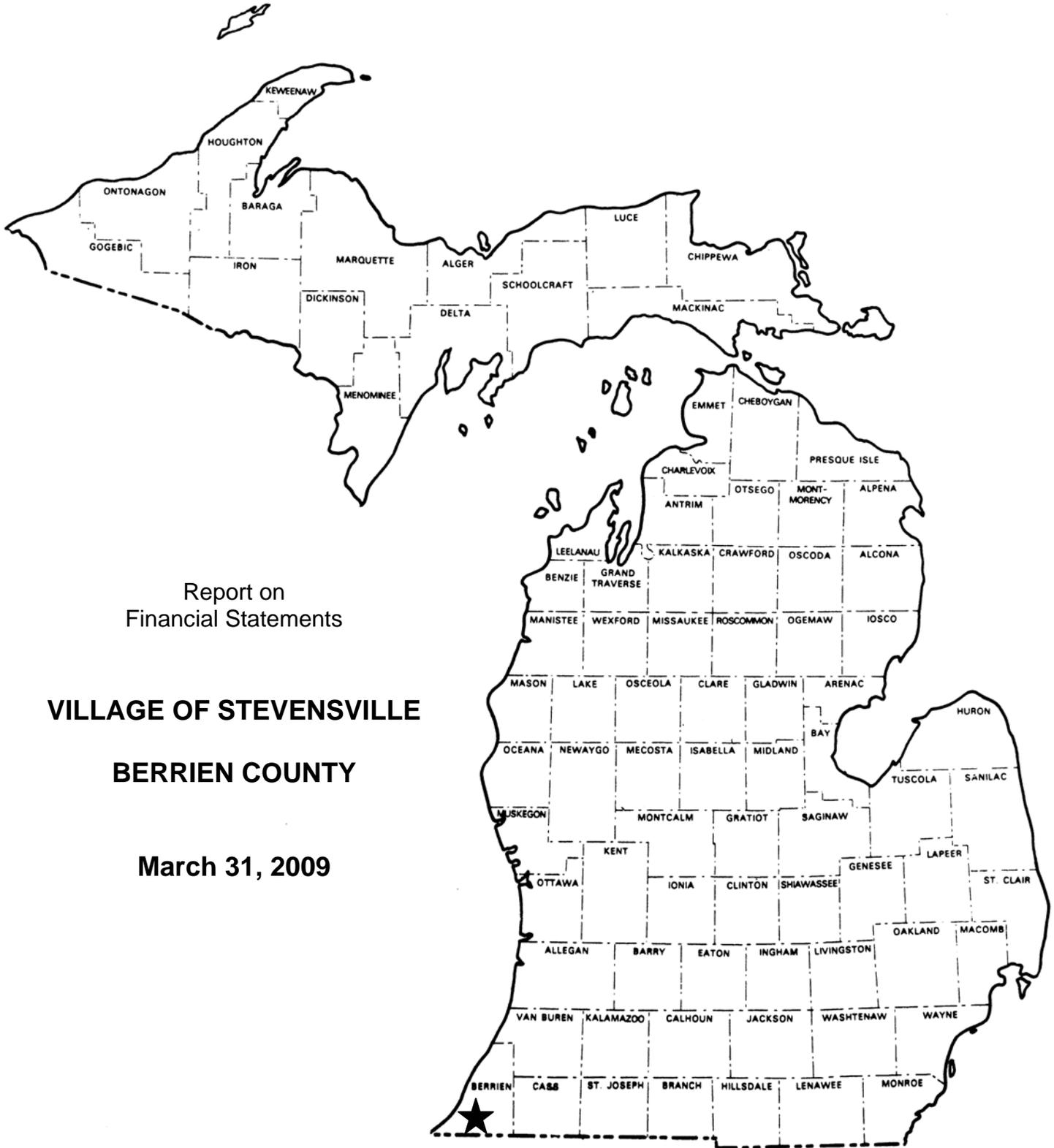


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY
Robert J. Kleine, Treasurer



Report on
Financial Statements

VILLAGE OF STEVENSVILLE

BERRIEN COUNTY

March 31, 2009

VILLAGE OF STEVENSVILLE

VILLAGE COUNCIL

Lori Gibson
President

Pat Arter
Council Member

Don Schlipp
Council Member

Kim Peters
Council Member

Ken Hansen
Council Member

Don Meyer
Council Member

Steve Slavicek
Council Member

VILLAGE POPULATION--2000
1,191

TAXABLE VALUATION--2008
\$38,731,417



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

January 21, 2010

Village Council
Village of Stevensville
5768 St. Joseph Avenue
Stevensville, Michigan 49127

Independent Auditor's Report

Dear Council Members:

We have audited the accompanying financial statements of the governmental activities, the component unit, each major fund, and the aggregate remaining fund information of the Village of Stevensville, Berrien County, Michigan, as of and for the year ended March 31, 2009, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the component unit, each major fund, and the aggregate remaining fund information of the Village as of March 31, 2009 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 21, 2010 on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of

internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 4 and the budgetary comparison information (Exhibit H) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The accompanying supplementary and related information in Exhibits I and J is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

VILLAGE OF STEVENSVILLE

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VILLAGE OF STEVENSVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended March 31, 2009

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village, as a whole, and present a longer-term view of the Village's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

The Village as a Whole

The Village's net assets for the governmental activities decreased approximately 19%, or \$240,557, from \$1,270,135 to \$1,029,578 for the year ended March 31, 2009. The investment in capital assets-net of related debt increased \$16,778 with the purchase of the new bobcat and versa handler through a capital lease. The restricted assets decreased \$39,269 due to the crack filling projects done on the streets and the misappropriation of funds in the Building Department Fund. The unrestricted net assets decreased by \$218,066 due to the misappropriation of funds and increased legal expenses relating to the lawsuit against the Southwest Michigan Regional Sanitary Sewage and Water Authority.

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specified purpose stipulated in the legislation. All assets as such (except for assets invested in capital assets-net of related debt) are considered restricted.

Net assets as of year ended March 31, 2009, are as follows:

	Governmental Activities <u>2008</u>	Governmental Activities <u>2009</u>	Difference	Percent
Current Assets	\$ 632,709	\$ 404,331	\$ (228,378)	-36%
Noncurrent Assets	716,800	815,797	98,997	14%
Total Assets	<u>1,349,509</u>	<u>1,220,128</u>	<u>(129,381)</u>	<u>-10%</u>
Current Liabilities	79,374	108,331	28,957	36%
Noncurrent Liabilities	<u> </u>	<u>82,219</u>	<u>82,219</u>	<u>100%</u>
Total Liabilities	<u>79,374</u>	<u>190,550</u>	<u>111,176</u>	<u>140%</u>
Net Assets				
Invested in Capital Assets Net of Related Debt	676,643	693,421	16,778	2%
Restricted	124,520	85,251	(39,269)	-32%
Unrestricted	<u>468,972</u>	<u>250,906</u>	<u>(218,066)</u>	<u>-46%</u>
Total Net Assets	<u>\$ 1,270,135</u>	<u>\$ 1,029,578</u>	<u>\$ (240,557)</u>	<u>-19%</u>

VILLAGE OF STEVENSVILLE

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended March 31, 2009**

The following table shows the changes of the net assets as of the current year to the prior year:

	<u>Governmental Activities 2008</u>	<u>Governmental Activities 2009</u>	<u>Difference</u>	<u>Percent</u>
Program Revenues				
Charges for Services	\$ 11,913	\$ 7,982	\$ (3,931)	-33%
Operating Grants and Contributions	111,514	105,099	(6,415)	-6%
General Revenues				
Property Taxes	313,182	337,229	24,047	8%
State-Shared Revenues	97,052	93,846	(3,206)	-3%
Unrestricted Investment Earnings	23,099	3,574	(19,525)	-85%
Franchise Fees	8,153	7,858	(295)	-4%
Other	5,110	8,043	2,933	57%
Special Item--Gain on Sale of Capital Asset Extraordinary Item	23,664		(23,664)	-100%
Loss Due to Misappropriation of Assets	<u>(131,955)</u>	<u>(56,258)</u>	<u>75,697</u>	<u>-57%</u>
Total Revenues	<u>461,732</u>	<u>507,373</u>	<u>45,641</u>	<u>10%</u>
Program Expenses				
General Government	271,270	294,063	22,793	8%
Public Safety	17,332	21,230	3,898	22%
Public Works	221,236	319,458	98,222	44%
Community and Economic Development	1,597	4,139	2,542	159%
Recreation and Culture	12,593	13,960	1,367	11%
Other	<u>63,962</u>	<u>95,080</u>	<u>31,118</u>	<u>49%</u>
Total Expenses	<u>587,990</u>	<u>747,930</u>	<u>159,940</u>	<u>27%</u>
Change in Net Assets	<u><u>\$(126,258)</u></u>	<u><u>\$(240,557)</u></u>	<u><u>\$(114,299)</u></u>	<u><u>91%</u></u>

VILLAGE OF STEVENSVILLE

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended March 31, 2009**

Governmental Activities

The Village's total governmental revenues not related to the amount lost due to the misappropriation of assets decreased by \$30,056 as the State of Michigan has cut the grants to the Village, interest revenue decreased as the cash balances were reduced by the misappropriation, and there was a sale of a piece of land in 2008. The expenses increased by \$224,725, due to the increase in attorney fees and the crack filling projects and the purchase and first debt payments on the new bobcat and versa handler.

	Governmental Activities <u>2008</u>	Governmental Activities <u>2009</u>	Amount Difference	Percent Difference
Revenues				
Taxes	\$ 313,182	\$ 337,229	\$ 24,047	8%
Licenses and Permits	19,334	15,835	(3,499)	-18%
State Grants	205,851	198,353	(7,498)	-4%
Charges for Services	732		(732)	-100%
Fines and Forfeits		5	5	100%
Interest and Rentals	25,814	4,166	(21,648)	-84%
Other	28,774	8,043	(20,731)	-72%
Loss Due to Misappropriation of Assets	<u>(131,955)</u>	<u>(56,258)</u>	<u>75,697</u>	<u>-57%</u>
Total Revenues	<u>461,732</u>	<u>507,373</u>	<u>45,641</u>	<u>10%</u>
Expenditures				
General Government	259,153	280,225	21,072	8%
Public Safety	17,332	21,230	3,898	22%
Public Works	193,865	276,068	82,203	42%
Community and Economic Development	1,597	4,139	2,542	159%
Recreation and Culture	3,920	5,050	1,130	29%
Other	63,962	95,080	31,118	49%
Capital Outlay	105,220	165,135	59,915	57%
Debt Service		<u>22,847</u>	<u>22,847</u>	<u>100%</u>
Total Expenditures	<u>645,049</u>	<u>869,774</u>	<u>224,725</u>	<u>35%</u>
Excess of Revenues Over (Under) Expenditures	<u>(183,317)</u>	<u>(362,401)</u>	<u>(179,084)</u>	<u>98%</u>
Other Financing Sources				
Capital Lease		<u>105,066</u>	<u>105,066</u>	<u>100%</u>
Beginning Fund Balance	<u>776,809</u>	<u>593,492</u>	<u>(183,317)</u>	<u>-24%</u>
Ending Fund Balance	<u>\$ 593,492</u>	<u>\$ 336,157</u>	<u>\$ (257,335)</u>	<u>-43%</u>

VILLAGE OF STEVENSVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended March 31, 2009

The Village's Funds

Our analysis of the Village's major funds is listed in the audit report, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major funds for 2009 include the General Fund, Major Street Fund, Local Street Fund, and Building Department Fund.

The General Fund pays for most of the Village's governmental services. The most significant are for general government, \$280,225 and public works, \$276,068. These services are supported by the operating millage and State shared revenues. The Major Street Fund and the Local Street Fund account for the Michigan Transportation Funds received from the State and the maintenance performed on the Village's street system. The Building Department Fund accounts for the building permit fees collected.

General Fund Budgetary Highlights

Over the course of the year, the Village's budget was not monitored and no amendments were made.

Capital Asset and Debt Administration

At March 31, 2009, the Village's governmental funds had \$775,640 (net of accumulated depreciation) invested in a broad range of capital assets, including land, buildings, equipment, vehicles, and street infrastructure. The Village obtained capital leases of \$105,066 for the purchase of the bobcat and versa handler and has made the first payment of \$22,847 reducing the amount owed to \$82,219.

Economic Factors and Next Year's Budget and Rates

The Village's budget for 2010 was prepared to be similar to the 2009 fiscal year, but will be amended dramatically once the financial position of the Village can be determined.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village's office at: 5768 St. Joseph Avenue, Stevensville, MI 49127 (Phone 269-429-1802).

