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November 13, 2009

To Village Board  
Village of Lake Isabella  
Isabella County, Michigan

We have completed our audit of the financial statements of Village of Lake Isabella as of and for the year ended June 30, 2009 and have issued our report dated November 13, 2009. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditors' Communication of Significant Matters with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel in the Village during the audit and have already met with management. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Directors, and others within the Village, and are not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

*Yeo & Yeo, P.C.*

Midland, Michigan

### **Responsibilities under generally accepted auditing standards**

As stated in our engagement letter dated October 29, 2009, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you of your responsibilities.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

### **Significant Audit Findings**

#### **Qualitative Aspects of Accounting Practices**

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the Village during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.
- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

#### **Difficulties Encountered During the Audit**

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

#### **Corrected Misstatements**

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

#### **Disagreements with Management**

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditors' report. We had no disagreements with management during the audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

### **Management's Consultations with Other Accountants**

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

### **Significant Issues Discussed or Subject to Correspondence with Management**

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

## Appendix II Management Comments

In planning and performing our audit of the financial statements of Village of Lake Isabella as of and for the year ended June 30, 2009, we considered Village of Lake Isabella's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls, improving operating efficiency and reducing expenses. This letter does not affect our report dated November 13, 2009, on the financial statements of Village of Lake Isabella. Our comments and recommendations regarding those matters are:

### **CURRENT YEAR COMMENTS**

None.

### **PRIOR YEAR COMMENTS:**

#### **SEGREGATION OF DUTIES**

As part of the internal control process, there should be a segregation of duties between cutting checks, entering checks into the system, receiving unopened bank statements, and reconciling the bank accounts. We noted one person currently performs all of these duties.

#### **Recommendation**

We recommend the Village Manager receive unopened bank statements and review and initial the bank statement prior to giving it to the Deputy Village Manager for reconciliation. After the bank reconciliation is prepared by the Deputy Village Manager, the Village Manager should review and initial the bank reconciliation. This will ensure there is segregation of duties and monitoring of check preparation, entering information into the system, and the bank reconciliation.

**Follow-up: *Recommendation has been implemented during current year.***

#### **CAPITALIZATION POLICY**

During our review of procedures for Village of Lake Isabella, we have noticed that the Village has a capitalization policy for fixed assets of \$500.

#### **Recommendation**

We recommend the Village adjust the fixed asset capitalization policy to anywhere from \$3,000 to \$5,000. Increasing the capitalization policy will accurately include assets that have a long, useful life and reduce the amount of time spent on analyzing items purchased during the year to determine if they should be included.

**Follow-up: *Recommendation has been implemented during current year. Capitalization policy is \$2,500.***

Prepared by \_\_\_\_\_

**Village of Lake Isabella  
Adjusting Journal Entries**

05106921

Reviewed by \_\_\_\_\_

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| Reference | Type               | Date<br>Account<br>Number | Description                                       | Debit      | Credit     |
|-----------|--------------------|---------------------------|---|------------|------------|
| AJE01     | Adjusting          | 06/30/09                  |   |            |            |
|           |                    | 202-000-698-000           | Loan proceeds                                     |            | 8,545.00   |
|           |                    | 203-000-698-000           | Loan proceeds                                     |            | 8,545.00   |
|           |                    | 202-453-981-000           | Capital Outlay                                    | 8,545.00   |            |
|           |                    | 203-453-981-000           | Capital Outlay                                    | 8,545.00   |            |
|           |                    | 202-453-981-000           | Capital Outlay                                    |            | 1,888.00   |
|           |                    | 202-453-995-000           | Principal payment                                 | 1,888.00   |            |
|           |                    | 203-453-981-000           | Capital Outlay                                    |            | 1,888.00   |
|           |                    | 203-453-995-000           | Principal payment                                 | 1,888.00   |            |
|           |                    |                           | to record loan proceeds on new tractor            |            |            |
| AJE02     | Adjusting<br>Recur | 06/30/09                  |   |            |            |
|           |                    | 581-439-968-000           | Depreciation expense                              | 10,323.00  |            |
|           |                    | 581-000-141-000           | Acc. Depreciation-Runway                          |            | 10,323.00  |
|           |                    |                           | To record CY depreciation expense                 |            |            |
| AJE03     | Adjusting          | 06/30/09                  |   |            |            |
|           |                    | 855-000-045-000           | Special Assessment Receivable                     |            | 31,008.00  |
|           |                    | 855-000-264-000           | Deferred Revenue                                  | 31,008.00  |            |
|           |                    | 856-000-045-000           | Special Assessment Receivable                     |            | 9,703.00   |
|           |                    | 856-000-264-000           | Deferred Revenue                                  | 9,703.00   |            |
|           |                    | 857-000-045-000           | Special Assessment Receivable                     |            | 5,361.00   |
|           |                    | 857-000-264-000           | Deferred Revenue                                  | 5,361.00   |            |
|           |                    | 858-000-045-000           | Special Assessment Receivable                     |            | 4,920.00   |
|           |                    | 858-000-264-000           | Deferred Revenue                                  | 4,920.00   |            |
|           |                    | 859-000-045-000           | Special Assessment Receivable                     |            | 2,898.00   |
|           |                    | 859-000-264-000           | Deferred Revenue                                  | 2,898.00   |            |
|           |                    | 860-000-045-000           | Special Assessment Receivable                     |            | 192,356.00 |
|           |                    | 860-000-264-000           | Deferred Revenue                                  | 192,356.00 |            |
|           |                    |                           | to adjust A/R and DR for principal<br>collections |            |            |
| Client01  | Adjusting          | 06/30/09                  |   |            |            |
|           |                    | 101-000-001-000           | Cash in Checking                                  | 500.00     |            |
|           |                    | 101-346-726-300           | Supplies - Computer                               |            | 500.00     |
|           |                    |                           | To remove o/s check that was reissued             |            |            |
| Client02  | Adjusting          | 06/30/09                  |   |            |            |
|           |                    | 101-000-078-000           | Due from the State of Michigan                    | 22,994.00  |            |
|           |                    | 101-000-264-000           | Deferred Revenue                                  |            | 22,994.00  |
|           |                    |                           | to correct entry posted backwards                 |            |            |