

**Village of Lake Isabella  
Isabella County**

**Annual Financial Statements  
and  
Auditors' Report  
June 30, 2010**

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**Village of Lake Isabella**  
**List of Elected and Appointed Officials**  
**June 30, 2010**

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Village Council

**President**

David Torgerson

**President Pro-Temp**

Dan Pattison

**Treasurer**

Charles Kiel

**Clerk**

Jeffrey Grey

**Members**

Richard Lacca  
Arnold Griffin  
Elizabeth Miller

**Village Manager**

Timothy R. Wolff

**Deputy Manager**

Jessica Manley



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## Independent Auditors' Report

Village Council  
Village of Lake Isabella  
Isabella County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Lake Isabella as of and for the year ended June 30, 2010, which collectively comprise this Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Lake Isabella's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Lake Isabella as of June 30, 2010 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The Village has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined necessary to supplement, although not a required part of, the basic financial statements.

*Yeo & Yeo, P.C.*

October 18, 2010  
Midland, Michigan

## **BASIC FINANCIAL STATEMENTS**

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**Village of Lake Isabella**  
**Statement of Net Assets**  
**June 30, 2010**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 520,236	\$ 1,334	\$ 521,570
Investments	695,275	104,353	799,628
Receivables			
Special assessments	1,381,869	-	1,381,869
Due from other units of government	51,694	-	51,694
Prepaid items	4,456	-	4,456
Capital assets not being depreciated	5,304	115,000	120,304
Capital assets - net of accumulated depreciation	<u>3,621,471</u>	<u>100,644</u>	<u>3,722,115</u>
 Total assets	 <u>6,280,305</u>	 <u>321,331</u>	 <u>6,601,636</u>
<b>Liabilities</b>			
Accounts payable	3,253	3,283	6,536
Accrued and other liabilities	17,937	-	17,937
Noncurrent liabilities			
Due within one year	311,676	-	311,676
Due in more than one year	<u>1,688,283</u>	<u>-</u>	<u>1,688,283</u>
 Total liabilities	 <u>2,021,149</u>	 <u>3,283</u>	 <u>2,024,432</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,626,816	215,644	1,842,460
Restricted for:			
Debt service	701,839	-	701,839
Prepays	4,456	-	4,456
Unrestricted	<u>1,926,045</u>	<u>102,404</u>	<u>2,028,449</u>
 Total net assets	 <u>\$ 4,259,156</u>	 <u>\$ 318,048</u>	 <u>\$ 4,577,204</u>

See Accompanying Notes to Financial Statements

**Village of Lake Isabella**  
**Statement of Activities**  
**For the Year Ended June 30, 2010**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary government</b>							
Governmental activities							
General government	\$ 138,843	\$ 24,321	\$ -	\$ -	\$ (114,522)	\$ -	\$ (114,522)
Public safety	58,814	-	-	-	(58,814)	-	(58,814)
Public works	376,836	145,085	-	-	(231,751)	-	(231,751)
Community and economic development	2,423	-	-	-	(2,423)	-	(2,423)
Interest on long-term debt	85,959	-	-	-	(85,959)	-	(85,959)
Total governmental activities	<u>662,875</u>	<u>169,406</u>	<u>-</u>	<u>-</u>	<u>(493,469)</u>	<u>-</u>	<u>(493,469)</u>
Business-type activities							
Sewer	24,937	-	-	-	-	(24,937)	(24,937)
Airport	10,323	-	-	-	-	(10,323)	(10,323)
Total primary government	<u>\$ 698,135</u>	<u>\$ 169,406</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(493,469)</u>	<u>(35,260)</u>	<u>(528,729)</u>
General revenues							
Property taxes					65,087	-	65,087
State shared revenue					237,315	-	237,315
Unrestricted investment earnings					12,475	649	13,124
Miscellaneous					5,563	-	5,563
Transfers					2,500	(2,500)	-
Total general revenues and transfers					<u>322,940</u>	<u>(1,851)</u>	<u>321,089</u>
Change in net assets					(170,529)	(37,111)	(207,640)
Net assets - beginning of year					<u>4,429,685</u>	<u>355,159</u>	<u>4,784,844</u>
Net assets - end of year					<u>\$ 4,259,156</u>	<u>\$ 318,048</u>	<u>\$ 4,577,204</u>

