

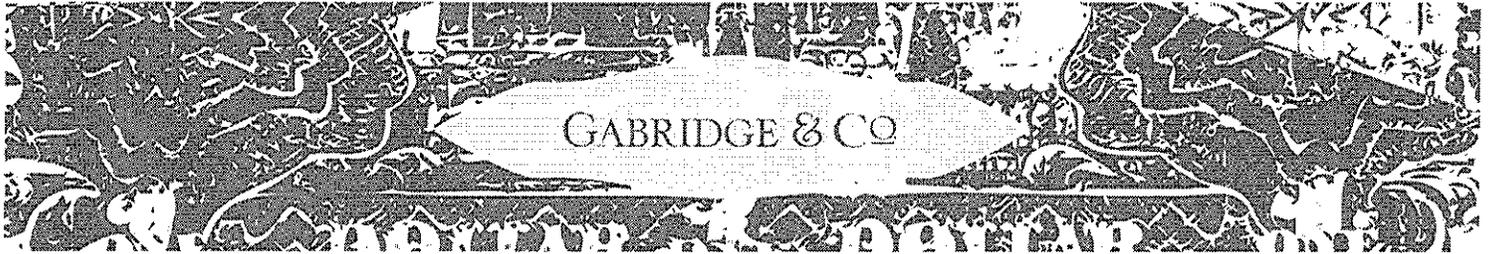
VILLAGE OF FORESTVILLE, MICHIGAN

FINANCIAL STATEMENTS AND INDEPENDANT AUDITOR'S REPORT

For the Fiscal Year Ended February 28, 2010

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INDEPENDENT AUDITOR'S REPORT

To the Village Council
Village of Forestville, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Forestville, Michigan, as of and for the year ended February 28, 2010, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Forestville, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Forestville, Michigan, as of February 28, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 1, 2010, on our consideration of the Village of Forestville, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, 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.

Gabridge & Company

Gabridge & Company, PLC
Grand Rapids, MI
November 1, 2010

Management's Discussion and Analysis

As management of the Village of Forestville, we offer readers of the Village of Forestville's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2010. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights

The assets of the Village exceeded its liabilities at the close of this fiscal year by \$7,051,773 (shown as *Net Assets*), representing a decrease of \$151,743 over the previous fiscal year. Of this amount, \$671,866 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

During the year, the Village received \$420,852 in revenues and \$572,595 in expenses, resulting in a decrease in net assets of approximately \$151,743. Of the Village's \$572,595 expense total, \$434,800 related to business-type expenses and the balance of \$137,795 related to governmental activities.

At the end of the current fiscal year, unreserved fund balance for the General Fund was \$126,092 or 101 percent of the General Fund's total expenditures.

Overview of the Financial Statements

The Village of Forestville's financial statements consist of three components:

1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements The *government-wide financial statements* are designed to provide a broad overview of the Village's financial position. They are presented using a method of accounting that is similar to a private sector business.

The *Statement of Net Assets* presents information on all of the Village's assets and liabilities, the difference between the two being reported as the Net Assets of the Village. Over time, increases or decreases in net assets can serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave, prepaid expenses, etc.).

Both of these statements distinguish functions of the Village that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Governmental activities of the Village include general government, public safety, public works, culture and recreation. Business-type activities of the Village include water and sewer utility services.

Focus on Funds

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The Village of Forestville uses fund accounting to ensure compliance with finance-related legal requirements. There are three basic types of funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds Many of the Village's basic services are reported in the governmental funds. Governmental funds account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This is known as the modified accrual system of accounting. Under this reporting system, capital items, debt payments and certain other items are treated differently than on the government-wide statements. These items are recorded in the government fund balance as expenditures. No depreciation is recorded on capital items. The balance sheet for governmental funds does not include any capital items or long-term debt. Governmental funds for the Village include the general fund as well as the special revenue, and debt service funds.

Proprietary Funds Proprietary funds account for services for which the Village charges its customers for the services they are provided. These charges can be to external customers or other agencies for the services they are provided. These charges can be to external customers or other agencies within the Village. The Village uses one type of proprietary fund:

Enterprise funds are used to report business-like activities of the Village. These activities intend to recover the full cost of the services through the fee charged to the customers. The Village has two enterprise funds, which are the water and sewer funds.

Notes to the Financial Statements

The notes to the basic Financial Statements provide additional information that is essential to a complete understanding of the information provided in both the government-wide and the fund financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report further presents required supplementary information (RSI) that explains the information presented in the financial statements.

Government -Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Village of Forestville, assets exceeded liabilities by \$2,740,767 at the close of the most recent fiscal year. The following table illustrates the varying results of the governmental activities and business-type activities that combine to capture the Village's total net assets.

VILLAGE OF FORESTVILLE
Net Assets as of February 28, 2010

	Governmental Activities		Business-Type Activities		Total Government	
	2008	2010	2008	2010	2008	2010
Current and Other Assets	\$ 270,920	\$ 294,759	\$ 1,078,281	\$ 1,358,543	\$ 1,349,201	\$ 1,653,302
Capital Assets	37,609	41,175	8,427,805	7,681,902	8,465,414	7,723,077
Total Assets	308,529	335,934	9,506,086	9,040,445	9,814,615	9,376,379
Long-term Liabilities	-	-	2,328,000	2,219,000	2,328,000	2,219,000
Other Liabilities	1,848	16,254	14,766	89,352	16,614	105,606
Total Liabilities	1,848	16,254	2,342,766	2,308,352	2,344,614	2,324,606
Net Assets						
Invested in Capital Assets,						
Net of Related Debt	37,609	41,175	5,810,004	5,425,902	5,847,613	5,467,077
Restricted	-	-	977,097	912,830	977,097	912,830
Unrestricted	269,072	278,505	376,219	393,361	645,291	671,866
Total Net Assets	\$ 306,681	\$ 319,680	\$ 7,163,320	\$ 6,732,093	\$ 7,470,001	\$ 7,051,773

The most significant portion of the Village's net assets is the investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt which is outstanding that the Village used to acquire or construct the asset. The Village has \$671,866 in unrestricted net assets. These assets represent resources that are available for appropriation, but are limited by the Village policies regarding their use.

