources	-	5,000	28,729	23,729
Total Revenue and Other Financing Sources	$ 717,000	$ 820,800	$ 849,985	$ 29,185

VILLAGE OF THREE OAKS--BERRIEN COUNTY **EXHIBIT Q**
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BY ACTIVITY--BUDGET AND ACTUAL--GENERAL FUND
September 30, 2011

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
General Government				
Village Council	$ 10,162	$ 11,000	$ 11,489	$ (489)
Village Manager	46,100	47,000	48,244	(1,244)
Clerk	18,000	22,000	23,271	(1,271)
Accounting Fees	8,000	8,000	7,820	180
Treasurer	17,000	17,000	13,738	3,262
Elections	2,600	-	330	(330)
Building and Grounds	6,000	6,000	4,057	1,943
Attorney Fees	6,000	4,000	2,486	1,514
Other General Government	35,900	39,000	15,525	23,475
Total General Government	149,762	154,000	126,960	27,040
Public Safety				
Police	217,000	217,000	217,421	(421)
Fire	50,300	52,000	50,800	1,200
Total Public Safety	267,300	269,000	268,221	779
Public Works				
Department of Public Works	135,000	135,000	114,094	20,906
Drain at Large	26,000	24,000	21,724	2,276
Street Lights	26,000	24,000	23,844	156
Total Public Works	187,000	183,000	159,662	23,338
Community and Economic Development				
Planning	22,400	19,980	16,087	3,893
Community Development	-	-	150	(150)
Total Community and Economic Development	22,400	19,980	16,237	3,743
Recreation and Culture				
Parks and Recreation	17,000	25,000	24,770	230
Community Picnic	-	-	497	(497)
Total Recreation and Culture	17,000	25,000	25,267	(267)
Capital Outlay	-	20,000	42,473	(22,473)
Total Capital Outlay	-	20,000	42,473	(22,473)
Debt Service				
Principal	-	-	6,386	(6,386)
Total Debt Service	-	-	6,386	(6,386)
Total Expenditures	643,462	670,980	645,206	25,774
Other Financing Uses				
Operating Transfers (Out)	35,000	60,000	60,000	-
Total Other Financing Uses	35,000	60,000	60,000	-
Total Expenditures and Other Financing Uses	$ 678,462	$ 730,980	$ 705,206	$ 25,774

VILLAGE OF THREE OAKS **SCHEDULE 1**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (1)(2)

For the Fiscal Year Ended September 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grantor Number	Federal Expenditures
PRIMARY GOVERNMENT			
US DEPARTMENT OF AGRICULTURE--RURAL DEVELOPMENT			
Office of Rural Development--Direct			
Water Improvement Loan	10.760	(3)	$ 3,116,654
TOTAL US DEPARTMENT OF AGRICULTURE			3,116,654
US DEPARTMENT OF TRANSPORTATION			
Passed Through Michigan Department of Transportation			
Surface Transportation Grant	20.205	RR7523/Job # 103385 (4)	88,101
TOTAL US DEPARTMENT OF TRANSPORTATION			88,101
TOTAL PRIMARY GOVERNMENT			$ 3,204,755

See Notes to Schedule of Expenditures of Federal Awards.

VILLAGE OF THREE OAKS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended September 30, 2011

1) The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal awards programs of the Village. Federal awards received directly from Federal agencies, as well as Federal awards passed through other government agencies, are included on the schedule.

2) The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note A of the Village's financial statements.

3) Grant/loan number was not available.

4) It is required by the Michigan Department of Transportation that the Village report total Federal financial assistance for highway research, planning and construction pertaining to their Village. However, only the Federal financial assistance applicable to force account expenditures is required to be audited for compliance under the Single Audit Act through Village procurement. The reason for this requirement is that the Village is required to have accounting and administrative control over the force account (negotiated) contracts, while all other contracts are administered by the Michigan Department of Transportation. During 2011, the Village received and expended $88,101 in Federal Highway grant money where the work was performed by contractors that were paid directly from the State, which is included in the State’s single audit.

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STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

February 13, 2012

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, 2011, and have issued our report thereon dated February 13, 2012. 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 of Three Oaks' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Three Oaks' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of Three Oaks' internal control over financial reporting.

Our consideration of the 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 Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Village of Three Oaks' 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 listed as Findings 2007-1, 2008-2, and 2008-5 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Three Oaks' 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 that are required to be reported under Government Auditing Standards, and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings Number 2008-17.

The Village of Three Oaks' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Village of Three Oaks' responses and accordingly, we express no opinion on it.

This report is intended solely for the information of the Village of Three Oaks' Council, management and others within the Village of Three Oaks, Federal and State awarding agencies 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

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STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

February 13, 2012

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

RE: Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance With OMB Circular A-133

Dear Council Members:

Compliance--We have audited the compliance of the Village of Three Oaks, Berrien County, Michigan with the types of compliance requirements described in the US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major Federal programs for the year ended September 30, 2011. The Village of Three Oaks' major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the Village of Three Oaks' management. Our responsibility is to express an opinion on the Village of Three Oaks' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program. An audit includes examining, on a test basis, evidence about the Village of Three Oaks' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village of Three Oaks' compliance with those requirements.

