

**Village of Lake Isabella  
Isabella County**

**Annual Financial Statements  
and  
Auditors' Report  
June 30, 2011**

## Table of Contents

<u>Section</u>		<u>Page</u>
1	<b>List of Elected and Appointed Officials</b>	1 – 1
2	<b>Independent Auditors' Report</b>	2 - 1
3	<b>Management's Discussion and Analysis</b>	3 - 1
4	<b>Basic Financial Statements</b>	
	Government-wide Financial Statements	
	Statement of Net Assets	4 – 1
	Statement of Activities	4 – 2
	Fund Financial Statements	
	Governmental Funds	
	Balance Sheet	4 – 3
	Reconciliation of Fund Balances of Governmental Funds to Net Assets of Governmental Activities	4 – 4
	Statement of Revenues, Expenditures and Changes in Fund Balances	4 – 5
	Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	4 – 6
	Proprietary Funds	
	Statement of Net Assets	4 – 7
	Statement of Revenues, Expenses and Changes in Fund Net Assets	4 – 8
	Statement of Cash Flows	4 – 9
	Notes to Financial Statements	4 – 10

Section

Page

5      **Required Supplemental Information**

Budgetary Comparison Schedule  
    General Fund  
    Major Street Fund  
    Local Street Fund

5 – 1  
5 – 3  
5 – 4

6      **Other Supplemental Information**

Nonmajor Governmental Funds  
    Combining Balance Sheet  
    Combining Statement of Revenue, Expenditures and Changes in Fund Balance

6 – 1  
6 – 2

**Village of Lake Isabella**  
**List of Elected and Appointed Officials**  
**June 30, 2011**

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Village Council

**President**

David Torgerson

**President Pro-Temp**

Dan Pattison

**Treasurer**

Charles Kiel

**Clerk**

Jeffrey Grey

**Members**

Richard Lacca  
Arnold Griffin  
Elizabeth Miller

**Village Manager**

Timothy R. Wolff

**Deputy Manager**

Jessica Manley



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## Independent Auditors' Report

Village Council  
Village of Lake Isabella  
Isabella County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Lake Isabella as of and for the year ended June 30, 2011, which collectively comprise this Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Lake Isabella's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Lake Isabella as of June 30, 2011 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.

As discussed in Note 1 to the financial statements, the Entity adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during the year ended June 30, 2011.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Lake Isabella's financial statements as a whole. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

*Yeo & Yeo, P.C.*

December 12, 2011  
Midland, Michigan

**Village of Lake Isabella  
Management's Discussion and Analysis  
Year Ended June 30, 2011**

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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, 2011.

**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 Assets and the Statement of Activities.

The Statement of Net Assets (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, 2011**

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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 ASSETS:**

**Village's Net Assets**

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

	<u>2011</u>	<u>2010</u>
Assets		
Current assets	\$ 2,415,648	\$ 2,759,217
Capital assets	5,626,100	5,425,100
Less accumulated depreciation	<u>(1,820,206)</u>	<u>(1,582,681)</u>
Net capital assets	<u>3,805,894</u>	<u>3,842,419</u>
Total assets	<u>6,221,542</u>	<u>6,601,636</u>
Liabilities		
Current liabilities	29,006	24,473
Long-term liabilities	<u>1,897,817</u>	<u>1,999,959</u>
Total liabilities	<u>1,926,823</u>	<u>2,024,432</u>
Net assets		
Investment in capital assets, net of related debt	1,908,077	1,842,460
Restricted for debt service	529,086	701,839
Restricted for prepaids	-	4,456
Unrestricted	<u>1,857,556</u>	<u>2,028,449</u>
Total net assets	<u>\$ 4,294,719</u>	<u>\$ 4,577,204</u>

During the fiscal year ended June 30, 2011, the Village's net assets decreased by \$282,485.



**Village of Lake Isabella  
Management's Discussion and Analysis  
Year Ended June 30, 2011**

As noted earlier, net assets 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 \$4,294,719.

A portion of the Village's net assets (42%) 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 Assets**

**Revenues:**

	Year Ended June 30, 2011	Year Ended June 30, 2010
Program revenue		
Charges for services	\$ 158,066	\$ 169,406
General revenue:		
Property taxes	59,826	65,087
State share revenue	271,169	237,315
Interest and investment earnings	11,604	13,124
Miscellaneous	7,779	5,563
	<u>508,444</u>	<u>490,495</u>
Total Revenues		

**Expenses:**

	Year Ended June 30, 2011	Year Ended June 30, 2010
Governmental activities	\$ 190,870	\$ 138,843
Public safety	70,667	58,814
Public works	415,207	376,836
Community and economic development	2,370	2,423
Interest on long-term debt	80,242	85,959
	<u>759,356</u>	<u>662,875</u>
Total governmental expenses		
Business-type activities		
Sewer	21,250	24,937
Airport	10,323	10,323
	<u>31,573</u>	<u>35,260</u>
Total	790,929	698,135
Change in net assets	(282,485)	(207,640)
Net assets - beginning	4,577,204	4,784,844
Net assets - ending	<u>\$ 4,294,719</u>	<u>\$ 4,577,204</u>

**Governmental Activities**

The Village's total governmental revenue increased by \$28,280 from last fiscal year. This was primarily attributed to revenue increase in state shared revenue as payments are now being received faster due to direct deposit into a checking account and therefore August 2011 payment was received in 60 days after year end and recognized as revenue.

