Michigan Department of Treasury
496 (02/06)

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type	Local Unit Name	County
☐County ☐City ☐Twp ☒Village ☐Other	Village of Lake Isabella	Isabella

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
6/30/07	12/21/07	12/27/07

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

	YES	NO	**Check each applicable box below.** (See instructions for further detail.)
1.	☒	☐	All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.	☒	☐	There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.	☒	☐	The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.	☒	☐	The local unit has adopted a budget for all required funds.
5.	☒	☐	A public hearing on the budget was held in accordance with State statute.
6.	☒	☐	The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.	☒	☐	The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.	☒	☐	The local unit only holds deposits/investments that comply with statutory requirements.
9.	☒	☐	The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10.	☒	☐	There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.	☒	☐	The local unit is free of repeated comments from previous years.
12.	☒	☐	The audit opinion is UNQUALIFIED.
13.	☒	☐	The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.	☒	☐	The board or council approves all invoices prior to payment as required by charter or statute.
15.	☒	☐	To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	☒	
The letter of Comments and Recommendations	☒	
Other (Describe)	☐	

Certified Public Accountant (Firm Name)	Telephone Number		
Page, Olson & Company PC, CPA's	(989) 773-5494		
Street Address	**City**	**State**	**Zip**
2865 South Lincoln Road	Mount Pleasant	MI	48858

Authorizing CPA Signature	Printed Name	License Number
	Bobbie Jo Marr, CPA, CGFM	1101026172

VILLAGE OF LAKE ISABELLA

ISABELLA COUNTY, MICHIGAN

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

VILLAGE OF LAKE ISABELLA
YEAR ENDED JUNE 30, 2007

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VILLAGE OF LAKE ISABELLA
OFFICIALS
JUNE 30, 2007

VILLAGE COUNCIL

President

George Dunn

President Protem

David Torgerson

Treasurer

Charlie Kiel

Clerk

Jeff Grey

Members

Richard Lacca
Dan Pattison
Arnold Griffin

VILLAGE MANAGER

Timothy R. Wolff

ASSISTANT MANAGER

Jessica Manley

PAGE
OLSON &
COMPANY P C

INDEPENDENT AUDITOR'S REPORT

December 21, 2007

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, 2007, 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, 2007, 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 40, 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, 2007 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, 2007. 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 $3,454,920 (net assets). Of this amount, $747,343 (unrestricted net assets) may be used to meet the government's ongoing obligations to the citizens and creditors.

The government's total net assets decreased by $60,823. This decrease was primarily due to providing funding for infrastructure projects.

As of the close of the current fiscal year, the Village's governmental funds reported combined ending fund balances of $1,127,498, an increase of $158,750 in comparison with the prior year. This is primarily due to the issuance of bonds and special assessments during the year. Approximately $448,100 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 $244,974 or approximately 133 percent of total general fund expenditures.

The Village issued $275,000 in capital improvement bonds during the current fiscal year. The bonds will finance construction of a new Village Hall that is accounted for in the Capital Improvement 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 eleven 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, Local Streets Fund, the three debt funds, the Major Streets Debt Fund, Local Streets Debt Fund and the Castle/ Sevilla Debt Fund, and the Capital Improvement Capital Project Fund, 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 does not maintain an agency type fund.

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 41 through 44 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.

	2007			2006		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	$ 1,727,175	$ 161,667	$ 1,888,842	$ 1,652,652	$ 156,306	$ 1,808,958
Capital assets	2,464,811	246,613	2,711,424	2,448,762	256,935	2,705,697
Total assets	4,191,986	408,280	4,600,266	4,101,414	413,241	4,514,655
Long-term liabilities outstanding	1,105,000	-	1,105,000	955,000	-	955,000
Other liabilities	39,768	578	40,346	16,141	578	16,719
Total liabilities	1,144,768	578	1,145,346	971,141	578	971,719
Net assets:						
Invested in capital assets, net of related debt	1,359,811	246,613	1,606,424	1,493,762	256,935	1,750,697
Restricted	1,101,153	-	1,101,153	1,178,821	-	1,435,756
Unrestricted	586,254	161,089	747,343	457,690	155,728	613,418
Total net assets	$ 3,047,218	$ 407,702	$ 3,454,920	$ 3,130,273	$ 412,663	$ 3,542,936

Village of Lake Isabella's Changes in Net Assets

	2007			2006		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenues:						
Program revenues:						
Charges for Services	$ 59,461	$ -	$ 59,461	$ 258,069	$ -	$ 258,069
General Revenues:						
Property taxes	56,436	-	56,436	51,575	-	51,575
Other	318,940	7,861	326,801	328,528	5,351	333,879
Total Revenues	434,837	7,861	442,698	638,172	5,351	643,523
Expenses:						
Legislative	2,893	-	2,893	2,678	-	2,678
General Government	118,060	-	118,060	121,984	-	121,984
Public Safety	54,929	-	54,929	42,465	-	42,465
Public Works	282,348	-	282,348	283,510	-	283,510
Community/ Economic Development	1,564	-	1,564	1,548	-	1,548
Debt Service	33,405	-	33,405	33,357	-	33,357
Airport	-	10,322	10,322	-	10,323	10,323
Sewer	-	-	-	-	-	-
Total Expenses	493,199	10,322	503,521	485,542	10,323	495,865
Increase in net assets before transfers	(58,362)	(2,461)	(60,823)	152,630	(4,972)	147,658
Transfers	2,500	(2,500)	-	-	-	-
Increase in net assets	(55,862)	(4,961)	(60,823)	152,630	(4,972)	147,658
Net Assets - July 1	3,103,080	412,663	3,515,743	2,977,643	417,635	3,395,278
Net Assets - June 30	$ 3,047,218	$ 407,702	$ 3,454,920	$ 3,130,273	$ 412,663	$ 3,542,936

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 $3,454,920 at the close of the most recent fiscal year.

