VILLAGE OF LAKE ISABELLA MICHIGAN AUDITED FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2000

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VILLAGE OF LAKE ISABELLA YEAR ENDED JUNE 30, 2000

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VILLAGE OF LAKE ISABELLA YEAR ENDED JUNE 30, 2000

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VILLAGE OF LAKE ISABELLA OFFICIALS JUNE 30, 2000

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



INDEPENDENT AUDITORS' REPORT

September 8, 2000

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, 2000, 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.

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, 2000, 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, 1999 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, 1999 and is presented here for comparison purposes only.

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, 2000

Exhibit I

| Totals (Memorandum Only) | 167,316 22,957 39,820 335,472 | \$ 565,565 | | 1,542 22,957 39,820 | 64,319 | 13,420 253,872 | 39,820 197,053 | (2,919) | 501,246 | \$ 565,565 |
|---|---|-----------------------------|-----------------------------|---|-------------------|---|----------------------------------|---------------------------|-------------------|-----------------------------------|
| (Mem | ↔ | ∯ 9 9 | | ↔ | | | | İ | ı | 9 II |
| General Fixed Assets Account Group | | \$ 13,420 ======== | | | I | 13,420 | 11 | | 13,420 | \$ 13,420 ======== |
| Fixe | ↔ | မှ ။ | | ↔ | | | | 1 | | |
| Agency Funds | 1,542 | 1,542 | | 1.542 | 1,542 | 11 | 11 | 1 | | \$ 1,542 |
| 1 | ↔ | іі Н 69 ІІ | | ↔ | | | | ı | į | |
| Enterprise Funds | 105,916 22,957 39,820 322,052 | \$ 490,745 ======== | | 111 | ı | 253,872 | 39,820 197,053 | 1 | 490,745 | \$ 490,745 ======== |
| ш | ↔ | | | _{€9} | | | | 1 | 1 | |
| Revenue Funds | 30,660 | \$ 30,660 | | 111 | I | 11 | 11 | 30,660 | 30,660 | \$ 30,660 |
| - | ⇔ | | | ⇔ | | | | 1 | 1 | |
| General Fund | 29,198 | \$ 29,198 | | 22,957 39,820 | 62,777 | 1.1 | 11 | (33,579) | (33,579) | \$ 29,198 |
| 0 | ↔ | မှာ | | €9 | | | | | | ⇔ |
| | | | | S S | | | | | | EQUITY |
| ASSETS. | Cash Due from Other Funds Long Term Advance to General Fund Property, Plant, and Equipment | TOTAL ASSETS | LIABILITIES AND FUND EQUITY | Withholding Payable Due to Other Funds Long Term Advance from Other Funds | TOTAL LIABILITIES | FUND EQUITY (Deficit) Investment in Fixed Assets Contributed Capital Retained Farnings | Reserved Unreserved Find Ralance | Unreserved - Undesignated | TOTAL FUND EQUITY | TOTAL LIABILITIES AND FUND EQUITY |

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, 2000 EX

Exhibit II

| DEVENUE | _ | General Fund | Special Revenue Funds | (M | Totals emorandum Only) |
|---|-----------|------------------------------------|---------------------------------|-----------|--------------------------------------|
| REVENUE Permits State Shared Revenue Charges for Services | \$ | 3,350 45,293 5,944 | \$ 124,141 | \$ | 3,350 169,434 5,944 |
| Interest Earnings | | 980 | _ | | 980 |
| Rents and Royalties | | 4,687 | | _ | 4,687 |
| TOTAL REVENUE | | 60,254 | 124,141 | | 184,395 |
| EXPENDITURES Current Operations | | | | | |
| Legislative General Government Public Safety Public Works | | 1,496 60,747 16,782 6,485 | 98,229 | | 1,496 60,747 16,782 104,714 |
| TOTAL EXPENDITURES | | 85,510 | 98,229 | | 183,739 |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES | | (25,256) | 25,912 | | 656 |
| OTHER FINANCING SOURCES (USES) Sale of Fixed Assets Operating Transfers In Operating Transfers (Out) | | 1,500 6,545 — | — — (6,54 <u>5</u>) | | 1,500 6,545 (6,54 <u>5</u>) |
| TOTAL OTHER FINANCING SOURCES (USES) | | 8,045 | <u>(6,545</u>) | _ | 1,500 |
| EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | | (17,211) | 19,367 | | 2,156 |
| CASH BASIS FUND BALANCE - July 1 | | (16,368) | 11,293 | | (5,075) |
| CASH BASIS FUND BALANCE - JUNE 30 | \$ === | (33,579) | \$ 30,660 | \$ === | (2,919) ===== |

