

STATE OF MICHIGAN

Rick Snyder, Governor

DEPARTMENT OF TREASURY

Nick A. Khouri, State Treasurer



Report on
Financial Statements

**VILLAGE OF
THREE OAKS**

September 2016

VILLAGE OF THREE OAKS

VILLAGE COUNCIL

(March 27, 2016)

David Grosse
President

Cheryl Capiak
President Pro-Tem

John Kramer
Council Member

Darlene Heemstra
Council Member

John Pappa
Council Member

Steve Graziano
Council Member

Troy Zebell
Council Member

Adam J. Umbrasas
Manager

Cynthia Moynihan
Clerk

Lois Jones
Treasurer

VILLAGE POPULATION--2010
1,622

TAXABLE VALUATION--2016
\$37,732,450



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

March 27, 2017

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

Independent Auditor's Report

Dear Council Members:

Report on the Financial Statements

We have audited the accompanying basic 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, as of and for the fiscal year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Village of Three Oaks' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers

internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Three Oaks, Berrien County, Michigan, as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 9 as well as budgetary comparison information, Exhibits J through M, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Three Oaks' basic financial statements. The accompanying supplementary and related information presented in Exhibits N through Q, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying supplementary and related information presented in Exhibits N through Q are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary and related information presented in Exhibits N through Q are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2017, on our consideration of the Village of Three Oaks' 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* in considering the Village of Three Oaks' internal control over financial reporting and compliance.

Sincerely,



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Fiscal Accountability Division

VILLAGE OF THREE OAKS

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VILLAGE OF THREE OAKS--BERRIEN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended September 30, 2016

Our discussion and analysis of the Village of Three Oaks' financial performance provides an overview of the Village's financial activities for the fiscal year ending September 30, 2016.

USING THIS ANNUAL REPORT

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. This report also contains supplementary information in addition to the basic financial statements. The basic financial statements include a series of financial statements. The Statement of Net Position and the Statement of Activities on Exhibits A and B provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements start with Exhibit C. For governmental activities, these 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 statements by providing information about the Village's most significant funds. The remaining statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the Village as a Whole

The Statement of Net Position and the Statement of Activities

One of the most important questions asked about the Village's finances is, "Is the Village as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Village as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Village's net position and changes in them. You can think of the Village's net position—the difference between assets and liabilities—as one way to measure the Village's financial health, or financial position. Over time, increases or decreases in the Village's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Village's property tax base and the condition of Village's infrastructure, to assess the overall health of the Village.

In the Statement of Net Position and the Statement of Activities we divide the Village into two kinds of activities:

- Governmental activities—Most of the Village's basic services are reported here, including the police, fire, public works and parks departments, and general administration. Property taxes, franchise fees, and state and federal grants finance most of these activities.

VILLAGE OF THREE OAKS--BERRIEN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended September 30, 2016

- Business-type activities—The Village charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Village's water and sewer systems are reported here.

Report the Village's Major Fund

Fund Financial Statements

Our analysis of the Village's major funds begins with Exhibits C and D with additional information provided in Note A of the Notes to the Financial Statements. Some funds are required to be established by state law such as the Major Street, Local Street, and Municipal Street Funds. The Village's two kinds of funds, governmental and proprietary, use different accounting approaches.

- *Governmental funds*—Most of the Village's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Village's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* in a reconciliation at the bottom of the fund financial statements or Exhibits C and D.
- *Proprietary funds*—When the Village charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the Village's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

Additional Required Supplementary Information (RSI)

Following the basic financial statements is additional Required Supplementary Information that further explains and supports the information in the financial statements. The Required Supplementary Information includes budgetary comparison schedules.

VILLAGE OF THREE OAKS--BERRIEN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2016

Other Supplementary Information

Other supplementary information includes combining financial statements for the non-major governmental funds in Exhibits N through Q. These exhibits provide the balance sheet and income statement for the individual funds that are combined into the non-major governmental column in Exhibits C and D. This also includes the General Fund Schedules of Revenues and Expenditures.

The Village as a Whole

The Village's combined net position increased from \$7,798,500 to \$8,199,653 or \$401,153 for the year ending September 30, 2016. This is similar to the previous year when the net position increased \$493,455. Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the Village's governmental and business-type activities.

Table 1
Net Position of the Governmental and Business-Type Activities

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2016	2015	2016	2015	2016
Current and Other Assets	\$ 1,832,789	\$ 1,982,308	\$ 1,564,250	\$ 1,797,687	\$ 3,397,039	\$ 3,779,995
Net Capital Assets	1,614,848	1,636,034	9,272,297	8,961,605	10,887,145	10,597,639
Total Assets	3,447,637	3,618,342	10,836,547	10,759,292	14,284,184	14,377,634
Current Liabilities	23,793	48,522	5,596	1,898	29,389	50,420
Non-current Liabilities	192,295	93,561	6,264,000	6,034,000	6,456,295	6,127,561
Total Liabilities	216,088	142,083	6,269,596	6,035,898	6,485,684	6,177,981
Net Position						
Net Investment in Capital Assets	1,422,553	1,542,473	3,008,297	2,927,605	4,430,850	4,470,078
Restricted	659,226	799,042	854,623	1,149,773	1,513,849	1,948,815
Unrestricted	1,149,770	1,134,744	704,031	646,016	1,853,801	1,780,760
Total Net Position	\$ 3,231,549	\$ 3,476,259	\$ 4,566,951	\$ 4,723,394	\$ 7,798,500	\$ 8,199,653

VILLAGE OF THREE OAKS--BERRIEN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended September 30, 2016

The Village as a Whole (Continued)

The Village's governmental activities net position increased overall by 7.6% or \$244,710 (\$3,476,259 compared to \$3,231,549). The increased net investment in capital assets resulted from further improvements to Carver Park and continued rebuilding of certain Village infrastructure and streets. The restricted net position increased as street funds increased as the Village prepares for the next set of street projects. The unrestricted net position decreased as the Village continues to monitor expenses to maintain a steady financial position.

The Village's business-type activities net position increased overall by 3.4% or \$156,443 (\$4,723,394 compared to \$4,566,651). The decrease in the net investment in capital assets was due to the continued depreciation on the sewer and water systems. The increase in restricted net position and correlating decrease in the unrestricted net position is due to the funds required to be set aside for future repair and replacement of the systems.

VILLAGE OF THREE OAKS--BERRIEN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2016

The Village as a Whole (Continued)

Table 2
Changes in Net Position of Governmental Activities

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2016	2015	2016	2015	2016
	Program Revenue					
Charges for Services	\$ 136,578	\$ 126,586	\$ 924,714	\$ 934,507	\$ 1,061,292	\$ 1,061,093
Operating Grants and Contributions	212,149	245,798	-	-	212,149	245,798
Capital Grants and Contributions	163,000	-	-	-	163,000	-
General Revenue						
Property Taxes	547,317	568,192	-	-	547,317	568,192
State-Shared Revenues	158,292	158,179	-	-	158,292	158,179
Unrestricted Investment Earnings	4,857	4,465	2,454	3,513	7,311	7,978
Rents	58,356	54,180	-	-	58,356	54,180
Other	856	15,598	-	-	856	15,598
Total Revenues	1,281,405	1,172,998	927,168	938,020	2,208,573	2,111,018
Program Expenses						
General Government	168,610	133,591	-	-	168,610	133,591
Public Safety	274,297	286,736	-	-	274,297	286,736
Public Works	425,626	438,240	-	-	425,626	438,240
Community and Economic Development	14,705	16,843	-	-	14,705	16,843
Recreation and Cultural	46,961	46,941	-	-	46,961	46,941
Interest on Debt	2,633	5,937	-	-	2,633	5,937
Sewer	-	-	352,618	352,366	352,618	352,366
Water	-	-	429,668	429,211	429,668	429,211
Total Expenses	932,832	928,288	782,286	781,577	1,715,118	1,709,865
Change in Net Position	\$ 348,573	\$ 244,710	\$ 144,882	\$ 156,443	\$ 493,455	\$ 401,153

VILLAGE OF THREE OAKS--BERRIEN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended September 30, 2016

The Village as a Whole (Continued)

Governmental Activities

The revenues for the Village's governmental activities decreased by 8.5% or \$108,407, while expenses decreased by .5% or \$4,544. The decrease in the revenues is primarily due to the capital grants and contributions discontinued the Village received last year from the Pokagon Fund and Three Oaks Township for park improvements and village office furniture during the prior fiscal year. The decrease in general government expenses is from parking lot improvements and a house demolition performed last year, offset by slight increases in public safety and public works.