By far the largest portion of the Village's net assets (46 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 (32 percent) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets ($747,343) 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 decreased by $60,823 during the current fiscal year. Much of this decrease can be contributed to the special assessments recognized for infrastructure improvements within governmental activities.

Governmental activities. Governmental activities decreased the Village's net assets by $55,862. The key element of this decrease 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 $4,961. 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 $1,127,498, an increase of $158,750 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 $448,100 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 ($531,958) and capital projects ($147,440).

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 $244,974.

The fund balance of the Village's general fund increased by $36,107 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 $17,209 in its fund balance. The decrease is due primarily to an increase in road projects within the Village.

The Local Streets Fund experienced a decrease of $8,361 in its fund balance. This decrease is due primarily to an increase in road projects within the Village.

The Capital Improvement Capital Project Fund experienced an excess of revenue and other financing sources of $147,140 over expenditures and other financing uses. This increase is due to the issuance of bonds to facilitate the construction of a new Village office.

The Major Streets Debt Fund's fund balance increased by $10,548 during the current fiscal year. This increase can be contributed to the special assessments recognized for infrastructure improvements within governmental activities.

The Local Streets Debt Fund's experienced a decrease of $1,916 in its fund balance. This decrease is attributable to debt service payments made by the village during the year.

The Castle/ Sevilla Debt Fund's fund balance decreased by $5,844 during the current fiscal year. This decrease is attributable to debt service payments made by the village during the year.

Significant Nonmajor Governmental fund decreases in fund balance occurred and is due primarily to decreases in the Queensway 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 $4,961 and is attributable to the depreciation expense recorded in the Airport Fund.

General Fund Budgetary Highlights

For the fiscal year of 2006-2007 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 2006 as required by Village Charter, and was amended by the Council when the final budget was approved in June of 2007, at the close of the fiscal year.

The 2006-07 fiscal year saw the Village undertake new paving projects, and the planning for construction of a new building for the Village Offices. New bonds were issued in order to provide funding for this construction.

The budget was amended three times during the fiscal year, to accommodate printing and publishing costs in the General Fund for bid advertising for the bond issuance and construction of the new village office, added costs from the sale of lots, and entering into a patrol agreement with the Constable. These amendments were made at the end of the fiscal year. The budget in 2006-07 contained funds used to facilitate the various capital projects and improvements that the Village has been and continues to undertake.

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, 2007, amounts to $2,711,424 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and roads. The increase in the Village's investment in capital assets for the current fiscal year was due to road construction projects and the construction of a new Village Office.

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

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	$ 5,304	$ 6,419	$ 115,000	$ 115,000	$ 120,304	$ 121,419
Buildings	2,276	3,462	131,613	-	133,889	3,462
Equipment and Vehicles	4,160	7,867	-	-	4,160	7,867
Infrastructure	2,299,551	2,431,014	-	141,935	2,299,551	2,572,949
Construction in Progress	153,520	-	-	-	153,520	-
Total	$ 2,464,811	$ 2,448,762	$ 246,613	$ 256,935	$ 2,711,424	$ 2,705,697

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 $1,105,000. Of this amount, $420,000 comprises debt backed by the full faith and credit of the government and the remaining $685,000 represents bonds secured solely by specified revenue sources.

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

	2007	2006
General obligation bonds	$ 420,000	$ 165,000
Revenue bonds	685,000	790,000
Total	$ 1,105,000	$ 955,000

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

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, 2007

Statement I

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and Investments	$ 1,103,648	$ 161,667	$ 1,265,315
Due From State	53,754	-	53,754
Internal Balances	578	-	578
Special Assessments Receivable	569,195	-	569,195
Total Current Assets	1,727,175	161,667	1,888,842
Noncurrent Assets			
Capital Assets			
Land	5,304	115,000	120,304
Runway	-	206,452	206,452
Buildings, Additions & Improvements	8,300	-	8,300
Equipment	12,735	-	12,735
Office Equipment	12,427	-	12,427
Infrastructure	3,226,930	-	3,226,930
Construction in Progress	153,520	-	153,520
Less Accumulated Depreciation	(954,405)	(74,839)	(1,029,244)
Total Capital Assets	2,464,811	246,613	2,711,424
Total Assets	$ 4,191,986	$ 408,280	$ 4,600,266
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts Payable	$ 28,832	$ -	$ 28,832
Internal Balances	-	578	578
Salaries Payable	831	-	831
Withholdings Payable	818	-	818
Interest Payable	9,287	-	9,287
Long-term Debt Due within One Year	125,000	-	125,000
Total Current Liabilities	164,768	578	165,346
Noncurrent Liabilities			
Long-term Debt Due in More Than One Year	980,000	-	980,000
Total Liabilities	1,144,768	578	1,145,346
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,359,811	246,613	1,606,424
Restricted for:			
Debt Service	1,101,153	-	1,101,153
Capital Projects	-	-	-
Unrestricted	586,254	161,089	747,343
Total Net Assets	3,047,218	407,702	3,454,920
Total Liabilities and Net Assets	$ 4,191,986	$ 408,280	$ 4,600,266