**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.

**Village of Lake Isabella  
Management's Discussion and Analysis  
Year Ended June 30, 2011**

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As of the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$1,087,565, a decrease of \$166,271 in comparison with the prior year. Approximately 24% of this amount constitutes unreserved 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 \$265,583. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents approximately 54% of total general fund expenditures.

The fund balance of the General Fund increased slightly by \$2,133 during the current fiscal year, which is a result of overall spending control and accurate budgeting practices on the part of Village.

The fund balance of the Major Streets Fund increased by \$12,789 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 \$8,440 during the current fiscal year. The decrease was due continued reductions in Act 51 Revenue from the State of Michigan. Under Act 51 funds may be transferred from the Major Street Fund to the Local Street, but not vice-versa. As such, while the fund did decrease, the balance is still well above the threshold established in the Village's adopted Fund Balance Policy, and may always have funds transferred in from the Major Street Fund if needed.

The fund balance of the Major Streets Debt Fund decreased by \$96,433 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 \$51,674 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, 2011**

**Capital Assets and Debt Administration**

**Capital Assets**

The Villages investment in capital assets for its governmental activities as of June 30, 2011, amounted to \$3,600,573 (net of accumulated depreciation). Investment in capital assets included land, buildings, and equipment.

	Balance July 1, 2010	Additions	Disposals	Balance June 30, 2011
Capital assets not being depreciated				
Land	\$ 5,304	\$ -	\$ -	\$ 5,304
Capital assets being depreciated				
Roads	4,685,009	-	-	4,685,009
Buildings	345,000	201,000	-	546,000
Street Equipment	2,575	-	-	2,575
Office equipment	17,023	-	-	17,023
Vehicles	48,737	-	-	48,737
Capital assets	<u>5,103,648</u>	<u>201,000</u>	<u>-</u>	<u>5,304,648</u>
Less:				
Accumulated depreciation	<u>(1,476,873)</u>	<u>(227,202)</u>	<u>-</u>	<u>(1,704,075)</u>
Governmental activities capital assets, net	<u>\$ 3,626,775</u>	<u>\$ (26,202)</u>	<u>\$ -</u>	<u>\$ 3,600,573</u>

**Long-term Debt**

At the end of the current fiscal year, the Village had total long-term debt outstanding of \$1,897,817.

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011
General Obligation bonds	\$ 455,984	\$ 210,000	\$ 41,675	\$ 624,309
Compensated absences	3,975	-	467	3,508
Special assesment obligations	1,540,000	-	270,000	1,270,000
	<u>\$ 1,999,959</u>	<u>\$ 210,000</u>	<u>\$ 312,142</u>	<u>\$ 1,897,817</u>

**Economic Factors and Next Year's Budget**

The following factors were considered in preparing the Village's budget for the 2011-2012 fiscal year:

- The State of Michigan has made significant cuts in their operating budgets due to a downturn in economy. For 2010-2011, the Village received \$124,854 in state shared revenue, representing 50% of the revenue in the General Fund. The amounts of the state shared revenues for future periods are uncertain and will affect the Village's budgets. Our budgets were prepared with these factors in mind and will 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**

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**Village of Lake Isabella**  
**Statement of Net Assets**  
**June 30, 2011**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 482,617	\$ 605	\$ 483,222
Investments	569,964	78,392	648,356
Receivables			
Special assessments	1,240,918	-	1,240,918
Due from other units of government	43,152	-	43,152
Capital assets not being depreciated	5,304	115,000	120,304
Capital assets - net of accumulated depreciation	<u>3,595,269</u>	<u>90,321</u>	<u>3,685,590</u>
 Total assets	 <u>5,937,224</u>	 <u>284,318</u>	 <u>6,221,542</u>
<b>Liabilities</b>			
Accounts payable	6,035	-	6,035
Accrued and other liabilities	22,971	-	22,971
Noncurrent liabilities			
Due within one year	324,846	-	324,846
Due in more than one year	<u>1,572,971</u>	<u>-</u>	<u>1,572,971</u>
 Total liabilities	 <u>1,926,823</u>	 <u>-</u>	 <u>1,926,823</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,702,756	205,321	1,908,077
Restricted for:			
Debt service	529,086	-	529,086
Streets	292,896	-	292,896
Unrestricted	<u>1,485,663</u>	<u>78,997</u>	<u>1,564,660</u>
 Total net assets	 <u>\$ 4,010,401</u>	 <u>\$ 284,318</u>	 <u>\$ 4,294,719</u>