Business-Type Activities

The revenues for the Village's business-type activities increased by 1.17% or \$10,852, while expenses decreased by less than 1% or \$709. The revenue increased as there was a slight increase in the charges for services during the current fiscal year. The expenses remain stable due to the Village's continued effort to keep costs at a minimum.

THE VILLAGE'S FUNDS

As the Village completed the year, its governmental fund (as presented in the balance sheet on Exhibit C) reported a fund balance of \$1,903,519 which is \$132,124 more than last year's \$1,771,395. The primary reasons for the governmental funds' increase mirror the governmental activities analysis highlighted in the prior paragraph.

GENERAL FUND BUDGETARY HIGHLIGHT

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 capital outlay in the General Fund to account for the Carver Park improvements and to increase the debt expense in the General Fund to account for paying off the land contract two years early.

VILLAGE OF THREE OAKS--BERRIEN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended September 30, 2016

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2016, the Village had \$10,597,639 invested in a broad range of capital assets, including land, buildings, land improvements, vehicles, equipment, street and sidewalk infrastructure, and water and sewer infrastructure. This amount represents a net increase (including additions and deductions) of \$14,930.

Table 3
Capital Assets at Year-End

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2016	2015	2016	2015	2016
	Land	\$ 275,914	\$ 275,914	\$ 54,517	\$ 54,517	\$ 330,431
Land Improvements	120,041	217,220	-	-	120,041	217,220
Buildings and Improvements	397,261	397,261	100,551	100,551	497,812	497,812
Equipment	188,001	198,525	129,016	128,545	317,017	327,070
Vehicles	554,455	512,825	42,794	42,794	597,249	555,619
Infrastructure	1,182,341	1,211,661	-	-	1,182,341	1,211,661
Sewer System	-	-	6,838,824	6,838,824	6,838,824	6,838,824
Water System	-	-	6,678,713	6,678,713	6,678,713	6,678,713
Total Capital Assets	2,718,013	2,813,406	13,844,415	13,843,944	16,562,428	16,657,350
Total Accumulated Depreciation	(1,103,165)	(1,177,372)	(4,572,118)	(4,882,339)	(5,675,283)	(6,059,711)
Total Net Capital Assets	<u>\$ 1,614,848</u>	<u>\$ 1,636,034</u>	<u>\$ 9,272,297</u>	<u>\$ 8,961,605</u>	<u>\$ 10,887,145</u>	<u>\$ 10,597,639</u>

VILLAGE OF THREE OAKS--BERRIEN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2016

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

This year's major capital asset additions included the following:

Carver Park Improvements	\$ 97,179
Furnace	3,400
Snow Plow	7,124
Street Infrastructure	29,320
Sewer/Water Equipment	<u>28,079</u>
 Total Additions	 <u><u>\$ 165,102</u></u>

The Village's fiscal year 2017 capital budget calls for continued improvement to the Village's streets and sidewalk systems. The Village has no plans to issue additional debt to finance these projects. More detailed information about the Village's capital assets is presented in Note G to the financial statements.

Debt

At year-end, the Village had \$6,127,561 in bonds and notes outstanding versus \$6,456,295 last year, a net decrease of \$328,734, as shown in Table 4. The decrease is due to the continuing payment on the Village's debt including paying off the land contract two years early.

Table 4
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2016	2015	2016	2015	2016
Land Contract Payable	\$ 81,952	\$ -	\$ -	\$ -	\$ 81,952	\$ -
Installment Purchase Agreements	110,343	93,561	-	-	110,343	93,561
Bonds Payable	<u>-</u>	<u>-</u>	<u>6,264,000</u>	<u>6,034,000</u>	<u>6,264,000</u>	<u>6,034,000</u>
Total Outstanding Debt	<u><u>\$ 192,295</u></u>	<u><u>\$ 93,561</u></u>	<u><u>\$6,264,000</u></u>	<u><u>\$6,034,000</u></u>	<u><u>\$6,456,295</u></u>	<u><u>\$6,127,561</u></u>

More detailed information about the Village's long-term debt is presented in Note H to the financial statements.

VILLAGE OF THREE OAKS--BERRIEN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended September 30, 2016

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Village's budget for 2016/2017 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 for these projects. The Village has also assigned funds to replace older vehicles.

CONTACTING THE VILLAGE'S FINANCIAL MANAGEMENT

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Village of Three Oaks 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, Michigan 49128, telephone number 269-756-9221.

VILLAGE OF THREE OAKS--BERRIEN COUNTY
 GOVERNMENT-WIDE STATEMENT OF NET POSITION
 September 30, 2016

EXHIBIT A

	PRIMARY GOVERNMENT			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 1,905,496	\$ 624,535	\$ 2,530,031	\$ 7,153
Receivables (Net)				
Taxes--Delinquent	30,887	-	30,887	-
Special Assessments--Delinquent	6,480	-	6,480	-
Accounts	2,410	23,379	25,789	-
Due From State	19,743	-	19,743	-
Inventory	17,292	-	17,292	-
Total Current Assets	1,982,308	647,914	2,630,222	7,153
Non-current Assets				
Restricted Cash	-	1,149,773	1,149,773	-
Capital Assets--Net of Accumulated Depreciation	1,360,120	8,907,088	10,267,208	-
Capital Assets--Non-depreciating	275,914	54,517	330,431	-
Total Assets	3,618,342	10,759,292	14,377,634	7,153
LIABILITIES				
Current Liabilities				
Accounts Payable	24,600	1,898	26,498	1,746
Accrued Liabilities	21,696	-	21,696	-
Escrow Payable	2,226	-	2,226	-
Total Current Liabilities	48,522	1,898	50,420	1,746
Long-Term Liabilities				
Bonds Payable--Due Within One Year	-	232,000	232,000	-
Bonds Payable--Due in More Than One Year	-	5,802,000	5,802,000	-
Installment Purchase Payable--Due Within One Year	17,395	-	17,395	-
Installment Purchase Payable--Due in More Than One Year	76,166	-	76,166	-
Total Long-Term Liabilities	93,561	6,034,000	6,127,561	-
Total Liabilities	142,083	6,035,898	6,177,981	1,746
NET POSITION				
Net Investment in Capital Assets	1,542,473	2,927,605	4,470,078	-
Restricted for				
PA 302 Funds	1,152	-	1,152	-
Major Street	303,772	-	303,772	-
Local Street	88,079	-	88,079	-
Municipal Street	252,817	-	252,817	-
Non-major Governmental	153,222	-	153,222	-
Downtown Development Authority	-	-	-	5,407
Debt Service	-	1,149,773	1,149,773	-
Unrestricted	1,134,744	646,016	1,780,760	-
Total Net Position	\$ 3,476,259	\$ 4,723,394	\$ 8,199,653	\$ 5,407

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, 2016

EXHIBIT B

Functions/Programs	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION						
	Expenses	PROGRAM REVENUES		PRIMARY GOVERNMENT			Component Unit
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government							
Governmental Activities							
General Government	\$ 133,591	\$ 9,651	\$ 93,107	\$ (30,833)	\$ -	\$ (30,833)	\$ -
Public Safety	286,736	112,517	2,247	(171,972)	-	(171,972)	-
Public Works	438,240	2,568	150,444	(285,228)	-	(285,228)	-
Community and Economic Development	16,843	-	-	(16,843)	-	(16,843)	-
Recreation and Culture	46,941	1,850	-	(45,091)	-	(45,091)	-
Interest Expense	5,937	-	-	(5,937)	-	(5,937)	-
Total Governmental Activities	928,288	126,586	245,798	(555,904)	-	(555,904)	-
Business-Type Activities							
Sewer	352,366	400,658	-	-	48,292	48,292	-
Water	429,211	533,849	-	-	104,638	104,638	-
Total Business-Type Activities	781,577	934,507	-	-	152,930	152,930	-
Total Primary Government	\$ 1,709,865	\$ 1,061,093	\$ 245,798	(555,904)	152,930	(402,974)	-
Component Units							
Downtown Development Authority	\$ 9,209	\$ 969	\$ 5,460	-	-	-	(2,780)
Total Component Units	\$ 9,209	\$ 969	\$ 5,460	-	-	-	(2,780)
General Revenues							
Property Taxes				568,192	-	568,192	-
State-Shared Revenues				158,179	-	158,179	-
Unrestricted Investment Earnings				4,465	3,513	7,978	-
Rents				54,180	-	54,180	-
Other Revenues				15,598	-	15,598	-
Total General Revenues				800,614	3,513	804,127	-
Change in Net Position				244,710	156,443	401,153	(2,780)
Net Position--Beginning				3,231,549	4,566,951	7,798,500	8,187
Net Position--Ending				\$ 3,476,259	\$ 4,723,394	\$ 8,199,653	\$ 5,407

