

VILLAGE OF LAKE ISABELLA
MICHIGAN
AUDITED FINANCIAL STATEMENTS
FOURTEEN MONTH
PERIOD ENDED JUNE 30, 1999

VILLAGE OF LAKE ISABELLA
FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

TABLE OF CONTENTS

	<u>Page Numbers</u>
Village Officials	1
INDEPENDENT AUDITORS' REPORT	3-4
<u>Exhibits</u>	
GENERAL PURPOSE FINANCIAL STATEMENTS	
I Combined Statement of Assets and Liabilities Arising from Cash Transactions - All Fund Types and Account Groups	5
II Combined Statement of Revenue Collected, Expenditures Paid, and Changes in Cash Basis Fund Balance - All Governmental Fund Types	6
III Combined Statement of Revenue Collected, Expenditures Paid, and Changes in Cash Basis Fund Balance - Budget and Actual - All Governmental Fund Types	7
IV Combined Statement of Revenue Collected, Expenditures Paid, and Changes in Cash Basis Retained Earnings - All Proprietary Fund Types	8
V Combined Statement of Cash Flows - All Proprietary Fund Types	9
Notes to the Financial Statements	10-18
SUPPLEMENTAL DATA	
GENERAL FUND	
A1-1 Statement of Assets and Liabilities Arising from Cash Transactions	19
A2-1 Statement of Revenue Collected, Expenditures Paid, and Changes in Cash Basis Fund Balance	20-21
SPECIAL REVENUE FUNDS	
B1-1 Combining Statement of Assets and Liabilities Arising from Cash Transactions	22
B1-2 Combining Statement of Revenue Collected, Expenditures Paid, and Changes in Cash Basis Fund Balance	23
<u>Major Streets Fund</u>	
B2-1 Statement of Assets and Liabilities Arising from Cash Transactions	24
B2-2 Statement of Revenue Collected, Expenditures Paid, and Changes in Cash Basis Fund Balance	25
<u>Local Street Fund</u>	
B3-1 Statement of Assets and Liabilities Arising from Cash Transactions	26
B3-2 Statement of Revenue Collected, Expenditures Paid, and Changes in Cash Basis Fund Balance	27

VILLAGE OF LAKE ISABELLA
FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

TABLE OF CONTENTS

<u>Exhibits</u>	SUPPLEMENTAL DATA (CONTINUED)	<u>Page Numbers</u>
	ENTERPRISE FUNDS	
C1-1	Combining Statement of Assets and Liabilities Arising from Cash Transactions	28
C1-2	Combining Statement of Revenue Collected, Expenditures Paid, and Changes in Retained Earnings	29
C1-3	Combining Statement of Cash Flows	30
	<u>Airport Fund</u>	
C2-1	Statement of Assets and Liabilities Arising from Cash Transactions	31
C2-2	Statement of Revenue Collected, Expenditures Paid, and Changes in Retained Earnings	32
C2-3	Statement of Cash Flows	33
	<u>Sewer Fund</u>	
C3-1	Statement of Assets and Liabilities Arising from Cash Transactions	34
C3-2	Statement of Revenue Collected, Expenditures Paid, and Changes in Retained Earnings	35
C3-3	Statement of Cash Flows	36
	FIDUCIARY FUNDS	
	<u>Payroll Fund</u>	
D1-1	Statement of Changes in Assets and Liabilities	37
	GENERAL FIXED ASSETS ACCOUNT GROUP	
E1-1	Statement of General Fixed Assets	38
E1-2	Schedule of Changes in General Fixed Assets by Function and Activity	39
E1-3	Schedule of General Fixed Assets by Function and Activity	40
	AUDITORS COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS	41-45

VILLAGE OF LAKE ISABELLA
OFFICIALS
JUNE 30, 1999

VILLAGE COUNCIL

Bill Dunham	President
Jackie Adkins	President Protem
Tom Deboer	Member
Glenna Farrugia	Treasurer
Jim Kenney	Deputy Treasurer
Dave Powell	Deputy Clerk
Mary Swanson	Clerk

VILLAGE MANAGER

Edward G. Spayd

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INDEPENDENT AUDITORS' REPORT

December 22, 1999

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 fourteen month period ended June 30, 1999, 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 generally accepted auditing standards. 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 generally accepted accounting principles. Consequently, revenue and the related assets are recognized only when received and expenditures are recognized only when paid.

Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures About Year 2000 Issues*, requires disclosure of certain matters regarding the year 2000 issue. The Village of Lake Isabella has included such disclosures in Note 12. Because of the unprecedented nature of the year 2000 issues, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support Village of Lake Isabella's disclosures with respect to the year 2000 issue made in Note 12. Further, we do not provide assurance that Village of Lake Isabella is or will be successful in whole or in part, or that parties with which Village of Lake Isabella does business with will be year 2000 ready.

Village Council
Village of Lake Isabella, Michigan

In our opinion, except for the effects of such adjustments, if any which might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, 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, 1999, arising from cash transactions, and its revenue collected, expenditures paid, and changes in cash basis fund balance and/or retained earnings for the fourteen month period 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.