See Accompanying Notes to Financial Statements



**Village of Lake Isabella  
Governmental Funds  
Balance Sheet  
June 30, 2010**

	Special Revenue Funds			Debt Service Funds		Nonmajor Governmental Funds	Total Governmental Funds
	General	Major Streets Fund	Local Streets Fund	Major Streets Debt Fund	LSSA Debt Fund		
<b>Assets</b>							
Cash and cash equivalents	\$ 189,990	\$ 60,815	\$ 28,543	\$ 394	\$ 224,826	\$ 15,668	\$ 520,236
Investments	60,309	143,935	28,971	181,315	175,820	104,925	695,275
Receivables							
Special assessments	-	-	-	256,404	979,611	145,854	1,381,869
Due from other units of government	27,030	16,081	8,583	-	-	-	51,694
Due from other funds	-	-	1,109	-	-	600	1,709
Prepaid items	3,119	891	446	-	-	-	4,456
<b>Total assets</b>	<b>\$ 280,448</b>	<b>\$ 221,722</b>	<b>\$ 67,652</b>	<b>\$ 438,113</b>	<b>\$ 1,380,257</b>	<b>\$ 267,047</b>	<b>\$ 2,655,239</b>
<b>Liabilities</b>							
Accounts payable	\$ 2,620	\$ 33	\$ 600	\$ -	\$ -	\$ -	\$ 3,253
Accrued and other liabilities	810	97	97	-	-	-	1,004
Due to other funds	-	-	-	-	-	1,709	1,709
Deferred revenue	13,568	-	-	256,404	979,611	145,854	1,395,437
<b>Total liabilities</b>	<b>16,998</b>	<b>130</b>	<b>697</b>	<b>256,404</b>	<b>979,611</b>	<b>147,563</b>	<b>1,401,403</b>
<b>Fund Balances</b>							
Reserved for:							
Debt service	-	-	-	181,709	400,646	119,484	701,839
Prepays	3,119	891	446	-	-	-	4,456
Unreserved, reported in:							
General fund	260,331	-	-	-	-	-	260,331
Special revenue funds	-	220,701	66,509	-	-	-	287,210
<b>Total fund balances</b>	<b>263,450</b>	<b>221,592</b>	<b>66,955</b>	<b>181,709</b>	<b>400,646</b>	<b>119,484</b>	<b>1,253,836</b>
<b>Total liabilities and fund balances</b>	<b>\$ 280,448</b>	<b>\$ 221,722</b>	<b>\$ 67,652</b>	<b>\$ 438,113</b>	<b>\$ 1,380,257</b>	<b>\$ 267,047</b>	<b>\$ 2,655,239</b>

See Accompanying Notes to Financial Statements

**Village of Lake Isabella**  
**Governmental Funds**  
**Reconciliation of Fund Balances of Governmental Funds**  
**to Net Assets of Governmental Activities**  
**June 30, 2010**

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<b>Total fund balances for governmental funds</b>	\$ 1,253,836
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	5,304
Capital assets - net of accumulated depreciation	3,621,471
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	1,395,437
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(16,933)
Compensated absences	(3,975)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	<u>(1,995,984)</u>
<b>Net assets of governmental activities</b>	<u><u>\$ 4,259,156</u></u>

**Village of Lake Isabella**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2010**

	Special Revenue Funds			Debt Service Funds		Nonmajor Governmental Funds	Total Governmental Funds
	General	Major Streets Fund	Local Streets Fund	Major Streets Debt Fund	LSSA Debt Fund		
<b>Revenues</b>							
Taxes	\$ 65,087	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 65,087
Licenses and permits	6,741	-	-	-	-	-	6,741
State revenue sharing	76,886	105,951	52,407	-	-	-	235,244
Local contributions	5,120	-	-	-	-	-	5,120
Charges for services	31,047	-	-	52,335	178,153	30,115	291,650
Interest income	575	277	112	1,194	1,531	8,786	12,475
Rental income	17,580	-	-	-	-	-	17,580
Other revenue	443	-	-	-	-	-	443
<b>Total revenues</b>	<b>203,479</b>	<b>106,228</b>	<b>52,519</b>	<b>53,529</b>	<b>179,684</b>	<b>38,901</b>	<b>634,340</b>
<b>Expenditures</b>							
<b>Current</b>							
General government	222,938	-	-	-	-	-	222,938
Public safety	58,814	-	-	-	-	-	58,814
Public works	3,455	47,905	69,060	18,472	3,818	8,712	151,422
Community and economic development	1,908	-	-	-	-	-	1,908
Capital outlay	11,698	-	-	-	-	-	11,698
<b>Debt service</b>							
Principal retirement	-	1,538	1,539	55,000	175,000	75,000	308,077
Interest and fiscal charges	13,022	350	349	6,490	54,701	12,366	87,278
<b>Total expenditures</b>	<b>311,835</b>	<b>49,793</b>	<b>70,948</b>	<b>79,962</b>	<b>233,519</b>	<b>96,078</b>	<b>842,135</b>
Excess (deficiency) of revenues over expenditures	(108,356)	56,435	(18,429)	(26,433)	(53,835)	(57,177)	(207,795)
<b>Other financing sources (uses)</b>							
Transfers in	29,634	-	-	-	-	28,450	58,084
Transfers out	-	(33,426)	(2,658)	(10,000)	(6,000)	(3,500)	(55,584)
Issuance of debt	70,000	7,724	18,023	-	-	-	95,747
<b>Total other financing sources and uses</b>	<b>99,634</b>	<b>(25,702)</b>	<b>15,365</b>	<b>(10,000)</b>	<b>(6,000)</b>	<b>24,950</b>	<b>98,247</b>
Net change in fund balance	(8,722)	30,733	(3,064)	(36,433)	(59,835)	(32,227)	(109,548)
Fund balance - beginning of year	272,172	190,859	70,019	218,142	460,481	151,711	1,363,384
Fund balance - end of year	\$ 263,450	\$ 221,592	\$ 66,955	\$ 181,709	\$ 400,646	\$ 119,484	\$ 1,253,836

