

**Village of Lake Isabella
Isabella County**

**Annual Financial Statements
and
Auditors' Report
June 30, 2012**

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Village of Lake Isabella
List of Elected and Appointed Officials
June 30, 2012

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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Midland, MI 48640
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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, 2012, 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, 2012 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.

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 21, 2012
Midland, Michigan

**Village of Lake Isabella
Management's Discussion and Analysis
Year Ended June 30, 2012**

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, 2012.

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, 2012**

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>2012</u>	<u>2011</u>
Assets		
Current assets	\$ 2,165,971	\$ 2,415,648
Capital assets	5,652,465	5,626,100
Less accumulated depreciation	<u>(2,058,736)</u>	<u>(1,820,206)</u>
Net capital assets	<u>3,593,729</u>	<u>3,805,894</u>
Total assets	<u>5,759,700</u>	<u>6,221,542</u>
Liabilities		
Current liabilities	39,554	29,006
Long-term liabilities	<u>1,599,992</u>	<u>1,897,817</u>
Total liabilities	<u>1,639,546</u>	<u>1,926,823</u>
Net assets		
Investment in capital assets, net of related debt	1,997,900	1,908,077
Restricted for debt service	382,754	529,086
Restricted for streets	327,636	292,896
Unrestricted	<u>1,411,864</u>	<u>1,564,660</u>
Total net assets	<u>\$ 4,120,154</u>	<u>\$ 4,294,719</u>

During the fiscal year ended June 30, 2012, the Village's net assets decreased by \$174,565.

**Village of Lake Isabella
Management's Discussion and Analysis
Year Ended June 30, 2012**

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 \$4,120,154.

A portion of the Village's net assets (48%) 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, 2012	Year Ended June 30, 2011
Program revenue		
Charges for services	\$ 147,190	\$ 158,066
General revenue:		
Property taxes	63,648	59,826
State share revenue	304,323	271,169
Interest and investment earnings	12,775	11,604
Miscellaneous	18,439	7,779
	<u>546,375</u>	<u>508,444</u>
Total Revenues		

Expenses:

	Year Ended June 30, 2012	Year Ended June 30, 2011
Governmental activities	\$ 232,192	\$ 190,870
Public safety	58,384	70,667
Public works	338,902	415,207
Community and economic development	3,009	2,370
Interest on long-term debt	60,755	80,242
	<u>693,242</u>	<u>759,356</u>
Total governmental expenses		
Business-type activities		
Sewer	17,375	21,250
Airport	10,323	10,323
	<u>27,698</u>	<u>31,573</u>
Total	720,940	790,929
Change in net assets	(174,565)	(282,485)
Net assets - beginning	<u>4,294,719</u>	<u>4,577,204</u>
Net assets - ending	<u>\$ 4,120,154</u>	<u>\$ 4,294,719</u>

Governmental Activities

The Village's total governmental revenue increased by \$37,931. 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, 2012**

As of the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$963,973, a decrease of \$123,592 in comparison with the prior year. Approximately 26% 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 \$253,583. 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 73% of total general fund expenditures.

The fund balance of the General Fund decreased by \$12,000 during the current fiscal year, due to unforeseen events that resulted in the purchase of a new vehicle for the Village.

The fund balance of the Major Streets Fund increased by \$26,335 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 increased by \$8,405 during the current fiscal year. The increase was due to an increase 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 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 \$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 \$82,597 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, 2012**

Capital Assets and Debt Administration

Capital Assets

The Villages investment in capital assets for its governmental activities as of June 30, 2012, amounted to \$3,398,731 (net of accumulated depreciation). Investment in capital assets included land, buildings, and equipment.

	Balance July 1, 2011	Additions	Disposals	Balance June 30, 2012
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	48,737	26,365	-	75,102
Capital assets	<u>5,304,648</u>	<u>26,365</u>	<u>-</u>	<u>5,331,013</u>
Less:				
Accumulated depreciation	(1,704,075)	(228,207)	-	(1,932,282)
Governmental activities capital assets, net	<u>\$ 3,600,573</u>	<u>\$ (201,842)</u>	<u>\$ -</u>	<u>\$ 3,398,731</u>

Long-term Debt

At the end of the current fiscal year, the Village had total long-term debt outstanding of \$1,599,992.

