

**Village of Lake Isabella
Isabella County**

**Annual Financial Statements
and
Independent Auditors' Report**

June 30, 2013

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Village of Lake Isabella
List of Elected and Appointed Officials
June 30, 2013

Village Council

President

David Torgerson

President Pro-Temp

Dan Pattison

Treasurer

Charles Kiel

Clerk

Jeffrey Grey

Members

John Eberhart
Richard Lacca
Arnold Griffin

Village Manager

Timothy R. Wolff

Deputy Manager

Jessica Manley



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Independent Auditors' Report

Village Council
Village of Lake Isabella
Isabella County, Michigan

Report on the Financial Statements

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, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Principles:

As described in Note 1 to the financial statements, during the year ended June 30, 2013, the Village adopted new accounting guidance, GASB Statements No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position, and No. 65, Items Previously Reported as Assets and Liabilities. Our opinions are not modified with respect to this matter.

Other Matters:

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Lake Isabella's basic financial statements. The other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplemental information, as identified in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information, as identified in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

The list of elected and appointed officials, which is the responsibility of management, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Yeo & Yeo, P.C.

Midland, MI
December 9, 2013

**Village of Lake Isabella
Management's Discussion and Analysis
Year Ended June 30, 2013**

The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Village's management's discussion and analysis of the financial results for the fiscal year ended June 30, 2013.

Overview of Financial Statements

The annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, the required supplementary information, and other supplemental information. Generally Accepted Accounting Principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: Government-wide Financial Statements and Fund Financial Statements.

Government-wide Financial Statements:

The Government-wide statements provide a perspective of the Village as a whole. These statements use the full accrual basis of accounting similar to private sector companies. There are two Government-wide statements: The Statement of Net Position and the Statement of Activities.

The Statement of Net Position (page 4-1) combines and consolidates the governmental fund current financial resources (short-term spendable resources) with capital assets, regardless of whether they are currently available or not.

Consistent with the full accrual basis method of accounting, the Statement of Activities (page 4-2) accounts for current year revenues and expenses regardless of when cash is received or paid. The intent of this statement is to summarize and simplify the user's analysis of the costs of various district services.

When analyzed together, the two statements help the reader determine whether the Village is financially stronger or weaker as a result of the year's activities.

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. The funds of the Village can be divided into two categories: governmental 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 near-term inflows and outflow of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year (fund balance).

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 Village'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.

The Village maintains 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, major street fund, local street fund, LSSA capital project fund, major street debt fund and LSSA debt fund, each of which are considered to be a major fund. Data from the other governmental funds are combined into a single,

**Village of Lake Isabella
Management's Discussion and Analysis
Year Ended June 30, 2013**

aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in 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.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budgetary information for the Village's major funds.

SUMMARY OF NET POSITION:

Village's Net Position

The following summarizes the Village's net position at June 30:

	<u>2013</u>	<u>2012</u>
Assets		
Current assets	\$ 1,896,022	\$ 2,165,971
Capital assets	5,652,465	5,652,465
Less accumulated depreciation	<u>(2,301,700)</u>	<u>(2,058,736)</u>
Net capital assets	<u>3,350,765</u>	<u>3,593,729</u>
Total assets	<u>5,246,787</u>	<u>5,759,700</u>
Liabilities		
Current liabilities	24,531	39,554
Long-term liabilities	<u>1,259,528</u>	<u>1,599,992</u>
Total liabilities	<u>1,284,059</u>	<u>1,639,546</u>
Net position		
Net investment in capital assets	2,092,267	1,997,900
Restricted for debt service	260,638	382,754
Restricted for streets	309,105	327,636
Unrestricted	<u>1,300,718</u>	<u>1,411,864</u>
Total net position	<u>\$ 3,962,728</u>	<u>\$ 4,120,154</u>

During the fiscal year ended June 30, 2013, the Village's net position decreased by \$157,426.

**Village of Lake Isabella
Management's Discussion and Analysis
Year Ended June 30, 2013**

As noted earlier, net position may serve over time as a useful indicator of government's financial position. In the case of Village of Lake Isabella, assets exceeded liabilities by \$3,962,728.

A portion of the Village's net assets (53%) reflects its investment in capital assets (e.g. land, buildings, equipment); less any related debt used to acquire those assets that are still outstanding. The Village uses these capital assets to provide services to the community; 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.

Village's Changes in Net Position

Revenues:

	<u>Year Ended June 30, 2013</u>	<u>Year Ended June 30, 2012</u>
Program revenue		
Charges for services	\$ 182,310	\$ 147,190
General revenue:		
Property taxes	63,247	63,648
State share revenue	310,104	304,323
Interest and investment earnings	10,938	12,775
Miscellaneous	<u>27,193</u>	<u>18,439</u>
 Total Revenues	 <u>593,792</u>	 <u>546,375</u>

Expenses:

	<u>Year Ended June 30, 2013</u>	<u>Year Ended June 30, 2012</u>
Governmental activities	\$ 212,575	\$ 232,192
Public safety	65,284	58,384
Public works	400,282	338,902
Community and economic development	986	3,009
Interest on long-term debt	<u>61,332</u>	<u>60,755</u>
 Total governmental expenses	 <u>740,459</u>	 <u>693,242</u>
Business-type activities		
Sewer	437	17,375
Airport	<u>10,322</u>	<u>10,323</u>
 Total	 751,218	 720,940
 Change in net position	 (157,426)	 (174,565)
 Net position - beginning	 <u>4,120,154</u>	 <u>4,294,719</u>
 Net position - ending	 <u>\$ 3,962,728</u>	 <u>\$ 4,120,154</u>

Governmental Activities

The Village's total governmental revenue increased by \$47,417. This was primarily attributed to charging the Local and Major Street Funds for storage rental.

