

# STATE OF MICHIGAN

Rick Snyder, Governor

## DEPARTMENT OF TREASURY

Nick A. Khouri, State Treasurer



Report on  
Financial Statements

**VILLAGE OF  
THREE OAKS**

**September 2015**

VILLAGE OF THREE OAKS

VILLAGE COUNCIL

(March 1, 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--2015  
\$37,030,737



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

NICK A. KHOURI  
STATE TREASURER

March 1, 2016

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, 2015, 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, 2015, 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 1, 2016, 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 Government Financial Services 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, 2015

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, 2015.

### 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, 2015

- 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, 2015**

*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.

**The Village as a Whole**

The Village's combined net position increased from \$7,305,045 to \$7,798,500 or \$493,455 for the year ending September 30, 2015. This is similar to the previous year when the net position increased \$327,115. 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	
	2014	2015	2014	2015	2014	2015
Current and						
Other Assets	\$ 1,689,909	\$ 1,832,789	\$ 1,725,550	\$ 709,627	\$ 3,415,459	\$ 2,542,416
Net Capital Assets	1,361,553	1,614,848	9,221,156	10,126,920	10,582,709	11,741,768
Total Assets	3,051,462	3,447,637	10,946,706	10,836,547	13,998,168	14,284,184
Current Liabilities	26,731	23,793	34,637	5,596	61,368	29,389
Noncurrent Liabilities	141,755	192,295	6,490,000	6,264,000	6,631,755	6,456,295
Total Liabilities	168,486	216,088	6,524,637	6,269,596	6,693,123	6,485,684
Net Position						
Net Investment in						
Capital Assets	1,219,798	1,422,553	2,731,156	3,008,297	3,950,954	4,430,850
Restricted	618,435	659,226	746,648	854,623	1,365,083	1,513,849
Unrestricted	1,044,743	1,149,770	944,265	704,031	1,989,008	1,853,801
Total Net Position	\$ 2,882,976	\$ 3,231,549	\$ 4,422,069	\$ 4,566,951	\$ 7,305,045	\$ 7,798,500

**VILLAGE OF THREE OAKS--BERRIEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended September 30, 2015**

**The Village as a Whole (Continued)**

The Village's governmental activities net position increased overall by 12% or \$348,573 (\$3,231,549 compared to \$2,882,976). This increased as significant investment was made in rebuilding certain Village infrastructure and streets. The unrestricted net position increased as the Village continues to monitor expenses to maintain a steady financial position.

The Village's business-type activities net position increased overall by 3.3% or \$144,882 (\$4,566,951 compared to \$4,422,069). The increase in the net investment in capital assets was primarily due to investing \$378,716 expended on water main improvements while the increase in the unrestricted net position was primarily due to the Village monitoring expenses.

**VILLAGE OF THREE OAKS--BERRIEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended September 30, 2015**

**The Village as a Whole (Continued)**

**Table 2  
Changes in Net Position of Governmental Activities**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2015	2014	2015	2014	2015
	<b>Program Revenue</b>					
Charges for Services	\$ 116,802	\$ 136,578	\$ 943,375	\$ 924,714	\$ 1,060,177	\$ 1,061,292
Operating Grants and Contributions	211,651	212,149	-	-	211,651	212,149
Capital Grants and Contributions	-	163,000	-	-	-	163,000
<b>General Revenue</b>						
Property Taxes	552,437	547,317	-	-	552,437	547,317
State-Shared Revenues	155,354	158,292	-	-	155,354	158,292
Unrestricted Investment Earnings	4,550	4,857	2,588	2,454	7,138	7,311
Rents	55,427	58,356	-	-	55,427	58,356
Other	2,298	856	-	-	2,298	856
<b>Total Revenues</b>	<b>1,098,519</b>	<b>1,281,405</b>	<b>945,963</b>	<b>927,168</b>	<b>2,044,482</b>	<b>2,208,573</b>
<b>Program Expenses</b>						
General Government	115,939	168,610	-	-	115,939	168,610
Public Safety	253,899	274,297	-	-	253,899	274,297
Public Works	489,604	425,626	-	-	489,604	425,626
Community and Economic Development	7,288	14,705	-	-	7,288	14,705
Recreation and Cultural	62,872	46,961	-	-	62,872	46,961
Interest on Debt	4,577	2,633	-	-	4,577	2,633
Sewer	-	-	356,032	352,618	356,032	352,618
Water	-	-	427,156	429,668	427,156	429,668
<b>Total Expenses</b>	<b>934,179</b>	<b>932,832</b>	<b>783,188</b>	<b>782,286</b>	<b>1,717,367</b>	<b>1,715,118</b>
<b>Change in Net Position</b>	<b>\$ 164,340</b>	<b>\$ 348,573</b>	<b>\$ 162,775</b>	<b>\$ 144,882</b>	<b>\$ 327,115</b>	<b>\$ 493,455</b>

## **VILLAGE OF THREE OAKS--BERRIEN COUNTY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2015**

#### **The Village as a Whole (Continued)**

##### ***Governmental Activities***

The revenues for the Village's governmental activities increased by 16.6% or \$182,886, while expenses decreased by .1% or \$1,347. The increase in the revenues is primarily due to the capital grants and contributions the Village received from the Pokagon Fund and Three Oaks Township for park improvements and village office furniture during the fiscal year. The decrease in expense is an offset of increased general government expenses from parking lot improvements and a house demolition, an increase in public safety for an additional \$20,000 in building inspection fees, a decrease in public works as the Village performed micro-seal projects last year on the Village streets, and finally a decrease in recreational and cultural from funds spent on preparing for the Carver Park improvements.

##### ***Business-Type Activities***

The revenues for the Village's business-type activities decreased by 2% or \$18,795, while expenses decreased by less than 1% or \$902. The revenue decreased as more outstanding balances were collected last year as compared with 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 \$1,771,395 which is \$159,798 more than last year's \$1,611,597. 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 revenue adjustment was to account for the increased fund from the Pokagon Foundation and township contributions for the Carver Park project and office furniture. The expenditure adjustments were to account for the parking lot repairs, house demolition, increased police activities, and park improvements in the General Fund and the infrastructure improvements in the Major Street and Local Street Fund.

**VILLAGE OF THREE OAKS--BERRIEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended September 30, 2015**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

*Capital Assets*

As of September 30, 2015, the Village had \$10,887,145 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 decrease (including additions and deductions) of \$108,946.