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

VILLAGE OF LAKE ISABELLA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

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	$ 2,893	$ -	$ (2,893)		$ (2,893)
General Government	118,060	222	(117,838)		(117,838)
Public Safety	54,929	27,455	(27,474)		(27,474)
Public Works	282,348	-	(282,348)		(282,348)
Community/ Economic Development	1,564	-	(1,564)		(1,564)
Debt Service	33,405	31,784	(1,621)		(1,621)
Total Governmental Activities	493,199	59,461	(433,738)		(433,738)
Business-type Activities					
Airport	10,322	-		(10,322)	(10,322)
Sewer	-	-		-	-
Total Business-type Activities	10,322	-		(10,322)	(10,322)
General Revenues:					
Property Taxes			56,436	-	56,436
Revenue Sharing			252,901	-	252,901
Interest and Dividends			49,172	7,861	57,033
Sale of Fixed Assets			11,173		11,173
Other			5,694	-	5,694
Total General Revenues			375,376	7,861	383,237
Transfers			2,500	(2,500)	-
Total General Revenue and Transfers			377,876	5,361	383,237
Changes in Net Assets			(55,862)	(4,961)	(60,823)
Net Assets - July 1			3,103,080	412,663	3,515,743
Net Assets - June 30			$ 3,047,218	$ 407,702	$ 3,454,920

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

VILLAGE OF LAKE ISABELLA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2007

Statement III

	General Fund	Major Streets Fund	Local Streets Fund	Capital Improvement Capital Project Fund	Major Streets Debt Fund	Local Streets Debt Fund	Castle/ Sevilla Debt Fund	Other Nonmajor Governmental Funds	Total
ASSETS									
Cash	$ 183,553	$ 65,016	$ 55,922	$ 147,140	$ 61,776	$ 12,118	$ 7,225	$ 13,056	$ 545,806
Investments	26,816	64,380	27,452	-	278,018	10,760	47,543	102,871	557,840
Due From Other Funds	10,618	-	1,109	-	-	-	600	300	12,627
Due From State	27,236	17,247	9,272	-	-	-	-	-	53,755
Special Assessments Receivable	-	-	-	-	346,270	67,683	65,159	90,084	569,196
TOTAL ASSETS	$ 248,223	$ 146,643	$ 93,755	$ 147,140	$ 686,064	$ 90,561	$ 120,527	$ 206,311	$ 1,739,224
LIABILITIES AND FUND BALANCE									
LIABILITIES									
Accounts Payable	$ 1,682	$ 2,688	$ 24,462	$ -	$ -	$ -	$ -	$ -	$ 28,832
Salaries Payable	749	44	38	-	-	-	-	-	831
Withholdings Payable	818	-	-	-	-	-	-	-	818
Due To Other Funds	-	5,020	5,020	-	-	-	-	2,009	12,049
Deferred Revenue - Special Assessments	-	-	-	-	346,270	67,683	65,159	90,084	569,196
TOTAL LIABILITIES	3,249	7,752	29,520	-	346,270	67,683	65,159	92,093	611,726
FUND BALANCE									
Reserved									
Debt Service	-	-	-	-	339,794	22,878	55,368	113,918	531,958
Capital Projects	-	-	-	147,140	-	-	-	300	147,440
Unreserved - Undesignated, Reported in:									
General Fund	244,974	-	-	-	-	-	-	-	244,974
Special Revenue Funds	-	138,891	64,235	-	-	-	-	-	203,126
TOTAL FUND BALANCE	244,974	138,891	64,235	147,140	339,794	22,878	55,368	114,218	1,127,498
TOTAL LIABILITIES AND FUND BALANCE	$ 248,223	$ 146,643	$ 93,755	$ 147,140	$ 686,064	$ 90,561	$ 120,527	$ 206,311	$ 1,739,224