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, 2000

Exhibit III

| | | | Ger | eral Fund | | | | Spec | cial | Revenue Fu | nds | |
|--|-----------|---|-----------|--|-----------|--|----------|-------------------------|----------|-----------------------------------|----------|---------------------------|
| DEVENUE | E | Budget | | Actual | (| Under Over) Budget | | Budget | | Actual | _ | Under (Over) Budget |
| REVENUE Property Tax Permits State Shared Revenue Charges for Services Interest Earnings Rents and Royalties Other Revenue | \$ | 15,000 1,500 42,366 11,200 — 6,000 | \$ | 3,350 45,293 5,944 980 4,687 | \$ | 15,000 (1,850) (2,927) 5,256 (980) (4,687) 6,000 | \$ | 132,129 | \$ | 124,141 | \$ | 7,988 — — — — |
| TOTAL REVENUE | | 76,066 | | 60,254 | | 15,812 | | 132,129 | | 124,141 | | 7,988 |
| EXPENDITURES Current Operations Legislative General Government Public Safety Public Works | | 76,066 | | 1,496 60,747 16,782 6,485 | | (1,496) 15,319 (16,782) (6,485) | | 132,129 | _ | 98,229 | _ | |
| TOTAL EXPENDITURES | | 76,066 | _ | 85,510 | | (9,444) | - | 132,129 | _ | 98,229 | _ | 33,900 |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES | | _ | | (25,256) | | 25,256 | | _ | | 25,912 | | (25,912) |
| OTHER FINANCING SOURCES (USES) Sale of Fixed Assets Operating Transfers In Operating Transfers (Out) | | | | 1,500 6,545 ——— | | (1,500) (6,545) ——— | - | = | | <u>—</u> — (6,54 <u>5</u>) | | 6,545 |
| TOTAL OTHER FINANCING SOURCES (USES) | - | | | 8,045 | | (8,045) | - | | | <u>(6,545</u>) | _ | 6,545 |
| EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | | _ | | (17,211) | | 17,211 | | | | 19,367 | | (19,367) |
| CASH BASIS FUND BALANCE - JULY 1 | | (16,368) | | (16,368) | | | | 11,293 | | 11,293 | | |
| CASH BASIS FUND BALANCE - JUNE 30 | \$ === | (16,368) | \$ ==: | (33,579) | \$ === | 17,211 ======= | \$ == | 11,293 | \$ == | 30,660 | \$ == | (19,367) ====== |

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, 2000 Exhibit IV

| | nterprise Funds |
|----|--------------------|
| \$ | |
| | (14,314) |
| | (14,314) |
| - | 192,774 5,461 |
| - | 198,235 |
| | 400.004 |

| | Funds |
|---|----------------------|
| OPERATING REVENUE | \$ |
| OPERATING EXPENSES | (14,314) |
| OPERATING INCOME (LOSS) | (14,314) |
| NET NON-OPERATING REVENUE (EXPENSE) Grant Revenue Interest Earnings | 192,774 5,461 |
| Total Non-Operating Revenue (Expense) | 198,235 |
| INCREASE (DECREASE) IN RETAINED EARNINGS | 183,921 |
| CASH BASIS RETAINED EARNINGS - JULY 1 | 306,824 |
| CASH BASIS RETAINED EARNINGS - JUNE 30 | \$ 490,745 |

VILLAGE OF LAKE ISABELLA COMBINED STATEMENT OF CASH FLOWS ALL PROPRIETARY FUND TYPES FOR THE YEAR ENDED JUNE 30, 2000

Exhibit V

| | E | nterprise Funds |
|---|-----------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES Net Income | \$ | (14,314) |
| Adjustment to Reconcile Operating Income (Loss) To Net Cash Provided (Used) by Operations: Depreciation | | 2,580 |
| Net Cash Provided (Used) by Operating Activities | | (11,734) |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES Grants Due from Other Fund | | 1,591 (22,957) |
| Net Cash Provided (Used) by Non-Capital Financial Activities | | (21,366) |
| CASH FLOWS FROM INVESTING ACTIVITIES Interest Earnings | | 5,461 |
| Net Increase (Decrease)in Cash & Cash Equivalents | | (27,639) |
| CASH AND CASH EQUIVALENTS - JULY 1, 1999 | | 133,555 |
| CASH AND CASH EQUIVALENTS - JUNE 30, 2000 | \$ ==: | 105,916 ===== |
| NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES Value of State Grant | \$ | 191,183 ====== |

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.

NOTE 1 - <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. FIXED ASSETS AND DEPRECIATION (CONTINUED)

<u>Proprietary Fund Type Assets</u> - 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

<u>Contributed Capital</u> 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).

<u>Designations</u> 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.

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 and the Special Revenue funds is at the fund level. During this year ended June 30, 2000, the Village incurred expenditures in certain budgetary funds which were in excess of the amounts budgeted, as follows:

| | <u>Budget</u> | | | Actual | Difference | | |
|--------------|---------------|--------|----|--------|------------|-------|--|
| GENERAL FUND | \$ | 76,066 | \$ | 85,510 | \$ | 9,444 | |

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 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.

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

At June 30, 2000, the carrying amount of the Village's cash, savings, and certificates of deposit was \$167,316 as follows:

Carrying Value

| 67,316 |
|------------------|
| |
| <u> 67,266</u> |
| 61,350 05,916 |
| 50 |
| (|

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

| | Insured FDIC Uninsured | | | | Total | | | | |
|------------------|---------------------------|---------|----|--|-------|---------|--|--|--|
| Carrying Amounts | \$ | 167,266 | \$ | | \$ | 167,266 | | | |
| Bank Balances | \$ | 167,551 | \$ | | \$ | 167,551 | | | |

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 \$33,579.