See Accompanying Notes to Financial Statements

**Village of Lake Isabella**  
**Governmental Funds**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2010**

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**Net change in fund balances - Total governmental funds** \$ (109,548)

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(221,908)
Capital outlay	95,747

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.

State shared revenue	2,071
Special assessments	(146,565)

Expenses are recorded when incurred in the statement of activities

Accrued interest	1,319
Compensated absences	(3,975)

Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Debt issued	(95,747)
Repayments of long-term debt	<u>308,077</u>

**Change in net assets of governmental activities** \$ (170,529)

**Village of Lake Isabella**  
**Proprietary Funds**  
**Statement of Net Assets**  
**June 30, 2010**

	Enterprise Funds		
	Sewer	Airport	Total
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 1,334	\$ -	\$ 1,334
Investments	104,353	-	104,353
Noncurrent assets			
Capital assets not being depreciated	65,000	50,000	115,000
Capital assets - net of accumulated depreciation	-	100,644	100,644
Total assets	170,687	150,644	321,331
<b>Liabilities</b>			
Current liabilities			
Accounts payable	3,283	-	3,283
<b>Net Assets</b>			
Invested in capital assets	65,000	150,644	215,644
Unrestricted	102,404	-	102,404
Total net assets	\$ 167,404	\$ 150,644	\$ 318,048

See Accompanying Notes to Financial Statements

**Village of Lake Isabella**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Year Ended June 30, 2010**

	Enterprise Funds		
	Sewer	Airport	Total
<b>Operating expenses</b>			
Contractual services	\$ 24,937	\$ -	\$ 24,937
Depreciation	-	10,323	10,323
Capital assets - net of accumulated depreciation			
Total operating expenses	<u>24,937</u>	<u>10,323</u>	<u>35,260</u>
Operating loss	<u>(24,937)</u>	<u>(10,323)</u>	<u>(35,260)</u>
<b>Nonoperating revenue (expenses)</b>			
Interest income	<u>649</u>	<u>-</u>	<u>649</u>
Loss before transfers out	(24,288)	(10,323)	(34,611)
Transfers out	<u>(2,500)</u>	<u>-</u>	<u>(2,500)</u>
Change in net assets	(26,788)	(10,323)	(37,111)
Net assets - beginning of year	<u>194,192</u>	<u>160,967</u>	<u>355,159</u>
Net assets - end of year	<u>\$ 167,404</u>	<u>\$ 150,644</u>	<u>\$ 318,048</u>

See Accompanying Notes to Financial Statements

**Village of Lake Isabella  
Proprietary Funds  
Statement of Cash Flows  
For the Year Ended June 30, 2010**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Airport</u>	<u>Total</u>
<b>Cash flows from operating activities</b>			
Payments to suppliers	\$ (28,914)	\$ -	\$ (28,914)
<b>Cash flows from noncapital financing activities</b>			
Transfers to other funds	<u>(2,500)</u>	<u>-</u>	<u>(2,500)</u>
<b>Cash flows from investing activities</b>			
Proceeds from sales and maturities of investments	24,804	-	24,804
Interest received	<u>649</u>	<u>-</u>	<u>649</u>
Net cash provided (used) by investing activities	<u>25,453</u>	<u>-</u>	<u>25,453</u>
Net Change in cash and cash equivalents	(5,961)	-	(5,961)
Cash and cash equivalents - beginning of year	<u>7,295</u>	<u>-</u>	<u>7,295</u>
Cash and cash equivalents - end of year	<u>\$ 1,334</u>	<u>\$ -</u>	<u>\$ 1,334</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>			
Operating loss	\$ (24,937)	\$ (10,323)	\$ (35,260)
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation and amortization expense	-	10,323	10,323
Changes in assets and liabilities			
Accounts payable	<u>(3,977)</u>	<u>-</u>	<u>(3,977)</u>
Net cash used by operating activities	<u>\$ (28,914)</u>	<u>\$ -</u>	<u>\$ (28,914)</u>

See Accompanying Notes to Financial Statements

**Village of Lake Isabella**  
**Notes to Financial Statements**  
**June 30, 2010**

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

**Reporting entity**

Village of Lake Isabella is governed by an elected seven-member Board. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the village government and its component units. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *village government* is reported separately from certain legally separate *component units* for which the village government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a

particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.