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012
General Obligation bonds	\$ 624,309	\$ 26,365	\$ 49,845	\$ 600,829
Compensated absences	3,508	655	-	4,163
Special assesment obligations	1,270,000	-	275,000	995,000
	<u>\$ 1,897,817</u>	<u>\$ 27,020</u>	<u>\$ 324,845</u>	<u>\$ 1,599,992</u>

Economic Factors and Next Year's Budget

The following factors were considered in preparing the Village's budget for the 2012-2013 fiscal year:

- The State of Michigan has made significant cuts in their operating budgets due to a downturn in economy. For 2011-2012, the Village received \$122,380 in state shared revenue, representing 46% 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

Village of Lake Isabella
Statement of Net Assets
June 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 423,299	\$ 1,252	\$ 424,551
Investments	513,875	57,912	571,787
Receivables			
Special assessments	1,120,935	-	1,120,935
Due from other units of government	48,698	-	48,698
Capital assets not being depreciated	5,304	115,000	120,304
Capital assets - net of accumulated depreciation	<u>3,393,427</u>	<u>79,998</u>	<u>3,473,425</u>
 Total assets	 <u>5,505,538</u>	 <u>254,162</u>	 <u>5,759,700</u>
Liabilities			
Accounts payable	19,157	-	19,157
Accrued and other liabilities	20,397	-	20,397
Noncurrent liabilities			
Due within one year	337,329	-	337,329
Due in more than one year	<u>1,262,663</u>	<u>-</u>	<u>1,262,663</u>
 Total liabilities	 <u>1,639,546</u>	 <u>-</u>	 <u>1,639,546</u>
Net Assets			
Invested in capital assets, net of related debt	1,802,902	194,998	1,997,900
Restricted for:			
Debt service	382,754	-	382,754
Streets	327,636	-	327,636
Unrestricted	<u>1,352,700</u>	<u>59,164</u>	<u>1,411,864</u>
 Total net assets	 <u>\$ 3,865,992</u>	 <u>\$ 254,162</u>	 <u>\$ 4,120,154</u>

See Accompanying Notes to Financial Statements

Village of Lake Isabella
Statement of Activities
For the Year Ended June 30, 2012

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</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	\$ 232,192	\$ 24,696	\$ -	\$ -	\$ (207,496)	\$ -	\$ (207,496)
Public safety	58,384	-	-	-	(58,384)	-	(58,384)
Public works	338,902	122,494	-	-	(216,408)	-	(216,408)
Community and economic development	3,009	-	-	-	(3,009)	-	(3,009)
Interest on long-term debt	60,755	-	-	-	(60,755)	-	(60,755)
Total governmental activities	<u>693,242</u>	<u>147,190</u>	<u>-</u>	<u>-</u>	<u>(546,052)</u>	<u>-</u>	<u>(546,052)</u>
Business-type activities							
Sewer	17,375	-	-	-	-	(17,375)	(17,375)
Airport	10,323	-	-	-	-	(10,323)	(10,323)
Total primary government	<u>\$ 720,940</u>	<u>\$ 147,190</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(546,052)</u>	<u>(27,698)</u>	<u>(573,750)</u>
General revenues							
Property taxes					63,648	-	63,648
State shared revenue					304,323	-	304,323
Unrestricted investment earnings					12,733	42	12,775
Miscellaneous					18,439	-	18,439
Transfers					2,500	(2,500)	-
Total general revenues and transfers					<u>401,643</u>	<u>(2,458)</u>	<u>399,185</u>
Change in net assets					(144,409)	(30,156)	(174,565)
Net assets - beginning of year					4,010,401	284,318	4,294,719
Net assets - end of year					<u>\$ 3,865,992</u>	<u>\$ 254,162</u>	<u>\$ 4,120,154</u>

