Michigan Deptartment of Treasury
496 (2-04)

Auditing Procedures Report

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

Local Government Type	Local Government Name	County
☐ City ☐ Township ☑ Village ☐ Other	Village of Lake Isabella	Isabella

Audit Date	Opinion Date	Date Accountant Report Submitted to State:
6/30/05	9/9/05	12/6/05

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

We affirm that:

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

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

You must check the applicable box for each item below.

☐ Yes ☑ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

☐ Yes ☑ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).

☐ Yes ☑ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).

☐ Yes ☑ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.

☐ Yes ☑ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).

☐ Yes ☑ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

☐ Yes ☑ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).

☐ Yes ☑ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).

☐ Yes ☑ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✔		
Reports on individual federal financial assistance programs (program audits).			✔
Single Audit Reports (ASLGU).			✔

Certified Public Accountant (Firm Name)			
Page, Olson & Company, P.C., CPA's			
Street Address	City	State	ZIP
2865 South Lincoln Road - P.O. Box 368	Mt. Pleasant	MI	48808-0368
Accountant Signature		Date	
		12/6/05	

VILLAGE OF LAKE ISABELLA

ISABELLA COUNTY, MICHIGAN

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

VILLAGE OF LAKE ISABELLA
YEAR ENDED JUNE 30, 2005

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VILLAGE OF LAKE ISABELLA
OFFICIALS
JUNE 30, 2005

VILLAGE COUNCIL

President

George Dunn

President Protem

David Torgerson

Treasurer

Charlie Kiel

Clerk

Jeff Grey

Members

Jackie Adkins
Brian Hughes
Arnie Griffin

VILLAGE MANAGER

Timothy R. Wolff

PAGE
OLSON &
COMPANY P C

INDEPENDENT AUDITOR'S REPORT

September 9, 2005

Village Council
Village of Lake Isabella, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Lake Isabella, Michigan as of and for the year ended June 30, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Lake Isabella, Michigan's, management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Lake Isabella, Michigan, as of June 30, 2005, 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.

The management's discussion and analysis and budgetary comparison information on pages 5 through 10 and 35 through 37, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

2865 SOUTH LINCOLN ROAD • PO BOX 368 • MT PLEASANT, MI 48804 0368 • 989 773 5494 • FAX 989 773 5816

Village Council
Village of Lake Isabella, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Lake Isabella, Michigan's basic financial statements. The required supplemental and other supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information relative to June 30, 2005 and for the year then ended has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Page, Olson & Company

VILLAGE OF LAKE ISABELLA
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Village of Lake Isabella, we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village of Lake Isabella for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the financial report. All amounts, unless otherwise indicated, are presented in whole dollars.

Financial Highlights

The assets of the Village exceeded its liabilities at the close of the most recent fiscal year by $2,969,510 (net assets). Of this amount, $409,469 (unrestricted net assets) may be used to meet the government's ongoing obligations to the citizens and creditors.

The government's total net assets increased by $101,722. This increase was primarily due to special assessments provided funding for infrastructure projects.

As of the close of the current fiscal year, the Village's governmental funds reported combined ending fund balances of $844,432, an increase of $58,431 in comparison with the prior year. This is primarily due to the issuance of bonds and special assessments during the year. Approximately $415,443 of this total amount is available for spending at the government's discretion (unreserved-undesignated fund balance).

At the end of the current fiscal year, unreserved fund balance for the general fund was $211,806 or approximately 145 percent of total general fund expenditures.

The Village issued $140,000 in general obligation and special assessment bonds during the current fiscal year. The bonds will finance infrastructure improvements that were accounted for in the Queensway Capital Project Fund.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

VILLAGE OF LAKE ISABELLA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Government-wide Financial Analysis

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

Village of Lake Isabella's Net Assets.

	2005			2004		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	$ 1,458,760	$ 150,955	$ 1,609,715	$ 1,410,067	$ 150,462	$ 1,560,529
Capital assets	2,398,541	267,258	2,665,799	2,307,043	277,581	2,584,624
Total assets	3,857,301	418,213	4,275,514	3,717,110	428,043	4,145,153
Long-term liabilities outstanding	880,000	-	880,000	840,000	-	840,000
Other liabilities	7,791	578	8,369	18,517	1,214	19,731
Total liabilities	887,791	578	888,369	858,517	1,214	859,731
Net assets:						
Invested in capital assets, net of related debt	1,518,541	267,258	1,785,799	1,467,043	277,581	1,744,624
Restricted	1,041,500	-	1,041,500	733,457	-	1,011,038
Unrestricted	409,469	150,377	559,846	658,093	149,248	807,341
Total net assets	$ 2,969,510	$ 417,635	$ 3,387,145	$ 2,858,593	$ 426,829	$ 3,285,422