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.

As of the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$843,539, a decrease of \$120,434 in comparison with the prior year. Approximately

**Village of Lake Isabella
Management's Discussion and Analysis
Year Ended June 30, 2013**

32% of this amount constitutes unassigned fund balance, which is available for spending at the Village's discretion. The remainder of fund balance is assigned or reserved to indicate that it is not available for new spending because it has already been committed to pay for debt service and street projects.

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 \$273,796. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents approximately 79% of total general fund expenditures.

The fund balance of the General Fund increased by \$20,213 during the current fiscal year. This increase is attributed to the sale of lots from the Village.

The fund balance of the Major Streets Fund increased by \$8,866 during the current fiscal year. The increase is attributable to overall spending control and reserving funds for the projects designated in the Village's long-term capital improvement plan.

The fund balance of the Local Streets Fund decreased by \$27,397 during the current fiscal year. The decrease was due to the General Fund charging the Local Street Fund for storage rental.

The fund balance of the Major Streets Debt Fund decreased by \$36,673 during the current fiscal year. The decrease in funds was mainly due to the obligation of the Village to use the funds to pay off bond obligations for the 2003 Major Streets paving project.

The fund balance of the LSSA Debt Fund decreased by \$57,490 during the current fiscal year. The decrease in funds was mainly due to the obligation of the Village to use the funds to pay off bond obligations for the 2007 Local Streets paving project.

General Fund Budgetary Highlights

The Village's budgets are prepared in accordance with Michigan Law. The most significant budgeted fund is the General Fund. The General Fund budget was amended during the year. As additional information became known during the fiscal year, budget amendments were made to recognize the additional revenue and/or planned expenditures related to various Village programs.

Differences between the original and final amended budgets were relatively minor.

**Village of Lake Isabella
Management's Discussion and Analysis
Year Ended June 30, 2013**

Capital Assets and Debt Administration

Capital Assets

The Villages investment in capital assets for its governmental activities as of June 30, 2013, amounted to \$3,166,089 (net of accumulated depreciation). Investment in capital assets included land, buildings, and equipment.

	Balance July 1, 2012	Additions	Disposals	Balance June 30, 2013
Capital assets not being depreciated				
Land	\$ 5,304	\$ -	\$ -	\$ 5,304
Capital assets being depreciated				
Roads	4,685,009	-	-	4,685,009
Buildings	546,000	-	-	546,000
Street Equipment	2,575	-	-	2,575
Office equipment	17,023	-	-	17,023
Vehicles	75,102	-	-	75,102
Capital assets	<u>5,331,013</u>	-	-	<u>5,331,013</u>
Less:				
Accumulated depreciation	(1,932,282)	(232,642)	-	(2,164,924)
Governmental activities capital assets, net	<u>\$ 3,398,731</u>	<u>\$ (232,642)</u>	<u>\$ -</u>	<u>\$ 3,166,089</u>

Long-term Debt

At the end of the current fiscal year, the Village had total long-term debt outstanding of \$1,259,528.

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013
General Obligation bonds	\$ 600,829	\$ -	\$ 57,331	\$ 543,498
Compensated absences	4,163	-	3,133	1,030
Special assesment obligations	995,000	-	280,000	715,000
	<u>\$ 1,599,992</u>	<u>\$ -</u>	<u>\$ 340,464</u>	<u>\$ 1,259,528</u>

Economic Factors and Next Year's Budget

The following factors were considered in preparing the Village's budget for the 2013-2014 fiscal year:

- Based on the current revenue structure of the Village and the State of Michigan, the long-term financial condition of the Village becomes questionable the further the budget is projected. With a 1 Mill tax cap placed in the Village Charter, the Village is crippled in terms of raising funds to ensure long term fiscal stability. Funding sources from the State of Michigan continue to decline while new and needless reporting and management mandates continue to be imposed upon local government. The Village continues to be excluded from the State of Michigan's Economic Vitality Incentive Program (EVIP) and has seen revenue directed towards streets decline.
- The overall condition of the street network in Lake Isabella is better than in most communities due in large part to recent paving projects done via special assessment. The Village however does not have sufficient revenue to maintain all of these streets as ideally needed with preventive maintenance. Likewise, the Village also lacks revenue to undertake new capital improvement projects. Future infrastructure projects therefore will be forced to be done via the Special Assessment process.

**Village of Lake Isabella
Management's Discussion and Analysis
Year Ended June 30, 2013**

- If structural changes are not made to how the State of Michigan funds local government, a serious look will need to occur in the next 3 years on amending the tax cap, reducing services, or staff reductions if the Village is to continue to provide a high quality of life. With the Village's high taxable value, a small increase does account for a significant increase in funds.
- In terms of short-term financial planning, the Village leaders expect revenue to be stable at the current levels for the upcoming fiscal year. Presently the Village has a small cushion between the community's State Equalized Value and its Taxable Value. While it appears that Michigan's economy is slowly recovering from a decade of harsh contraction, community leaders do not foresee the economy returning to the levels of the late 1990s and early 2000s.
- The Village does continually review both the revenue and expenditures during the fiscal year. As conditions change or the impacts from new mandates and policies from the State of Michigan become reality the budget for the Village will likely need to be revised as needed.

Request for Information

This financial report is designed to provide our citizens and taxpayers with a general overview of the Village's finances. If you have questions about this report or would like additional information, contact the Village office at Village of Lake Isabella, Isabella County, Michigan.