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

VILLAGE OF THREE OAKS--BERRIEN COUNTY
BALANCE SHEET-- GOVERNMENTAL FUNDS AND
RECONCILIATION TO STATEMENT OF NET POSITION
September 30, 2016

EXHIBIT C

	MAJOR FUNDS					Total
	General	Major Street	Local Street	Municipal Street	Nonmajor Funds	Governmental Funds
<u>ASSETS</u>						
Cash and Cash Equivalents	\$ 1,148,930	\$ 290,796	\$82,507	\$ 226,890	\$ 156,373	\$ 1,905,496
Receivables						
Taxes--Delinquent	22,252	-	-	8,635	-	30,887
Special Assessments--Delinquent	-	-	-	-	6,480	6,480
Accounts	2,410	-	-	-	-	2,410
Due From State	-	13,423	6,320	-	-	19,743
Due From Other Funds	-	3,033	1,427	-	-	4,460
Inventory	-	-	-	17,292	-	17,292
Total Assets	\$ 1,173,592	\$ 307,252	\$90,254	\$ 252,817	\$ 162,853	\$ 1,986,768
<u>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE</u>						
Liabilities						
Accounts Payable	\$ 9,314	\$ 3,480	\$ 2,175	\$ -	\$ 9,631	\$ 24,600
Due to Other Funds	4,460	-	-	-	-	4,460
Accrued Liabilities	21,696	-	-	-	-	21,696
Escrows Payable	2,226	-	-	-	-	2,226
Total Liabilities	37,696	3,480	2,175	-	9,631	52,982
<u>DEFERRED INFLOWS OF RESOURCES</u>						
Unavailable Revenue	17,651	-	-	6,856	5,760	30,267
Fund Balances						
Nonspendable	-	-	-	17,292	-	17,292
Restricted for						
PA 302 Funds	1,152	-	-	-	-	1,152
Major Street	-	303,772	-	-	-	303,772
Local Street	-	-	88,079	-	-	88,079
Municipal Street	-	-	-	228,669	-	228,669
Nonmajor Governmental	-	-	-	-	147,462	147,462
Assigned						
Vehicle Replacement	164,456	-	-	-	-	164,456
Unassigned	952,637	-	-	-	-	952,637
Total Fund Balances	1,118,245	303,772	88,079	245,961	147,462	1,903,519
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 1,173,592	\$ 307,252	\$90,254	\$ 252,817	\$ 162,853	\$ 1,986,768
Fund Balances--Total Governmental Funds						\$ 1,903,519
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.						1,636,034
Revenues that do not provide current financial resources are not reported as revenue in the funds--delinquent property taxes.						30,267
Long-term liabilities are not due and payable in the current period and are not reported in the funds.						(93,561)
Net Position of Governmental Activities						\$ 3,476,259

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

VILLAGE OF THREE OAKS--BERRIEN COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES--GOVERNMENTAL FUNDS
AND RECONCILIATION TO STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2016

EXHIBIT D

	MAJOR FUNDS					Total
	General	Major Street	Local Street	Municipal Street	Non-Major Funds	Governmental Funds
Revenues						
Property Taxes	\$ 357,061	\$ -	\$ -	\$ 139,952	\$ -	\$ 497,013
Licenses and Permits	9,651	-	-	-	21,816	31,467
State Grants	160,400	98,455	51,561	-	-	310,416
Charges for Services	91,328	-	-	-	-	91,328
Fines and Forfeits	3,791	-	-	-	-	3,791
Interest and Rentals	58,645	231	49	87	87	59,099
Other Revenue	108,705	-	-	-	78,513	187,218
Total Revenues	789,581	98,686	51,610	140,039	100,416	1,180,332
Expenditures						
Current						
General Government	127,342	-	-	-	-	127,342
Public Safety	255,320	-	-	-	16,246	271,566
Public Works	152,620	52,840	47,667	26,850	76,061	356,038
Community and Economic Development	16,843	-	-	-	-	16,843
Recreation and Cultural	34,725	-	-	-	-	34,725
Capital Outlay	107,703	19,547	9,773	-	-	137,023
Debt Service	104,671	-	-	-	-	104,671
Total Expenditures	799,224	72,387	57,440	26,850	92,307	1,048,208
Excess of Revenues Over (Under) Expenditures	(9,643)	26,299	(5,830)	113,189	8,109	132,124
Other Financing Sources (Uses)						
Interfund Transfers In	-	-	22,380	-	-	22,380
Interfund Transfers (Out)	-	(22,380)	-	-	-	(22,380)
Total Other Financing Sources (Uses)	-	(22,380)	22,380	-	-	-
Net Change in Fund Balances	(9,643)	3,919	16,550	113,189	8,109	132,124
Fund Balance--October 1, 2015	1,127,888	299,853	71,529	132,772	139,353	1,771,395
Fund Balance--September 30, 2016	\$ 1,118,245	\$ 303,772	\$ 88,079	\$ 245,961	\$ 147,462	\$ 1,903,519
Net Change in Fund Balances--Total Governmental Funds						\$ 132,124
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						137,023
Deduct--Depreciation Expense						(115,837)
Net increase (decrease) in revenue between the 2016 delinquent taxes and the 2015 delinquent taxes collected during 2016.						(7,334)
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).						98,734
Change in Net Position of Governmental Activities						\$ 244,710

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

VILLAGE OF THREE OAKS--BERRIEN COUNTY
STATEMENT OF NET POSITION--
PROPRIETARY FUNDS
September 30, 2016

EXHIBIT E

	<u>ENTERPRISE FUNDS</u>		Total Enterprise Funds
	<u>Major Funds</u>		
	<u>Sewer</u>	<u>Water</u>	
<u>ASSETS</u>			
Current Assets			
Cash and Cash Equivalents	\$ 274,855	\$ 349,680	\$ 624,535
Accounts Receivable	11,315	12,064	23,379
Total Current Assets	<u>286,170</u>	<u>361,744</u>	<u>647,914</u>
Non-current Assets			
Restricted Cash	705,740	444,033	1,149,773
Capital Assets--Net of Accumulated Depreciation	3,640,584	5,266,504	8,907,088
Capital Assets--Non-depreciating	30,017	24,500	54,517
Total Non-current Assets	<u>4,376,341</u>	<u>5,735,037</u>	<u>10,111,378</u>
Total Assets	<u>4,662,511</u>	<u>6,096,781</u>	<u>10,759,292</u>
<u>LIABILITIES</u>			
Current Liabilities			
Accounts Payable	1,215	683	1,898
Total Current Liabilities	<u>1,215</u>	<u>683</u>	<u>1,898</u>
Non-current Liabilities			
Bonds Payable--Due Within One Year	141,000	91,000	232,000
Bonds Payable--Due in More Than One Year	1,551,000	4,251,000	5,802,000
Total Non-current Liabilities	<u>1,692,000</u>	<u>4,342,000</u>	<u>6,034,000</u>
Total Liabilities	<u>1,693,215</u>	<u>4,342,683</u>	<u>6,035,898</u>
<u>NET POSITION</u>			
Net Investment in Capital Assets	1,978,601	949,004	2,927,605
Restricted	705,740	444,033	1,149,773
Unrestricted	284,955	361,061	646,016
Total Net Position	<u>\$ 2,969,296</u>	<u>\$ 1,754,098</u>	<u>\$ 4,723,394</u>

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

VILLAGE OF THREE OAKS--BERRIEN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION--PROPRIETARY FUNDS
For the Fiscal Year Ended September 30, 2016

