

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Village of Lake Isabella</b>	County <b>Isabella</b>
Audit Date <b>6/30/04</b>	Opinion Date <b>1/14/05</b>	Date Accountant Report Submitted to State: <b>1/31/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |                              |  |   |
|------------------------------|--|---|
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Page, Olson &amp; Company, P.C., CPA's</b>			
Street Address <b>2865 South Lincoln Road- P.O. Box 368</b>	City <b>Mt. Pleasant</b>	State <b>MI</b>	ZIP <b>48804-0368</b>
Accountant Signature 		Date <b>1/31/05</b>	

**VILLAGE OF LAKE ISABELLA**  
**ISABELLA COUNTY, MICHIGAN**  
**AUDITED FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2004**

**VILLAGE OF LAKE ISABELLA**  
**YEAR ENDED JUNE30, 2004**

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**VILLAGE OF LAKE ISABELLA  
OFFICIALS  
JUNE 30, 2004**

VILLAGE COUNCIL

President

George Dunn

President Protem

David Torgerson

Treasurer

Charlie Kiel

Clerk

Jeff Grey

Members

Jackie Adkins  
Brian Hughes  
Arnie Griffin

VILLAGE MANAGER

Timothy R. Wolff



PAGE

OLSON &amp;

COMPANY P.C.

## INDEPENDENT AUDITOR'S REPORT

January 14, 2005

Village Council  
Village of Lake Isabella, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Lake Isabella, Michigan as of and for the year ended June 30, 2004, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Lake Isabella, Michigan's, management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Lake Isabella, Michigan, as of June 30, 2004, 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.

As described in Note 1, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of June 30, 2004.

The management's discussion and analysis and budgetary comparison information on pages 5 through 10 and 35 through 37, 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 supplementary information. However, we did not audit the information and express no opinion on it.

Village Council  
Village of Lake Isabella, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Lake Isabella, Michigan's basic financial statements. The required supplemental and other supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information relative to June 30, 2004 and for the year then ended has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our report of comments and recommendations is included herein and forms a part of this report.

*Page, Olson & Company*

# VILLAGE OF LAKE ISABELLA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Village of Lake Isabella, we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village of Lake Isabella for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the financial report. All amounts, unless otherwise indicated, are presented in whole dollars.

### Financial Highlights

The assets of the Village exceeded its liabilities at the close of the most recent fiscal year by \$2,858,593 (net assets). Of this amount, \$658,093 (unrestricted net assets) may be used to meet the government's ongoing obligations to the citizens and creditors.

The government's total net assets increased by \$210,931. This increase was primarily due to special assessments provided funding for infrastructure projects.

As of the close of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$786,001, an increase of \$138,112 in comparison with the prior year. This is primarily due to the issuance of bonds during the year which relate to capital projects that span over the year end. Approximately \$398,080 of this total amount is available for spending at the government's discretion (unreserved-undesignated fund balance).

At the end of the current fiscal year, unreserved fund balance for the general fund was \$190,277 or approximately 145 percent of total general fund expenditures.

The Village issued \$880,000 in general obligation and special assessment bonds during the current fiscal year. The bonds will finance infrastructure improvements that will be accounted for in the Major and Local Streets Capital Project Funds.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction of the Village's basic financial statements. The Village's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

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

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

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Village include legislative, general government, public safety, public works, and Debt Service. The business-type activities of the Village include the Airport and Sewer operations.

The government-wide financial statements can be found on pages 13 and 14 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

## VILLAGE OF LAKE ISABELLA MANAGEMENT'S DISCUSSION AND ANALYSIS

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Village maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Streets Fund and the two capital projects funds, the Major Streets Capital Project and the Local Streets Capital Projects, all of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in the report.

The Village adopts an annual appropriated budget for its general fund and all special revenue fund types. Budgetary comparison statements have been provided in the supplemental section of the report to demonstrate the extent of compliance with these budgets.

The basic governmental fund financial statements can be found on pages 15 through 16 of this report.

**Proprietary funds.** The Village maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses enterprise funds to account for its Airport and Sewer functions.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for both the Airport and Sewer functions.

The basic proprietary fund financial statements can be found on pages 19 through 21 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Village's own programs. Currently the Village has one fund that is an agency type fund.

The basic fiduciary fund financial statements can be found on page 22 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on beginning on page 23 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information in connection with nonmajor governmental funds. Combining and individual fund statements and schedules can be found on pages 39 through 42 of this report.



# VILLAGE OF LAKE ISABELLA MANAGEMENT'S DISCUSSION AND ANALYSIS

## Government-wide Financial Analysis

The following summaries provide a perspective of the financial information of the Village as a whole:

<b>Village of Lake Isabella's Net Assets.</b>			
	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 1,410,067	\$ 150,462	\$ 1,560,529
Capital assets	2,307,043	277,581	2,584,624
Total assets	3,717,110	428,043	4,145,153
Long-term liabilities outstanding	840,000	-	840,000
Other liabilities	18,517	1,214	19,731
Total liabilities	858,517	1,214	859,731
Net assets:			
Invested in capital assets, net of related debt	1,467,043	277,581	1,744,624
Restricted	733,457	-	1,011,038
Unrestricted	658,093	149,248	807,341
Total net assets	\$ 2,858,593	\$ 426,829	\$ 3,285,422

<b>Village of Lake Isabella's Changes in Net Assets</b>			
	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program revenues:			
Charges for Services	\$ 238,183	\$ -	\$ 238,183
General Revenues:			
Property taxes	42,764	-	42,764
Other	271,823	1,361	273,184
Total Revenues	552,770	1,361	554,131
			-
Expenses:			
Legislative	3,652	-	3,652
General Government	74,601	-	74,601
Public Safety	21,266	-	21,266
Public Works	208,826	-	208,826
Debt Service	24,532	-	24,532
Airport		10,323	10,323
Sewer		-	-
Total Expenses	332,877	10,323	343,200
Increase in net assets before transfers	219,893	(8,962)	210,931
Transfers	611	(611)	-
Increase in net assets	220,504	(9,573)	210,931
Net Assets - July 1	2,638,089	436,402	3,074,491
Net Assets - June 30	\$ 2,858,593	\$ 426,829	\$ 3,285,422

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Village of Lake Isabella, assets exceeded liabilities by \$3,285,422 at the close of the most recent fiscal year.