See Accompanying Notes to Financial Statements

**Village of Lake Isabella**  
**Statement of Activities**  
**For the Year Ended June 30, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary government</b>							
Governmental activities							
General government	\$ 190,870	\$ 25,498	\$ -	\$ -	\$ (165,372)	\$ -	\$ (165,372)
Public safety	70,667	-	-	-	(70,667)	-	(70,667)
Public works	415,207	132,568	-	-	(282,639)	-	(282,639)
Community and economic development	2,370	-	-	-	(2,370)	-	(2,370)
Interest on long-term debt	80,242	-	-	-	(80,242)	-	(80,242)
Total governmental activities	<u>759,356</u>	<u>158,066</u>	<u>-</u>	<u>-</u>	<u>(601,290)</u>	<u>-</u>	<u>(601,290)</u>
Business-type activities							
Sewer	21,250	-	-	-	-	(21,250)	(21,250)
Airport	10,323	-	-	-	-	(10,323)	(10,323)
Total primary government	<u>\$ 790,929</u>	<u>\$ 158,066</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(601,290)</u>	<u>(31,573)</u>	<u>(632,863)</u>
General revenues							
Property taxes					59,826	-	59,826
State shared revenue					271,169	-	271,169
Unrestricted investment earnings					11,261	343	11,604
Miscellaneous					7,779	-	7,779
Transfers					2,500	(2,500)	-
Total general revenues and transfers					<u>352,535</u>	<u>(2,157)</u>	<u>350,378</u>
Change in net assets					(248,755)	(33,730)	(282,485)
Net assets - beginning of year					<u>4,259,156</u>	<u>318,048</u>	<u>4,577,204</u>
Net assets - end of year					<u>\$ 4,010,401</u>	<u>\$ 284,318</u>	<u>\$ 4,294,719</u>

See Accompanying Notes to Financial Statements

**Village of Lake Isabella  
Governmental Funds  
Balance Sheet  
June 30, 2011**

	Special Revenue Funds			Debt Service Funds		Nonmajor Governmental Funds	Total Governmental Funds
	General	Major Streets Fund	Local Streets Fund	Major Streets Debt Fund	LSSA Debt Fund		
<b>Assets</b>							
Cash and cash equivalents	\$ 192,722	\$ 74,439	\$ 21,553	\$ 9,728	\$ 172,671	\$ 11,504	\$ 482,617
Investments	60,293	144,349	29,030	75,548	176,301	84,443	569,964
Receivables							
Special assessments	-	-	-	226,889	891,034	122,995	1,240,918
Due from other units of government	18,507	16,065	8,580	-	-	-	43,152
Due from other funds	-	-	1,109	-	-	600	1,709
	<u>-</u>	<u>-</u>	<u>1,109</u>	<u>-</u>	<u>-</u>	<u>600</u>	<u>1,709</u>
 Total assets	<u>\$ 271,522</u>	<u>\$ 234,853</u>	<u>\$ 60,272</u>	<u>\$ 312,165</u>	<u>\$ 1,240,006</u>	<u>\$ 219,542</u>	<u>\$ 2,338,360</u>
<b>Liabilities</b>							
Accounts payable	\$ 4,090	\$ 330	\$ 1,615	\$ -	\$ -	\$ -	\$ 6,035
Accrued and other liabilities	1,849	142	142	-	-	-	2,133
Due to other funds	-	-	-	-	-	1,709	1,709
Deferred revenue	-	-	-	226,889	891,034	122,995	1,240,918
	<u>-</u>	<u>-</u>	<u>-</u>	<u>226,889</u>	<u>891,034</u>	<u>122,995</u>	<u>1,240,918</u>
 Total liabilities	<u>5,939</u>	<u>472</u>	<u>1,757</u>	<u>226,889</u>	<u>891,034</u>	<u>124,704</u>	<u>1,250,795</u>
<b>Fund Balances</b>							
Restricted for							
Debt service	-	-	-	85,276	348,972	94,838	529,086
Streets	-	234,381	58,515	-	-	-	292,896
Unassigned	265,583	-	-	-	-	-	265,583
	<u>265,583</u>	<u>234,381</u>	<u>58,515</u>	<u>85,276</u>	<u>348,972</u>	<u>94,838</u>	<u>1,087,565</u>
 Total fund balances	<u>265,583</u>	<u>234,381</u>	<u>58,515</u>	<u>85,276</u>	<u>348,972</u>	<u>94,838</u>	<u>1,087,565</u>
 Total liabilities and fund balances	<u>\$ 271,522</u>	<u>\$ 234,853</u>	<u>\$ 60,272</u>	<u>\$ 312,165</u>	<u>\$ 1,240,006</u>	<u>\$ 219,542</u>	<u>\$ 2,338,360</u>

See Accompanying Notes to Financial Statements

**Village of Lake Isabella**  
**Governmental Funds**  
**Reconciliation of Fund Balances of Governmental Funds**  
**to Net Assets of Governmental Activities**  
**June 30, 2011**

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<b>Total fund balances for governmental funds</b>	\$ 1,087,565
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	5,304
Capital assets - net of accumulated depreciation	3,595,269
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	1,240,918
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(20,838)
Compensated absences	(3,508)
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>(1,894,309)</u>
<b>Net assets of governmental activities</b>	<u>\$ 4,010,401</u>