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

Page, Olson & Company

VILLAGE OF LAKE ISABELLA
COMBINED STATEMENT OF ASSETS AND LIABILITIES
ARISING FROM CASH TRANSACTIONS - ALL FUND TYPES
AND ACCOUNT GROUPS
JUNE 30, 1999

Exhibit I

ASSETS						Totals (Memorandum Only)
	General Fund	Special Revenue Funds	Enterprise Funds	Trust and Agency Funds	General Fixed Asset Account Group	
Cash	\$ 23,660	\$ 7,893	\$ 133,555	\$ 1,208	\$ 0	\$ 166,316
Deposits Receivable	0	3,400	0	0	0	3,400
Long Term Advance to General Fund	0	0	39,820	0	0	39,820
Property, Plant, and Equipment	0	0	133,449	0	12,180	145,629
TOTAL ASSETS	\$ 23,660	\$ 11,293	\$ 306,824	\$ 1,208	\$ 12,180	\$ 355,165
LIABILITIES AND FUND EQUITY						
LIABILITIES						
Due to Others	\$ 208	0	0	1,208	0	\$ 1,416
Long Term Advance From Other Funds	39,820	0	0	0	0	39,820
TOTAL LIABILITIES	40,028	0	0	1,208	0	41,236
FUND EQUITY (Deficit)						
Investment in Fixed Assets	0	0	0	0	12,180	12,180
Contributed Capital	0	0	65,269	0	0	65,269
Retained Earnings						
Reserved	0	0	39,820	0	0	39,820
Unreserved	0	0	201,735	0	0	201,735
Fund Balance						
Unreserved - Undesignated	(16,368)	11,293	0	0	0	(5,075)
TOTAL FUND EQUITY	(16,368)	11,293	306,824	0	12,180	313,929
TOTAL LIABILITIES AND FUND EQUITY	\$ 23,660	\$ 11,293	\$ 306,824	\$ 1,208	\$ 12,180	\$ 355,165

The accompanying notes are an integral part of the financial statements

VILLAGE OF LAKE ISABELLA
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID,
 AND CHANGES IN CASH BASIS FUND BALANCE
 ALL GOVERNMENTAL FUND TYPES
 FOR THE FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

Exhibit II

	General Fund	Special Revenue Funds	Totals (Memorandum Only)
	-----	-----	-----
REVENUE			
Permits	\$ 3,005	\$ 0	\$ 3,005
State Shared Revenue	36,422	58,385	94,807
Charges for Services	4,519	0	4,519
Interest Earnings	294	0	294
Rents and Royalties	3,137	0	3,137
Contributions - Private Sources	1,828	0	1,828
Other Revenue	0	146	146
	-----	-----	-----
TOTAL REVENUE	49,205	58,531	107,736
EXPENDITURES			
Current Operations			
Legislative	5,632	0	5,632
General Government	47,371	0	47,371
Public Safety	14,714	0	14,714
Public Works	9,588	42,238	51,826
	-----	-----	-----
TOTAL EXPENDITURES	77,305	42,238	119,543
	-----	-----	-----
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(28,100)	16,293	(11,807)
OTHER FINANCING SOURCES (USES)			
Sale of Fixed Assets	6,732	0	6,732
Operating Transfers In	5,000	4,100	9,100
Operating Transfers (Out)	0	(9,100)	(9,100)
	-----	-----	-----
TOTAL OTHER FINANCING SOURCES (USES)	11,732	(5,000)	6,732
	-----	-----	-----
EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(16,368)	11,293	(5,075)
CASH BASIS FUND BALANCE			
- MAY 1, 1998	0	0	0
	-----	-----	-----
CASH BASIS FUND BALANCE			
- JUNE 30, 1999	\$ (16,368)	\$ 11,293	\$ (5,075)
	=====	=====	=====

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

VILLAGE OF LAKE ISABELLA
COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID,
AND CHANGES IN CASH BASIS FUND BALANCE
GENERAL AND SPECIAL REVENUE FUNDS - BUDGET AND ACTUAL
FOR THE FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

Exhibit III

	General Fund			Special Revenue Funds		
	Budget	Actual	Under (Over) Budget	Budget	Actual	Under (Over) Budget
REVENUE						
Permits	\$ 0	\$ 3,005	\$ (3,005)	\$ 0	\$ 0	\$ 0
State Shared Revenue	19,500	36,422	(16,922)	85,226	58,385	26,841
Charges for Services	15,000	4,519	10,481	0	0	0
Interest Earnings	0	294	(294)	0	0	0
Rents and Royalties	0	3,137	(3,137)	0	0	0
Contributions - Private Sources	6,000	1,828	4,172	0	0	0
Other Revenue	5,000	0	5,000	0	146	(146)
TOTAL REVENUE	45,500	49,205	(3,705)	85,226	58,531	26,695
EXPENDITURES						
Current Operations						
Legislative	0	5,632	(5,632)	0	0	0
General Government	47,300	47,371	(71)	0	0	0
Public Safety	5,000	14,714	(9,714)	0	0	0
Public Works	0	9,588	(9,588)	85,226	42,238	42,988
TOTAL EXPENDITURES	52,300	77,305	(25,005)	85,226	42,238	42,988
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(6,800)	(28,100)	21,300	0	16,293	(16,293)
OTHER FINANCING SOURCES (USES)						
Sale of Fixed Assets	0	6,732	(6,732)	0	0	0
Operating Transfers In	0	5,000	(5,000)	0	4,100	(4,100)
Operating Transfers (Out)	0	0	0	0	(9,100)	9,100
TOTAL OTHER FINANCING SOURCES (USES)	0	11,732	(11,732)	0	(5,000)	5,000
EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(6,800)	(16,368)	9,568	0	11,293	(11,293)
CASH BASIS FUND BALANCE - MAY 1, 1998	0	0	0	0	0	0
CASH BASIS FUND BALANCE - JUNE 30, 1999	\$ (6,800)	\$ (16,368)	\$ 9,568	\$ 0	\$ 11,293	\$ (11,293)

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

VILLAGE OF LAKE ISABELLA
 COMBINED STATEMENT OF REVENUES COLLECTED,
 EXPENDITURES PAID, AND CHANGES IN RETAINED EARNINGS
 ALL PROPRIETARY FUND TYPES
 FOR THE FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