**Village of Lake Isabella**  
**Notes to Financial Statements**  
**June 30, 2010**

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Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the maintenance and improvement activities for streets designated as "major" within the Village. Funding is primarily through state shared gas and weight taxes.

The Local Street Fund accounts for maintenance and improvement activities for streets designated as "local" within the Village. Funding is primarily through state shared gas and weight taxes.

The LSSA Capital Project Fund accounts for the bonded construction of the Village's roads and streets.

The Major Street Debt Fund and LSSA Debt Funds account for the collection of special revenues and the payment of long-term debt.

The government reports the following major proprietary funds:

The Airport Fund accounts for the Airport's assets.

The Sewer Fund accounts for the activities of the sewage collection system.

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the airport and sewer funds are charges to customers for sales and services. The government also

**Village of Lake Isabella**  
**Notes to Financial Statements**  
**June 30, 2010**

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recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for airport and sewer funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

**Assets, liabilities, and net assets or equity**

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired, except investment funds considered to be part of the investment portfolio. Investments are stated at fair value based on quoted market price. Certificate of deposits are stated at cost which approximates fair value.

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

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied as of July 1st on the taxable valuation of property as of the preceding December 31<sup>st</sup>. The lien on the property occurs when the property taxes are levied (July 1st).

The 2009 taxable valuation of the government totaled \$76,284,885, on which ad valorem taxes consisted of 0.8463 mills for operating purposes.

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

Capital assets – Capital assets, which include property, buildings and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

Compensated absences – The Village policy allows employees to accumulate earned but unused vacation pay benefits. The government-wide and proprietary statements accrue all vacation benefits as they are earned. Upon termination of employment, employees will be paid for unused vacation time that has been earned through the last day of employment.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

**Village of Lake Isabella**  
**Notes to Financial Statements**  
**June 30, 2010**

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Property, buildings and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	7 to 50 years
Equipment	5 to 7 years
Roads	20 to 25 years
Vehicles	4 to 10 years

Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

### **Comparative data**

Comparative data is not included in the government's financial statements.

### **Upcoming Accounting and Reporting Change**

The Government Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The new standard changes fund balance classifications to depict the relative strength of the spending constraints and clarifies the definitions of various governmental fund types. The new definition of special revenue funds will affect which activities the Village can report in special revenue funds. This statement is effective for the year ending June 30, 2011.

## **NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

### **Budgetary information**

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The Village Manager is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the Village Council.

Amounts encumbered for purchase orders, contracts, etc. are not

**Village of Lake Isabella**  
**Notes to Financial Statements**  
**June 30, 2010**

tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

**Excess of expenditures over appropriations**

The Village incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General Fund			
General government	\$ 221,360	\$ 222,938	\$ 1,578
Public works	3,225	3,455	230
Community and economic development	1,750	1,908	158
Major Street Fund	82,929	83,219	290
Local Street Fund	72,938	73,606	668

**NOTE 3 - DEPOSITS AND INVESTMENTS**

At year end the government's deposits and investments were reported in the basic financial statements in the following categories:

	Cash and Cash Equivalents	Investments
Governmental activities	\$ 520,236	\$ 695,275
Business-type activities	1,334	104,353
<b>Total primary government</b>	<b>\$ 521,570</b>	<b>\$ 799,628</b>

The breakdown between deposits and investments is as follows:

	Primary Government
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 521,570
Investments in securities, mutual funds and similar vehicles	799,628
	<b>\$ 1,321,198</b>

As of June 30, 2010, the Village had the following investments:

Investment	Fair Value	Maturities	Rating	Rating Organization
Raymond James Bank Deposit Program	\$ 424,485		Not rated	
Treasury & Government Securities	225,143	April 17, 2011	AAA	Standard and Poor's
Certificates of Deposit	150,000	December 8, 2010	Not rated	
	<u>\$ 799,628</u>			

*Interest rate risk* – The Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds or similar investment pools and limiting the average maturity in accordance with the Village's cash requirements.

*Credit risk* – State statutes authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or

**Village of Lake Isabella**  
**Notes to Financial Statements**  
**June 30, 2010**

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federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The investment policy adopted by the government authorizes investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory authority as listed above.

*Concentration of credit risk* – The policy adopted by the government authorized that no more than 25 percent of the total deposit and investment balance can be held in any one institution unless invested in certificate of deposit or savings account.

*Custodial credit risk - deposits* – In the case of deposits, this is the risk that in the event of bank failure, the government’s deposits may not be returned to it. The government uses the same police for custodial credit risk as for concentration of credit risk. As of year end, \$0 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial credit risk – investments* – For an investment, this is the risk that, in the event of the failure of the counterparty, the government ill not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Consistent with the government’s investment policy, the government’s investments are held by a counterparty and are not insured.