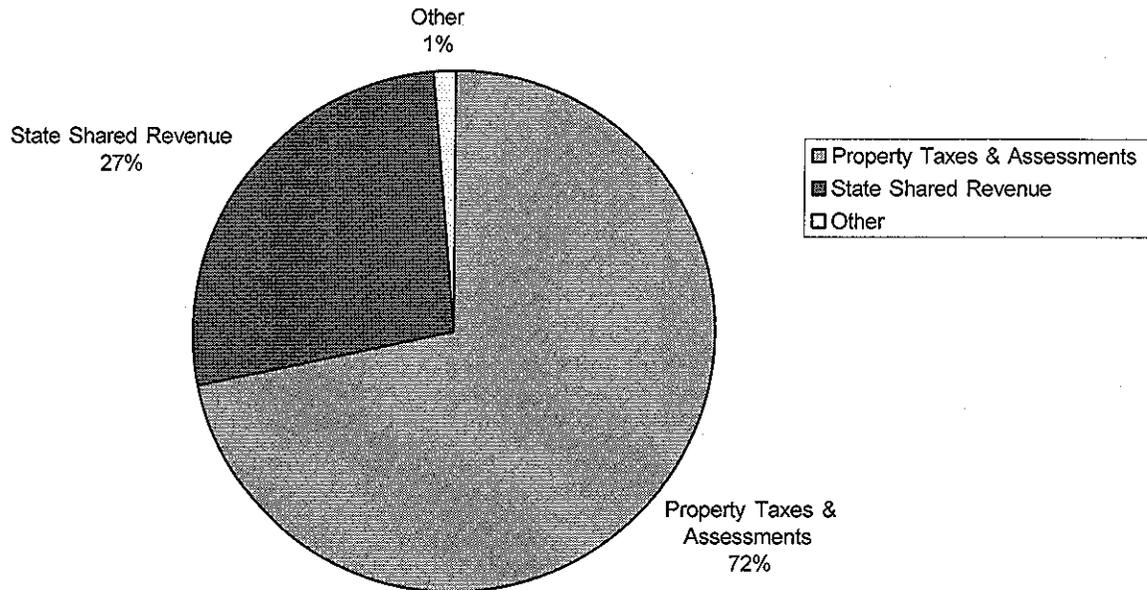
The total net assets of the Village decreased \$151,743 in this fiscal year. The following table illustrates and summarizes the results of the changes in the net assets for the Village. The condensed information was derived from the government-wide statement of activities.

VILLAGE OF FORESTVILLE
Change in Net Assets for Fiscal Year Ended February 28, 2010

	Governmental Activities		Business-Type Activities		Total Government	
	2008	2010	2008	2010	2008	2010
Revenue						
Program Revenues						
Charges for Services	\$ 14,052	\$ -	\$ 231,082	\$ 214,934	\$ 245,134	\$ 214,934
Capital Grants	40,903	-	202,053	-	242,956	-
Total Program Revenues	54,955	-	433,135	214,934	488,090	214,934
General Revenues						
Property Taxes & Assessments	75,318	129,393	-	-	75,318	129,393
State Shared Revenue	10,118	48,168	-	-	10,118	48,168
Unrestricted Investment Earnings	1,358	987	48,131	21,765	49,489	22,752
Other	(10,410)	1,652	10,410	3,953	-	5,605
Total Revenues	131,339	180,200	491,676	240,652	623,015	420,852
Expenses						
General Government	60,090	107,957	-	-	60,090	107,957
Public Safety	381	381	-	-	381	381
Public Works	24,188	27,397	-	-	24,188	27,397
Community Development	250	-	-	-	250	-
Depreciation Expense	-	2,060	-	-	-	2,060
Other	17,383	-	-	-	17,383	-
Water & Sewer	-	-	508,035	434,800	508,035	434,800
Total Expenses	102,292	137,795	508,035	434,800	610,327	572,595
Increase / Decrease in Net Assets	\$ 29,047	\$ 42,405	\$ (16,359)	\$ (194,148)	\$ 12,688	\$ (151,743)

Governmental Activities

The following chart details the revenue sources for the governmental activities of the Village for the most recent fiscal year end:



The Village spent \$107,957 on general government, or 78 percent of the Village's expenses. Public works expenses of \$27,397 represented 20 percent of the total expenses within the governmental activities

Financial Analysis of the Government's Funds

The Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Activities At the completion of the Village's fiscal year, its governmental funds reported fund balances of \$244,356. Of this amount, \$244,356 or 100 percent is unreserved.

General Fund The general fund is the main operating fund of the Village. The general fund decreased its balance in this fiscal year by \$8,183, bringing the balance to \$126,092.

Major Street Fund The fund balance of the major street fund at the most recent fiscal year end was \$74,980. This was an increase of \$18,544 from the previous fiscal year end.