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:

| Local Streets Fulld | 2,774 |
|--|----------------|
| Major Streets Fund \$ Local Streets Fund | 3,771 2,774 |

NOTE 7 - CHANGES IN GENERAL FIXED ASSETS

A summary of changes in General Fixed Assets follows:

| TOTAL | \$ === | 12,180 | \$ == | 2,740 ===== | \$ == | 1,500 | \$ == | 13,420 |
|---|---------------|----------------------|----------------|----------------|----------|-----------|----------|-------------------------|
| Provision for Accumulated Depreciation | 1 | (925) | 11 | (3,497) | | | | (4,422) |
| Total before Depreciation | | 13,105 | | 6,237 | | 1,500 | | 17,842 |
| Office Furniture and Equipment Vehicles | - | 1,236 6,219 | | 3,302 1,625 | | 1,500 | | 4,538 6,344 |
| Land Equipment | \$ | 2,700 2,950 | \$ | 1,310 | \$ | _ | \$ | 2,700 4,260 |
| | | Balance y 1, 1999 | Additions | | _[| Deletions | | Balance ine 30, 2000 |

NOTE 8 - PROPERTY, PLANT, AND EQUIPMENT

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

| | Estimated Useful Life In Years | | Enterprise Funds |
|--|--------------------------------------|----------|-------------------------------|
| Land Runway Accumulated Depreciation | 20 | \$ | 118,180 206,452 (2,580) |
| Total | | \$ == | 322,052 |

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>nterprise</u> |
|---|-----------|--------------------|
| Fund Equity - June 1, 1999 Increase (Decrease) in Retained Earnings Changes in Contributed Capital: | \$ | 306,824 (8,853) |
| Grant Funded Construction Projects | | 192,774 |
| Fund Equity - June 30, 2000 | \$ ==: | 490,745 |

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, 2000.

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 BABATIVE STATEMENT OF ASSETS AN

COMPARATIVE STATEMENT OF ASSETS AND LIABILITIES ARISING FROM CASH TRANSACTIONS JUNE 30, 2000 AND 1999

Statement A1-1

| ASSETS | | | | | |
|--|----------|------------------|-----------|-----------------|--|
| | | 2000 | | 1999 | |
| Petty Cash Cash | \$ | 50 29,148 | \$ | 50 23,610 | |
| TOTAL ASSETS | \$ == | 29,198 ====== | \$ ==: | 23,660 ===== | |
| LIABILITIES AND CASH BASIS FUND BALANCE | | | | | |
| LIABILITIES Due to Other Funds Long Term Advance From Sewer Fund | \$ | 22,957 39,820 | \$ | 208 39,820 | |
| TOTAL LIABILITIES | | 62,777 | | 40,028 | |
| CASH BASIS FUND BALANCE (Deficit) Unreserved - Undesignated | | (33,579) | | (16,368) | |
| TOTAL LIABILITIES AND CASH BASIS FUND BALANCE | \$ == | 29,198 ===== | \$ === | 23,660 | |

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, 2000 AND 1999 Statement A2-1

| DEVENUE | 2000 | | 1999 |
|--|---|----|---|
| REVENUE Permits State Shared Revenue Charges for Services Interest Earnings Rents and Royalties Contributions - Private Sources | \$ 3,350 45,293 5,944 980 4,687 | \$ | 2,800 36,422 4,519 282 3,137 207 |
| TOTAL REVENUE | 60,254 | | 47,367 |
| EXPENDITURES LEGISLATIVE City Council Supplies Contracted Services Training Printing and Publishing Miscellaneous | 412 533 — 551 | | 531 3,553 504 627 317 |
| TOTAL LEGISLATIVE | 1,496 | | 5,532 |
| GENERAL GOVERNMENT Administration Salaries and Wages Fringes Supplies Contracted Services Insurance and Bonds Communications Travel Training Miscellaneous | 35,363 5,050 1,918 6,238 1,053 1,207 12 — 154 | | 17,667 1,261 1,812 9,198 4,079 433 212 270 |
| Total Administration | 50,995 | | 34,932 |
| Elections Supplies Contracted Services Printing and Publishing Miscellaneous | 752 383 42 68 | - | |
| Total Elections | 1,245 | | 216 |
| Clerk Supplies | 1,315 | | 117 |
| Treasurer Supplies | 889 | | _ |

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, 2000 AND 1999 Statement A2-1 (Continued)

| | 2000 | 1999 |
|---|--------------------------------------|------------------------------|
| EXPENDITURES (Continued) GENERAL GOVERNMENT (Continued) Building and Grounds Office Rent Capital Outlay | \$ 3,000 3,303 | \$ 2,000 3,936 |
| Total Building and Grounds | 6,303 | 5,936 |
| TOTAL GENERAL GOVERNMENT | 62,243 | 41,201 |
| PUBLIC SAFETY Planning Commission Supplies Contracted Services Training Printing and Publishing Miscellaneous | 49 1,575 — 1,137 ——— | — 988 514 735 22 |
| Total Planning Commission | 2,761 | 2,259 |
| Zoning Board of Appeals Training | 208 | 150 |
| Zoning Administration Salaries and Wages Fringes Supplies Contracted Services Telephone | 10,319 801 913 1,438 342 | 6,881 482 923 4,019 |
| Total Zoning Administration | 13,813 | 12,305 |
| TOTAL PUBLIC SAFETY | 16,782 | 14,714 |
| PUBLIC WORKS Department of Public Works Supplies Contracted Services Equipment Repair Capital Outlay | 683 2,577 290 2,935 | 419 — — — 9,169 |
| TOTAL PUBLIC WORKS | 6,485 | 9,588 |
| TOTAL EXPENDITURES | 85,510 | 71,035 |