Village of Lake Isabella's Changes in Net Assets

	2005			2004		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenues:						
Program revenues:						
Charges for Services	$ 193,647	$ -	$ 193,647	$ 238,183	$ -	$ 238,183
General Revenues:						
Property taxes	46,401	-	46,401	42,764	-	42,764
Other	260,048	1,128	261,176	271,823	1,361	273,184
Total Revenues	500,096	1,128	501,224	552,770	1,361	554,131
Expenses:						
Legislative	2,319	-	2,319	3,652	-	3,652
General Government	93,020	-	93,020	74,601	-	74,601
Public Safety	19,242	-	19,242	21,266	-	21,266
Public Works	245,482	-	245,482	208,826	-	208,826
Debt Service	29,116	-	29,116	24,532	-	24,532
Airport	-	10,323	10,323	-	10,323	10,323
Sewer	-	-	-	-	-	-
Total Expenses	389,179	10,323	399,502	332,877	10,323	343,200
Increase in net assets before transfers	110,917	(9,195)	101,722	219,893	(8,962)	210,931
Transfers	-	-	-	611	(611)	-
Increase in net assets	110,917	(9,195)	101,722	220,504	(9,573)	210,931
Net Assets - July 1	2,858,593	426,830	3,285,423	2,638,089	436,402	3,074,491
Net Assets - June 30	$ 2,969,510	$ 417,635	$ 3,387,145	$ 2,858,593	$ 426,829	$ 3,285,422

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Village of Lake Isabella, assets exceeded liabilities by $3,387,145 at the close of the most recent fiscal year.

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

An additional portion of the Village's net assets (31 percent) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets ($559,846) may be used to meet the government's ongoing obligations to citizens and creditors.

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

The government's net assets increased by $101,722 during the current fiscal year. Much of this increase can be contributed to the special assessments recognized for infrastructure improvements within governmental activities, as the business-type activities of the Village reflect a net decrease in assets.

Governmental activities. Governmental activities increased the Village's net assets by $110,917. The key element of this increase as stated above was the influx of special assessments that were used for infrastructure improvements.

Business-type activities. Business-type activities decreased the Village's net assets by $9,195. The key element of this decrease is depreciation expense recorded in the Airport function.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of $844,432, an increase of $58,431 in comparison with the prior year. The key element of this increase can be attributed to the issuance of bonds and special assessments during the year. Approximately $415,443 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to pay debt service ($428,989).

The General fund is the chief operating fund of the Village. At the end of the current fiscal year, unreserved fund balance of the general fund was $211,806.

The fund balance of the Village's general fund increased by $21,529 during the current fiscal year. This increase is comparable to increases experienced by the Village in recent years.

The Major Streets Fund experienced a decrease of $11,094 in its fund balance. The this decrease is due primarily to a large transfer required to close out the capital project funds.

The Local Streets Fund experienced an increase of $6,928 and this increase is consistent with prior years.

The Major Streets Capital Project Fund's fund balance decreased by $293,372 which is due to the closing of this project in the current year. In fact all of the Villages capital projects were completed and closed in the current year.

Significant Nonmajor Governmental fund decreases in fund balance occurred and is due primarily to decreases in the Local Street Debt Fund.

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

Unrestricted net assets in the in the Airport and Sewer Funds experienced a net decrease of $9,195 and is attributable to the depreciation expense recorded in the Airport Fund.

General Fund Budgetary Highlights

For the fiscal year of 2004-2005 the Village of Lake Isabella continued its practice of building up fund balance in its General and Special Revenue Funds. The annual budget was approved by the Village Council in June of 2004 as required by Village Charter, and was amended by the Council in June of 2005, at the close of the fiscal year.

The 2004-05 fiscal year saw the Village undertake substantial upgrades to its financial administration and practices. The Village first acquired new accounting software and new hardware to help manage its financial operations. The Village also purchased a newer truck to be used for code enforcement and street operations.

The budget was amended twice during the fiscal year, the first to accommodate the purchase of the accounting software and equipment. The final amendments were made at the end of the fiscal year. The budget in 2004-05 contained funds used to conduct a community wide survey which has been used for the drafting of a Master Plan update. Money was also allocated for webpage development and staff training, both of which have helped the Village communicate more effectively and professional to the community.

Capital Asset and Debt Administration

Capital Assets. The Village's investment in capital assets for its governmental and business type activities as of June 30, 2005, amounts to $2,665,799 (net of accumulated depreciation). This investment in capital assets includes land, equipment, and roads. The increase in the Village's investment in capital assets for the current fiscal year was due to road construction projects.

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

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	$ 6,820	$ 6,820	$ 115,000	$ 115,000	$ 121,820	$ 121,820
Buildings	4,648	5,833	-	-	4,648	5,833
Equipment and Vehicles	9,680	5,038	-	-	9,680	5,038
Infrastructure	2,377,393	2,289,352	152,258	162,581	2,529,651	2,451,933
Total	$ 2,398,541	$ 2,307,043	$ 267,258	$ 277,581	$ 2,665,799	$ 2,584,624

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

Long-term debt. At the end of the current fiscal year, the Village had total bonded debt outstanding of $880,000. Of this amount, $185,000 comprises debt backed by the full faith and credit of the government and the remaining $695,000 represents bonds secured solely by specified revenue sources.