See Accompanying Notes to Financial Statements

**Village of Lake Isabella
Governmental Funds
Balance Sheet
June 30, 2012**

	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	\$ 186,278	\$ 105,672	\$ 27,407	\$ 2,898	\$ 89,777	\$ 11,267	\$ 423,299
Investments	60,463	144,452	29,039	45,705	176,598	57,618	513,875
Receivables							
Special assessments	-	-	-	199,783	820,889	100,263	1,120,935
Due from other units of government	19,533	19,447	9,718	-	-	-	48,698
Due from other funds	-	-	1,109	-	-	600	1,709
Total assets	<u>\$ 266,274</u>	<u>\$ 269,571</u>	<u>\$ 67,273</u>	<u>\$ 248,386</u>	<u>\$ 1,087,264</u>	<u>\$ 169,748</u>	<u>\$ 2,108,516</u>
Liabilities							
Accounts payable	\$ 10,655	\$ 8,502	\$ -	\$ -	\$ -	\$ -	\$ 19,157
Accrued and other liabilities	2,036	353	353	-	-	-	2,742
Due to other funds	-	-	-	-	-	1,709	1,709
Deferred revenue	-	-	-	199,783	820,889	100,263	1,120,935
Total liabilities	<u>12,691</u>	<u>8,855</u>	<u>353</u>	<u>199,783</u>	<u>820,889</u>	<u>101,972</u>	<u>1,144,543</u>
Fund Balances							
Restricted for							
Debt service	-	-	-	48,603	266,375	67,776	382,754
Streets	-	260,716	66,920	-	-	-	327,636
Unassigned	253,583	-	-	-	-	-	253,583
Total fund balances	<u>253,583</u>	<u>260,716</u>	<u>66,920</u>	<u>48,603</u>	<u>266,375</u>	<u>67,776</u>	<u>963,973</u>
Total liabilities and fund balances	<u>\$ 266,274</u>	<u>\$ 269,571</u>	<u>\$ 67,273</u>	<u>\$ 248,386</u>	<u>\$ 1,087,264</u>	<u>\$ 169,748</u>	<u>\$ 2,108,516</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, 2012

Total fund balances for governmental funds	\$ 963,973
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	3,393,427
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	
	1,120,935
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(17,655)
Compensated absences	(4,163)
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>(1,595,829)</u>
Net assets of governmental activities	<u><u>\$ 3,865,992</u></u>

Village of Lake Isabella
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2012

	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	\$ 63,648	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63,648
Licenses and permits	7,116	-	-	-	-	-	7,116
State revenue sharing	122,380	123,796	58,147	-	-	-	304,323
Local contributions	7,373	-	-	-	-	-	7,373
Charges for services	30,788	-	-	45,257	141,428	25,004	242,477
Interest income	462	254	62	930	3,035	7,990	12,733
Rental income	17,580	-	-	-	-	-	17,580
Other revenue	11,066	-	-	-	-	-	11,066
Total revenues	<u>260,413</u>	<u>124,050</u>	<u>58,209</u>	<u>46,187</u>	<u>144,463</u>	<u>32,994</u>	<u>666,316</u>
Expenditures							
Current							
General government	219,840	-	-	-	-	-	219,840
Public safety	58,384	-	-	-	-	-	58,384
Public works	6,952	50,914	50,374	-	12,040	-	120,280
Community and economic development	3,009	-	-	-	-	-	3,009
Capital outlay	28,477	-	-	-	-	-	28,477
Debt service							
Principal retirement	15,000	6,532	3,313	55,000	170,000	75,000	324,845
Interest and fiscal charges	12,925	800	389	2,860	40,020	6,944	63,938
Total expenditures	<u>344,587</u>	<u>58,246</u>	<u>54,076</u>	<u>57,860</u>	<u>222,060</u>	<u>81,944</u>	<u>818,773</u>
Excess (deficiency) of revenues over expenditures	<u>(84,174)</u>	<u>65,804</u>	<u>4,133</u>	<u>(11,673)</u>	<u>(77,597)</u>	<u>(48,950)</u>	<u>(152,457)</u>
Other financing sources (uses)							
Transfers in	45,809	-	7,425	-	-	25,888	79,122
Transfers out	-	(39,469)	(3,153)	(25,000)	(5,000)	(4,000)	(76,622)
Issuance of debt	26,365	-	-	-	-	-	26,365
Total other financing sources and uses	<u>72,174</u>	<u>(39,469)</u>	<u>4,272</u>	<u>(25,000)</u>	<u>(5,000)</u>	<u>21,888</u>	<u>28,865</u>
Net change in fund balance	<u>(12,000)</u>	<u>26,335</u>	<u>8,405</u>	<u>(36,673)</u>	<u>(82,597)</u>	<u>(27,062)</u>	<u>(123,592)</u>
Fund balance - beginning 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>
Fund balance - end of year	<u>\$ 253,583</u>	<u>\$ 260,716</u>	<u>\$ 66,920</u>	<u>\$ 48,603</u>	<u>\$ 266,375</u>	<u>\$ 67,776</u>	<u>\$ 963,973</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, 2012