BASIC FINANCIAL STATEMENTS

Village of Lake Isabella
Statement of Net Position
June 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 343,406	\$ 1,255	\$ 344,661
Investments	450,543	55,022	505,565
Receivables			
Special assessments	986,428	-	986,428
Due from other units of government	50,348	-	50,348
Prepaid items	9,020	-	9,020
Capital assets not being depreciated	5,304	115,000	120,304
Capital assets - net of accumulated depreciation	<u>3,160,785</u>	<u>69,676</u>	<u>3,230,461</u>
 Total assets	 <u>5,005,834</u>	 <u>240,953</u>	 <u>5,246,787</u>
Liabilities			
Accounts payable	6,226	437	6,663
Accrued and other liabilities	17,868	-	17,868
Noncurrent liabilities			
Due within one year	228,927	-	228,927
Due in more than one year	<u>1,030,601</u>	<u>-</u>	<u>1,030,601</u>
 Total liabilities	 <u>1,283,622</u>	 <u>437</u>	 <u>1,284,059</u>
Net Position			
Net investment in capital assets	1,907,591	184,676	2,092,267
Restricted for:			
Debt service	260,638	-	260,638
Streets	309,105	-	309,105
Unrestricted	<u>1,244,878</u>	<u>55,840</u>	<u>1,300,718</u>
 Total net position	 <u>\$ 3,722,212</u>	 <u>\$ 240,516</u>	 <u>\$ 3,962,728</u>

See Accompanying Notes to Financial Statements

Village of Lake Isabella
Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Primary government							
Governmental activities							
General government	\$ 212,575	\$ 66,253	\$ -	\$ -	\$ (146,322)	\$ -	\$ (146,322)
Public safety	65,284	-	-	-	(65,284)	-	(65,284)
Public works	400,282	116,057	-	-	(284,225)	-	(284,225)
Community and economic development	986	-	-	-	(986)	-	(986)
Interest on long-term debt	61,332	-	-	-	(61,332)	-	(61,332)
Total governmental activities	<u>740,459</u>	<u>182,310</u>	<u>-</u>	<u>-</u>	<u>(558,149)</u>	<u>-</u>	<u>(558,149)</u>
Business-type activities							
Sewer	437	-	-	-	-	(437)	(437)
Airport	10,322	-	-	-	-	(10,322)	(10,322)
Total business-type activities	<u>10,759</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,759)</u>	<u>(10,759)</u>
Total primary government	<u>\$ 751,218</u>	<u>\$ 182,310</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(558,149)</u>	<u>(10,759)</u>	<u>(568,908)</u>
General revenues							
Property taxes					63,247	-	63,247
State shared revenue					310,104	-	310,104
Unrestricted investment earnings					10,910	28	10,938
Miscellaneous					27,193	-	27,193
Transfers					2,915	(2,915)	-
Total general revenues and transfers					<u>414,369</u>	<u>(2,887)</u>	<u>411,482</u>
Change in net position					(143,780)	(13,646)	(157,426)
Net position - beginning of year					<u>3,865,992</u>	<u>254,162</u>	<u>4,120,154</u>
Net position - end of year					<u>\$ 3,722,212</u>	<u>\$ 240,516</u>	<u>\$ 3,962,728</u>

See Accompanying Notes to Financial Statements

**Village of Lake Isabella
Governmental Funds
Balance Sheet
June 30, 2013**

	Special Revenue Funds			Debt Service Funds		Nonmajor Governmental Funds	Total Governmental Funds
	General	Major Streets Fund	Local Streets Fund	Major Streets Debt Fund	LSSA Debt Fund		
Assets							
Cash and cash equivalents	\$ 194,214	\$ 103,993	\$ -	\$ 11	\$ 42,307	\$ 2,881	\$ 343,406
Investments	60,490	144,453	29,052	12,319	166,578	37,651	450,543
Receivables							
Special assessments	-	-	-	171,636	737,551	77,241	986,428
Due from other units of government	20,838	19,675	9,835	-	-	-	50,348
Due from other funds	-	-	1,109	-	-	600	1,709
Prepaid items	5,466	1,777	1,777	-	-	-	9,020
Total assets	<u>\$ 281,008</u>	<u>\$ 269,898</u>	<u>\$ 41,773</u>	<u>\$ 183,966</u>	<u>\$ 946,436</u>	<u>\$ 118,373</u>	<u>\$ 1,841,454</u>
Liabilities							
Accounts payable	\$ 4,292	\$ -	\$ 1,934	\$ -	\$ -	\$ -	\$ 6,226
Accrued and other liabilities	2,920	316	316	-	-	-	3,552
Due to other funds	-	-	-	-	-	1,709	1,709
Total liabilities	<u>7,212</u>	<u>316</u>	<u>2,250</u>	<u>-</u>	<u>-</u>	<u>1,709</u>	<u>11,487</u>
Deferred Inflows of Resources							
Unavailable							
Special assessments	-	-	-	171,636	737,551	77,241	986,428
Total liabilities and deferred inflows of resources	<u>7,212</u>	<u>316</u>	<u>2,250</u>	<u>171,636</u>	<u>737,551</u>	<u>78,950</u>	<u>997,915</u>
Fund Balances							
Non-spendable							
Prepaid items	5,466	1,777	1,777	-	-	-	9,020
Restricted for							
Debt service	-	-	-	12,330	208,885	39,423	260,638
Streets	-	267,805	37,746	-	-	-	305,551
Unassigned	268,330	-	-	-	-	-	268,330
Total fund balances	<u>273,796</u>	<u>269,582</u>	<u>39,523</u>	<u>12,330</u>	<u>208,885</u>	<u>39,423</u>	<u>843,539</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 281,008</u>	<u>\$ 269,898</u>	<u>\$ 41,773</u>	<u>\$ 183,966</u>	<u>\$ 946,436</u>	<u>\$ 118,373</u>	<u>\$ 1,841,454</u>

See Accompanying Notes to Financial Statements

Village of Lake Isabella
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2013