**Village of Lake Isabella**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2011**

	Special Revenue Funds			Debt Service Funds		Nonmajor Governmental Funds	Total Governmental Funds
	General	Major Streets Fund	Local Streets Fund	Major Streets Debt Fund	LSSA Debt Fund		
<b>Revenues</b>							
Taxes	\$ 59,826	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 59,826
Licenses and permits	7,918	-	-	-	-	-	7,918
State revenue sharing	124,854	106,704	53,179	-	-	-	284,737
Local contributions	5,987	-	-	-	-	-	5,987
Charges for services	30,668	-	-	50,027	166,946	25,878	273,519
Interest income	271	538	106	361	1,186	8,799	11,261
Rental income	17,580	-	-	-	-	-	17,580
Other revenue	1,792	-	-	-	-	-	1,792
Total revenues	<u>248,896</u>	<u>107,242</u>	<u>53,285</u>	<u>50,388</u>	<u>168,132</u>	<u>34,677</u>	<u>662,620</u>
<b>Expenditures</b>							
Current							
General government	381,645	-	-	-	-	-	381,645
Public safety	70,667	-	-	-	-	-	70,667
Public works	9,374	53,814	55,029	77,381	-	24	195,622
Community and economic development	2,370	-	-	-	-	-	2,370
Capital outlay	3,075	-	-	-	-	-	3,075
Debt service							
Principal retirement	7,000	6,447	3,228	55,000	165,000	75,000	311,675
Interest and fiscal charges	13,021	1,090	543	4,703	47,306	9,674	76,337
Total expenditures	<u>487,152</u>	<u>61,351</u>	<u>58,800</u>	<u>137,084</u>	<u>212,306</u>	<u>84,698</u>	<u>1,041,391</u>
Excess (deficiency) of revenues over expenditures	<u>(238,256)</u>	<u>45,891</u>	<u>(5,515)</u>	<u>(86,696)</u>	<u>(44,174)</u>	<u>(50,021)</u>	<u>(378,771)</u>
<b>Other financing sources (uses)</b>							
Transfers in	30,652	-	-	263	-	27,625	58,540
Transfers out	(263)	(33,102)	(2,925)	(10,000)	(7,500)	(2,250)	(56,040)
Issuance of debt	210,000	-	-	-	-	-	210,000
Total other financing sources and uses	<u>240,389</u>	<u>(33,102)</u>	<u>(2,925)</u>	<u>(9,737)</u>	<u>(7,500)</u>	<u>25,375</u>	<u>212,500</u>
Net change in fund balance	2,133	12,789	(8,440)	(96,433)	(51,674)	(24,646)	(166,271)
Fund balance - beginning of year	263,450	221,592	66,955	181,709	400,646	119,484	1,253,836
Fund balance - end of year	<u>\$ 265,583</u>	<u>\$ 234,381</u>	<u>\$ 58,515</u>	<u>\$ 85,276</u>	<u>\$ 348,972</u>	<u>\$ 94,838</u>	<u>\$ 1,087,565</u>

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, 2011**

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**Net change in fund balances - Total governmental funds** \$ (166,271)

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

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

Depreciation expense	(227,202)
Capital outlay	201,000

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

State shared revenue	(13,568)
Special assessments	(140,951)

Expenses are recorded when incurred in the statement of activities

Accrued interest	(3,905)
Compensated absences	467

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

Debt issued	(210,000)
Repayments of long-term debt	<u>311,675</u>

**Change in net assets of governmental activities** \$ (248,755)

**Village of Lake Isabella**  
**Proprietary Funds**  
**Statement of Net Assets**  
**June 30, 2011**

	Enterprise Funds		
	Sewer	Airport	Total
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 605	\$ -	\$ 605
Investments	<u>78,392</u>	<u>-</u>	<u>78,392</u>
Capital assets not being depreciated	65,000	50,000	115,000
Capital assets - net of accumulated depreciation	<u>-</u>	<u>90,321</u>	<u>90,321</u>
Total noncurrent assets	<u>65,000</u>	<u>140,321</u>	<u>205,321</u>
Total assets	<u>143,997</u>	<u>140,321</u>	<u>284,318</u>
<b>Net Assets</b>			
Invested in capital assets	65,000	140,321	205,321
Unrestricted	<u>78,997</u>	<u>-</u>	<u>78,997</u>
Total net assets	<u>\$ 143,997</u>	<u>\$ 140,321</u>	<u>\$ 284,318</u>

See Accompanying Notes to Financial Statements

**Village of Lake Isabella**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Year Ended June 30, 2011**

	Enterprise Funds		
	Sewer	Airport	Total
<b>Operating expenses</b>			
Contractual services	\$ 21,250	\$ -	\$ 21,250
Depreciation	-	10,323	10,323
	<u>21,250</u>	<u>10,323</u>	<u>31,573</u>
Total operating expenses			
	<u>(21,250)</u>	<u>(10,323)</u>	<u>(31,573)</u>
Operating loss			
<b>Nonoperating revenue</b>			
Interest income	343	-	343
	<u>(20,907)</u>	<u>(10,323)</u>	<u>(31,230)</u>
Loss before transfers out			
	<u>(2,500)</u>	<u>-</u>	<u>(2,500)</u>
Transfers out			
	<u>(23,407)</u>	<u>(10,323)</u>	<u>(33,730)</u>
Change in net assets			
	<u>167,404</u>	<u>150,644</u>	<u>318,048</u>
Net assets - beginning of year			
	<u>\$ 143,997</u>	<u>\$ 140,321</u>	<u>\$ 284,318</u>
Net assets - end of year			