VILLAGE OF STEVENSVILLE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2009

EXHIBIT A

<u>ASSETS</u>	<u>PRIMARY GOVERNMENT</u>		
	Governmental Activities	Total	Component Unit
Current Assets			
Cash and Cash Equivalents	\$ 124,078	\$ 124,078	\$ 22,462
Investments	45,838	45,838	51
Receivables (Net)			
Taxes--Delinquent	20,650	20,650	
Accounts	2,587	2,587	
Due From Township			24,993
Due From State	195,694	195,694	
Due From Other Funds--Primary Government			5,495
Due From Other Funds--Component Units	15,484	15,484	
Total Current Assets	404,331	404,331	53,001
Noncurrent Assets			
Long-Term Advance to Other Funds--Component Units	40,157	40,157	
Capital Assets--Net of Accumulated Depreciation	775,640	775,640	701,649
Total Noncurrent Assets	815,797	815,797	701,649
Total Assets	1,220,128	1,220,128	754,650
<u>LIABILITIES</u>			
Current Liabilities			
Accounts Payable	30,787	30,787	
Due to Other Funds--Primary Government			15,484
Due to Other Funds--Component Unit	5,495	5,495	
Due to Township	1,994	1,994	
Accrued Liabilities	70,055	70,055	
Total Current Liabilities	108,331	108,331	15,484
Long-Term Liabilities			
Long-Term Advance--Primary Government			40,157
Capital Lease Payable--Due in One Year	19,257	19,257	
Capital Lease Payable--Due More Than One Year	62,962	62,962	
Promissory Notes Payable--Due in One Year			691,435
Total Long-Term Liabilities	82,219	82,219	731,592
Total Liabilities	190,550	190,550	747,076
<u>NET ASSETS</u>			
Investment in Capital Assets--Net of Related Debt	693,421	693,421	10,214
Restricted for			
Major Street	92,082	92,082	
Local Street	90,711	90,711	
Building Department	(97,597)	(97,597)	
Liquor Law Enforcement	55	55	
Downtown Development Activities			(2,640)
Unrestricted	250,906	250,906	
Total Net Assets	\$ 1,029,578	\$ 1,029,578	\$ 7,574

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

**VILLAGE OF STEVENSVILLE
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2009**

EXHIBIT C

	MAJOR FUNDS					Total Governmental Funds
	General	Major Street	Local Street	Building Department	Nonmajor Governmental	
<u>ASSETS</u>						
Cash and Cash Equivalents	\$ 119,049	\$ 41	\$ 4,711	\$ 277		\$ 124,078
Investments	10,008	35,830				45,838
Receivables						
Taxes--Delinquent	20,650					20,650
Accounts	2,587					2,587
Due From State	17,715	139,886	38,093			195,694
Due From Other Funds--Primary Government	132,662	4,742	54,161		\$ 2,049	193,614
Due From Other Funds--Component Units	15,484					15,484
Advances to Other Funds-Component Units	40,157					40,157
Total Assets	<u>\$ 358,312</u>	<u>\$ 180,499</u>	<u>\$ 96,965</u>	<u>\$ 277</u>	<u>\$ 2,049</u>	<u>\$ 638,102</u>
<u>LIABILITIES AND FUND EQUITY</u>						
Liabilities						
Accounts Payable	\$ 30,787					\$ 30,787
Due to Other Funds--Primary Government	44,825	\$ 88,417	\$ 6,254	\$ 92,379		231,875
Due to Other Funds--Component Unit				5,495		5,495
Due to Township					\$ 1,994	1,994
Accrued Liabilities	31,794					31,794
Total Liabilities	<u>107,406</u>	<u>88,417</u>	<u>6,254</u>	<u>97,874</u>	<u>1,994</u>	<u>301,945</u>
Fund Equity						
Fund Balances						
Reserved for						
Major Street		92,082				92,082
Local Street			90,711			90,711
Building Department				(97,597)		(97,597)
Liquor Law					55	55
Long-Term Advances	40,157					40,157
Unreserved--Undesignated	210,749					210,749
Total Fund Equity	<u>250,906</u>	<u>92,082</u>	<u>90,711</u>	<u>(97,597)</u>	<u>55</u>	<u>336,157</u>
Total Liabilities and Fund Equity	<u>\$ 358,312</u>	<u>\$ 180,499</u>	<u>\$ 96,965</u>	<u>\$ 277</u>	<u>\$ 2,049</u>	<u>\$ 638,102</u>
Fund Balances--Total Governmental Funds						\$ 336,157
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds						775,640
Long-term liabilities are not due and payable in the current period and are not reported in the funds.						<u>(82,219)</u>
Net Assets of Governmental Activities						<u>\$ 1,029,578</u>

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

**VILLAGE OF STEVENSVILLE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended March 31, 2009**

EXHIBIT D

	MAJOR FUNDS					Total Governmental Funds
	General	Major Street	Local Street	Building Department	Nonmajor Governmental	
Revenues						
Taxes	\$ 337,229					\$ 337,229
Licenses and Permits	7,858			\$ 7,977		15,835
State Grants	93,846	\$ 83,042	\$ 21,465			198,353
Fines and Forfeits	5					5
Interest and Rentals	3,574	479	68	45		4,166
Other Revenue	8,043					8,043
Loss Due to Misappropriation of Assets	(33,481)			(22,777)		(56,258)
Total Revenues	417,074	83,521	21,533	(14,755)	\$ -	507,373
Expenditures						
Current						
General Government	280,225					280,225
Public Safety	10,225			11,005		21,230
Public Works	157,505	84,810	33,753			276,068
Community and Economic Development	4,139					4,139
Recreation and Culture	5,050					5,050
Other	95,080					95,080
Capital Outlay	165,135					165,135
Debt Service	22,847					22,847
Total Expenditures	740,206	84,810	33,753	11,005	-	869,774
Excess of Revenues Over (Under) Expenditures	(323,132)	(1,289)	(12,220)	(25,760)	-	(362,401)
Other Financing Sources (Uses)						
Capital Lease Proceeds	105,066					105,066
Total Other Financing Sources (Uses)	105,066	-	-	-	-	105,066
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(218,066)	(1,289)	(12,220)	(25,760)	-	(257,335)
Fund Balance (Deficit)--April 1, 2008	468,972	93,371	102,931	(71,837)	55	593,492
Fund Balance (Deficit)--March 31, 2009	<u>\$ 250,906</u>	<u>\$ 92,082</u>	<u>\$ 90,711</u>	<u>\$ (97,597)</u>	<u>\$ 55</u>	<u>\$ 336,157</u>
Net Change in Fund Balances--Total Governmental Funds						\$ (257,335)
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						165,135
Deduct--Depreciation Expense						(66,138)
Long-term liabilities are not due and payable in the current period and are not reported in the funds.						<u>(82,219)</u>
Change in Net Assets of Governmental Activities						<u><u>\$ (240,557)</u></u>

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

**VILLAGE OF STEVENSVILLE
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
March 31, 2009**

EXHIBIT E

	<u>Agency Fund</u>
<u>ASSETS</u>	
Assets	
Due From Other Funds--Primary Government	<u>\$ 38,261</u>
Total Assets	<u><u>\$ 38,261</u></u>
<u>LIABILITIES AND FUND BALANCE</u>	
Liabilities	
Payroll Tax Liabilities	<u>\$ 38,261</u>
Total Liabilities	<u><u>\$ 38,261</u></u>

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

**VILLAGE OF STEVENSVILLE
GOVERNMENTAL FUND BALANCE SHEET
STATEMENT OF NET ASSETS--DOWNTOWN
DEVELOPMENT AUTHORITY--COMPONENT UNIT
March 31, 2009**

EXHIBIT F

	Modified Accrual Basis	Full Accrual Adjustments	Statement of Net Assets
<u>ASSETS</u>			
Current Assets			
Cash and Cash Equivalents	\$ 22,462		\$ 22,462
Investments	51		51
Due From Township	24,993		24,993
Due From Other Funds--Primary Government	5,495		5,495
Total Current Assets	<u>53,001</u>	<u>\$ -</u>	<u>53,001</u>
Noncurrent Assets			
Capital Assets (Net of Accumulated Depreciation)		701,649	701,649
Total Noncurrent Assets		<u>701,649</u>	<u>701,649</u>
Total Assets	<u>53,001</u>	<u>701,649</u>	<u>754,650</u>
<u>LIABILITIES</u>			
Current Liabilities			
Due To Other Funds--Primary Government	15,484		15,484
Total Current Liabilities	<u>15,484</u>		<u>15,484</u>
Noncurrent Liabilities			
Deferred Revenue	24,993	(24,993)	
Long-Term Advance--Primary Government	40,157		40,157
Promissory Notes Payable--Due in One Year		691,435	691,435
Total Noncurrent Liabilities	<u>65,150</u>	<u>666,442</u>	<u>731,592</u>
Total Liabilities	<u>80,634</u>	<u>666,442</u>	<u>747,076</u>
<u>FUND BALANCE/NET ASSETS</u>			
Fund Balance (Deficit)--Unreserved	<u>(27,633)</u>	<u>27,633</u>	<u>-</u>
Total Fund Balance (Deficit)	<u>(27,633)</u>	<u>27,633</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 53,001</u>		
Net Assets			
Invested in Capital Assets--Net of Related Debt		10,214	10,214
Restricted for Downtown Development Activities		(2,640)	(2,640)
Total Net Assets		<u>\$ 7,574</u>	<u>\$ 7,574</u>

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

**VILLAGE OF STEVENSVILLE
STATEMENT OF GOVERNMENTAL FUND REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
DOWNTOWN DEVELOPMENT AUTHORITY--COMPONENT UNIT
For the Fiscal Year Ended March 31, 2009**

EXHIBIT G

	Modified Accrual Basis	Full Accrual Adjustments	Statement of Net Activities
Program Expenses			
Community and Economic Development	\$ 8,719	\$ 10,002	\$ 18,721
Capital Outlay	375,508	(375,508)	
Interest Expense	17,988		17,988
Total Program Expenses	<u>402,215</u>	<u>(365,506)</u>	<u>36,709</u>
General Revenues			
Property Taxes	13,870	12,990	26,860
Interest and Rentals	7,993		7,993
Other Revenues	4,405		4,405
Loan Proceeds	386,810	(386,810)	
Loss Due to Misappropriation of Assets	(47,909)		(47,909)
Total General Revenues	<u>365,169</u>	<u>(373,820)</u>	<u>(8,651)</u>
Change in Fund Balance/Net Assets	(37,046)	(8,314)	(45,360)
Fund Balance/Net Assets			
Beginning of Year	<u>9,413</u>	<u>45,521</u>	<u>52,934</u>
End of Year	<u>\$ (27,633)</u>	<u>\$ 35,207</u>	<u>\$ 7,574</u>

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

VILLAGE OF STEVENSVILLE

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended March 31, 2009

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village is located in Berrien County and provides services to its 1,191 residents in many areas including: public works and general government. The Village is a general law Village incorporated under Public Act (PA) 3 of 1895. The Village is governed by a seven member council, including a president, elected by the citizens of the Village. The accounting policies of the Village conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the Village (the primary government) and its component units. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included.

The individual component units discussed below are included in the Village's reporting entity because of the significance of their operational or financial relationships with the Village.

JOINTLY GOVERNED ORGANIZATION

Lake Michigan Shoreline Water and Sewage Treatment Authority

The Lake Michigan Shoreline Water and Sewage Treatment Authority (LMSW&STA) was incorporated under the provisions of Act 233 of the Public Acts of Michigan of 1955. The purpose of the Authority is to acquire, improve, extend and operate a water supply and sewage disposal system for the benefit of residents of Lincoln Charter Township, Royalton Township, St. Joseph Charter Township, and the Villages of Stevensville and Shoreham. The governing body of this authority is a board of trustees made up of three representatives from Lincoln Charter Township, one representative from Royalton Township, three representatives from St. Joseph Charter Township, one representative from the Village of Stevensville, and one representative from the Village of Shoreham.

For the 2007/08 year, a budget was not approved by the Village of Stevensville by June 30, 2007. Therefore, without an approved budget by all five municipalities, the LMSW&STA was not able to operate in the 2007/08 year. On June 29, 2007, Lincoln Charter Township, Royalton Township, and St. Joseph Charter Township passed resolutions to directly assume the responsibilities of the bills of the Lake Michigan Shoreline Water & Sewage Treatment Authority for general operations.

VILLAGE OF STEVENSVILLE

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended March 31, 2009

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

On July 19, 2007, each of the three township boards met in special sessions to adopt Articles of Incorporation to create a new authority, Southwest Michigan Regional Sanitary Sewage and Water Authority (SWMRSS&WA). On July 24, 2007, an Operating and Maintenance Services Agreement between the LMSW&STA and the Southwest Michigan Regional Sanitary Sewer and Water Authority was executed, with the SWMRSS&WA responsible for the daily operational expenses of LMSW&STA.