Total fund balances for governmental funds	\$ 843,539
Total net position for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	5,304
Capital assets - net of accumulated depreciation	3,160,785
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	
	986,428
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(14,316)
Compensated absences	(1,030)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
	<u>(1,258,498)</u>
Net position of governmental activities	<u><u>\$ 3,722,212</u></u>

Village of Lake Isabella
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2013

	Special Revenue Funds			Debt Service Funds		Nonmajor Governmental Funds	Total Governmental Funds
	General	Major Streets Fund	Local Streets Fund	Major Streets Debt Fund	LSSA Debt Fund		
Revenues							
Taxes	\$ 63,247	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63,247
Licenses and permits	6,673	-	-	-	-	-	6,673
State revenue sharing	123,211	127,494	59,399	-	-	-	310,104
Local contributions	7,130	-	-	-	-	-	7,130
Charges for services	33,887	-	-	44,130	149,009	23,538	250,564
Interest income	282	121	58	559	2,126	7,764	10,910
Rental income	59,580	-	-	-	-	-	59,580
Other revenue	20,063	-	-	-	-	-	20,063
Total revenues	314,073	127,615	59,457	44,689	151,135	31,302	728,271
Expenditures							
Current							
General government	194,053	-	-	-	-	-	194,053
Public safety	65,284	-	-	-	-	-	65,284
Public works	24,645	79,217	79,910	-	-	-	183,772
Community and economic development	986	-	-	-	-	-	986
Capital outlay	5,523	-	-	-	-	-	5,523
Debt service							
Principal retirement	22,303	6,566	3,462	55,000	170,000	80,000	337,331
Interest and fiscal charges	26,265	493	221	962	32,625	4,105	64,671
Total expenditures	339,059	86,276	83,593	55,962	202,625	84,105	851,620
Excess (deficiency) of revenues over expenditures	(24,986)	41,339	(24,136)	(11,273)	(51,490)	(52,803)	(123,349)
Other financing sources (uses)							
Transfers in	46,699	-	-	-	-	27,450	74,149
Transfers out	(1,500)	(32,473)	(3,261)	(25,000)	(6,000)	(3,000)	(71,234)
Total other financing sources and uses	45,199	(32,473)	(3,261)	(25,000)	(6,000)	24,450	2,915
Net change in fund balance	20,213	8,866	(27,397)	(36,273)	(57,490)	(28,353)	(120,434)
Fund balance - beginning of year	253,583	260,716	66,920	48,603	266,375	67,776	963,973
Fund balance - end of year	\$ 273,796	\$ 269,582	\$ 39,523	\$ 12,330	\$ 208,885	\$ 39,423	\$ 843,539

See Accompanying Notes to Financial Statements

Village of Lake Isabella
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2013

Net change in fund balances - Total governmental funds	\$ (120,434)
<p>Total change in net position reported for governmental activities in the statement of activities is different because:</p>	
<p>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.</p>	
Depreciation expense	(232,642)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.</p>	
Special assessments	(134,507)
<p>Expenses are recorded when incurred in the statement of activities</p>	
Accrued interest	3,339
Compensated absences	3,133
<p>Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.</p>	
Repayments of long-term debt	<u>337,331</u>
Change in net position of governmental activities	<u>\$ (143,780)</u>

See Accompanying Notes to Financial Statements

Village of Lake Isabella
Proprietary Funds
Statement of Net Position
June 30, 2013

	Enterprise Funds		
	Sewer	Airport	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 1,255	\$ -	\$ 1,255
Investments	<u>55,022</u>	<u>-</u>	<u>55,022</u>
Total current assets	<u>56,277</u>	<u>-</u>	<u>56,277</u>
Capital assets not being depreciated	65,000	50,000	115,000
Capital assets - net of accumulated depreciation	<u>-</u>	<u>69,676</u>	<u>69,676</u>
Total noncurrent assets	<u>65,000</u>	<u>119,676</u>	<u>184,676</u>
Total assets	<u>121,277</u>	<u>119,676</u>	<u>240,953</u>
Liabilities			
Current liabilities			
Accounts payable	<u>437</u>	<u>-</u>	<u>437</u>
Net Position			
Net investment in capital assets	65,000	119,676	184,676
Unrestricted	<u>55,840</u>	<u>-</u>	<u>55,840</u>
Total net position	<u>\$ 120,840</u>	<u>\$ 119,676</u>	<u>\$ 240,516</u>

See Accompanying Notes to Financial Statements

Village of Lake Isabella
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended June 30, 2013

	Enterprise Funds		
	Sewer	Airport	Total
Operating expenses			
Contractual services	\$ 437	\$ -	\$ 437
Depreciation	-	10,322	10,322
Total operating expenses	437	10,322	10,759
Operating loss	(437)	(10,322)	(10,759)
Nonoperating revenue			
Interest income	28	-	28
Loss before transfers out	(409)	(10,322)	(10,731)
Transfers out	(2,915)	-	(2,915)
Change in net position	(3,324)	(10,322)	(13,646)
Net position - beginning of year	124,164	129,998	254,162
Net position - end of year	\$ 120,840	\$ 119,676	\$ 240,516

See Accompanying Notes to Financial Statements

**Village of Lake Isabella
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2013**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Airport</u>	<u>Total</u>
Cash flows from noncapital financing activities			
Transfers to other funds	\$ (2,915)	\$ -	\$ (2,915)
Cash flows from investing activities			
Proceeds from sales and maturities of investments	2,890	-	2,890
Interest received	<u>28</u>	<u>-</u>	<u>28</u>
Net cash provided by investing activities	<u>2,918</u>	<u>-</u>	<u>2,918</u>
Net Change in cash and cash equivalents	3	-	3
Cash and cash equivalents - beginning of year	<u>1,252</u>	<u>-</u>	<u>1,252</u>
Cash and cash equivalents - end of year	<u>\$ 1,255</u>	<u>\$ -</u>	<u>\$ 1,255</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating loss	\$ (437)	\$ (10,322)	\$ (10,759)
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation and amortization expense	-	10,322	10,322
Changes in assets and liabilities			
Accounts payable	<u>437</u>	<u>-</u>	<u>437</u>
Net cash provided by operating activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Accompanying Notes to Financial Statements

Village of Lake Isabella
Notes to Financial Statements
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Village of Lake Isabella is governed by an elected seven-member Board. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. The Village has no component units.