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, 2000 AND 1999 Statement A2-1 (Continued)

| EXCESS (DEFICIENCY) OF REVENUE | | 2000 | 1999 | | |
|--|----|----------------|-----------|----------------|--|
| OVER EXPENDITURES | \$ | (25,256) | \$ | (23,668) | |
| OTHER FINANCING SOURCES (USES) Sale of Fixed Assets Operating Transfers In | | 1,500 | | 6,732 | |
| Major Streets Local Streets | | 3,771 2,774 | 0 | 2,500 2,500 | |
| TOTAL OTHER FINANCING SOURCES (USES) | | 8,045 | | 11,732 | |
| EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES | | | | | |
| AND OTHER FINANCING USES | | (17,211) | | (11,936) | |
| CASH BASIS FUND BALANCE - JULY 1 | | (16,368) | 3 | (4,432) | |
| CASH BASIS FUND BALANCE - JUNE 30 | \$ | (33,579) | \$ ==: | (16,368) | |

VILLAGE OF LAKE ISABELLA SPECIAL REVENUE FUNDS COMBINING STATEMENT OF ASSETS AND LIABILITIES ARISING FROM CASH TRANSACTIONS JUNE 30, 2000

Statement B1-1

ASSETS

| | | Major Streets | | _ocal Streets | | Total |
|--|-----------|------------------|-----------|------------------|-----------|--------|
| Cash | \$ === | 12,735 | \$ === | 17,925 | \$ === | 30,660 |
| LIABILITIES AND CASH BAS | SIS F | UND BAL | ANC | E | | |
| LIABILITIES | \$ | _ | \$ | | \$ | |
| CASH BASIS FUND BALANCE (Deficit) Unreserved - Undesignated | **** | 12,735 | | 17,925 | | 30,660 |
| TOTAL LIABILITIES AND CASH BASIS FUND BALANCE | \$ | 12,735 | \$ | 17,925 | \$ | 30,660 |

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, 2000

Statement B1-2

| | Major Streets | Local Streets | Total |
|---|---|---------------------|--|
| REVENUE State Gas and Weight Tax | \$ 75,098 | \$ 49,043 | \$ 124,141 |
| EXPENDITURES CONSTRUCTION Impact Study | 25,000 | _ | 25,000 |
| PUBLIC WORKS Routine Maintenance Salaries and Wages Fringes Supplies Contracted Services Insurance Equipment Rental | 8,033 577 1,946 12,254 131 3,074 | 504 1,020 | 15,451 1,081 2,966 37,274 258 4,688 |
| Total Routine Maintenance | 26,015 | 35,703 | 61,718 |
| Administration Contracted Services | 2,013 | 2,884 | 4,897 |
| Traffic Services Contracted Services | 421 | _ | 421 |
| Winter Maintenance Supplies Contracted Services | 528 | 528 552 | 1,056 5,137 |
| Total Winter Maintenance | 3,113 | 3,080 | 6,193 |
| TOTAL EXPENDITURES | <u> 56,562</u> | 41,667 | 98,229 |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES | 18,536 | 7,376 | 25,912 |
| OTHER FINANCING SOURCES (USES) OPERATING TRANSFERS IN (OUT) To General Fund Major and Local Streets | (3,771) (4,100) | * (2,774) 4,100 | (6,545) ——— |
| TOTAL OTHER FINANCING SOURCES (USES) OPERATING TRANSFERS IN (OUT) | (7,871) | 1,326 | (6,545) |
| EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | 10,665 | 8,702 | 19,367 |
| CASH BASIS FUND BALANCE - JULY 1, 1999 | 2,070 | 9,223 | 11,293 |
| CASH BASIS FUND BALANCE - JUNE 30, 2000 | \$ 12,735 ======= | \$ 17,925 ====== | \$ 30,660 ====== |

VILLAGE OF LAKE ISABELLA MAJOR STREETS FUND COMPARATIVE STATEMENT OF ASSETS AND LIABILITIES ARISING FROM CASH TRANSACTIONS JUNE 30, 2000 AND 1999

Exhibit B2-1

| | ASSETS | | | | |
|-----------------------------|--------------------------------------|-----------|---------------|-----------|----------------|
| | 7.652.16 | | 2000 | | 1999 |
| Cash Deposits Receivable | | \$ | 12,735 ——— | \$ | 1,050 1,020 |
| TOTAL ASSETS | | \$ === | 12,735 | \$ ==: | 2,070 ===== |
| | LIABILITIES AND CASH BASIS FUND BALA | ANC | E | | |
| LIABILITIES | | \$ | _ | \$ | |
| CASH BASIS FUND | BALANCE (Deficit) | | 12,735 | | 2,070 |
| TOTAL LIABILITIE | S AND CASH BASIS FUND BALANCE | \$ | 12,735 | \$ | 2,070 |