**Table 3  
Capital Assets at Year-End**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2015	2014	2015	2014	2015
	Land	\$ 275,914	\$ 275,914	\$ 54,517	\$ 54,517	\$ 330,431
Land Improvements	47,086	120,041	-	-	47,086	120,041
Buildings and Improvements	397,261	397,261	100,551	100,551	497,812	497,812
Equipment	178,333	188,001	129,016	129,016	307,349	317,017
Vehicles	387,681	554,455	42,794	42,794	430,475	597,249
Infrastructure	1,073,511	1,182,341	-	-	1,073,511	1,182,341
Sewer System	-	-	6,838,824	6,838,824	6,838,824	6,838,824
Water System	-	-	6,299,997	6,678,713	6,299,997	6,678,713
<b>Total Capital Assets</b>	<b>2,359,786</b>	<b>2,718,013</b>	<b>13,465,699</b>	<b>13,844,415</b>	<b>15,825,485</b>	<b>16,562,428</b>
<b>Total Accumulated Depreciation</b>	<b>(998,233)</b>	<b>(1,103,165)</b>	<b>(4,244,543)</b>	<b>(4,572,118)</b>	<b>(5,242,776)</b>	<b>(5,675,283)</b>
<b>Total Net Capital Assets</b>	<b>\$ 1,361,553</b>	<b>\$ 1,614,848</b>	<b>\$ 9,221,156</b>	<b>\$ 9,272,297</b>	<b>\$ 10,582,709</b>	<b>\$ 10,887,145</b>

**VILLAGE OF THREE OAKS--BERRIEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended September 30, 2015**

**CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)**

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

Carver Park Improvements	\$ 72,955
Office Furniture	9,668
Police Car	35,457
International Truck	131,317
Maple Street Infrastructure	108,830
Maple Street Water Improvements	<u>378,716</u>
 Total Additions	 <u>\$ 736,943</u>

The Village's fiscal year 2016 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 \$6,456,295 in bonds and notes outstanding versus \$6,631,755 last year, a net decrease of \$175,460, as shown in Table 4. The decrease is due to the continuing payment on the Village's debt. During the year, the Village issued \$130,936 in installment purchase agreements for an International truck.

**Table 4  
Outstanding Debt at Year-End**

	Governmental		Business-Type		Total	
	Activities		Activities		Primary Government	
	2014	2015	2014	2015	2014	2015
Land Contract Payable	\$ 141,755	\$ 81,952	\$ -	\$ -	\$ 141,755	\$ 81,952
Installment Purchase						
Agreements	-	110,343	-	-	-	110,343
Bonds Payable	-	-	6,490,000	6,264,000	6,490,000	6,264,000
 Total Outstanding Debt	 <u>\$ 141,755</u>	 <u>\$ 192,295</u>	 <u>\$ 6,490,000</u>	 <u>\$ 6,264,000</u>	 <u>\$ 6,631,755</u>	 <u>\$ 6,456,295</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, 2015**

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Village's budget for 2015/2016 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's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village's office at: P.O. Box 335, Three Oaks, Michigan 49128, telephone number 269-756-9221.



**VILLAGE OF THREE OAKS--BERRIEN COUNTY**  
**GOVERNMENT-WIDE STATEMENT OF NET POSITION**  
**September 30, 2015**

**EXHIBIT A**

<u>ASSETS</u>	<u>PRIMARY GOVERNMENT</u>			Component Unit
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	
<b>Current Assets</b>				
Cash and Cash Equivalents	\$ 1,745,379	\$ 678,611	\$ 2,423,990	\$ 8,187
Receivables (Net)				
Taxes--Delinquent	42,499	-	42,499	-
Special Assessments--Delinquent	7,440	-	7,440	-
Accounts	4,665	31,016	35,681	-
Due From State	19,613	-	19,613	-
Inventory	13,193	-	13,193	-
<b>Total Current Assets</b>	<b>1,832,789</b>	<b>709,627</b>	<b>2,542,416</b>	<b>8,187</b>
<b>Noncurrent Assets</b>				
Restricted Cash	-	854,623	854,623	-
Capital Assets--Net of Accumulated Depreciation	1,338,934	9,217,780	10,556,714	-
Capital Assets--Nondepreciating	275,914	54,517	330,431	-
<b>Total Assets</b>	<b>3,447,637</b>	<b>10,836,547</b>	<b>14,284,184</b>	<b>8,187</b>
<u>LIABILITIES</u>				
<b>Current Liabilities</b>				
Accounts Payable	20,323	5,596	25,919	-
Accrued Liabilities	1,244	-	1,244	-
Escrow Payable	2,226	-	2,226	-
<b>Total Current Liabilities</b>	<b>23,793</b>	<b>5,596</b>	<b>29,389</b>	<b>-</b>
<b>Long-Term Liabilities</b>				
Bonds Payable--Due Within One Year	-	230,000	230,000	-
Bonds Payable--Due in More Than One Year	-	6,034,000	6,034,000	-
Installment Purchase Payable--Due Within One Year	16,783	-	16,783	-
Installment Purchase Payable--Due in More Than One Year	93,560	-	93,560	-
Land Contract Payable--Due Within One Year	39,779	-	39,779	-
Land Contract Payable--Due in More Than One Year	42,173	-	42,173	-
<b>Total Long-Term Liabilities</b>	<b>192,295</b>	<b>6,264,000</b>	<b>6,456,295</b>	<b>-</b>
<b>Total Liabilities</b>	<b>216,088</b>	<b>6,269,596</b>	<b>6,485,684</b>	<b>-</b>

**VILLAGE OF THREE OAKS--BERRIEN COUNTY**  
**GOVERNMENT-WIDE STATEMENT OF NET POSITION**  
**September 30, 2015**

**EXHIBIT A**  
**(CONTINUED)**

	<u>PRIMARY GOVERNMENT</u>			Component Unit
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	
<u>NET POSITION</u>				
Net Investment in Capital Assets	1,422,553	3,008,297	4,430,850	-
Restricted for				
PA 302 Funds	1,152	-	1,152	-
Major Street	299,853	-	299,853	-
Local Street	71,529	-	71,529	-
Municipal Street	141,939	-	141,939	-
Nonmajor Governmental	144,753	-	144,753	-
Downtown Development Authority	-	-	-	8,187
Debt Service	-	854,623	854,623	-
Unrestricted	<u>1,149,770</u>	<u>704,031</u>	<u>1,853,801</u>	-
Total Net Position	<u>\$ 3,231,549</u>	<u>\$ 4,566,951</u>	<u>\$ 7,798,500</u>	<u>\$ 8,187</u>

**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, 2015

EXHIBIT B

Functions/Programs	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION							Component Unit
	PROGRAM REVENUES				PRIMARY GOVERNMENT			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental Activities								
General Government	\$ 168,610	\$ 9,323	\$ 84,789	\$ 18,000	\$ (56,498)	\$ -	\$ (56,498)	\$ -
Public Safety	274,297	124,430	2,290	-	(147,577)	-	(147,577)	-
Public Works	425,626	2,475	125,070	-	(298,081)	-	(298,081)	-
Community and Economic Development	14,705	-	-	-	(14,705)	-	(14,705)	-
Recreation and Culture	46,961	350	-	145,000	98,389	-	98,389	-
Interest Expense	2,633	-	-	-	(2,633)	-	(2,633)	-
Total Governmental Activities	932,832	136,578	212,149	163,000	(421,105)	-	(421,105)	-
Business-Type Activities								
Sewer	352,618	394,955	-	-	-	42,337	42,337	-
Water	429,668	529,759	-	-	-	100,091	100,091	-
Total Business-Type Activities	782,286	924,714	-	-	-	142,428	142,428	-
Total Primary Government	\$ 1,715,118	\$ 1,061,292	\$ 212,149	\$ 163,000	\$ (421,105)	\$ 142,428	\$ (278,677)	\$ -
Component Units								
Downtown Development Authority	\$ 872	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (872)
Total Component Units	\$ 872	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (872)
General Revenues								
Property Taxes					\$ 547,317	\$ -	\$ 547,317	\$ -
State-Shared Revenues					158,292	-	158,292	-
Unrestricted Investment Earnings					4,857	2,454	7,311	1
Rents					58,356	-	58,356	-
Other Revenues					856	-	856	-
Total General Revenues					769,678	2,454	772,132	1
Change in Net Position					348,573	144,882	493,455	(871)
Net Position--Beginning					2,882,976	4,441,755	7,324,731	9,058
Restatement to Net Position (Note L)					-	(19,686)	(19,686)	-
Restated Net Position--Beginning					2,882,976	4,422,069	7,305,045	9,058
Net Position--Ending					\$ 3,231,549	\$ 4,566,951	\$ 7,798,500	\$ 8,187