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

	2005	2004
General obligation bonds	$ 185,000	$ 205,000
Revenue bonds	695,000	635,000
Total	$ 880,000	$ 840,000

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

VILLAGE OF LAKE ISABELLA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors

Long range planning for the Village is accounted for annually in the budget process. The budget contains a five year capital improvement plan that is a rough outline of the larger capital projects that the Village is planning for. In addition to the numerous improvements to the transportation system that have been planned, the Village is also considering the construction of a new Village office.

As the Village continues to grow in size and in services the economic factors will certainly change and reflect the direction that the community has taken. The Council and staff of the Village are committed to working together to get the most out of every dollar and serve in the most responsible manner possible.

Requests for information.

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

BASIC FINANCIAL STATEMENTS

VILLAGE OF LAKE ISABELLA
STATEMENT OF NET ASSETS
JUNE 30, 2005

Statement I

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and Investments	$ 791,311	$ 150,955	$ 942,266
Due From State	54,237	-	54,237
Internal Balances	578	-	578
Special Assessments Receivable	612,634	-	612,634
Total Current Assets	1,458,760	150,955	1,609,715
Noncurrent Assets			
Capital Assets			
Land	6,820	115,000	121,820
Runway	-	206,452	206,452
Buildings, Additions & Improvements	8,300	-	8,300
Equipment	10,160	-	10,160
Office Equipment	12,427	-	12,427
Infrastructure	3,041,846	-	3,041,846
Less Accumulated Depreciation	(681,012)	(54,194)	(735,206)
Total Capital Assets	2,398,541	267,258	2,665,799
Total Assets	$ 3,857,301	$ 418,213	$ 4,275,514
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts Payable	$ 1,408	$ -	$ 1,408
Internal Balances	-	578	578
Salaries Payable	288	-	288
Interest Payable	6,095	-	6,095
Long-term Debt Due within One Year	105,000	-	105,000
Total Current Liabilities	112,791	578	113,369
Noncurrent Liabilities			
Long-term Debt Due in More Than One Year	775,000	-	775,000
Total Liabilities	887,791	578	888,369
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,518,541	267,258	1,785,799
Restricted for:			
Debt Service	1,041,500	-	1,041,500
Capital Projects	-	-	-
Unrestricted	409,469	150,377	559,846
Total Net Assets	2,969,510	417,635	3,387,145
Total Liabilities and Net Assets	$ 3,857,301	$ 418,213	$ 4,275,514

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

VILLAGE OF LAKE ISABELLA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Statement II

		Program Revenues	Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Governmental Activities	Business-type Activities	Total
Functions / Programs					
Primary Government:					
Governmental Activities					
Legislative	$ 2,319	$ -	$ (2,319)		$ (2,319)
General Government	93,020	215	(92,805)		(92,805)
Public Safety	19,242	21,544	2,302		2,302
Public Works	245,482	-	(245,482)		(245,482)
Debt Service	29,116	171,888	142,772		142,772
Total Governmental Activities	389,179	193,647	(195,532)		(195,532)
Business-type Activities					
Airport	10,323	-		(10,323)	(10,323)
Sewer	-	-		-	-
Total Business-type Activities	10,323	-		(10,323)	(10,323)
	General Revenues:				
	Property Taxes		46,401	-	46,401
	Revenue Sharing		250,196	-	250,196
	Interest and Dividends		9,051	1,128	10,179
	Other		801	-	801
	Total General Revenues		306,449	1,128	307,577
	Transfers		-	-	-
	Total General Revenue and Transfers		306,449	1,128	307,577
	Changes in Net Assets		110,917	(9,195)	101,722
	Net Assets - July 1		2,858,593	426,830	3,285,423
	Net Assets - June 30		$ 2,969,510	$ 417,635	$ 3,387,145

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

VILLAGE OF LAKE ISABELLA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2005

