

VILLAGE OF LAKE ISABELLA
MICHIGAN
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

VILLAGE OF LAKE ISABELLA
YEAR ENDED JUNE 30, 2001

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VILLAGE OF LAKE ISABELLA
YEAR ENDED JUNE 30, 2001

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VILLAGE OF LAKE ISABELLA
OFFICIALS
JUNE 30, 2001

VILLAGE COUNCIL

Jack Adkins	President
Steve Grenas	President Protem
Brain Hughes	Member
Donald Washburn	Treasurer
Jim Kenney	Member
Ken DeVergilio	Member
Beverly Pillar	Clerk

VILLAGE MANAGER

Edward G. Spayd

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INDEPENDENT AUDITORS' REPORT

October 19, 2001

Village Council
Village of Lake Isabella, Michigan

We have audited the accompanying financial statements of the Village of Lake Isabella as of and for the year ended June 30, 2001, as listed in the table of contents. These financial statements are the responsibility of the Village'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 opinion.

As described in the Summary of Significant Accounting Policies, Note 1-C, the Village prepares its financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. Consequently, revenue and the related assets are recognized only when received and expenditures are recognized only when paid.

In our opinion, except for the effects of such adjustments the financial statements referred to above present fairly, in all material respects, the assets, liabilities and cash basis fund balances of the Village of Lake Isabella as of June 30, 2001, arising from cash transactions, and its revenue collected, expenditures paid, and changes in cash basis fund balance and/or retained earnings for the year then ended, on the basis of accounting described in Note 1-C.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The financial information identified in the table of contents as supplemental data and included in the report is reported for purposes of additional analysis and is not a required part of the general purpose financial statements of the Village of Lake Isabella. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole. Such information relative to June 30, 2000 for the year then ended was subjected to audited procedures applied in the audit of the general purpose financial statements for the year ended June 30, 2000 and is presented here for comparison purposes only.

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

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VILLAGE OF LAKE ISABELLA
COMBINED STATEMENT OF ASSETS AND LIABILITIES
ARISING FROM CASH TRANSACTIONS - ALL FUND TYPES
AND ACCOUNT GROUPS
JUNE 30, 2001

Exhibit I

ASSETS	General Fund	Special Revenue Funds	Enterprise Funds	Agency Funds	General Fixed Assets Account Group	Totals (Memorandum Only)
Cash	\$ 11,399	\$ 60,916	\$ 146,108	\$ 1,018	\$ —	\$ 219,441
Due from Other Funds	—	—	22,957	—	—	22,957
Long Term Advance to General Fund	—	—	4,820	—	—	4,820
Property, Plant, and Equipment	—	—	311,729	—	10,605	322,334
TOTAL ASSETS	\$ 11,399	\$ 60,916	\$ 485,614	\$ 1,018	\$ 10,605	\$ 569,552
LIABILITIES AND FUND EQUITY						
LIABILITIES						
Withholding Payable	\$ —	\$ —	\$ —	\$ 1,018	\$ —	\$ 1,018
Due to Other Funds	22,957	—	—	—	—	22,957
Long Term Advance from Other Funds	4,820	—	—	—	—	4,820
TOTAL LIABILITIES	27,777	—	—	1,018	—	28,795
FUND EQUITY (Deficit)						
Investment in Fixed Assets	—	—	—	—	10,605	10,605
Contributed Capital	—	—	243,549	—	—	243,549
Retained Earnings	—	—	—	—	—	—
Reserved	—	—	4,820	—	—	4,820
Unreserved	—	—	237,245	—	—	237,245
Fund Balance	(16,378)	60,916	—	—	—	44,538
Unreserved - Undesignated	—	—	—	—	—	—
TOTAL FUND EQUITY	(16,378)	60,916	485,614	—	10,605	540,757
TOTAL LIABILITIES AND FUND EQUITY	\$ 11,399	\$ 60,916	\$ 485,614	\$ 1,018	\$ 10,605	\$ 569,552

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

VILLAGE OF LAKE ISABELLA
 COMBINED STATEMENT OF REVENUE COLLECTED, EXPENDITURES PAID,
 AND CHANGES IN CASH BASIS FUND BALANCE
 ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

Exhibit II

	General Fund	Special Revenue Funds	Totals (Memorandum Only)
REVENUE			
Property Taxes	\$ 30,609	\$ —	\$ 30,609
Interest and Penalties	14	—	14
Special Assessment	10,098	—	10,098
Grants	—	2,270	2,270
Permits	3,525	—	3,525
State Shared Revenue	46,903	133,884	180,787
Charges for Services	3,117	—	3,117
Interest Earnings	1,170	925	2,095
Rents and Royalties	3,449	—	3,449
Contributions - Private Sources	2,123	—	2,123
Refunds/Reimbursements	40	100	140
Miscellaneous	60	—	60
TOTAL REVENUE	101,108	137,179	238,287
EXPENDITURES			
Current Operations			
Legislative	1,874	—	1,874
General Government	51,365	—	51,365
Public Safety	35,635	—	35,635
Public Works	449	99,559	100,008
Debt Service	1,948	—	1,948
TOTAL EXPENDITURES	91,271	99,559	190,830
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	9,837	37,620	47,457
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	7,364	—	7,364
Operating Transfers (Out)	—	(7,364)	(7,364)
TOTAL OTHER FINANCING SOURCES (USES)	7,364	(7,364)	—
EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	17,201	30,256	47,457
CASH BASIS FUND BALANCE - JULY 1	(33,579)	30,660	(2,919)
CASH BASIS FUND BALANCE - JUNE 30	\$ (16,378)	\$ 60,916	\$ 44,538
	=====	=====	=====

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

VILLAGE OF LAKE ISABELLA
COMBINED STATEMENT OF REVENUE COLLECTED, EXPENDITURES PAID
AND CHANGES IN CASH BASIS FUND BALANCE
GENERAL AND SPECIAL REVENUE FUNDS - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2001