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, 2015**

**EXHIBIT C**

	MAJOR FUNDS					Total Governmental Funds
	General	Major Street	Local Street	Municipal Street	Nonmajor Funds	
<b><u>ASSETS</u></b>						
Cash and Cash Equivalents	\$1,125,727	\$ 286,639	\$ 66,619	\$ 116,724	\$ 149,670	\$ 1,745,379
Receivables						
Taxes--Delinquent	30,477	-	-	12,022	-	42,499
Special Assessments--Delinquent	-	-	-	-	7,440	7,440
Accounts	4,665	-	-	-	-	4,665
Due From State	-	13,353	6,260	-	-	19,613
Inventory	-	-	-	13,193	-	13,193
<b>Total Assets</b>	<b>\$1,160,869</b>	<b>\$ 299,992</b>	<b>\$ 72,879</b>	<b>\$ 141,939</b>	<b>\$ 157,110</b>	<b>\$ 1,832,789</b>
<b><u>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE</u></b>						
Liabilities						
Accounts Payable	\$ 6,477	\$ 139	\$ 1,350	\$ -	\$ 12,357	\$ 20,323
Accrued Liabilities	1,244	-	-	-	-	1,244
Escrows Payable	2,226	-	-	-	-	2,226
<b>Total Liabilities</b>	<b>9,947</b>	<b>139</b>	<b>1,350</b>	<b>-</b>	<b>12,357</b>	<b>23,793</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>						
Unavailable Revenue	23,034	-	-	9,167	5,400	37,601
Fund Balances						
Nonspendable	-	-	-	13,193	-	13,193
Restricted for						
PA 302 Funds	1,152	-	-	-	-	1,152
Major Street	-	299,853	-	-	-	299,853
Local Street	-	-	71,529	-	-	71,529
Municipal Street	-	-	-	119,579	-	119,579
Nonmajor Governmental	-	-	-	-	139,353	139,353
Assigned						
Vehicle Replacement	134,456	-	-	-	-	134,456
Unassigned	992,280	-	-	-	-	992,280
<b>Total Fund Balances</b>	<b>1,127,888</b>	<b>299,853</b>	<b>71,529</b>	<b>132,772</b>	<b>139,353</b>	<b>1,771,395</b>
<b>Total Liabilities, Deferred Inflows, and Fund Balances</b>	<b>\$1,160,869</b>	<b>\$ 299,992</b>	<b>\$ 72,879</b>	<b>\$ 141,939</b>	<b>\$ 157,110</b>	<b>\$ 1,832,789</b>
Fund Balances--Total Governmental Funds						\$ 1,771,395
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.						1,614,848
Revenues that do not provide current financial resources are not reported as revenue in the funds--delinquent property taxes.						37,601
Long-term liabilities are not due and payable in the current period and are not reported in the funds.						(192,295)
<b>Net Position of Governmental Activities</b>						<b>\$ 3,231,549</b>

**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, 2015**

**EXHIBIT D**

	MAJOR FUNDS					Total Governmental Funds
	General	Major Street	Local Street	Municipal Street	Non-Major Funds	
Revenues						
Property Taxes	\$ 344,301	\$ -	\$ -	\$ 135,046	\$ -	\$ 479,347
Licenses and Permits	9,323	-	-	-	32,485	41,808
State Grants	160,565	84,223	40,364	-	-	285,152
Charges for Services	88,896	-	-	-	-	88,896
Fines and Forfeits	5,874	-	-	-	-	5,874
Interest and Rentals	63,213	64	8	167	61	63,513
Other Revenue	248,645	-	200	-	81,950	330,795
<b>Total Revenues</b>	<b>920,817</b>	<b>84,287</b>	<b>40,572</b>	<b>135,213</b>	<b>114,496</b>	<b>1,295,385</b>
Expenditures						
Current						
General Government	162,701	-	-	-	-	162,701
Public Safety	236,555	-	-	-	22,572	259,127
Public Works	160,203	47,404	48,895	24,051	75,719	356,272
Community and Economic Development	14,705	-	-	-	-	14,705
Recreation and Cultural	32,462	-	-	-	-	32,462
Capital Outlay	249,397	68,444	40,386	-	-	358,227
Debt Service	83,029	-	-	-	-	83,029
<b>Total Expenditures</b>	<b>939,052</b>	<b>115,848</b>	<b>89,281</b>	<b>24,051</b>	<b>98,291</b>	<b>1,266,523</b>
Excess of Revenues Over (Under) Expenditures	(18,235)	(31,561)	(48,709)	111,162	16,205	28,862
Other Financing Sources (Uses)						
Installment Purchase Proceeds	130,936	-	-	-	-	130,936
Interfund Transfers In	-	239,202	101,867	-	-	341,069
Interfund Transfers (Out)	-	-	-	(341,069)	-	(341,069)
<b>Total Other Financing Sources (Uses)</b>	<b>130,936</b>	<b>239,202</b>	<b>101,867</b>	<b>(341,069)</b>	<b>-</b>	<b>130,936</b>
Net Change in Fund Balances	112,701	207,641	53,158	(229,907)	16,205	159,798
Fund Balance--October 1, 2014	1,015,187	92,212	18,371	362,679	123,148	1,611,597

**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, 2015**

**EXHIBIT D**  
**(CONTINUED)**

	<u>MAJOR FUNDS</u>					Total Governmental Funds
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Municipal Street</u>	<u>Non-Major Funds</u>	
Fund Balance--September 30, 2015	<u>\$1,127,888</u>	<u>\$ 299,853</u>	<u>\$ 71,529</u>	<u>\$ 132,772</u>	<u>\$ 139,353</u>	<u>\$ 1,771,395</u>
Net Change in Fund Balances--Total Governmental Funds						\$ 159,798
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						358,227
Deduct--Depreciation Expense						(104,932)
Net increase (decrease) in revenue between the 2015 delinquent taxes and the 2014 delinquent taxes collected during 2015.						(13,980)
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).						<u>(50,540)</u>
Change in Net Position of Governmental Activities						<u>\$ 348,573</u>