Statement III

	General Fund	Major Streets Fund	Local Streets Fund	Major Streets Debt Fund	Queensway Debt Fund	Major Streets Capital Project Fund	Queensway Capital Project Fund	Other Nonmajor Governmental Funds	Total
ASSETS									
Cash	$ 104,930	$ 39,586	$ 41,697	$ 25,444	$ 19,214	$ -	$ -	$ 15,440	$ 246,311
Investments	75,000	75,000	25,000	290,000	70,000	-	-	10,000	545,000
Due From Other Funds	5,896	-	1,109	-	-	-	-	-	7,005
Due From State	27,313	17,424	9,502	-	-	-	-	-	54,239
Special Assessments Receivable	-	-	-	446,072	72,855	-	-	93,707	612,634
TOTAL ASSETS	$ 213,139	$ 132,010	$ 77,308	$ 761,516	$ 162,069	$ -	$ -	$ 119,147	$ 1,465,189
LIABILITIES AND FUND BALANCE									
LIABILITIES									
Accounts Payable	$ 1,084	$ 143	$ 180	$ -	$ -	$ -	$ -	$ -	$ 1,407
Salaries Payable	249	20	20	-	-	-	-	-	289
Due To Other Funds	-	2,659	2,659	-	1,109	-	-	-	6,427
Deferred Revenue - Special Assessments	-	-	-	446,072	72,855	-	-	93,707	612,634
TOTAL LIABILITIES	1,333	2,822	2,859	446,072	73,964	-	-	93,707	620,757
FUND BALANCE									
Reserved									
Debt Service	-	-	-	315,444	88,105	-	-	25,440	428,989
Capital Projects	-	-	-	-	-	-	-	-	-
Unreserved - Undesignated, Reported in:	-	-	-	-	-	-	-	-	-
General Fund	211,806	-	-	-	-	-	-	-	211,806
Special Revenue Funds	-	129,188	74,449	-	-	-	-	-	203,637
TOTAL FUND BALANCE	211,806	129,188	74,449	315,444	88,105	-	-	25,440	844,432
TOTAL LIABILITIES AND FUND BALANCE	$ 213,139	$ 132,010	$ 77,308	$ 761,516	$ 162,069	$ -	$ -	$ 119,147	$ 1,465,189

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

VILLAGE OF LAKE ISABELLA
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

Statement IV

	General Fund	Major Streets Fund	Local Streets Fund	Major Streets Debt Fund	Queensway Debt Fund	Major Streets Capital Project Fund	Queensway Capital Project Fund	Other Nonmajor Governmental Funds	Total
REVENUE									
Property Taxes	$ 46,401	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 46,401
Special Assessments	19,219	-	-	69,290	76,871	-	-	24,134	189,514
Permits	2,325	-	-	-	-	-	-	-	2,325
State Shared Revenue	83,753	107,651	58,793	-	-	-	-	-	250,197
Charges for Services	215	-	-	-	-	-	-	-	215
Interest Earnings	4,841	166	80	2,106	559	491	421	386	9,050
Rents and Royalties	1,599	-	-	-	-	-	-	-	1,599
Sale of Fixed Asset	400	-	-	-	-	-	-	-	400
Other Revenue	401	-	-	-	-	-	-	-	401
TOTAL REVENUE	159,154	107,817	58,873	71,396	77,430	491	421	24,520	500,102
EXPENDITURES									
Current Operations									
Legislative	2,319	-	-	-	-	-	-	-	2,319
General Government	95,873	-	-	-	-	-	-	-	95,873
Public Safety	39,525	-	-	-	-	-	-	-	39,525
Public Works	8,936	32,650	58,092	-	-	-	-	-	99,678
Construction	-	1,800	-	-	-	75,175	115,012	18,063	210,050
Debt Service	-	-	-	69,628	14,233	-	-	50,365	134,226
TOTAL EXPENDITURES	146,653	34,450	58,092	69,628	14,233	75,175	115,012	68,428	581,671
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	12,501	73,367	781	1,768	63,197	(74,684)	(114,591)	(43,908)	(81,569)
OTHER FINANCING SOURCES (USES)									
Operating Transfers In	14,268	-	10,000	279,807	25,408	57,540	-	43,829	430,852
Operating Transfers (Out)	(5,240)	(84,461)	(3,853)	(8,405)	(500)	(276,228)	(25,409)	(26,756)	(430,852)
Bond Proceeds	-	-	-	-	-	-	140,000	-	140,000
TOTAL FINANCING SOURCES (USES)	9,028	(84,461)	6,147	271,402	24,908	(218,688)	114,591	17,073	140,000
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	21,529	(11,094)	6,928	273,170	88,105	(293,372)	-	(26,835)	58,431
FUND BALANCE - JULY 1	190,277	140,282	67,521	42,274	-	293,372	-	52,275	786,001
FUND BALANCE - JUNE 30	$ 211,806	$ 129,188	$ 74,449	$ 315,444	$ 88,105	$ -	$ -	$ 25,440	$ 844,432

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

VILLAGE OF LAKE ISABELLA
GOVERNMENTAL FUNDS
RECONCILIATION OF FUND BALANCE
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Statement V

Amounts reported for governmental activities in the statement of net assets are different because:	
Total Fund Balance of Governmental Funds (Statement III)	$ 844,432
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,398,541
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	612,634
Long-term Liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(886,097)
Net Assets of Governmental Activities (Statement I)	$ 2,969,510