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, 2007

Statement IV

	General Fund	Major Streets Fund	Local Streets Fund	Capital Improvement Capital Project Fund	Major Streets Debt Fund	Local Streets Debt Fund	Castle/ Sevilla Debt Fund	Other Nonmajor Governmental Funds	Total
REVENUE									
Property Taxes	$ 56,226	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 56,226
Special Assessments	26,185	-	-	-	63,296	15,391	11,088	20,959	136,919
Permits	1,270	-	-	-	-	-	-	-	1,270
State Shared Revenue	83,963	112,470	56,468	-	-	-	-	-	252,901
Charges for Services	222	-	-	-	-	-	-	-	222
Interest Earnings	11,764	6,867	3,939	-	17,775	1,172	2,117	5,539	49,173
Rents and Royalties	-	-	-	-	-	-	-	-	-
Sale of Fixed Asset	12,288	-	-	-	-	-	-	-	12,288
Other Revenue	5,693	-	-	-	-	-	-	-	5,693
TOTAL REVENUE	197,611	119,337	60,407	-	81,071	16,563	13,205	26,498	514,692
EXPENDITURES									
Current Operations									
Legislative	2,893	-	-	-	-	-	-	-	2,893
General Government	116,574	-	-	-	-	-	-	-	116,574
Public Safety	52,020	-	-	-	-	-	-	-	52,020
Public Works	13,239	101,985	62,388	-	-	-	-	-	177,612
Construction	-	-	-	127,860	-	-	-	-	127,860
Debt Service	-	-	-	-	66,523	18,229	18,599	53,133	156,484
TOTAL EXPENDITURES	184,726	101,985	62,388	127,860	66,523	18,229	18,599	53,133	633,443
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	12,885	17,352	(1,981)	(127,860)	14,548	(1,666)	(5,394)	(26,635)	(118,751)
OTHER FINANCING SOURCES (USES)									
Operating Transfers In	23,222	-	-	-	-	-	-	25,470	48,692
Operating Transfers (Out)	-	(34,561)	(6,380)	-	(4,000)	(250)	(450)	(550)	(46,191)
Bond Proceeds	-	-	-	275,000	-	-	-	-	275,000
TOTAL FINANCING SOURCES (USES)	23,222	(34,561)	(6,380)	275,000	(4,000)	(250)	(450)	24,920	277,501
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	36,107	(17,209)	(8,361)	147,140	10,548	(1,916)	(5,844)	(1,715)	158,750
FUND BALANCE - JULY 1	208,867	156,100	72,596	-	329,246	24,794	61,212	115,933	968,748
FUND BALANCE - JUNE 30	$ 244,974	$ 138,891	$ 64,235	$ 147,140	$ 339,794	$ 22,878	$ 55,368	$ 114,218	$ 1,127,498

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, 2007

Statement V

Amounts reported for governmental activities in the statement of net assets are different because:	
Total Fund Balance of Governmental Funds (Statement III)	$ 1,127,498
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,464,811
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	569,196
Long-term Liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,114,287)
Net Assets of Governmental Activities (Statement I)	$ 3,047,218

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, 2007

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)	$	158,750
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 ($153,520) exceeded depreciation ($136,356) in the current period.		17,164
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities where it reduces long-term debt.		125,000
Interest payable on long-term debt is recorded when due in the statement of activities and when paid in governmental funds.		(1,920)
Bond Proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.		(275,000)
Governmental funds report the sale of fixed assets at the amount realized from the sale. However, in the statement of activities the amount realized from the sale is reduced by the cost of the assets sold resulting in the gain on sale of fixed assets.		(1,115)
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.		(78,741)
Change in Net Assets of Governmental Activities (Statement II)	$	(55,862)

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

VILLAGE OF LAKE ISABELLA
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2007

Statement VII

	Business Type Activities		
	Airport Fund	Sewer Fund	Total
ASSETS			
Current Assets			
Cash	$ -	$ 161,667	$ 161,667
Noncurrent Assets			
Capital Assets			
Land	50,000	65,000	115,000
Runway	206,452	-	206,452
Less Accumulated Depreciation	(74,839)	-	(74,839)
Total Capital Assets Net of Accumulated Depreciation	181,613	65,000	246,613
TOTAL ASSETS	$ 181,613	$ 226,667	$ 408,280
LIABILITIES			
Due to General Fund	$ -	$ 578	$ 578
NET ASSETS			
Invested in Capital Assets, net of related debt	181,613	65,000	246,613
Unrestricted	-	161,089	161,089
TOTAL NET ASSETS	181,613	226,089	407,702
TOTAL LIABILITIES AND NET ASSETS	$ 181,613	$ 226,667	$ 408,280

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, 2007

Statement VIII

	Business Type Activities		
	Airport Fund	Sewer Fund	Total
Operating Expenses			
Depreciation	$ 10,322	$ -	$ 10,322
Operating Income	(10,322)	-	(10,322)
Non-Operating Revenue			
Interest Earnings	-	7,861	7,861
Income (Loss) Before Transfers	(10,322)	7,861	(2,461)
Transfers Out	-	(2,500)	(2,500)
Change in Net Assets	(10,322)	5,361	(4,961)
Net Assets - July 1	191,935	220,728	412,663
Net Assets - June 30	$ 181,613	$ 226,089	$ 407,702

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, 2007

Statement IX

	Business Type Activities		
	Airport Fund	Sewer Fund	Total
Cash Flows From Operating Activities	$ -	$ -	$ -
Cash Flows From Non-Capital Financing Activities	-	(2,500)	(2,500)
Cash Flows From Investing Activities			
Interest Received	-	7,861	7,861
Net Increase in Cash and Cash Equivalents	-	5,361	5,361
Cash and Cash Equivalents - July 1	-	156,306	156,306
Cash and Cash Equivalents - June 30	$ -	$ 161,667	$ 161,667
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income	$ (10,322)	$ -	$ (10,322)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation Expense	10,322	-	10,322
Net Cash Provided by Operating Activities	$ -	$ -	$ -

The accompanying note 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 Castle/ Sevilla Capital Project Fund one of the major funds reported by the Village. This fund accounts for the bonded construction of the Village's roads and streets.