Net change in fund balances - Total governmental funds	\$ (123,592)
<p>Total change in net assets 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	(228,207)
Capital outlay	26,365
<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	(119,983)
<p>Expenses are recorded when incurred in the statement of activities</p>	
Accrued interest	3,183
Compensated absences	(655)
<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 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.</p>	
Debt issued	(26,365)
Repayments of long-term debt	324,845
Change in net assets of governmental activities	\$ (144,409)

Village of Lake Isabella
Proprietary Funds
Statement of Net Assets
June 30, 2012

	Enterprise Funds		
	Sewer	Airport	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 1,252	\$ -	\$ 1,252
Investments	57,912	-	57,912
Total current assets	59,164	-	59,164
Capital assets not being depreciated	65,000	50,000	115,000
Capital assets - net of accumulated depreciation	-	79,998	79,998
Total noncurrent assets	65,000	129,998	194,998
Total assets	124,164	129,998	254,162
Net Assets			
Invested in capital assets	65,000	129,998	194,998
Unrestricted	59,164	-	59,164
Total net assets	\$ 124,164	\$ 129,998	\$ 254,162

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, 2012

	Enterprise Funds		
	Sewer	Airport	Total
Operating expenses			
Contractual services	\$ 17,375	\$ -	\$ 17,375
Depreciation	-	10,323	10,323
Total operating expenses	<u>17,375</u>	<u>10,323</u>	<u>27,698</u>
Operating loss	<u>(17,375)</u>	<u>(10,323)</u>	<u>(27,698)</u>
Nonoperating revenue			
Interest income	<u>42</u>	<u>-</u>	<u>42</u>
Loss before transfers out	(17,333)	(10,323)	(27,656)
Transfers out	<u>(2,500)</u>	<u>-</u>	<u>(2,500)</u>
Change in net assets	(19,833)	(10,323)	(30,156)
Net assets - beginning of year	<u>143,997</u>	<u>140,321</u>	<u>284,318</u>
Net assets - end of year	<u>\$ 124,164</u>	<u>\$ 129,998</u>	<u>\$ 254,162</u>

See Accompanying Notes to Financial Statements

**Village of Lake Isabella
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2012**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Airport</u>	<u>Total</u>
Cash flows from operating activities			
Payments to suppliers	\$ (17,375)	\$ -	\$ (17,375)
Cash flows from noncapital financing activities			
Transfers to other funds	(2,500)	-	(2,500)
Cash flows from investing activities			
Proceeds from sales and maturities of investments	20,480	-	20,480
Interest received	42	-	42
Net cash provided by investing activities	<u>20,522</u>	<u>-</u>	<u>20,522</u>
Net Change in cash and cash equivalents	647	-	647
Cash and cash equivalents - beginning of year	<u>605</u>	<u>-</u>	<u>605</u>
Cash and cash equivalents - end of year	<u>\$ 1,252</u>	<u>\$ -</u>	<u>\$ 1,252</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating loss	\$ (17,375)	\$ (10,323)	\$ (27,698)
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation and amortization expense	<u>-</u>	<u>10,323</u>	<u>10,323</u>
Net cash used by operating activities	<u>\$ (17,375)</u>	<u>\$ -</u>	<u>\$ (17,375)</u>

See Accompanying Notes to Financial Statements

Village of Lake Isabella
Notes to Financial Statements
June 30, 2012

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, 2012

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, 2012

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 31st. The lien on the property occurs when the property taxes are levied (July 1st).

The 2011 taxable valuation of the government totaled \$74,557,852, 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, 2012

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.

Upcoming Accounting and Reporting Changes

The Government Accounting Standards Board has issued *Statements 63 and 65, Financial Reporting of Deferred Outflows of Resources*,

Village of Lake Isabella
Notes to Financial Statements
June 30, 2012

Deferred Inflows of Resources and Net Position and Items Previously Reported as Assets and Liabilities. 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. These statements will be adopted for the fiscal year ending June 30, 2013.

The Government Accounting Standards Board has also 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.