Exhibit IV

	Enterprise Funds

OPERATING REVENUE	\$ 0
OPERATING EXPENSES	0

OPERATING INCOME (LOSS)	0
NET NON-OPERATING REVENUE (EXPENSE)	
Grant Revenue	15,269
Donations	282,740
Interest Earnings	8,815

Total Non-Operating Revenue (Expense)	306,824

NET INCOME (LOSS)	306,824
Subtract: Fixed Assets added with Contributed Capital	(65,269)

INCREASE (DECREASE) IN RETAINED EARNINGS	241,555
CASH BASIS RETAINED EARNINGS - MAY 1, 1998	0

CASH BASIS RETAINED EARNINGS - JUNE 30, 1999	\$ 241,555
	=====

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 FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

Exhibit V

	Enterprise Funds

CASH FLOWS FROM OPERATING ACTIVITIES	
Net Income	\$ 0
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Funds Received from LIPOA	232,740
Long-Term Advance to General Fund	(39,820)

Net Cash Provided (Used) by Non-Capital Financing Activities	192,920
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Land	(68,180)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Earnings	8,815

Net Increase (Decrease) in Cash & Cash Equivalents	133,555
CASH AND CASH EQUIVALENTS - MAY 1, 1998	0

CASH AND CASH EQUIVALENTS - JUNE 30, 1999	\$ 133,555
	=====
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
Donated Land	\$ 50,000
Construction in Progress value of State Grant	15,269

	\$ 65,269
	=====

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

VILLAGE OF LAKE ISABELLA
NOTES TO FINANCIAL STATEMENTS
FOR THE FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

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

These 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 FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

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 was at the function level. The level of adoption for the Special Revenue Funds was at the fund level. Budget appropriations lapse at each fiscal year end.

VILLAGE OF LAKE ISABELLA
NOTES TO FINANCIAL STATEMENTS
FOR THE FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

F. 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.

G. 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.

H. FIXED ASSETS AND DEPRECIATION

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

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.

VILLAGE OF LAKE ISABELLA
NOTES TO FINANCIAL STATEMENTS
FOR THE FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. FIXED ASSETS AND DEPRECIATION (CONTINUED)

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.

I. 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.

J. 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 FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

NOTE 2 - BUDGET CONSIDERATION

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. The Village's legal level of adoption for the General Fund was at the Function Level. The level of adoption for the Special Revenue funds is at the fund level. During this fourteen month period ended June 30, 1999, the Village incurred expenditures in certain budgetary funds which were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
GENERAL FUND			
Legislative	\$ 0	\$ 5,632	\$ 5,632
General Government	47,300	47,371	71
Public Safety	5,000	14,714	9,714
Public Works	0	9,588	9,588
SPECIAL REVENUE FUNDS			
Local Streets Fund	30,827	33,436	2,609

Additionally, 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 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.

VILLAGE OF LAKE ISABELLA
NOTES TO FINANCIAL STATEMENTS
FOR THE FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

At June 30, 1999, the carrying amount of the Village's cash, savings, and certificates of deposit was \$166,316 as follows:

Carrying Value

Petty Cash	\$ 50
Deposits with Financial Institutions:	
Cash in Checking	32,711
Cash in Savings	<u>133,555</u>
Total Deposits with Financial Institutions	<u>166,266</u>
Total Cash and Investments	<u>\$ 166,316</u> <u>=====</u>

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

	Insured FDIC	Uninsured	Total
Carrying Amounts	\$ 166,266	\$ 0	\$ 166,266
Bank Balances	\$ 176,613	\$ 0	\$ 176,613

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 - 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%.

NOTE 5 - FUND DEFICITS

The Village has accumulated a fund deficit in the General Fund in the amount of \$16,368. Since the Village has chosen the cash basis of reporting, the General Fund did not accrue receivables (a full year of State Revenue Sharing has not been recognized since this is the start up period for the Village) or payable. It is believed that amounts to be received would be in excess of any payables and would cover the deficit in part, if not in full.

VILLAGE OF LAKE ISABELLA
NOTES TO FINANCIAL STATEMENTS
FOR THE FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

NOTE 5 - FUND DEFICITS (CONTINUED)

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.

NOTE 6 - 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	\$ 2,500
Local Streets Fund	<u>2,500</u>
Total Administrative Charges Paid To the General Fund	\$ 5,000 =====

NOTE 7 - CHANGES IN GENERAL FIXED ASSETS

A summary of changes in General Fixed Assets follows:

	Balance May 1, 1998	Additions	Deletions	Balance June 30, 1999
Land	\$ 0	\$ 2,700	\$ 0	\$ 2,700
Equipment	0	2,950	0	2,950
Office Furniture and Equipment	0	1,236	0	1,236
Vehicles	<u>0</u>	<u>12,369</u>	<u>6,150</u>	<u>6,219</u>
Total before Depreciation	0	19,255	6,150	13,105
Provision for Accumulated Depreciation	<u>0</u>	<u>(925)</u>	<u>0</u>	<u>(925)</u>
TOTAL	\$ 0 =====	\$ 19,255 =====	\$ 0 =====	\$ 12,180 =====

VILLAGE OF LAKE ISABELLA
NOTES TO FINANCIAL STATEMENTS
FOR THE FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

NOTE 8 - PROPERTY, PLANT, AND EQUIPMENT

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

	<u>Estimated Useful Life In Years</u>	<u>Enterprise Funds</u>
Land	—	\$ 118,180
Construction in Progress	—	<u>15,269</u>
Total		\$ 133,449 =====

Construction in Progress consists of a Runway project within the Airport Fund. These projects are being administered and funded by the State of Michigan Bureau of Aeronautics. The project completion cost is estimated at \$249,500.