The Major Street Debt Fund, Local Street Debt Fund, and Castle/ Sevilla Debt Funds are three of the Village's other major funds. These funds account for the collection of special revenues and the payment of the associated long-term debt.

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.

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 .8484 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 depreciated using the straight line method over the following estimated useful lives:

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.

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amount appropriated based on the level of control exercised over the adopted budget. Budgets are adopted on the fund level for the General Fund and Special Revenue Funds. The Village did not incur expenditures in excess of the amounts appropriated.

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. The Village's deposits are in accordance with statutory authority.

At June 30, 2007 the Village's Deposits were reported in the basic financial statements as follows:

	Cash and Investments
Governmental Activities	$ 1,103,648
Business-type Activities	161,667
Total Deposits	$ 1,265,315

At June 30, 2007, the carrying value of cash and cash equivalents held by the Village is as follows:

	Primary Government
Petty Cash	$ 11
Cash in Checking	545,795
Cash in Savings	7,918
Investments	711,591
Total Cash and Cash Equivalents	$ 1,265,315

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. At year-end, the carrying amount of the Village's deposits with financial institutions was $1,265,304 and the bank balance was $1,349,701. Of the bank balance $100,000 was covered by federal depository insurance and $1,249,701 was uninsured and uncollateralized. Of the book balance $100,000 was covered by federal depository insurance and $1,165,304 was uninsured and uncollateralized.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations. As of year-end the Village did not have any investments that would be subject to rating.

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 Township's cash requirements.

Concentration of Credit Risk

The Village will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying the investment portfolio so the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk

The Village will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer of backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Village will do business in accordance with Board approved policy.

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	5,020
General Fund	Local Streets Fund	5,020
Local Streets Fund	Queensway Debt Fund	1,109
Putter Drive Capital Project	Putter Drive Debt Fund	300
Castle/ Sevilla Debt Fund	Putter Drive Debt Fund	600
Total		$ 12,627

Interfund Transfers Reported in the Fund Statements

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

Fund Transferred To	Fund Transferred From	
General Fund	Major Streets Fund	$ 9,091
General Fund	Local Streets Fund	6,381
MDOT Debt Fund	Major Streets Fund	25,470
General Fund	Sewer Fund	2,500
General Fund	Major Street SA Debt Fund	4,000
General Fund	Local Street SA Debt Fund	250
General Fund	Queensway Debt Fund	500
General Fund	Castle/ Sevilla Debt Fund	450
General Fund	Putter Drive Debt Fund	50
Total		$ 48,692

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Governmental Activities:				
Land	$ 6,419	$ -	$ 1,115	$ 5,304
Buildings	8,300	-	-	8,300
Equipment	6,835	-	-	6,835
Office Furniture and Equipment	12,427	-	-	12,427
Vehicles	5,900	-	-	5,900
Infrastructure - Roads	3,226,930	-	-	3,226,930
Construction in Progress	-	153,520	-	153,520
Total before Depreciation	3,266,811	153,520	1,115	3,419,216
Provision for Accumulated Depreciation	(818,049)	(136,356)	-	(954,405)
TOTAL	$ 2,448,762	$ 17,164	$ 1,115	$ 2,464,811

NOTE 5 - CAPITAL ASSETS (Continued)

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Business-type Activities:				
Land	$ 115,000	$ -	$ -	$ 115,000
Runway	206,452	-	-	206,452
Total before Depreciation	321,452	-	-	321,452
Provision for Accumulated Depreciation	(64,517)	(10,322)	-	(74,839)
TOTAL	$ 256,935	$ (10,322)	$ -	$ 246,613

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.

During the year ended June 30, 2007, the Village issued Capital Improvement bonds to provide for the purchase, acquisition or construction of certain capital improvements including construction of a Village Office.

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					
2007 Capital Improvement	$ -	$ 275,000	$ -	275,000	$ -
2003 Michigan Transportation	165,000	-	20,000	145,000	20,000
Special Assessment Bonds					
Major Streets Bonds	385,000	-	55,000	330,000	55,000
Fairway Drive Bonds	110,000	-	15,000	95,000	15,000
Queensway Bonds	115,000	-	15,000	100,000	15,000
Castle/ Sevilla Bonds	122,400	-	13,600	108,800	13,600
Putter Drive Bonds	57,600	-	6,400	51,200	6,400
Total	$ 955,000	$ 275,000	$ 125,000	$ 1,105,000	$ 125,000

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
2008	4,870	20,000	$ 24,870
2009	4,250	25,000	29,250
2010	3,450	25,000	28,450
2011	2,625	25,000	27,625
2012	1,775	25,000	26,775
2013	900	25,000	25,900
	$ 17,870	$ 145,000	$ 162,870