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

VILLAGE OF LAKE ISABELLA
GOVERNMENTAL FUNDS
RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITY
FOR THE YEAR ENDED JUNE 30, 2005

Statement VI

Amounts reported for governmental activities in the statement of activities are different because:		
Net Change in Fund Balances - Total Governmental Funds (Statement IV)	$	58,431
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays ($218,788) exceeded depreciation ($127,289) in the current period.		91,499
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities where it reduces long-term debt.		100,000
Interest payable on long-term debt is recorded when due in the statement of activities and when paid in governmental funds.		(607)
Bond Proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.		(140,000)
The statement of activities reports current year assessment levies as revenue and the governmental funds do not. Also the governmental funds report special assessment collections as revenue while the statement of activities show them as reductions to the receivable.		1,594
Change in Net Assets of Governmental Activities (Statement II)	$	110,917

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

VILLAGE OF LAKE ISABELLA
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2005

Statement VII

	Business Type Activities		
	Airport Fund	Sewer Fund	Total
ASSETS			
Current Assets			
Cash	$ -	$ 150,955	$ 150,955
Noncurrent Assets			
Capital Assets			
Land	50,000	65,000	115,000
Runway	206,452	-	206,452
Less Accumulated Depreciation	(54,194)	-	(54,194)
Total Capital Assets Net of Accumulated Depreciation	202,258	65,000	267,258
TOTAL ASSETS	$ 202,258	$ 215,955	$ 418,213
LIABILITIES			
Due to General Fund	$ -	$ 578	$ 578
NET ASSETS			
Invested in Capital Assets, net of related debt	202,258	65,000	267,258
Unrestricted	-	150,377	150,377
TOTAL NET ASSETS	202,258	215,377	417,635
TOTAL LIABILITIES AND NET ASSETS	$ 202,258	$ 215,955	$ 418,213

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

VILLAGE OF LAKE ISABELLA
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN NET ASSETS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005

Statement VIII

	Business Type Activities		
	Airport Fund	Sewer Fund	Total
Operating Expenses			
Depreciation	$ 10,323	$ -	$ 10,323
Operating Income	(10,323)	-	(10,323)
Non-Operating Revenue			
Interest Earnings	-	1,128	1,128
Income (Loss) Before Transfers	(10,323)	1,128	(9,195)
Transfers Out	-	-	-
Change in Net Assets	(10,323)	1,128	(9,195)
Net Assets - July 1	212,581	214,249	426,830
Net Assets - June 30	$ 202,258	$ 215,377	$ 417,635

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

VILLAGE OF LAKE ISABELLA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005

Statement IX

	Business Type Activities		
	Airport Fund	Sewer Fund	Total
Cash Flows From Operating Activities	$ -	$ -	$ -
Cash Flows From Non-Capital Financing Activities			
Transfers to Other Funds	-	-	-
Advance from Other Funds	-	(635)	(635)
Cash Provided by Non-Capital Financing Activities	-	(635)	(635)
Cash Flows From Investing Activities			
Interest Received	-	1,128	1,128
Net Increase in Cash and Cash Equivalents	-	493	493
Cash and Cash Equivalents - July 1	-	150,462	150,462
Cash and Cash Equivalents - June 30	$ -	$ 150,955	$ 150,955
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income	$ (10,323)	$ -	$ (10,323)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation Expense	10,323	-	10,323
Net Cash Provided by Operating Activities	$ -	$ -	$ -

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

VILLAGE OF LAKE ISABELLA
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS
JUNE 30, 2005

Statement X

	Agency Funds
ASSETS	
Cash	$ -
LIABILITIES	
Due to or on Behalf of Others	$ -

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. FINANCIAL REPORTING ENTITY

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

B. GOVERNMENT WIDE AND FUND FINANCIAL STATEMENTS

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

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

The Village reports the following major governmental funds:

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

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

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

The Village also reports the following proprietary funds:

The Airport Fund accounts for the Airport's assets.

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

Additionally the Village reports the following fund types:

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

D. ESTIMATES

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

E. CASH AND INVESTMENTS

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

Currently the Village investments consist of money-market rate savings accounts and certificates of deposit. Consequently, for proprietary reporting purposes all investments are considered cash equivalents.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. RECEIVABLES AND PAYABLES

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

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

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

Property Taxes are allocated to the General Fund based on the voted millage rate of .88740 mills for operating and 1.0000 mill for fire protection.

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

G. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Village as assets with initial, individual cost of more than $500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. LONG-TERM OBLIGATIONS

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

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

I. FUND EQUITY

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

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

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

Excess of Expenditures Over Appropriations in Budgeted Funds - Neither the General Fund nor any of the Special Revenue Funds incurred expenditures in excess of the legal level of appropriations for the year ended June 30, 2005.