NOTE 9 - RETAINED EARNINGS/FUND BALANCE RESERVES AND DESIGNATIONS

Retained Earnings Reserves

Enterprise Funds

Sewer Fund	\$ 39,820 =====	To indicate that the related asset is not an available, spendable resource.
------------	--------------------	---

NOTE 10 - 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 - May 1, 1998	\$ 0
Increase (Decrease) in Retained Earnings	241,555
Changes in Contributed Capital:	
Donated Property	50,000
Grant Funded Construction Projects	<u>15,269</u>
Fund Equity - June 30, 1999	\$ 306,824 =====

VILLAGE OF LAKE ISABELLA
NOTES TO FINANCIAL STATEMENTS
FOR THE FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

NOTE 11 - 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, 1999.

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.

NOTE 12 - YEAR 2000 DISCLOSURE (UNAUDITED)

The year 2000 is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the government's operations as early as fiscal year 1999.

The Village has completed an inventory of computer systems and other electronic systems that may be affected by year 2000 issue and that are necessary for conducting Village operations. Based on this inventory, the Village has acquired year 2000 compliant upgrades for computer programs and necessary upgrades in computer equipment and peripherals necessary to run the upgraded programs.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Village of Lake Isabella is or will be year 2000 ready, that the Village's remediation efforts will be successful in whole or in part, or that parties with whom the Village does business will be year 2000 ready.

VILLAGE OF LAKE ISABELLA
GENERAL FUND
STATEMENT OF ASSETS AND LIABILITIES
ARISING FROM CASH TRANSACTIONS
JUNE 30, 1999

Exhibit A1-1

ASSETS

Petty Cash	\$	50
Cash		23,610
		<hr/>
TOTAL ASSETS	\$	23,660
		<hr/> <hr/>

LIABILITIES AND CASH BASIS FUND BALANCE

LIABILITIES		
Due to Others	\$	208
Long Term Advance From Sewer Fund		39,820
		<hr/>
TOTAL LIABILITIES		40,028
		<hr/>
CASH BASIS FUND BALANCE (Deficit)		
Unreserved - Undesignated		(16,368)
		<hr/>
TOTAL LIABILITIES AND CASH BASIS FUND BALANCE	\$	23,660
		<hr/> <hr/>

VILLAGE OF LAKE ISABELLA
GENERAL FUND
STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID,
AND CHANGES IN CASH BASIS FUND BALANCE
FOR THE FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

Exhibit A2-1

	May 1, 1998 to June 30, 1998	July 1, 1998 to June 30, 1999	14 Month Period Ended June 30, 1999
REVENUE			
Permits	\$ 205	\$ 2,800	\$ 3,005
State Shared Revenue	--	36,422	36,422
Charges for Services	--	4,519	4,519
Interest Earnings	12	282	294
Rents and Royalties	--	3,137	3,137
Contributions - Private Sources	1,621	207	1,828
TOTAL REVENUE	1,838	47,367	49,205
EXPENDITURES			
LEGISLATIVE			
City Council			
Supplies	--	531	531
Contracted Services	--	3,553	3,553
Training	--	504	504
Printing and Publishing	--	627	627
Miscellaneous	100	317	417
TOTAL LEGISLATIVE	100	5,532	5,632
GENERAL GOVERNMENT			
Administration			
Salaries & Wages	--	17,667	17,667
Fringes	--	1,261	1,261
Supplies	188	1,812	2,000
Contracted Services	--	9,198	9,198
Insurance and Bonds	4,744	4,079	8,823
Communications	--	433	433
Travel	--	212	212
Training	--	270	270
Total Administration	4,932	34,932	39,864
Elections			
Contracted Services	584	--	584
Printing and Publishing	614	216	830
Miscellaneous	40	--	40
Total Elections	1,238	216	1,454
Clerk			
Supplies	--	117	117
Building and Grounds			
Office Rent	--	2,000	2,000
Capital Outlay	--	3,936	3,936
Total Building and Grounds	0	5,936	5,936
TOTAL GENERAL GOVERNMENT	6,170	41,201	47,371

VILLAGE OF LAKE ISABELLA
GENERAL FUND
STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID,
AND CHANGES IN CASH BASIS FUND BALANCE
FOR THE FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

Exhibit A2-1

	May 1, 1998 to June 30, 1998	July 1, 1998 to June 30, 1999	14 Month Period Ended June 30, 1999
PUBLIC SAFETY			
Planning Commission			
Contracted Services	\$ --	\$ 988	\$ 988
Training	--	514	514
Printing and Publishing	--	735	735
Miscellaneous	--	22	22
Total Planning Commission	0	2,259	2,259
Zoning Board of Appeals			
Training	--	150	150
Zoning Administration			
Salaries & Wages	--	6,881	6,881
Fringes	--	482	482
Supplies	--	923	923
Contracted Services	--	4,019	4,019
Total Zoning Administration	0	12,305	12,305
TOTAL PUBLIC SAFETY	0	14,714	14,714
PUBLIC WORKS			
Department of Public Works			
Supplies	--	419	419
Capital Outlay	--	9,169	9,169
TOTAL PUBLIC WORKS	0	9,588	9,588
TOTAL EXPENDITURES	6,270	71,035	77,305
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(4,432)	(23,668)	(28,100)
OTHER FINANCING SOURCES (USES)			
Sale of Fixed Assets	--	6,732	6,732
Operating Transfers In			0
- Major Streets	--	2,500	2,500
- Local Streets	--	2,500	2,500
TOTAL OTHER FINANCING SOURCES (USES)	0	11,732	11,732
EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ (4,432)	\$ (11,936)	(16,368)
CASH BASIS FUND BALANCE - MAY 1, 1998			0
CASH BASIS FUND BALANCE - JUNE 30, 1999			\$ (16,368)