Exhibit III

	General Fund			Special Revenue Funds		
	Budget	Actual	Under (Over) Budget	Budget	Actual	Under (Over) Budget
REVENUE						
Property Tax	\$ 30,500	\$ 30,609	\$ (109)	\$ —	\$ —	\$ —
Special Assessment	10,000	10,098	(98)	—	—	—
Grants	—	—	—	—	2,270	(2,270)
Permits	2,500	3,525	(1,025)	—	—	—
State Shared Revenue	45,000	46,903	(1,903)	135,800	133,884	1,916
Charges for Services	500	3,117	(2,617)	—	—	—
Interest Earnings	950	1,170	(220)	—	925	(925)
Rents and Royalties	5,076	3,449	1,627	—	—	—
Contributions - Private Sources	—	2,123	(2,123)	—	—	—
Other Revenue	—	114	(114)	—	100	(100)
TOTAL REVENUE	94,526	101,108	(6,582)	135,800	137,179	(1,379)
EXPENDITURES						
Current Operations						
Legislative	—	1,874	(1,874)	—	—	—
General Government	107,146	51,365	55,781	—	—	—
Public Safety	—	35,635	(35,635)	—	—	—
Public Works	—	449	(449)	104,875	99,559	5,316
Debt Service	—	1,948	(1,948)	—	—	—
TOTAL EXPENDITURES	107,146	91,271	15,875	104,875	99,559	5,316
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(12,620)	9,837	(22,457)	30,925	37,620	(6,695)
OTHER FINANCING SOURCES (USES)						
Operating Transfers In	12,620	7,364	5,256	—	—	—
Operating Transfers (Out)	—	—	—	—	(7,364)	7,364
TOTAL OTHER FINANCING SOURCES (USES)	12,620	7,364	5,256	—	(7,364)	7,364
EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	—	17,201	(17,201)	30,925	30,256	669
CASH BASIS FUND BALANCE - JULY 1	(33,579)	(33,579)	—	30,660	30,660	—
CASH BASIS FUND BALANCE - JUNE 30	\$ (33,579)	\$ (16,378)	\$ (17,201)	\$ 61,585	\$ 60,916	\$ 669

The accompanying notes are integral part of the financial statements.

VILLAGE OF LAKE ISABELLA
 COMBINED STATEMENT OF REVENUE COLLECTED,
 EXPENDITURES PAID, AND CHANGES IN RETAINED EARNINGS
 ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

Exhibit IV

	<u>Enterprise Funds</u>
OPERATING REVENUE	\$ 1,958
OPERATING EXPENSES	<u>(14,960)</u>
OPERATING INCOME (LOSS)	(13,002)
NET NON-OPERATING REVENUE (EXPENSE)	
Interest Earnings	<u>7,871</u>
INCREASE (DECREASE) IN RETAINED EARNINGS	(5,131)
CASH BASIS RETAINED EARNINGS - JULY 1	<u>490,745</u>
CASH BASIS RETAINED EARNINGS - JUNE 30	\$ 485,614 =====

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

VILLAGE OF LAKE ISABELLA
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

Exhibit V

	<u>Enterprise Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Net Income	\$ (13,002)
Adjustment to Reconcile Operating Income (Loss) To Net Cash Provided (Used) by Operations:	
Depreciation	<u>10,323</u>
Net Cash Provided (Used) by Operating Activities	(2,679)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Long-Term Advance	35,000
Interest Earnings	<u>1,948</u>
Net Cash Provided by Non-Capital Financing Activities	36,948
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Earnings	<u>5,923</u>
Net Increase (Decrease) in Cash & Cash Equivalents	40,192
CASH AND CASH EQUIVALENTS - JULY 1, 2000	<u>105,916</u>
CASH AND CASH EQUIVALENTS - JUNE 30, 2001	\$ 146,108 =====
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	\$ — =====

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

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VILLAGE OF LAKE ISABELLA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

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. FUND ACCOUNTING

The accounts of the Village are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue, and expenditures or expenses, as appropriate. The various funds and account groups of the Village are as follows:

GOVERNMENTAL FUNDS

General Fund

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.

Special Revenue Funds

These Funds are used to account for specific governmental revenue (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

The Village's Special Revenue Funds consist of the Major Street Fund and the Local Street Fund.

PROPRIETARY FUND

Enterprise Fund

Theses Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where user charges finance the costs/expenses, including depreciation, of providing services.

The Village Enterprise Funds consist of an Airport Fund and Sewer Fund.

VILLAGE OF LAKE ISABELLA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. FUND ACCOUNTING (CONTINUED)

FIDUCIARY FUND

Trust and Agency Fund

This fund is considered an Agency Fund and is used to account for assets held by the Village as an agent for individual, private organizations, other governments, and for other Funds. This Fund is custodial in nature and does not involve measurement of the results of operations. The Village currently has one Agency Fund for maintenance of Payroll.

ACCOUNT GROUPS

General Fixed Assets Account Groups -This Account Group presents the fixed assets that the Village utilizes in its general operations (nonproprietary fixed assets).

The Account Group is not a "fund". The Account Group is concerned only with the measurement of financial position. It is not involved with the measurement of results of operations.

C. BASIS OF ACCOUNTING

Basis of accounting refers to how revenue and expenditures are recognized in the accounts and reported in the financial statements. The basis of accounting for the various funds is described in the following paragraphs.

The accounting books and records of the Village of Lake Isabella are maintained on a cash basis of accounting during the year and the financial statements have been prepared directly from these books and records. The financial statements do not, therefore, give effect to accounts receivable, accounts payable and accrued items. The proprietary funds do however reflect depreciation expense as applicable. Non-cash donations are also recognized at an estimated fair value at the date of donation.

D. BUDGETARY COMPARISON

The Village adopted a budget for the General Fund and all Special Revenue Funds. Accordingly, the financial statements present a comparison of actual revenue and expenditures to these budgets in Exhibit III.

The level of adoption for the General Fund and the Special Revenue Funds is at the fund level. Budget appropriations lapse at each fiscal year end.

VILLAGE OF LAKE ISABELLA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. PROPERTY TAXES

Property Taxes are levied on July 1 of each year and are recognized as revenue in the General Fund on a collection basis in conformity with the National Council on Governmental Accounting's (NCGA) Interpretation 3 entitled "Revenue Recognition - Property Taxes."

Property taxes are allocated to the General Fund based on the voted millage rate of .978 mills for operating and 1.000 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.

F. 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 balances 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. Consequently, for proprietary reporting purposes all investments are considered cash equivalents.

G. SHORT TERM INTERFUND RECEIVABLES AND PAYABLES

Due From and Due to Other Funds: During the course of its operations, the Village has numerous transactions between funds to finance operations, provide services, construct assets and service debt. To the extent that certain transactions between funds had not been paid or received as of June 30, balances of interfund amounts receivable or payable have been recorded. Also, to the extent that some funds have deficit balances in their Equity in Common Cash at June 30, such deficits represent temporary interfund borrowings and have been recorded as interfund receivables or payables.