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			
General government	\$ 206,586	\$ 219,840	\$ 13,254
Public safety	52,260	58,384	6,124
Community and economic development	2,900	3,009	109
Capital outlay	2,550	28,477	25,927
Major Streets Fund			
Debt service	5,444	7,332	1,888
Transfers Out	39,200	39,469	269
Local Streets Fund			
Debt service	1,814	3,702	1,888
Transfers Out	-	3,153	3,153

Village of Lake Isabella
Notes to Financial Statements
June 30, 2012

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	\$ 423,299	\$ 513,875
Business-type activities	1,252	57,912
Total primary government	\$ 424,551	\$ 571,787

The breakdown between deposits and investments is as follows:

	Primary Government
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 424,551
Investments in securities, mutual funds and similar vehicles	571,787
	\$ 996,338

As of June 30, 2012, the Village had the following investments:

Investment	Fair Value	Maturities	Rating
Raymond James Bank Deposit Program	\$ 571,787		Not rated

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, \$212,460 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Village of Lake Isabella
Notes to Financial Statements
June 30, 2012

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	\$ 571,787	By counterparty in the Village's name

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
Village government		
Special assessments	\$ 904,633	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:

Village government	<u>Unavailable</u>
Special assessments	\$ 1,120,935

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	48,737	26,365	-	75,102
Total capital assets being depreciated	5,299,344	26,365	-	5,325,709
Capital assets - net of accumulated depreciation				
Less accumulated depreciation for				
Roads	1,641,683	205,914	-	1,847,597
Buildings	25,640	13,020	-	38,660
Street equipment	2,575	-	-	2,575
Office equipment	13,097	2,177	-	15,274
Vehicles	21,080	7,096	-	28,176
Total accumulated depreciation	1,704,075	228,207	-	1,932,282
Net capital assets being depreciated	3,595,269	(201,842)	-	3,393,427
Governmental activities capital assets, net	\$ 3,600,573	\$ (201,842)	\$ -	\$ 3,398,731

Village of Lake Isabella
Notes to Financial Statements
June 30, 2012

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	116,131	10,323	-	126,454
Net capital assets being depreciated	90,321	(10,323)	-	79,998
Business-type capital assets, net	<u>\$ 205,321</u>	<u>\$ (10,323)</u>	<u>\$ -</u>	<u>\$ 194,998</u>

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

Governmental activities	
General government	\$ 11,697
Public works	216,510
Total governmental activities	<u>228,207</u>
Business-type activities	
Airport	<u>10,323</u>
Total primary government	<u>\$ 238,530</u>

NOTE 6 - INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due from/to other funds		
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	\$ 6,156
Local Streets Fund	General Fund	3,153
Sewer Fund	General Fund	2,500
Major Streets Debt Fund	General Fund	25,000
Fairway Debt Fund	General Fund	1,500
Queensway Debt Fund	General Fund	1,500
Castle/Sevilla Debt Fund	General Fund	680
Putter Drive Debt Fund	General Fund	320
Local Streets Special	General Fund	5,000
Major Streets Fund	Local Streets Fund	7,425
Major Streets Debt Fund	Local Streets Fund	25,888
		<u>\$ 79,122</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, 2012

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	\$ 275,000	\$ -	\$ 5,000	\$ 270,000	\$ 5,000
S. Coldwater Property	210,000	2039	5.00%	3,000 - 13,000	210,000	-	3,000	207,000	4,000
2003 Michigan Transportation	225,000	2013	3.50 - 3.60%	25,000	50,000	-	25,000	25,000	25,000
Tractor Note Payable	17,090	2012	5.25%	3,408 - 3,588	6,999	-	3,408	3,591	3,589
Salt Barn Installment Payable	70,000	2019	4.75%	7,000	63,000	-	7,000	56,000	7,000
Truck Note Payable	25,747	2014	4.25%	6,437	19,310	-	6,437	12,873	6,437
Truck Note Payable	26,365	2016	2.99%	6,303 - 6,885	-	26,365	-	26,365	6,303
Compensated absences					3,508	655	-	4,163	-
Special assessment obligations									
Major Streets Bonds	515,000	2012	3.40 - 3.50%	55,000	110,000	-	55,000	55,000	55,000
Fairway Drive Bonds	140,000	2012	3.15%	20,000	35,000	-	15,000	20,000	20,000
Queensway Bonds	140,000	2013	3.60%	10,000 - 15,000	40,000	-	15,000	25,000	15,000
Castle/sevilla Bonds	180,000	2014	4.35 - 4.60%	13,600	54,400	-	13,600	40,800	13,600
Putter Drive Bonds	180,000	2014	4.35 - 4.60%	6,400	25,600	-	6,400	19,200	6,400
LSSA Drive Bonds	1,585,000	2016	4.35%	170,000	1,005,000	-	170,000	835,000	170,000
Total governmental activities					<u>\$ 1,897,817</u>	<u>\$ 27,020</u>	<u>\$ 324,845</u>	<u>\$ 1,599,992</u>	<u>\$ 337,329</u>