VILLAGE OF LAKE ISABELLA
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF ASSETS AND LIABILITIES
ARISING FROM CASH TRANSACTIONS
JUNE 30, 1999

Exhibit B1-1

	Major Streets	Local Streets	TOTAL
ASSETS			
Cash	\$ 1,050	\$ 6,843	\$ 7,893
Deposits Receivable	1,020	2,380	3,400
TOTAL ASSETS	\$ 2,070	\$ 9,223	\$ 11,293
LIABILITIES AND CASH BASIS FUND BALANCE			
LIABILITIES	\$ 0	\$ 0	0
CASH BASIS FUND BALANCE (Deficit)			
Unreserved - Undesignated	2,070	9,223	11,293
TOTAL LIABILITIES AND CASH BASIS FUND BALANCE	\$ 2,070	\$ 9,223	\$ 11,293

VILLAGE OF LAKE ISABELLA
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID,
AND CHANGES IN CASH BASIS FUND BALANCE
FOR THE FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

Exhibit B1-2

	Major Streets	Local Streets	Total
	-----	-----	-----
REVENUE			
State Gas & Weight Tax	\$ 15,828	\$ 42,557	\$ 58,385
Reimbursements	44	102	146
	-----	-----	-----
TOTAL REVENUE	15,872	42,659	58,531
EXPENDITURES			
PUBLIC WORKS			
Routine Maintenance			
Salaries & Wages	2,721	2,721	5,442
Fringes	193	193	386
Contracted Services	7,447	14,980	22,427
Equipment Rental	1,568	1,568	3,136
	-----	-----	-----
Total Routine Maintenance	11,929	19,462	31,391
Traffic Services			
Contracted Services	198	0	198
Winter Maintenance			
Contracted Services	3,016	7,114	10,130
Administration			
Contracted Services	259	260	519
	-----	-----	-----
TOTAL EXPENDITURES	15,402	26,836	42,238
	-----	-----	-----
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	470	15,823	16,293
OTHER FINANCING SOURCES (USES)			
Operating Transfers In (Out)			
- Major and Local Streets	4,100	(4,100)	0
- To General Fund	(2,500)	(2,500)	(5,000)
	-----	-----	-----
TOTAL OTHER FINANCING SOURCES (USES)	1,600	(6,600)	(5,000)
EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	2,070	9,223	11,293
CASH BASIS FUND BALANCE - MAY 1, 1998	0	0	0
	-----	-----	-----
CASH BASIS FUND BALANCE - JUNE 30, 1999	\$ 2,070	\$ 9,223	\$ 11,293
	=====	=====	=====

VILLAGE OF LAKE ISABELLA
MAJOR STREETS FUND
STATEMENT OF ASSETS AND LIABILITIES
ARISING FROM CASH TRANSACTIONS
JUNE 30, 1999

Exhibit B2-1

ASSETS

Cash	\$ 1,050
Deposits Receivable	1,020

TOTAL ASSETS	\$ 2,070
	=====

LIABILITIES AND CASH BASIS FUND BALANCE

LIABILITIES	\$ 0

CASH BASIS FUND BALANCE (Deficit)	
Unreserved - Undesignated	2,070

TOTAL LIABILITIES AND CASH BASIS FUND BALANCE	\$ 2,070
	=====

VILLAGE OF LAKE ISABELLA
MAJOR STREETS FUND
STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID,
AND CHANGES IN CASH BASIS FUND BALANCE
FOR THE FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

Exhibit B2-2

	May 1, 1998 to June 30, 1998	July 1, 1998 to June 30, 1999	14 Month Period Ended June 30, 1999
REVENUE			
State Gas & Weight Tax	\$ 0	\$ 15,828	\$ 15,828
Reimbursements	0	44	44
TOTAL REVENUE	0	15,872	15,872
EXPENDITURES			
PUBLIC WORKS			
Routine Maintenance			
Salaries & Wages	0	2,721	2,721
Fringes	0	193	193
Contracted Services	0	7,447	7,447
Equipment Rental	0	1,568	1,568
Total Routine Maintenance	0	11,929	11,929
Traffic Services			
Contracted Services	0	198	198
Winter Maintenance			
Contracted Services	0	3,016	3,016
Administration			
Contracted Services	0	259	259
TOTAL EXPENDITURES	0	15,402	15,402
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	0	470	470
OTHER FINANCING SOURCES (USES)			
Operating Transfers In (Out)			
- From Local Streets	0	4,100	4,100
- To General Fund	0	(2,500)	(2,500)
TOTAL OTHER FINANCING SOURCES (USES)	0	1,600	1,600
EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 0	\$ 2,070	2,070
CASH BASIS FUND BALANCE - MAY 1, 1998			0
CASH BASIS FUND BALANCE - JUNE 30, 1999			\$ 2,070

VILLAGE OF LAKE ISABELLA
LOCAL STREETS FUND
STATEMENT OF ASSETS AND LIABILITIES
ARISING FROM CASH TRANSACTIONS
JUNE 30, 1999

Exhibit B3-1

ASSETS

Cash	\$ 6,843
Deposits Receivable	2,380

TOTAL ASSETS	\$ 9,223
	=====

LIABILITIES AND CASH BASIS FUND BALANCE

LIABILITIES	\$ 0
CASH BASIS FUND BALANCE (Deficit)	
Unreserved - Undesignated	9,223

TOTAL LIABILITIES AND CASH BASIS FUND BALANCE	\$ 9,223
	=====

VILLAGE OF LAKE ISABELLA
LOCAL STREETS FUND
STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID,
AND CHANGES IN CASH BASIS FUND BALANCE
FOR THE FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