By far the largest portion of the Village's net assets (53 percent) reflects its investment in capital assets (e.g., land, equipment, infrastructure), less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

## VILLAGE OF LAKE ISABELLA MANAGEMENT'S DISCUSSION AND ANALYSIS

An additional portion of the Village's net assets (32 percent) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets (\$807,341) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Village is able to report positive balances in all three categories of net assets for the government as a whole.

The government's net assets increased by \$210,931 during the current fiscal year. Much of this increase can be contributed to the special assessments recognized for infrastructure improvements within governmental activities, as the business-type activities of the Village reflect a net decrease in assets.

**Governmental activities.** Governmental activities increased the Village's net assets by \$220,504. The key element of this increase as stated above was the influx of special assessments that were used for infrastructure improvements.

**Business-type activities.** Business-type activities decreased the Village's net assets by \$9,573. The key element of this decrease is depreciation expense recorded in the Airport function.

### Financial Analysis of the Government's Funds

As noted earlier, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Village's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$786,001, an increase of \$138,112 in comparison with the prior year. The key element of this increase can be attributed to the issuance of bonds during the year. Approximately \$398,080 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to fund major capital project fund endeavors (\$293, 725), and 2) to pay debt service (\$94,196).

The General fund is the chief operating fund of the Village. At the end of the current fiscal year, unreserved fund balance of the general fund was \$190,277.

The fund balance of the Village's general fund increased by \$23,096 during the current fiscal year. This increase is comparable to increases experienced by the Village in recent years.

The Major Streets Fund experienced an increase of \$23,097 in its fund balance. The this increase is also in line with previous years performance.

The Major Streets Capital Project Fund's fund balance decreased by \$14,754 which is a small decrease considering the amount of expenditures paid in the current year versus the special assessment revenue it received in the prior year. The Local Streets Capital Project Fund remained relatively stable with an increase of \$6,023 in fund balance in the current year.

Significant Nonmajor Governmental fund decreases in fund balance occurred in the Village's local and Village street funds representing primarily an investment in street infrastructure improvements for the year.

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

Unrestricted net assets in the in the Airport and Sewer Funds experienced a net decrease of \$9,573 and is attributable to the depreciation expense recorded in the Airport Fund

# VILLAGE OF LAKE ISABELLA MANAGEMENT'S DISCUSSION AND ANALYSIS

## General Fund Budgetary Highlights

For the fiscal year of 2003-2004 the Village of Lake Isabella continued its practice of building up fund balance in its General and Special Revenue Funds. The annual budget was approved by the Village Council in June of 2003 as required by Village Charter, and was amended by the Council in June of 2004, at the close of the fiscal year.

During the time between the adoption and amendment of the budget, the Village underwent a change in the position of Village Manager. In February of 2004 Tim Wolff began his duties with the Village. Many of the budget amendments that were approved in June of 2004 reflect expenditure increases for needed renovation to the Village office, including a new computer, new office chairs, new reception desk, four new book cases, and two new filing cabinets.

The General Fund was also amended to reflect the increase in fees paid to the Nottawa-Sherman Fire Department for fire coverage in the half of the Village in Broomfield Township. Other amendments that were made reflect increases in the Village's insurance policy, and in the training and transportation line items. Training and transportation were increased to reflect various training activities the Council and staff participated in throughout the year. Six of the seven Council members attended the Michigan Municipal League's core training weekend in January located in Frankenmuth. The Council and Management of the Village feel that to provide the best service for the residents of the Village, training of key personnel is needed to ensure that the Village leaders are knowledgeable in practices of local government.

## Capital Asset and Debt Administration

**Capital Assets.** The Village's investment in capital assets for its governmental and business type activities as of June 30, 2004, amounts to \$2,584,624 (net of accumulated depreciation). This investment in capital assets includes land, equipment, and roads. The total increase in the Village's investment in capital assets for the current fiscal year was approximately 50 percent. This was due to the large scale road construction projects.

### Village of Lake Isabella's Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 6,820	\$ 6,820	\$ 115,000	\$ 115,000	\$ 121,820	\$ 121,820
Buildings	5,833	7,019	-	-	5,833	7,019
Equipment and Vehicles	5,038	2,389	-	-	5,038	2,389
Infrastructure	<u>2,289,352</u>	<u>1,416,754</u>	<u>162,581</u>	<u>172,904</u>	<u>2,451,933</u>	<u>1,589,658</u>
Total	<u>\$ 2,307,043</u>	<u>\$ 1,432,982</u>	<u>\$ 277,581</u>	<u>\$ 287,904</u>	<u>\$ 2,584,624</u>	<u>\$ 1,720,886</u>

Additional information on the Village's capital assets can be found in Note 5 of this report.

**Long-term debt.** At the end of the current fiscal year, the Village had total bonded debt outstanding of \$840,000. Of this amount, \$205,000 comprises debt backed by the full faith and credit of the government and the remaining \$635,000 represents bonds secured solely by specified revenue sources.

### Village of Lake Isabella's Outstanding Debt General Obligation and Revenue Bonds

General obligation bonds	\$ 205,000
Revenue bonds	<u>635,000</u>
Total	<u>\$ 840,000</u>

Additional information on the Village's long-term debt can be found in Note 6 of this report.

# VILLAGE OF LAKE ISABELLA MANAGEMENT'S DISCUSSION AND ANALYSIS

## **Economic Factors**

The long range goals for the Village call for continued improvements on the street network along with constructing a new office building. The Village intends to continue to pursue maintaining or improving the current capital assets that the Village holds. These include a Public Works truck, 160+ individual pieces of property, and the already mentioned office furniture. As the Village continues to grow over the next several years so will the demands placed on the Village for services and community planning.

## **Requests for information.**

This financial report is designed to provide a general overview of the Village's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Village Manager's office.