DISCRETELY PRESENTED COMPONENT UNITS

The following component unit is reported within the "Component Units" 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 was created as a tax increment financing district to correct and prevent deterioration in the downtown district, encourage historical preservation and to promote economic growth in the downtown area of the Village. The authority is governed by a five member board selected by the Village Council. In addition, the authority's budget is subject to the approval of the Village Council.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

VILLAGE OF STEVENSVILLE

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended March 31, 2009

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

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

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 and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

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

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

VILLAGE OF STEVENSVILLE

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2009

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

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 Building Department Fund accounts for the building permit fees.

Additionally, the Village reports the following fund type:

Agency Funds--These funds account for assets held on behalf of outside parties, including other governments.

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

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Bank Deposits and Investments

For the purposes of the statement of cash flows, demand deposits and short-term investments with a maturity of three months or less, when acquired, are considered to be cash equivalents. The statement of cash flows includes both restricted and unrestricted cash.

Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value. Earnings from investments are allocated to numerous funds as required by Federal regulations, State statutes, and local ordinances.

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements, outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

VILLAGE OF STEVENSVILLE

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2009

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

Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's lives are not capitalized.

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

Land Improvements	30 to 40 years
Building and Building Improvements	15 to 40 years
Equipment	3 to 10 years
Infrastructure	20 years

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

Long-Term Obligations

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

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.

VILLAGE OF STEVENSVILLE

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2009

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

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Budgets are adopted by the Village Council for the General Fund only. The budget that was prepared did not conform to the Uniform Chart of Accounts. Budgets were not adopted for the Major Street Fund, Local Street Fund, Liquor Law Fund, and Building Department Fund. The final amended budgets' basis of accounting differed significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget adopted for General Government and Public Services categories does not follow the requirements of the Uniform Budget Act. The Village maintains accounts at the line-item level; however, they are not listed in a correct order. The Village Council does not monitor or amend 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 STEVENSVILLE

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2009

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

During the year, the Village incurred expenditures in the General Fund, which were in excess of the amounts appropriated, as follows:

<u>Fund, Function and Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess Expenditures</u>
General Fund			
General Government			
Village Council	\$ 30,281	\$ 32,031	\$ (1,750)
Office Staff	12,913	21,142	(8,229)
General Expenses	3,876	6,503	(2,627)
Elections	500	783	(283)
Attorney Fees	35,700	115,903	(80,203)
Public Works			
Drain-At-Large	426	1,902	(1,476)
Department of Public Works	30,510	77,868	(47,358)
Refuse Collection	60,000	60,638	(638)
Other			
Liability Insurance	3,570	10,488	(6,918)
Health Insurance	17,850	58,395	(40,545)
Employer Share of Payroll Taxes		10,640	(10,640)
Credit Card Fees and Penalties		955	(955)
Other	3,875	9,480	(5,605)
Capital Outlay	124,785	165,135	(40,350)
Debt Service		22,847	(22,847)

Fund Deficits

As of March 31, 2009, the Village has accumulated deficits in its Building Department Fund and DDA Fund of \$97,597 and \$27,633, respectively.

Public Act 140 of 1971, as amended, requires the Village to file a deficit elimination plan with the Michigan Department of Treasury within 90 days after the end of the fiscal year for each fund that ended that year in a deficit condition. The Village has not filed the required plan.

VILLAGE OF STEVENSVILLE

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2009

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Legal Noncompliance/Violation of Finance Related Provisions

1. Failure to establish or maintain the Uniform Chart of Accounts in a formal accounting system in accordance with PA 2 of 1968, as amended, (MCL 141.421).
2. Noncompliance with the budgeting act as required by PA 2 of 1968, as amended, (MCL 141.421 through MCL 141.440a)
3. Failure to approve expenses as required by MCL 65.7.
4. Failure to follow provisions of closed meetings as required by the Open Meetings Act (MCL 15.269).
5. Failure to follow the provisions of PA 51 of 1951, the State Trunkline Highway System Act (MCL 247.664).
6. Failure to adopt a Credit Card Policy (MCL 129.243).
7. Failure to adopt an ACH policy in accordance with PA 738 of 2002 (MCL 124.303)
8. Failure to adopt a Social Security Number Privacy Policy in accordance with PA 454 of 2004 (MCL 445.84, Sec 4 (1)).
9. Failure to file deficit elimination plans in accordance with PA 140 of 1971 (MCL 141.921).
10. Failure to file required DDA reports with the State Tax Commission in accordance with MCL 125.1665.

NOTE C--DEPOSITS AND INVESTMENTS

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

The Village has designated four banks for the deposit of Village funds. The Village has not adopted an investment policy in accordance with PA 20 of 1943.

VILLAGE OF STEVENSVILLE

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2009

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>Total</u>	<u>Component Unit</u>
Cash and Cash Equivalents	\$124,078	\$124,078	\$22,462
Investments	<u>45,838</u>	<u>45,838</u>	<u>51</u>
Total	<u><u>\$169,916</u></u>	<u><u>\$169,916</u></u>	<u><u>\$22,513</u></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)	\$124,028	\$22,462
Investments in Long-Term CDs and Government Operating Money Market	45,838	51
Petty Cash and Cash on Hand	<u>50</u>	<u>51</u>
Total	<u><u>\$169,916</u></u>	<u><u>\$22,513</u></u>

The bank balance of the Village's deposits is \$149,391 and all funds are covered by Federal depository insurance. The bank balance of the component unit's deposits is \$22,461 and all funds are covered by FDIC insurance. On October 3, 2008, FDIC deposit insurance temporarily increased from \$100,000 to \$250,000 per depositor through December 31, 2009; and on May 20, 2009, the temporary increase was extended through December 31, 2013.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Village manages its exposure to interest rate risk is by participating in money markets which hold diverse investments that are authorized by law for direct investment.

VILLAGE OF STEVENSVILLE

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2009

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

As of March 31, 2008, the Village had the following investments:

	<u>Reported Amount (Fair Value)</u>
Primary Government	
Government Operating Money Market	<u>\$ 45,838</u>
Total Primary Government	<u>\$ 45,838</u>
Component Unit	
Government Operating Money Market	<u>\$ 51</u>
Total Component Unit	<u>\$ 51</u>

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Government Operating Money Markets are not rated.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Village's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker/dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Village's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

VILLAGE OF STEVENSVILLE

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2009

NOTE D--PROPERTY TAXES

The Village's 2008 ad valorem tax was levied and collectible on July 1, 2008. 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 2008 State taxable valuation amounted to \$38,731,417, on which ad valorem taxes levied for all Village purposes were \$337,229. There were 8.7345 mills for general operations recognized in the General Fund.

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 March 31st are recorded as delinquent taxes receivable.

NOTE E--RECEIVABLES

Taxes Receivable--Delinquent

The delinquent taxes receivable in the General Fund consists of uncollected real property taxes levied July 1, 2008, which have not been collected at March 31, 2009. The delinquent property taxes for the General Fund are \$20,650 and are not offset by deferred revenue.

Accounts Receivable

The General Fund has an account receivable amount of \$2,587 for a franchise fee receivable due from the local cable company.

VILLAGE OF STEVENSVILLE

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2009

NOTE F--INTERFUND RECEIVABLES, PAYABLES AND ADVANCES

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

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Primary Government		Primary Government	
General	\$132,662	General	\$ 44,825
Major Street	4,742	Major Street	88,417
Local Street	54,161	Local Street	6,254
Nonmajor Governmental Agency	2,049	Building Department	92,379
	<u>38,261</u>		
Total Primary Government	<u>\$231,875</u>	Total Primary Government	<u>\$231,875</u>
Component Unit		Primary Government	
DDA	<u>\$ 5,495</u>	Building Department	<u>\$ 5,495</u>
Total Component Unit	<u>\$ 5,495</u>	Total Primary Government	\$ 5,495
Primary Government		Component Unit	
General	<u>\$ 15,484</u>	DDA	<u>\$ 15,484</u>
Total Primary Government	<u>\$ 15,484</u>	Total Component Unit	<u>\$ 15,484</u>

The long-term advances to other funds, which represent long-term interfund receivables and payables that are not available to finance current operations, are as follows:

<u>Fund</u>	<u>Advances to Other Funds</u>	<u>Fund</u>	<u>Advances From Other Funds</u>
Primary Government		Component Unit	
General	<u>\$40,157</u>	DDA	<u>\$ 40,157</u>
Total Primary Government	<u>\$40,157</u>	Total Component Unit	<u>\$ 40,157</u>

The advances to the Downtown Development Authority are for street light projects done in 2004 and 2005. Monthly payments of principal plus interest were paid monthly beginning in January 2004 and January 2005 for the two projects and continued through October 2006. At this point, the Downtown Development Authority discontinued making the payments leaving remaining balances of \$23,646 due on the 2004 advance and \$16,511 on the 2005 advance totaling the \$40,157 above.

VILLAGE OF STEVENSVILLE

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2009

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 04/01/08</u>	<u>Additions</u>	<u>Deductions</u>	<u>Account Balances 03/31/09</u>
Capital Assets Not Being Depreciated				
Land	\$ 51,317	_____	_____	\$ 51,317
Subtotal	<u>51,317</u>	<u>\$ -</u>	<u>\$ -</u>	<u>51,317</u>
Capital Assets Being Depreciated				
Land Improvements	93,000			93,000
Buildings and Building Improvements	373,965	1,695		375,660
Equipment	308,823	163,440		472,263
Infrastructure	<u>366,374</u>	_____	_____	<u>366,374</u>
Total	<u>1,142,162</u>	<u>165,135</u>	<u>-</u>	<u>1,307,297</u>
Less Accumulated Depreciation				
Land Improvements	52,835	1,642		54,477
Buildings and Building Improvements	195,802	9,306		205,108
Equipment	215,075	36,571		251,646
Infrastructure	<u>53,124</u>	<u>18,619</u>	_____	<u>71,743</u>
Total	<u>516,836</u>	<u>66,138</u>	<u>-</u>	<u>582,974</u>
Net Capital Assets Being Depreciated	<u>625,326</u>	<u>165,135</u>	<u>66,138</u>	<u>724,323</u>
Governmental Activities Capital Total Capital Assets--Net of Depreciation	<u>\$ 676,643</u>	<u>\$ 165,135</u>	<u>\$ 66,138</u>	<u>\$ 775,640</u>

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

	<u>Amount</u>
Governmental Activities	
General Government	\$ 13,838
Public Works	43,390
Recreation and Culture	<u>8,910</u>
Total Depreciation--Governmental Activities	<u>\$ 66,138</u>

VILLAGE OF STEVENSVILLE

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2009

NOTE G--CAPITAL ASSETS (Continued)

Component Units

Capital asset activity of the Downtown Development Authority (DDA) for the current year was as follows:

<u>Component Unit</u>	<u>Account Balances 04/01/08</u>	<u>Additions</u>	<u>Deductions</u>	<u>Account Balances 03/31/09</u>
Capital Assets Not Being Depreciated				
Land	<u>\$245,570</u>	<u>\$ 375,508</u>	<u> </u>	<u>\$621,078</u>
Subtotal	<u>245,570</u>	<u>375,508</u>	<u>\$ -</u>	<u>621,078</u>
Capital Assets Being Depreciated				
Land Improvements	<u>150,785</u>	<u> </u>	<u> </u>	<u>150,785</u>
Total	<u>150,785</u>	<u>-</u>	<u>-</u>	<u>150,785</u>
Less Accumulated Depreciation				
Land Improvements	<u>60,212</u>	<u>10,002</u>	<u> </u>	<u>70,214</u>
Total	<u>60,212</u>	<u>10,002</u>	<u>-</u>	<u>70,214</u>
Net Capital Assets Being Depreciated	<u>90,573</u>	<u>-</u>	<u>10,002</u>	<u>80,571</u>
Component Unit Capital Total				
Capital Assets--Net of Depreciation	<u>\$336,143</u>	<u>\$ -</u>	<u>\$ 10,002</u>	<u>\$701,649</u>

The depreciation expense was \$10,002 during the year.