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, 2000 AND 1999

Exhibit B2-2

| DEVENUE | | 2000 | /A | 1999 |
|---|-----------|---|----|--|
| REVENUE State Gas and Weight Tax Reimbursements | \$ | 75,098 ——— | \$ | 15,828 44 |
| TOTAL REVENUE | | 75,098 | | 15,872 |
| EXPENDITURES CONSTRUCTION Impact Study | | 25,000 | | _ |
| PUBLIC WORKS Routine Maintenance Salaries and Wages Fringes Supplies Contracted Services Insurance Equipment Rental | | 8,033 577 1,946 12,254 131 3,074 | | 2,721 193 — 7,447 — 1,568 |
| Total Routine Maintenance | | 26,015 | | 11,929 |
| Traffic Services Contracted Services | | 421 | | 198 |
| Winter Maintenance Supplies Contracted Services | | 528 2,585 | | <u> </u> |
| Total Winter Maintenance | | 3,113 | | 3,016 |
| Administration Contracted Services | | 2,013 | | 259 |
| TOTAL EXPENDITURES | | 56,562 | | 15,402 |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES | | 18,536 | | 470 |
| OTHER FINANCING SOURCES (USES) Operating Transfers In (Out) From Local Streets To General Fund | | (4,100) (3,771) | | 4,100 (2,500) |
| TOTAL OTHER FINANCING SOURCES (USES) | | (7,871) | | 1,600 |
| EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | | 10,665 | | 2,070 |
| CASH BASIS FUND BALANCE - JULY 1 | | 2,070 | | |
| CASH BASIS FUND BALANCE - JUNE 30 | \$ === | 12,735 ====== | \$ | 2,070 |

VILLAGE OF LAKE ISABELLA LOCAL STREETS FUND COMPARATIVE STATEMENT OF ASSETS AND LIABILITIES ARISING FROM CASH TRANSACTIONS JUNE 30, 2000 AND 1999

Statement B3-1

| | 1975 555 | | |
|---------------|----------|-----|--------|
| | SS | ` | \sim |
| | - | _ | • |
| $\overline{}$ | | 31_ | |

| | | 2000 | | 1999 | |
|---|-----------|-----------------|----------|----------------|--|
| Cash Deposits Receivable | \$ | 17,925 — | \$ | 6,843 2,380 | |
| TOTAL ASSETS | \$ ==: | 17,925 ===== | \$ == | 9,223 ===== | |
| LIABILITIES AND CASH BASIS FUND BALANCE | | | | | |
| LIABILITIES | \$ | _ | \$ | | |
| CASH BASIS FUND BALANCE (Deficit) Unreserved - Undesignated | | 17,925 | | 9,223 | |
| TOTAL LIABILITIES AND CASH BASIS FUND BALANCE | \$ | 17,925 | \$ | 9,223 | |

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, 2000 AND 1999

Statement B3-2

| REVENUE | | 2000 | | 1999 |
|---|-------------------|------------------------|-----------|--------------------|
| State Gas and Weight Tax Reimbursements | \$ | 49,043 ——— | \$ | 42,557 102 |
| TOTAL REVENUE | | 49,043 | | 42,659 |
| EXPENDITURES PUBLIC WORKS Routine Maintenance | | 7 440 | | 0.704 |
| Salaries and Maintenance Fringes | | 7,418 504 | | 2,721 193 |
| Supplies Contracted Services Insurance | | 1,020 25,020 127 | | 14,980 — |
| Equipment Rental | | 1,614 | | 1,568 |
| Total Routine Maintenance | | 35,703 | | 19,462 |
| Winter Maintenance | | | | |
| Supplies Contracted Services | | 528 2,552 | | 77 7,037 |
| Total Winter Maintenance | | 3,080 | | 7,114 |
| Administration Contracted Services | | 2,884 | - | 260 |
| TOTAL EXPENDITURES | | 41,667 | | 26,836 |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES | | 7,376 | | 15,823 |
| OTHER FINANCING SOURCES ((USES) Operating Transfers In (Out) | | | | |
| To General Fund To Major Street Fund |) | (2,774) 4,100 | | (2,500) (4,100) |
| TOTAL OTHER FINANCING SOURCES (USES) | (Marine, allering | 1,326 | | (6,600) |
| EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | | 8,702 | | 9,223 |
| CASH BASIS FUND BALANCE - JULY 1 | | 9,223 | | |
| CASH BASIS FUND BALANCE - JUNE 30 | \$ ==: | 17,925 ====== | \$ === | 9,223 |

VILLAGE OF LAKE ISABELLA ENTERPRISE FUNDS COMBINING STATEMENT OF ASSETS AND LIABILITIES ARISING FROM CASH TRANSACTIONS JUNE 30, 2000