Village of Lake Isabella
Notes to Financial Statements
June 30, 2012

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

Year Ending June 30	Governmental Activities	
	Principal	Interest
2013	\$ 337,329	\$ 64,241
2014	228,930	52,405
2015	212,685	42,727
2016	182,885	34,165
2017	181,000	26,165
2018-2022	81,000	101,000
2023-2027	80,000	83,070
2028-2032	112,000	59,741
2033-2037	142,000	28,218
2038-2040	38,000	2,900
	<u>\$ 1,595,829</u>	<u>\$ 494,632</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

Village of Lake Isabella
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under)
				Final Budget
Revenues				
Taxes				
Property taxes	\$ 57,900	\$ 63,017	\$ 63,107	\$ 90
Penalties and interest	-	-	541	541
Licenses and permits	5,800	7,231	7,116	(115)
State revenue sharing	105,000	105,000	122,380	17,380
Local contributions	5,000	6,000	7,373	1,373
Charges for services	29,000	30,788	30,788	-
Interest income	750	400	462	62
Rental income	17,580	17,580	17,580	-
Other revenue	1,250	9,132	11,066	1,934
Bond/note proceeds	-	-	26,365	26,365
Transfer in	22,500	45,000	45,809	809
Total revenues	<u>244,780</u>	<u>284,148</u>	<u>332,587</u>	<u>48,439</u>
Expenditures				
General government				
Village board	3,400	2,360	2,542	182
Manager	120,425	127,195	137,674	10,479
Clerk	14,320	15,114	15,222	108
Treasurer	18,640	20,033	19,585	(448)
Elections	2,075	1,396	1,371	(25)
Buildings and grounds	33,325	40,488	43,446	2,958
Total general government	<u>192,185</u>	<u>206,586</u>	<u>219,840</u>	<u>13,254</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, 2012

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Public safety				
Code enforcement	23,260	23,260	25,217	1,957
Fire department	29,000	29,000	33,167	4,167
Total public safety	<u>52,260</u>	<u>52,260</u>	<u>58,384</u>	<u>6,124</u>
Public works				
Public works	5,825	5,825	5,876	51
Street lighting	1,300	1,300	1,076	(224)
Total public works	<u>7,125</u>	<u>7,125</u>	<u>6,952</u>	<u>(173)</u>
Community and economic development				
Planning	2,400	2,400	2,800	400
Zoning	500	500	209	(291)
Total community and economic development	<u>2,900</u>	<u>2,900</u>	<u>3,009</u>	<u>109</u>
Capital outlay	<u>7,500</u>	<u>2,550</u>	<u>28,477</u>	<u>25,927</u>
Debt service				
Principal retirement	15,000	15,000	15,000	-
Interest and fiscal charges	12,925	12,925	12,925	-
Total debt service	<u>27,925</u>	<u>27,925</u>	<u>27,925</u>	<u>-</u>
Total expenditures	<u>289,895</u>	<u>299,346</u>	<u>344,587</u>	<u>45,241</u>
Excess of revenues over expenditures	(45,115)	(15,198)	(12,000)	3,198
Fund balance - beginning of year	<u>265,583</u>	<u>265,583</u>	<u>265,583</u>	<u>-</u>
Fund balance - end of year	<u>\$ 220,468</u>	<u>250,385</u>	<u>\$ 253,583</u>	<u>\$ 3,198</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, 2012

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
State revenue sharing	\$ 96,500	\$ 96,500	\$ 123,796	\$ 27,296
Interest income	500	500	254	(246)
Total revenues	<u>97,000</u>	<u>97,000</u>	<u>124,050</u>	<u>27,050</u>
Expenditures				
Current				
Public works	68,717	68,717	50,914	(17,803)
Debt service				
Principal retirement	4,828	4,828	6,532	1,704
Interest and fiscal charges	616	616	800	184
Transfers out	<u>41,775</u>	<u>39,200</u>	<u>39,469</u>	<u>269</u>
Total expenditures	<u>115,936</u>	<u>113,361</u>	<u>97,715</u>	<u>(15,646)</u>
Excess of revenues (deficiency) over expenditures	(18,936)	(16,361)	26,335	42,696
Fund balance - beginning of year	<u>234,381</u>	<u>234,381</u>	<u>234,381</u>	<u>-</u>
Fund balance - end of year	<u>\$ 215,445</u>	<u>\$ 218,020</u>	<u>\$ 260,716</u>	<u>\$ 42,696</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, 2012