**NOTE 4 - RECEIVABLES AND DEFERRED REVENUE**

The only receivables not expected to be collected within one year are as follows:

	Due After One Year	Fund
<b>Village government</b>		
Special assessments	\$ 1,381,869	Debt service funds

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable
<b>Village government</b>	
State shared revenue	\$ 13,568
Special assessments	1,381,869
	\$ 1,395,437

**Village of Lake Isabella**  
**Notes to Financial Statements**  
**June 30, 2010**

**NOTE 5 - CAPITAL ASSETS**

Capital assets activity of the village government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 5,304	\$ -	\$ -	\$ 5,304
Capital assets being depreciated				
Roads	4,685,009	-	-	4,685,009
Buildings	283,300	70,000	8,300	345,000
Street equipment	2,575	-	-	2,575
Office equipment	17,023	-	-	17,023
Vehicles	22,990	25,747	-	48,737
Total capital assets being depreciated	5,010,897	95,747	8,300	5,098,344
Capital assets - net of accumulated depreciation				
Less accumulated depreciation for				
Roads	1,229,855	205,914	-	1,435,769
Buildings	13,574	8,351	8,300	13,625
Street equipment	2,060	515	-	2,575
Office equipment	8,743	2,177	-	10,920
Vehicles	9,033	4,951	-	13,984
Total accumulated depreciation	1,263,265	221,908	8,300	1,476,873
Net capital assets being depreciated	3,747,632	(126,161)	-	3,621,471
Governmental activities capital assets, net	\$ 3,752,936	\$ (126,161)	\$ -	\$ 3,626,775

Capital assets activity of the business-type activities for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 115,000	\$ -	\$ -	\$ 115,000
Capital assets being depreciated				
Runway	206,452	-	-	206,452
Less accumulated depreciation for				
Runway	95,485	10,323	-	105,808
Net capital assets being depreciated	110,967	(10,323)	-	100,644
Business-type capital assets, net	\$ 225,967	\$ (10,323)	\$ -	\$ 215,644

Depreciation expense was charged to programs of the village government as follows:

<b>Governmental activities</b>		
General government		\$ 7,677
Public works		213,716
Community and economic development		515
Total governmental activities		221,908
<b>Business-type activities</b>		
Airport		10,323
Total primary government		\$ 232,231

**Village of Lake Isabella**  
**Notes to Financial Statements**  
**June 30, 2010**

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**NOTE 6 - INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS**

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due from/to other funds</b>		
Local Streets Fund	Queensway Debt Fund	\$ 1,109
Castle/Sevilla Debt Fund	Putter Drive Debt Fund	600
		<u>\$ 1,709</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

The details for interfund transfers are as follows:

Funds Transferred From	Funds Transferred To	Amount
Major Streets Fund	General Fund	\$ 4,976
Local Streets Fund	General Fund	2,658
Sewer Fund	General Fund	2,500
Major Streets Debt Fund	General Fund	10,000
Queensway Debt Fund	General Fund	1,500
Castle/Sevilla Debt Fund	General Fund	1,500
Putter Drive Debt Fund	General Fund	500
Local Streets Special Assessments Fund	General Fund	6,000
Major Streets Fund	2003 MDOT Debt Fund	28,450
		<u>\$ 58,084</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

**Village of Lake Isabella**  
**Notes to Financial Statements**  
**June 30, 2010**

**NOTE 7 - LONG-TERM DEBT**

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Special Assessment bonds involve a pledge of specific income derived from the special assessments levied against those property owners who will benefit from the capital improvement.

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>									
Bonds and notes payable									
General obligation bonds									
2007 Capital Improvement	\$ 275,000	2036	3.85 - 5.05%	\$5,000 - \$20,000	\$ 275,000	\$ -	\$ -	\$ 275,000	\$ -
2003 Michigan Transportation	225,000	2013	3.40 - 3.60%	\$25,000	100,000	-	25,000	75,000	25,000
Tractor Note Payable	17,090	2012	5.25%	\$3,239 - \$3,588	13,314	-	3,077	10,237	3,239
Salt Barn Installment Payable	70,000	2019	4.75%	\$7,000	-	70,000	-	70,000	7,000
Truck Note Payable	25,747	2014	4.25%	\$6,437	-	25,747	-	25,747	6,437
Compensated absences					-	3,975	-	3,975	-
Special assessment obligations									
Major Streets Bonds	515,000	2012	3.30 - 3.50%	\$55,000	220,000	-	55,000	165,000	55,000
Fairway Drive Bonds	140,000	2012	3.15%	\$15,000 - \$20,000	65,000	-	15,000	50,000	15,000
Queensway Bonds	140,000	2013	3.60%	\$10,000 - \$15,000	70,000	-	15,000	55,000	15,000
Castle/sevilla Bonds	180,000	2014	4.30 - 4.60%	\$13,600	81,600	-	13,600	68,000	13,600
Putter Drive Bonds	180,000	2014	4.30 - 4.60%	\$6,400	38,400	-	6,400	32,000	6,400
LSSA Drive Bonds	1,585,000	2016	4.35%	\$160,000 - \$170,000	1,345,000	-	175,000	1,170,000	165,000
Total governmental activities					<u>\$ 2,208,314</u>	<u>\$ 99,722</u>	<u>\$ 308,077</u>	<u>\$ 1,999,959</u>	<u>\$ 311,676</u>