EXHIBIT F

	<u>ENTERPRISE FUNDS</u>		Total Enterprise Funds
	<u>Major Funds</u>		
	<u>Sewer</u>	<u>Water</u>	
Operating Revenues			
Charges for Services	\$ 400,658	\$ 533,849	\$ 934,507
Total Operating Revenues	<u>400,658</u>	<u>533,849</u>	<u>934,507</u>
Operating Expenses			
Wages and Fringes	73,423	77,034	150,457
Operating Expenses	22,658	19,114	41,772
Repairs and Maintenance	8,950	567	9,517
Contracted Services	6,047	6,973	13,020
Utilities	9,585	17,769	27,354
Insurance	1,820	4,171	5,991
Depreciation	166,605	172,166	338,771
Total Operating Expenses	<u>289,088</u>	<u>297,794</u>	<u>586,882</u>
Operating Income (Loss)	<u>111,570</u>	<u>236,055</u>	<u>347,625</u>
Non-operating Revenues (Expenses)			
Interest Earned on Investments	3,043	470	3,513
Interest Expense	(63,278)	(131,417)	(194,695)
Total Non-operating Revenues (Expenses)	<u>(60,235)</u>	<u>(130,947)</u>	<u>(191,182)</u>
Change in Net Position	51,335	105,108	156,443
Total Net Position--October 1, 2015	<u>2,917,961</u>	<u>1,648,990</u>	<u>4,566,951</u>
Total Net Position--September 30, 2016	<u>\$ 2,969,296</u>	<u>\$ 1,754,098</u>	<u>\$ 4,723,394</u>

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

VILLAGE OF THREE OAKS--BERRIEN COUNTY
STATEMENT OF CASH FLOWS--
PROPRIETARY FUNDS
For the Fiscal Year Ended September 30, 2016

EXHIBIT G

	<u>ENTERPRISE FUNDS</u>		Total Enterprise Funds
	<u>Major Funds</u>		
	<u>Sewer</u>	<u>Water</u>	
Cash Flows From Operating Activities			
Cash Received From Customers	\$ 404,255	\$ 537,889	\$ 942,144
Cash Payments to Employees for Services and Benefits	(73,423)	(77,034)	(150,457)
Cash Payments to Suppliers for Goods and Services	(49,281)	(52,071)	(101,352)
Net Cash Provided by Operating Activities	<u>281,551</u>	<u>408,784</u>	<u>690,335</u>
Cash Flows From Capital and Related Financing Activities			
Acquisition of Capital Assets	(12,379)	(15,700)	(28,079)
Reduction of Debt	(135,000)	(95,000)	(230,000)
Interest Paid on Bonds	(63,278)	(131,417)	(194,695)
Net Cash Provided by Capital and Related Financing Activities	<u>(210,657)</u>	<u>(242,117)</u>	<u>(452,774)</u>
Cash Flows From Investing Activities			
Interest on Cash Equivalents	<u>3,043</u>	<u>470</u>	<u>3,513</u>
Net Cash Provided by Investing Activities	<u>3,043</u>	<u>470</u>	<u>3,513</u>
Net Increase (Decrease) in Cash and Cash Equivalents	73,937	167,137	241,074
Cash and Cash Equivalents at Beginning of Year	<u>906,658</u>	<u>626,576</u>	<u>1,533,234</u>
Cash and Cash Equivalents at End of Year	<u>\$ 980,595</u>	<u>\$ 793,713</u>	<u>\$ 1,774,308</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ 111,570	\$ 236,055	\$ 347,625
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation Expense	166,605	172,166	338,771
(Increase) Decrease in Accounts Receivable	3,597	4,040	7,637
Increase (Decrease) in Accounts Payable	(221)	(3,477)	(3,698)
Net Cash Provided by Operating Activities	<u>\$ 281,551</u>	<u>\$ 408,784</u>	<u>\$ 690,335</u>

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

VILLAGE OF THREE OAKS--BERRIEN COUNTY
STATEMENT OF NET POSITION--
COMPONENT UNIT
September 30, 2016

EXHIBIT H

	<u>Downtown Development Authority</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	<u>\$ 7,153</u>
Total Assets	<u>7,153</u>
<u>LIABILITIES</u>	
Accounts Payable	<u>1,746</u>
Total Liabilities	<u>1,746</u>
<u>NET POSITION</u>	
Restricted	<u>5,407</u>
Total Net Position	<u><u>\$ 5,407</u></u>

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

VILLAGE OF THREE OAKS--BERRIEN COUNTY
STATEMENT OF ACTIVITIES--
COMPONENT UNIT
For the Fiscal Year Ended September 30, 2016

EXHIBIT I

	Downtown Development Authority
Program Expenses	
Public Works	<u>\$ 9,209</u>
Total Program Expenses	<u>9,209</u>
Program Revenue	
Charges for Services	969
Operating Grants and Contributions	<u>5,460</u>
Total Program Revenue	<u>6,429</u>
Net Program Revenue	<u>(2,780)</u>
General Revenue	
Interest	<u>-</u>
Total General Revenue	<u>-</u>
Change in Net Position	<u>(2,780)</u>
Net Position	
Beginning of Year	<u>8,187</u>
End of Year	<u><u>\$ 5,407</u></u>

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

VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2016

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Three Oaks 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 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 accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The criteria established by Government Accounting Standards Board (GASB) Statement No. 61, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the data was not included. The component unit total is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description of each component unit).

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 (DDA) 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.

VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2016

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 Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund 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, claims, and judgments are recorded only when payment is due.

VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2016

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.

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.

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.

VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2016

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

Proprietary funds distinguish operating revenues and expenses from non-operating 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 Sewer Fund and Water Fund relate to charges to customers for sales and services. The Sewer Fund and 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 non-operating 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 non-operating 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.

Deposits and Investments

Cash is considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value. Earnings from investments are allocated to numerous funds as required by federal regulations, state statutes, and local ordinances.

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.

VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2016

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

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

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>
Land Improvements	30 to 40 years	
Building and Building Improvements	15 to 40 years	
Vehicles	3 to 10 years	
Equipment	3 to 10 years	
Sewer System		50 years
Water System		40 years

Unavailable Revenue

Governmental funds report unavailable 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 Position. 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.

Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of the following: assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Other Financing Sources (Uses)

Transfers of cash between the various Village funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2016

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

Fund Balance Classifications

In the fund financial statements, governmental funds report the following components of fund balance which comprise a hierarchy based on the extent to which the Village is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Non-spendable Fund Balances

Non-spendable fund balances includes 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 Municipal Street Fund is related to inventory.

Restricted Fund Balances

Restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by Constitution, external resource providers, or through enabling legislation.

The Village of Three Oaks reports the following restricted fund balances.

Special Revenue Funds

- Major Street Fund - The Major Street Fund is used in the Village to account for the maintenance and construction of the Village's major street system. The fund is used to account for the receipt and expenditure of state motor fuel taxes which are earmarked by law, Public Act (PA) 51 of 1951, for major street and highway purposes, federal aid for major street purposes, and general fund appropriations.
- Local Street Fund - The Local Street Fund is used in the Village to account for the maintenance and construction of the Village's local street system. The fund is used to account for the receipt and expenditure of state motor fuel taxes which are earmarked by law, PA 51 of 1951, for local street and highway purposes, federal aid for local street purposes, and general fund appropriations.
- Municipal Street Fund - This fund is used to account for revenues received from the extra voted millage levied for the purpose of street improvements.

VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2016

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

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

- 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.

Assigned Fund Balance

Assigned fund balance is an amount that is intended to be used for specific purposes that are neither considered restricted or committed. The \$164,456 assigned fund balance in the General Fund has been assigned by the Council for future vehicle purchases.

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. The Village Council has established a minimum fund balance policy that requires the Village to maintain an unassigned General Fund balance equal to 30% of core revenue and an additional 10% to be used for grant matches and future leveraging opportunities.

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

Excess of Expenditures over Appropriation in Budgeted Funds

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

VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2016

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	<u>Budget</u>	<u>Actual</u>	<u>Excess Expenditures</u>
Major Street Fund			
Preservation/Capital Outlay	\$ -	\$ 19,547	\$ (19,547)
Administration	4,300	4,979	(679)
Local Street Fund			
Preservation/Capital Outlay	-	9,773	(9,773)
Municipal Street			
Public Works	26,114	26,850	(736)
Building Department Fund			
Public Safety	15,224	16,246	(1,022)

The Village will continue to monitor year end activity in the future to try and prevent similar overages in the future.

NOTE C--DEPOSITS AND INVESTMENTS

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

The Village has designated four 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.

VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2016

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Component Unit</u>
Cash and Cash Equivalents	\$ 1,905,496	\$ 624,535	\$ 2,530,031	\$ 7,153
Restricted Cash	-	1,149,773	1,149,773	-
Total	<u>\$ 1,905,496</u>	<u>\$ 1,774,308</u>	<u>\$ 3,679,804</u>	<u>\$ 7,153</u>

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Village's deposits may not be recovered. The Village does not have a deposit policy for custodial credit risk. The bank balance of the Village's deposits is \$3,685,348, of which \$753,216 is covered by Federal depository insurance. The remaining \$2,932,132 is uncollateralized. The bank balance of the component unit's deposits is \$7,138, of which \$7,138 is covered by FDIC insurance. The Village also maintains \$300 in imprest cash.

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, 2016, the reserve cash balances are \$705,740 and \$444,033 in the Sewer and Water Funds, respectively.

NOTE D--PROPERTY TAXES

The Village's 2016 ad valorem tax was levied and collectible on July 1, 2016. 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 2016 State taxable valuation amounted to \$37,723,450, on which ad valorem taxes levied for all Village purposes were \$497,013. There were 9.109 mills for general operations and 3.6434 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 unavailable revenue.

VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2016

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, 2016, consist of uncollected real property taxes and special assessments levied July 1, 2016, which had not been collected by November 30, 2015. The delinquent property taxes for the General and Municipal Street Funds are \$22,252 and \$8,635, respectively, and the delinquent special assessments for the Rubbish Fund are \$6,480. The amount not collected within 60 days is offset by unavailable revenue of \$17,651 for the General Fund, \$6,856 for the Municipal Street Fund, and \$5,760 in the Rubbish Fund in the governmental fund financial statements.

Accounts Receivable

The General Fund has an account receivable of \$2,410 for a franchise fee due from the local cable company at September 30, 2016.

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 \$11,315 and the receivable for the Water Fund is \$12,064. The receivables are not offset by unavailable revenue.

NOTE F--INTERFUND TRANSFERS

The transfers for the primary government are as follows:

<u>Transfer Out</u>	<u>Transfer In</u> <u>Local Street</u> <u>Fund</u>
Major Street	\$ 22,380
Total Government	<u>\$ 22,380</u>

Interfund transfers are used to transfer revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2016

NOTE G--CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>Account Balances 10/01/15</u>	<u>Additions</u>	<u>Deductions</u>	<u>Account Balances 09/30/16</u>
Capital Assets Not Being Depreciated				
Land	\$ 275,914	\$ -	\$ -	\$ 275,914
Total	<u>275,914</u>	<u>-</u>	<u>-</u>	<u>275,914</u>
Capital Assets Being Depreciated				
Land Improvements	120,041	97,179	-	217,220
Buildings and Building Improvements	397,261	-	-	397,261
Equipment	188,001	10,524	-	198,525
Vehicles	554,455	-	41,630	512,825
Infrastructure--Roads	1,182,341	29,320	-	1,211,661
Total	<u>2,442,099</u>	<u>137,023</u>	<u>41,630</u>	<u>2,537,492</u>
Less Accumulated Depreciation				
Land Improvements	19,747	9,740	-	29,487
Buildings and Building Improvements	296,597	6,161	-	302,758
Equipment	151,398	8,685	-	160,083
Vehicles	388,277	32,134	41,630	378,781
Infrastructure--Roads	247,146	59,117	-	306,263
Total	<u>1,103,165</u>	<u>115,837</u>	<u>41,630</u>	<u>1,177,372</u>
Net Capital Assets Being Depreciated	<u>1,338,934</u>	<u>21,186</u>	<u>-</u>	<u>1,360,120</u>
Governmental Activities Capital Total				
Capital Assets--Net of Depreciation	<u>\$ 1,614,848</u>	<u>\$ 21,186</u>	<u>\$ -</u>	<u>\$ 1,636,034</u>

VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2016

NOTE G--CAPITAL ASSETS (Continued)

<u>Business-Type Activities</u>	<u>Account Balances 10/01/15</u>	<u>Additions</u>	<u>Deductions</u>	<u>Account Balances 09/30/16</u>
Capital Assets Not Being Depreciated				
Land--Sewer System	\$ 30,017	\$ -	\$ -	\$ 30,017
Land--Water System	24,500	-	-	24,500
Subtotal	<u>54,517</u>	<u>-</u>	<u>-</u>	<u>54,517</u>
Capital Assets Being Depreciated				
Sewer Buildings and Improvements	47,613	-	-	47,613
Sewer Equipment	129,016	12,379	28,550	112,845
Sewer System	6,838,824	-	-	6,838,824
Water Buildings and Improvements	52,938	-	-	52,938
Water Equipment	-	15,700	-	15,700
Water Vehicles	42,794	-	-	42,794
Water System	6,678,713	-	-	6,678,713
Total	<u>13,789,898</u>	<u>28,079</u>	<u>28,550</u>	<u>13,789,427</u>
Less Accumulated Depreciation				
Sewer Buildings and Improvements	44,336	189	-	44,525
Sewer Equipment	123,701	3,895	28,550	99,046
Sewer System	3,052,605	162,522	-	3,215,127
Water Buildings and Improvements	27,428	1,324	-	28,752
Water Equipment	-	785	-	785
Water Vehicles	34,089	2,678	-	36,767
Water System	1,289,959	167,378	-	1,457,337
Total	<u>4,572,118</u>	<u>338,771</u>	<u>28,550</u>	<u>4,882,339</u>
Net Capital Assets Being Depreciated	<u>9,217,780</u>	<u>(310,692)</u>	<u>-</u>	<u>8,907,088</u>
Business-Type Activities Capital Total				
Capital Assets--Net of Depreciation	<u>\$9,272,297</u>	<u>\$ (310,692)</u>	<u>\$ -</u>	<u>\$8,961,605</u>

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

Governmental Activities	
General Government	\$ 6,249
Public Safety	15,170
Public Works	82,202
Recreation and Culture	12,216
Total Governmental Activities	<u>\$ 115,837</u>
Business-Type Activities	
Sewer	\$ 166,605
Water	172,166
Total Business-Type Activities	<u>\$ 338,771</u>

VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2016

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 10/01/15	Additions	(Reductions)	Balance 09/30/16	Due Within One Year
<u>Governmental Activities</u>					
Installment Purchase Payable for six years at an interest rate of 3.59% due in annual installments of \$20,810.	\$ 110,343	\$ -	\$ (16,782)	\$ 93,561	\$ 17,395
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.	81,952	-	(81,952)	-	-
Total Governmental Activities	\$ 192,295	\$ -	\$ (98,734)	\$ 93,561	\$ 17,395
<u>Business-Type Activities</u>					
2001 Sanitary Sewer Clean Water Loan with annual installments of \$90,000 to \$135,000 for 20 years at an interest rate of 2.5% for the sewer sanitary clean water program.	\$ 875,000	\$ -	\$ (115,000)	\$ 760,000	\$ 120,000
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.	952,000	-	(20,000)	932,000	21,000
2010 Water System Revenue Bonds due in semi-annual installments of \$59,000 to \$171,000 for 40 years at an interest rate of 3% for the expansion of the water system. Face value of the bonds is \$4,176,000, however only \$2,941,000 has been drawn down.	3,927,000	-	(65,000)	3,862,000	66,000
2013 Refunding Bonds due in semi-annual installments of \$10,000 to \$40,000 for 19 years at an interest rates ranging from .75% to 4.25% to refund the 1978 and 1992 Water System Revenue Bonds.	510,000	-	(30,000)	480,000	25,000
Total Business-Type Activities	\$6,264,000	\$ -	\$ (230,000)	\$6,034,000	\$ 232,000

VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2016

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, 2016, are as follows:

Fiscal Year	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 17,395	\$ 3,415	\$ 20,810	\$ 232,000	\$ 146,520	\$ 378,520
2018	18,030	2,780	20,810	235,000	141,167	376,167
2019	18,688	2,122	20,810	243,000	135,629	378,629
2020	19,370	1,440	20,810	251,000	129,843	380,843
2021	20,078	733	20,811	259,000	123,815	382,815
2022-2026	-	-	-	830,000	549,494	1,379,494
2027-2031	-	-	-	808,000	456,111	1,264,111
2032-2036	-	-	-	780,000	358,988	1,138,988
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
Total	<u>\$ 93,561</u>	<u>\$ 10,490</u>	<u>\$ 104,051</u>	<u>\$ 6,034,000</u>	<u>\$ 2,551,537</u>	<u>\$ 8,585,537</u>

Installment Purchase Agreement

The Village entered into an installment purchase agreement with TCF Equipment Finance Company for the purchase of a 2016 International Truck. The truck was purchased for \$130,936 at an interest rate of 3.59% with annual installments of \$20,810.