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under)
				Final Budget
Revenues				
State revenue sharing	\$ 46,500	\$ 46,500	\$ 58,147	\$ 11,647
Interest income	150	150	62	(88)
Other revenue	10,000	10,000	7,425	(2,575)
Total revenues	<u>56,650</u>	<u>56,650</u>	<u>65,634</u>	<u>8,984</u>
Expenditures				
Current				
Public works	72,128	72,128	50,374	(21,754)
Debt service				
Principal retirement	1,609	1,609	3,313	1,704
Interest and fiscal charges	205	205	389	184
Transfers out	-	-	3,153	3,153
Total expenditures	<u>73,942</u>	<u>73,942</u>	<u>57,229</u>	<u>(16,713)</u>
Excess of revenues (deficiency) over expenditures	(17,292)	(17,292)	8,405	25,697
Fund balance - beginning of year	<u>58,515</u>	<u>58,515</u>	<u>58,515</u>	<u>-</u>
Fund balance - end of year	<u>\$ 41,223</u>	<u>\$ 41,223</u>	<u>\$ 66,920</u>	<u>\$ 25,697</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, 2012

	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	\$ 68	\$ 4,307	\$ 2,536	\$ 2,702	\$ 1,654	\$ 11,267
Investments	-	4,087	32,530	6,982	14,019	57,618
Receivables						
Special assessments	-	16,519	15,861	43,981	23,902	100,263
Due from other funds	-	-	-	600	-	600
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 68</u>	<u>\$ 24,913</u>	<u>\$ 50,927</u>	<u>\$ 54,265</u>	<u>\$ 39,575</u>	<u>\$ 169,748</u>
Liabilities						
Due to other funds	\$ -	\$ -	\$ 1,109	\$ -	\$ 600	\$ 1,709
Deferred revenue	-	16,519	15,861	43,981	23,902	100,263
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>-</u>	<u>16,519</u>	<u>16,970</u>	<u>43,981</u>	<u>24,502</u>	<u>101,972</u>
Fund Balances						
Restricted for:						
Debt service	<u>68</u>	<u>8,394</u>	<u>33,957</u>	<u>10,284</u>	<u>15,073</u>	<u>67,776</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 68</u>	<u>\$ 24,913</u>	<u>\$ 50,927</u>	<u>\$ 54,265</u>	<u>\$ 39,575</u>	<u>\$ 169,748</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, 2012

	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	\$ -	\$ 12,739	\$ -	\$ 7,431	\$ 4,834	\$ 25,004
Interest income	1	66	7,732	141	50	7,990
Total revenues	<u>1</u>	<u>12,805</u>	<u>7,732</u>	<u>7,572</u>	<u>4,884</u>	<u>32,994</u>
Expenditures						
Debt service						
Principal retirement	25,000	15,000	15,000	13,600	6,400	75,000
Interest and fiscal charges	1,773	866	1,170	2,132	1,003	6,944
Total expenditures	<u>26,773</u>	<u>15,866</u>	<u>16,170</u>	<u>15,732</u>	<u>7,403</u>	<u>81,944</u>
Deficiency of revenues over expenditures	<u>(26,772)</u>	<u>(3,061)</u>	<u>(8,438)</u>	<u>(8,160)</u>	<u>(2,519)</u>	<u>(48,950)</u>
Other financing sources (uses)						
Transfers in	25,888	-	-	-	-	25,888
Transfers out	-	(1,500)	(1,500)	(680)	(320)	(4,000)
Total other financing sources and uses	<u>25,888</u>	<u>(1,500)</u>	<u>(1,500)</u>	<u>(680)</u>	<u>(320)</u>	<u>21,888</u>
Net change in fund balance	(884)	(4,561)	(9,938)	(8,840)	(2,839)	(27,062)
Fund balance - beginning of year	952	12,955	43,895	19,124	17,912	94,838
Fund balance - end 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>

See Accompanying Notes to Financial Statements