## **BASIC FINANCIAL STATEMENTS**

**VILLAGE OF LAKE ISABELLA  
STATEMENT OF NET ASSETS  
JUNE 30, 2004**

**Statement I**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
<b>Current Assets</b>			
Cash	\$ 740,825	\$ 150,462	\$ 891,287
Due From State	56,988	-	56,988
Internal Balances	1,214	-	1,214
Special Assessments Receivable	<u>611,040</u>	<u>-</u>	<u>611,040</u>
Total Current Assets	1,410,067	150,462	1,560,529
<b>Noncurrent Assets</b>			
<b>Capital Assets</b>			
Land	6,820	115,000	121,820
Runway	-	206,452	206,452
Buildings, Additions & Improvements	8,300	-	8,300
Equipment	10,604	-	10,604
Office Equipment	7,790	-	7,790
Infrastructure	2,833,595	-	2,833,595
Less Accumulated Depreciation	<u>(560,066)</u>	<u>(43,871)</u>	<u>(603,937)</u>
Total Capital Assets	<u>2,307,043</u>	<u>277,581</u>	<u>2,584,624</u>
Total Assets	<u>\$ 3,717,110</u>	<u>\$ 428,043</u>	<u>\$ 4,145,153</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>			
<b>Current Liabilities</b>			
Accounts Payable	\$ 9,596	\$ -	\$ 9,596
Internal Balances	-	1,214	1,214
Salaries Payable	3,431	-	3,431
Interest Payable	5,490	-	5,490
Long-term Debt Due within One Year	<u>90,000</u>	<u>-</u>	<u>90,000</u>
Total Current Liabilities	108,517	1,214	109,731
<b>Noncurrent Liabilities</b>			
Long-term Debt Due in More Than One Year	<u>750,000</u>	<u>-</u>	<u>750,000</u>
Total Liabilities	858,517	1,214	859,731
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	1,467,043	277,581	1,744,624
Restricted for:			-
Debt Service	704,652		704,652
Capital Projects	28,805		28,805
Unrestricted	<u>658,093</u>	<u>149,248</u>	<u>807,341</u>
Total Net Assets	<u>2,858,593</u>	<u>426,829</u>	<u>3,285,422</u>
Total Liabilities and Net Assets	<u>\$ 3,717,110</u>	<u>\$ 428,043</u>	<u>\$ 4,145,153</u>

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF LAKE ISABELLA  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2004**

**Statement II**

	Program Revenues	Net (Expense) Revenue and Changes in Net Assets		
Expenses	Charges for Services	Governmental Activities	Business-type Activities	Total
<b>Functions / Programs</b>				
Primary Government:				
Governmental Activities				
Legislative	\$ 3,652	\$ -	\$ (3,652)	\$ (3,652)
General Government	74,601	48	(74,553)	(74,553)
Public Safety	21,266	19,736	(1,530)	(1,530)
Public Works	208,826	187,200	(21,626)	(21,626)
Debt Service	24,532	31,199	6,667	6,667
Total Governmental Activities	332,877	238,183	(94,694)	(94,694)
Business-type Activities				
Airport	10,323	-	(10,323)	(10,323)
Sewer	-	-	-	-
Total Business-type Activities	10,323	-	(10,323)	(10,323)
<b>General Revenues:</b>				
Property Taxes		42,764	-	42,764
Revenue Sharing		261,997	-	261,997
Interest and Dividends		8,541	1,361	9,902
Other		1,285	-	1,285
Total General Revenues		314,587	1,361	315,948
Transfers		611	(611)	-
Total General Revenue and Transfers		315,198	750	315,948
<b>Changes in Net Assets</b>		220,504	(9,573)	210,931
<b>Net Assets - July 1</b>		2,638,089	436,402	3,074,491
<b>Net Assets - June 30</b>		\$ 2,858,593	\$ 426,829	\$ 3,285,422

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF LAKE ISABELLA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2004**

Statement III

	General	Major	Major	Local	Other	
	Fund	Streets	Streets	Streets	Nonmajor	
	Fund	Fund	Capital	Capital	Governmental	
	Fund	Fund	Project	Project	Funds	Total
<b><u>ASSETS</u></b>						
Cash	\$ 168,202	\$ 75,538	\$ 349,812	\$ 353	\$ 146,920	\$ 740,825
Due From Other Funds	2,567	45,945	-	-	9,142	57,654
Due From State	27,677	19,052	-	-	10,259	56,988
Special Assessments Receivable	-	-	-	-	611,040	611,040
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL ASSETS	<u>\$ 198,446</u>	<u>\$ 140,535</u>	<u>\$ 349,812</u>	<u>\$ 353</u>	<u>\$ 777,361</u>	<u>\$ 1,466,507</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>						
<b>LIABILITIES</b>						
Accounts Payable	\$ 5,244	\$ -	\$ -	\$ -	\$ 4,351	\$ 9,595
Salaries Payable	2,925	253	-	-	253	3,431
Due To Other Funds	-	-	56,440	-	-	56,440
Deferred Revenue - Special Assessments	-	-	-	-	611,040	611,040
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL LIABILITIES	8,169	253	56,440	-	615,644	680,506
<b>FUND BALANCE</b>						
Reserved						
Debt Service	-	-	-	-	94,196	94,196
Capital Projects	-	-	293,372	353	-	293,725
Unreserved - Undesignated	190,277	140,282	-	-	67,521	398,080
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL FUND BALANCE	<u>190,277</u>	<u>140,282</u>	<u>293,372</u>	<u>353</u>	<u>161,717</u>	<u>786,001</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 198,446</u>	<u>\$ 140,535</u>	<u>\$ 349,812</u>	<u>\$ 353</u>	<u>\$ 777,361</u>	<u>\$ 1,466,507</u>

The accompanying notes are an integral part of the financial statements.