Government-wide and fund financial statements

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

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

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

Measurement focus, basis of accounting, and financial statement presentation

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

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

Village of Lake Isabella
Notes to Financial Statements
June 30, 2013

susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

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

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

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

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

The LSSA Debt Fund accounts for the bonded construction of the Village's roads and streets, collection of special revenues and the payment of long-term debt.

The government reports the following major proprietary funds:

The Airport Fund accounts for the Airport's assets.

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

Additionally, the government reports the following:

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

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the airport and sewer funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for airport and sewer funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Village of Lake Isabella
Notes to Financial Statements
June 30, 2013

Assets, liabilities, and net position or equity

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

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

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

The 2012 taxable valuation of the government totaled \$72,264,052, on which ad valorem taxes consisted of 0.8463 mills for operating purposes.

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

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

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

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

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

Deferred inflows of resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period.

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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using

Village of Lake Isabella
Notes to Financial Statements
June 30, 2013

the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Compensated absences – The Village policy allows employees to accumulate earned but unused vacation pay benefits. The government-wide and proprietary statements accrue all vacation benefits as they are earned. Upon termination of employment, employees will be paid for unused vacation time not to exceed 15 working days that has been earned through the last day of employment.

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

Fund equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable - assets that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts constrained on use imposed by the Village's highest level of decision-making, its Village Council. A fund balance commitment may be established, modified, or rescinded by a resolution of the Village Council.

Assigned – amounts intended to be used for specific purposes, as determined by the Village Council, the budget or finance committee, or the Village Manager. The Village Council has granted the finance committee and Village Manager the authority to assign funds. Residual amounts in governmental funds other than the general fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Village's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the Village's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

Comparative data

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

Adoption of New Accounting Standards

The Government Accounting Standards Board has issued *Statements 63 and 65, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position and Items Previously Reported as Assets and Liabilities*, which the government adopted effective July 1, 2012. The new standards provide guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and

Village of Lake Isabella
Notes to Financial Statements
June 30, 2013

related disclosures.

The Government Accounting Standards Board also issued *Statement 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, which the government adopted effective July 1, 2012. This statement modifies certain requirements for inclusion of component units in the financial reporting entity, and amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances, and clarifies the reporting of equity interests in legally separate organizations.

Upcoming Accounting and Reporting Changes

The Government Accounting Standards Board has issued *Statements 67, Financial Reporting for Pension Plans and 68 Accounting and Financial Reporting for Pensions*. Statement 67 changes how public employee pension plans calculate and report their total pension liability. Statement 68 requires governments participating in public employee pension plans to recognize their portion of the long-term obligation for the pension benefits as a liability and to measure the annual costs of the pension benefits. The effect of these changes has not been determined. Statement 67 is effective for the year ending June 30, 2014 and Statement 68 is effective for the year ending June 30, 2015.

The Government Accounting Standards Board has also issued *Statement 69, Government Combinations and Disposals of Government Operations and Statement 70, Nonexchange Financial Guarantees*.

Statement 69 provides detailed requirements for the accounting and disclosure of various types of government combinations, such as mergers, acquisitions, and transfers of operations. The guidance available previously was limited to nongovernmental entities, and

therefore did not provide practical examples for situations common in government-specific combinations and disposals. The accounting and disclosure requirements for these events vary based on whether a significant payment is made, the continuation or termination of services, and the legal structure of the new or continuing entity. Statement 69 is effective for the year ending June 30, 2015.

Statement 70 addresses the accounting and disclosure of situations in which one government offers a financial guarantee on behalf of another government, not-for-profit organization, private entity, or individual without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). A government that extends a nonexchange financial guarantee will be required to recognize a liability when qualitative factors and/or historical data indicate that it is "more likely than not" that the government will be required to make a payment on the guarantee. It further requires governments to disclose any outstanding financial guarantees in the notes to the financial statements. Statement 70 is effective for the year ending June 30, 2014.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

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

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The Village Manager is authorized to transfer budgeted amounts between line

Village of Lake Isabella
Notes to Financial Statements
June 30, 2013

items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the Village Council. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

Excess of expenditures over appropriations

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

	Total Appropriations	Amount of Expenditures	Budget Variance
General Fund			
Capital outlay	\$ 3,650	\$ 5,523	\$ 1,873
Major Streets Fund			
Debt service	5,180	7,059	1,879
Local Streets Fund			
Debt service	1,815	3,683	1,868
Transfers Out	3,250	3,261	11

NOTE 3 - DEPOSITS AND INVESTMENTS

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

	Cash and Cash Equivalents	Investments	Total
Governmental activities	\$ 343,406	\$ 450,543	\$ 793,949
Business-type activities	1,255	55,022	56,277
Total primary government	\$ 344,661	\$ 505,565	\$ 850,226

The breakdown between deposits and investments is as follows:

	Primary Government
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 344,661
Investments in securities, mutual funds and similar vehicles	505,565
	\$ 850,226

As of June 30, 2013, the Village had the following investments:

Investment	Fair Value	Maturities	Rating
Raymond James Bank Deposit Program	\$ 255,705		Not rated
Certificates of Deposit	249,860	Less than 1 year	Not rated
	<u>\$ 505,565</u>		