**Village of Lake Isabella**  
**Notes to Financial Statements**  
**June 30, 2010**

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2011	\$ 311,676	\$ 79,494
2012	321,846	66,765
2013	327,026	53,653
2014	218,436	41,755
2015	202,000	32,472
2016-2020	390,000	76,906
2021-2025	42,000	50,352
2026-2030	62,000	38,308
2031-2035	82,000	20,539
2036	39,000	1,995
	<u>\$ 1,995,984</u>	<u>\$ 462,239</u>

**NOTE 8 - RISK MANAGEMENT**

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

**NOTE 9 - CONTINGENT LIABILITIES**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor

cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

**NOTE 10 - RELATED PARTY TRANSACTIONS**

The Village entered into various transactions with Raymond James Financial Services, Inc., whose agent handling the transactions is a spouse of a Village Council member. The transactions consist of substantially all of the Village's cash management activities.

**NOTE 11 - SUBSEQUENT EVENT**

Subsequent to June 30, 2010, the Village issued capital improvement bonds in the amount of \$210,000 at 5.00% to purchase property at 201 S. Coldwater Road. The bonds will be paid in annual installments through 2039.

## **REQUIRED SUPPLEMENTAL INFORMATION**

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**Village of Lake Isabella**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Actual Over (Under)
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
<b>Revenues</b>				
Taxes				
Property taxes	\$ 64,000	\$ 64,913	\$ 64,913	\$ -
Penalties and interest	-	174	174	-
Licenses and permits	6,500	6,725	6,741	16
State revenue sharing	79,000	77,000	76,886	(114)
Local contributions	7,000	5,000	5,120	120
Charges for services	32,500	31,000	31,047	47
Interest income	1,750	550	575	25
Rental income	8,400	17,608	17,580	(28)
Capital assets - net of accumulated depreciation	1,000	734	443	(291)
Bond/note proceeds	-	70,000	70,000	-
Transfer in	<u>21,000</u>	<u>29,650</u>	<u>29,634</u>	<u>(16)</u>
Total revenues	<u>221,150</u>	<u>303,354</u>	<u>303,113</u>	<u>(241)</u>
<b>Expenditures</b>				
General government				
Village board	5,260	2,140	2,371	231
Manager	96,800	106,301	106,407	106
Clerk	13,600	13,500	13,452	(48)
Treasurer	15,850	15,125	16,291	1,166
Elections	1,875	1,614	1,550	(64)
Buildings and grounds	<u>3,200</u>	<u>82,680</u>	<u>82,867</u>	<u>187</u>
Total general government	<u>136,585</u>	<u>221,360</u>	<u>222,938</u>	<u>1,578</u>

See Accompanying Notes to Financial Statements

**Village of Lake Isabella**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Actual Over (Under)
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Public safety				
Code enforcement	27,970	30,330	30,569	239
Fire department	<u>32,500</u>	<u>28,500</u>	<u>28,245</u>	<u>(255)</u>
Total public safety	<u>60,470</u>	<u>58,830</u>	<u>58,814</u>	<u>(16)</u>
Public works				
Public works	9,325	2,325	2,446	121
Street lighting	<u>900</u>	<u>900</u>	<u>1,009</u>	<u>109</u>
Total public works	<u>10,225</u>	<u>3,225</u>	<u>3,455</u>	<u>230</u>
Community and economic development				
Planning	1,700	1,250	1,461	211
Zoning	<u>500</u>	<u>500</u>	<u>447</u>	<u>(53)</u>
Total community and economic development	<u>2,200</u>	<u>1,750</u>	<u>1,908</u>	<u>158</u>
Capital outlay	<u>2,900</u>	<u>11,700</u>	<u>11,698</u>	<u>(2)</u>
Debt service				
Interest and fiscal charges	<u>13,205</u>	<u>13,206</u>	<u>13,022</u>	<u>(184)</u>
Total expenditures	<u>225,585</u>	<u>310,071</u>	<u>311,835</u>	<u>1,764</u>
Excess of revenues over expenditures	(4,435)	(6,717)	(8,722)	(2,005)
Fund balance - beginning of year	<u>272,172</u>	<u>272,172</u>	<u>272,172</u>	<u>-</u>
Fund balance - end of year	<u>\$ 267,737</u>	<u>\$ 265,455</u>	<u>\$ 263,450</u>	<u>\$ (2,005)</u>