NOTE 3 - CASH AND INVESTMENTS

Deposits are carried at cost. Deposits are in two financial institutions in the name of the Village Treasurer. Michigan Compiled Laws, Section 129.91, Authorizes the Village to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations. Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States; repurchase agreements consisting of bonds, securities and other obligations of the United States; or an agency or instrumentality of the United States, banker's acceptances of United States banks; obligations of this State or any of its political subdivision that at the time of purchase are rated as investment grade by not less than one standard rating service; commercial paper rated with the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase; mutual funds registered under the investment company act of 1940, with the authority to purchase only investments by a public corporation; obligations described above if purchased through an inter-local agreement under the urban cooperations act of 1967 PA7, MCL 124.501 to 124.512; investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118, and the investment pool organized under the local government investment pool act, 1985 PA 121, MC 129.141 to 129.150. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. The Village's deposits are in accordance with statutory authority.

At June 30, 2005 the carrying amount of the Village's cash and investments was $942,266 as follows:

Carrying Value	
Petty Cash	$ 120
Deposits with Financial Institutions	
Cash in Checking	246,191
Cash in Savings	10,951
Total Deposits with Financial Institutions	257,142
Investments	685,004
Total Cash and Investments	$ 942,266

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

	FDIC Insured	Uninsured	Total
Carrying Amounts	$ 108,912	$ 148,230	$ 257,142
Bank Balances	$ 108,912	$ 163,599	$ 272,511

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

The Village investments consist of money-market rate savings accounts and certificates of deposit and are considered cash equivalents.

NOTE 4 - INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

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

Due To/From

Receivable Fund	Payable Fund	
General Fund	Sewer Fund	$ 578
General Fund	Major Streets Fund	2,659
General Fund	Local Streets Fund	2,659
Local Streets Fund	Queensway Debt Fund	1,109
Total		$ 7,005

Interfund Transfers Reported in the Fund Statements

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

Fund Transferred From	Fund Transferred To	
General Fund	Major Streets Debt Fund	$ 3,888
General Fund	Major Streets Capital Project Fund	1,352
Major Streets Fund	General Fund	6,010
Major Streets Fund	Local Streets Fund	10,000
Major Streets Fund	MDOT Debt Fund	22,505
Major Streets Fund	Major Streets Capital Project Fund	45,945
Local Streets Fund	General Fund	3,258
Local Streets Fund	Major Streets Capital Project Fund	596
Major Streets Capital Project	MDOT Debt Fund	309
Major Streets Capital Project	Major Streets Debt Fund	275,919
Queensway Capital Project	Queens Way Debt Fund	25,409
Major Streets Debt Fund	General Fund	4,000
Major Streets Debt Fund	MDOT Debt Fund	3,305
Major Streets Debt Fund	Major Streets Capital Project Fund	1,100
Local Streets Debt Fund	General Fund	500
Local Streets Debt Fund	Major Streets Capital Project Fund	8,546
Local Streets Debt Fund	Local Streets Capital Project Fund	17,710
Queensway Debt Fund	General Fund	500
Total		$ 430,852

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Governmental Activities:				
Land	$ 6,820	$ -	$ -	$ 6,820
Buildings	8,300	-	-	8,300
Equipment	4,260	-	-	4,260
Office Furniture and Equipment	7,790	4,637	-	12,427
Vehicles	6,344	5,900	6,344	5,900
Infrastructure - Roads	2,833,595	208,251	-	3,041,846
Total before Depreciation	2,867,109	218,788	6,344	3,079,553
Provision for Accumulated Depreciation	(560,066)	(127,290)	(6,344)	(681,012)
TOTAL	$ 2,307,043	$ 91,498	$ -	$ 2,398,541

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Business-type Activities:				
Land	$ 115,000	$ -	$ -	$ 115,000
Runway	206,452	-	-	206,452
Total before Depreciation	321,452	-	-	321,452
Provision for Accumulated Depreciation	(43,871)	(10,323)	-	(54,194)
TOTAL	$ 277,581	$ (10,323)	$ -	$ 267,258

NOTE 6- LONG-TERM DEBT

The Village issues bonds to provide for the construction of major capital facilities. 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.

The bond obligation activity of the Village is summarized as follows:

	Beginning Balance	Additions	Payments / Reductions	Ending Balance	Due Within One Year
General Obligation Bonds					
2003 Michigan Transportation	$ 205,000	$ -	$ 20,000	$ 185,000	$ 20,000
Special Assessment Bonds					
Major Streets Bonds	495,000	-	55,000	440,000	55,000
Fairway Drive Bonds	140,000	-	15,000	125,000	15,000
Queensway Bonds	-	140,000	10,000	130,000	15,000
Total	$ 840,000	$ 140,000	$ 100,000	$ 880,000	$ 105,000

NOTE 6- LONG-TERM DEBT (Continued)