**VILLAGE OF LAKE ISABELLA**  
**STATEMENT OF REVENUE, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2004**

Statement IV

	General Fund	Major Streets Fund	Major Capital Project Fund	Local Streets Capital Project Fund	Other Nonmajor Governmental Funds	Total
<b>REVENUE</b>						
Property Taxes	\$ 42,764	\$ -	\$ -	\$ -	\$ -	\$ 42,764
Special Assessment	17,311	-	11,048	-	151,528	179,887
Permits	2,425	-	-	-	-	2,425
State Shared Revenue	81,963	119,337	-	-	60,822	262,122
Charges for Services	48	-	-	-	-	48
Interest Earnings	2,387	260	6,477	402	1,587	11,113
Rents and Royalties	1,730	-	-	-	-	1,730
Other Revenue	441	-	-	-	-	441
<b>TOTAL REVENUE</b>	<b>149,069</b>	<b>119,597</b>	<b>17,525</b>	<b>402</b>	<b>213,937</b>	<b>500,530</b>
<b>EXPENDITURES</b>						
Current Operations						
Legislative	3,651	-	-	-	-	3,651
General Government	75,832	-	-	-	-	75,832
Public Safety	52,702	-	-	-	-	52,702
Public Works	383	30,350	-	-	34,820	65,553
Construction	-	33,498	772,279	168,049	10,569	984,395
Debt Service	-	-	-	-	60,896	60,896
<b>TOTAL EXPENDITURES</b>	<b>132,568</b>	<b>63,848</b>	<b>772,279</b>	<b>168,049</b>	<b>106,285</b>	<b>1,243,029</b>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	16,501	55,749	(754,754)	(167,647)	107,652	(742,499)
OTHER FINANCING SOURCES (USES)						
Operating Transfers In	10,019	-	-	33,670	29,977	73,666
Operating Transfers (Out)	(3,424)	(32,652)	-	-	(36,979)	(73,055)
Bond Proceeds	-	-	740,000	140,000	-	880,000
<b>TOTAL FINANCING SOURCES (USES)</b>	<b>6,595</b>	<b>(32,652)</b>	<b>740,000</b>	<b>173,670</b>	<b>(7,002)</b>	<b>880,611</b>
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	23,096	23,097	(14,754)	6,023	100,650	138,112
FUND BALANCE - JULY 1	167,181	117,185	308,126	(5,670)	61,067	647,889
FUND BALANCE - JUNE 30	<u>\$ 190,277</u>	<u>\$ 140,282</u>	<u>\$ 293,372</u>	<u>\$ 353</u>	<u>\$ 161,717</u>	<u>\$ 786,001</u>

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF LAKE ISABELLA  
GOVERNMENTAL FUNDS  
RECONCILIATION OF FUND BALANCE  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2004**

**Statement V**

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

Total Fund Balance of Governmental Funds (Statement III)	\$	786,001
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		2,307,043
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		611,040
Long-term Liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		<u>(845,491)</u>
Net Assets of Governmental Activities (Statement I)	\$	<u>2,858,593</u>

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF LAKE ISABELLA  
GOVERNMENTAL FUNDS  
RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITY  
FOR THE YEAR ENDED JUNE 30, 2004**

**Statement VI**

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

Net Change in Fund Balances - Total Governmental Funds (Statement IV)	\$	138,112
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. This is the amount by which capital outlays (\$990,433) exceeded depreciation (\$114,970) in the current period.		875,493
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities where it reduces long-term debt.		40,000
Interest payable on long-term debt is recorded when due in the statement of activities and when paid in governmental funds.		(5,490)
Bond Proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.		(880,000)
The statement of activities reports current year assessment levies as revenue and the governmental funds do not. Also the governmental funds report special assessment collections as revenue while the statement of activities show them as reductions to the receivable.		<u>52,389</u>
Change in Net Assets of Governmental Activities (Statement II)	\$	<u>220,504</u>

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF LAKE ISABELLA**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
**JUNE 30, 2004**

**Statement VII**

	Business Type Activities		
	Airport Fund	Sewer Fund	Total
<b><u>ASSETS</u></b>			
Current Assets			
Cash	\$ -	\$ 150,462	\$ 150,462
Noncurrent Assets			
Capital Assets			
Land	50,000	65,000	115,000
Runway	206,452	-	206,452
Less Accumulated Depreciation	(43,871)	-	(43,871)
Total Capital Assets Net of Accumulated Depreciation	212,581	65,000	277,581
TOTAL ASSETS	\$ 212,581	\$ 215,462	\$ 428,043
<b><u>LIABILITIES</u></b>			
Due to General Fund	\$ -	\$ 1,214	\$ 1,214
<b><u>NET ASSETS</u></b>			
Invested in Capital Assets, net of related debt	212,581	65,000	277,581
Unrestricted	-	149,249	149,249
TOTAL NET ASSETS	212,581	214,249	426,830
TOTAL LIABILITIES AND NET ASSETS	\$ 212,581	\$ 215,463	\$ 428,044

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF LAKE ISABELLA  
STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN NET ASSETS - PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2004**

**Statement VIII**

	<u>Business Type Activities</u>		
	<u>Airport Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<b>Operating Expenses</b>			
Depreciation	<u>10,323</u>	<u>-</u>	<u>10,323</u>
Operating Income	(10,323)	-	(10,323)
<b>Non-Operating Revenue</b>			
Interest Earnings	<u>-</u>	<u>1,361</u>	<u>1,361</u>
Income (Loss) Before Transfers	(10,323)	1,361	(8,962)
Transfers Out	<u>-</u>	<u>(611)</u>	<u>(611)</u>
<b>Change in Net Assets</b>	(10,323)	750	(9,573)
<b>Net Assets - July 1</b>	<u>222,904</u>	<u>213,498</u>	<u>436,402</u>
<b>Net Assets - June 30</b>	<u>\$ 212,581</u>	<u>\$ 214,248</u>	<u>\$ 426,829</u>

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF LAKE ISABELLA**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2004**

**Statement IX**

	Business Type Activities		
	Airport Fund	Sewer Fund	Total
<b>Cash Flows From Operating Activities</b>	\$ -	\$ -	\$ -
<b>Cash Flows From Non-Capital Financing Activities</b>			
Transfers to Other Funds	-	(611)	(611)
Advance from Other Funds	-	614	614
	-	614	614
Cash Provided by Non-Capital Financing Activities	-	3	3
Cash Flows From Investing Activities			
Interest Received	-	1,361	1,361
	-	1,361	1,361
Net Increase in Cash and Cash Equivalents	-	1,364	1,364
Cash and Cash Equivalents - July 1	-	149,098	149,098
	-	149,098	149,098
Cash and Cash Equivalents - June 30	\$ -	\$ 150,462	\$ 150,462
	-	150,462	150,462
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>			
Operating Income	\$ (10,323)	\$ -	\$ (10,323)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation Expense	10,323	-	10,323
	10,323	-	10,323
Net Cash Provided by Operating Activities	\$ -	\$ -	\$ -
	-	-	-

The accompanying note are an integral part of the financial statements.

**VILLAGE OF LAKE ISABELLA**  
**STATEMENT OF NET ASSETS - FIDUCIARY FUNDS**  
**JUNE 30, 2004**

**Statement X**

Agency Funds

**ASSETS**

Cash

\$ 1,420

**LIABILITIES**

Due to or on Behalf of Others

\$ 1,420

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF LAKE ISABELLA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Village of Lake Isabella, Isabella County, Michigan is a Home Rule Village chartered May 1998, with a population of less than 4,000 people. The Village is governed by a seven member council, elected by the Village electorate.