VILLAGE OF STEVENSVILLE

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2009

NOTE H--LONG-TERM DEBT

The long-term debt of the Village and the Downtown Development Authority, and the changes therein, may be summarized as follows:

	<u>Balance</u> <u>04/01/08</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>03/31/09</u>	<u>Due Within</u> <u>One Year</u>
<u>PRIMARY GOVERNMENT</u>				
<u>Governmental Activities</u>				
Capital lease for Bobcat Versa Handler in five annual payments of \$13,450 at an interest rate of 4.364%.		\$ 61,858 (13,450)	\$ 48,408	\$ 11,338
Capital lease for Bobcat Toolcat in five annual payments of \$9,395 at an interest rate of 4.364%.		43,206 (9,395)	<u>33,811</u>	<u>7,919</u>
Total Governmental Activities	<u>\$ -</u>	<u>\$ 82,219</u>	<u>\$ 82,219</u>	<u>\$ 19,257</u>
<u>COMPONENT UNIT</u>				
<u>Downtown Development Authority</u>				
Revolving Promissory Note due in full January 10, 2010, with interest based on Prime Rate.	\$100,000	\$ 186,810	\$ 286,810	\$ 286,810
Term Promissory Note due in full January 10, 2010, with interest based on Prime Rate.	<u>204,625</u>	<u>200,000</u>	<u>404,625</u>	<u>404,625</u>
Total Downtown Development Authority	<u>\$304,625</u>	<u>\$ 386,810</u>	<u>\$ 691,435</u>	<u>\$ 691,435</u>

VILLAGE OF STEVENSVILLE

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2009

NOTE H--LONG-TERM DEBT (Continued)

Annual Principal and Interest Requirements

The annual requirements to pay the principal and interest on the Village's long-term debt obligations outstanding at March 31, 2009, are as follows:

Capital Lease

Date of Issue: August 27, 2008

Amount: \$61,859

Purpose: Bobcat Versa Handler

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2010	\$ 11,338	\$ 2,113	\$ 13,451
2011	11,833	1,618	13,451
2012	12,349	1,101	13,450
2013	<u>12,888</u>	<u>562</u>	<u>13,450</u>
	<u>\$ 48,408</u>	<u>\$ 5,394</u>	<u>\$ 53,802</u>

Capital Lease

Date of Issue: August 27, 2008

Amount: \$43,207

Purpose: Bobcat Toolcat

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2010	\$ 7,919	\$ 1,476	\$ 9,395
2011	8,265	1,130	9,395
2012	8,625	769	9,394
2013	<u>9,002</u>	<u>393</u>	<u>9,395</u>
	<u>\$ 33,811</u>	<u>\$ 3,768</u>	<u>\$ 37,579</u>

VILLAGE OF STEVENSVILLE

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended March 31, 2009

NOTE H--LONG-TERM DEBT (Continued)

Term Promissory Note

On January 5, 2007, the Village of Stevensville signed a Term Promissory Note with First Source Bank for a line of credit up to \$700,000 at an initial rate of 5.05% per annum based on the prime rate as published in the Wall Street Journal. The purpose of the Note was for the purchase of land by the Downtown Development Authority. Interest is automatically withdrawn monthly from the Downtown Development Authority's bank account. The principal balance was due, in its entirety, at the conclusion of the loan on January 5, 2009. As of March 31, 2008, the balance of the Note was \$204,625. As of March 31, 2009, the balance of the Note is \$404,625. Currently, the Village has signed three extensions moving the due date from January 5, 2009 to January 5, 2010 as the Downtown Development Authority does not have the funds to repay the Note.

Revolving Promissory Note

On January 5, 2008, the Village of Stevensville signed an additional Revolving Promissory Note with First Source Bank for a line of credit up to \$300,000 at an initial rate of 3.66% per annum based on the prime rate as published in the Wall Street Journal. The purpose of the Note was also for the purchase of land by the Downtown Development Authority. Interest is automatically withdrawn monthly from the Downtown Development Authority's bank account. The principal balance is due, in its entirety, at the conclusion of the loan on January 5, 2009. As of March 31, 2008, the balance of the Note was \$100,000. As of March 31, 2009, the balance of the Note is \$286,810. Currently, the Village has signed three extensions moving the due date from January 5, 2009 to January 5, 2010 as the Downtown Development Authority does not have the funds to repay the Note.

The total debt of the Downtown Development Authority for both Notes at March 31, 2009 is \$691,435.

NOTE I--DEFERRED COMPENSATION PLAN

The Village offers all full-time employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plan are held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by American Funds and administered by KDP Retirement Plan Services, Inc. for the exclusive benefit of the participants and beneficiaries of these Section 457 plans and the assets may not be diverted to any other use. The administrator is an agent of the employer. The administrator provides direction to the custodian, from time to time, regarding the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Village's financial statements.

VILLAGE OF STEVENSVILLE

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended March 31, 2009

NOTE I--DEFERRED COMPENSATION PLAN (Continued)

Per the agreement signed by the Village, the Village is to contribute 7% of all qualifying employees' salaries each year to the plan. The Village failed to meet this requirement as it only contributed \$3,714 for the fiscal year ended March 31, 2008 and \$0 for the fiscal year ended March 31, 2009. KDP Retirement Plan Services has reviewed the accounts of the Village employees as of March 31, 2009 and determined that as of March 31, 2009, \$5,122 is still owed to the Plan. The balance is recorded as a liability in the March 31, 2009 audit.

NOTE J--RISK MANAGEMENT

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

NOTE K--SUBSEQUENT EVENT

Village Liabilities

On May 13, 2009, the Village Council approved not to renew the contract of the former Village Manager. On June 18, 2009, the Village hired an independent CPA firm to reconstruct the records of the Village dating back to the March 31, 2007 fiscal year. As of March 31, 2009, the independent CPA firm has confirmed a misappropriation of funds of \$277,647 from the Village's various funds. This loss will have a serious impact on the services provided by the Village.

As of November 1, 2009, the Village has not had the cash flow to pay for subsequent issues related to the misappropriation and other litigations the Village is currently involved in. The reconstruction of the records has cost the Village, as of November 1, 2009, \$44,573. The Village also entered into litigation against the Southwest Michigan Regional Sanitary Sewage and Water Authority over ownership of the water and sewer lines in the Village. The attorney fees to date are \$51,873 with only \$9,250 paid leaving a balance of \$42,623. Other attorney fees relating to another matter with Lincoln Township and general matters totaling \$14,119 have been incurred by the Village.

The Village also has not paid any Federal or State payroll withholdings since January 2007. The accumulated payroll liability as of March 31, 2009, is \$70,055. The Village has begun to work with the IRS and State to resolve the situation.

The Village is now making monthly payments for an extended period of time to pay all the balances described above.

VILLAGE OF STEVENSVILLE

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2009

NOTE K--SUBSEQUENT EVENT (Continued)

DDA Façade Grant/Debt/Long-Term Advance

In October 2007, the Village received a grant from the Michigan State Housing Development Authority (MSHDA) for a downtown façade project. The provision of the grant provides for MSHDA to contribute 50% of project costs, 25% to be contributed from the local businesses, and 25% from the Village DDA. Preliminary engineering and consulting began in 2008, but the overall project did not begin until April 2009. The total cost of the project at its completion in November 2009 is \$372,006. MSHDA's share is \$186,003, the local business share is \$91,652, and the DDA share is \$94,351 as the DDA is covering the local business share of the cost overruns.

As described in more detail in Note H, the Village Council obtained the Term Promissory Note and the Revolving Promissory Note for the DDA to purchase land. The \$691,435 balance on notes as of March 31, 2009 is due on January 5, 2010. As described in more detail in Note F, the DDA still has a long-term advance of \$40,157 as of March 31, 2009 from the General Fund for street light projects dating back to 2004 and 2005.

The total amount owed to others by the DDA at March 31, 2009, is \$747,076. The DDA's fund balance as of March 31, 2009, is a deficit of \$27,633. The Village and the Village DDA are now making monthly payments for an extended period of time to reduce the above described long-term debt.

**VILLAGE OF STEVENSVILLE
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Fiscal Year Ended March 31, 2009**

EXHIBIT H

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original Budget	Final Amended Budget	Actual	
Revenues				
Taxes	\$ 359,552	\$ 359,552	\$ 337,229	\$ (22,323)
Licenses and Permits	7,500	7,500	7,858	358
State Grants	98,000	98,000	93,846	(4,154)
Charge for Services	250	250	-	(250)
Fines and Forfeitures	250	250	5	(245)
Interest and Rentals	33,500	33,500	3,574	(29,926)
Other Revenue	552	552	8,043	7,491
Loss Due to Misappropriation of Assets	-	-	(33,481)	(33,481)
Total Revenue	<u>499,604</u>	<u>499,604</u>	<u>417,074</u>	<u>(49,049)</u>
Expenditures				
General Government	289,270	289,270	280,225	9,045
Public Safety	58,500	58,500	10,225	48,275
Public Works	116,436	116,436	157,505	(41,069)
Community and Economic Development	4,540	4,540	4,139	401
Recreation and Culture	23,920	23,920	5,050	18,870
Other	35,862	35,862	95,080	(59,218)
Capital Outlay	124,785	124,785	165,135	(40,350)
Debt Service	-	-	22,847	(22,847)
Total Expenditures	<u>653,313</u>	<u>653,313</u>	<u>740,206</u>	<u>(86,893)</u>
Excess of Revenues Over (Under) Expenditures	<u>(153,709)</u>	<u>(153,709)</u>	<u>(323,132)</u>	<u>(135,942)</u>
Other Financing Sources (Uses)				
Capital Lease Proceeds	-	-	105,066	105,066
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>105,066</u>	<u>105,066</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(153,709)</u>	<u>(153,709)</u>	<u>(218,066)</u>	<u>(30,876)</u>
Fund Balance--April 1, 2008	<u>145,209</u>	<u>145,209</u>	<u>468,972</u>	<u>323,763</u>
Fund Balance--March 31, 2009	<u>\$ (8,500)</u>	<u>\$ (8,500)</u>	<u>\$ 250,906</u>	<u>\$ 292,887</u>

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

VILLAGE OF STEVENSVILLE
SCHEDULE OF REVENUES AND OTHER FINANCIAL SOURCES
BUDGET AND ACTUAL--GENERAL FUND
For the Fiscal Year Ended March 31, 2009

EXHIBIT I

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
<u>REVENUES</u>				
Property Taxes				
Current and Delinquent	\$ 359,552	\$ 359,552	\$ 337,229	\$ (22,323)
Total Property Taxes	359,552	359,552	337,229	(22,323)
Licenses and Permits				
Franchise Fees	7,500	7,500	7,858	358
Total Licenses and Permits	7,500	7,500	7,858	358
State Grants				
Revenue Sharing	98,000	98,000	93,846	(4,154)
Total State Grants	98,000	98,000	93,846	(4,154)
Charge for Services				
Charges for Services	250	250	-	(250)
Total Charge for Services	250	250	-	(250)
Fines and Forfeitures				
Traffic and Ordinance Fines	250	250	5	(245)
Total Fines and Forfeitures	250	250	5	(245)
Interest and Rentals				
Interest	8,500	8,500	3,574	(4,926)
Equipment Rental	25,000	25,000	-	(25,000)
Total Interest and Rentals	33,500	33,500	3,574	(29,926)
Other Revenue				
Other	552	552	8,043	7,491
Loss Due to Misappropriation of Assets			(33,481)	(33,481)
Total Other Revenue	552	552	(25,438)	(25,990)
Total Revenue	499,604	499,604	417,074	(82,530)
Other Financing Sources				
Capital Lease Proceeds			105,066	105,066
Total Other Financing Sources	-	-	105,066	105,066
Total Revenue and Other Financing Sources	\$ 499,604	\$ 499,604	\$ 522,140	\$ 22,536

**VILLAGE OF STEVENSVILLE
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL--GENERAL FUND
For the Fiscal Year Ended March 31, 2009**

EXHIBIT J

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
General Government				
Village Council	\$ 30,281	\$ 30,281	\$ 32,031	\$ (1,750)
President	3,825	3,825	-	3,825
Village Manager	47,864	47,864	45,614	2,250
Office Staff	12,913	12,913	21,142	(8,229)
General Expenses	3,876	3,876	6,503	(2,627)
Clerk	20,808	20,808	13,769	7,039
Treasurer	15,703	15,703	4,911	10,792
Building and Grounds	97,800	97,800	38,069	59,731
Elections	500	500	783	(283)
Other Professional	20,000	20,000	1,500	18,500
Attorney Fees	35,700	35,700	115,903	(80,203)
Total General Government	289,270	289,270	280,225	9,045
Public Safety				
Ordinance Enforcement	50,000	50,000	10,225	39,775
Building Department	8,500	8,500	-	8,500
Total Public Safety	58,500	58,500	10,225	48,275
Public Works				
Drain-At-Large	426	426	1,902	(1,476)
Department of Public Works	30,510	30,510	77,868	(47,358)
Street Lights	25,500	25,500	17,097	8,403
Refuse Collection	60,000	60,000	60,638	(638)
Total Public Works	116,436	116,436	157,505	(41,069)
Community and Economic Development				
Zoning Administrator	1,530	1,530	1,480	50
Planning	3,010	3,010	2,659	351
Total Community and Economic Development	4,540	4,540	4,139	401
Recreation and Culture				
Parks and Recreation	6,120	6,120	3,620	2,500
Community Promotion	17,800	17,800	1,430	16,370
Total Recreation and Culture	23,920	23,920	5,050	18,870
Other				
Pension	10,567	10,567	5,122	5,445
Liability Insurance	3,570	3,570	10,488	(6,918)
Health Insurance	17,850	17,850	58,395	(40,545)
Employer Share of Payroll Taxes	-	-	10,640	(10,640)
Credit Card Fees and Penalties	-	-	955	(955)
Other	3,875	3,875	9,480	(5,605)
Total Other	35,862	35,862	95,080	(59,218)
Capital Outlay	124,785	124,785	165,135	(40,350)
Total Capital Outlay	124,785	124,785	165,135	(40,350)
Debt Service				
Principal	-	-	22,847	(22,847)
Total Debt Service	-	-	22,847	(22,847)
Total Expenditures	\$ 653,313	\$ 653,313	\$ 740,206	\$ (75,470)



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

January 21, 2010

Village Council
Village of Stevensville
5768 St. Joseph Avenue
Stevensville, Michigan 49127

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With Government Auditing Standards

Dear Council Members:

We have audited the financial statements of the governmental activities, the component unit, each major fund, and the aggregate remaining fund information of the Village of Stevensville, Berrien County, Michigan, as of and for the fiscal year ended March 31, 2009, which collectively comprise the Village's basic financial statements and have issued our report thereon dated January 21, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to

prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as Findings 2008-1 through 2008-16 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Responses as Findings 2008-17 through 2008-32.