Statement C1-1

| | 00 | _ | |
|---|-------|---|-----|
| | SS | _ | • |
| _ | . 7.7 | _ | • 7 |

| | ASSETS _ | Airport | | Sewer | | Total |
|--|----------|-------------------|----------|---------------------------------------|----------|--|
| Cash Long-Term Advance to General Fund Property, Plant and Equipment Due from Other Funds | \$ | 253,872 | \$ | 105,916 39,820 68,180 22,957 | \$ | 105,916 39,820 322,052 22,957 |
| TOTAL ASSETS | \$ = | 253,872 ====== | \$ == | 236,873 | \$ == | 490,745 ===== |
| LIABILITIES AND CASH BASIS FUND EQUITY | | | | | | |
| LIABILITIES | \$ | _ | \$ | _ | \$ | |
| CASH BASIS FUND EQUITY (Deficit) Contributed Capital Retained Earnings | | 253,872 | | _ | | 253,872 |
| Reserved for Long-Term Advance Unreserved | _ | | - | 39,820 197,053 | | 39,820 197,053 |
| Total Retained Earnings | _ | | | 236,873 | | 236,873 |
| TOTAL FUND EQUITY | _ | 253,872 | | 236,873 | | 490,745 |
| TOTAL LIABILITIES AND CASH BAS FUND EQUITY | IS \$ | 253,872 | \$ | 236,873 | \$ | 490,745 |

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, 2000

Statement C1-2

| | Airport | Sewer | Total | |
|---|--------------------|----------------------|----------------------|--|
| OPERATING REVENUE | \$ — | \$ — | \$ — | |
| OPERATING EXPENSES Contracted Services | 1,591 | 10,143 | 11,734 | |
| OPERATING INCOME (LOSS) BEFORE DEPRECIATION | (1,591) | (10,143) | (11,734) | |
| Less: Depreciation Expense | (2,580) | | (2,580) | |
| OPERATING INCOME (LOSS) | (4,171) | (10,143) | (14,314) | |
| NET NON-OPERATING REVENUE (EXPENSE) Grant Revenue Interest Earnings | 192,774 ——— | 5,461 | 192,774 5,461 | |
| Total Non-Operating Revenue (Expense) | 192,774 | <u>5,461</u> | 198,235 | |
| NET INCOME (LOSS) | 188,603 | (4,682) | 183,921 | |
| Effects of Contributed Capital Activity Assets Added/Acquired Depreciation on Contributed Capital | (191,183) 2,580 | | (191,183) 2,580 | |
| INCREASE (DECREASE) IN RETAINED EARNINGS | _ | (4,682) | (4,682) | |
| CASH BASIS RETAINED EARNINGS - JULY 1 | | 241,555 | 241,555 | |
| CASH BASIS RETAINED EARNINGS - JUNE 30 | \$ — ======= | \$ 236,873 ====== | \$ 236,873 ====== | |

VILLAGE OF LAKE ISABELLA ENTERPRISE FUNDS COMBINING STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2000

Statement C1-3

| | Airport | Sewer | Total |
|---|----------------------|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES Operating Income (Loss) | \$ (4,171) | \$ (10,143) | \$ (14,314) |
| Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operations: Depreciation | 2,580 | | 2,580 |
| Net Cash Provided (Used) by Operating Activities | (1,591) | (10,143) | (11,734) |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES Grants Due from Other Funds | 1,591 ——— | (22,957) | 1,591 (22,957) |
| Net Cash Provided (Used) by Non-Capital Financing Activities | 1,591 | (22,957) | (21,366) |
| CASH FLOWS FROM INVESTING ACTIVITIES Interest Earnings | | 5,461 | <u>5,461</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | _ | (27,639) | (27,639) |
| CASH AND CASH EQUIVALENTS - JULY 1, 1999 | | <u>133,555</u> | 133,555 |
| CASH AND CASH EQUIVALENTS - JUNE 30, 2000 | \$ — ======= | \$ 105,916 ====== | \$ 105,916 ====== |
| NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES Value of State Grant | \$ 191,183 ====== | \$ — ======= | \$ 191,183 ====== |

VILLAGE OF LAKE ISABELLA AIRPORT FUND COMPARATIVE STATEMENT OF ASSETS AND LIABILITIES ARISING FROM CASH TRANSACTIONS

JUNE 30, 2000 AND 1999

Statement C2-1

| ASSETS | | | | | | | | | |
|---|-----|------------------------------|------|------------------|--|--|--|--|--|
| | | 2000 | 1999 | | | | | | |
| Property, Plant and Equipment Land Runway Accumulated Depreciation - Runway | \$ | 50,000 206,452 (2,580) | \$ | 50,000 15,269 | | | | | |
| TOTAL ASSETS | \$ | 253,872 | \$ | 65,269 | | | | | |
| | == | ====== | === | ===== | | | | | |
| LIABILITIES AND CASH BASIS FUND EQUITY | | | | | | | | | |
| LIABILITIES | \$ | | \$ | | | | | | |
| CASH BASIS FUND EQUITY (Deficit) Contributed Capital | | 253,872 | | 65,269 | | | | | |
| TOTAL LIABILITIES AND CASH BASIS FUND EQUITY | \$_ | 253,872 | \$ | 65,269 | | | | | |