See Accompanying Notes to Financial Statements

**Village of Lake Isabella  
Proprietary Funds  
Statement of Cash Flows  
For the Year Ended June 30, 2011**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Airport</u>	<u>Total</u>
<b>Cash flows from operating activities</b>			
Payments to suppliers	\$ (24,533)	\$ -	\$ (24,533)
<b>Cash flows from noncapital financing activities</b>			
Transfers to other funds	(2,500)	-	(2,500)
<b>Cash flows from investing activities</b>			
Proceeds from sales and maturities of investments	25,961	-	25,961
Interest received	343	-	343
Net cash provided by investing activities	26,304	-	26,304
Net Change in cash and cash equivalents	(729)	-	(729)
Cash and cash equivalents - beginning of year	1,334	-	1,334
Cash and cash equivalents - end of year	\$ 605	\$ -	\$ 605
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>			
Operating loss	\$ (21,250)	\$ (10,323)	\$ (31,573)
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation and amortization expense	-	10,323	10,323
Changes in assets and liabilities			
Accounts payable	(3,283)	-	(3,283)
Net cash used by operating activities	\$ (24,533)	\$ -	\$ (24,533)

See Accompanying Notes to Financial Statements

**Village of Lake Isabella**  
**Notes to Financial Statements**  
**June 30, 2011**

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

**Reporting entity**

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

**Government-wide and fund financial statements**

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

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

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

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

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

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

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

**Village of Lake Isabella**  
**Notes to Financial Statements**  
**June 30, 2011**

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

The government reports the following major governmental funds:

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

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

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

The government reports the following major proprietary funds:

The Airport Fund accounts for the Airport's assets.

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

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

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

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

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

**Village of Lake Isabella**  
**Notes to Financial Statements**  
**June 30, 2011**

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

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

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

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

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

The 2010 taxable valuation of the government totaled \$76,284,885, on which ad valorem taxes consisted of 0.8463 mills for operating purposes.

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

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

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

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



**Village of Lake Isabella**  
**Notes to Financial Statements**  
**June 30, 2011**

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

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

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

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

Fund equity – In the fund financial statements, governmental funds report 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.

**Village of Lake Isabella**  
**Notes to Financial Statements**  
**June 30, 2011**

**Adoption of New Accounting Standard**

The Government Accounting Standards Board issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which the City adopted effective July 1, 2010. The new standard changes fund balance classifications to depict the relative strength of the spending constraints and clarifies the definitions of various governmental fund types. The standard also includes a new definition of special revenue funds.

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

**Budgetary information**

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

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

Amounts encumbered for purchase orders, contracts, etc. are not 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			
Public safety	\$ 67,483	\$ 70,667	\$ 3,184
Debt service	16,180	20,021	3,841
Transfers Out	-	263	263
Local Streets Fund			
Debt service	2,827	3,771	944
Transfers Out	-	2,925	2,925

**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
Governmental activities	\$ 482,617	\$ 569,964
Business-type activities	605	78,392
 Total primary government	 \$ 483,222	 \$ 648,356

**Village of Lake Isabella**  
**Notes to Financial Statements**  
**June 30, 2011**

The breakdown between deposits and investments is as follows:

	Primary Government
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 483,222
Investments in securities, mutual funds and similar vehicles	648,356
	\$ 1,131,578

As of June 30, 2011, the Village had the following investments:

Investment	Fair Value	Maturities	Rating
Raymond James Bank Deposit Program	\$ 498,453		Not rated
Certificates of Deposit	149,903	February 28, 2012	Not rated
	\$ 648,356		

*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 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, \$232,205 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	\$ <u>648,356</u>	By counterparty in the Village's name

**Village of Lake Isabella**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 4 - RECEIVABLES AND DEFERRED REVENUE**

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

	Due After One Year	Fund
<b>Village government</b>		
Special assessments	<u>\$ 1,240,918</u>	Debt service funds

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

	Unavailable
<b>Village government</b>	
Special assessments	<u>\$ 1,240,918</u>

**NOTE 5 - CAPITAL ASSETS**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 5,304	\$ -	\$ -	\$ 5,304
Capital assets being depreciated				
Roads	4,685,009	-	-	4,685,009
Buildings	345,000	201,000	-	546,000
Street equipment	2,575	-	-	2,575
Office equipment	17,023	-	-	17,023
Vehicles	48,737	-	-	48,737
Total capital assets being depreciated	<u>5,098,344</u>	<u>201,000</u>	<u>-</u>	<u>5,299,344</u>
Capital assets - net of accumulated depreciation				
Less accumulated depreciation for				
Roads	1,435,769	205,914	-	1,641,683
Buildings	13,625	12,015	-	25,640
Street equipment	2,575	-	-	2,575
Office equipment	10,920	2,177	-	13,097
Vehicles	13,984	7,096	-	21,080
Total accumulated depreciation	<u>1,476,873</u>	<u>227,202</u>	<u>-</u>	<u>1,704,075</u>
Net capital assets being depreciated	<u>3,621,471</u>	<u>(26,202)</u>	<u>-</u>	<u>3,595,269</u>
Governmental activities capital assets, net	<u>\$ 3,626,775</u>	<u>\$ (26,202)</u>	<u>\$ -</u>	<u>\$ 3,600,573</u>