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

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

Fiscal Year Ended	Interest	Principal	Total
2006	$ 6,050	$ 20,000	$ 26,050
2007	5,470	20,000	25,470
2008	4,870	20,000	24,870
2009	4,250	25,000	29,250
2010	3,450	25,000	28,450
2011-2013	5,300	75,000	80,300
	$ 29,390	$ 185,000	$ 214,390

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

Fiscal Year Ended	Interest	Principal	Total
2006	$ 13,090	$ 55,000	$ 68,090
2007	11,522	55,000	66,522
2008	9,900	55,000	64,900
2009	8,222	55,000	63,222
2010	6,490	55,000	61,490
2011-2013	8,525	165,000	173,525
	$ 57,749	$ 440,000	$ 497,749

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

Fiscal Year Ended	Interest	Principal	Total
2006	$ 3,701	$ 15,000	$ 18,701
2007	3,229	15,000	18,229
2008	2,756	15,000	17,756
2009	2,284	15,000	17,284
2010	1,811	15,000	16,811
2011-2013	2,520	50,000	52,520
	$ 16,301	$ 125,000	$ 141,301

NOTE 6- LONG-TERM DEBT (Continued)

Queensway Special Assessment Bonds
Issued: August 5, 2004
Original Amount: $140,000
Interest: 3.60% (due April 1 and October 1)
Principal Due: October 1

Fiscal Year Ended	Interest	Principal	Total
2006	$ 4,410	$ 15,000	$ 19,410
2007	3,870	15,000	18,870
2008	3,330	15,000	18,330
2009	2,790	15,000	17,790
2010	2,250	15,000	17,250
2011-2013	3,690	55,000	58,690
	$ 20,340	$ 130,000	$ 150,340

NOTE 7 - DEFERRED REVENUE

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

	Unavailable	Unearned
Special Assessments	$ 612,634	$ -

NOTE 8 - RISK MANAGEMENT

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

NOTE 9 - CONTINGENCIES

Litigation

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

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 totaled $685,004 for the year ended June 30, 2005.

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF LAKE ISABELLA
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON - GENERAL FUND
CASH BASIS OF ACCOUNTING
YEAR ENDED JUNE 30, 2005

Schedule 1

	Original Budget	Final Budget	Actual
REVENUE			
Property Taxes			$ 46,401
Special Assessment			19,219
Permits			2,325
State Shared Revenue			84,119
Charges for Services			215
Interest Earnings			4,841
Rents and Royalties			1,599
Other Revenue			801
TOTAL REVENUE	165,450	169,279	159,520
EXPENDITURES			
Current Operations			
Legislative			2,319
General Government			103,094
Public Safety			41,601
Public Works			8,936
TOTAL EXPENDITURES	165,450	175,063	155,950
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	-	(5,784)	3,570
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	-	10,318	14,268
Operating Transfers (Out)	-	(3,888)	(5,240)
TOTAL FINANCING SOURCES (USES)	-	6,430	9,028
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-	646	12,598
CASH BASIS FUND BALANCE - JULY 1	170,768	170,768	170,768
CASH BASIS FUND BALANCE - JUNE 30	$ 170,768	$ 171,414	$ 183,366

VILLAGE OF LAKE ISABELLA
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON - MAJOR STREETS FUND
CASH BASIS OF ACCOUNTING
YEAR ENDED JUNE 30, 2005

Schedule 2

	Original Budget	Final Budget	Actual
REVENUE			
State Shared Revenue			$ 109,280
Interest Earnings			166
TOTAL REVENUE	111,400	112,180	109,446
EXPENDITURES			
Current Operations			
Legislative			-
General Government			-
Public Safety			-
Public Works			32,742
Construction			1,800
TOTAL EXPENDITURES	56,500	38,389	34,542
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	54,900	73,791	74,904
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	-	-	-
Operating Transfers (Out)	(33,110)	(42,660)	(84,461)
TOTAL FINANCING SOURCES (USES)	(33,110)	(42,660)	(84,461)
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	21,790	31,131	(9,557)
CASH BASIS FUND BALANCE - JULY 1	121,482	121,482	121,482
CASH BASIS FUND BALANCE - JUNE 30	$ 143,272	$ 152,613	$ 111,925

VILLAGE OF LAKE ISABELLA
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON - LOCAL STREETS FUND
CASH BASIS OF ACCOUNTING
YEAR ENDED JUNE 30, 2005

Schedule 3

	Original Budget	Final Budget	Actual
REVENUE			
State Shared Revenue			$ 59,550
Interest Earnings			80
TOTAL REVENUE	60,175	60,100	59,630
EXPENDITURES			
Current Operations			
Legislative			-
General Government			-
Public Safety			-
Public Works			62,496
Construction			-
TOTAL EXPENDITURES	52,300	63,489	62,496
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	7,875	(3,389)	(2,866)
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	-	10,000	10,000
Operating Transfers (Out)	(3,000)	(3,275)	(3,854)
TOTAL FINANCING SOURCES (USES)	(3,000)	6,725	6,146
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	4,875	3,336	3,280
CASH BASIS FUND BALANCE - JULY 1	67,537	67,537	67,537
CASH BASIS FUND BALANCE - JUNE 30	$ 72,412	$ 70,873	$ 70,817