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

This report is intended solely for the information of the Village Council, management and others within the Village, Federal awarding agencies and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

January 21, 2010

Village Council
Village of Stevensville
5768 St. Joseph Avenue
Stevensville, Michigan 49127

RE: Report to Those Charged With Governance

Dear Council Members:

We have audited the financial statements of the governmental activities, the component unit, each major fund and the aggregate remaining fund information of the Village of Stevensville, Berrien County, Michigan, for the fiscal year ended March 31, 2009, and have issued our report thereon dated January 21, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in the engagement letter dated July 15, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Village's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures to specifically identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 28, 2009.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ending March 31, 2009. We noted no transactions entered into by the Village during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of the depreciation is based on the straight-line method in accordance with General Accepted Accounting Principles. We evaluated the key factors and assumptions used to develop the estimated depreciation in determining that it is reasonable in relation to the financial statements, taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, some of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 21, 2010.

Management Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Village’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Village Council and management of the Village and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended March 31, 2009

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

The Village is small in size. Therefore, there is an overall lack of segregation of duties which should be considered when reviewing the material weaknesses listed below. Segregation of duties requires that key duties and responsibilities be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

NOTE: We have concurrently audited the financial statements of the Village as of and for the years ended March 31, 2008 and March 31, 2009. Consequently, all findings reported in the Schedule of Findings and Responses in our March 31, 2008 audit report are also reported in the Schedule of Findings and Responses in the March 31, 2009 audit reports because Village officials did not have an opportunity to take corrective action regarding the 2008 audit findings. Some findings have been modified slightly from the 2008 report in order to present amounts and conditions as they relate to March 31, 2009.

MATERIAL WEAKNESSES

Preparation of Financial Statements in Accordance With GAAP

Finding 2008-1

Condition: As many small and medium-sized governmental entities do, the Village has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements, fund financial statements, and notes to financial statements as part of its external financial reporting process. Accordingly, the Village's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered to be a part of the Village's internal controls.

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the Village's management. The preparation of financial statements in accordance with GAAP requires internal controls over both: 1) recording, processing and summarizing accounting data (maintaining internal accounting books and records); and 2) reporting government-wide and fund financial statements, including the related notes to financial statements (external financial reporting).

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

MATERIAL WEAKNESSES (Continued)

Cause: This condition was caused by the Village's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for Village personnel to prepare them internally.

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 Village Council designate a responsible Village official to carefully review the draft financial statements, including the notes, prior to approving them and accepting responsibility for their content and presentation.

Management's Response-Corrective Action Plan: Prior to July 2009, the Village finance records were not in a position to be audited, because of the poor shape of the records. With no treasurer in place in the Village and the clerk retiring, it was better for the Village to hire the auditing firm that did the Village books before to get the books in order to be audited. They are now checking the books once a quarter until March 31, 2010 so they can be audited again by the state in 2010. The Village now has a treasurer and clerk in place, in which both have been going to training and communicating with other local treasurers and clerks to help with questions related to this issue.

Lack of Monitoring

Finding 2008-2

Condition: The Village Council has failed to monitor the internal control activities of the Village. The former Village Manager was given full control of the Village's financial records with no oversight.

Criteria: The Standards for Internal Control for the Federal Government (which is a good general standard for all types of municipalities) defines internal control as "an integral part of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations."

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

MATERIAL WEAKNESSES (Continued)

It further defines the monitoring of internal control as assessing the quality of performance over time and ensuring that the findings of audits and other reviews are promptly resolved. Internal control should generally be designed to ensure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other related tasks.

Cause: The Village Council did not fully appreciate the full scope of the duties and requirements that accompany the elected position or did not act on their understanding. Village Council members also did not comply with the recommendations of previous audits

Effect: The failure to monitor the Village's activities has led to a misappropriation of funds and the inability of the Village Council to determine its overall financial condition.

Recommendation: We recommend that the Village Council monitor all Village activities to ensure that internal controls are established and maintained.

Management's Response-Corrective Action Plan: Checks and balances are currently in place for the Village internal controls on the financial side. The Village Council is now updated on a weekly basis on all financial issues the Village is dealing with.

General Ledger

Finding 2008-3

Condition: The Village did not maintain a complete set of accounting records, including a general ledger. Prior to the reconstruction done by the independent CPA firm, the Village's records did not reflect all of the bank accounts or the revenue and expense activity for the year including those amounts misappropriated from the Village. For the amounts that were posted to the general ledger, numerous errors requiring numerous audit adjustments were made. Therefore, the financial statements produced and reviewed by the Village Council were inaccurate and irrelevant.

Criteria: The general ledger is the gathering place for all local unit financial data. Properly maintained, it is a valuable tool of management. The general ledger is the "single binder" in which all funds and accounts of the Village are maintained.

The Uniform Accounting Procedures Manual issued by the Michigan Department of Treasury requires the local unit's legislative body to be provided periodic financial reports from the treasurer and the clerk. Charter provisions may alter who provides the various reports (e.g., clerk or accounting or controller or finance department). Reports provided by the clerk and the treasurer must reconcile to each other on a monthly basis. These reports assist the Village Council in determining whether the financial activity of the various funds is within the adopted budgets. The required periodic reports must be presented to the governing body at least quarterly.

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

MATERIAL WEAKNESSES (Continued)

Cause: The former Village Manager, who had total control over the accounting records, did not properly maintain the general ledger as a means to hide the improprieties being performed. There was an over-all lack of segregation of duties and no oversight from the Village Council to ensure the general ledger's accuracy, which also led to the failure of maintaining a proper general ledger.

Effect: Failure to post accurate accounting records on a timely basis may result in the following:

1. The financial condition of the Village is not readily determined.
2. The Village Council does not have the ability to make sound business decisions because it has no financial data on which to make an evaluation.
3. The Village Council may obligate more funds than are available, which is a violation of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

Recommendation: We recommend that the Village Council establish monthly procedures to ensure that all transactions are properly posted to a general ledger and that each individual fund is maintained.

Management's Response-Corrective Action Plan: The Village has been doing since October 2009, all that is included in this recommendation

Material Audit Adjustments

Finding 2008-4

Condition: We identified and proposed numerous material adjustments, which were approved and posted by management to reconcile the Village's general ledger to the audited balances. These adjustments included recording the effect of prior year accruals for receivables and payables, recording current year accruals for receivables and payables, balancing interfund transactions and properly allocating revenues.

Criteria: Management is responsible for maintaining the Village's accounting records in accordance with generally accepted accounting principles (GAAP).

Cause: The Village has historically relied on its independent external auditors to assist with the process of making necessary year end adjustments to present its financial statements in accordance with GAAP.

Effect: As a result of this condition, the Village's accounting records were initially misstated by amounts material to the financial statements.

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

MATERIAL WEAKNESSES (Continued)

Recommendation: We recommend that the Village Council provide for appropriate training for its accounting personnel. This will provide management with the necessary skills for reconciling all Village accounts both at year end and throughout the fiscal year. This will result in more accurate and meaningful data to the Village Council for decision making and to reduce the cost of the annual audit.

Management's Response-Corrective Action Plan: Staff has been obtaining training and has been reconciling all accounts at the end of each month. The outside firm hired by the Village is only checking the work to be accurate, but that will end March 31, 2010.

Bank Reconciliations

Finding 2008-5

Condition: From November 2006 through June 2009, the Village did not perform bank reconciliations on a monthly basis and the cash in the general ledger was not reconciled to the cash in the bank accounts for each individual fund. The actual bank statements were not kept for this time period causing the Village to pay substantial amounts to the individual banks to recreate and provide the statements to the Village. In June 2009, the Village hired an independent accounting firm to prepare the reconciliations for the Village. The independent accounting firm then found unrecorded bank accounts that were not listed on the Village's general ledger.

Criteria: The Standards for Internal Control for the Federal Government (which is a good general standard for all types of municipalities) states that reconciliations must be performed as part of internal controls. This is further enhanced by the Uniform Accounting Procedures Manual issued by the Michigan Department of Treasury which states that, "All cash accounts should be reconciled to their respective bank statements monthly."

The record retention schedule issued by the State of Michigan's Records Management Services also requires bank statements to be kept for seven years after the end of the fiscal year.

Cause: Beginning in November 2006, the former Village Manager assumed the responsibilities of the Village Treasurer, but failed to record all accounts, maintain bank statements, or reconcile accounts due to the improprieties performed.

Effect: Failure to reconcile the bank statements created an incomplete general ledger and led to an over or understatement of cash balances and a corresponding over or understatement of revenues and/or expenses.

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

MATERIAL WEAKNESSES (Continued)

Recommendation: We recommend that all bank accounts be reconciled on a timely basis with the accounting records. The clerk and the treasurer should then compare the balances of the general ledger cash balances to the bank reconciliations. The activity in the bank should reconcile back to the general ledger and a means should be provided to correct errors in posting. The Village must be able to determine how much money each fund has in a particular bank and/or investment account. Bank statements must be maintained in accordance with the State of Michigan's Records Management Services record retention schedule.

Management's Response-Corrective Action Plan: The Village is currently reconciling all bank accounts as recommended.

Receipting Procedures

Finding 2008-6

Condition: Beginning in November 2006, the Village failed to prepare receipts for revenue received. There was no oversight from any other Village personnel to ensure the receipting process was performed.

Criteria: The Uniform Accounting Procedures Manual issued by the Michigan Department of Treasury requires the following procedures to be adopted to ensure that all cash collections received will be deposited.

- Formal evidence must be created for each collection (such as a printed sequentially numbered cash receipt ticket, cash register receipt, etc.) and provided to the payer where practicable;
- The system must include controls to ensure that every receipt is to be included in a periodic listing of cash receipts;
- Each bank deposit (evidenced by a bank deposit slip or other documentation) must be in agreement with the cash receipts listing noted above. In order for this to occur, both the deposit slip and the cash receipt listing must begin and end at the same time (e.g., daily, weekly, etc.);
- Currency must be deposited intact. Procedures must ensure that currency (cash and coins) are counted separately from checks or other payment methods, both in the list of cash receipts and in the deposit slip (or other bank deposit support). Total currency collected must be in agreement between these two sources;
- Deposits must be made timely and intact.

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

MATERIAL WEAKNESSES (Continued)

The following are required internal control procedures applicable to the Village:

1. Numerically controlled (printer pre-numbered) official receipts with the name of the local unit and the department name printed on the receipt must be issued for all collections. Official Receipts may be manually written or computer generated.
2. The use of generic, store-bought receipts is strictly prohibited.
3. "Cash" or "check" as the method of payment must be indicated on the receipt.
4. The receipt must identify the individual receiving payment.
5. The receipt must allow for immediate revenue account classification in conformance with the Uniform Chart of Accounts.
6. Checks must be restrictively endorsed at the point and time of collection.
7. When possible, someone other than the person who writes receipts or posts the accounting records must be responsible to verify that collections received in the mail are properly receipted.
8. When possible, collections must be reconciled by an individual not involved in the receipting process.