Local Street Fund The fund balance of the local street fund at the most recent fiscal year end was \$43,284. This was an increase of \$26,859 from the previous fiscal year end.

Business-Type Activities

The Village's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail

Unrestricted net assets of the sewer funds at the end of the year amounted to \$-124,594. The sewer fund had a decrease in net assets for the year of \$29,842

Unrestricted net assets of the water funds at the end of the year amounted to \$517,955. The water fund had a decrease in net assets for the year of \$164,306.

General Fund Budgetary Highlights

Differences between the original and final amended budgets and between final amended budgets and actual expenditures were relatively minor for the year

Capital Asset and Debt Administration

Capital Assets The Village's investment in capital assets for the governmental and business-type activities as at year end amounted to \$7,723,077 (net of accumulated depreciation). Capital assets of the Village include any items purchased that cost in excess of \$2,000 and have an expected useful life of over two years. The Village has invested in a broad range of capital assets, as detailed below:

VILLAGE OF FORESTVILLE
Capital Assets as of February 28 2010

	Governmental Activities	Business-Type Activities	Total Primary Government
Land and Land Improvements	\$ 34,400	\$ -	\$ 34,400
Water System	-	6,659,678	6,659,678
Sewer System	-	2,416,274	2,416,274
Buildings	17,693	-	17,693
Equipment	17,769	-	17,769
Vehicles	26,760	-	26,760
Subtotal	<u>96,622</u>	<u>9,075,952</u>	<u>9,172,574</u>
Accumulated Depreciation	55,447	1,394,050	1,449,497
Net Capital Assets	<u>\$ 41,175</u>	<u>\$ 7,681,902</u>	<u>\$ 7,723,077</u>

Long Term Debt At the end of the current fiscal year, the Village had total debt outstanding, exclusive of compensated absences, of \$2,256,000. State statutes limit the amount of general obligation debt a government entity may issue to 10% of its total assessed valuation. The current

debt limitation based on the Village's assessed valuation is significantly in excess of the Village's outstanding general obligation debt.

More information on the Village's long-term debt is available in the notes to financial Statements section of this document.

Contacting the Village's Finance Department

This Financial report is designed to provide the wide variety of users of this document with a general overview of the Village's finances and demonstrate the Village's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to;

The Village of Forestville
Village Clerk
5605 Cedar Street
Forestville, MI 49067

- or -

call 989.864.3447

VILLAGE OF FORESTVILLE
Government Wide Statement of Net Assets
February 28, 2010

	Primary Government		
	Governmental Type Activities	Business Type Activities	Total
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 210,731	\$ 161,602	\$ 372,333
Due From State	84,028	-	84,028
Accounts Receivable	-	23,521	23,521
Restricted Cash	-	912,830	912,830
Total Current Assets	294,759	1,097,953	1,392,712
Noncurrent Assets			
Special Assessment Receivable	-	260,590	260,590
Capital Assets - Net	41,175	7,681,902	7,723,077
Total Assets	335,934	9,040,445	9,376,379
Liabilities			
Current Liabilities			
Accrued Expenses	1,228	2,720	3,948
Current Portion of Long Term Debt	-	37,000	37,000
Interest Payable	-	30,800	30,800
Payroll Liabilities	15,026	18,832	33,858
Total Current Liabilities	16,254	89,352	105,606
Noncurrent Liabilities			
Bonds Payable	-	2,219,000	2,219,000
Total Liabilities	16,254	2,308,352	2,324,606
Net Assets			
Invested in Capital Assets - Net of Related Debt	41,175	5,425,902	5,467,077
Restricted	-	912,830	912,830
Unrestricted	278,505	393,361	671,866
Total Net Assets	319,680	6,732,093	7,051,773
Total Liabilities & Net Assets	\$ 335,934	\$ 9,040,445	\$ 9,376,379

The footnotes are an integral part of these Financial Statements

VILLAGE OF FORESTVILLE
Government Wide Statement of Activities
For the Year Ended February 28 2010

Functions / Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-Type Activities	
Primary Government						
General Government	107,957	-	-	(107,957)	-	(107,957)
Public Safety	381	-	-	(381)	-	(381)
Public Works	27,397	-	-	(27,397)	-	(27,397)
Depreciation Expense	2,060	-	-	(2,060)	-	(2,060)
Total Governmental Activities	137,795	-	-	(137,795)	-	(137,795)
Business-Type Activities						
Water & Sewer	434,800	214,934	-	-	(219,866)	(219,866)
Total Business-Type Activities	434,800	214,934	-	-	(219,866)	(219,866)
Total Primary Government	572,595	214,934	-	(137,795)	(219,866)	(357,661)
General Revenues						
Taxes & Penalties				129,393	-	129,393
State Revenue Sharing				48,168	-	48,168
Interest & Rentals				987	21,765	22,752
Licenses & Permits				250	-	250
Other Revenue				1,402	3,953	5,355
Total General Revenues - Special Items & Transfers				180,200	25,718	205,918
Change in Net Assets				42,405	(194,148)	(151,743)
Net Assets - Beginning				277,275	6,926,241	7,203,516
Net Assets - Ending				\$ 319,680	\$ 6,732,093	\$ 7,051,773