Fiscal Year	Principal	Interest	Annual Total
2017	\$ 17,395	\$ 3,415	\$ 20,810
2018	18,030	2,780	20,810
2019	18,688	2,122	20,810
2020	19,370	1,440	20,810
2021	20,078	733	20,811
	<u>\$ 93,561</u>	<u>\$ 10,490</u>	<u>\$ 104,051</u>

VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2016

NOTE H--LONG-TERM DEBT (Continued)

2001 Sewer Clean Water Loan

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

<u>Fiscal Year</u>	<u>April 1 Principal</u>	<u>April 1 Interest</u>	<u>October 1 Interest</u>	<u>Total Debt Service</u>
2017	\$ 120,000	\$ 9,437	\$ 7,937	\$ 137,374
2018	120,000	7,937	6,437	134,374
2019	125,000	6,437	4,875	136,312
2020	130,000	4,875	3,250	138,125
2021	130,000	3,250	1,625	134,875
2022	135,000	1,625	-	136,625
	<u>\$ 760,000</u>	<u>\$ 33,561</u>	<u>\$ 24,124</u>	<u>\$ 817,685</u>

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 (USDA), Rural Development, with interest payable at 4.5% per annum with interest payable semi-annually. There is no set interest schedule printed for bond issues because it changes based upon when the payment is delivered to the USDA.

<u>Fiscal Year</u>	<u>May 1 Principal</u>
2017	\$ 21,000
2018	22,000
2019	23,000
2020	24,000
2021	25,000
2022-2026	142,000
2027-2031	177,000
2032-2036	220,000
2037-2041	278,000
	<u>\$ 932,000</u>

VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2016

NOTE H--LONG-TERM DEBT (Continued)

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 USDA, Rural Development, with interest payable at 3% per annum with interest payable semi-annually.

Fiscal Year	December 1 Principal	December 1 Interest	June 1 Interest	Total
2017	\$ 66,000	\$ 57,930	\$ 56,940	\$ 180,870
2018	68,000	56,940	55,920	180,860
2019	70,000	55,920	54,870	180,790
2020	72,000	54,870	53,790	180,660
2021	74,000	53,790	52,680	180,470
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
2047-2051	808,000	37,050	24,930	869,980
	<u>\$ 3,862,000</u>	<u>\$ 1,204,860</u>	<u>\$ 1,146,930</u>	<u>\$ 6,213,790</u>

Water Supply System Revenue Refunding Bonds, Series 2013

In November 2013, the Village issued \$550,000 in Revenue Refunding Bonds with an interest rate ranging from .75% to 4.25% to advance refund \$590,000 of outstanding 1978 and 1992 Series bonds with interest rates of 5% and 6.625%. The Village refunded the 1978 and 1992 Series bonds to reduce its total debt service payments over the next nineteen years by \$131,957.

Fiscal Year	January 1 Principal	January 1 Interest	July 1 Interest	Total
2017	\$ 25,000	\$ 7,216	\$ 7,060	\$ 39,276
2018	25,000	7,060	6,873	38,933
2019	25,000	6,873	6,654	38,527
2020	25,000	6,654	6,404	38,058
2021	30,000	6,404	6,066	42,470
2022-2026	150,000	26,419	24,185	200,604
2027-2031	170,000	13,374	10,182	193,556
2032	30,000	638	-	30,638
	<u>\$ 480,000</u>	<u>\$ 74,638</u>	<u>\$ 67,424</u>	<u>\$ 622,062</u>

VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2016

NOTE I--DEFINED CONTRIBUTION PENSION PLAN

The Village provides a SIMPLE IRA plan to employees receiving at least \$5,000 in compensation. Employees are eligible to participate from the date of employment. The Village Council approved to match 3% of eligible wages for eligible employees. During the fiscal year, nine employees contributed \$26,578 and the Village contributed \$13,213.

NOTE J--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 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 K--CHANGE IN ACCOUNTING PRINCIPLE

GASB Statement No. 72, Fair Value Measurement and Application, was implemented during the year. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, was implemented during the year. The Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

VILLAGE OF THREE OAKS--BERRIEN COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND

EXHIBIT J

For the Fiscal Year Ended September 30, 2016

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	
Revenues				
Property Taxes	\$ 329,850	\$ 329,850	\$ 357,061	\$ 27,211
Licenses and Permits	8,000	8,000	9,651	1,651
State Grants	147,400	147,400	160,400	13,000
Charges for Services	82,940	82,940	91,328	8,388
Fines and Forfeitures	6,000	6,000	3,791	(2,209)
Interest and Rentals	62,000	62,000	58,645	(3,355)
Other Revenue	80,600	80,600	108,705	28,105
Total Revenue	<u>716,790</u>	<u>716,790</u>	<u>789,581</u>	<u>72,791</u>
Expenditures				
General Government	155,200	165,201	127,342	37,859
Public Safety	271,095	271,095	255,320	15,775
Public Works	193,500	170,500	152,620	17,880
Community and Economic Development	11,350	22,350	16,843	5,507
Recreation and Culture	34,000	40,000	34,725	5,275
Capital Outlay	10,305	112,000	107,703	4,297
Debt Service	44,000	107,000	104,671	2,329
Total Expenditures	<u>719,450</u>	<u>888,146</u>	<u>799,224</u>	<u>88,922</u>
Excess of Revenues Over (Under) Expenditures	<u>(2,660)</u>	<u>(171,356)</u>	<u>(9,643)</u>	<u>161,713</u>
Other Financing Sources (Uses)				
Installment Purchase Proceeds	5,305	5,305	-	(5,305)
Total Other Financing Sources (Uses)	<u>5,305</u>	<u>5,305</u>	<u>-</u>	<u>(5,305)</u>
Net Change in Fund Balance	2,645	(166,051)	(9,643)	156,408
Fund Balance--October 1, 2015	<u>1,128,081</u>	<u>1,128,081</u>	<u>1,127,888</u>	<u>(193)</u>
Fund Balance--September 30, 2016	<u>\$ 1,130,726</u>	<u>\$ 962,030</u>	<u>\$ 1,118,245</u>	<u>\$ 156,215</u>

VILLAGE OF THREE OAKS--BERRIEN COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 MAJOR STREET--MAJOR SPECIAL REVENUE FUND
 For the Fiscal Year Ended September 30, 2016

EXHIBIT K

	<u>BUDGETED AMOUNTS</u>			Variance With
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
Revenues				
State Grants				
Michigan Transportation Funds	\$ 70,000	\$ 70,000	\$ 80,506	\$ 10,506
Michigan Transportation Funds-Snow Funds	-	-	5,832	5,832
Other State Grants	-	-	12,117	12,117
Interest and Rentals	100	100	231	131
Total Revenues	<u>70,100</u>	<u>70,100</u>	<u>98,686</u>	<u>28,586</u>
Expenditures				
Public Works				
Sidewalks	3,200	3,200	399	2,801
Routine Maintenance	28,100	28,100	27,564	536
Traffic	7,680	7,680	3,186	4,494
Winter Routine Maintenance	40,600	40,600	16,712	23,888
Administrative	4,300	4,300	4,979	(679)
Capital Outlay				
Preservation	-	-	19,547	(19,547)
Total Expenditures	<u>83,880</u>	<u>83,880</u>	<u>72,387</u>	<u>11,493</u>
Excess of Revenues Over (Under) Expenditures	<u>(13,780)</u>	<u>(13,780)</u>	<u>26,299</u>	<u>40,079</u>
Other Financing Sources (Uses)				
Interfund Transfers In	40,000	40,000	-	(40,000)
Interfund Transfers (Out)	-	(26,120)	(22,380)	3,740
Total Other Financing Sources (Uses)	<u>40,000</u>	<u>13,880</u>	<u>(22,380)</u>	<u>(36,260)</u>
Net Change in Fund Balance	26,220	100	3,919	3,819
Fund Balance--October 1, 2015	<u>299,853</u>	<u>299,853</u>	<u>299,853</u>	<u>-</u>
Fund Balance--September 30, 2016	<u>\$ 326,073</u>	<u>\$ 299,953</u>	<u>\$ 303,772</u>	<u>\$ 3,819</u>