Cause: The Village Manager discontinued the practice of writing receipts and maintaining deposit slips when he took over the Treasurer's position and no other Village personnel provided oversight of the receipting activities.

Effect: The internal control of the Village is compromised with the lack of the formal evidence of revenue collected and the lack of oversight provides an opportunity for error or fraud to occur.

Recommendation: We recommend that the Village issue official receipts immediately upon collection and implement the aforementioned procedures. Monthly procedures should include comparing receipts written for the month with the receipts register and with bank deposits.

Management's Response-Corrective Action Plan: The Village is currently doing this recommendation, except for numbered receipts for taxes, which will start July 2010.

Posting of Revenue

Finding 2008-7

Condition: The Village did not consistently post its revenues to the proper accounts or funds. We found that for fiscal year 2008, restricted Michigan Transportation Funds designated for the Major and Local Street Funds were deposited into the General Fund and posted as delinquent taxes, cable franchise fees, and State revenue sharing. For the fiscal years 2008 and 2009, we could not verify that the second quarter cable franchise fees were deposited into any fund. Finally, both fiscal years had revenues deposited into the General Fund and the Downtown Development Authority Fund that could not be identified.

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

MATERIAL WEAKNESSES (Continued)

Criteria: According to the Uniform Chart of Accounts issued by the Michigan Department of Treasury, “Each fund is an independent accounting entity with a self-balancing set of accounts, created for the purpose of carrying on a specific activity. A fund has accounts for assets, liabilities, equities, and revenue and expenditures.” The failure to properly account for the revenues listed above, in the correct funds, misstates the Village’s financial position. Accountability for Michigan Transportation Funds, cable franchise fees, and other revenues is also lost when they are not properly recorded in their proper funds.

Also, PA 51 of 1951 requires the establishment of the Major and Local Street Funds to account for transportation funds received from the State. These funds are restricted by PA 51 and cannot be used for any other purpose other than those detailed by PA 51.

Cause: The deposits were not monitored, the bank statements were not reconciled, and the general ledger was not properly maintained.

Effect: The result was material inaccuracy of the revenues for all funds.

Recommendation: We recommend that Village personnel establish procedures to ensure that all revenue is deposited into the correct bank accounts and recorded in the correct funds to ensure the accuracy and accountability of the revenue received.

Management's Response-Corrective Action Plan: The Village is currently doing this recommendation and all bank accounts have the correct deposits made into them on a weekly basis if needed.

Disbursing Procedures

Finding 2008-8

Condition: The Village could not provide invoices for all expenses paid by the Village. The invoices provided did not contain administrative approval or account classification. The Village Council did not approve all expenses paid by the Village as not all expenses were presented to the Village Council for review. Some checks that were prepared only contained one signature and some checks were signed by the Village’s office person who was not an authorized signatory on the accounts.

Criteria: The Uniform Accounting Procedures Manual issued by the Michigan Department of Treasury requires the following procedures related to disbursements.

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended March 31, 2009

MATERIAL WEAKNESSES (Continued)

- Dual signatures are required for all checks. The dual signatures must be the clerk (or deputy clerk) and the treasurer (or deputy treasurer);
- It is never acceptable to sign blank checks;
- Appropriate documentation (supporting invoices) must be attached to check copies for all disbursements. Note: For all disbursements for which an invoice cannot be obtained (e.g., Trust and Agency Fund disbursements, internal rent payments), supporting vouchers must be attached. Vouchers must describe the payment to be made, indicate account number to be charged, and be signed by the person approving the disbursement;
- Original bills, not copies, must be used for documentation;
- All disbursements must be approved by the legislative body prior to disbursement with the following exception. The legislative body may establish a formal policy to authorize limited payments prior to approval to avoid finance or late charges as well as to pay appropriated amounts and payroll (including related payroll taxes and withholdings). These disbursements must be approved after payment is made;
- Bank accounts must be promptly reconciled (within the month following the bank statement date) by an individual not involved in the receipt/bank deposit process. In small units of government when segregation of duties is not possible, a second official must review the reconciliation;
- Adequate security must be provided over unused checks;
- Checks must not be signed prior to being completely filled out;
- All functions (i.e., deposit, write checks, issue/send checks, reconcile account) regarding a checking account should not be performed by the same individual;
- Numerically controlled or computer numbered checks must be used; and
- Cancelled checks must be made available to the local unit (record retention requirement) which may be electronic optical images.

The governing body must approve the bill list prior to releasing the checks. The governing body may preapprove certain expenditures (typically payroll, utilities, contracts, and emergency purchases), but those expenditures must be presented to the governing body at a subsequent meeting.

The payee, amount, purpose and the disbursing fund of each disbursement must be communicated to the accountant or bookkeeper for entry into the general ledger.

Cause: The Village Manager was given sole control over the disbursement process with only limited oversight from the Village Council.

Effect: Inappropriate disbursements were made. The Village Council was not aware of all cash outflows, creating the inability to make sound financial decisions. For those that were approved by the Village Council, the expenses that were not posted properly also created inaccuracies affecting the financial decisions of the Council.

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

MATERIAL WEAKNESSES (Continued)

Recommendation: We recommend that the Village Council immediately implement the policies and procedures listed above and provide more direct oversight to ensure that all cash disbursements are approved by the Village Council.

Management's Response-Corrective Action Plan: Currently all bills are approved by the Village Council at their regular monthly meeting. A few bills, because of their due date, must be paid before the regular monthly meeting, but the Village Council is aware of them and approves their payment. The Village Council is aware of all bank balances on a weekly basis and understands their current situation. All bills are entered on a daily basis so the Village Council has an understanding of their current financial position.

Capital Assets

Finding 2008-9

Condition: The Village does not maintain adequate internal controls for capital assets and a capital asset listing is not maintained in accordance with generally accepted accounting principles. The balances reported in the Village's audit report are maintained by the Village's auditor.

The Village has not adopted a capitalization policy to determine a "threshold" to capitalize an asset or record it as an expenditure.

Criteria: It is the responsibility of the Village to update the capital assets listing for additions and deletions. For the governmental funds, assets purchased during the year and recorded as capital outlay should equal the additions to the capital asset records. For the enterprise funds, assets purchased during the year should be recorded as increases in the capital asset account and not as an expense. Depreciation expense is also to be recorded for the enterprise funds. Depreciation for governmental capital assets should be recorded on the capital asset schedule. Disposals should equal the reductions to the capital asset records.

Cause: The Village has relied upon its auditors to update and maintain the listing.

Effect: The Village cannot readily determine or value the assets owned by the Village.

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

Management's Response-Corrective Action Plan: The Village has not put this recommendation into action yet.

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

MATERIAL WEAKNESSES (Continued)

Payroll Deficiencies

Finding 2008-10

Condition: The Village did not withhold Medicare and Social Security Taxes from the Village Council and appointed committee members. From February 2007 through June 2009, the Village failed to pay the IRS and the State of Michigan the required monthly payments of payroll taxes withheld and failed to pay the State of Michigan the required quarterly unemployment taxes. During this same time period, the Village failed to submit to the IRS the Form 941, Employer's Quarterly Federal Tax Return; failed to submit the annual Sales Use and Withholding Form; and Quarterly Unemployment Forms. Currently, the forms have been submitted after the Village hired an independent CPA firm to reconstruct the Village's records and prepare the forms.

Criteria: IRS Publication 15 (Circular E) requires Medicare and social security taxes to be withheld from all employees. Circular E requires that deposits be made monthly to the IRS for Federal taxes withheld. If incorrect amounts are withheld from employees, the employer can be held liable for the employee portion of the taxes. Failure to deposit the withholding of the Federal taxes over 10 days can result in a 15% penalty on the payment. Circular E further requires that a Form 941 be submitted to the IRS no later than the 15th day after a payroll quarter has ended.

Failure to submit the Form 941 can result in a 5% penalty of the unpaid taxes due with a maximum penalty of 25%. Also, for each whole or part month the tax is paid late, there is a failure-to-pay penalty of .5% per month of the amount of tax.

The Michigan Department of Treasury requires every entity to file an annual return for sales, use and withholding taxes. Forms filed late are subject to interest and penalties based on the amount of time delinquent.

The Michigan Department of Energy, Labor & Economic Growth requires the Employer's Quarterly Tax Report to be filed by the 25th of the month following the end of the calendar quarter. Penalty charges amounting to 10% of the taxes due on each report are assessed for late quarterly reports.

Cause: The former Village Manager assumed full control of the payroll function and did not withhold the taxes correctly. No oversight was provided to ensure the payroll process was being properly performed.

Effect: The Village is subject to all of the penalties listed above and has a large, unfunded payroll liability due to the IRS and State of Michigan.

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

MATERIAL WEAKNESSES (Continued)

Directive: We direct the Village to begin withholding Medicare and Social Security taxes from all employees. We further direct the Village to submit all of the required forms listed above and submit them on time to prevent future penalties. The Village should implement procedures to ensure that there is monitoring of the payroll to ensure that the proper amounts are withheld and the forms are filed.

Management's Response-Corrective Action Plan: As stated previously, checks and balances are in place which should allow the Village to eliminate this previous problem. The Village currently is on pace to pay back all delinquent employer's quarterly Federal tax returns (form 941) and other taxes, and have communicated on a regular basis our findings and remedy to allow the Village to get caught up on all back payroll taxes.

Ability to Modify Computerized Transactions

Finding 2008-11

Condition: The Village's accounting software (QuickBooks) does not prevent the deletion or modification of posted transactions. Management has not been making use of the "audit trail" feature available in the software package to track any modifications or deletions made to posted transactions. This is a repeated comment, but became much more evident with the modification of the transactions that led to the misappropriation of funds.

Criteria: Computerized accounting systems should have some type of feature that either prevents the modification of transactions once posted, or provides some type of audit trail for a reviewer to be able to track any changes made to computerized transactions after posting.

Cause: This condition is the result of a limitation in the software package used by the Village to maintain its accounting records.

Effect: As a result of this condition, the Village lacks internal controls over the alteration of posted general ledger and other transactions.

Recommendation: The Village should contact the creators of the accounting software and inquire of any features included in the present version that could mitigate the risks associated with this issue. If no such feature is available, we recommend that management consider taking other action to address this risk, up to and including possible replacement of the software package.

Management's Response-Corrective Action Plan: We will have to check with the company's software provider to see if this is possible.

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

MATERIAL WEAKNESSES (Continued)

Due To/Due From Accounts

Finding 2008-12

Condition: The “due to/due from” accounts did not reconcile with each other until corrections were made by the independent CPA firm hired by the Village. Numerous errors were posted to these accounts that overstated and understated revenues. The Village also has not repaid these balances for numerous years.

Criteria: These accounts are set up to record short-term amounts “due to/due from” other accounts. An entry made in one fund should have an equal offsetting entry made in another fund. Essentially, “due to accounts” should equal “due from accounts”.

Further, the Uniform Chart of Accounts defines these accounts “to record short-term amounts due to/from other funds within the local unit.”

Cause: The general ledger was not being maintained properly by the former Village Manager.

Effect: Revenues and expenses were both overstated and understated in all funds making the financial statements inaccurate.

Recommendation: The Village shall periodically review due to/due from accounts to ensure that they are in balance throughout the year. The Village shall also repay the balances to the funds making the short-term loans and/or reclassify the balances as long-term advances.

Management's Response-Corrective Action Plan: The Village is currently in the process of repaying the short term loans per the recommendation in the audit. However, the Village does not have in place a way of tracking due to and due from on a monthly basis.

Accruals

Finding 2008-13

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

Criteria: Governmental funds are to be maintained on a modified accrual basis. Generally accepted accounting principles also require that accounts receivable and accounts payable be established to properly match the fiscal year’s revenues and expenses. Enterprise funds are to be maintained on a full accrual basis of accounting.

Cause: The Village personnel discontinued its fiscal year end responsibilities including the posting of accruals.

Effect: The corresponding revenue and expense accounts were misstated.

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

MATERIAL WEAKNESSES (Continued)

Recommendation: We recommend that the Village record accruals. The accruals should be reconciled to subsidiary records to support the balances in the respective general ledger accounts.

Management's Response-Corrective Action Plan: All accounts are now done on an accrual basis.

Failure to Pay Pension Benefit

Finding 2008-14

Condition: For fiscal year 2008, the Village paid a partial payment of \$3,714 to the pension plan. For fiscal year 2009, the Village paid \$0. An audit adjustment has been posted for fiscal year 2009 to record the outstanding liability of \$5,122.

Criteria: According to the standardized adoption agreement signed by the Village, the Village is responsible for contributing an amount equal to 7% of the qualifying participant's compensation for the plan year.

Cause: The Village Manager did not make the required payments and the Village Council did not question the lack of the payment in fiscal year 2009.

Effect: As of March 31, 2009, the Village has an unfunded pension liability of \$5,122.