The footnotes are an integral part of these Financial Statements

VILLAGE OF FORESTVILLE
Balance Sheet
Governmental Funds
February 28, 2010

	General Fund	Major Street Fund	Local Street Fund	Total Governmental Funds
Assets				
Current Assets				
Cash	\$ 132,970	\$ 54,015	\$ 23,746	\$ 210,731
Due From State	5,388	37,730	40,910	84,028
Due From Other Funds	-	-	-	-
Total Assets	<u>138,358</u>	<u>91,745</u>	<u>64,656</u>	<u>294,759</u>
Liabilities				
Current Liabilities				
Accounts Payable	1,228	-	-	1,228
Interfund Balances	(6,754)	1,889	4,865	-
Payroll Liabilities	15,026	-	-	15,026
Deferred Revenue	2,766	14,876	16,507	34,149
Total Liabilities	<u>12,266</u>	<u>16,765</u>	<u>21,372</u>	<u>50,403</u>
Fund Balances				
Reserved Fund Balance	-	-	-	-
Fund Balance	126,092	74,980	43,284	244,356
Total Fund Balance	<u>126,092</u>	<u>74,980</u>	<u>43,284</u>	<u>244,356</u>
Total Liabilities & Fund Balances	<u>\$ 138,358</u>	<u>\$ 91,745</u>	<u>\$ 64,656</u>	<u>\$ 294,759</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Fund Balance	\$ 244,356
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund statements	41,175
Revenues that do not provide current financial resources are not reported as revenue in the fund statements	34,149
Net Assets of Governmental Activities	<u>\$ 319,680</u>

The footnotes are an integral part of these Financial Statements

VILLAGE OF FORESTVILLE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended February 28, 2010

	General Fund	Major Street Fund	Local Street Fund	Total Governmental Funds
<u>Revenues</u>				
Taxes & Penalties	\$ 113,222	\$ 2,426	\$ 13,745	\$ 129,393
State Revenue Sharing	-	22,854	25,314	48,168
Interest & Rentals	706	194	87	987
Liscenses & Permits	250	-	-	250
Other Revenue	1,402	-	-	1,402
Total Revenues	<u>115,580</u>	<u>25,474</u>	<u>39,146</u>	<u>180,200</u>
<u>Expenditures</u>				
General Government	107,957	-	-	107,957
Public Safety	381	-	-	381
Public Works	8,180	6,930	12,287	27,397
Capital Outlay	7,245	-	-	7,245
Total Expenditures	<u>123,763</u>	<u>6,930</u>	<u>12,287</u>	<u>142,980</u>
Excess Revenues Over (Under) Expenditures	<u>(8,183)</u>	<u>18,544</u>	<u>26,859</u>	<u>37,220</u>
<u>Other Financing Sources (Uses)</u>				
Transfers Out	-	-	-	-
Transfers In	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Changes in Fund Balances</u>				
Net Change in Fund Balances	(8,183)	18,544	26,859	37,220
Fund Balance - Beginning of Year	134,275	56,436	16,425	207,136
Fund Balance - End of Year	<u>\$ 126,092</u>	<u>\$ 74,980</u>	<u>\$ 43,284</u>	<u>\$ 244,356</u>

Amounts reported for governmental activities in the statement of activities are different because:

Net Change in Fund Balances - Total Governmental Funds \$ 37,220

Governmental funds report capital outlays as expenditures; in the statement of activities,
These costs are allocated over their estimated useful lives as depreciation. This is the
Amount by which capital outlays exceeded depreciation in the current period. 5,185

Change in Net Assets of Governmental Activities \$ 42,405

The footnotes are an integral part of these Financial Statements

VILLAGE OF FORESTVILLE
Statement of Net Assets
Proprietary Funds
February 28, 2010

	Business-type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 54,223	\$ 107,379	\$ 161,602
Accounts Receivable	15,524	7,997	23,521
Restricted Cash	600,492	312,338	912,830
Interfund Balances	229,605	(229,605)	-
Total Current Assets	899,844	198,109	1,097,953
Noncurrent Assets			
Special Assessment Receivable	260,590	-	260,590
Capital Assets - Net	5,989,102	1,692,800	7,681,902
Total Assets	7,149,536	1,890,909	9,040,445
Liabilities			
Current Liabilities			
Accrued Expenses	2,498	222	2,720
Current Portion of Long Term Debt	30,000	7,000	37,000
Interest Payable	25,457	5,343	30,800
Payroll Liabilities	14,032	4,800	18,832
Total Current Liabilities	71,987	17,365	89,352
Noncurrent Liabilities			
Bonds Payable	1,809,000	410,000	2,219,000
Total Liabilities	1,880,987	427,365	2,308,352
Net Assets			
Invested in Capital Assets - Net of Related Debt	4,150,102	1,275,800	5,425,902
Restricted	600,492	312,338	912,830
Unrestricted	517,955	(124,594)	393,361
Total Net Assets	5,268,549	1,463,544	6,732,093
Total Liabilities & Net Assets	\$ 7,149,536	\$ 1,890,909	\$ 9,040,445

The footnotes are an integral part of these Financial Statements

VILLAGE OF FORESTVILLE
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended February 28, 2010