H. ADVANCES TO/FROM OTHER FUNDS

Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund equity reserve account which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation.

I. FIXED ASSETS AND DEPRECIATION

The accounting and reporting treatment applied to fixed assets associated with a fund are determined by its measurement focus.

VILLAGE OF LAKE ISABELLA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. FIXED ASSETS AND DEPRECIATION (CONTINUED)

Governmental Fund Type Assets - Fixed assets acquired in Governmental fund types are recorded as expenditures when purchased. Such assets are capitalized at cost and reported in the General Fixed Assets Account Group except for infrastructure improvements (including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems). Donated fixed assets are valued at their estimated fair market value on the date received. Governmental fund type fixed assets of the Village are reported in the General Fixed Assets Account Group and the Village has opted to include a provision for depreciation. Depreciation has been provided on exhaustible fixed assets over the varying estimated useful lives of the assets using the straight-line method.

Proprietary Fund Type Assets - Fixed Assets of Proprietary fund types are recorded at historical cost, and are accounted for in the respective funds. Donated assets are recorded at their fair market value on the date received.

Depreciation is charged on all exhaustible fixed assets used by Proprietary fund types. Depreciation is charged proportionately to Contributed Capital for the part of the asset financed by contributed capital with the remaining expense charged against Retained Earnings. Proprietary fund type fixed assets have been reported net of accumulated depreciation on Statement I. Depreciation has been provided over the varying estimated useful lives of the assets using the straight-line method.

J. FUND EQUITY

Contributed Capital is recorded in Proprietary fund types that have received capital grants, or contributions from developers, customers or other funds of the Village.

Reservations are established to identify the existence of assets that are legally restricted to a future use or 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.

K. TOTAL COLUMNS ON COMBINED STATEMENTS

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not represent financial position or results of operations.

VILLAGE OF LAKE ISABELLA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 2 - BUDGET CONSIDERATION

Michigan Public Act 621 of 1978 requires that balanced budgets be adopted. The budget for the General Fund was not a balanced budget in that budgeted Expenditures exceeded budgeted Revenue and the available beginning fund balance.

NOTE 3 - CASH AND INVESTMENTS

Deposits are carried at costs. 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, bankers' 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, PA 7, 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, 2001, the carrying amount of the Village's cash, savings, and certificates of deposit was \$219,341 as follows:

Carrying Value

Petty Cash	\$ 100
Deposits with Financial Institutions:	
Cash in Checking	38,540
Cash in Savings	<u>180,801</u>
Total Deposits with Financial Institutions	<u>219,341</u>
Total Cash and Investments	\$ 219,441 =====

VILLAGE OF LAKE ISABELLA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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

	Insured FDIC	Uninsured	Total
Carrying Amounts	\$ 192,508	\$ 26,833	\$ 219,341
Bank Balances	\$ 192,508	\$ 26,892	\$ 219,400

Due to varying cash flows, the Village's deposits with financial institutions may have been higher during the year than at year end. Therefore, there may have been deposits that were uninsured at points during the year, however, the Village has changed the number financial institutions throughout the year in an attempt to keep all funds insured by the FDIC coverage.

NOTE 4 - INTERFUNDS

Interfund Receivables and Payables

The following is a listing of the interfund receivable and payable balances as of June 30, 2001:

	Due From Other Funds	(Due To Other Funds)
<u>General Fund</u>		
Sewer Fund	\$ —	\$ 27,777
<u>Enterprise Funds</u>		
Sewer Fund		
General Fund	27,777	—
Totals	\$ 27,777	\$ 27,777
	=====	=====

NOTE 5 - LONG-TERM ADVANCES

During the year ended June 30, 1999, the Sewer Fund advanced the General Fund \$39,820 for operations. This advance is to be paid back over a 5 year period plus annual interest of 4%. As of June 30, 2001 the General Fund has paid \$35,000 plus \$1,948 in interest, leaving a balance of \$4,820 as of June 30, 2001.

NOTE 6 - FUND DEFICITS

The Village has accumulated a fund deficit in the General Fund in the amount of \$16,378.

Michigan Public Act 275 of 1980 requires that the Village file a deficit elimination plan within 90 days after the end of the fiscal year for each fund that ended that year in a deficit condition.

VILLAGE OF LAKE ISABELLA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 7 - OTHER INTERFUND TRANSACTIONS

Included in Operating Transfers are amounts which various funds pay to the General Fund as subsidies in lieu of allocation of specific administrative costs:

Major Streets Fund	\$ 4,699
Local Streets Fund	<u>2,665</u>
Total Administrative Charges Paid To the General Fund	\$ 7,364 =====

NOTE 8 - CHANGES IN GENERAL FIXED ASSETS

A summary of changes in General Fixed Assets follows:

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Land	\$ 2,700	\$ 940	\$ —	\$ 3,640
Equipment	4,260	—	—	4,260
Office Furniture and Equipment	4,538	—	—	4,538
Vehicles	<u>6,344</u>	<u>—</u>	<u>—</u>	<u>6,344</u>
Total before Depreciation	17,842	940	—	18,782
Provision for Accumulated Depreciation	<u>(4,422)</u>	<u>(3,755)</u>	<u>—</u>	<u>(8,177)</u>
TOTAL	\$ 13,420 =====	\$ (2,815) =====	\$ — =====	\$ 10,605 =====

NOTE 9 - PROPERTY, PLANT, AND EQUIPMENT

Following is a summary of proprietary fund type property, plant, and equipment:

	Estimated Useful Life In Years	Enterprise Funds
Land	—	\$ 118,180
Runway	20	206,452
Accumulated Depreciation		<u>(12,903)</u>
Total		\$ 311,729 =====

VILLAGE OF LAKE ISABELLA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 10 - RETAINED EARNINGS/FUND BALANCE RESERVES AND DESIGNATIONS

Retained Earnings Reserves

Enterprise Funds

Sewer Fund

\$ 4,820
=====

To indicate that the related asset is not an
available, spendable resource.