Recommendation: We recommend that the Village Council implement procedures to ensure amounts due to the pension plan are reviewed and paid timely and in accordance with the standardized adoption agreement.

Management's Response-Corrective Action Plan: All pension payments are current and I believe the Village will need to create a calendar for all involved with key dates for reports and payments.

Old Personnel Policy

Finding 2008-15

Condition: The personnel policy being utilized by the Village was adopted by the Village Council on March 10, 1994. The last and only amendment to the policy occurred September 12, 2002. The personnel policy may not be designed to implement the requirements of the current Village Council.

Criteria: Personnel policies are designed to provide guidance to Village employees regarding their responsibilities in the performance of their duties. They also provide the documentation for holding employees accountable for their actions.

Cause: The Village Council has not reviewed the policy.

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

MATERIAL WEAKNESSES (Continued)

Effect: The policy may be deficient or may not follow the requirements established by the current Village Council.

Recommendation: We recommend that the Village Council review, update, and approve a new personnel policy that will be in accordance with the Village Council's current direction.

Management's Response-Corrective Action Plan: These types of issues will be addressed when the new Village Manager starts February 15th 2010.

Imprest Cash

Finding 2008-16

Condition: The Village has \$50 recorded as imprest cash in the General Fund. The account is not reconciled to the set amount, as the imprest cash box contained more than the \$50 recorded.

Criteria: According to the Uniform Accounting Procedures Manual, the Village Council should adopt a policy statement or resolution regarding imprest cash. The amount posted as imprest cash in the general ledger of the Village must agree with the Village Council established amount. The imprest balance on hand should then be reconciled to the established balance and reconciled timely.

Cause: The imprest cash has not been reviewed or addressed for an extended period of time.

Effect: The General Fund will have to receipt in the unaccounted funds to reestablish the imprest cash balance to the correct amount.

Recommendation: We recommend that the Village Council first establish a policy statement or resolution stating the imprest cash balances to be used by the Village. Second, the Village should adjust its general ledger to reflect the balance of the imprest cash. Third, the Village Council should establish reconciling procedures for maintaining the imprest cash balance.

Management's Response-Corrective Action Plan: No corrective action has been taken at this time, but the Village Council will work with the staff to accomplish this.

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

NONCOMPLIANCE WITH STATE STATUTES

General Checking Account--Old Outstanding Checks

Finding 2008-17

Condition: The Village has three checking accounts currently with outstanding checks that are over one year old.

Criteria: According to MCL 567.234: "Property held for the owner by a court, state, or other government, governmental subdivision or agency, public corporation, or public authority that remains unclaimed by the owner for more than 1 year after becoming payable or distributable is presumed abandoned."

MCL 567.238 then states: "...A person holding property presumed abandoned and subject to the state's custody as unclaimed property under this act shall be reported to the administrator concerning the property as provided in this section. The report shall include all of the following: The name, if known, social security number, if known, and last known address, if any, of each person appearing from the records of the holder to be the owner of property of the value of \$50.00 or more presumed to be abandoned..."

MCL 567.240 then states: "A person who is required to file a report ...shall at the time of the report pay or deliver to the administrator all abandoned property to be reported...or any balance owing if an estimated payment was made..."

Cause: The former Village Manager was not performing bank reconciliations and any unclaimed checks were never addressed.

Effect: The Village is in noncompliance with the State statute.

Directive: We direct that the treasurer's office turn over all unclaimed checks over one year old with a value of \$50 or more to the State of Michigan, in accordance with the above statutory requirements.

Management's Response-Corrective Action Plan: The Village agrees with the directive.

Vehicle Rental Expense

Finding 2008-18

Condition: The Village did not record any vehicle rental expense for any of the fiscal years audited.

Criteria: According to MCL 247.664: "All county road commissions and cities and Villages shall keep accurate and uniform records on all road and street work."

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Cause: The Village Manager did not record the expenses.

Effect: The Village is in noncompliance with State statute. The General Fund is not being reimbursed for the equipment it has purchased that is being utilized by other funds.

Directive: We direct the Village to begin recording the vehicle rental expense to properly charge the street funds to comply with State statutes and reimburse the General Fund for the equipment it owns.

Management's Response-Corrective Action Plan: The Village is currently doing the directive.

Violation of the Open Meetings Act

Finding 2008-19

Condition: On May 9, 2007, the Village Council approved to go into closed session to discuss water authority issues. On June 11, 2007, October 27, 2007, February 5, 2008, March 18, 2008, April 17, 2008, and June 19, 2008, the Village Council approved to go into closed session with no reason indicated in the minutes as to the purpose of the closed sessions. On February 25, 2009, the Village Council approved to go into closed session with Attorney Lax. No indication was given as to what was to be discussed. On April 16, 2009, the Village Council approved to go into closed session for the purpose of attorney/client privilege discussion on two items, the letter on easements and update on mediation. On May 17, 2007, November 15, 2007, February 19, 2008, and March 20, 2008, the Village Council approved to go into closed meeting to approve closed meeting minutes.

Criteria: MCL 15.268 states: "A public body may meet in a closed session only for the following purposes:

- (a) To consider the dismissal, suspension, or disciplining of, or to hear complaints or charges brought against, or to consider a periodic personnel evaluation of, a public officer, employee, staff member, or individual agent, if the named person requests a closed hearing. A person requesting a closed hearing may rescind the request at any time, in which case the matter at issue shall be considered after the rescission only in open sessions.
- (b) To consider the dismissal, suspension, or disciplining of a student if the public body is part of the school district, intermediate school district, or institution of higher education that the student is attending, and if the student or the student's parent or guardian requests a closed hearing.
- (c) For strategy and negotiation sessions connected with the negotiation of a collective bargaining agreement if either negotiating party requests a closed hearing.
- (d) To consider the purchase or lease of real property up to the time an option to purchase or lease that real property is obtained.

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

NONCOMPLIANCE WITH STATE STATUTES (Continued)

- (e) To consult with its attorney regarding trial or settlement strategy in connection with specific pending litigation, but only if an open meeting would have a detrimental financial effect on the litigating or settlement position of the public body.
- (f) To review and consider the contents of an application for employment or appointment to a public office if the candidate requests that the application remain confidential. However, except as otherwise provided in this subdivision, all interviews by a public body for employment or appointment to a public office shall be held in an open meeting pursuant to this act.
- (h) To consider material exempt from discussion or disclosure by state or federal statute.”

MCL 15.267, Section 7 (1) of the Open Meetings Act states, in part: “The roll call vote and the purpose or purposes for calling the closed session shall be entered into the minutes of the meeting at which the vote is taken.”

Cause: The Village Council was unaware of the Statutes requirements.

Effect: The Village is noncompliant with the Open Meetings Act.

Directive: We direct the Village to discontinue holding closed sessions unless held in accordance with the State law above. If a meeting is held in accordance with the Open Meetings Act, the purpose of the closed session should be clearly defined in the minutes of the council meeting.

Management's Response-Corrective Action Plan: The Village is adhering to the directive and also has hired a new clerk who is going through training.

Budgeting

Finding 2008-20

Condition: Budgets were not adopted for the Major Street Fund, Local Street Fund, Liquor Law Fund, and Building Department Fund. The budget prepared for the General Fund was not prepared in accordance with the Uniform Chart of Accounts and the expenditures were not adopted at the activity level.

Criteria: MCL 141.436 (1) states: “The legislative body of each local unit shall pass a general appropriations act for all funds except trust or agency, internal service, enterprise, debt service or capital project funds for which the legislative body may pass a special appropriation act.”

MCL 141.436 (4) states: ‘The general appropriations act shall be consistent with the uniform chart of accounts prescribed by the state treasurer.’

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

NONCOMPLIANCE WITH STATE STATUTES (Continued)

MCL 141.438 states: “Except as otherwise provided in section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body. The chief administrative officer, an administrative officer, or an employee of the local unit shall not apply or divert money of the local unit for purposes inconsistent with those specified in the appropriations of the legislative body.”

Effect: The Village is in noncompliance with State statute. The Village is incurring expenditures in excess of the budget (because there was no budget adopted).

Directive: We direct the Village to comply with statutory budgeting requirements and to schedule and hold hearings as required by law. The Village Council should take appropriate action to ensure that budgets are passed for all required funds, balanced, and adopted in a timely manner and make budget amendments as needed throughout the year as required by law.

Management's Response-Corrective Action Plan: The Village is currently complying with this directive.

Expenditures in Excess of Appropriations

Finding 2008-21

Condition: Our examination of procedures used by the Village to adopt and maintain operating budgets for the Village’s budgetary funds revealed the following instances of noncompliance with the provisions of PA 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level by the Village. As detailed below, actual 2009 expenditures exceeded the Village Council’s approved budget allocations for several general fund and special revenue fund activities.

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

NONCOMPLIANCE WITH STATE STATUTES (Continued)

During the fiscal year ended March 31, 2009, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as follows:

<u>Fund, Function and Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess Expenditures</u>
General Fund			
General Government			
Village Council	\$ 30,281	\$ 32,031	\$ (1,750)
Office Staff	12,913	21,142	(8,229)
General Expenses	3,876	6,503	(2,627)
Elections	500	783	(283)
Attorney Fees	35,700	115,903	(80,203)
Public Works			
Drain-At-Large	426	1,902	(1,476)
Department of Public Works	30,510	77,868	(47,358)
Refuse Collection	60,000	60,638	(638)
Other			
Liability Insurance	3,570	10,488	(6,918)
Health Insurance	17,850	58,395	(40,545)
Employer Share of Payroll Taxes		10,640	(10,640)
Credit Card Fees and Penalties		955	(955)
Other	3,875	9,480	(5,605)
Capital Outlay	124,785	165,135	(40,350)
Debt Service		22,847	(22,847)

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Section 17 of PA 2 of 1968.

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

Directive: We direct the Village 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-Corrective Action Plan: The Village is currently doing this by reviewing all accounts, line by line to ensure the Village is following the directive.

Council Approval of Expenses

Finding 2008-22

Condition: The Village Council makes a motion at each meeting to approve the expenditures presented. However, checks were written beyond those that were approved and the misappropriated amounts were not presented to the Council or received Council approval.

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended March 31, 2009

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Criteria: According to Michigan Compiled Laws (MCL) 65.7: “The council shall audit and allow all accounts chargeable against the Village. An account or claim or contract shall not be received for audit or allowance unless it is accompanied with a certificate of an officer of the Village, or an affidavit of the person rendering it, that the services therein charged have been actually performed or the property delivered for the Village, that the sums charged therefore are reasonable and just, and that to the best of his or her knowledge and belief, no set-off exists, and no payment has been made on account thereof, except such set-offs or payments as are endorsed or referred to in the account or claim. Each account shall exhibit in detail all the items making up the amount claimed, and the date of each. The council may adopt a different procedure for the audit and allowance of accounts, claims, and contracts than that provided by this subsection.”

Cause: The Village Manager did not present all expenditures and the Village Council did not monitor the expenditures or the checks being written.

Effect: The Village Council is not fully aware of the claims that are paid and those that are not being paid. The financial condition of the Village will fluctuate without the Village Council being able to track the actual flow of expenditures.

Directive: We direct the Village Council to review and approve all claims (bills) prior to payment.

Management's Response-Corrective Action Plan: The Village is currently doing this process as was stated earlier in the audit report.

Noncompliance with the Uniform Chart of Accounts

Finding 2008-23

Condition: The Village is not in compliance with the Uniform Chart of Accounts. The Village is currently charging the to the Village Council planning wages, postage, phone bills, internet, bank fees, attorney fees, retirement, pension, health insurance, and liability insurance which, should properly be charged to other activities rather than to the Village Council. We reclassified items as separate activities in the General Fund.

Criteria: MCL 141.421 states: “The state treasurer shall prescribe uniform charts of accounts for all local units of similar size, function, or service designed to fulfill the requirements of good accounting practices relating to general government... The official who by law or charter is charged with the responsibility for the financial affairs of the local unit shall insure that the local unit accounts are maintained and kept in accordance with the chart of accounts.”

In regards to the Village Council, the Uniform Chart of Accounts states only expenditures that are directly related to the legislative body such as salaries, travel expenses, advertising, dues and subscriptions, etc., should be charged against this activity.

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Cause: The Village's current accounting software, Quick-Books, is not designed for governmental units and is not designed to follow the Uniform Chart of Accounts. No provisions have been made to modify the system to bring the account numbers in compliance with the Uniform Chart of Accounts.

Effect: The Village is in noncompliance with State statute.