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
2008	9,900	55,000	64,900
2009	8,222	55,000	63,222
2010	6,490	55,000	61,490
2011	4,703	55,000	59,703
2012	2,860	55,000	57,860
2013	963	55,000	55,963
	$ 33,138	$ 330,000	$ 363,138

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
2008	2,756	15,000	17,756
2009	2,284	15,000	17,284
2010	1,811	15,000	16,811
2011	1,339	15,000	16,339
2012	866	15,000	15,866
2013	315	20,000	20,315
	$ 9,371	$ 95,000	$ 104,371

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
2008	3,330	15,000	18,330
2009	2,790	15,000	17,790
2010	2,250	15,000	17,250
2011	1,710	15,000	16,710
2012	1,170	15,000	16,170
2013-2014	810	25,000	25,810
	$ 12,060	$ 100,000	$ 112,060

Castle/ Sevilla, Putter Drive Special Assessment Bonds
Issued: September 13, 2005
Original Amount: $180,000
Interest: 3.95 - 4.60% (due April 1 and October 1)
Principal Due: October 1

Castle/ Sevilla Portion:

Fiscal Year Ended	Interest	Principal	Total
2008	4,430	13,600	18,030
2009	3,873	13,600	17,473
2010	3,301	13,600	16,901
2011	2,720	13,600	16,320
2012	2,132	13,600	15,732
2013-2015	2,781	40,800	43,581
	$ 19,237	$ 108,800	$ 128,037

Putter Drive Portion:

Fiscal Year Ended	Interest	Principal	Total
2008	2,085	6,400	8,485
2009	1,822	6,400	8,222
2010	1,554	6,400	7,954
2011	1,280	6,400	7,680
2012	1,003	6,400	7,403
2013-2015	1,309	19,200	20,509
	$ 9,053	$ 51,200	$ 60,253

NOTE 6- LONG-TERM DEBT (Continued)

Capital Improvement Bonds
Issued: April 25, 2007
Original Amount: $275,000
Interest: 3.85 - 5.05% (due April 1 and October 1)
Principal Due: October 1

Fiscal Year Ended	Interest	Principal	Total
2008	12,153	-	12,153
2009	13,022	-	13,022
2010	13,022	-	13,022
2011	13,022	-	13,022
2012	12,925	5,000	17,925
2013-2036	207,316	270,000	477,316
	$ 271,460	$ 275,000	$ 546,460

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	$ 569,195	$ -

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 consist of substantially all of the Village's investing activities.

NOTE 11 - RESTATEMENTS

An adjustment was made to restate the Village's net assets at June 30, 2006 to record proceeds from the sale of fixed assets remitted to the Isabella County after the end of the fiscal year. The net assets at June 30, 2006 were restated as follows:

Net Assets - June 30, 2006	$ 3,542,936
Prior Period Adjustment:	
Sale of Fixed Assets	(27,193)
Adjusted Net Assets - July 1, 2006	$ 3,515,743

NOTE 12 - CHANGE IN ACCOUNTING PRINCIPLE

The Village discovered, during the fiscal year ended June 30, 2007, that equipment that was previously thought to be purchased by the General Fund, was actually purchased by the Major and Local Street Funds. In previous years, equipment rental was charged between the General and Street Funds for the use of street equipment throughout the year. It was determined that since the Major and Local Street Funds purchased the equipment, that no equipment rental charges are necessary for the use of the equipment. During the fiscal year ended June 30, 2007, equipment rental charges were no longer made.

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF LAKE ISABELLA
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON - GENERAL FUND
CASH BASIS OF ACCOUNTING
YEAR ENDED JUNE 30, 2007

Schedule 1

	Original Budget	Final Budget	Actual
REVENUE			
Property Taxes			$ 56,226
Special Assessment			26,185
Permits			1,270
State Shared Revenue			84,560
Charges for Services			222
Interest Earnings			11,764
Rents and Royalties			-
Sale of Fixed Asset			12,288
Other Revenue			5,693
TOTAL REVENUE	179,725	446,434	198,208
EXPENDITURES			
Current Operations			
Legislative			2,893
General Government			118,317
Public Safety			51,975
Public Works			13,239
TOTAL EXPENDITURES	197,635	242,420	186,424
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(17,910)	204,014	11,784
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	21,600	23,462	23,222
Operating Transfers (Out)	(3,690)	(10,162)	-
TOTAL FINANCING SOURCES (USES)	17,910	13,300	23,222
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-	217,314	35,006
CASH BASIS FUND BALANCE - JULY 1	170,768	171,414	209,894
CASH BASIS FUND BALANCE - JUNE 30	$ 170,768	$ 388,728	$ 244,900

VILLAGE OF LAKE ISABELLA
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON - MAJOR STREETS FUND
CASH BASIS OF ACCOUNTING
YEAR ENDED JUNE 30, 2007