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, 2000 AND 1999 Statement C2-2

| | 2000 | 1999 |
|---|--------------------|------------------|
| OPERATING REVENUE | \$ — | \$` — |
| OPERATING EXPENSES Contracted Services | 1,591 | |
| OPERATING INCOME (LOSS) BEFORE DEPRECIATION | (1,591) | _ |
| Less: Depreciation Expense | (2,580) | |
| OPERATING INCOME (LOSS) | (4,171) | |
| NET NON-OPERATING REVENUE (EXPENSE) Grant Revenue Donated Property | 192,774 | 15,269 50,000 |
| Total Non-Operating Revenue (Expense) | 192,774 | 65,269 |
| NET INCOME LOSS | 188,603 | 65,269 |
| EFFECTS OF CONTRIBUTED CAPITAL ACTIVITY Assets Added/Acquired Depreciation on Contributed Capital | (191,183) 2,580 | (65,269) |
| INCREASE (DECREASE) IN RETAINED EARNINGS | | _ |
| CASH BASIS RETAINED EARNINGS - JULY 1, 1999 | | |
| CASH BASIS RETAINED EARNINGS - JUNE 30, 2000 | \$ - | \$ — ======= |

VILLAGE OF LAKE ISABELLA AIRPORT FUND COMPARATIVE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2000 AND 1999

Statement C2-3

| CASH ELOVAS EDOM ODEDATINO ACTIVITIES | | 2000 | 1999 | | |
|--|----------|-------------------|-----------|------------------|--|
| CASH FLOWS FROM OPERATING ACTIVITIES Operating Income (Loss) | \$ | (4,171) | \$ | _ | |
| Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operations: | | | | | |
| Depreciation | | 2,580 | | | |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | (1,591) | | _ | |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES Grant | | 1,59 <u>1</u> | | | |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | . — | | | |
| CASH AND CASH EQUIVALENTS - JULY 1 | _ | | | | |
| CASH AND CASH EQUIVALENTS - JUNE 30 | \$ == | — :====== | \$ | | |
| NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES Donated Land State Grant | \$ | 191,183 | \$ | 50,000 15,269 | |
| Total Non-Cash Investing, Capital, and Financing Activities | \$ == | 191,183 ====== | \$ ==: | 65,269 ===== | |

VILLAGE OF LAKE ISABELLA SEWER FUND

COMPARATIVE STATEMENT OF ASSETS AND LIABILITIES ARISING FROM CASH TRANSACTIONS

JUNE 30, 2000 AND 1999

Statement C3-1

| Λ | SS | ET | 2 |
|---|----|----|---|
| м | 22 | | 3 |

| ASSETS | - | 2000 | | 1999 | | | | | | | |
|--|--|---------------------------------------|----------|----------------------------------|--|--|--|--|--|--|--|
| Cash Long-Term Advance to General Fund Due from Other Funds Property, Plant and Equipment | \$ | 105,916 39,820 22,957 68,180 | \$ | 133,555 39,820 — 68,180 | | | | | | | |
| TOTAL ASSETS | \$ == | 236,873 | \$ == | 241,555 ===== | | | | | | | |
| LIABILITIES AND CASH BASIS FUND EC | LIABILITIES AND CASH BASIS FUND EQUITY | | | | | | | | | | |
| LIABILITIES | \$ | | \$ | | | | | | | | |
| CASH BASIS FUND EQUITY (Deficit) Retained Earnings Reserved for Long-Term Advance Unreserved | - | 39,820 197,053 | | 39,820 201,735 | | | | | | | |
| Total Retained Earnings | | 236,873 | | 241,555 | | | | | | | |
| TOTAL LIABILITIES AND CASH BASIS FUND EQUITY | \$ | 236,873 | \$_ | 241,555 | | | | | | | |

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, 2000 AND 1999 Exhibit C3-2

| | | 2000 | | 1999 |
|---|----|----------|----|---------|
| OPERATING REVENUE | \$ | _ | \$ | |
| OPERATING EXPENSES | | 10,143 | - | |
| OPERATING INCOME (LOSS) | | (10,143) | | _ |
| NET NON-OPERATING REVENUE (EXPENSE) Interest Earnings | | 5,461 | | 8,566 |
| NET INCOME (LOSS) | | (4,682) | | 8,566 |
| CASH BASIS RETAINED EARNINGS - JULY 1 | - | 241,555 | | 232,989 |
| CASH BASIS RETAINED EARNINGS - JUNE 30 | \$ | 236,873 | \$ | 241,555 |

VILLAGE OF LAKE ISABELLA SEWER FUND COMPARATIVE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2000 AND 1999

Statement C3-3

| | | 2000 | | 1999 |
|---|----------|------------------|----------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES Net Income | \$ | (10,143) | \$ | |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES Due from Other Funds | | (22,957) | | (39,820) |
| Net Cash Provided (Used) by Non-Capital Financing Activities | | (33,100) | | (39,820) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES Purchase of Land | | _ | | (68,180) |
| CASH FLOWS FROM INVESTING ACTIVITIES Interest Earnings | - | <u>5,461</u> | | 8,566 |
| Net Increase (Decrease) in Cash and Cash Equivalents | | (27,639) | | (99,434) |
| CASH AND CASH EQUIVALENTS - JULY 1 | _ | 133,555 | | 232,989 |
| CASH AND CASH EQUIVALENTS - JUNE 30 | \$ == | 105,916 ===== | \$ == | 133,555 ===== |
| 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, 2000