**A. FINANCIAL REPORTING ENTITY**

In evaluating how to define the government, for financial reporting purposes, management has considered all potential agencies and organizations. The decision to include a potential agency or organization in the reporting entity was made by applying the criteria set forth by the Governmental Accounting Standards Board (GASB) Statement 14. The Village does not have any component units. The Village applies applicable FASB pronouncements in accounting and reporting for its proprietary operations.

**B. GOVERNMENT WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on the fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or 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 revenues.

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.

**C. 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 revenues 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.



**VILLAGE OF LAKE ISABELLA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible 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, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, 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 government.

The Village reports the following major governmental funds:

The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.

The Major Streets Fund is one of the Village's major funds. It accounts for routine construction and maintenance of the Village's major streets and is financed by governmental resources.

The Major Streets and Local Streets Capital Projects Funds are the other two major funds reported by the Village. These funds account for the bonded construction of the Villages roads and streets.

The Village also reports the following proprietary funds:

The Airport Fund accounts for the Airports assets.

The Sewer Fund account for the assets for the sewer and will account for the future activities of collecting waste water.

Additionally the Village reports the following fund types:

The debt funds account for the collection of special revenues and the payment of the associated long-term debt.

The Agency Fund accounts for assets held by the Village acting as an agent for individuals and/or other funds.

**VILLAGE OF LAKE ISABELLA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Village has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments between the Village's airport and sewer function and various other functions of the Village. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 some special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

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

D. ESTIMATES

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

E. CASH AND INVESTMENTS

The Village maintains a common checking account for its operating funds. Each participating fund reports its share separately. To the extent that some funds have negative balance in their share of common cash, such negative balances represent temporary interfund borrowing and, at June 30, have been recorded as interfund payables to funds with positive balances, as applicable.

Currently the Village investments consist solely of money-market rate savings accounts.

**VILLAGE OF LAKE ISABELLA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. RECEIVABLES AND PAYABLES

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-side financial statements as "internal balances."

Advance between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Personal property taxes receivable is shown net of an allowance for uncollectible. Property taxes are levied as of July 1 on property values assessed as of the prior December 31. The lien on the property occurs when the property taxes are levied (July 1).

Property Taxes are allocated to the General Fund based on the voted millage rate of .91030 mills for operating and 1.0000 mill for fire protection.

Isabella County, the county in which the Village of Lake Isabella is located, has a delinquent tax revolving fund whereby the County pays the Village for its delinquent real property taxes. It then becomes the County's responsibility to collect these delinquent taxes from the various taxpayers.

G. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government wide financial statements. Capital assets are defined by the Village as assets with initial, individual cost of more than \$500 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 assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, is

Storage Sheds	7 years
Office Equipment	3 to 7 years
Equipment	3 to 7 years
Roads	5 to 20 years

**VILLAGE OF LAKE ISABELLA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. LONG-TERM OBLIGATIONS

In the government-wide financial statements, and proprietary fund types in the fund financial statements, 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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds 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 while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

I. FUND EQUITY

Reservations are established to identify the existence of assets that are legally restricted to a future use of the existence of assets that, because of their nonmonetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure. These include such assets as donor-restricted endowments, prepaid expenditures, or inventories which cannot be "re-spent," and noncurrent assets (long-term accounts receivable and long-term advances to other funds).

Designations are established to indicate tentative plans for financial resource utilization in a future period. Designations require the action of the Village Council.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a the cash basis of accounting rather than the modified accrual basis utilized by the Village for the general fund. All annual appropriations lapse at fiscal year end.

The budget document presents information at the line item level. The legal level of budgetary control adopted by the board (i.e. the level at which expenditures may not legally exceed appropriations) is the fund level for the general fund and all special revenue funds. State law requires the Village to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits Villages to amend its budgets during the year. The Village amended its budget at various times during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds - Neither the General Fund nor any of the Special Revenue Funds incurred expenditures in excess of the legal level of appropriations for the year ended June 30, 2004.

**VILLAGE OF LAKE ISABELLA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 3 - CASH AND INVESTMENTS**

Deposits are carried at cost. Deposits are in two financial institutions in the name of the Village Treasurer. 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. Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States; repurchase agreements consisting of bonds, securities and other obligations of the United States; or an agency or instrumentality of the United States, banker's acceptances of United States banks; obligations of this State or any of its political subdivision that at the time of purchase are rated as investment grade by not less than one standard rating service; commercial paper rated with the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase; mutual funds registered under the investment company act of 1940, with the authority to purchase only investments by a public corporation; obligations described above if purchased through an inter-local agreement under the urban cooperations act of 1967 PA7, MCL 124.501 to 124.512; investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118, and the investment pool organized under the local government investment pool act, 1985 PA 121, MC 129.141 to 129.150. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. The Village's deposits are in accordance with statutory authority.

At June 30, 2004 the carrying amount of the Village's cash and savings was \$892,707 as follows:

Carrying Value

Petty Cash	\$	120
Deposits with Financial Institutions		
Cash in Checking		639,011
Cash in Savings		<u>253,576</u>
Total Deposits with Financial Institutions		<u>892,587</u>
Total Cash and Investments	\$	<u>892,707</u>

Following is a summary of the Village's deposits by FDIC insurance coverage:

	<u>FDIC Insured</u>	<u>Uninsured</u>	<u>Total</u>
Carrying Amounts	\$ 198,156	\$ 694,431	\$ 892,587
Bank Balances	\$ 198,156	\$ 695,414	\$ 893,570

Larger amount of deposits with financial institutions were uninsured during the year than at year end due to varying cash flows.

**VILLAGE OF LAKE ISABELLA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 4 - INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS**

The composition of interfund balances in the fund statements is as follows:

Due To/From

<u>Receivable Fund</u>	<u>Payable Fund</u>	
General Fund	Sewer Fund	\$ 1,214
General Fund	Major Streets Capital Project	1,353
Major Streets Fund	Major Streets Capital Project	45,945
Local Streets Fund	Major Streets Capital Project	596
Local Streets Debt Fund	Major Streets Capital Project	<u>8,546</u>
Total		<u>\$ 57,654</u>

Interfund Transfers Reported in the Fund Statements

These transfers were done during the normal course of operations of the funds.