Schedule 2

	Original Budget	Final Budget	Actual
REVENUE			
State Shared Revenue			$ 112,777
Interest Earnings			6,867
TOTAL REVENUE	120,500	138,600	119,644
EXPENDITURES			
Current Operations			
Legislative			-
General Government			-
Public Safety			-
Public Works			99,596
Construction			-
TOTAL EXPENDITURES	81,500	105,090	99,596
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	39,000	33,510	20,048
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	-	-	-
Operating Transfers (Out)	(38,000)	(33,500)	(34,561)
TOTAL FINANCING SOURCES (USES)	(38,000)	(33,500)	(34,561)
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	1,000	10	(14,513)
CASH BASIS FUND BALANCE - JULY 1	143,272	154,018	130,753
CASH BASIS FUND BALANCE - JUNE 30	$ 144,272	$ 154,028	$ 116,240

VILLAGE OF LAKE ISABELLA
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON - LOCAL STREETS FUND
CASH BASIS OF ACCOUNTING
YEAR ENDED JUNE 30, 2007

Schedule 3

	Original Budget	Final Budget	Actual
REVENUE			
State Shared Revenue			$ 56,644
Interest Earnings			3,939
TOTAL REVENUE	58,750	59,650	60,583
EXPENDITURES			
Current Operations			
Legislative			-
General Government			-
Public Safety			-
Public Works			40,274
Construction			-
TOTAL EXPENDITURES	59,750	44,605	40,274
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(1,000)	15,045	20,309
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	6,000	-	-
Operating Transfers (Out)	(3,250)	(3,250)	(6,380)
TOTAL FINANCING SOURCES (USES)	2,750	(3,250)	(6,380)
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	1,750	11,795	13,929
CASH BASIS FUND BALANCE - JULY 1	72,762	70,873	71,208
CASH BASIS FUND BALANCE - JUNE 30	$ 74,512	$ 82,668	$ 85,137

VILLAGE OF LAKE ISABELLA
NOTES TO BUDGETARY COMPARISON SCHEDULES
JUNE 30, 2007

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 reconciliation of revenues and expenditures per the budgetary comparison schedules on the cash basis of accounting to the modified accrual basis of accounting as presented on the statement of revenue, expenditures, and changes in fund balance (Statement III) is as follows:

	General Fund	Major Streets Fund	Local Street Fund
Revenues			
Actual Amounts (cash basis) from the budgetary comparison schedule (Schedules 1, 2 & 3)	$198,208	$119,644	$ 60,583
Differences:			
The Village budgets for revenues only to the extent received, rather than on the modified accrual basis.	(27,833)	(17,554)	(9,448)
Revenues earned but not yet received are accounted for when received in the cash basis of accounting, but when earned for modified accrual reporting purposes.	27,236	17,247	9,272
Total revenues as reported on the statement of revenues, expenditures and changes in fund balance - governmental funds	$197,611	$119,337	$ 60,407
Expenditures			
Actual amounts (cash basis) from the budgetary comparison schedule (Schedules 1,2 & 3)	$186,424	$ 99,596	$ 40,274
Differences:			
The Village budgets for claims only to the extent expected to be paid, rather than on the modified accrual basis.	(3,444)	(284)	(2,333)
Services rendered but not yet paid are accounted for when paid in the cash basis of accounting but when rendered for modified accrual reporting purposes.	1,682	2,687	24,461
The Village budgets for salaries only to the extent expected to be paid, rather than on the modified accrual basis.	(685)	(58)	(58)
Salaries accrued but not yet paid are accounted for when paid in the cash basis of accounting but when accrued for the modified accrual reporting purposes.	749	44	44
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds	$184,726	$101,985	$ 62,388

OTHER SUPPLEMENTAL INFORMATION

VILLAGE OF LAKE ISABELLA
OTHER SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007

Schedule 4

	Debt Service Funds			Capital Project Funds	
	2003 MDOT Debt Fund	Queensway Debt Fund	Putter Drive Debt Fund	Putter Drive Capital Project Fund	Total
ASSETS					
Cash	$ 141	9,908	$ 3,007	$ -	$ 13,056
Investments	-	76,186	26,685	-	102,871
Due From Other Funds	-	-	-	300	300
Due From State	-	-	-	-	-
Special Assessment Receivable	-	51,876	38,208	-	90,084
TOTAL ASSETS	$ 141	$ 137,970	$ 67,900	$ 300	$ 206,311
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accounts Payable	$ -	-	$ -	$ -	$ -
Salaries Payable	-	-	-	-	-
Due To Other Funds	-	1,109	900	-	2,009
Deferred Revenue - Special Assessments	-	51,876	38,208	-	90,084
TOTAL LIABILITIES	-	52,985	39,108	-	92,093
FUND BALANCE					
Reserved					
Debt Service	141	84,985	28,792	-	113,918
Capital Projects	-	-	-	300	300
Unreserved - Undesignated	-	-	-	-	-
TOTAL FUND BALANCE	141	84,985	28,792	300	114,218
TOTAL LIABILITIES AND FUND BALANCE	$ 141	$ 137,970	$ 67,900	$ 300	$ 206,311