NOTE 11 - PROPRIETARY FUND- FUND EQUITY RECONCILIATION

The changes in the government's fund equity accounts for its proprietary funds were as follows:

	<u>Enterprise</u>
Fund Equity - June 1, 2000	\$ 490,745
Increase (Decrease) in Retained Earnings	5,192
Changes in Contributed Capital:	
Depreciation on Contributed Capital	<u>(10,323)</u>
Fund Equity - June 30, 2001	\$ 485,614 =====

NOTE 12 - CONTINGENCIES

Grants

The Village receives financial assistance from other governmental agencies in the form of grants. The disbursements of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any financial statements of the individual fund types included, herein or on the overall financial position of the Village at June 30, 2001.

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.

VILLAGE OF LAKE ISABELLA
GENERAL FUND
COMPARATIVE STATEMENT OF ASSETS AND LIABILITIES
ARISING FROM CASH TRANSACTIONS
JUNE 30, 2001 AND 2000

Statement A1-1

	<u>ASSETS</u>	<u>2001</u>	<u>2000</u>
Petty Cash		\$ 100	\$ 50
Cash		<u>11,299</u>	<u>29,148</u>
TOTAL ASSETS		\$ 11,399 =====	\$ 29,198 =====

	<u>LIABILITIES AND CASH BASIS FUND BALANCE</u>		
LIABILITIES			
Due to Other Funds		\$ 22,957	\$ 22,957
Long Term Advance From Sewer Fund		<u>4,820</u>	<u>39,820</u>
TOTAL LIABILITIES		27,777	62,777
CASH BASIS FUND BALANCE (Deficit)			
Unreserved - Undesignated		<u>(16,378)</u>	<u>(33,579)</u>
TOTAL LIABILITIES AND CASH BASIS FUND BALANCE		\$ 11,399 =====	\$ 29,198 =====

VILLAGE OF LAKE ISABELLA
GENERAL FUND
COMPARATIVE STATEMENT OF REVENUE COLLECTED, EXPENDITURES PAID
AND CHANGES IN CASH BASIS FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2001 AND 2000 Statement A2-1

	<u>2001</u>	<u>2000</u>
REVENUE		
Property Taxes	\$ 30,609	\$ —
Interest and Penalties	14	—
Special Assessment	10,098	—
Permits	3,525	3,350
State Shared Revenue	46,903	45,293
Charges for Services	3,117	5,944
Interest Earnings	1,170	980
Rents and Royalties	3,449	4,687
Contributions - Private Sources	2,123	—
Refunds	40	—
Miscellaneous	<u>60</u>	<u>—</u>
TOTAL REVENUE	101,108	60,254
EXPENDITURES		
LEGISLATIVE		
City Council		
Supplies	918	412
Contracted Services	—	533
Printing and Publishing	593	551
Miscellaneous	<u>363</u>	<u>—</u>
TOTAL LEGISLATIVE	1,874	1,496
GENERAL GOVERNMENT		
Administration		
Salaries and Wages	25,659	35,363
Fringes	2,385	5,050
Supplies	1,238	1,918
Contracted Services	11,680	6,238
Insurance and Bonds	3,232	1,053
Communications	945	1,207
Travel	—	12
Miscellaneous	<u>215</u>	<u>154</u>
Total Administration	45,354	50,995
Elections		
Supplies	—	752
Contracted Services	—	383
Printing and Publishing	—	42
Miscellaneous	<u>—</u>	<u>68</u>
Total Elections	—	1,245
Clerk		
Supplies	306	1,315

VILLAGE OF LAKE ISABELLA
GENERAL FUND
COMPARATIVE STATEMENT OF REVENUE COLLECTED, EXPENDITURES PAID,
AND CHANGES IN CASH BASIS FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2001 AND 2000 Statement A2-1
(Continued)

	<u>2001</u>	<u>2000</u>
EXPENDITURES (Continued)		
GENERAL GOVERNMENT (Continued)		
Treasurer		
Supplies	\$ 1,765	\$ 889
Building and Grounds		
Office Rent	3,000	3,000
Capital Outlay	<u>940</u>	<u>3,303</u>
Total Building and Grounds	<u>3,940</u>	<u>6,303</u>
TOTAL GENERAL GOVERNMENT	51,365	60,747
PUBLIC SAFETY		
Fire Safety		
Contracted Services	22,150	—
Planning Commission		
Supplies	68	49
Contracted Services	1,128	1,575
Printing and Publishing	<u>422</u>	<u>1,137</u>
Total Planning Commission	1,618	2,761
Zoning Board of Appeals		
Training	—	208
Zoning Administration		
Salaries and Wages	9,708	10,319
Fringes	760	801
Supplies	517	913
Contracted Services	553	1,438
Telephone	276	342
Miscellaneous	<u>53</u>	<u>—</u>
Total Zoning Administration	<u>11,867</u>	<u>13,813</u>
TOTAL PUBLIC SAFETY	35,635	16,782

VILLAGE OF LAKE ISABELLA
GENERAL FUND
COMPARATIVE STATEMENT OF REVENUE COLLECTED, EXPENDITURES PAID,
AND CHANGES IN CASH BASIS FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2001 AND 2000

Statement A2-1
(Continued)

	<u>2001</u>	<u>2000</u>
PUBLIC WORKS		
Department of Public Works		
Supplies	\$ 120	\$ 683
Contracted Services	—	2,577
Equipment Repair	274	290
Capital Outlay	—	2,935
Telephone	<u>55</u>	<u>—</u>
TOTAL PUBLIC WORKS	449	6,485
DEBT SERVICE		
Interest	<u>1,948</u>	<u>—</u>
TOTAL EXPENDITURES	<u>91,271</u>	<u>85,510</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	9,837	(25,256)
OTHER FINANCING SOURCES (USES)		
Sale of Fixed Assets	—	1,500
Operating Transfers In		
Major Streets	4,699	3,771
Local Streets	<u>2,665</u>	<u>2,774</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>7,364</u>	<u>8,045</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	17,201	(17,211)
CASH BASIS FUND BALANCE - JULY 1	<u>(33,579)</u>	<u>(16,368)</u>
CASH BASIS FUND BALANCE - JUNE 30	\$ (16,378) =====	\$ (33,579) =====

VILLAGE OF LAKE ISABELLA
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF ASSETS AND LIABILITIES
ARISING FROM CASH TRANSACTIONS
JUNE 30, 2001

Statement B1-1

ASSETS

	<u>Major Streets</u>	<u>Local Streets</u>	<u>Total</u>
Cash	\$ 40,813 =====	\$ 20,103 =====	\$ 60,916 =====