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	
General Fund	Major Streets Debt Fund	\$ 3,423
Major Streets Fund	General Fund	6,099
Major Streets Fund	MDOT Debt Fund	26,554
Local Streets Fund	General Fund	3,309
Local Streets Fund	Local Streets Capital Project	5,670
Sewer Fund	General Fund	611
Local Street Debt Fund	Local Streets Capital Project	<u>28,000</u>
Total		<u>\$ 73,666</u>

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2004 was as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
<b>Governmental Activities:</b>				
Land	\$ 6,820	\$ -	\$ -	\$ 6,820
Buildings	8,300	-	-	8,300
Equipment	4,260	-	-	4,260
Office Furniture and Equipment	5,154	2,636	-	7,790
Vehicles	6,344	-	-	6,344
Infrastructure - Roads	<u>1,849,200</u>	<u>984,395</u>	<u>-</u>	<u>2,833,595</u>
Total before Depreciation	1,880,078	987,031	-	2,867,109
Provision for Accumulated Depreciation	<u>(445,096)</u>	<u>(114,970)</u>	<u>-</u>	<u>(560,066)</u>
TOTAL	<u>\$ 1,434,982</u>	<u>\$ 872,061</u>	<u>\$ -</u>	<u>\$ 2,307,043</u>

**VILLAGE OF LAKE ISABELLA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

NOTE 5 - CAPITAL ASSETS (Continued)

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
<b>Business-type Activities:</b>				
Land	\$ 115,000	\$ -	\$ -	\$ 115,000
Runway	<u>206,452</u>	<u>-</u>	<u>-</u>	<u>206,452</u>
Total before Depreciation	321,452	-	-	321,452
Provision for Accumulated Depreciation	<u>(33,548)</u>	<u>(10,323)</u>	<u>-</u>	<u>(43,871)</u>
<b>TOTAL</b>	<b><u>\$ 287,904</u></b>	<b><u>\$ (10,323)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 277,581</u></b>

NOTE 6- LONG-TERM DEBT

The Village issues bonds to provide for the construction of major capital facilities. General obligation  
The bond obligation activity of the Village is summarized as follows:

	Beginning Balance	Additions	Payments / Reductions	Ending Balance	Due Within One Year
<u>General Obligation Bonds</u>					
2003 Michigan Transportation	\$ -	\$ 225,000	\$ 20,000	\$ 205,000	\$ 20,000
<u>Special Assessment Bonds</u>					
Major Streets Bonds	-	515,000	20,000	495,000	55,000
Fairway Drive Bonds	<u>-</u>	<u>140,000</u>	<u>-</u>	<u>140,000</u>	<u>15,000</u>
Total	<u>\$ -</u>	<u>\$ 880,000</u>	<u>\$ 40,000</u>	<u>\$ 840,000</u>	<u>\$ 90,000</u>

Annual debt service requirements to maturity for each bond is as follows:

2003 Michigan Transportation Bonds  
Issued: July 30, 2003  
Original Amount: \$225,000  
Interest: 2.70 - 3.60% (due June 1 and December 1)  
Principal Due: June 1

<u>Fiscal Year Ended</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2005	\$ 6,610	\$ 20,000	\$ 26,610
2006	6,050	20,000	26,050
2007	5,470	20,000	25,470
2008	4,870	20,000	24,870
2009	4,250	25,000	29,250
2010-2013	<u>8,750</u>	<u>100,000</u>	<u>108,750</u>
	<u>\$ 36,000</u>	<u>\$ 205,000</u>	<u>\$ 241,000</u>

**VILLAGE OF LAKE ISABELLA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

NOTE 6- LONG-TERM DEBT (Continued)

Major Streets Special Assessment Bonds  
 Issued: July 30, 2003  
 Original Amount: \$515,000  
 Interest: 2.60 - 3.50% (due April 1 and October 1)  
 Principal Due: October 1

<u>Fiscal Year Ended</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2005	\$ 14,603	\$ 55,000	\$ 69,603
2006	13,090	55,000	68,090
2007	11,522	55,000	66,522
2008	9,900	55,000	64,900
2009	8,222	55,000	63,222
2010-2012	<u>15,015</u>	<u>220,000</u>	<u>235,015</u>
	<u>\$ 72,352</u>	<u>\$ 495,000</u>	<u>\$ 567,352</u>

Fairway Drive Special Assessment Bonds  
 Issued: August 31, 2003  
 Original Amount: \$140,000  
 Interest: 3.15% (due April 1 and October 1)  
 Principal Due: October 1

<u>Fiscal Year Ended</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2005	\$ 3,994	\$ 15,000	\$ 18,994
2006	3,701	15,000	18,701
2007	3,229	15,000	18,229
2008	2,756	15,000	17,756
2009	2,284	15,000	17,284
2010-2013	<u>4,331</u>	<u>65,000</u>	<u>69,331</u>
	<u>\$ 20,295</u>	<u>\$ 140,000</u>	<u>\$ 160,295</u>

NOTE 7 - 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. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special Assessments	<u>\$ 611,040</u>	<u>\$ -</u>



**VILLAGE OF LAKE ISABELLA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 8 - RISK MANAGEMENT**

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The Village has purchased commercial insurance for property/casualty claims and participates in the Michigan Municipal League (risk pool) for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**NOTE 9 - ACCOUNTING AND REPORTING CHANGE**

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements- and Management's Discussion and Analysis - For State and Local Governments. The Village has applied the provisions of this statement in the accompanying financial statements (including notes to financial statements). Certain significant changes in the statements include the following:

A Management's Discussion and Analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations.

Financial statements prepared using full accrual accounting for all of the Village's activities, including infrastructure (roads, bridges, etc).

A change in reporting the fund statements from using the cash basis of accounting to using the modified accrual basis of accounting.

A change in the fund financial statements to focus on the major funds.

Capital assets in the governmental activities column of the statements of net assets includes infrastructure assets (roads) not previously accounted for by the Village as well as assets totaling \$33,513 that would previously have been reported in the General Fixed Assets Account Group.

The governmental activities column includes bonds and other long-term obligations totaling \$840,000 previously reported in the General Long-term Debt Account Group.