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

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

Village of Lake Isabella
Notes to Financial Statements
June 30, 2013

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

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

Custodial credit risk - deposits – In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The government uses the same policy for custodial credit risk as for concentration of credit risk. As of year end, \$93,343 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The following investment securities were uninsured and unregistered and held in the following manner:

Investment Type	Carrying Value	How Held
Raymond James & Associates	\$ 505,565	By counterparty in the Village's name

NOTE 4 - RECEIVABLES

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

	Due After One Year	Fund
Village government		
Special assessments	\$ 897,737	Debt service funds

NOTE 5 - CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 5,304	\$ -	\$ -	\$ 5,304
Capital assets being depreciated				
Roads	4,685,009	-	-	4,685,009
Buildings	546,000	-	-	546,000
Street equipment	2,575	-	-	2,575
Office equipment	17,023	-	-	17,023
Vehicles	75,102	-	-	75,102
Total capital assets being depreciated	5,325,709	-	-	5,325,709
Less accumulated depreciation for				
Roads	1,847,597	205,914	-	2,053,511
Buildings	38,660	13,020	-	51,680
Street equipment	2,575	-	-	2,575
Office equipment	15,274	1,339	-	16,613
Vehicles	28,176	12,369	-	40,545
Total accumulated depreciation	1,932,282	232,642	-	2,164,924
Net capital assets being depreciated	3,393,427	(232,642)	-	3,160,785
Governmental activities capital assets, net	\$ 3,398,731	\$ (232,642)	\$ -	\$ 3,166,089

Village of Lake Isabella
Notes to Financial Statements
June 30, 2013

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

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 115,000	\$ -	\$ -	\$ 115,000
Capital assets being depreciated				
Runway	206,452	-	-	206,452
Less accumulated depreciation for				
Runway	126,454	10,322	-	136,776
Net capital assets being depreciated	79,998	(10,322)	-	69,676
Business-type capital assets, net	<u>\$ 194,998</u>	<u>\$ (10,322)</u>	<u>\$ -</u>	<u>\$ 184,676</u>

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

Governmental activities	
General government	\$ 16,132
Public works	216,510
Total governmental activities	<u>232,642</u>
Business-type activities	
Airport	10,322
Total primary government	<u>\$ 242,964</u>

NOTE 6 - INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Local Streets Fund	Queensway Debt Fund	\$ 1,109
Castle/Sevilla Debt Fund	Putter Drive Debt Fund	600
		<u>\$ 1,709</u>

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

The details for interfund transfers are as follows:

Funds Transferred From	Funds Transferred To	Amount
Major Streets Fund	General Fund	\$ 6,523
Local Streets Fund	General Fund	3,261
Sewer Fund	General Fund	2,915
Major Streets Debt Fund	General Fund	25,000
Nonmajor Funds	General Fund	3,000
LSSA Debt Fund	General Fund	6,000
Nonmajor Funds	Local Streets Fund	25,950
General Fund	Nonmajor Funds	1,500
		<u>\$ 74,149</u>

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

Village of Lake Isabella
Notes to Financial Statements
June 30, 2013

NOTE 7 - LONG-TERM DEBT

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

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities									
Bonds and notes payable									
General obligation bonds									
2007 Capital Improvement	\$ 275,000	2036	3.85 - 5.05%	\$5,000 - \$20,000	\$ 270,000	\$ -	\$ 5,000	\$ 265,000	\$ 5,000
S. Coldwater Property	210,000	2039	5.00%	4,000 - 13,000	207,000	-	4,000	203,000	4,000
2003 Michigan Transportation	225,000	2013	3.60%	25,000	25,000	-	25,000	-	-
Tractor Note Payable	17,090	2012	5.25%	3,591	3,591	-	3,591	-	-
Salt Barn Installment Payable	70,000	2019	4.75%	7,000	56,000	-	7,000	49,000	7,000
Truck Note Payable	25,747	2014	4.25%	6,437	12,873	-	6,437	6,436	6,436
Truck Note Payable	26,365	2016	2.99%	6,303 - 6,885	26,365	-	6,303	20,062	6,491
Compensated absences					4,163	-	3,133	1,030	-
Special assessment obligations									
Major Streets Bonds	515,000	2012	3.50%	55,000	55,000	-	55,000	-	-
Fairway Drive Bonds	140,000	2012	3.15%	20,000	20,000	-	20,000	-	-
Queensway Bonds	140,000	2013	3.60%	10,000 - 15,000	25,000	-	15,000	10,000	10,000
Castle/sevilla Bonds	180,000	2014	4.40 - 4.60%	13,600	40,800	-	13,600	27,200	13,600
Putter Drive Bonds	180,000	2014	4.40 - 4.60%	6,400	19,200	-	6,400	12,800	6,400
LSSA Drive Bonds	1,585,000	2016	4.35%	160,000 - 170,000	835,000	-	170,000	665,000	170,000
Total governmental activities					<u>\$ 1,599,992</u>	<u>\$ -</u>	<u>\$ 340,464</u>	<u>\$ 1,259,528</u>	<u>\$ 228,927</u>

Village of Lake Isabella
Notes to Financial Statements
June 30, 2013

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

Year Ending June 30	Governmental Activities	
	Principal	Interest
2014	\$ 228,927	\$ 64,241
2015	212,686	52,405
2016	182,885	42,727
2017	181,000	34,165
2018	17,000	26,165
2019-2023	78,000	101,000
2014-2028	86,000	83,070
2029-2033	117,000	59,741
2034-2038	129,000	28,218
2039-2040	26,000	2,900
	<u>\$ 1,258,498</u>	<u>\$ 494,632</u>

NOTE 8 – RETIREMENT PLAN

The Village offers a 457b retirement program to all regular full time employees. The Village matches employee contributions up to a total of 5% of the employee's base rate of pay. Employer contributions related to the program for the year ended June 30, 2013 were \$2,000.