LIABILITIES AND CASH BASIS FUND BALANCE

LIABILITIES	\$ —	\$ —	\$ —
CASH BASIS FUND BALANCE (Deficit)			
Unreserved - Undesignated	<u>40,813</u>	<u>20,103</u>	<u>60,916</u>
 TOTAL LIABILITIES AND CASH BASIS FUND BALANCE	 \$ 40,813 =====	 \$ 20,103 =====	 \$ 60,916 =====

VILLAGE OF LAKE ISABELLA
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUE COLLECTED, EXPENDITURES PAID,
AND CHANGES IN CASH BASIS FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2001 Statement B1-2

	Major Streets	Local Streets	Total
REVENUE			
State Gas and Weight Tax	\$ 85,448	\$ 48,436	\$ 133,884
Grants	908	1,362	2,270
Interest Earnings	470	455	925
Reimbursements	<u>100</u>	<u>—</u>	<u>100</u>
TOTAL REVENUE	86,926	50,253	137,179
EXPENDITURES			
PUBLIC WORKS			
Routine Maintenance			
Salaries and Wages	6,868	6,652	13,520
Fringes	979	969	1,948
Supplies	3,583	4,028	7,611
Contracted Services	15,212	24,609	39,821
Insurance	408	408	816
Equipment Rental	1,725	1,725	3,450
Transportation	<u>20</u>	<u>19</u>	<u>39</u>
Total Routine Maintenance	28,795	38,410	67,205
Administration			
Contracted Services	901	900	1,801
Traffic Services			
Contracted Services	92	7,081	7,173
Winter Maintenance			
Salaries	592	592	1,184
Fringes	48	47	95
Supplies	2,241	1,627	3,868
Contracted Services	<u>9,423</u>	<u>8,810</u>	<u>18,233</u>
Total Winter Maintenance	<u>12,304</u>	<u>11,076</u>	<u>23,380</u>
TOTAL EXPENDITURES	<u>42,092</u>	<u>57,467</u>	<u>99,559</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	44,834	(7,214)	37,620
OTHER FINANCING SOURCES (USES)			
OPERATING TRANSFERS IN (OUT)			
To General Fund	(4,699)	(2,665)	(7,364)
Major and Local Streets	<u>(12,057)</u>	<u>12,057</u>	<u>—</u>
TOTAL OTHER FINANCING SOURCES (USES) OPERATING TRANSFERS IN (OUT)	<u>(16,756)</u>	<u>9,392</u>	<u>(7,364)</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	28,078	2,178	30,256
CASH BASIS FUND BALANCE - JULY 1, 2000	<u>12,735</u>	<u>17,925</u>	<u>30,660</u>
CASH BASIS FUND BALANCE - JUNE 30, 2001	\$ 40,813 =====	\$ 20,103 =====	\$ 60,916 =====

VILLAGE OF LAKE ISABELLA
MAJOR STREETS FUND
COMPARATIVE STATEMENT OF ASSETS AND LIABILITIES
ARISING FROM CASH TRANSACTIONS
JUNE 30, 2001 AND 2000

Exhibit B2-1

	ASSETS	
	<u>2001</u>	<u>2000</u>
Cash	\$ 40,813 =====	\$ 12,735 =====

LIABILITIES AND CASH BASIS FUND BALANCE		
LIABILITIES	\$ —	\$ —
CASH BASIS FUND BALANCE (Deficit)	<u>40,813</u>	<u>12,735</u>
TOTAL LIABILITIES AND CASH BASIS FUND BALANCE	\$ 40,813 =====	\$ 12,735 =====

VILLAGE OF LAKE ISABELLA
MAJOR STREETS FUND
COMPARATIVE STATEMENT OF REVENUE COLLECTED, EXPENDITURES PAID,
AND CHANGES IN CASH BASIS FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2001 AND 2000 Exhibit B2-2

	<u>2001</u>	<u>2000</u>
REVENUE		
State Gas and Weight Tax	\$ 85,448	\$ 75,098
Grants	908	—
Interest Earnings	470	—
Reimbursements	<u>100</u>	<u>—</u>
TOTAL REVENUE	86,926	75,098
EXPENDITURES		
CONSTRUCTION		
Impact Study	—	25,000
PUBLIC WORKS		
Routine Maintenance		
Salaries and Wages	6,868	8,033
Fringes	979	577
Supplies	3,583	1,946
Contracted Services	15,212	12,254
Insurance	408	131
Transportation	20	—
Equipment Rental	<u>1,725</u>	<u>3,074</u>
Total Routine Maintenance	28,795	26,015
Traffic Services		
Contracted Services	92	421
Winter Maintenance		
Salaries	592	—
Fringes	48	—
Supplies	2,241	528
Contracted Services	<u>9,423</u>	<u>2,585</u>
Total Winter Maintenance	12,304	3,113
Administration		
Contracted Services	<u>901</u>	<u>2,013</u>
TOTAL EXPENDITURES	<u>42,092</u>	<u>56,562</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	44,834	18,536
OTHER FINANCING SOURCES (USES)		
Operating Transfers In (Out)		
To Local Streets	(12,057)	(4,100)
To General Fund	<u>(4,699)</u>	<u>(3,771)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(16,756)</u>	<u>(7,871)</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	28,078	10,665
CASH BASIS FUND BALANCE - JULY 1	<u>12,735</u>	<u>2,070</u>
CASH BASIS FUND BALANCE - JUNE 30	<u>\$ 40,813</u>	<u>\$ 12,735</u>
	=====	=====

VILLAGE OF LAKE ISABELLA
LOCAL STREETS FUND
COMPARATIVE STATEMENT OF ASSETS AND LIABILITIES
ARISING FROM CASH TRANSACTIONS
JUNE 30, 2001 AND 2000

Statement B3-1

ASSETS			
		<u>2001</u>	<u>2000</u>
Cash		\$ 20,103	\$ 17,925
		=====	=====

LIABILITIES AND CASH BASIS FUND BALANCE

LIABILITIES		\$ —	\$ —
CASH BASIS FUND BALANCE (Deficit)			
Unreserved - Undesignated		<u>20,103</u>	<u>17,925</u>
TOTAL LIABILITIES AND CASH BASIS FUND BALANCE		\$ 20,103	\$ 17,925
		=====	=====

VILLAGE OF LAKE ISABELLA
LOCAL STREETS FUND
COMPARATIVE STATEMENT OF REVENUE COLLECTED, EXPENDITURES PAID,
AND CHANGES IN CASH BASIS FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2001 AND 2000