**NOTE 10 - CONTINGENCIES**

**Litigation**

The Village is subject to various legal proceedings arising in the course of providing public services to Village residents. However, in the opinion of the Village's attorney and management, the resolution of these matters will not have a material effect, if any, on the financial condition of the Village.

**REQUIRED SUPPLEMENTAL INFORMATION**

**VILLAGE OF LAKE ISABELLA  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON - GENERAL FUND  
CASH BASIS OF ACCOUNTING  
YEAR ENDED JUNE 30, 2004**

**Schedule 1**

	Original Budget	Final Budget	Actual
<b>REVENUE</b>			
Property Taxes			\$ 42,764
Special Assessment			17,311
Permits			2,425
State Shared Revenue			82,306
Charges for Services			48
Interest Earnings			2,387
Rents and Royalties			1,730
Other Revenue			441
TOTAL REVENUE	147,604	152,151	149,412
<b>EXPENDITURES</b>			
Current Operations			
Legislative			3,652
General Government			71,334
Public Safety			51,054
Public Works			383
TOTAL EXPENDITURES	138,328	156,826	126,423
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	9,276	(4,675)	22,989
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	8,000	8,100	10,019
Operating Transfers (Out)	-	(3,425)	(3,423)
TOTAL FINANCING SOURCES (USES)	8,000	4,675	6,596
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	17,276	-	29,585
CASH BASIS FUND BALANCE - JULY 1	117,633	117,633	141,183
CASH BASIS FUND BALANCE - JUNE 30	\$ 134,909	\$ 117,633	\$ 170,768

**VILLAGE OF LAKE ISABELLA  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON - MAJOR STREETS FUND  
CASH BASIS OF ACCOUNTING  
YEAR ENDED JUNE 30, 2004**

**Schedule 2**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
<b>REVENUE</b>			
State Shared Revenue			118,260
Interest Earnings			<u>260</u>
TOTAL REVENUE	112,371	111,300	118,520
<b>EXPENDITURES</b>			
Current Operations			
Legislative			-
General Government			-
Public Safety			-
Public Works			33,306
Construction			<u>37,030</u>
TOTAL EXPENDITURES	<u>85,295</u>	<u>70,430</u>	<u>70,336</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	27,076	40,870	48,184
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating Transfers In	-	-	-
Operating Transfers (Out)	<u>(6,270)</u>	<u>(5,000)</u>	<u>(32,653)</u>
TOTAL FINANCING SOURCES (USES)	<u>(6,270)</u>	<u>(5,000)</u>	<u>(32,653)</u>
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	20,806	35,870	15,531
CASH BASIS FUND BALANCE - JULY 1	<u>59,930</u>	<u>59,930</u>	<u>105,951</u>
CASH BASIS FUND BALANCE - JUNE 30	<u>\$ 80,736</u>	<u>\$ 95,800</u>	<u>\$ 121,482</u>

**VILLAGE OF LAKE ISABELLA**  
**NOTES TO BUDGETARY COMPARISON SCHEDULES**  
**JUNE 30, 2004**

The preceding budgetary comparisons were prepared on the cash basis of accounting. Revenues and expenditures are reported only as a result of cash transactions.

The Village elected to prepare the fund financial statements on the modified accrual basis of accounting in order to fully comply with the reporting requirements of GASB 34. The decision was made after the fiscal year end and the budget could not then be amended from the cash basis under which it was adopted.

## **OTHER SUPPLEMENTAL INFORMATION**

**VILLAGE OF LAKE ISABELLA  
OTHER SUPPLEMENTAL INFORMATION  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2004**

**Schedule 3**

	Special Revenue Funds		Debt Service Funds			Total
	Local Streets	2003 MDOT Debt	Major Streets	Local Streets		
				Debt	Debt	
<b><u>ASSETS</u></b>						
Cash	\$ 61,270	\$ 584	\$ 42,274	\$ 42,792	\$ 146,920	
Due From Other Funds	596	-	-	8,546	9,142	
Due From State	10,259	-	-	-	10,259	
Special Assessment Receivable	-	-	497,682	113,358	611,040	
<b>TOTAL ASSETS</b>	<b>\$ 72,125</b>	<b>\$ 584</b>	<b>\$ 539,956</b>	<b>\$ 164,696</b>	<b>\$ 777,361</b>	
<b><u>LIABILITIES AND FUND BALANCE</u></b>						
<b>LIABILITIES</b>						
Accounts Payable	\$ 4,351	\$ -	\$ -	\$ -	\$ 4,351	
Salaries Payable	253	-	-	-	253	
Deferred Revenue - Special Assessments	-	-	497,682	113,358	611,040	
<b>TOTAL LIABILITIES</b>	<b>4,604</b>	<b>-</b>	<b>497,682</b>	<b>113,358</b>	<b>615,644</b>	
<b>FUND BALANCE</b>						
Reserved						
Debt Service	-	584	42,274	51,338	94,196	
Unreserved - Undesignated	67,521	-	-	-	67,521	
<b>TOTAL FUND BALANCE</b>	<b>67,521</b>	<b>584</b>	<b>42,274</b>	<b>51,338</b>	<b>161,717</b>	
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 72,125</b>	<b>\$ 584</b>	<b>\$ 539,956</b>	<b>\$ 164,696</b>	<b>\$ 777,361</b>	

**VILLAGE OF LAKE ISABELLA  
OTHER SUPPLEMENTAL INFORMATION  
COMBINING STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2004**