VILLAGE OF LAKE ISABELLA
OTHER SUPPLEMENTAL INFORMATION
COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

Schedule 5

	Debt Service Funds			Capital Project Funds	
	2003 MDOT Debt Fund	Queensway Debt Fund	Putter Drive Debt Fund	Putter Drive Capital Project Fund	Total
REVENUE					
Special Assessments	$ -	$ 13,713	$ 7,246	$ -	$ 20,959
State Shared Revenue	-	-	-	-	-
Interest Earnings	13	4,106	1,420	-	5,539
TOTAL REVENUE	13	17,819	8,666	-	26,498
EXPENDITURES					
Current Operations					
Public Works	-	-	-	-	-
Construction	-	-	-	-	-
Debt Service	25,470	18,896	8,767	-	53,133
TOTAL EXPENDITURES	25,470	18,896	8,767	-	53,133
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(25,457)	(1,077)	(101)	-	(26,635)
OTHER FINANCING SOURCES (USES)					
Operating Transfers In	25,470	-	-	-	25,470
Operating Transfers (Out)	-	(500)	(50)	-	(550)
Bond Proceeds	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	25,470	(500)	(50)	-	24,920
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	13	(1,577)	(151)	-	(1,715)
FUND BALANCE - JULY 1	128	86,562	28,943	300	115,933
FUND BALANCE - JUNE 30	$ 141	$ 84,985	$ 28,792	$ 300	$ 114,218

VILLAGE OF LAKE ISABELLA
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - STREET FUNDS
DETAILED BY ACTIVITY
YEAR ENDED JUNE 30, 2007

Schedule 6

	Major Streets Fund	Local Streets Fund
REVENUE		
State Shared Revenue		
Michigan Transportation Fund (Act 51)	$ 105,055	$ 56,468
Metro Act (Act 48)	7,415	-
Interest Earnings	6,867	3,939
TOTAL REVENUE	119,337	60,407
EXPENDITURES		
Public Works		
Preservation Streets	79,113	44,653
Traffic Services	2,357	1,912
Winter Maintenance	18,929	13,385
Administration, Engineering & Record Keeping	1,586	2,438
TOTAL EXPENDITURES	101,985	62,388
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	17,352	(1,981)
OTHER FINANCING SOURCES (USES)		
Operating Transfers In	-	-
Operating Transfers (Out)	(34,561)	(6,380)
TOTAL FINANCING SOURCES (USES)	(34,561)	(6,380)
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(17,209)	(8,361)
FUND BALANCE - JULY 1	156,100	72,596
FUND BALANCE - JUNE 30	$ 138,891	$ 64,235

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

December 21, 2007

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, 2007. 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 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, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the foundations of internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management overrides of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as we discussed below, we identified certain deficiencies in internal control that we considered to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

Significant Deficiencies

BUDGET ADOPTION

P.A. 2 of 1968 as amended, provides that a local unit's budget include the amount of surplus or deficit that has accumulated from prior fiscal years, (i.e. Fund Balance). It was noted during our audit that the Villages' budget document did not include beginning or ending fund balance.

Village's Response

The Village will take great care in creating and adopting the budget document to ensure compliance with P.A. 2 of 1968.

A Material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

Village Council
Village of Lake Isabella
Isabella County, Michigan

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

Material Weaknesses

Financial Accounting and Reporting

Management relies on the Village's auditors to prepare the formal financial statements at fiscal year-end. Therefore, as part of our engagement to audit the financial statements, we draft the financial statements and the related footnotes for approval by management and the board. This is a conscious and practical approach to preparing the financial statements since the Village has determined that the costs to establish internal controls over financial reporting and to develop the skills and knowledge of its personnel in preparing the financial statements is greater than the risk of misstatements occurring in the financial statements. However, as a result of recently issued professional standards, this situation meets the definition of a material weakness in internal control.

We considered this internal control deficiency in planning the scope of our audit procedures and believe that we have appropriately addressed the risk of any misstatements in the audited financial statements by specifically reviewing the audited financial statements with management. Therefore, due to the relative cost to eliminate the internal control deficiency over financial reporting related to the risks involved and considering the audit procedures performed to address the risk of misstatements in the audited financial statements, we do not recommend any actions to address this weakness at this time. However, we do recommend that management routinely review the internal controls in place to prepare financial reports to ensure accurate information is provided.

Village's Response

The Village understands that the Financial Statements of the Village are the responsibility of management. Furthermore, when assessing the costs associated with establishing controls over formal financial reporting, the Village has decided to rely on their auditor's for preparation of the financial statements. The Village will routinely review the internal controls in place to prepare financial reports to ensure accurate information is provided.

Other Matters

Receipts

During the course of our audit we noted that there is no receipt module used for entering of receipts into the accounting system. The Village should investigate the ability to use a separate journal for receipts. This separation would provide a more efficient way to distinguish between general journal entries and receipt entries.

Village's Response

The Village will investigate the ability to use a separate journal for receipts in order to provide a more efficient way to distinguish between general and receipt journal entries in the general ledger.

Village Council
Village of Lake Isabella
Isabella County, Michigan

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

Other Matters (Continued)

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's Response

The Village Council will remain involved in the financial affairs of the Village through oversight, the budget process, inquiry, and independent review of critical functions.

We did not audit the Village's responses and, accordingly, we express no opinion on them.

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 December 21, 2007.

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.

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.

Page, Olson & Company