	Business-type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
<u>Operating Revenue</u>			
Charges for Services	\$ 146,730	\$ 68,204	\$ 214,934
Total Operating Revenue	146,730	68,204	214,934
<u>Operating Expenses</u>			
Wages and Fringes	21,525	11,148	32,673
Operating Expenses	50,595	1,108	51,703
Repairs and Maintenance	4,313	1,176	5,489
Contracted Services	4,550	-	4,550
Utilities	5,632	3,183	8,815
Insurance	934	351	1,285
Depreciation	167,644	60,407	228,051
Total Operating Expenses	255,193	77,373	332,566
Operating Income (Loss)	<u>(108,463)</u>	<u>(9,169)</u>	<u>(117,632)</u>
<u>Other Revenue (Expenses)</u>			
Interest Earned	21,486	279	21,765
Late Fees	3,444	509	3,953
Interest Expense	<u>(80,773)</u>	<u>(21,461)</u>	<u>(102,234)</u>
Total Other Revenue (Expenses)	(55,843)	(20,673)	(76,516)
Income (Loss) Before Transfers In (Out)	<u>(164,306)</u>	<u>(29,842)</u>	<u>(194,148)</u>
Transfers In (Out)	-	-	-
Change in Net Assets	<u>(164,306)</u>	<u>(29,842)</u>	<u>(194,148)</u>
Total Net Assets - Beginning	5,432,855	1,493,386	6,926,241
Total Net Assets - Ending	<u>\$ 5,268,549</u>	<u>\$ 1,463,544</u>	<u>\$ 6,732,093</u>

The footnotes are an integral part of these Financial Statements

VILLAGE OF FORESTVILLE
Statement of Cash Flows
Proprietary Funds
For the Year Ended February 28 2010

	Enterprise Funds	
	Water Fund	Sewer Fund
Cash Flows From Operating Activities		
Net Income (Loss)	\$ (164,306)	\$ (29,842)
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	167,644	60,407
Interest and Dividends	(21,486)	(279)
Interest on Long Term Debt	80,773	21,461
Changes in Current Assets and Current Liabilities		
Accounts Receivable - Net	903	465
Accounts Payable	(1,361)	192
Current Portion of Noncurrent Liabilities	1,000	-
Interest Payable	(318)	(90)
Other Current Liabilities	1,000	-
Net Cash Provided by Operating Activities	<u>63,850</u>	<u>52,314</u>
Cash Flows From Capital and Related Financing Activities		
Purchase of Property and Equipment	-	-
Interfund Balances	(229,605)	229,605
Principal Paid on Capital Debt	(30,000)	(7,000)
Net Cash Provided by Capital and Related Financing Activities	<u>(259,605)</u>	<u>222,605</u>
Cash Flows From Investing Activities		
Interest and Dividends	21,486	279
Interest on Long Term Debt	(80,773)	(21,461)
Net Cash Provided by Investing Activities	<u>(59,287)</u>	<u>(21,182)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(255,042)	253,737
Cash and Cash Equivalents at Beginning of Year	<u>909,757</u>	<u>165,980</u>
Cash and Cash Equivalents at End of Year	<u>\$ 654,715</u>	<u>\$ 419,717</u>

The footnotes are an integral part of these Financial Statements

VILLAGE OF FORESTVILLE, MICHIGAN

Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Forestville is located in Sanilac County and covers an area of 9 square miles and operates under a general law village form of government. The Village provides services to its 127 residents in many areas including: public safety (police), public works, and general government. The Village of Forestville is governed by a seven member council elected by the citizens of the Village.

PRESENTATION

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government. 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 significantly on fees and charges for support.

The statement of activities demonstrates the degree direct expenses of a given function or segment are 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 recipients who purchase, use, or benefit from the goods and services provided by the various 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 as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

REPORTING ENTITY

As defined by the Governmental Accounting Standards Board Statement 14, "The Financial Reporting Entity", all relevant criteria was reviewed in an attempt to decide if other entities ought to be included in this audit report. If certain oversight responsibility occurs, that subordinate entity activity should be noted in this report. Oversight responsibility is evidenced by:

- selection of governing authority
- designation of management
- ability to significantly influence operations
- budgetary authority
- responsibility to fund deficits or receive surplus funds
- fiscal management
- providing significant subsidies

VILLAGE OF FORESTVILLE, MICHIGAN

Notes to the Financial Statements

Based on the criteria established above, the Village of Forestville has no component units.

BASIS OF PRESENTATION

The financial activities of the local unit are recorded in separate funds, categorized and described as follows:

GOVERNMENTAL FUND TYPES

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, included the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants and other intergovernmental revenues.

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted for specific purposes. These funds include the Major and Local Street Funds.

PROPRIETARY FUND TYPES

Enterprise Funds - These funds report operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes. The Village's Sewer and Water Funds are Enterprise Funds.

MEASUREMENT FOCUS

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary statements. Revenue is 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 as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. 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.

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

VILLAGE OF FORESVILLE, MICHIGAN

Notes to the Financial Statements

financial statements. Exceptions to this general rule are charges between the Village's water and sewer function and various other functions of the government. Elimination of these would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

BASIS OF ACCOUNTING

All governmental funds utilize the modified accrual basis of accounting as described in GASB #1 and reports in accordance with GASB #34. Under this method, revenues are recognized when received in cash except for those susceptible to accrual, which are recorded as receivable.

Significant revenues susceptible to accrual include property taxes, expenditures reimbursement type grants, certain intergovernmental revenues and operating transfers. Expenditures are recorded when the liability is incurred, except for interest on long-term debt, which is recorded when paid.

The financial statements of proprietary funds are reflected on the accrual basis and recorded as incurred.

USE OF ESTIMATES

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

BUDGETS AND BUDGETARY ACCOUNTING

The General Fund and Special Revenue Funds are under formal budgetary control. Budgets shown in the financial statements for these were prepared on a basis not significantly different from modified accrual basis used to reflect actual results.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on an activity basis. The approved budgets of the Village for these budgetary funds were adopted to the activity level, or by total fund revenue/expenditures for the smaller funds.

VILLAGE OF FORESTVILLE, MICHIGAN

Notes to the Financial Statements

ACCUMULATED FUND DEFICITS

No funds had a negative fund balance.