**Schedule 4**

	Special Revenue Funds		Debt Service Funds			Total
	Local Streets	2003 MDOT Debt		Major Streets Debt	Local Streets Debt	
<b>REVENUE</b>						
State Gas and Weight Tax	\$ 60,697	\$ -	\$ -	\$ -	\$ -	\$ 60,697
State Maintenance Fees	125	-	-	-	-	125
Special Assessments	-	-	69,917	81,611	-	151,528
Interest Earnings	-	584	581	422	-	1,587
	<u>60,822</u>	<u>584</u>	<u>70,498</u>	<u>82,033</u>	<u>-</u>	<u>213,937</u>
<b>TOTAL REVENUE</b>	60,822	584	70,498	82,033	-	213,937
<b>EXPENDITURES</b>						
CONSTRUCTION	10,569	-	-	-	-	10,569
<b>PUBLIC WORKS</b>						
Routine Maintenance	22,938	-	-	-	-	22,938
Traffic Service	64	-	-	-	-	64
Winter Maintenance	6,771	-	-	-	-	6,771
Administration	5,047	-	-	-	-	5,047
	<u>34,820</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,820</u>
<b>TOTAL PUBLIC WORKS</b>	34,820	-	-	-	-	34,820
<b>DEBT SERVICE</b>						
Principal	-	20,000	20,000	-	-	40,000
Interest	-	6,554	11,647	2,695	-	20,896
	<u>-</u>	<u>26,554</u>	<u>31,647</u>	<u>2,695</u>	<u>-</u>	<u>60,896</u>
<b>TOTAL DEBT SERVICE</b>	-	26,554	31,647	2,695	-	60,896
<b>TOTAL EXPENDITURES</b>	<u>45,389</u>	<u>26,554</u>	<u>31,647</u>	<u>2,695</u>	<u>-</u>	<u>106,285</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	15,433	(25,970)	38,851	79,338	-	107,652
OTHER FINANCING SOURCES (USES) Operating Transfers In (Out)	<u>(8,979)</u>	<u>26,554</u>	<u>3,423</u>	<u>(28,000)</u>	<u>-</u>	<u>(7,002)</u>
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	6,454	584	42,274	51,338	-	100,650
FUND BALANCE - JULY 1	<u>61,067</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,067</u>
FUND BALANCE - JUNE 30	<u>\$ 67,521</u>	<u>\$ 584</u>	<u>\$ 42,274</u>	<u>\$ 51,338</u>	<u>\$ -</u>	<u>\$ 161,717</u>





PAGE

OLSON &amp;

COMPANY P.C.

AUDIT COMMUNICATION AND  
REPORT OF COMMENTS AND RECOMMENDATIONS

January 14, 2005

Village Council  
Village of Lake Isabella  
Isabella County, Michigan

We have recently completed our audit of the financial statements of the Village of Lake Isabella, Isabella County for the year ended June 30, 2004. As required by auditing standards generally accepted in the United States of America, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

**AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA**

We conducted our audit of the financial statements of the Village of Lake Isabella in accordance with auditing standards generally accepted in the United States of America. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help to assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

Village Council  
Village of Lake Isabella  
Isabella County, Michigan

An independent auditor's objective of an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at a reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or irregularities. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

Auditing standards call for us to inform you regarding the initial selection of, and changes in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

The significant accounting policies are described in Note 1 to the financial statements. Other information related to the implementation of GASB 34 is discussed further in the other communications section.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit. We have the following to report to you at this time:

The following are the issues noted per the above referenced topics:

Various adjustments are made at fiscal year-end to record various receivables and payables in order to convert the financial statements from cash basis to the modified accrual and accrual basis that is required. Such adjustments are part of the year-end accounting process. We expect management to provide the information that comprises these amounts so we can apply auditing procedures to satisfy ourselves that the information is corroborated.

The Village elected to do a full implementation of the GASB 34 reporting format. Therefore the Management's Discussion and Analysis, government-wide statements, and budgetary comparison schedules for each major fund have been included in the financial statements. Furthermore, the Village's capital assets and long-term debt are reported in the Statement of Net Assets.

Village Council  
Village of Lake Isabella  
Isabella County, Michigan

**COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL CONTROLS/COMPLIANCE/  
EFFICIENCY**

In planning and performing our audit of the financial statements of the Village of Lake Isabella, for the year ended June 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

**Reportable Conditions (Material Weaknesses)**

RECEIPT CODING (Repeated Comment)

During receipt testing it was noted that several transactions were coded to the incorrect general ledger account. Greater care should be used when coding journal entries for deposits to ensure they are being coded to the account they are actually being deposited into.

DISBURSEMENT CODING

local streets is not being recorded. The total amount of work performed was split between major and local street funds on a basis of total mileage of major and local streets (2/3 major, 1/3 local) instead of the actual expenditures made for the two funds. Work performed for each street fund should be documented with accuracy to ensure that the proper expenditures are being recorded in the proper fund. While this method was acceptable at the inception of the Village's control over the streets, as the investment in roads continues and as the expenditures increase, it is necessary to properly record these expenditures.

**Other Reportable Conditions**

PROPERTY TAXES (Repeated Comment with Modification)

During testing of property tax deposits it was noted that there were a several occasions where receipts were not deposited within the proper time frame. Property tax receipts should be deposited within three to five days from the date they were received. It was noted, however, that during heavy activity deposits were made in a more timely manner.

Village Council  
Village of Lake Isabella  
Isabella County, Michigan

COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL CONTROLS/COMPLIANCE/  
EFFICIENCY (CONTINUED)

**Other Reportable Conditions (Continued)**

EXPENDITURE APPROVAL

During expenditure testing it was noted that it was not readily apparent if all of the expenditures related to capital projects were approved by the board in the minutes. However, it was also noted that all of the invoices tested were initialed by both the Clerk and Treasurer evidencing that the finance committee is approving the expenditures. The approval of all expenditures should be noted in the minutes by indicating the check numbers and at least the total amount of expenditures made for the period being approved.

EQUIPMENT RENTAL

It was noted during equipment rental testing that the Village Manager's time using the equipment is being kept by the Village Manager's assistant and is not recorded with proper care for accuracy. It is recommended that the Village Manager keep a separate log for the hours that the equipment is used so that the equipment rental hours logged can be relied upon for accuracy.

It was also noted during equipment rental testing, that the change in rate according to the Michigan Department of Transportation for January through December of 2004 was not adjusted for in January. Care should be taken when recording information and that all rate information be updated in a timely manner.

FINANCIAL OVERSIGHT

The general limitations in a smaller government require that the Village Council members continue to remain involved in the financial affairs of the Village through oversight of operation, development of the annual budget, inquiries about variances between budgeted and actual amounts shown in the financial statements, and the independent review of critical functions. This comment is intended to emphasize the importance of this oversight and to remind the board of its continued obligation to perform accordingly.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Village's financial statements and this communication of these matters does not affect our report on the Village's financial statements, dated January 14, 2005.

SUMMARY

We would like to thank the Village of Lake Isabella personnel and officials for the cooperation we received from them throughout the course of the audit. We welcome any questions you may have regarding the foregoing comments, and we would be happy to discuss any of these or other questions that you might have at your convenience.

This communication is intended for the information of the members of the Village Board, management, and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

*Page, Olson & Company*