Statement D1-1

| ASSETS | | Balance 07/01/99 | | dditions | <u>De</u> | ductions | Balance 06/30/00 | |
|--|------------|---------------------|-----------|------------------|-----------|------------------|---------------------|------------|
| Cash | \$ ==== | 1,208 ===== | \$ === | 70,703 | \$ === | 70,369 ===== | \$ === | 1,542 |
| LIABILITIES Withholdings and Benefits Payable Net Salaries Payable | \$ | 1,208 — | \$ | 13,656 57,047 | \$ | 13,322 57,047 | \$ | 1,542 — |
| TOTAL LIABILITIES | \$ ==== | 1,208 | \$ === | 70,703 | \$ === | 70,369 | \$ | 1,542 |

VILLAGE OF LAKE ISABELLA GENERAL FIXED ASSETS ACCOUNT GROUP COMPARATIVE STATEMENT OF GENERAL FIXED ASSETS JUNE 30, 2000 AND 1999

Exhibit E1-1

| GENERAL FIXED ASSETS | | 2000 | | 1999 |
|--|----------|----------------------------------|-----------|----------------------------------|
| Land Equipment Office Furniture and Equipment Vehicles | \$ | 2,700 4,260 4,538 6,344 | \$ | 2,700 2,950 1,236 6,219 |
| Total Assets | | 17,842 | | 13,105 |
| Provision for Depreciation | | (4,422) | | (925) |
| TOTAL GENERAL FIXED ASSETS | \$ == | 13,420 ===== | \$ | 12,180 ===== |
| INVESTMENTS IN GENERAL FIXED ASSETS BY SOURCE General Fund | ф | 12 120 | æ | 42.400 |
| General Fund | \$ == | 13,420 ===== | \$ === | 12,180 |

VILLAGE OF LAKE ISABELLA SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS BY FUNCTION AND ACTIVITY FOR THE YEAR ENDED JUNE 30, 2000

Statement E1-2

| Function and Activity | General Fixed Assets 07/01/99 | | Additions | | <u>De</u> | ductions | General Fixed Asse 06/30/00 | | |
|---|-------------------------------------|--------|-----------|-------|-----------|----------|-----------------------------------|--------|--|
| GENERAL FUND General Government Building and Grounds Public Works | \$ | 3,936 | \$ | 3,302 | \$ | | \$ | 7,238 | |
| Department of Public Works | | 9,169 | | 2,935 | | 1,500 | | 10,604 | |
| TOTAL BEFORE DEPRECIATION | \$ | 13,105 | \$ | 6,237 | \$ | 1,500 | \$ | 17,842 | |

VILLAGE OF LAKE ISABELLA SCHEDULE OF GENERAL FIXED ASSETS BY FUNCTION AND ACTIVITY FOR THE YEAR ENDED JUNE 30, 2000

Exhibit E1-3

| Function and Acitivity | Total | | | id and vements | <u>Equ</u> | uipment_ | Equ | ffice ipment and rniture | | ehicles_ |
|--|-------|-----------------|----------|-------------------|------------|----------------|-----|-----------------------------------|----|------------|
| GENERAL FUND General Government Building and Grounds Public Works Department of Public Works | \$ | 7,238 10.604 | \$ | 2,700 | \$ | | \$ | 4,538 | \$ | — 6,344 |
| TOTAL GENERAL FUND | | 17,842 | <u> </u> | 2,700 | | 4,260 4,260 | - | 4,538 | - | 6,344 |
| Provision for Depreciation | | (4,422) | | | | (1,098) | | (854) | | (2,470) |
| TOTAL | \$ | 13,420 | \$ | 2,700 | \$ | 3,162 | \$ | 3,684 | \$ | 3,874 |

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

September 8, 2000

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, 2000. 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."

Village Council Village of Lake Isabella, Michigan

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.

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 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 and Special Revenue Funds are at the fund level. During the year ended June 30, 2000, the Village incurred expenditures in certain budgetary funds which were in excess of the amounts budgeted, as follows:

| | <u>Budget</u> | | Actual | | Difference | |
|--------------|---------------|--------|--------|--------|------------|-------|
| GENERAL FUND | \$ | 76,066 | \$ | 85,510 | \$ | 9,444 |

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 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. The Village has taken steps to amend the 2000-2001 budget and it shows marked improvement, however, additional steps should be taken to show the budget in revenues, expenditures and increases (decreases) in fund balance for each fund separately.

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

FUND DEFICIT (Repeated Comment)

The Village has accumulated a fund deficit in the General Fund in the amount of \$33,579.

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.

DISBURSEMENTS (Repeated Comment with Modification)

While reviewing expenditures it was noted that invoices do not always indicate account number(s) where coded to. Although progress has been made in this area, additional efforts should be made to ensure that account coding always be added to all 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.

EQUIPMENT RENTAL

There is no system in place to determine the actual hours used or which streets were worked on. Currently, the hours are estimated and the time is split between local and major streets. A log should be used to track the time and streets worked so that expenditures may be accurately allocated to the proper funds.

Village Council Village of Lake Isabella, Michigan

Page, Olson & Company

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

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 September 8, 2000.

SUMMARY

We would like to thank Ed Spayed for the cooperation we received throughout the course of the audit.

We would like to commend Ed for the efforts that have been made in adapting to governmental accounting rules and presentation. While there will be much to learn, we have been impressed with his efforts this far and hope that he will continue his endeavor to continue learning, applying, and improving upon the solid start that has already been accomplished. 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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