**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, 2015**

**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	\$ 440,134	\$ 238,477	\$ 678,611
Accounts Receivable	14,911	16,105	31,016
Total Current Assets	<u>455,045</u>	<u>254,582</u>	<u>709,627</u>
Noncurrent Assets			
Restricted Cash	466,524	388,099	854,623
Capital Assets--Net of Accumulated Depreciation	3,794,811	5,422,969	9,217,780
Capital Assets--Nondepreciating	30,017	24,500	54,517
Total Noncurrent Assets	<u>4,291,352</u>	<u>5,835,568</u>	<u>10,126,920</u>
Total Assets	<u>4,746,397</u>	<u>6,090,150</u>	<u>10,836,547</u>
<u>LIABILITIES</u>			
Current Liabilities			
Accounts Payable	1,436	4,160	5,596
Total Current Liabilities	<u>1,436</u>	<u>4,160</u>	<u>5,596</u>
Noncurrent Liabilities			
Bonds Payable--Due Within One Year	135,000	95,000	230,000
Bonds Payable--Due in More Than One Year	1,692,000	4,342,000	6,034,000
Total Noncurrent Liabilities	<u>1,827,000</u>	<u>4,437,000</u>	<u>6,264,000</u>
Total Liabilities	<u>1,828,436</u>	<u>4,441,160</u>	<u>6,269,596</u>
<u>NET POSITION</u>			
Net Investment in Capital Assets	1,997,828	1,010,469	3,008,297
Restricted	466,524	388,099	854,623
Unrestricted	453,609	250,422	704,031
Total Net Position	<u>\$ 2,917,961</u>	<u>\$ 1,648,990</u>	<u>\$ 4,566,951</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, 2015**

**EXHIBIT F**

	<u>ENTERPRISE FUNDS</u>		Total Enterprise Funds
	<u>Major Funds</u>		
	<u>Sewer</u>	<u>Water</u>	
Operating Revenues			
Charges for Services	\$ 394,955	\$ 529,759	\$ 924,714
Total Operating Revenues	<u>394,955</u>	<u>529,759</u>	<u>924,714</u>
Operating Expenses			
Wages and Fringes	72,584	77,828	150,412
Operating Expenses	27,615	24,599	52,214
Repairs and Maintenance	7,300	1,875	9,175
Contracted Services	1,683	7,231	8,914
Utilities	9,123	18,152	27,275
Insurance	1,938	4,191	6,129
Depreciation	165,367	162,207	327,574
Total Operating Expenses	<u>285,610</u>	<u>296,083</u>	<u>581,693</u>
Operating Income (Loss)	<u>109,345</u>	<u>233,676</u>	<u>343,021</u>
Nonoperating Revenues (Expenses)			
Interest Earned on Investments	1,924	530	2,454
Interest Expense	(67,008)	(133,585)	(200,593)
Total Nonoperating Revenues (Expenses)	<u>(65,084)</u>	<u>(133,055)</u>	<u>(198,139)</u>
Change in Net Position	44,261	100,621	144,882
Total Net Position--October 1, 2014	<u>2,873,700</u>	<u>1,568,055</u>	<u>4,441,755</u>
Restatement to Net Position (Note L)	-	(19,686)	(19,686)
Restated Net Position--October 1, 2014	<u>2,873,700</u>	<u>1,548,369</u>	<u>4,422,069</u>
Total Net Position--September 30, 2015	<u>\$ 2,917,961</u>	<u>\$ 1,648,990</u>	<u>\$ 4,566,951</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, 2015**

**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	\$ 396,534	\$ 532,513	\$ 929,047
Cash Payments to Employees for Services and Benefits	(72,584)	(77,828)	(150,412)
Cash Payments to Suppliers for Goods and Services	(46,754)	(85,994)	(132,748)
	<u>277,196</u>	<u>368,691</u>	<u>645,887</u>
Cash Flows From Capital and Related Financing Activities			
Acquisition of Capital Assets	-	(378,715)	(378,715)
Reduction of Debt	(134,000)	(92,000)	(226,000)
Interest Paid on Bonds	(67,008)	(133,585)	(200,593)
	<u>(201,008)</u>	<u>(604,300)</u>	<u>(805,308)</u>
Cash Flows From Investing Activities			
Interest on Cash Equivalents	1,924	530	2,454
	<u>1,924</u>	<u>530</u>	<u>2,454</u>
Net Cash Provided by Investing Activities	<u>1,924</u>	<u>530</u>	<u>2,454</u>
Net Increase (Decrease) in Cash and Cash Equivalents	78,112	(235,079)	(156,967)
Cash and Cash Equivalents at Beginning of Year	<u>828,546</u>	<u>861,655</u>	<u>1,690,201</u>
Cash and Cash Equivalents at End of Year	<u>\$ 906,658</u>	<u>\$ 626,576</u>	<u>\$ 1,533,234</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ 109,345	\$ 233,676	\$ 343,021
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation Expense	165,367	162,207	327,574
(Increase) Decrease in Accounts Receivable	1,579	2,754	4,333
Increase (Decrease) in Accounts Payable	905	(29,946)	(29,041)
Net Cash Provided by Operating Activities	<u>\$ 277,196</u>	<u>\$ 368,691</u>	<u>\$ 645,887</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, 2015**

**EXHIBIT H**

	<u>Downtown Development Authority</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 8,187
Total Assets	<u>8,187</u>
<u>LIABILITIES</u>	
Total Liabilities	<u>-</u>
<u>NET POSITION</u>	
Restricted	<u>8,187</u>
Total Net Position	<u>\$ 8,187</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, 2015**

**EXHIBIT I**

	Downtown Development Authority
Program Expenses	
Public Works	<u>\$ 872</u>
Total Program Expenses	<u>872</u>
Program Revenue	
Charges for Services	-
Operating Grants and Contributions	<u>-</u>
Total Program Revenue	<u>-</u>
Net Program Revenue	<u>(872)</u>
General Revenue	
Interest	<u>1</u>
Total General Revenue	<u>1</u>
Change in Net Position	<u>(871)</u>
Net Position	
Beginning of Year	<u>9,058</u>
End of Year	<u><u>\$ 8,187</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, 2015

#### 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, 2015

#### 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 nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

##### Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, 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, 2015

#### 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, 2015

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the 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 nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses, not meeting this definition, are reported as nonoperating revenues and expenses.

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

#### 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, 2015

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, 2015

#### 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, 2015

#### 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 \$134,456 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, 2015

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>
Building Fund			
Public Safety	\$ 21,200	\$ 22,571	\$ (1,371)

The Village's final amended budget for the Local Street Fund included an accrued deficit which is prohibited by the Uniform Budget Act, MCL 141.435.

To assure that an accrued deficit this does not happen in the future, before budget amendments are approved for expenses, staff will ensure there is an appropriate amendment made for revenue to ensure there is no budget deficit created with the amendment.

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

VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2015

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	\$ 1,745,379	\$ 678,611	\$ 2,423,990	\$ 8,187
Restricted Cash	-	854,623	854,623	-
Total	<u>\$ 1,745,379</u>	<u>\$ 1,533,234</u>	<u>\$ 3,278,613</u>	<u>\$ 8,187</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 3,278,313	\$ 8,187
Petty Cash and Cash on Hand	<u>300</u>	<u>-</u>
Total	<u>\$ 3,278,613</u>	<u>\$ 8,187</u>

Non-negotiable certificates of deposits that are placed by the depositors directly with financial institutions and that are subject to a penalty if redeemed before maturity are treated as bank deposits. Because nonnegotiable certificates of deposits are deposits, no interest rate risk or credit risk disclosures are required, which are limited to investments.