Exhibit B3-2

	May 1, 1998 to June 30, 1998	July 1, 1998 to June 30, 1999	14 Month Period Ended June 30, 1999
REVENUE			
State Gas & Weight Tax	\$ 0	\$ 42,557	\$ 42,557
Reimbursements	0	102	102
TOTAL REVENUE	0	42,659	42,659
EXPENDITURES			
PUBLIC WORKS			
Routine Maintenance			
Salaries & Wages	0	2,721	2,721
Fringes	0	193	193
Contracted Services	0	14,980	14,980
Equipment Rental	0	1,568	1,568
Total Routine Maintenance	0	19,462	19,462
Winter Maintenance			
Supplies	0	77	77
Contracted Services	0	7,037	7,037
Total Winter Maintenance	0	7,114	7,114
Administration			
Contracted Services	0	260	260
TOTAL EXPENDITURES	0	26,836	26,836
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	0	15,823	15,823
OTHER FINANCING SOURCES (USES)			
Operating Transfers In (Out)			
- To General Fund	0	(2,500)	(2,500)
- To Major Streets Fund	0	(4,100)	(4,100)
TOTAL OTHER FINANCINGS SOURCES (USES)	0	(6,600)	(6,600)
EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 0	\$ 9,223	9,223
CASH BASIS FUND BALANCE			
- MAY 1, 1998			0
CASH BASIS FUND BALANCE			
- JUNE 30, 1999			\$ 9,223

VILLAGE OF LAKE ISABELLA
ENTERPRISE FUNDS
COMBINING STATEMENT OF ASSETS AND LIABILITIES
ARISING FROM CASH TRANSACTIONS
JUNE 30, 1999

Exhibit C1-1

	Airport	Sewer	Total
ASSETS	-----	-----	-----
Cash	\$ 0	\$ 133,555	\$ 133,555
Long Term Advance to General Fund	0	39,820	39,820
Property Plant and Equipment	65,269	68,180	133,449
	-----	-----	-----
TOTAL ASSETS	\$ 65,269	\$ 241,555	\$ 306,824
	=====	=====	=====
LIABILITIES AND CASH BASIS FUND EQUITY			
LIABILITIES	\$ 0	\$ 0	\$ 0
CASH BASIS FUND EQUITY (Deficit)			
Contributed Capital	65,269	0	65,269
Retained Earnings			
Reserved for Long Term Advance	0	39,820	39,820
Unreserved	0	201,735	201,735
	-----	-----	-----
Total Retained Earnings	0	241,555	241,555
	-----	-----	-----
TOTAL FUND EQUITY	65,269	241,555	306,824
	-----	-----	-----
TOTAL LIABILITIES AND CASH BASIS FUND EQUITY	\$ 65,269	\$ 241,555	\$ 306,824
	=====	=====	=====

VILLAGE OF LAKE ISABELLA
ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID,
AND CHANGES IN CASH BASIS RETAINED EARNINGS
FOR THE FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

Exhibit C1-2

	Airport	Sewer	TOTAL
	-----	-----	-----
OPERATING REVENUE	\$ 0	\$ 0	\$ 0
OPERATING EXPENSES	0	0	0
	-----	-----	-----
OPERATING INCOME (LOSS)	0	0	0
NET NON-OPERATING REVENUE (EXPENSE)			
Grant Revenue	15,269	0	15,269
Donations	50,000	232,740	282,740
Interest Earnings	0	8,815	8,815
	-----	-----	-----
Total Non-Operating Revenue (Expense)	65,269	241,555	306,824
	-----	-----	-----
NET INCOME (LOSS)	65,269	241,555	306,824
Subtract: Fixed Assets added with Contributed Capital	(65,269)	0	(65,269)
	-----	-----	-----
INCREASE (DECREASE) IN RETAINED EARNINGS	0	241,555	241,555
CASH BASIS RETAINED EARNINGS - MAY 1, 1998	0	0	0
	-----	-----	-----
CASH BASIS RETAINED EARNINGS - JUNE 30, 1999	\$ 0	\$ 241,555	\$ 241,555
	=====	=====	=====

VILLAGE OF LAKE ISABELLA
ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

Exhibit C1-3

	Airport	Sewer	Total
	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	\$ 0	\$ 0	\$ 0
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Funds Received from LIPOA	0	232,740	232,740
Long-Term Advance to General Fund	0	(39,820)	(39,820)
	-----	-----	-----
Net Cash Provided (Used) by Non-Capital Financing Activities	0	192,920	192,920
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of Land	0	(68,180)	(68,180)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Earnings	0	8,815	8,815
	-----	-----	-----
Net Increase (Decrease) in Cash & Cash Equivalents	0	133,555	133,555
CASH AND CASH EQUIVALENTS - MAY 1, 1998	0	0	0
	-----	-----	-----
CASH AND CASH EQUIVALENTS - JUNE 30, 1999	\$ 0	\$ 133,555	\$ 133,555
	=====	=====	=====
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES			
Donated Land	\$ 50,000	\$ 0	\$ 50,000
Construction in Progress value of State Grant	15,269	0	15,269
	-----	-----	-----
	\$ 65,269	\$ 0	\$ 65,269
	=====	=====	=====

VILLAGE OF LAKE ISABELLA
AIRPORT FUND
STATEMENT OF ASSETS AND LIABILITIES
ARISING FROM CASH TRANSACTIONS
JUNE 30, 1999

Exhibit C2-1

ASSETS

Property Plant and Equipment	
Land	\$ 50,000
Construction in Progress	15,269

	\$ 65,269
	=====

LIABILITIES AND CASH BASIS FUND EQUITY

LIABILITIES	\$ 0
CASH BASIS FUND EQUITY(Deficit)	
Contributed Capital	65,269
Retained Earnings	0