**Village of Lake Isabella**  
**Notes to Financial Statements**  
**June 30, 2011**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 115,000	\$ -	\$ -	\$ 115,000
Capital assets being depreciated				
Runway	206,452	-	-	206,452
Less accumulated depreciation for				
Runway	105,808	10,323	-	116,131
Net capital assets being depreciated	100,644	(10,323)	-	90,321
Business-type capital assets, net	<u>\$ 215,644</u>	<u>\$ (10,323)</u>	<u>\$ -</u>	<u>\$ 205,321</u>

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

<b>Governmental activities</b>	
General government	\$ 10,692
Public works	216,510
Total governmental activities	<u>227,202</u>
<b>Business-type activities</b>	
Airport	10,323
Total primary government	<u>\$ 237,525</u>

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

The composition of interfund balances is as follows:

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

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

The details for interfund transfers are as follows:

Funds Transferred From	Funds Transferred To	Amount
Major Streets Fund	General Fund	\$ 5,477
Local Streets Fund	General Fund	2,925
Sewer Fund	General Fund	2,500
Major Streets Debt Fund	General Fund	10,000
Queensway Debt Fund	General Fund	1,000
Castle/Sevilla Debt Fund	General Fund	850
Putter Drive Debt Fund	General Fund	400
Local Streets Special	General Fund	7,500
Major Streets Fund	2003 MDOT Debt Fund	27,625
General Fund	Major Streets Debt Fund	263
		<u>\$ 58,540</u>

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

**Village of Lake Isabella**  
**Notes to Financial Statements**  
**June 30, 2011**

**NOTE 7 - LONG-TERM DEBT**

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

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>									
Bonds and notes payable									
General obligation bonds									
2007 Capital Improvement	\$ 275,000	2036	3.85 - 5.05%	\$5,000 - \$20,000	\$ 275,000	\$ -	\$ -	\$ 275,000	\$ 5,000
S. Coldwater Property	210,000	2039	5.00%	3,000 - 13,000	-	210,000	-	210,000	3,000
2003 Michigan Transportation	225,000	2013	3.40 - 3.60%	25,000	75,000	-	25,000	50,000	25,000
Tractor Note Payable	17,090	2012	5.25%	3,239 - 3,588	10,237	-	3,238	6,999	3,409
Salt Barn Installment Payable	70,000	2019	4.75%	7,000	70,000	-	7,000	63,000	7,000
Truck Note Payable	25,747	2014	4.25%	6,437	25,747	-	6,437	19,310	6,437
Compensated absences					3,975	-	467	3,508	-
Special assessment obligations									
Major Streets Bonds	515,000	2012	3.30 - 3.50%	55,000	165,000	-	55,000	110,000	55,000
Fairway Drive Bonds	140,000	2012	3.15%	15,000 - 20,000	50,000	-	15,000	35,000	15,000
Queensway Bonds	140,000	2013	3.60%	10,000 - 15,000	55,000	-	15,000	40,000	15,000
Castle/sevilla Bonds	180,000	2014	4.30 - 4.60%	13,600	68,000	-	13,600	54,400	13,600
Putter Drive Bonds	180,000	2014	4.30 - 4.60%	6,400	32,000	-	6,400	25,600	6,400
LSSA Drive Bonds	1,585,000	2016	4.35%	160,000 - 170,000	1,170,000	-	165,000	1,005,000	170,000
Total governmental activities					<u>\$ 1,999,959</u>	<u>\$ 210,000</u>	<u>\$ 312,142</u>	<u>\$ 1,897,817</u>	<u>\$ 324,846</u>

**Village of Lake Isabella**  
**Notes to Financial Statements**  
**June 30, 2011**

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

Year Ending June 30	Governmental Activities	
	Principal	Interest
2012	\$ 324,846	\$ 77,190
2013	331,026	63,903
2014	222,437	51,805
2015	206,000	42,322
2016	176,000	33,959
2017-2021	249,000	104,435
2022-2026	75,000	86,786
2027-2031	105,000	68,183
2032-2036	135,000	40,903
2037-2039	70,000	5,605
	<u>\$ 1,894,309</u>	<u>\$ 575,091</u>

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

Litigation – the Village is subject to various legal proceedings arising in the course of providing public services to Village residents. The Village is presently a defendant in several cases. However, in the opinion of management and legal counsel, the Village is sufficiently covered by its liability insurance in those matters for which a monetary value is involved.