VILLAGE OF THREE OAKS--BERRIEN COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 LOCAL STREET--MAJOR SPECIAL REVENUE FUND
 For the Fiscal Year Ended September 30, 2016

EXHIBIT L

	<u>BUDGETED AMOUNTS</u>			Variance With
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
Revenues				
State Grants				
Michigan Transportation Funds	\$ 30,000	\$ 30,000	\$ 37,787	\$ 7,787
Michigan Transportation Funds-Snow Funds	-	-	2,117	2,117
Other State Grants	-	-	5,725	5,725
Metro Funds	-	-	5,932	5,932
Interest and Rentals	-	-	49	49
Total Revenues	<u>30,000</u>	<u>30,000</u>	<u>51,610</u>	<u>21,610</u>
Expenditures				
Public Works				
Routine Maintenance	20,550	32,705	28,785	3,920
Traffic	845	1,345	459	886
Winter Routine Maintenance	25,600	23,200	12,826	10,374
Administration	4,300	8,750	5,597	3,153
Capital Outlay				
Preservation	-	-	9,773	(9,773)
Total Expenditures	<u>51,295</u>	<u>66,000</u>	<u>57,440</u>	<u>8,560</u>
Excess of Revenues Over (Under) Expenditures	(21,295)	(36,000)	(5,830)	30,170
Other Financing Sources (Uses)				
Interfund Transfers In	<u>40,000</u>	<u>40,000</u>	<u>22,380</u>	<u>(17,620)</u>
Total Other Financing Sources (Uses)	<u>40,000</u>	<u>40,000</u>	<u>22,380</u>	<u>(17,620)</u>
Net Change in Fund Balance	<u>18,705</u>	<u>4,000</u>	<u>16,550</u>	<u>12,550</u>
Fund Balance--October 1, 2015	<u>71,529</u>	<u>71,529</u>	<u>71,529</u>	-
Fund Balance--September 30, 2016	<u>\$ 90,234</u>	<u>\$ 75,529</u>	<u>\$ 88,079</u>	<u>\$ 12,550</u>

VILLAGE OF THREE OAKS--BERRIEN COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 MUNICIPAL STREET--MAJOR SPECIAL REVENUE FUND
 For the Fiscal Year Ended September 30, 2016

EXHIBIT M

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property Taxes	\$ 128,000	\$ 128,000	\$ 139,952	\$ 11,952
Interest and Rentals	-	-	87	87
Total Revenues	<u>128,000</u>	<u>128,000</u>	<u>140,039</u>	<u>12,039</u>
Expenditures				
Public Works	<u>26,114</u>	<u>26,114</u>	<u>26,850</u>	<u>(736)</u>
Total Expenditures	<u>26,114</u>	<u>26,114</u>	<u>26,850</u>	<u>(736)</u>
Excess of Revenues Over (Under) Expenditures	<u>101,886</u>	<u>101,886</u>	<u>113,189</u>	<u>11,303</u>
Other Financing Sources (Uses)				
Interfund Transfers (Out)	<u>(80,000)</u>	<u>(80,000)</u>	<u>-</u>	<u>80,000</u>
Total Other Financing Sources (Uses)	<u>(80,000)</u>	<u>(80,000)</u>	<u>-</u>	<u>80,000</u>
Net Change in Fund Balance	<u>21,886</u>	<u>21,886</u>	<u>113,189</u>	<u>91,303</u>
Fund Balance--October 1, 2015	<u>132,772</u>	<u>132,772</u>	<u>132,772</u>	<u>-</u>
Fund Balance--September 30, 2016	<u>\$ 154,658</u>	<u>\$ 154,658</u>	<u>\$ 245,961</u>	<u>\$ 91,303</u>

VILLAGE OF THREE OAKS--BERRIEN COUNTY
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 September 30, 2016

EXHIBIT N

	<u>SPECIAL REVENUE</u>			<u>Total</u>
	<u>Rubbish</u>	<u>Building Department</u>	<u>Drug Forfeiture</u>	
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 115,348	\$ 40,836	\$ 189	\$ 156,373
Delinquent Special Assessments Receivable	6,480	-	-	6,480
Total Assets	<u>\$ 121,828</u>	<u>\$ 40,836</u>	<u>\$ 189</u>	<u>\$ 162,853</u>
<u>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</u>				
Accounts Payable	\$ 6,340	\$ 3,291	\$ -	\$ 9,631
Total Liabilities	<u>6,340</u>	<u>3,291</u>	<u>-</u>	<u>9,631</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Unavailable Revenue	<u>5,760</u>	<u>-</u>	<u>-</u>	<u>5,760</u>
Fund Balances				
Restricted	<u>109,728</u>	<u>37,545</u>	<u>189</u>	<u>147,462</u>
Total Fund Balances	<u>109,728</u>	<u>37,545</u>	<u>189</u>	<u>147,462</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 121,828</u>	<u>\$ 40,836</u>	<u>\$ 189</u>	<u>\$ 162,853</u>

VILLAGE OF THREE OAKS--BERRIEN COUNTY
 COMBINING STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 For the Fiscal Year Ended September 30, 2016

EXHIBIT O

	<u>SPECIAL REVENUE</u>			<u>Total</u>
	<u>Rubbish</u>	<u>Building Department</u>	<u>Drug Forfeiture</u>	
Revenues				
Licenses and Permits	\$ -	\$ 21,816	\$ -	\$ 21,816
Interest and Rentals	61	26	-	87
Special Assessments	78,513	-	-	78,513
Total Revenues	<u>78,574</u>	<u>21,842</u>	<u>-</u>	<u>100,416</u>
Expenditures				
Public Safety	-	16,246	-	16,246
Public Works	76,061	-	-	76,061
Total Expenditures	<u>76,061</u>	<u>16,246</u>	<u>-</u>	<u>92,307</u>
Excess of Revenue Over (Under) Expenditures	2,513	5,596	-	8,109
Fund Balance--October 1, 2015	<u>107,215</u>	<u>31,949</u>	<u>189</u>	<u>139,353</u>
Fund Balance--September 30, 2016	<u><u>\$ 109,728</u></u>	<u><u>\$ 37,545</u></u>	<u><u>\$ 189</u></u>	<u><u>\$ 147,462</u></u>

VILLAGE OF THREE OAKS--BERRIEN COUNTY
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BY SOURCE--BUDGET AND ACTUAL--GENERAL FUND
For the Fiscal Year Ended September 30, 2016

EXHIBIT P

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Property Taxes				
Current Taxes	\$ 305,000	\$ 305,000	\$ 310,534	\$ 5,534
Delinquent Taxes	20,000	20,000	38,927	18,927
Interest and Penalties	-	-	2,607	2,607
Administrative Fees	4,850	4,850	4,993	143
Total Property Taxes	329,850	329,850	357,061	27,211
Licenses and Permits				
Planning Reviews	3,000	3,000	-	(3,000)
Franchise Fees	5,000	5,000	9,651	4,651
Total Licenses and Permits	8,000	8,000	9,651	1,651
State Grants				
Liquor License	2,200	2,200	2,221	21
Police Training Grant	200	200	-	(200)
Revenue Sharing	145,000	145,000	158,179	13,179
Total State Grants	147,400	147,400	160,400	13,000
Charges for Services				
Police	80,000	80,000	86,910	6,910
Park	500	500	1,850	1,350
Grass Cutting/Snow Plowing	2,400	2,400	2,568	168
Other Charges for Services	40	40	-	(40)
Total Charges for Services	82,940	82,940	91,328	8,388
Fines and Forfeitures				
Traffic and Ordinance Fines	6,000	6,000	3,791	(2,209)
Total Fines and Forfeitures	6,000	6,000	3,791	(2,209)
Interest and Rentals				
Vehicle Rental	40,000	40,000	32,374	(7,626)
Village Rental	18,000	18,000	21,806	3,806
Interest	4,000	4,000	4,465	465
Total Interest and Rentals	62,000	62,000	58,645	(3,355)
Other Revenue				
Local Revenue Sharing--Casino Funds	80,000	80,000	93,007	13,007
Other Donations	600	600	100	(500)
Reimbursements	-	-	15,598	15,598
Total Other Revenue	80,600	80,600	108,705	28,105
Total Revenue	716,790	716,790	789,581	72,791
Other Financing Sources				
Installment Purchase Proceeds	5,305	5,305	-	(5,305)
Total Other Financing Sources	5,305	5,305	-	(5,305)
Total Revenue and Other Financing Sources	\$ 722,095	\$ 722,095	\$ 789,581	\$ 67,486