Statement B3-2

	<u>2001</u>	<u>2000</u>
REVENUE		
State Gas and Weight Tax	\$ 48,436	\$ 49,043
Grants	1,362	—
Interest and Earnings	<u>455</u>	<u>—</u>
TOTAL REVENUE	50,253	49,043
EXPENDITURES		
PUBLIC WORKS		
Routine Maintenance		
Salaries and Maintenance	6,652	7,418
Fringes	969	504
Supplies	4,028	1,020
Contracted Services	24,609	25,020
Insurance	408	127
Transportation	19	—
Equipment Rental	<u>1,725</u>	<u>1,614</u>
Total Routine Maintenance	38,410	35,703
Winter Maintenance		
Salaries	592	—
Fringes	47	—
Supplies	1,627	528
Contracted Services	<u>8,810</u>	<u>2,552</u>
Total Winter Maintenance	11,076	3,080
Traffic Services		
Contracted Services	7,081	—
Administration		
Contracted Services	<u>900</u>	<u>2,884</u>
TOTAL EXPENDITURES	<u>57,467</u>	<u>41,667</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(7,214)	7,376
OTHER FINANCING SOURCES ((USES)		
Operating Transfers In (Out)		
To General Fund	(2,665)	(2,774)
From Major Street Fund	<u>12,057</u>	<u>4,100</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>9,392</u>	<u>1,326</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	2,178	8,702
CASH BASIS FUND BALANCE - JULY 1	<u>17,925</u>	<u>9,223</u>
CASH BASIS FUND BALANCE - JUNE 30	<u>\$ 20,103</u>	<u>\$ 17,925</u>

VILLAGE OF LAKE ISABELLA
ENTERPRISE FUNDS
COMBINING STATEMENT OF ASSETS AND LIABILITIES
ARISING FROM CASH TRANSACTIONS
JUNE 30, 2001

Statement C1-1

	ASSETS		
	<u>Airport</u>	<u>Sewer</u>	<u>Total</u>
Cash	\$ —	\$ 146,108	\$ 146,108
Long-Term Advance to General Fund	—	4,820	4,820
Property, Plant and Equipment	243,549	68,180	311,729
Due from Other Funds	<u>—</u>	<u>22,957</u>	<u>22,957</u>
 TOTAL ASSETS	 \$ 243,549 <u>=====</u>	 \$ 242,065 <u>=====</u>	 \$ 485,614 <u>=====</u>

LIABILITIES AND CASH BASIS FUND EQUITY

LIABILITIES	\$ —	\$ —	\$ —
 CASH BASIS FUND EQUITY (Deficit)			
Contributed Capital	243,549	—	243,549
Retained Earnings			
Reserved for Long-Term Advance	—	4,820	4,820
Unreserved	<u>—</u>	<u>237,245</u>	<u>237,245</u>
Total Retained Earnings	<u>—</u>	<u>242,065</u>	<u>242,065</u>
 TOTAL FUND EQUITY	 <u>243,549</u>	 <u>242,065</u>	 <u>485,614</u>
 TOTAL LIABILITIES AND CASH BASIS FUND EQUITY	 \$ 243,549 <u>=====</u>	 \$ 242,065 <u>=====</u>	 \$ 485,614 <u>=====</u>

VILLAGE OF LAKE ISABELLA
ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUE COLLECTED, EXPENDITURES PAID,
AND CHANGES IN CASH BASIS RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2001 Statement C1-2

	<u>Airport</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUE	\$ 1,958	\$ —	\$ 1,958
OPERATING EXPENSES			
Postage	—	42	42
Supplies	—	173	173
Contracted Services	1,670	—	1,670
Legal/Audit	—	2,464	2,464
Utilities	263	—	263
Miscellaneous	<u>25</u>	<u>—</u>	<u>25</u>
TOTAL OPERATING EXPENSES	<u>1,958</u>	<u>2,679</u>	<u>4,637</u>
OPERATING INCOME (LOSS) BEFORE DEPRECIATION	—	(2,679)	(2,679)
Less: Depreciation Expense	<u>(10,323)</u>	<u>—</u>	<u>(10,323)</u>
OPERATING INCOME (LOSS)	(10,323)	(2,679)	(13,002)
NET NON-OPERATING REVENUE (EXPENSE)			
Interest Earnings	<u>—</u>	<u>7,871</u>	<u>7,871</u>
NET INCOME (LOSS)	(10,323)	5,192	(5,131)
Effects of Contributed Capital Activity			
Depreciation on Contributed Capital	<u>10,323</u>	<u>—</u>	<u>10,323</u>
INCREASE (DECREASE) IN RETAINED EARNINGS	—	5,192	5,192
CASH BASIS RETAINED EARNINGS - JULY 1	<u>—</u>	<u>236,873</u>	<u>236,873</u>
CASH BASIS RETAINED EARNINGS - JUNE 30	\$ — =====	\$ 242,065 =====	\$ 242,065 =====

VILLAGE OF LAKE ISABELLA
ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001

Statement C1-3

	<u>Airport</u>	<u>Sewer</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating Income (Loss)	\$ (10,323)	\$ (2,679)	\$ (13,002)
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operations:			
Depreciation	<u>10,323</u>	<u>—</u>	<u>10,323</u>
Net Cash Provided (Used) by Operating Activities	—	(2,679)	(2,679)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Long-Term Advance	—	35,000	35,000
Interest Earnings	<u>—</u>	<u>1,948</u>	<u>1,948</u>
Net Cash Provided by Non-Capital Financing Activities	—	36,948	36,948
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Earnings	<u>—</u>	<u>5,923</u>	<u>5,923</u>
Net Increase (Decrease) in Cash and Cash Equivalents	—	40,192	40,192
CASH AND CASH EQUIVALENTS - JULY 1, 2000	<u>—</u>	<u>105,916</u>	<u>105,916</u>
CASH AND CASH EQUIVALENTS - JUNE 30, 2001	<u>\$ —</u>	<u>\$ 146,108</u>	<u>\$ 146,108</u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Value of State Grant	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

VILLAGE OF LAKE ISABELLA
AIRPORT FUND
COMPARATIVE STATEMENT OF ASSETS AND LIABILITIES
ARISING FROM CASH TRANSACTIONS
JUNE 30, 2001 AND 2000