See Accompanying Notes to Financial Statements

**Village of Lake Isabella**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Major Street Fund**  
**For the Year Ended June 30, 2010**

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
<b>Revenues</b>				
State revenue sharing	\$ 96,000	\$ 97,755	\$ 105,951	\$ 8,196
Interest income	1,500	250	277	27
Bond/note proceeds	-	7,725	7,724	(1)
Total revenues	<u>97,500</u>	<u>105,730</u>	<u>113,952</u>	<u>8,222</u>
<b>Expenditures</b>				
Current				
Public works	140,148	49,479	47,905	(1,574)
Debt service				
Principal retirement	-	-	1,538	1,538
Interest and fiscal charges	-	-	350	350
Transfers out	<u>28,500</u>	<u>33,450</u>	<u>33,426</u>	<u>(24)</u>
Total expenditures	<u>168,648</u>	<u>82,929</u>	<u>83,219</u>	<u>290</u>
Excess of revenues (deficiency) over expenditures	(71,148)	22,801	30,733	7,932
Fund balance - beginning of year	<u>190,859</u>	<u>190,859</u>	<u>190,859</u>	<u>-</u>
Fund balance - end of year	<u>\$ 119,711</u>	<u>\$ 213,660</u>	<u>\$ 221,592</u>	<u>\$ 7,932</u>

See Accompanying Notes to Financial Statements

**Village of Lake Isabella**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Local Street Fund**  
**For the Year Ended June 30, 2010**

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
<b>Revenues</b>				
State revenue sharing	\$ 50,000	\$ 50,000	\$ 52,407	\$ 2,407
Interest income	1,000	100	112	12
Bond/note proceeds	-	18,023	18,023	-
Total revenues	<u>51,000</u>	<u>68,123</u>	<u>70,542</u>	<u>2,419</u>
<b>Expenditures</b>				
Current				
Public works	55,603	70,278	69,060	(1,218)
Debt service				
Principal retirement	-	-	1,539	1,539
Interest and fiscal charges	-	-	349	349
Transfers out	-	2,660	2,658	(2)
Total expenditures	<u>55,603</u>	<u>72,938</u>	<u>73,606</u>	<u>668</u>
Excess of revenues (deficiency) over expenditures	(4,603)	(4,815)	(3,064)	1,751
Fund balance - beginning of year	<u>70,019</u>	<u>70,019</u>	<u>70,019</u>	<u>-</u>
Fund balance - end of year	<u>\$ 65,416</u>	<u>\$ 65,204</u>	<u>\$ 66,955</u>	<u>\$ 1,751</u>

See Accompanying Notes to Financial Statements

## **OTHER SUPPLEMENTAL INFORMATION**

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**Village of Lake Isabella**  
**Other Supplemental Information**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2010**

	Debt Service Funds					Total Nonmajor Governmental Funds
	2003 MDOT Debt Fund	Fairway Debt Fund	Queensway Debt Fund	Castle/Sevilla Debt Fund	Putter Drive Debt Fund	
<b>Assets</b>						
Cash and cash equivalents	\$ 950	\$ 10,307	\$ 135	\$ 972	\$ 3,304	\$ 15,668
Investments	-	6,078	53,921	26,944	17,982	104,925
Receivables						
Special assessments	-	36,985	28,095	51,262	29,512	145,854
Due from other funds	-	-	-	600	-	600
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 950</u>	<u>\$ 53,370</u>	<u>\$ 82,151</u>	<u>\$ 79,778</u>	<u>\$ 50,798</u>	<u>\$ 267,047</u>
<b>Liabilities</b>						
Due to other funds	\$ -	\$ -	\$ 1,109	\$ -	\$ 600	\$ 1,709
Deferred revenue	-	36,985	28,095	51,262	29,512	145,854
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>-</u>	<u>36,985</u>	<u>29,204</u>	<u>51,262</u>	<u>30,112</u>	<u>147,563</u>
<b>Fund Balances</b>						
Reserved for:						
Debt service	<u>950</u>	<u>16,385</u>	<u>52,947</u>	<u>28,516</u>	<u>20,686</u>	<u>119,484</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and fund balances	<u>\$ 950</u>	<u>\$ 53,370</u>	<u>\$ 82,151</u>	<u>\$ 79,778</u>	<u>\$ 50,798</u>	<u>\$ 267,047</u>

See Accompanying Notes to Financial Statements



**Village of Lake Isabella**  
**Other Supplemental Information**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2010**