Total Cash Basis Fund Equity	65,269

TOTAL LIABILITIES AND CASH BASIS FUND EQUITY	\$ 65,269
	=====

VILLAGE OF LAKE ISABELLA
AIRPORT FUND
STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID,
AND CHANGES IN CASH BASIS RETAINED EARNINGS
FOR THE FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

Exhibit C2-2

	May 1, 1998 to June 30, 1998	July 1, 1998 to June 30, 1999	14 Month Period Ended June 30, 1999
OPERATING REVENUE	\$ 0	\$ 0	\$ 0
OPERATING EXPENSES	0	0	0
OPERATING INCOME (LOSS)	0	0	0
NET NON-OPERATING REVENUE (EXPENSE)			
Grant Revenue	0	15,269	15,269
Donated Property	0	50,000	50,000
Total Non-Operating Revenue (Expense)	0	65,269	65,269
NET INCOME (LOSS)	\$ 0	\$ 65,269	65,269
Subtract: Fixed Assets added with Contributed Capital			(65,269)
INCREASE (DECREASE) IN RETAINED EARNINGS			0
CASH BASIS RETAINED EARNINGS - MAY 1, 1998			0
CASH BASIS RETAINED EARNINGS - JUNE 30, 1999			\$ 0

VILLAGE OF LAKE ISABELLA
AIRPORT FUND
STATEMENT OF CASH FLOWS
FOR THE FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

Exhibit C2-3

	May 1, 1998 to June 30, 1998	July 1, 1998 to June 30, 1999	14 Month Period Ended June 30, 1999
	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	\$ 0	\$ 0	\$ 0
	-----	-----	-----
Net Increase (Decrease) in Cash & Cash Equivalents	0	0	0
	\$ =====	\$ =====	
CASH AND CASH EQUIVALENTS - MAY 1, 1998			0

CASH AND CASH EQUIVALENTS - JUNE 30, 1999			\$ 0
			=====
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES			
Donated Land			\$ 50,000
Construction in Progress value of State Grant			15,269

Total Non-Cash Investing, Capital, and Financing Activities			\$ 65,269
			=====

VILLAGE OF LAKE ISABELLA
SEWER FUND
STATEMENT OF ASSETS AND LIABILITIES
ARISING FROM CASH TRANSACTIONS
JUNE 30, 1999

Exhibit C3-1

ASSETS

Cash	\$ 133,555
Long Term Advance to General Fund	39,820
Property Plant and Equipment	68,180

TOTAL ASSETS	\$ 241,555
	=====

LIABILITIES AND CASH BASIS FUND EQUITY

LIABILITIES	\$ 0
CASH BASIS FUND EQUITY (Deficit)	
Retained Earnings	
Reserved for Long Term Advance	39,820
Unreserved	201,735

Total Retained Earnings	241,555

TOTAL LIABILITIES AND CASH BASIS FUND EQUITY	\$ 241,555
	=====

VILLAGE OF LAKE ISABELLA
SEWER FUND
STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID,
AND CHANGES IN CASH BASIS RETAINED EARNINGS
FOR THE FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

Exhibit C3-2

	May 1, 1998 to June 30, 1998	July 1, 1998 to June 30, 1999	14 Month Period Ended June 30, 1999
	-----	-----	-----
OPERATING REVENUE	\$ 0	\$ 0	\$ 0
OPERATING EXPENSES	0	0	0
	-----	-----	-----
OPERATING INCOME (LOSS)	0	0	0
NET NON-OPERATING REVENUE (EXPENSE)			
Funds Received from LIPOA	232,740	0	232,740
Interest Earnings	249	8,566	8,815
	-----	-----	-----
Total Non-Operating Revenue (Expense)	232,989	8,566	241,555
	-----	-----	-----
NET INCOME (LOSS)	\$ 232,989	\$ 8,566	241,555
	=====	=====	
CASH BASIS RETAINED EARNINGS - MAY 1, 1998			0

CASH BASIS RETAINED EARNINGS - JUNE 30, 1999			\$ 241,555
			=====

VILLAGE OF LAKE ISABELLA
SEWER FUND
STATEMENT OF CASH FLOWS
FOR THE FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

Exhibit C3-3

	May 1, 1998 to June 30, 1998 -----	July 1, 1998 to June 30, 1999 -----	14 Month Period Ended June 30, 1999 -----
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	\$ 0	\$ 0	\$ 0
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Funds Received from LIPOA	232,740	0	232,740
Long-Term Advance to General Fund	0	(39,820)	(39,820)
	-----	-----	-----
Net Cash Provided (Used) by Non-Capital Financing Activities	232,740	(39,820)	192,920
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of Land	0	(68,180)	(68,180)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Earnings	249	8,566	8,815
	-----	-----	-----
Net Increase (Decrease) in Cash & Cash Equivalents	\$ 232,989	\$ (99,434)	133,555
	=====	=====	
CASH AND CASH EQUIVALENTS - MAY 1, 1998			0
CASH AND CASH EQUIVALENTS - JUNE 30, 1999			\$ 133,555
			=====
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES			\$ 0
			=====

VILLAGE OF LAKE ISABELLA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
PAYROLL FUND
FOR THE FOURTEEN MONTH PERIOD ENDED JUNE 30 1999

Exhibit D1-1

	Balance May 1, 1998	Additions	Deductions	Balance June 30, 1999
ASSETS				
Cash	\$ 0	\$ 37,253	\$ 36,045	\$ 1,208
	=====	=====	=====	=====
LIABILITIES				
Withholdings and Benefits Payable	\$ 0	\$ 8,349	\$ 7,141	\$ 1,208
Net Salaries Payable	0	28,904	28,904	0
	-----	-----	-----	-----
TOTAL LIABILITIES	\$ 0	\$ 37,253	\$ 36,045	\$ 1,208
	=====	=====	=====	=====