NOTE 9 - RISK MANAGEMENT

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

NOTE 10 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

NOTE 11 - RELATED PARTY TRANSACTIONS

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

NOTE 12 – SUBSEQUENT EVENT

Subsequent to June 30, 2013, the Village issued 2013 Refunding Bonds (General Obligation – Unlimited Tax) in the amount of \$530,000. The bonds are being used for the purpose of refunding all the Village's Capital Improvement Bonds, Series 2007, 2010 Capital Improvement Bonds, and Installment note dated September 18, 2019. The bonds mature in October 2039 and are due in annual installments of \$10,000 to \$28,000 with an interest rate of 2.99%.

REQUIRED SUPPLEMENTAL INFORMATION

Village of Lake Isabella
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
Taxes				
Property taxes	\$ 61,500	\$ 62,575	\$ 62,592	\$ 17
Penalties and interest	-	655	655	-
Licenses and permits	7,400	6,630	6,673	43
State revenue sharing	107,500	126,000	123,211	(2,789)
Local contributions	6,000	5,000	7,130	2,130
Charges for services	31,000	33,887	33,887	-
Interest income	750	275	282	7
Rental income	-	59,580	59,580	-
Other revenue	1,500	19,865	20,063	198
Transfer in	45,500	46,250	46,699	449
Total revenues	<u>261,150</u>	<u>360,717</u>	<u>360,772</u>	<u>55</u>
Expenditures				
General government				
Village board	10,000	7,050	2,992	(4,058)
Manager	118,330	128,182	126,169	(2,013)
Clerk	15,150	15,200	13,697	(1,503)
Treasurer	20,200	21,000	19,830	(1,170)
Elections	100	-	-	-
Buildings and grounds	13,900	32,967	31,365	(1,602)
Total general government	<u>177,680</u>	<u>204,399</u>	<u>194,053</u>	<u>(10,346)</u>
Public safety				
Code enforcement	25,400	25,575	23,095	(2,480)
Fire department	35,000	42,970	42,189	(781)
Total public safety	<u>60,400</u>	<u>68,545</u>	<u>65,284</u>	<u>(3,261)</u>

See Accompanying Notes to Financial Statements

Village of Lake Isabella
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Public works				
Public works	25,375	23,430	23,330	(100)
Street lighting	-	1,450	1,315	(135)
Total public works	<u>25,375</u>	<u>24,880</u>	<u>24,645</u>	<u>(235)</u>
Community and economic development				
Planning	2,275	1,425	837	(588)
Zoning	500	150	149	(1)
Total community and economic development	<u>2,775</u>	<u>1,575</u>	<u>986</u>	<u>(589)</u>
Capital outlay	<u>9,000</u>	<u>3,650</u>	<u>5,523</u>	<u>1,873</u>
Debt service				
Principal retirement	-	23,091	22,303	(788)
Interest and fiscal charges	-	25,477	26,265	788
Total debt service	<u>-</u>	<u>48,568</u>	<u>48,568</u>	<u>-</u>
Transfers out	<u>-</u>	<u>1,500</u>	<u>1,500</u>	<u>-</u>
Total expenditures	<u>275,230</u>	<u>353,117</u>	<u>340,559</u>	<u>(12,558)</u>
Excess of revenues over expenditures	(14,080)	7,600	20,213	12,613
Fund balance - beginning of year	<u>253,583</u>	<u>253,583</u>	<u>253,583</u>	<u>-</u>
Fund balance - end of year	<u>\$ 239,503</u>	<u>261,183</u>	<u>\$ 273,796</u>	<u>\$ 12,613</u>

See Accompanying Notes to Financial Statements

Village of Lake Isabella
Required Supplemental Information
Budgetary Comparison Schedule
Major Streets Fund
For the Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	Actual
	<u>Original</u>	<u>Final</u>		Over (Under)
				<u>Final</u>
				<u>Budget</u>
Revenues				
State revenue sharing	\$ 115,000	\$ 115,675	\$ 127,494	\$ 11,819
Interest income	500	175	121	(54)
Total revenues	<u>115,500</u>	<u>115,850</u>	<u>127,615</u>	<u>11,765</u>
Expenditures				
Current				
Public works	75,511	100,087	79,217	(20,870)
Debt service				
Principal retirement	4,800	4,770	6,566	1,796
Interest and fiscal charges	700	410	493	83
Transfers out	<u>44,625</u>	<u>64,875</u>	<u>32,473</u>	<u>(32,402)</u>
Total expenditures	<u>125,636</u>	<u>170,142</u>	<u>118,749</u>	<u>(51,393)</u>
Excess of revenues (deficiency) over expenditures	(10,136)	(54,292)	8,866	63,158
Fund balance - beginning of year	<u>260,716</u>	<u>260,716</u>	<u>260,716</u>	<u>-</u>
Fund balance - end of year	<u>\$ 250,580</u>	<u>\$ 206,424</u>	<u>\$ 269,582</u>	<u>\$ 63,158</u>

See Accompanying Notes to Financial Statements

Village of Lake Isabella
Required Supplemental Information
Budgetary Comparison Schedule
Local Streets Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under)
				Final Budget
Revenues				
State revenue sharing	\$ 52,500	\$ 49,000	\$ 59,399	\$ 10,399
Interest income	150	60	58	(2)
Other revenue	<u>12,350</u>	<u>35,000</u>	<u>-</u>	<u>(35,000)</u>
Total revenues	<u>65,000</u>	<u>84,060</u>	<u>59,457</u>	<u>(24,603)</u>
Expenditures				
Current				
Public works	69,842	83,286	79,910	(3,376)
Debt service				
Principal retirement	1,700	1,675	3,462	1,787
Interest and fiscal charges	250	140	221	81
Transfers out	<u>3,000</u>	<u>3,250</u>	<u>3,261</u>	<u>11</u>
Total expenditures	<u>74,792</u>	<u>88,351</u>	<u>86,854</u>	<u>(1,497)</u>
Excess of revenues (deficiency) over expenditures	(9,792)	(4,291)	(27,397)	(23,106)
Fund balance - beginning of year	<u>66,920</u>	<u>66,920</u>	<u>66,920</u>	<u>-</u>
Fund balance - end of year	<u>\$ 57,128</u>	<u>\$ 62,629</u>	<u>\$ 39,523</u>	<u>\$ (23,106)</u>