VILLAGE OF THREE OAKS--BERRIEN COUNTY
SCHEDULE OF EXPENDITURES BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Fiscal Year Ended September 30, 2016

EXHIBIT Q

<u>EXPENDITURES</u>	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
General Government				
Village Council	\$ 9,610	\$ 9,610	\$ 9,033	\$ 577
President	2,465	2,800	2,790	10
Village Manager	38,000	38,000	30,138	7,862
Clerk	24,400	24,400	22,709	1,691
Accounting Fees	8,500	8,500	5,123	3,377
Treasurer	17,875	17,875	13,132	4,743
Elections	2,200	2,200	-	2,200
Building and Grounds	5,000	5,000	1,150	3,850
Attorney Fees	2,000	5,265	2,632	2,633
Other General Government	45,150	51,551	40,635	10,916
Total General Government	<u>155,200</u>	<u>165,201</u>	<u>127,342</u>	<u>37,859</u>
Public Safety				
Police	220,095	220,095	208,520	11,575
Fire	51,000	51,000	46,800	4,200
Total Public Safety	<u>271,095</u>	<u>271,095</u>	<u>255,320</u>	<u>15,775</u>
Public Works				
Department of Public Works	146,500	120,500	109,073	11,427
Drain at Large	22,000	22,000	21,673	327
Street Lights	25,000	28,000	21,874	6,126
Total Public Works	<u>193,500</u>	<u>170,500</u>	<u>152,620</u>	<u>17,880</u>
Community and Economic Development				
Planning	11,350	16,350	11,843	4,507
Contribution to DDA	-	6,000	5,000	1,000
Total Community and Economic Development	<u>11,350</u>	<u>22,350</u>	<u>16,843</u>	<u>5,507</u>
Recreation and Culture				
Parks and Recreation	34,000	40,000	34,725	5,275
Total Recreation and Culture	<u>34,000</u>	<u>40,000</u>	<u>34,725</u>	<u>5,275</u>
Capital Outlay	10,305	112,000	107,703	4,297
Total Capital Outlay	<u>10,305</u>	<u>112,000</u>	<u>107,703</u>	<u>4,297</u>
Debt Service				
Principal	40,000	100,000	98,734	1,266
Interest	4,000	7,000	5,937	1,063
Total Debt Service	<u>44,000</u>	<u>107,000</u>	<u>104,671</u>	<u>2,329</u>
Total Expenditures	<u>\$ 719,450</u>	<u>\$ 888,146</u>	<u>\$ 799,224</u>	<u>\$ 88,922</u>



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

March 27, 2017

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

Independent Auditor's Report

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, in accordance with the 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, 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 as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Village of Three Oaks' basic financial statements, and have issued our report thereon dated March 27, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Three Oaks' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Three Oaks' internal control. Accordingly, we do not express an opinion on the effectiveness of the Village of Three Oaks' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a

combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. However, material weaknesses may exist that have not been identified. We consider the deficiencies described in the accompanying Schedule of Findings and Responses listed as Findings 2007-001, 2013-001, and 2016-001 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, non-compliance 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 one instance of non-compliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as Finding 2015-001.

Village of Three Oaks' Responses to Findings

The Village of Three Oaks' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Village of Three Oaks' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Village of Three Oaks' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village of Three Oaks' internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Sincerely,



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Fiscal Accountability Division



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

NICK A. KHOURI
STATE TREASURER

March 27, 2017

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, 2016, and have issued our report thereon dated March 27, 2017. Professional standards require that we provide you with 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 September 2, 2016, our responsibility, as described by professional standards, is to express an opinion 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.

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.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Village of Three Oaks' 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.

Other information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described in professional standards, is to evaluate the presentation of supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with the accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior

period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or the financial statements themselves.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters March 7, 2017, with management.

Significant Results of the Audit

Qualitative Aspects of Accounting Practices

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. As described in Note K, during the fiscal year ended September 30, 2016, the Village of Three Oaks implemented GASB Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The notes to the financial statement now includes fair value information relating to the Village's investments. 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. The most sensitive estimate affecting the governmental activities in the government-wide statements was depreciation.

Management's estimate of the depreciation is based on the straight-line method for all other capital assets. 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, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 27, 2017.

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.

Sincerely,



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Fiscal Accountability Division

VILLAGE OF THREE OAKS

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended September 30, 2016

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

MATERIAL WEAKNESSES

Preparation of Financial Statements in Accordance With GAAP

Finding 2007-001

Condition: As is the case in many small and medium-sized governmental entities, 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).

Cause: This condition was caused by the Village's decision to outsource the preparation of its annual financial statements to the auditors. This decision was based on the determination that it would be more cost effective to outsource this function rather than invest the time and incur the expense to obtain the necessary training and expertise for Village to prepare this information internally.

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.

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.

VILLAGE OF THREE OAKS

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended September 30, 2016

Management's Response: 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.

Capital Assets

Finding 2013-001

Condition: The subsidiary listing for the capital assets was not updated for the current year's activity. Depreciation expense and assets disposed of were not posted to the general ledger.

Criteria: Generally accepted accounting principles require each local unit of government to maintain a record of capital assets. The Village is to update the capital asset listing for additions and deletions. Assets purchased during the year should equal the additions to the capital asset records. Disposals should equal the reduction to the capital asset records. For the enterprise funds, depreciation is to be calculated on the capital assets and posted to depreciation expense and the respective accumulated depreciation accounts.

Cause: The Village was unsure how to update the listing.

Effect: The list was not updated and the depreciation expense was not recorded for the enterprise funds.

Recommendation: We recommend that the Village maintain its capital asset listing throughout the year and that it be periodically reviewed to ensure that new equipment is properly posted, disposals are updated, and related depreciation is calculated and posted.

Management's Response: Village staff will create a standard operating procedure document for audit preparation and include a quarterly review and update of the Capital Assets list for the Village Enterprise Funds.

Reconciliation of Bank Statements

Finding 2016-001

Condition: The bank statements were not reconciled in a timely manner as the September 2016 bank statements were not balanced until February and March of 2017.

Criteria: The Uniform Accounting Procedures Manual issued by the Michigan Department of Treasury states the following about bank reconciliations. "All cash accounts should be reconciled to their respective bank statements monthly. An authorized individual not responsible for the actual physical handling of the cash should reconcile bank statements to the general ledger when possible."

Cause: The accounts were not reconciled.

VILLAGE OF THREE OAKS

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended September 30, 2016

Effect: The lack of the reconciliations and related corrections created numerous reconciling items not corrected until the current fiscal year. One result of this was cash transactions recorded in incorrect accounts creating line items with large negative balances not offset by the line items that were largely overstated.

Recommendation: We recommend that the Village implement policies and procedures to ensure that the bank reconciliations are done monthly and reviewed by an individual independent of the process.

Management's Response: The Village has created an internal policy where bank statements will be reconciled monthly and reviewed by the Village Manager and/or Village President. Both of whom are independent of the process.

NON-COMPLIANCE WITH STATE STATUTES

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

Expenditures in Excess of Appropriations

Finding 2015-001

Condition: During the year ended September 30, 2016, expenditures were incurred in excess of amounts appropriated in the amended budgets for the Building Fund as follows:

Fund, Function and Activity	Budget	Actual	Excess Expenditures
Major Street Fund			
Preservation/Capital Outlay	\$ -	\$ 19,547	\$ (19,547)
Administration	4,300	4,979	(679)
Local Street Fund			
Preservation/Capital Outlay	-	9,773	(9,773)
Municipal Street			
Public Works	26,114	26,850	(736)
Building Department Fund			
Public Safety	15,224	16,246	(1,022)

VILLAGE OF THREE OAKS

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended September 30, 2016

Criteria: Expenditure of funds in excess of appropriations are prohibited by the provisions of Section 17 of Public Act 2 of 1968.

Cause: The Village did not amend the budget to properly reflect the increased activity of the fund.

Effect: The Village was not in compliance with state statute.

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

Management's Response: The Village will continue to monitor year end activity in the future to try and prevent similar overages in the future.