VILLAGE OF LAKE ISABELLA
GENERAL FIXED ASSETS ACCOUNT GROUP
STATEMENT OF GENERAL FIXED ASSETS
JUNE 30 1999

Exhibit E1-1

GENERAL FIXED ASSETS

Land	\$ 2,700
Equipment	2,950
Office Furniture and Equipment	1,236
Vehicles	6,219
	<u>13,105</u>
Total Assets	13,105

Provision for Accumulated Depreciation	(925)
	<u>12,180</u>

TOTAL GENERAL FIXED ASSETS	\$ 12,180
	<u>=====</u>

INVESTMENTS IN GENERAL FIXED ASSETS BY SOURCE

General Fund	\$ 12,180
	<u>=====</u>

VILLAGE OF LAKE ISABELLA
SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS
BY FUNCTION AND ACTIVITY
FOR THE FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

Exhibit E1-2

Function and Activity	General Fixed Assets May 1, 1998	Additions	Deletions	General Fixed Assets June 30, 1999
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
GENERAL FUND				
General Government				
Building and Grounds	\$ 0	\$ 3,936	\$ 0	\$ 3,936
Public Works				
Department of Public Works	0	15,319	6,150	9,169
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL BEFORE DEPRECIATION PR	\$ 0	\$ 19,255	\$ 6,150	\$ 13,105
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

VILLAGE OF LAKE ISABELLA
SCHEDULE OF GENERAL FIXED ASSETS
BY FUNCTION AND ACTIVITY
FOR THE FOURTEEN MONTH PERIOD ENDED JUNE 30, 1999

Exhibit E1-3

Function and Activity	Total	Land and Improvements	Equipment	Office Equipment and Furniture	Vehicles
<hr/>					
GENERAL FUND					
General Government					
Building and Grounds	\$ 3,936	\$ 2,700	\$ 0	\$ 1,236	\$ 0
Public Works					
Department of Public Works	9,169	0	2,950	0	6,219
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL GENERAL FUND	13,105	2,700	2,950	1,236	6,219
Provision for Depreciation	(925)	0	(429)	(137)	(359)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	\$ 12,180	\$ 2,700	\$ 2,521	\$ 1,099	\$ 5,860
	=====	=====	=====	=====	=====



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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

December 22, 1999

Village Council
Village of Lake Isabella, Michigan

We have recently completed our audit of the financial statements of Village of Lake Isabella for the fourteen month period ended June 30, 1999. As required by generally accepted auditing standards, 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 GENERALLY ACCEPTED AUDITING STANDARDS

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

An audit of financial statements conducted in accordance with generally accepted auditing standards is not designed to detect whether an entity's systems are year 2000 compliant. Further, we have no responsibility with regard to the Entity's efforts to make its systems, or any other systems, such as those of the Entity's vendors, service providers, or any other third parties, year 2000 compliant or provide assurance on whether the Entity has addressed or will be able to address all of the affected systems on a timely basis. These are responsibilities of the Entity's management.

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.

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

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

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. The Village's legal level of adoption for the General Fund was at the Function Level. The level of adoption for the Special Revenue funds is at the fund level. During this fourteen month period ended June 30, 1999, the Village incurred expenditures in certain budgetary funds which were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
GENERAL FUND			
Legislative	\$ 0	\$ 5,632	\$ 5,632
General Government	47,300	47,371	71
Public Safety	5,000	14,714	9,714
Public Works	0	9,588	9,588
SPECIAL REVENUE FUNDS			
Local Streets Fund	30,827	33,436	2,609

Additionally, 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 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.

The Village Council and Village Manager should review the provisions of the budgeting act and attempt to seek some additional training in presentation and adoption of budgets.

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

FUND DEFICIT

The Village has accumulated a fund deficit in the General Fund in the amount of \$16,368. Since the Village has chosen the cash basis of reporting, the General Fund did not accrue receivables (a full year of State Revenue Sharing has not been recognized since this is the start up period for the Village) or payable. It is believed that amounts to be received would be in excess of any payables and would cover the deficit in part, if not in full.

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.

MINUTES

While reviewing the minutes of the Village Council, we noted the following changes or enhancements that need to be made:

- The minutes were not always signed.
- When multi-pages are needed for a particular meeting, each page should include page numbers and the meeting date. (i.e. January 1, 2000, Page 3 of 4).
- All attachments should be specifically identified.
- For approval of bills either the minutes should reflect the check sequence and total amount of bills paid and/or the treasurer should sign the treasurers report to insure authenticity.

DISBURSEMENTS

While reviewing expenditures it was noted that invoices do not indicate account number(s) where coded to. Account coding should be added to invoices.

INVESTMENT POLICY

Public Act 196 of 1997 sets forth further definition of the types of investments local governmental units can invest in and added a new requirement that Local Units must adopt an investment policy which includes specified matters. In addition, the local unit is required to provide the financial intermediary, broker or dealer a copy of this investment policy before executing an order to purchase or trade funds and the financial intermediary, broker or dealer shall acknowledge receipt of the policy and agree to comply with its terms.

We have provided the Village Manager with information regarding this act and its requirements. The Village should adopt an investment policy as soon as possible.

CREDIT CARD POLICY

Public Act 266 of 1995 authorizes the use of credit cards by local units of government for appropriate expenses. A local unit must have adopted by resolution, a written policy.

We have provided the Village Manager with information regarding this act and its requirements. The Village should adopt a credit card policy as soon as possible.

Village Council
Village of Lake Isabella, Michigan

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 December 22, 1999.

SUMMARY

We would like to thank the Ed and Jayme' 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.

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