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 \$3,361,408, of which \$348,250 is covered by Federal depository insurance. The remaining \$3,013,158 is uncollateralized. The bank balance of the component unit's deposits is \$8,187, of which \$8,187 is covered by FDIC insurance.

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, 2015, the reserve cash balances are \$466,524 and \$388,099 in the Sewer and Water Funds, respectively.

## VILLAGE OF THREE OAKS

### NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2015

#### NOTE D--PROPERTY TAXES

The Village's 2015 ad valorem tax was levied and collectible on July 1, 2015. 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 2015 State taxable valuation amounted to \$37,030,737, on which ad valorem taxes levied for all Village purposes were \$479,347. 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.

#### 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, 2015, consist of uncollected real property taxes and special assessments levied July 1, 2015, which had not been collected by November 30, 2015. The delinquent property taxes for the General and Municipal Street Funds are \$30,477 and \$12,022, respectively, and the delinquent special assessments for the Rubbish Fund are \$7,440. The amount not collected within 60 days is offset by unavailable revenue of \$23,034 for the General Fund, \$9,167 for the Municipal Street Fund, and \$5,400 in the Rubbish Fund in the governmental fund financial statements.

##### Accounts Receivable

The General Fund has an account receivable of \$4,665 for a franchise fee due from the local cable company at September 30, 2015.

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 \$14,911 and the receivable for the Water Fund is \$16,105. The receivables are not offset by unavailable revenue.

VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2015

NOTE F--INTERFUND TRANSFERS

The transfers for the primary government are as follows:

<u>Transfer Out</u>	<u>Transfer In</u>		<u>Total</u>
	<u>Primary Government</u>		
	<u>Major Street Fund</u>	<u>Local Street Fund</u>	
Municipal Street	\$ 239,202	\$ 101,867	\$ 341,069
Total Government	<u>\$ 239,202</u>	<u>\$ 101,867</u>	<u>\$ 341,069</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.

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 10/01/14</u>	<u>Additions</u>	<u>Deductions</u>	<u>Account Balances 09/30/15</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	47,086	72,955	-	120,041
Buildings and Building Improvements	397,261	-	-	397,261
Equipment	178,333	9,668	-	188,001
Vehicles	387,681	166,774	-	554,455
Infrastructure--Roads	<u>1,073,511</u>	<u>108,830</u>	<u>-</u>	<u>1,182,341</u>
Total	<u>2,083,872</u>	<u>358,227</u>	<u>-</u>	<u>2,442,099</u>
Less Accumulated Depreciation				
Land Improvements	18,514	1,233	-	19,747
Buildings and Building Improvements	279,646	16,951	-	296,597
Equipment	141,730	9,668	-	151,398
Vehicles	364,872	23,405	-	388,277
Infrastructure--Roads	<u>193,471</u>	<u>53,675</u>	<u>-</u>	<u>247,146</u>
Total	<u>998,233</u>	<u>104,932</u>	<u>-</u>	<u>1,103,165</u>
Net Capital Assets Being Depreciated	<u>1,085,639</u>	<u>253,295</u>	<u>-</u>	<u>1,338,934</u>
Governmental Activities Capital Total				
Capital Assets--Net of Depreciation	<u>\$ 1,361,553</u>	<u>\$ 253,295</u>	<u>\$ -</u>	<u>\$ 1,614,848</u>

The depreciation expense was \$104,932 during the year.

VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2015

NOTE G--CAPITAL ASSETS (Continued)

<u>Business-Type Activities</u>	Account Balances 10/01/14	Additions	Deductions	Account Balances 09/30/15
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	-	-	129,016
Sewer System	6,838,824	-	-	6,838,824
Water Buildings and Improvements	52,938	-	-	52,938
Water Vehicles	42,794	-	-	42,794
Water System	6,299,997	378,716	-	6,678,713
Total	<u>13,411,182</u>	<u>378,716</u>	<u>-</u>	<u>13,789,898</u>
Less Accumulated Depreciation				
Sewer Buildings and Improvements	44,148	188	-	44,336
Sewer Equipment	121,044	2,657	-	123,701
Sewer System	2,890,083	162,522	-	3,052,605
Water Buildings and Improvements	26,105	1,323	-	27,428
Water Vehicles	31,410	2,679	-	34,089
Water System	1,131,753	158,206	-	1,289,959
Total	<u>4,244,543</u>	<u>327,575</u>	<u>-</u>	<u>4,572,118</u>
Net Capital Assets Being Depreciated	<u>9,166,639</u>	<u>51,141</u>	<u>-</u>	<u>9,217,780</u>
Business-Type Activities Capital Total				
Capital Assets--Net of Depreciation	<u>\$ 9,221,156</u>	<u>\$ 51,141</u>	<u>\$ -</u>	<u>\$ 9,272,297</u>

The depreciation expense was \$327,575 during the year.

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

Governmental Activities	
General Government	\$ 5,909
Public Safety	15,170
Public Works	69,354
Recreation and Culture	14,499
Total Governmental Activities	<u>\$ 104,932</u>
Business-Type Activities	
Sewer	\$ 165,367
Water	162,208
Total Business-Type Activities	<u>\$ 327,575</u>

VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2015

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 10/01/14	Additions	(Reductions)	Balance 09/30/15	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.	\$ -	\$ 130,936	\$ (20,593)	\$ 110,343	\$ 16,783
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.	141,755	-	(59,803)	81,952	39,779
<b>Total Governmental Activities</b>	<b>\$ 141,755</b>	<b>\$ 130,936</b>	<b>\$ (80,396)</b>	<b>\$ 192,295</b>	<b>\$ 56,562</b>
<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.	\$ 990,000	\$ -	\$ (115,000)	\$ 875,000	\$ 115,000
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.	971,000	-	(19,000)	952,000	20,000
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.	3,989,000	-	(62,000)	3,927,000	65,000
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.	540,000	-	(30,000)	510,000	30,000
<b>Total Business-Type Activities</b>	<b>\$ 6,490,000</b>	<b>\$ -</b>	<b>\$ (226,000)</b>	<b>\$ 6,264,000</b>	<b>\$ 230,000</b>



VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2015

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, 2015, are as follows:

Fiscal Year	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 56,562	\$ 6,684	\$ 63,246	\$ 230,000	\$ 151,729	\$ 381,729
2017	59,568	5,273	64,841	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
2021-2025	20,077	733	20,810	938,000	570,516	1,508,516
2026-2030	-	-	-	787,000	476,019	1,263,019
2031-2035	-	-	-	792,000	376,653	1,168,653
2036-2040	-	-	-	855,000	291,090	1,146,090
2041-2045	-	-	-	745,000	195,660	940,660
2046-2050	-	-	-	785,000	85,875	870,875
2051	-	-	-	171,000	2,565	173,565
Total	<u>\$ 192,295</u>	<u>\$ 19,032</u>	<u>\$ 211,327</u>	<u>\$ 6,264,000</u>	<u>\$ 2,703,266</u>	<u>\$ 8,967,266</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
2016	\$ 16,783	\$ 4,027	\$ 20,810
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	20,077	733	20,810
	<u>\$ 110,343</u>	<u>\$ 14,517</u>	<u>\$ 124,860</u>

VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2015

NOTE H--LONG-TERM DEBT (Continued)

Land Contract

The Village entered into a land contract with Berrien County for the sale and repurchase of Watkins Park in order to provide cash flow for the Village during its financial difficulties. The park was purchased for \$260,000 at an interest rate of 2% with semi-annual payments of \$21,218.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2016	\$ 39,779	\$ 2,657	\$ 42,436
2017	42,173	1,858	44,031
	<u>\$ 81,952</u>	<u>\$ 4,515</u>	<u>\$ 86,467</u>

2001 Sewer Clean Water Loan

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

<u>Fiscal Year</u>	<u>April 1 Principal</u>	<u>April 1 Interest</u>	<u>October 1 Interest</u>	<u>Total Debt Service</u>
2016	\$ 115,000	\$ 10,875	\$ 9,437	\$ 135,312
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
2021-2022	265,000	4,875	1,625	271,500
	<u>\$ 875,000</u>	<u>\$ 44,436</u>	<u>\$ 33,561</u>	<u>\$ 952,997</u>

VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2015

NOTE H--LONG-TERM DEBT (Continued)

2001 Sewer Revenue Bonds

The 2001 Sanitary Sewer System Revenue Bonds were issued in accordance with the provisions of Public Act 185 of 1957, as amended, to finance a sewer system improvement project for the Village. The total bond issue was approved by the U.S. Department of Agriculture (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>
2016	\$ 20,000
2017	21,000
2018	22,000
2019	23,000
2020	24,000
2021-2025	136,000
2026-2030	169,000
2031-2035	211,000
2036-2040	263,000
2041	<u>63,000</u>
	<u>\$ 952,000</u>

VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2015

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.

<u>Fiscal Year</u>	<u>December 1 Principal</u>	<u>December 1 Interest</u>	<u>June 1 Interest</u>	<u>Total</u>
2016	\$ 65,000	\$ 58,905	\$ 57,930	\$ 181,835
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
2021-2025	392,000	257,535	251,655	901,190
2026-2030	448,000	226,455	219,735	894,190
2031-2035	516,000	190,890	183,150	890,040
2036-2040	592,000	149,985	141,105	883,090
2041-2045	682,000	102,945	92,715	877,660
2046-2050	785,000	48,825	37,050	870,875
2051	171,000	2,565	-	173,565
	<u>\$ 3,927,000</u>	<u>\$ 1,263,765</u>	<u>\$ 1,204,860</u>	<u>\$ 6,395,625</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.

<u>Fiscal Year</u>	<u>January 1 Principal</u>	<u>January 1 Interest</u>	<u>July 1 Interest</u>	<u>Total</u>
2016	\$ 30,000	\$ 7,366	\$ 7,216	\$ 44,582
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
2021-2025	145,000	28,406	26,420	199,826
2026-2030	170,000	16,454	13,375	199,829
2031-2032	65,000	1,975	638	67,613
	<u>\$ 510,000</u>	<u>\$ 82,004</u>	<u>\$ 74,640</u>	<u>\$ 666,644</u>

## VILLAGE OF THREE OAKS

### NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2015

#### NOTE I--DEFINED CONTRIBUTION PENSION PLAN

In a defined contribution plan, benefits depend solely on amounts contributed to the plan. Employees are eligible to participate from the date of employment. As established by Village Council, the Village contributes 3% of eligible wages for the eligible employees. During the fiscal year, six employees contributed \$17,948 and the Village contributed \$6,298. The Village provided pension benefits to all of its full-time employees through a defined contribution plan through June 30, 2015.

As of July 1, 2015, the Village approved to change to providing employees receiving at least \$5,000 in compensation to a SIMPLE IRA plan. 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 \$7,425 and the Village contributed \$2,703.

#### 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--UPCOMING REPORTING CHANGE

In February 2015, the GASB issued GASB statement No. 72, *Fair Value Measurement and Application*. The requirement of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The Village is currently evaluating the impact this standard will have on the financial statements when adopted during the Village's 2015-2016 fiscal year.

VILLAGE OF THREE OAKS

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2015

NOTE K--UPCOMING REPORTING CHANGE (Continued)

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements: (1) Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients; (2) The gross dollar amount of taxes abated during the period; (3) Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. GASB Statement No. 77 is effective for fiscal years beginning after December 15, 2015. The Village is currently evaluating the effect of the new pronouncement.

NOTE L--RESATEMENT TO NET POSITION

The net position of the Water Fund and Business-type activities have been restated to remove the deferred outflow relating to bond issuance costs in accordance with Governmental Accounts Standards Board Statement #65, *Items Previously Reported as Assets and Liabilities*. The statement of net position is restated to remove the deferred outflow as of October 1, 2014:

	<u>Business-Type Activities</u>	<u>Water Fund</u>
Beginning Net Position--October 1, 2014	\$ 4,441,755	\$ 1,568,055
Less Refunded Bond Issuance Costs	<u>(19,686)</u>	<u>(19,686)</u>
Restated Beginning Net Position--October 1, 2014	<u>\$ 4,422,069</u>	<u>\$ 1,548,369</u>

**VILLAGE OF THREE OAKS--BERRIEN COUNTY  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
For the Fiscal Year Ended September 30, 2015**

**EXHIBIT J**

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original Budget	Final Amended Budget	Actual	
Revenues				
Property Taxes	\$ 329,850	\$ 329,850	\$ 344,301	\$ 14,451
Licenses and Permits	8,000	8,000	9,323	1,323
State Grants	152,400	152,400	160,565	8,165
Charges for Services	82,940	82,940	88,896	5,956
Fines and Forfeitures	6,000	6,000	5,874	(126)
Interest and Rentals	62,000	62,000	63,213	1,213
Other Revenue	85,600	243,600	248,645	5,045
Total Revenue	726,790	884,790	920,817	36,027
Expenditures				
General Government	134,025	222,025	162,701	59,324
Public Safety	246,195	284,100	236,555	47,545
Public Works	202,800	244,800	160,203	84,597
Community and Economic Development	10,350	19,350	14,705	4,645
Recreation and Culture	36,550	58,400	32,462	25,938
Capital Outlay	19,805	255,305	249,397	5,908
Debt Service	44,000	91,000	83,029	7,971
Total Expenditures	693,725	1,174,980	939,052	235,928
Excess of Revenues Over (Under) Expenditures	33,065	(290,190)	(18,235)	271,955
Other Financing Sources (Uses)				
Installment Purchase Proceeds	5,305	5,305	130,936	125,631
Total Other Financing Sources (Uses)	5,305	5,305	130,936	125,631
Net Change in Fund Balance	38,370	(284,885)	112,701	397,586
Fund Balance--October 1, 2014	1,015,187	1,015,187	1,015,187	-
Fund Balance--September 30, 2015	\$ 1,053,557	\$ 730,302	\$ 1,127,888	\$ 397,586