See Accompanying Notes to Financial Statements

OTHER SUPPLEMENTAL INFORMATION

Village of Lake Isabella
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2013

	Debt Service Funds					Total Nonmajor Governmental Funds
	2003 MDOT Debt Fund	Fairway Debt Fund	Queensway Debt Fund	Castle/Sevilla Debt Fund	Putter Drive Debt Fund	
Assets						
Cash and cash equivalents	\$ 118	\$ 1,553	\$ 68	\$ 365	\$ 777	\$ 2,881
Investments	-	-	24,943	683	12,025	37,651
Receivables						
Special assessments	-	10,336	12,591	35,602	18,712	77,241
Due from other funds	-	-	-	600	-	600
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 118</u>	<u>\$ 11,889</u>	<u>\$ 37,602</u>	<u>\$ 37,250</u>	<u>\$ 31,514</u>	<u>\$ 118,373</u>
Liabilities						
Due to other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,109</u>	<u>\$ -</u>	<u>\$ 600</u>	<u>\$ 1,709</u>
Deferred Inflows of Resources						
Unavailable						
Special assessments	<u>-</u>	<u>10,336</u>	<u>12,591</u>	<u>35,602</u>	<u>18,712</u>	<u>77,241</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and deferred inflows of resources	<u>-</u>	<u>10,336</u>	<u>13,700</u>	<u>35,602</u>	<u>19,312</u>	<u>78,950</u>
Fund Balances						
Restricted for:						
Debt service	<u>118</u>	<u>1,553</u>	<u>23,902</u>	<u>1,648</u>	<u>12,202</u>	<u>39,423</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 118</u>	<u>\$ 11,889</u>	<u>\$ 37,602</u>	<u>\$ 37,250</u>	<u>\$ 31,514</u>	<u>\$ 118,373</u>

See Accompanying Notes to Financial Statements

Village of Lake Isabella
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2013

	Debt Service Funds					Total Nonmajor Governmental Funds
	2003 MDOT Debt Fund	Fairway Debt Fund	Queensway Debt Fund	Castle/Sevilla Debt Fund	Putter Drive Debt Fund	
Revenues						
Charges for services	\$ -	\$ 11,897	\$ -	\$ 7,102	\$ 4,539	\$ 23,538
Interest income	-	77	7,575	79	33	7,764
Total revenues	<u>-</u>	<u>11,974</u>	<u>7,575</u>	<u>7,181</u>	<u>4,572</u>	<u>31,302</u>
Expenditures						
Debt service						
Principal retirement	25,000	20,000	15,000	13,600	6,400	80,000
Interest and fiscal charges	900	315	630	1,537	723	4,105
Total expenditures	<u>25,900</u>	<u>20,315</u>	<u>15,630</u>	<u>15,137</u>	<u>7,123</u>	<u>84,105</u>
Deficiency of revenues over expenditures	<u>(25,900)</u>	<u>(8,341)</u>	<u>(8,055)</u>	<u>(7,956)</u>	<u>(2,551)</u>	<u>(52,803)</u>
Other financing sources (uses)						
Transfers in	25,950	1,500	-	-	-	27,450
Transfers out	-	-	(2,000)	(680)	(320)	(3,000)
Total other financing sources and uses	<u>25,950</u>	<u>1,500</u>	<u>(2,000)</u>	<u>(680)</u>	<u>(320)</u>	<u>24,450</u>
Net change in fund balance	50	(6,841)	(10,055)	(8,636)	(2,871)	(28,353)
Fund balance - beginning of year	<u>68</u>	<u>8,394</u>	<u>33,957</u>	<u>10,284</u>	<u>15,073</u>	<u>67,776</u>
Fund balance - end of year	<u>\$ 118</u>	<u>\$ 1,553</u>	<u>\$ 23,902</u>	<u>\$ 1,648</u>	<u>\$ 12,202</u>	<u>\$ 39,423</u>

See Accompanying Notes to Financial Statements



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December 9, 2013

Management and the Village Council
Village of Lake Isabella
Isabella County, Michigan

We have completed our audit of the financial statements of the Village of Lake Isabella as of and for the year ended June 30, 2013 and have issued our report dated December 9, 2013. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendix to this letter set forth those communications as follows:

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

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

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

Yeo & Yeo, P.C.
Midland, Michigan

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

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated May 1, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies are described in Note 1 of the financial statements. The Government has adopted Government Accounting Standards *Statements 63 and 65, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position and Items Previously Reported as Assets and Liabilities*, which the government adopted effective July 1, 2012. The new standards provide guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. We noted no transactions entered into by the Village during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the proper period.

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

Management's estimate of the useful lives of fixed assets, which is based on the length of time management believes those assets will provide some economic benefit in the future.

Disclosures in the financial statements are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial, and communicate them to the appropriate level of management. There were no misstatements detected as a result of audit procedures that were more than trivial.

There were no uncorrected misstatements that were more than trivial.

Disagreements with Management

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

Management Representations

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

Management's Consultations with Other Accountants

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

Other Audit Findings or Issues

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

Report on Supplementary Information

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.