ASSETS, LIABILITIES AND FUND BALANCE

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

Receivables and Payables – In general, outstanding balances between funds are reported as interfund balances. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds”

Property Taxes – The Village’s ad valorem tax is levied and collectible on July 1, 2007. It is the Village’s policy to recognize revenues from the current tax levy in the current year when the proceeds of the levy are budgeted and made available for financing operations. Property taxes are recognized when received. Uncollected real property taxes become delinquent September 14th.

Accounts Receivable – The accounts receivable for the Village are recorded in the General, Major Street, Local Street, Sewer and Water Funds. The receivables are based on the state revenue sharing, MTF funds, sewer and water services provided by the Village and special assessments for the Water Fund. The receivables do not have an allowance for doubtful accounts because any receivables not collected are placed on the customer’s tax bill.

Inventories and Prepaid Items – Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase. Normally expenditures are not divided between years by the recording of prepaid expenses. There were no material inventories at year end.

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

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 Debt – 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

VILLAGE OF FORESTVILLE, MICHIGAN

Notes to the Financial Statements

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the 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. Designation of fund balances represent tentative management plans that are subject to change. The Village has no reservation or designation of fund balance.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. Legal or Contractual Provisions for Deposits and Investments

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Authority by which Treasurers may invest funds and includes the following:

- a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
- c) Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d) Repurchase agreements consisting of instruments listed in subdivision (a).
- e) Bankers' acceptances of United States banks
- f) Obligations of this state or any of its political subdivisions that at the time of purchase are rated as

VILLAGE OF FORESTVILLE, MICHIGAN

Notes to the Financial Statements

investment grade by not less than 1 standard rating service.

g) Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 Stat 789, 15 USC 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:

- i) The purchase of securities on a when-issued or delayed delivery basis.
- ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
- iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes
- h) Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967
- i) Investment pools organized under the surplus funds investment pool act, 1982 PA 367
- j) The investment pools organized under the local government investment pool act, 1985 PA 121. In bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States, in which the principal and interest is fully guaranteed by the United States.

Deposits	Bank Balance	Carrying Amount
Insured (FDIC)	\$ 767,033	\$ 767,033
Uninsured	524,086	519,271
Total Deposits	<u>\$ 1,291,119</u>	<u>\$ 1,286,304</u>

VILLAGE OF FORESTVILLE, MICHIGAN

Notes to the Financial Statements

NOTE 3 – FIXED ASSETS

All proprietary funds are accounted for on a cost of service measurement focus. The operating statements present increases and decreases in total net assets. Depreciation of net assets is charged as an expense against their operations. Accumulated depreciation is reported on the balance sheet. Depreciation for the proprietary funds is computed as follows:

Description	Method	Life
Buildings & Improvements	Straight Line	20 - 40 Years
Vehicle & Grounds Equipment	Straight Line	5 - 10 Years
Equipment	Straight Line	5 - 10 Years
Infrastructure	Straight Line	10 - 20 Years
Sewer System	Straight Line	20 - 50 Years
Water System	Straight Line	40 Years

Business-type Activities - Sewer

	2/28/2009	Increases	Decreases	2/28/2010
Capital assets being depreciated:				
Sewer system	2,416,274	-	-	2,416,274
Total:	2,416,274	-	-	2,416,274
Accumulated depreciation:				
Sewer system	663,067	60,407	-	723,474
Total:	663,067	60,407	-	723,474
Net capital assets - Sewer:	<u>\$ 1,753,207</u>	<u>\$ (60,407)</u>	<u>\$ -</u>	<u>\$ 1,692,800</u>

Business-type Activities - Water

	2/28/2009	Increases	Decreases	2/28/2010
Capital assets being depreciated:				
Water System	6,659,678	-	-	6,659,678
Total:	6,659,678	-	-	6,659,678
Accumulated depreciation:				
Water System	502,932	167,644	-	670,576
Total:	502,932	167,644	-	670,576
Net capital assets - Water:	<u>\$ 6,156,746</u>	<u>\$ (167,644)</u>	<u>\$ -</u>	<u>\$ 5,989,102</u>

VILLAGE OF FORESTVILLE, MICHIGAN

Notes to the Financial Statements

All governmental funds are accounted for on a modified accrual basis of accounting. All capital outlay is expensed in the appropriate fund. Under GASB 34 all fixed assets (net of accumulated depreciation) and long term debt are recorded on the Statement of Net Assets as Net Assets and Long Term Debt. Depreciation of fixed assets is charged as an expense against their operations in the Statement of Activities. Depreciation for the Government Funds is computed as follows:

Description	Method	Life
Buildings & Improvements	Straight Line	20 - 40 Years
Vehicle & Grounds Equipment	Straight Line	5 - 10 Years
Equipment	Straight Line	5 - 10 Years
Infrastructure	Straight Line	10 - 20 Years

Governmental Activities

	2/28/2009	Increases	Decreases	2/28/2010
Capital assets not being depreciated:				
Land	\$ 34,400	\$ -	\$ -	\$ 34,400
Capital assets being depreciated:				
Buildings	17,693	-	-	17,693
Equipment	10,524	7,245	-	17,769
Vehicles	26,760	-	-	26,760
Total:	54,977	7,245	-	62,222
Accumulated depreciation:				
Buildings	17,693	-	-	17,693
Equipment	8,934	2,060	-	10,994
Vehicles	26,760	-	-	26,760
Total:	53,387	2,060	-	55,447
Net capital assets being depreciated:	1,590	5,185	-	6,775
Net capital assets per Statement of Net Assets:	35,990	5,185	-	41,175

VILLAGE OF FORESTVILLE, MICHIGAN

Notes to the Financial Statements

NOTE 4 – LONG TERM DEBT

Listed below are descriptions of the bond issues and installment contracts in the Village governmental activities and business activities.