**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, 2015**

**EXHIBIT K**

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State Grants				
Michigan Transportation Funds	\$ 70,000	\$ 70,000	\$ 78,084	\$ 8,084
Other State Grants	-	-	6,139	6,139
Interest and Rentals	100	100	64	(36)
<b>Total Revenues</b>	<b>70,100</b>	<b>70,100</b>	<b>84,287</b>	<b>14,187</b>
Expenditures				
Public Works				
Sidewalks	3,200	3,200	-	3,200
Routine Maintenance	24,800	30,100	12,042	18,058
Traffic	6,680	8,760	3,778	4,982
Winter Routine Maintenance	36,100	40,600	26,452	14,148
Administrative	1,000	9,200	5,132	4,068
Capital Outlay				
Preservation	1,000	301,000	68,444	232,556
<b>Total Expenditures</b>	<b>72,780</b>	<b>392,860</b>	<b>115,848</b>	<b>277,012</b>
Excess of Revenues Over (Under) Expenditures	(2,680)	(322,760)	(31,561)	291,199
Other Financing Sources (Uses)				
Interfund Transfers In	67,000	250,000	239,202	(10,798)
<b>Total Other Financing Sources (Uses)</b>	<b>67,000</b>	<b>250,000</b>	<b>239,202</b>	<b>(10,798)</b>
<b>Net Change in Fund Balance</b>	<b>64,320</b>	<b>(72,760)</b>	<b>207,641</b>	<b>280,401</b>
Fund Balance--October 1, 2014	92,212	92,212	92,212	-
<b>Fund Balance--September 30, 2015</b>	<b>\$ 156,532</b>	<b>\$ 19,452</b>	<b>\$ 299,853</b>	<b>\$ 280,401</b>



**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, 2015**

**EXHIBIT L**

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State Grants				
Michigan Transportation Funds	\$ 30,000	\$ 30,000	\$ 36,601	\$ 6,601
Other State Grants	-	-	3,763	3,763
Interest and Rentals	-	-	8	8
Other Revenue	-	-	200	200
Total Revenues	<u>30,000</u>	<u>30,000</u>	<u>40,572</u>	<u>10,572</u>
Expenditures				
Public Works				
Routine Maintenance	19,250	41,000	29,585	11,415
Traffic	845	845	-	845
Winter Routine Maintenance	25,400	25,600	13,999	11,601
Administration	1,000	8,700	5,311	3,389
Capital Outlay				
Preservation	-	145,000	40,386	104,614
Total Expenditures	<u>46,495</u>	<u>221,145</u>	<u>89,281</u>	<u>131,864</u>
Excess of Revenues Over (Under) Expenditures	(16,495)	(191,145)	(48,709)	142,436
Other Financing Sources (Uses)				
Interfund Transfers In	<u>65,000</u>	<u>130,000</u>	<u>101,867</u>	<u>(28,133)</u>
Total Other Financing Sources (Uses)	<u>65,000</u>	<u>130,000</u>	<u>101,867</u>	<u>(28,133)</u>
Net Change in Fund Balance	<u>48,505</u>	<u>(61,145)</u>	<u>53,158</u>	<u>114,303</u>
Fund Balance--October 1, 2014	<u>18,371</u>	<u>18,371</u>	<u>18,371</u>	<u>-</u>
Fund Balance--September 30, 2015	<u>\$ 66,876</u>	<u>\$ (42,774)</u>	<u>\$ 71,529</u>	<u>\$ 114,303</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, 2015**

**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	\$ 135,046	\$ 7,046
Interest and Rentals	-	-	167	167
Total Revenues	<u>128,000</u>	<u>128,000</u>	<u>135,213</u>	<u>7,213</u>
Expenditures				
Public Works	26,114	29,300	24,051	5,249
Total Expenditures	<u>26,114</u>	<u>29,300</u>	<u>24,051</u>	<u>5,249</u>
Excess of Revenues Over (Under) Expenditures	<u>101,886</u>	<u>98,700</u>	<u>111,162</u>	<u>12,462</u>
Other Financing Sources (Uses)				
Interfund Transfers (Out)	<u>(132,000)</u>	<u>(380,000)</u>	<u>(341,069)</u>	<u>38,931</u>
Total Other Financing Sources (Uses)	<u>(132,000)</u>	<u>(380,000)</u>	<u>(341,069)</u>	<u>38,931</u>
Net Change in Fund Balance	<u>(30,114)</u>	<u>(281,300)</u>	<u>(229,907)</u>	<u>51,393</u>
Fund Balance--October 1, 2014	<u>374,679</u>	<u>374,679</u>	<u>362,679</u>	<u>(12,000)</u>
Fund Balance--September 30, 2015	<u>\$ 344,565</u>	<u>\$ 93,379</u>	<u>\$ 132,772</u>	<u>\$ 39,393</u>

VILLAGE OF THREE OAKS--BERRIEN COUNTY  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 September 30, 2015

EXHIBIT N

	SPECIAL REVENUE			
	Rubbish	Building Department	Drug Forfeiture	Total
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 111,505	\$ 37,976	\$ 189	\$ 149,670
Delinquent Special Assessments Receivable	7,440	-	-	7,440
Total Assets	<u>\$ 118,945</u>	<u>\$ 37,976</u>	<u>\$ 189</u>	<u>\$ 157,110</u>
<u>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</u>				
Accounts Payable	\$ 6,330	\$ 6,027	\$ -	\$ 12,357
Total Liabilities	<u>6,330</u>	<u>6,027</u>	<u>-</u>	<u>12,357</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Unavailable Revenue	5,400	-	-	5,400
Fund Balances				
Restricted	107,215	31,949	189	139,353
Total Fund Balances	<u>107,215</u>	<u>31,949</u>	<u>189</u>	<u>139,353</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 118,945</u>	<u>\$ 37,976</u>	<u>\$ 189</u>	<u>\$ 157,110</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, 2015**

**EXHIBIT O**

	SPECIAL REVENUE			
	Rubbish	Building Department	Drug Forfeiture	Total
Revenues				
Licenses and Permits	\$ -	\$ 32,485	\$ -	\$ 32,485
Interest and Rentals	44	17	-	61
Special Assessments	81,950	-	-	81,950
Total Revenues	<u>81,994</u>	<u>32,502</u>	<u>-</u>	<u>114,496</u>
Expenditures				
Public Safety	-	22,572	-	22,572
Public Works	75,719	-	-	75,719
Total Expenditures	<u>75,719</u>	<u>22,572</u>	<u>-</u>	<u>98,291</u>
Excess of Revenue Over (Under) Expenditures	6,275	9,930	-	16,205
Fund Balance--October 1, 2014	<u>100,940</u>	<u>22,019</u>	<u>189</u>	<u>123,148</u>
Fund Balance--September 30, 2015	<u>\$ 107,215</u>	<u>\$ 31,949</u>	<u>\$ 189</u>	<u>\$ 139,353</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, 2015**