**NOTE 10 - RELATED PARTY TRANSACTIONS**

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

**NOTE 8 - RISK MANAGEMENT**

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

**NOTE 9 - CONTINGENT LIABILITIES**

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

## **REQUIRED SUPPLEMENTAL INFORMATION**

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**Village of Lake Isabella  
Required Supplemental Information  
Budgetary Comparison Schedule  
General Fund  
For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
<b>Revenues</b>				
Taxes				
Property taxes	\$ 62,500	59,670	\$ 59,670	\$ -
Penalties and interest	-	-	156	156
Licenses and permits	6,000	6,233	7,918	1,685
State revenue sharing	89,800	79,838	124,854	45,016
Local contributions	5,000	5,000	5,987	987
Charges for services	30,000	30,000	30,668	668
Interest income	1,000	1,000	271	(729)
Rental income	17,580	17,580	17,580	-
Capital assets - net of accumulated depreciation	3,925	3,860	1,792	(2,068)
Bond/note proceeds	-	210,000	210,000	-
Transfer in	29,750	29,750	30,652	902
Total revenues	<u>245,555</u>	<u>442,931</u>	<u>489,548</u>	<u>46,617</u>
<b>Expenditures</b>				
General government				
Village board	3,950	2,856	2,678	(178)
Manager	109,820	124,735	129,276	4,541
Clerk	16,100	11,800	10,019	(1,781)
Treasurer	18,300	13,555	12,306	(1,249)
Elections	75	150	-	(150)
Buildings and grounds	10,300	235,260	227,366	(7,894)
Total general government	<u>158,545</u>	<u>388,356</u>	<u>381,645</u>	<u>(6,711)</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, 2011**

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
Public safety				
Code enforcement	35,010	36,925	40,109	3,184
Fire department	30,000	30,558	30,558	-
Total public safety	<u>65,010</u>	<u>67,483</u>	<u>70,667</u>	<u>3,184</u>
Public works				
Public works	14,025	13,099	8,224	(4,875)
Street lighting	1,000	1,000	1,150	150
Total public works	<u>15,025</u>	<u>14,099</u>	<u>9,374</u>	<u>(4,725)</u>
Community and economic development				
Planning	2,700	2,365	2,236	(129)
Zoning	600	300	134	(166)
Total community and economic development	<u>3,300</u>	<u>2,665</u>	<u>2,370</u>	<u>(295)</u>
Capital outlay	<u>2,500</u>	<u>10,000</u>	<u>3,075</u>	<u>(6,925)</u>
Debt service				
Principal retirement	-	-	7,000	7,000
Interest and fiscal charges	16,180	16,180	13,021	(3,159)
Total debt service	<u>16,180</u>	<u>16,180</u>	<u>20,021</u>	<u>3,841</u>
Transfers out	<u>-</u>	<u>-</u>	<u>263</u>	<u>263</u>
Total expenditures	<u>260,560</u>	<u>498,783</u>	<u>487,415</u>	<u>(11,368)</u>
Excess of revenues over expenditures	(15,005)	(55,852)	2,133	57,985
Fund balance - beginning of year	<u>263,450</u>	<u>263,450</u>	<u>263,450</u>	<u>-</u>
Fund balance - end of year	<u>\$ 248,445</u>	<u>207,598</u>	<u>\$ 265,583</u>	<u>\$ 57,985</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, 2011**

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
<b>Revenues</b>				
State revenue sharing	\$ 103,000	\$ 97,500	\$ 106,704	\$ 9,204
Interest income	750	425	538	113
Total revenues	<u>103,750</u>	<u>97,925</u>	<u>107,242</u>	<u>9,317</u>
<b>Expenditures</b>				
Current				
Public works	100,780	63,971	53,814	(10,157)
Debt service				
Principal retirement	-	6,447	6,447	-
Interest and fiscal charges	-	1,090	1,090	-
Transfers out	<u>45,125</u>	<u>50,125</u>	<u>33,102</u>	<u>(17,023)</u>
Total expenditures	<u>145,905</u>	<u>121,633</u>	<u>94,453</u>	<u>(27,180)</u>
Excess of revenues (deficiency) over expenditures	(42,155)	(23,708)	12,789	36,497
Fund balance - beginning of year	<u>221,592</u>	<u>221,592</u>	<u>221,592</u>	<u>-</u>
Fund balance - end of year	<u>\$ 179,437</u>	<u>\$ 197,884</u>	<u>\$ 234,381</u>	<u>\$ 36,497</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, 2011**

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
<b>Revenues</b>				
State revenue sharing	\$ 51,000	\$ 35,683	\$ 53,179	\$ 17,496
Interest income	200	88	106	18
Total revenues	<u>68,700</u>	<u>53,271</u>	<u>53,285</u>	<u>14</u>
<b>Expenditures</b>				
Current				
Public works	68,491	58,233	55,029	(3,204)
Debt service				
Principal retirement	7,536	2,827	3,228	401
Interest and fiscal charges	-	270	543	273
Transfers out	-	-	2,925	2,925
Total expenditures	<u>76,027</u>	<u>61,330</u>	<u>61,725</u>	<u>395</u>
Excess of revenues (deficiency) over expenditures	(7,327)	(8,059)	(8,440)	(381)
Fund balance - beginning of year	<u>66,955</u>	<u>66,955</u>	<u>66,955</u>	<u>-</u>
Fund balance - end of year	<u>\$ 59,628</u>	<u>\$ 58,896</u>	<u>\$ 58,515</u>	<u>\$ (381)</u>