Business Activities – Sewer Fund

1. **1996 Sewage Disposal Revenue Bonds**. Bonds issued by the United States Department of Agriculture in the amount of \$480,000, maturing serially through 2036 in amounts of \$4,000 to \$28,00, and at an interest rate of 5.125%

Business Activities – Water Fund

2. **2004 Water Supply Improvement Bond**. Bond issued by the United States Department of Agriculture in the amount of \$466,000, maturing serially through 2043 in amounts of \$12,000 to \$11,000, and at an interest rate of 4.375%
3. **2004 Water Supply Revenue Bond**. Bond issued by the United States Department of Agriculture in the amount of \$185,000, maturing serially through 2044 in amounts of \$2,000 to \$10,000, and at an interest rate of 4.375%.
4. **2004 Water Supply Revenue Bond**. Bond issued by the United States Department of Agriculture in the amount of \$1,313,000, maturing serially through 2044 in amounts of \$13,000 to \$68,000, and at an interest rate of 4.375%.

Changes in long-term debt are scheduled below:

	Interest Rate	Maturity	2/28/2009 Balance	Reductions	2/28/2010 Balance	Due Within One Year
Business Type Activities						
1996 Bonds Sewage Disp	5.13%	2036	424,000	7,000	417,000	7,000
2004 Bond Water Supply	4.38%	2043	418,000	12,000	406,000	12,000
2004 Bond Water Supply	4.38%	2044	179,000	2,000	177,000	2,000
2004 Bond Water Supply	4.38%	2044	1,271,000	15,000	1,256,000	16,000
Total Business-type			<u>\$ 2,292,000</u>	<u>\$ 36,000</u>	<u>\$ 2,256,000</u>	<u>\$ 37,000</u>

VILLAGE OF FORESTVILLE, MICHIGAN

Notes to the Financial Statements

Debt service requirements to maturity are scheduled below:

	Business-type Activities		
	Principal	Interest	Total
2010	37,000	101,648	138,648
2011	39,000	99,951	138,951
2012	39,000	98,183	137,183
2013	42,000	96,394	138,394
2014	43,000	94,489	137,489
2015-2019	233,000	442,060	675,060
2020-2024	279,000	384,771	663,771
2025-2029	335,000	315,609	650,609
2030-2034	401,000	232,457	633,457
2035-2039	397,000	138,842	535,842
2040-2044	411,000	55,350	466,350
Totals:	<u>\$ 2,256,000</u>	<u>\$ 2,059,754</u>	<u>\$ 4,315,754</u>

NOTE 5 - EXPENDITURES IN EXCESS OF APPROPRIATIONS IN BUDGETED FUNDS

Public Act 621 of 1978, requires that a municipality shall not incur expenditures in excess of the monies appropriated. No activity expended amounts greater than appropriations. The Village's actual expenditures and budgeted expenditures for the funds budgeted have been shown on a department / activity basis.

During the fiscal year ended February 28, 2010, the Village incurred expenditures in certain budgeted funds, which were in excess of the amount appropriated, as follows:

	Budget	Actual	Variance
General Fund			
General Government	89,600	107,957	(18,357)
Public Works	6,050	8,180	(2,130)
Capital Outlay	2,000	7,245	(5,245)

NOTE 6 - ACCOUNTS RECEIVABLE

Receivables as of February 28, 2010 of the Village are scheduled below:

	General Fund	Major Street	Local Street	Water	Sewer	Total
Receivables						
Due from State	\$ 5,388	\$ 37,730	\$ 40,910	\$ -	\$ -	\$ 84,028
Accounts	-	-	-	15,523	7,997	23,520
Total Receivables	<u>\$ 5,388</u>	<u>\$ 37,730</u>	<u>\$ 40,910</u>	<u>\$ 15,523</u>	<u>\$ 7,997</u>	<u>\$ 107,548</u>

VILLAGE OF FORESVILLE, MICHIGAN

Notes to the Financial Statements

NOTE 7 - RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village has purchased commercial insurance coverage through various policies for general liability, property, vehicle and workmans' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 8 - CONTINGENT LIABILITIES

The Village, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The Village's attorney estimate that the potential claims against the Village, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Village

VILLAGE OF FORESTVILLE
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended February 28, 2010

	Budgeted Amounts		2010 Actual	Variance with Final Budget - Favorable (Unfavorable)
	Original Budget	Final Budget		
<u>Revenues</u>				
Taxes & Penalties	\$ 84,900	\$ 84,900	\$ 113,222	\$ 28,322
Interest & Rentals	800	800	706	(94)
Liscenses & Permits	200	200	250	50
Other Revenue	7,380	7,380	1,402	(5,978)
Total Revenues	<u>93,280</u>	<u>93,280</u>	<u>115,580</u>	<u>22,300</u>
<u>Expenditures</u>				
General Government	74,750	89,600	107,957	(18,357)
Public Safety	381	381	381	-
Public Works	6,250	6,050	8,180	(2,130)
Capital Outlay	5,000	2,000	7,245	(5,245)
Other	7,500	8,180	-	8,180
Total Expenditures	<u>93,881</u>	<u>106,211</u>	<u>123,763</u>	<u>(17,552)</u>
Excess Revenues Over (Under) Expenditures	<u>(601)</u>	<u>(12,931)</u>	<u>(8,183)</u>	<u>4,748</u>
<u>Other Financing Sources (Uses)</u>				
Transfers Out	-	-	-	-
Transfers In	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Changes in Fund Balances</u>				
Net Change in Fund Balances	(601)	(12,931)	(8,183)	
Fund Balance - Beginning of Year	134,275	134,275	134,275	
Fund Balance - End of Year	<u>\$ 133,674</u>	<u>\$ 121,344</u>	<u>\$ 126,092</u>	