In our opinion, the Village of Three Oaks complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the fiscal year ended September 30, 2011.

Internal Control Over Compliance--The management of the Village of Three Oaks is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the Village of Three Oaks' internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Village of Three Oaks' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

This report is intended solely for the information of Village of Three Oaks' Council, management and others within the Village of Three Oaks, Federal and State awarding agencies 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

4425 (Rev. 01-11)

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

February 13, 2012

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, Berrien County, Michigan, for the fiscal year ended September 30, 2011, and have issued our report thereon dated February 13, 2012. 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 May 23, 2011, 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 of Three Oaks. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control. We also considered internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Village of Three Oaks' financial statements are free of material misstatement, we performed tests of its 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. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Village of Three Oaks' compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major Federal programs for the purpose of expressing an opinion on the Village of Three

Oaks' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Village of Three Oaks' compliance with those requirements.

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 January 3, 2012.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village of Three Oaks are described in Note A to the financial statements. During the fiscal year, the Village of Three Oaks implemented Government Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions to enhance the usefulness of the fund balance information. The changes implemented by the Village of Three Oaks are explained in the Notes to the financial statements. We noted no transactions entered into by the Village of Three Oaks 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. We evaluated the key factors and assumptions used to develop the 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, none 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 February 13, 2012.

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 of Three Oaks' 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 of Three Oaks' 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 of Three Oaks' Council and management of the Village of Three Oaks 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 QUESTIONED COSTS
For the Fiscal Year Ended September 30, 2011

Section I--Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified?	✓	Yes		No
Significant deficiency(ies) identified that are not considered to be material weaknesses?		Yes	✓	No
Noncompliance material to financial statements noted?		Yes	✓	No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?		Yes	✓	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?		Yes	✓	None reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?		Yes	✓	No

Identification of Major Programs:

CFDA Number(s)	*Name of Federal Program or Cluster*
10.760	Water and Waste Disposal Systems for Rural Communities

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

Auditee qualified as low-risk auditee?		Yes	✓	No

Section II--Financial Statement Findings

Preparation of Financial Statements in Accordance With GAAP *Finding 2007-1*

Condition: As many small and medium-sized governmental entities do, the Village of Three Oaks 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.

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 staff prepares monthly financial statements for the Village Manager to review. However, it is not cost beneficial for the Village to hire additional staff for preparing the audit report and the GASB 34 statements required.

MATERIAL WEAKNESSES (Continued)

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 limitation 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 Village Treasurer is solely responsible for inputting meter readings into the computerized accounting system, printing bills, and can make and post adjustments.
- The Village Clerk is responsible for reviewing the payroll, processing the payroll, posting the payroll to the general ledger, 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.

MATERIAL WEAKNESSES (Continued)

Management's Response-Corrective Action Plan: The Village has implemented controls as best as feasibly possible. It is not cost beneficial to hire additional staff to try and further segregate these duties.

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.

The Village has not formally adopted a capitalization policy to determine a "threshold" to capitalize an asset or record it as 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 begin to maintain the asset listing and quarterly entries will be made to record the depreciation.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended September 30, 2011

NONCOMPLIANCE WITH STATE STATUTES

Our review and study for compliance with State statutes and regulations revealed the following noncompliance procedures:

Expenditures in Excess of Appropriations *Finding 2008-17*

Condition: The Village's 2011 General Appropriations Act (budget) provided for expenditures of the General Fund and special revenue funds to be controlled to the activity level by the Village. As detailed below, actual 2011 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, 2011, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund and special revenue funds as follows:

Fund, Function and Activity	Budget	Actual	Excess Expenditures
General Fund			
General Government			
Village Council	$ 11,000	$ 11,489	$ (489)
Village Manager	47,000	48,244	(1,244)
Clerk	22,000	23,271	(1,271)
Elections		330	(330)
Public Safety			
Police	217,000	217,421	(421)
Community Development			
Community Development		150	(150)
Recreational and Cultural			
Community Picnic		497	(497)
Capital Outlay	20,000	42,473	(22,473)
Debt Service		6,386	(6,386)
Major Street Fund			
Public Works			
Capital Outlay	319,000	346,064	(27,064)
Local Street Fund			
Public Works			
Routine and Preventive Maintenance	16,000	17,119	(1,119)
Traffic		102	(102)
Winter Routine and Preventive Maintenance	7,000	14,175	(7,175)
Drug Forfeiture			
Public Safety		2,129	(2,129)

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

NONCOMPLIANCE WITH STATE STATUTES (Continued)

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

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

Management's Response-Corrective Action Plan: The minor excess expenditures were due to underestimating the accruals above. The Village will continue to review its budget more thoroughly to prevent future overages.

Section III--Federal Award Findings and Questioned Costs

There were no findings related to Single Audit compliance.