Directive: We direct to the Village to correct the fund and account numbers to comply with the State statute above and the Uniform Chart of Accounts. Quick-Books does allow for a nine digit account if set up properly. We recommend that only those items that can be directly attributed to the Village Council (activity) be recorded as Village Council expenditures. We recommend that the Village Council use the proper activity numbers to classify expenditures in accordance with the Uniform Chart of Accounts.

Management's Response-Corrective Action Plan: The Village is still using current software but all accounts are in compliance with the State. The Village may look at new software in 2011.

Electronic Transactions of Public Funds

Finding 2008-24

Condition: The Village has not adopted an Automated Clearing House (ACH) policy.

Criteria: According to MCL 124.303: "A local unit shall not be a party to an Automated Clearing House (ACH) arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer or the Electronic Transaction Officer (ETO) of the local unit has presented a written ACH policy to the governing body. The ACH policy shall include all of the following:

- (a) That an officer or employee designated by the treasurer or ETO is responsible for the local unit's ACH agreements, including payment approval, accounting, reporting, and generally for overseeing compliance with the ACH policy.
- (b) That the officer or employee responsible for disbursement of funds shall submit to the local unit documentation detailing the goods or services purchased, the cost of the goods or services, the date of the payment, and the department levels serviced by payment. This report can be contained in the electronic general ledger software system of the local unit or in a separate report to the governing body of the local unit.
- (c) A system of internal accounting controls to monitor the use of ACH transactions made by the local unit.
- (d) The approval of ACH invoices before payment.
- (e) Any other matters the treasurer or ETO considers necessary."

Cause: Village personnel were not aware of the State statute.

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Effect: The Village is electronically transferring funds without legal authority.

Directive: We direct the Village council to adopt a resolution to authorize electronic transactions and to adopt a policy that includes the above mentioned items.

Management's Response-Corrective Action Plan: The Village will do as the directive states.

Social Security Number Privacy Policy

Finding 2008-25

Condition: The Village has not adopted a Social Security Number Privacy Policy.

Criteria: According to the Social Security Privacy Act, PA 454 of 2004, MCL 445.84, Section 4 (1), beginning January 1, 2006, a person in the ordinary course of business who obtains or retains information about one or more social security numbers must create a policy that does at least all of the following:

- (a) Ensures to the extent practicable, the confidentiality of the social security numbers.
- (b) Prohibits unlawful disclosure of social security numbers.
- (c) Limits who has access to information or documents that contain the social security numbers.
- (d) Describes how to properly dispose of documents that contain the social security numbers.
- (e) Establishes penalties for violation of the privacy policy.

Section 4, subsection 2, requires a person that creates a privacy policy under subsection 1 shall publish the privacy policy in an employee handbook, in a procedures manual, or in one or more similar documents, which may be made available electronically.

Cause: Village personnel were not aware of the State statute.

Effect: Social security numbers may be unlawfully disclosed as access to the information is not limited, disposal procedures are not formalized, and no penalties for violating the Act are established.

Directive: We direct the Village to adopt a Social Security Number Privacy Policy implementing at least the minimum protections and procedures listed above.

Management's Response-Corrective Action Plan: The Village will adopt a Social Security Number Privacy Policy.

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Investment Policy

Finding 2008-26

Condition: As of March 31, 2009, the Village Council has not adopted an investment policy in accordance with State statutes.

Criteria: According to PA 20 of 1943, as amended, a formal investment policy is to be adopted by the Village Council no later than September 30, 1998.

Effect: The Village is in noncompliance with State statute.

Directive: We direct that an investment policy be established in accordance with PA 20 of 1943, as amended.

Management's Response-Corrective Action Plan: The Village will adopt the directive as stated.

Credit Card Policy

Finding 2008-27

Condition: The Village is using credit cards without adopting a credit card policy.

Criteria: Public Act 266 of 1995 requires a local unit to adopt, by resolution, a written policy that provides all of the following:

- a) A named officer or employee is responsible for the issuance, accounting, monitoring, and retrieval and generally for overseeing compliance with the credit card policy.
- b) That the credit card may be used only by an officer or employee for the purchase of goods or services for the official business of the local unit.
- c) The officer or employee using the credit card must submit documentation detailing the goods or services purchased, cost, date of the purchase, and the official business.
- d) The officer or employee issued the card is responsible for its protection and custody and shall immediately notify the local unit if the card is lost or stolen.
- e) The officer or employee must immediately surrender the card upon termination.
- f) For a system of internal controls to monitor the use of the credit card.
- g) Approval of credit card invoices before payment.
- h) That the balance including interest due on an extension of credit under the credit card arrangement shall be paid for not more than 60 days of the initial statement date. The local unit shall comply with this provision of the credit card policy.
- i) The policy must provide for disciplinary measures consistent with law for unauthorized use.
- j) Any other matters the governing body considers advisable.

Directive: We direct the Village to adopt a credit card policy that includes the items listed above.

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Management's Response-Corrective Action Plan: The Village will do what the directive has stated.

Filing of Act 51 Report

Finding 2008-28

Condition: The Village has not filed its Act 51 report to the Michigan Department of Transportation.

Criteria: According to MCL 247.665, the Village shall file with the director of the State Transportation Department, not more than 120 days after the end of its fiscal year, on forms provided by the director, a report showing the disposition of funds, appropriated, apportioned, or allocated under this act to the Village.

Cause: No one from the Village prepared or submitted the report.

Effect: The Michigan Department of Transportation has withheld the Village's Michigan Transportation Fund payments, reducing the cash inflows to the Major and Local Street Funds.

Directive: We direct the Village to file the Act 51 report with the Michigan Department of Transportation.

Management's Response-Corrective Action Plan: All reports are current and the Village is receiving all Act 51 payments.

Failure to File Annual F-65 Reports and Audit Report

Finding 2008-29

Condition: The Village failed to file F-65 reports for 2007, 2008, and 2009 and an audit report for 2008 with the State of Michigan, Department of Treasury. This has led to the withholding of the statutory portion of the Village's State revenue sharing.

Criteria: MCL 141.421 Section 1 states: "The chief administrative officer of each local unit shall make an annual financial report (local unit fiscal report) which shall be uniform for all local units of the same class." Section 3 states: "One copy of the annual financial report required by subsection (1) shall be filed with the state treasurer within 6 months after the end of the fiscal year of the local unit."

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

NONCOMPLIANCE WITH STATE STATUTES (Continued)

MCL 141.921 further states (1) If a city, Village, township or county fails to provide an annual financial report or audit which conforms with the minimum procedures and standards prescribed by the state treasurer and is required under Act No. 2 of the Public Acts of 1968, as amended, being sections 141.421 to 141.440a of the Michigan Compiled Laws, or Act No. 71 of the Public Acts of 1919, being sections 21.41 to 21.53 of the Michigan Compiled Laws, the payments required under this act may be withheld until the financial report or audit is submitted as required by law.

Cause: No one from the Village prepared or submitted the reports.

Effect: The Michigan Department of Treasury is now withholding the statutory portion of the Village's State revenue sharing payments, reducing the cash inflow to the General Fund.

Directive: We direct that the Village file audit reports and F-65 reports as required by Federal and State governments. Once the reports are filed, we recommend that the Village request the release of State-shared revenues that have been withheld by the State.

Management's Response-Corrective Action Plan: Thanks to the State of Michigan Treasury, the F-65 reports have been filed and the Village has received all revenue sharing that the State was withholding.

Fund Deficits

Finding 2008-30

Condition: At March 31, 2008, the Village had an accumulated deficit in its Building Department Fund of \$71,837. As of March 31, 2009, the Village has accumulated deficits in its Building Department Fund and DDA Fund of \$97,597 and \$27,633, respectively.

Criteria: Public Act 140 of 1971, as amended, requires the Village to file a deficit elimination plan with the Michigan Department of Treasury within 90 days after the end of the fiscal year for each fund that ended that year in a deficit condition. The Village has not filed the required plan.

Cause: Village Council members did not know there were deficits until the audits were completed.

Effect: The Village has not established a formal plan for removing the deficits and improving the financial condition of the Village.

Directive: We direct the Village to prepare the deficit elimination plan as required by State statute and to call the Department of Treasury's Municipal Finance section if further direction is needed.

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Management's Response-Corrective Action Plan: The Village will do as the directive has noted.

Downtown Development Authority Annual Report

Finding 2008-31

Condition: The Downtown Development Authority (DDA) has not filed a timely annual report with the State Tax Commission on an annual basis.

Criteria: MCL 125.1665 states: "Annually the authority shall submit to the governing body of the municipality and the State Tax Commission a report on the status of the tax increment financing account. The report shall be published in a newspaper of general circulation in the municipality and shall include the following:

- (a) The amount and source of revenue in the account.
- (b) The amount in any bond reserve account.
- (c) The amount and purpose of expenditures from the account.
- (d) The amount of principal and interest on any outstanding bonded indebtedness.
- (e) The initial assessed value of the project area.
- (f) The captured assessed value retained by the authority.
- (g) The tax increment revenues received.
- (h) The number of jobs created as a result of the implementation of the tax increment financing plan.
- (i) Any additional information the governing body or the State Tax Commission considers necessary."

Cause: Village employees were not aware of this requirement.

Effect: The Village is in noncompliance with State statute. The State Tax Commission could not determine if a tax increment financing plan was being followed and if amounts captured were in accordance with the plan and related State statutes.

Directive: We direct the Village and the DDA to submit the required annual report to the State Tax Commission.

Management's Response-Corrective Action Plan: The Village will do as the directive has noted.

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Promissory Notes--DDA

Finding 2008-32

Condition: On December 21, 2006, the Village Council approved a resolution to obtain “lines of credit” to assist the DDA in the purchase of land. On January 5, 2007, the Village obtained a “term promissory note” with available funds of \$700,000. It also requires that the Village maintain accurate and proper books and to furnish the financing institution financial statements within 90 days of fiscal year end. This has not been done as the Village’s last audit was for March 31, 2006. On January 5, 2008, the Village obtained a “revolving promissory note” with available funds of \$300,000 bringing the total funds available for withdrawal to \$1,000,000. The principal amounts were due to be paid back, in full, on January 5, 2009 with interest payments to be paid monthly.

As of March 31, 2008, and 2009, the balance owed was \$304,625 and \$691,435, respectively. The revenue received from captured taxes as of March 31, 2008, and 2009, totaled \$24,158 and \$26,860, respectively. No monitoring of the DDA’s financial position was performed by the DDA or the Village Council as the revenue received cannot cover the balance due. During DDA meetings, cash balances of less than \$5,000 were disclosed and then the motions were made to purchase additional properties leading to the total amount due. The due date has now been extended to January 2010 due to the lack of sufficient funds to pay the obligation of the DDA or the Village.

Criteria: First, the structure of both “notes” is to only pay principal at the conclusion of the loan, which is an unusual arrangement for a local governmental unit.

Second, the “term promissory note” requires that the borrower (Village) “shall maintain accurate and proper books and records; shall furnish to the financing institution within ninety (90) days after the end of each fiscal year the financial statements of Borrower prepared in accordance with generally accepted accounting principles consistent with prior years unless specifically noted thereon, and furnish to the financing institution within sixty (60) days after the end each calendar period interim financial statements, and to furnish to the financing institution with time periods requested by the financing institution cash flow statements, cash flow projections, receivables and payables aging schedules, and such other financial information as is requested from time to time by the financing institution, for the periods required by the financing institution, all prepared and signed by the chief financial officer of the Borrower in accordance with generally accepted accounting principles consistent with prior periods unless specifically noted thereon; and shall permit periodic audits or other examination of books, records, accounts and properties by the financing institution and the financing institution’s representatives and submit such additional information as the financing institution may request.”

VILLAGE OF STEVENSVILLE

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2009

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Cause: The lack of monitoring the overall financial position of the DDA by the Village Council and DDA Board and the lack of foresight and accountability when incurring debt regarding its legality and the Village's ability to repay.

Effect: The Village Council may now need to assume the responsibility of paying the principal balance of \$691,320 as of February 2010 since the DDA lacks the ability for repayment. The Village may have obtained an illegal loan.

Directive: First, we direct the Village to seek legal counsel on the validity of the loan. Second, we direct the Village to obtain audits and maintain its records in accordance with the provisions of the "term promissory note." Finally, we recommend the Village Council and the DDA board begin to thoroughly examine its financial condition in the future to ensure that funds are spent responsibly.

Management's Response-Corrective Action Plan: The Village is in the process of inquiring with outside legal council on the legality of the loan. The Village never should have taken out the loan and it will be a challenge for the Village to pay back the loan, the only hope of a pay back and it will only be partial is to sell the properties which are currently only worth 40% of what the Village paid for them. If they are developed, the increase in taxable value will be captured by the DDA. Currently, the general fund does not have the capacity to pay the loans back and the general fund is doing so at this point and the DDA is paying the general fund at a lower rate.