The footnotes are an integral part of these Financial Statements

VILLAGE OF FORESTVILLE
 Budgetary Comparison Schedule
 Major Street Fund
 For the Year Ended February 28, 2010

	Budgeted Amounts		2010 Actual	Variance with Final Budget - Favorable (Unfavorable)
	Original Budget	Final Budget		
<u>Revenues</u>				
Taxes & Penalties	\$ -	\$ -	\$ 2,426	\$ 2,426
State Revenue Sharing	11,000	11,000	22,854	11,854
Interest & Rentals	400	400	194	(206)
Other Revenue	400	400	-	(400)
Total Revenues	<u>11,800</u>	<u>11,800</u>	<u>25,474</u>	<u>13,674</u>
<u>Expenditures</u>				
Public Works	14,275	14,275	6,930	7,345
Total Expenditures	<u>14,275</u>	<u>14,275</u>	<u>6,930</u>	<u>7,345</u>
Excess Revenues Over (Under) Expenditures	<u>(2,475)</u>	<u>(2,475)</u>	<u>18,544</u>	<u>21,019</u>
Other Financing Sources (Uses)				
Transfers Out	-	-	-	-
Transfers In	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Changes in Fund Balances</u>				
Net Change in Fund Balances	(2,475)	(2,475)	18,544	
Fund Balance - Beginning of Year	56,436	56,436	56,436	
Fund Balance - End of Year	<u>\$ 53,961</u>	<u>\$ 53,961</u>	<u>\$ 74,980</u>	

The footnotes are an integral part of these Financial Statements

VILLAGE OF FORESTVILLE
 Budgetary Comparison Schedule
 Local Street Fund
 For the Year Ended February 28 2010

	Budgeted Amounts		2010 Actual	Variance with Final Budget -
	Original Budget	Final Budget		Favorable (Unfavorable)
<u>Revenues</u>				
Taxes & Penalties	\$ -	\$ -	\$ 13,745	\$ 13,745
State Revenue Sharing	13,000	13,000	25,314	12,314
Contributions From Local Units	1,850	1,850	-	(1,850)
Interest & Rentals	200	200	87	(113)
Other Revenue	450	450	-	(450)
Total Revenues	<u>15 500</u>	<u>15 500</u>	<u>39 146</u>	<u>9,901</u>
<u>Expenditures</u>				
Public Works	<u>19,675</u>	<u>19,675</u>	<u>12,287</u>	<u>7,388</u>
Total Expenditures	<u>19,675</u>	<u>19,675</u>	<u>12,287</u>	<u>7,388</u>
Excess Revenues Over (Under) Expenditures	<u>(4 175)</u>	<u>(4 175)</u>	<u>26 859</u>	<u>17,289</u>
Other Financing Sources (Uses)				
Transfers Out	-	-	-	-
Transfers In	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Changes in Fund Balances</u>				
Net Change in Fund Balances	(4,175)	(4,175)	26,859	
Fund Balance - Beginning of Year	16,425	16,425	16 425	
Fund Balance - End of Year	<u>\$ 12,250</u>	<u>\$ 12,250</u>	<u>\$ 43,284</u>	

The footnotes are an integral part of these Financial Statements

Report on Internal Control

November 1, 2010

To the Village Council
Village of Forestville
Forestville, Michigan

Dear Council Members:

In planning and performing our audit of the financial statements of the Village of Forestville (the "Village") as of and for the year ended February 28, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Village's internal control over financial reporting (internal control) 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 our opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements such that is more than inconsequential will not be prevented or detected by the entity's internal control. We noted the following significant deficiencies in internal control.

- Several key balance sheet accounts, including cash, accounts receivable and accounts payable, were not reconciled timely.
- The Village does not have a chart of accounts that complies with the requirements as established by the State Treasurer.
- The Village had multiple instances of late filing and remittance of payroll liabilities.

- Equipment rental charges are not allocated from the General fund to the fund that receives the benefit of equipment usage.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We noted the following material weaknesses in internal control.

- The Village has not implemented a system of controls to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to achieve the objectives of recording revenue and expense accruals, the capitalization and depreciation of capital assets, and the presentation of financial statement disclosures.
- The Village's accounting software co-mingles separate fund's activity. Self-balancing and separate financials statements for each fund during interim periods are not provided with the current reporting system.

This communication is intended solely for the information and use of management, the Village Council, others within the organization, and the Michigan Department of Treasury. It is not intended to be and should not be used by anyone other than these specified parties.

Best regards,



Gabridge & Company, PLC



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November 1, 2010

To the Village Council
Village of Forestville, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Forestville (the "Village") for the year ended February 28, 2010, and have issued our report thereon dated November 1, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated April 26, 2010, 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 accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

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. As part of our audit, we considered the internal control of the Village. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. 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 specifically to 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 April 26, 2010.

Significant Audit Findings

Qualitative Aspects of Accounting Principles

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit 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. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant 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 our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 1, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no 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 a governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the Village of Forestville and is not intended to be and should not be used by anyone other than those specified parties.

Best regards,



Gabridge & Company, PLC