VILLAGE OF LAKE ISABELLA
NOTES TO BUDGETARY COMPARISON SCHEDULES
JUNE 30, 2005

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

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

OTHER SUPPLEMENTAL INFORMATION

VILLAGE OF LAKE ISABELLA
OTHER SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

Schedule 4

	Debt Service Funds		Capital Project Funds	
	2003 MDOT Debt	Local Streets Debt	Local Street Capital Project	Total
ASSETS				
Cash	$ 123	$ 15,317	$ -	$ 15,440
Investments	-	10,000	-	10,000
Due From Other Funds	-	-	-	-
Due From State	-	-	-	-
Special Assessment Receivable	-	93,707	-	93,707
TOTAL ASSETS	$ 123	$ 119,024	$ -	$ 119,147
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts Payable	$ -	$ -	$ -	$ -
Salaries Payable	-	-	-	-
Deferred Revenue - Special Assessments	-	93,707	-	93,707
TOTAL LIABILITIES	-	93,707	-	93,707
FUND BALANCE				
Reserved				
Debt Service	123	25,317	-	25,440
Unreserved - Undesignated	-	-	-	-
TOTAL FUND BALANCE	123	25,317	-	25,440
TOTAL LIABILITIES AND FUND BALANCE	$ 123	$ 119,024	$ -	$ 119,147

VILLAGE OF LAKE ISABELLA
OTHER SUPPLEMENTAL INFORMATION
COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

Schedule 5

	Debt Service Funds		Capital Project Funds	
	2003 MDOT Debt	Local Streets Debt	Local Street Capital Project	Total
REVENUE				
State Gas and Weight Tax	$ -	$ -	$ -	$ -
State Maintenance Fees	-	-	-	-
Special Assessments	-	24,134	-	24,134
Interest Earnings	30	356	-	386
TOTAL REVENUE	30	24,490	-	24,520
EXPENDITURES				
CONSTRUCTION	-	-	18,063	18,063
PUBLIC WORKS				
Routine Maintenance	-	-	-	-
Traffic Service	-	-	-	-
Winter Maintenance	-	-	-	-
Administration	-	-	-	-
TOTAL PUBLIC WORKS	-	-	-	-
DEBT SERVICE				
Special Assessment Roll Services	-	4,581	-	4,581
Principal	20,000	15,000	-	35,000
Interest	6,610	4,174	-	10,784
TOTAL DEBT SERVICE	26,610	23,755	-	50,365
TOTAL EXPENDITURES	26,610	23,755	18,063	68,428
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(26,580)	735	(18,063)	(43,908)
OTHER FINANCING SOURCES (USES)				
Operating Transfers In (Out)	26,119	(26,756)	17,710	17,073
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(461)	(26,021)	(353)	(26,835)
FUND BALANCE - JULY 1	584	51,338	353	52,275
FUND BALANCE - JUNE 30	$ 123	$ 25,317	$ -	$ 25,440

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

September 9, 2005

Village Council
Village of Lake Isabella
Isabella County, Michigan

We have recently completed our audit of the financial statements of the Village of Lake Isabella, Isabella County for the year ended June 30, 2005. As required by auditing standards generally accepted in the United States of America, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

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

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

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

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

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

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Village Council
Village of Lake Isabella
Isabella County, Michigan

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

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

SIGNIFICANT ACCOUNTING POLICIES

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

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

OTHER COMMUNICATIONS

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

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

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

Village Council
Village of Lake Isabella
Isabella County, Michigan

COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL CONTROLS/COMPLIANCE/ EFFICIENCY

In planning and performing our audit of the financial statements of the Village of Lake Isabella, for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

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

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

Reportable Conditions (Material Weaknesses)

INTERFUND ACCOUNTS

Several adjustments were required to correct the Due To/From and Transfers In/Out accounts in order to correctly close out the Capital Project Funds. More care should be taken when closing funds to ensure that all account balances are properly stated. It is important that all Due From asset accounts equal the Due To liability accounts and that all Transfer Out accounts match the Transfer In accounts.

Other Reportable Conditions

BUDGET

The approved budget does not separate expenditures by function (Village Council, Clerk, Treasurer, Planning & Zoning, etc), rather it shows expenditures by object. It would allow for greater oversight if the budget were approved at the function level as that is the level of presentation required by accounting principles generally accepted in the United States.

FINANCIAL OVERSIGHT

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

Village Council
Village of Lake Isabella
Isabella County, Michigan

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Village's financial statements and this communication of the these matters does not affect our report on the Village's financial statements, dated September 9, 2005.

SUMMARY

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

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

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