Statement C2-1

ASSETS		
	<u>2001</u>	<u>2000</u>
Property, Plant and Equipment		
Land	\$ 50,000	\$ 50,000
Runway	206,452	206,452
Accumulated Depreciation - Runway	<u>(12,903)</u>	<u>(2,580)</u>
 TOTAL ASSETS	 \$ 243,549 =====	 \$ 253,872 =====

LIABILITIES AND CASH BASIS FUND EQUITY		
LIABILITIES	\$ —	\$ —
CASH BASIS FUND EQUITY (Deficit)		
Contributed Capital	<u>243,549</u>	<u>253,872</u>
 TOTAL LIABILITIES AND CASH BASIS FUND EQUITY	 \$ 243,549 =====	 \$ 253,872 =====

VILLAGE OF LAKE ISABELLA
AIRPORT FUND
COMPARATIVE STATEMENT OF REVENUE COLLECTED, EXPENDITURES PAID,
AND CHANGES IN CASH BASIS RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2001 AND 2000 Statement C2-2

	<u>2001</u>	<u>2000</u>
OPERATING REVENUE	\$ 1,958	\$ —
OPERATING EXPENSES		
Contracted Services	1,670	1,591
Utilities	263	—
Miscellaneous	<u>25</u>	<u>—</u>
TOTAL OPERATING EXPENSES	<u>1,958</u>	<u>1,591</u>
OPERATING INCOME (LOSS) BEFORE DEPRECIATION	—	(1,591)
Less: Depreciation Expense	<u>(10,323)</u>	<u>(2,580)</u>
OPERATING INCOME (LOSS)	(10,323)	(4,171)
NET NON-OPERATING REVENUE (EXPENSE)		
Grant Revenue	<u>—</u>	<u>192,774</u>
NET INCOME LOSS	(10,323)	188,603
EFFECTS OF CONTRIBUTED CAPITAL ACTIVITY		
Assets Added/Acquired	—	(191,183)
Depreciation on Contributed Capital	<u>10,323</u>	<u>2,580</u>
INCREASE (DECREASE) IN RETAINED EARNINGS	—	—
CASH BASIS RETAINED EARNINGS - JULY 1, 2000	<u>—</u>	<u>—</u>
CASH BASIS RETAINED EARNINGS - JUNE 30, 2001	\$ — =====	\$ — =====

VILLAGE OF LAKE ISABELLA
AIRPORT FUND
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001 AND 2000

Statement C2-3

	<u>2001</u>	<u>2000</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (10,323)	\$ (4,171)
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operations:		
Depreciation	<u>10,323</u>	<u>2,580</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	—	(1,591)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Grant	<u>—</u>	<u>1,591</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	—	—
CASH AND CASH EQUIVALENTS - JULY 1	<u>—</u>	<u>—</u>
CASH AND CASH EQUIVALENTS - JUNE 30	<u>\$ —</u>	<u>\$ —</u>
	=====	=====
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Donated Land	\$ —	\$ —
State Grant	<u>—</u>	<u>191,183</u>
Total Non-Cash Investing, Capital, and Financing Activities	<u>\$ —</u>	<u>\$ 191,183</u>
	=====	=====

VILLAGE OF LAKE ISABELLA
SEWER FUND
COMPARATIVE STATEMENT OF ASSETS AND LIABILITIES
ARISING FROM CASH TRANSACTIONS
JUNE 30, 2001 AND 2000

Statement C3-1

ASSETS			
		<u>2001</u>	<u>2000</u>
Cash		\$ 146,108	\$ 105,916
Long-Term Advance to General Fund		4,820	39,820
Due from Other Funds		22,957	22,957
Property, Plant and Equipment		<u>68,180</u>	<u>68,180</u>
 TOTAL ASSETS		 \$ 242,065 =====	 \$ 236,873 =====

LIABILITIES AND CASH BASIS FUND EQUITY			
LIABILITIES		\$ —	\$ —
CASH BASIS FUND EQUITY (Deficit)			
Retained Earnings			
Reserved for Long-Term Advance		4,820	39,820
Unreserved		<u>237,245</u>	<u>197,053</u>
Total Retained Earnings		<u>242,065</u>	<u>236,873</u>
 TOTAL LIABILITIES AND CASH BASIS FUND EQUITY		 \$ 242,065 =====	 \$ 236,873 =====

VILLAGE OF LAKE ISABELLA
SEWER FUND
COMPARATIVE STATEMENT OF REVENUE COLLECTED, EXPENDITURES PAID,
AND CHANGES IN CASH BASIS RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2001 AND 2000

Exhibit C3-2

	<u>2001</u>	<u>2000</u>
OPERATING REVENUE	\$ —	\$ —
OPERATING EXPENSES	<u>2,679</u>	<u>10,143</u>
OPERATING INCOME (LOSS)	(2,679)	(10,143)
NET NON-OPERATING REVENUE (EXPENSE)		
Interest Earnings	<u>7,871</u>	<u>5,461</u>
NET INCOME (LOSS)	5,192	(4,682)
CASH BASIS RETAINED EARNINGS - JULY 1	<u>236,873</u>	<u>241,555</u>
CASH BASIS RETAINED EARNINGS - JUNE 30	\$ 242,065 =====	\$ 236,873 =====

VILLAGE OF LAKE ISABELLA
SEWER FUND
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001 AND 2000

Statement C3-3

	<u>2001</u>	<u>2000</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ (2,679)	\$ (10,143)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Long-Term Advance	35,000	—
Interest Earnings	1,948	—
Due from Other Funds	<u>—</u>	<u>(22,957)</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	34,269	(33,100)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Earnings	<u>5,923</u>	<u>5,461</u>
Net Increase (Decrease) in Cash and Cash Equivalents	40,192	(27,639)
CASH AND CASH EQUIVALENTS - JULY 1	<u>105,916</u>	<u>133,555</u>
CASH AND CASH EQUIVALENTS - JUNE 30	\$ 146,108	\$ 105,916
	=====	=====
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	\$ —	\$ —
	=====	=====

VILLAGE OF LAKE ISABELLA
PAYROLL FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2001

Statement D1-1

	<u>Balance</u> <u>07/01/00</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/01</u>
ASSETS				
Cash	\$ 1,542 =====	\$ 54,665 =====	\$ 55,189 =====	\$ 1,018 =====
LIABILITIES				
Withholdings and Benefits Payable	\$ 1,542	\$ 11,016	\$ 11,540	\$ 1,018
Net Salaries Payable	<u>—</u>	<u>43,649</u>	<u>43,649</u>	<u>—</u>
TOTAL LIABILITIES	\$ 1,542 =====	\$ 54,665 =====	\$ 55,189 =====	\$ 1,018 =====