See Accompanying Notes to Financial Statements

## **OTHER SUPPLEMENTAL INFORMATION**

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**Village of Lake Isabella**  
**Other Supplemental Information**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2011**

	Debt Service Funds					Total Nonmajor Governmental Funds
	2003 MDOT Debt Fund	Fairway Debt Fund	Queensway Debt Fund	Castle/Sevilla Debt Fund	Putter Drive Debt Fund	
<b>Assets</b>						
Cash and cash equivalents	\$ 952	\$ 6,870	\$ 1,586	\$ 1,572	\$ 524	\$ 11,504
Investments	-	6,085	43,418	16,952	17,988	84,443
Receivables						
Special assessments	-	27,091	21,693	47,604	26,607	122,995
Due from other funds	-	-	-	600	-	600
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 952</u>	<u>\$ 40,046</u>	<u>\$ 66,697</u>	<u>\$ 66,728</u>	<u>\$ 45,119</u>	<u>\$ 219,542</u>
<b>Liabilities</b>						
Due to other funds	\$ -	\$ -	\$ 1,109	\$ -	\$ 600	\$ 1,709
Deferred revenue	-	27,091	21,693	47,604	26,607	122,995
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>-</u>	<u>27,091</u>	<u>22,802</u>	<u>47,604</u>	<u>27,207</u>	<u>124,704</u>
<b>Fund Balances</b>						
Restricted for:						
Debt service	<u>952</u>	<u>12,955</u>	<u>43,895</u>	<u>19,124</u>	<u>17,912</u>	<u>94,838</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and fund balances	<u>\$ 952</u>	<u>\$ 40,046</u>	<u>\$ 66,697</u>	<u>\$ 66,728</u>	<u>\$ 45,119</u>	<u>\$ 219,542</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, 2011**

	Debt Service Funds					Total Nonmajor Governmental Funds
	2003 MDOT Debt Fund	Fairway Debt Fund	Queensway Debt Fund	Castle/Sevilla Debt Fund	Putter Drive Debt Fund	
<b>Revenues</b>						
Charges for services	\$ -	\$ 12,853	\$ -	\$ 7,759	\$ 5,266	\$ 25,878
Interest income	2	56	8,682	19	40	8,799
<b>Total revenues</b>	<u>2</u>	<u>12,909</u>	<u>8,682</u>	<u>7,778</u>	<u>5,306</u>	<u>34,677</u>
<b>Expenditures</b>						
Current						
Public works	-	-	24	-	-	24
Debt service						
Principal retirement	25,000	15,000	15,000	13,600	6,400	75,000
Interest and fiscal charges	2,625	1,339	1,710	2,720	1,280	9,674
<b>Total expenditures</b>	<u>27,625</u>	<u>16,339</u>	<u>16,734</u>	<u>16,320</u>	<u>7,680</u>	<u>84,698</u>
Deficiency of revenues over expenditures	<u>(27,623)</u>	<u>(3,430)</u>	<u>(8,052)</u>	<u>(8,542)</u>	<u>(2,374)</u>	<u>(50,021)</u>
<b>Other financing sources (uses)</b>						
Transfers in	27,625	-	-	-	-	27,625
Transfers out	-	-	(1,000)	(850)	(400)	(2,250)
<b>Total other financing sources and uses</b>	<u>27,625</u>	<u>-</u>	<u>(1,000)</u>	<u>(850)</u>	<u>(400)</u>	<u>25,375</u>
Net change in fund balance	2	(3,430)	(9,052)	(9,392)	(2,774)	(24,646)
Fund balance - beginning of year	<u>950</u>	<u>16,385</u>	<u>52,947</u>	<u>28,516</u>	<u>20,686</u>	<u>119,484</u>
Fund balance - end of year	<u>\$ 952</u>	<u>\$ 12,955</u>	<u>\$ 43,895</u>	<u>\$ 19,124</u>	<u>\$ 17,912</u>	<u>\$ 94,838</u>

See Accompanying Notes to Financial Statements



6018 Eastman Avenue  
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December 12, 2011

Village Council  
Village of Lake Isabella  
Isabella County, Michigan

We have completed our audit of the financial statements of Village of Lake Isabella as of and for the year ended June 30, 2011 and have issued our report dated December 12, 2011. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

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

We discussed these matters with various personnel in the organization during the audit and have already met with management on. 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.*



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 October 24, 2011. 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 Village has adopted Government Accounting Standards Board Statement No. 54 effective July 1, 2010. The new standard changes fund balance classifications to depict the relative strength of the spending constraints and clarifies the definitions of various governmental fund types. 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. There were no significant estimates in the financial statements.

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. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

*Disagreements with Management*

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

### *Management Representations*

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

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

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

### *Other Audit Findings or Issues*

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