	Debt Service Funds					Total Nonmajor Governmental Funds
	2003 MDOT Debt Fund	Fairway Debt Fund	Queensway Debt Fund	Castle/Sevilla Debt Fund	Putter Drive Debt Fund	
<b>Revenues</b>						
Charges for services	\$ -	\$ 15,202	\$ -	\$ 9,412	\$ 5,501	\$ 30,115
Interest income	2	101	8,457	96	130	8,786
<b>Total revenues</b>	<u>2</u>	<u>15,303</u>	<u>8,457</u>	<u>9,508</u>	<u>5,631</u>	<u>38,901</u>
<b>Expenditures</b>						
Current						
Public works	47	-	4,400	2,857	1,408	8,712
Debt service						
Principal retirement	25,000	15,000	15,000	13,600	6,400	75,000
Interest and fiscal charges	3,450	1,811	2,250	3,301	1,554	12,366
<b>Total expenditures</b>	<u>28,497</u>	<u>16,811</u>	<u>21,650</u>	<u>19,758</u>	<u>9,362</u>	<u>96,078</u>
Deficiency of revenues over expenditures	<u>(28,495)</u>	<u>(1,508)</u>	<u>(13,193)</u>	<u>(10,250)</u>	<u>(3,731)</u>	<u>(57,177)</u>
<b>Other financing sources (uses)</b>						
Transfers in	28,450	-	-	-	-	28,450
Transfers out	-	-	(1,500)	(1,500)	(500)	(3,500)
<b>Total other financing sources and uses</b>	<u>28,450</u>	<u>-</u>	<u>(1,500)</u>	<u>(1,500)</u>	<u>(500)</u>	<u>24,950</u>
Net change in fund balance	(45)	(1,508)	(14,693)	(11,750)	(4,231)	(32,227)
Fund balance - beginning of year	995	17,893	67,640	40,266	24,917	151,711
Fund balance - end of year	<u>\$ 950</u>	<u>\$ 16,385</u>	<u>\$ 52,947</u>	<u>\$ 28,516</u>	<u>\$ 20,686</u>	<u>\$ 119,484</u>

See Accompanying Notes to Financial Statements



6018 Eastman Avenue  
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October 18, 2010

Village Council  
Village of Lake Isabella  
Isabella County, Michigan

We have completed our audit of the financial statements of Village of Lake Isabella as of and for the year ended June 30, 2010 and have issued our report dated October 18, 2010. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

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

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

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

*Yeo & Yeo, P.C.*  
Midland, Michigan

Appendix I  
Auditor's Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies are described in Note 1 of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Village during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

*Difficulties Encountered in Performing the Audit*

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

*Corrected Misstatements*

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

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We had no disagreements with management during the audit.

### *Management Representations*

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

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

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Village's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Michigan Department of Treasury has decided that they will no longer accept audit reports without the Management's Discussion and Analysis component as has been past practice after December 31, 2010. This means that the Village will have to complete this section for next year's audit. We will be certain to work with you to make sure that you are compliant.**

**Village of Lake Isabella  
Adjusting Journal Entries  
Attachment A**

Reference	Type	Date Account Number	Description	Debit	Credit
AJE01	Adjusting	06/30/10			
		101-000-390-000	Fund Balance		312.00
		101-000-663-000	Miscellaneous	312.00	
		202-000-390-000	Fund Balance		127.00
		202-453-956-000	Miscellaneous	127.00	
			to adjust fund balance to PY audit report		
AJE02	Adjusting Recur	06/30/10			
		581-439-968-000	Depreciation expense	10,323.00	
		581-000-141-000	Acc. Depreciation-Runway		10,323.00
			To record CY depreciation expense		
AJE03	Adjusting	06/30/10			
		855-000-045-000	Special Assessment Receivable		29,465.00
		855-000-264-000	Deffered Revenue	29,465.00	
		856-000-045-000	Special Assessment Receivable		11,336.00
		856-000-264-000	Deffered Revenue	11,336.00	
		857-000-045-000	Special Assessment Receivable		5,546.00
		857-000-264-000	Deffered Revenue	5,546.00	
		858-000-045-000	Special Assessment Receivable		4,918.00
		858-000-264-000	Deffered Revenue	4,918.00	
		859-000-045-000	Special Assessment Receivable		2,907.00
		859-000-264-000	Deffered Revenue	2,907.00	
		860-000-045-000	Special Assessment Receivable		92,393.00
		860-000-264-000	Deffered Revenue	92,393.00	
			to record principal payments on special assessments		
AJE04	Adjusting	06/30/10			
		101-000-100-000	Prepays	3,119.00	
		101-000-202-000	Accounts Payable		3,119.00
		203-000-100-000	Prepays	446.00	
		203-000-202-000	Accounts Payable		446.00
		202-000-100-000	Prepays	891.00	
		202-000-202-000	Accounts Payable		891.00
			To reclass prepays recorded in AP		