**EXHIBIT P**

<u>REVENUES</u>	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Property Taxes				
Current Taxes	\$ 305,000	\$ 305,000	\$ 307,225	\$ 2,225
Delinquent Taxes	20,000	20,000	31,079	11,079
Interest and Penalties	-	-	1,370	1,370
Administrative Fees	4,850	4,850	4,627	(223)
Total Property Taxes	<u>329,850</u>	<u>329,850</u>	<u>344,301</u>	<u>14,451</u>
Licenses and Permits				
Planning Reviews	3,000	3,000	-	(3,000)
Franchise Fees	5,000	5,000	9,323	4,323
Total Licenses and Permits	<u>8,000</u>	<u>8,000</u>	<u>9,323</u>	<u>1,323</u>
State Grants				
Liquor License	2,200	2,200	2,273	73
Police Training Grant	200	200	-	(200)
Revenue Sharing	150,000	150,000	158,292	8,292
Total State Grants	<u>152,400</u>	<u>152,400</u>	<u>160,565</u>	<u>8,165</u>
Charges for Services				
Police	80,000	80,000	86,071	6,071
Park	500	500	350	(150)
Grass Cutting/Snow Plowing	2,400	2,400	2,475	75
Other Charges for Services	40	40	-	(40)
Total Charges for Services	<u>82,940</u>	<u>82,940</u>	<u>88,896</u>	<u>5,956</u>
Fines and Forfeitures				
Traffic and Ordinance Fines	6,000	6,000	5,874	(126)
Total Fines and Forfeitures	<u>6,000</u>	<u>6,000</u>	<u>5,874</u>	<u>(126)</u>
Interest and Rentals				
Vehicle Rental	40,000	40,000	36,020	(3,980)
Village Rental	18,000	18,000	22,336	4,336
Interest	4,000	4,000	4,857	857
Total Interest and Rentals	<u>62,000</u>	<u>62,000</u>	<u>63,213</u>	<u>1,213</u>
Other Revenue				
Local Revenue Sharing--Casino Funds	85,000	85,000	84,264	(736)
Other Donations	600	158,000	163,525	5,525
Reimbursements	-	600	856	256
Total Other Revenue	<u>85,600</u>	<u>243,600</u>	<u>248,645</u>	<u>5,045</u>
Total Revenue	<u>726,790</u>	<u>884,790</u>	<u>920,817</u>	<u>36,027</u>
Other Financing Sources				
Installment Purchase Proceeds	5,305	5,305	130,936	125,631
Total Other Financing Sources	<u>5,305</u>	<u>5,305</u>	<u>130,936</u>	<u>125,631</u>
Total Revenue and Other Financing Sources	<u>\$ 732,095</u>	<u>\$ 890,095</u>	<u>\$ 1,051,753</u>	<u>\$ 161,658</u>

**VILLAGE OF THREE OAKS--BERRIEN COUNTY  
SCHEDULE OF EXPENDITURES BY ACTIVITY  
BUDGET AND ACTUAL--GENERAL FUND  
For the Fiscal Year Ended September 30, 2015**

**EXHIBIT Q**

<u>EXPENDITURES</u>	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
General Government				
Village Council	\$ 9,550	\$ 10,235	\$ 9,286	\$ 949
President	2,465	2,965	2,714	251
Village Manager	36,350	38,800	26,954	11,846
Clerk	23,950	26,800	22,238	4,562
Accounting Fees	8,500	8,500	4,208	4,292
Treasurer	10,160	15,975	11,122	4,853
Elections	2,200	2,200	450	1,750
Building and Grounds	5,000	5,000	3,284	1,716
Attorney Fees	2,000	4,000	2,156	1,844
Other General Government	33,850	107,550	80,289	27,261
Total General Government	<u>134,025</u>	<u>222,025</u>	<u>162,701</u>	<u>59,324</u>
Public Safety				
Police	195,195	233,100	190,255	42,845
Fire	51,000	51,000	46,300	4,700
Total Public Safety	<u>246,195</u>	<u>284,100</u>	<u>236,555</u>	<u>47,545</u>
Public Works				
Department of Public Works	158,800	195,800	117,169	78,631
Drain at Large	22,000	22,000	21,280	720
Street Lights	22,000	27,000	21,754	5,246
Total Public Works	<u>202,800</u>	<u>244,800</u>	<u>160,203</u>	<u>84,597</u>
Community and Economic Development				
Planning	10,350	19,350	14,705	4,645
Total Community and Economic Development	<u>10,350</u>	<u>19,350</u>	<u>14,705</u>	<u>4,645</u>
Recreation and Culture				
Parks and Recreation	36,550	58,400	32,462	25,938
Total Recreation and Culture	<u>36,550</u>	<u>58,400</u>	<u>32,462</u>	<u>25,938</u>
Capital Outlay	19,805	255,305	249,397	5,908
Total Capital Outlay	<u>19,805</u>	<u>255,305</u>	<u>249,397</u>	<u>5,908</u>
Debt Service				
Principal	40,000	87,000	80,396	6,604
Interest	4,000	4,000	2,633	1,367
Total Debt Service	<u>44,000</u>	<u>91,000</u>	<u>83,029</u>	<u>7,971</u>
Total Expenditures	<u>\$ 693,725</u>	<u>\$ 1,174,980</u>	<u>\$ 939,052</u>	<u>\$ 235,928</u>



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

NICK A. KHOURI  
STATE TREASURER

March 1, 2016

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, 2015, 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 1, 2016.

**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 and 2013-001 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as Findings 2014-001 and 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 Government Financial Services Division





STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

NICK A. KHOURI  
STATE TREASURER

March 1, 2016

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, 2015, and have issued our report thereon dated March 1, 2016. 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 November 3, 2015, 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 February 9, 2016, 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. 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 1, 2016.

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 Government Financial Services Division

VILLAGE OF THREE OAKS

SCHEDULE OF FINDINGS AND RESPONSES  
For the Fiscal Year Ended September 30, 2015

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, 2015

*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.

NONCOMPLIANCE WITH STATE STATUTES

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

Accrued Budget Deficit in Local Street Fund

*Finding 2014-001*

*Condition:* The Village's final amended budget for the Local Street Fund included an accrued deficit, or negative fund balance.

*Criteria:* MCL 141.435 states "The total estimated expenditures, including an accrued deficit, in the budget shall not exceed the total estimated revenues, including an available unappropriated surplus and the proceeds from bonds or other obligations issued under the fiscal stabilization act or the balance of the principal of these bonds or other obligations."

VILLAGE OF THREE OAKS

SCHEDULE OF FINDINGS AND RESPONSES  
For the Fiscal Year Ended September 30, 2015

*Cause:* The budget amendments to account for the increase expenses incurred from winter maintenance and road projects were not offset by enough revenue adjustments to prevent the accrued deficit.

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

*Directive:* We direct that the Village develop budgetary control procedures to ensure that deficits are not budgeted in the future.

*Management's Response:* Before budget amendments are approved for expenses, staff will ensure there is an appropriate amendment made for revenue to ensure there is no budget deficit created with the amendment.

Expenditures in Excess of Appropriations

*Finding 2015-001*

*Condition:* During the year ended September 30, 2015, expenditures were incurred in excess of amounts appropriated in the amended budgets for the Building Fund as follows:

<u>Fund, Function and Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess Expenditures</u>
Building Fund			
Public Safety	\$ 21,200	\$ 22,571	\$ (1,371)

*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 received a \$4,500 invoice subsequent to year end creating the overage in the Building Fund. The Village will continue to monitor year end activity in the future to try and prevent similar overages in the future.