VILLAGE OF LAKE ISABELLA
GENERAL FIXED ASSETS ACCOUNT GROUP
COMPARATIVE STATEMENT OF GENERAL FIXED ASSETS
JUNE 30, 2001 AND 2000

Exhibit E1-1

	<u>2001</u>	<u>2000</u>
GENERAL FIXED ASSETS		
Land	\$ 3,640	\$ 2,700
Equipment	4,260	4,260
Office Furniture and Equipment	4,538	4,538
Vehicles	<u>6,344</u>	<u>6,344</u>
Total Assets	18,782	17,842
Provision for Depreciation	<u>(8,177)</u>	<u>(4,422)</u>
TOTAL GENERAL FIXED ASSETS	\$ 10,605 =====	\$ 13,420 =====
INVESTMENTS IN GENERAL FIXED ASSETS BY SOURCE		
General Fund	\$ 10,605 =====	\$ 13,420 =====

VILLAGE OF LAKE ISABELLA
SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS
BY FUNCTION AND ACTIVITY
FOR THE YEAR ENDED JUNE 30, 2001

Statement E1-2

Function and Activity	<u>General Fixed Assets 07/01/00</u>	<u>Additions</u>	<u>Deductions</u>	<u>General Fixed Assets 06/30/01</u>
GENERAL FUND				
General Government				
Building and Grounds	\$ 7,238	\$ 940	\$ —	\$ 8,178
Public Works				
Department of Public Works	<u>10,604</u>	<u>—</u>	<u>—</u>	<u>10,604</u>
TOTAL BEFORE DEPRECIATION	\$ 17,842	\$ 940	\$ —	\$ 18,782
	=====	=====	=====	=====

VILLAGE OF LAKE ISABELLA
SCHEDULE OF GENERAL FIXED ASSETS
BY FUNCTION AND ACTIVITY
FOR THE YEAR ENDED JUNE 30, 2001

Exhibit E1-3

<u>Function and Activity</u>	<u>Total</u>	<u>Land and Improvements</u>	<u>Equipment</u>	<u>Office Equipment and Furniture</u>	<u>Vehicles</u>
GENERAL FUND					
General Government					
Building and Grounds	\$ 8,178	\$ 3,640	\$ —	\$ 4,538	\$ —
Public Works					
Department of Public Works	<u>10,604</u>	<u>—</u>	<u>4,260</u>	<u>—</u>	<u>6,344</u>
TOTAL GENERAL FUND	18,782	3,640	4,260	4,538	6,344
Provision for Depreciation	<u>(8,177)</u>	<u>—</u>	<u>(1,910)</u>	<u>(1,683)</u>	<u>(4,584)</u>
TOTAL	<u>\$ 10,605</u>	<u>\$ 3,640</u>	<u>\$ 2,350</u>	<u>\$ 2,855</u>	<u>\$ 1,760</u>

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

October 19, 2001

Village Council
Village of Lake Isabella, Michigan

We have recently completed our audit of the financial statements of Village of Lake Isabella for the twelve month period ended June 30, 2001. As required by auditing standards generally accepted in the United States, 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

We conducted our audit of the financial statements of Village of Lake Isabella in accordance with auditing standards generally accepted in the United States. 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 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."

An independent auditor's objective in 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 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 fraud. 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 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 no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal. Audit adjustments are available from the Village Manager.

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which is to be implemented over the next few years. The implementation date of this pronouncement for the Village of Lake Isabella will begin with the year ended June 30, 2003 and will need to be implemented fully by June 30, 2004. The daily operations and recording transactions should not change significantly, however, the Village will be required to maintain additional records for year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/
COMPLIANCE/EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention.

SEGREGATION OF DUTIES (Repeated Comment)

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of accounting duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the “cost to benefit” relationship may not justify the addition of accounting staff to accomplish the desired segregation.

BUDGET CONSIDERATIONS (Repeated Comment with Modification)

Michigan Public Act 621 of 1978 requires that balanced budgets be adopted. The budget for the General Fund was not a balanced budget in that budgeted Expenditures exceeded budgeted Revenue and the available beginning fund balance for the fund. The Village adopted a balanced budget overall for the sum of all funds and was a realistic projection of what the final outcome expected was, however, the budget needs to balance on an individual fund basis versus the Village as a whole. Additional steps should be taken to show the budget in revenues, expenditures and increases (decreases) in fund balance for each fund separately.

The Michigan Public Act 621 of 1978 also requires that prior year revenues and expenditures and estimates of current year revenues and expenditures be included in the budget document. Additionally, the Fund Balance (deficit) accumulated from prior years and estimated current year Fund Balance (deficit) also needs to be included.

FUND DEFICIT (Repeated Comment with Modification)

The Village has accumulated a fund deficit in the General Fund in the amount of \$16,378.

Michigan Public Act 275 of 1980 requires that the Village file a deficit elimination plan within 90 days after the end of the fiscal year for each fund that ended that year in a deficit condition.

EQUIPMENT RENTAL (Repeated Comment with Modification)

Although improvements have been made to better track the usage of equipment between Local and Major Streets additional efforts should be made. A log should be used to track the time and streets worked so that expenditures may be accurately allocated to the proper funds.

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

PROPERTY TAXES

Currently interest and penalties are not being billed on late payments. Usually the amounts of the penalties are too small to warrant sending bills. However, when taxes are paid in person the penalties are being collected. This results in penalties being collected from some individuals and not others. The Village should adopt a policy stating that penalties below a given amount will not be billed or collected and any amounts above the limit will be billed and collected.

During testing of property tax deposits it was noted that there were a number of 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.

PAYROLL

Two paychecks (check numbers 869 and 870) were not included on the August payroll worksheets. Therefore, the taxes were never paid. Also, since the 941's are prepared from the worksheets, the 941's for the year 2000 were incorrectly prepared. Additional care should be taken to ensure that all the necessary information is included on the payroll worksheets.

CONTRACTED SERVICES

The Village currently has an oral agreement with Wilcox Excavating to perform local and major street projects. The agreement needs to be drafted into a written contract. If a written contract is not drafted, the Village needs to establish a bid process when awarding projects to vendors.

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 October 19, 2001.

SUMMARY

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.

Page, Olson & Company