

**Village of Lake Isabella  
Lake Isabella, Michigan**

**Financial Statements  
June 30, 2017**



**RPC**  
Roslund Prestage & Company  
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report**

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## INDEPENDENT AUDITOR'S REPORT

To the Village Council  
Village of Lake Isabella

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Lake Isabella (the Village), as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise the Village's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Village as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison schedules be presented to supplement the basic financial

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

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2017, on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.

Sincerely,

A handwritten signature in cursive script that reads "Roslund, Prestage & Company, P.C.".

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

October 20, 2017

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**



# Management's Discussion and Analysis

As management of the *Village of Lake Isabella*, we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here.

## FINANCIAL HIGHLIGHTS:

- The assets of the Village exceeded its liabilities at the close of the most recent fiscal year by \$2,738,689. Of this amount, \$370,811 or 14%, represent unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- At the close of fiscal year, the Village governmental funds reported combined fund balances of \$780,043, an increase of \$19,981 in comparison with the prior year. Approximately 48% of this amount is available for spending at the government's discretion as unassigned fund balance.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$353,103, which is approximately 123% of total general fund expenditures for the year ended June 30, 2017.
- During the 2016-17 FY the Village made the final payment on the Local Street Special Assessment Paving Project (LSSAPP) bonds.

## OVERVIEW OF THE FINANCIAL STATEMENTS:

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

## GOVERNMENT-WIDE FINANCIAL STATEMENTS:

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

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

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

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (*government activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The government activities of the Village include legislative, general government, public safety, public works and recreation and culture. The business-type activities of the Village include sewer services, and the Village's airport and runway.

## **FUND FINANCIAL STATEMENTS:**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into two categories: governmental funds and proprietary 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 outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village maintained four 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 streets, local streets, and LSSA, which are considered to be major funds.

The Village adopts an annual appropriated budget for the general fund and each special revenue fund. A budgetary comparison schedule for the general fund and each major special revenue fund has been provided to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 3 and 5 of this report.

### ***Proprietary funds:***

The Village maintains one type of proprietary fund, an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses enterprises funds to account for its sewer and airport operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer and airport operations, both of which are considered to be major funds of the Village.

The basic proprietary fund financial statements can be found on pages 7-9 of this report.

## **NOTES TO THE FINANCIAL STATEMENTS:**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10-18 of this report.

**OTHER INFORMATION:**

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the Village budgetary comparison schedules.

Required supplementary information can be found on pages 19-21 of this report.

**INTERDEPENDENCE WITH OTHER ENTITIES:**

The Village depends on financial resources flowing from, or associated with, both the federal government and the State of Michigan. Because of this dependency, the Village is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and State laws and federal and State appropriations. This dependency is almost entirely tied to the State of Michigan, as any federal funds accessed by the Village is done with the State of Michigan as a pass-through entity.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS:**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As shown on the following chart, the Village's assets exceeded liabilities by \$2,738,689 at the end of the fiscal year.



## VILLAGE OF LAKE ISABELLA'S NET POSITION

		Governmental Activities		Business-Type Activities		Total	
		2016	2017	2016	2017	2016	2017
Assets							
Current Assets							
	Cash & Investments	\$ 700,216	\$ 715,617	\$ 24,163	\$ 21,672	\$ 724,379	\$ 737,289
	Accounts Receivable	\$ 62,035	\$ 136	\$ -	\$ -	\$ 62,035	\$ 136
	Due from Other Gov. Units	\$ 105,522	\$ 66,362	\$ -	\$ -	\$ 105,522	\$ 66,362
	Prepaid Expenses	\$ 3,408	\$ 2,832	\$ -	\$ -	\$ 3,408	\$ 2,832
	Total Current Assets	\$ 871,181	\$ 784,947	\$ 24,163	\$ 21,672	\$ 895,344	\$ 806,619
Noncurrent Assets							
	Capital Assets NOT being Depreciated	\$ 5,304	\$ 5,304	\$ 115,000	\$ 115,000	\$ 120,304	\$ 120,304
	Capital Assets being Depreciated	\$ 2,476,432	\$ 2,250,079	\$ 38,710	\$ 28,387	\$ 2,515,142	\$ 2,278,466
	Total Noncurrent Assets	\$ 2,481,736	\$ 2,255,383	\$ 153,710	\$ 143,387	\$ 2,635,446	\$ 2,398,770
	TOTAL ASSETS	\$ 3,352,917	\$ 3,040,330	\$ 177,873	\$ 165,059	\$ 3,530,790	\$ 3,205,389
Liabilities							
Current Liabilities							
	Accounts Payable	\$ 1,144	\$ 4,904	\$ -	\$ -	\$ 1,144	\$ 4,904
	Accrued Interest	\$ 4,453	\$ 3,401	\$ -	\$ -	\$ 4,453	\$ 3,401
	Compensated Absences W/I 1 Year	\$ 5,337	\$ 509	\$ -	\$ -	\$ 5,337	\$ 509
	Bonds Payable, Due W/I 1 Year	\$ 184,000	\$ 20,000	\$ -	\$ -	\$ 184,000	\$ 20,000
	Total Current Liabilities	\$ 194,934	\$ 28,814			\$ 194,934	\$ 28,814
Noncurrent Liabilities							
	Compensated Absences	\$ 2,795	\$ 2,886	\$ -	\$ -	\$ 2,795	\$ 2,886
	Bonds Payable	\$ 455,000	\$ 435,000	\$ -	\$ -	\$ 455,000	\$ 435,000
	Total Noncurrent Liabilities	\$ 457,795	\$ 437,886	\$ -	\$ -	\$ 457,795	\$ 437,886
	TOTAL LIABILITIES	\$ 652,729	\$ 466,700	\$ -	\$ -	\$ 652,729	\$ 466,700
Net Position							
	Net Investments in Capital Assets	\$ 1,842,736	\$ 1,800,383	\$ 153,710	\$ 143,387	\$ 1,996,446	\$ 1,943,770
	Restricted	\$ 444,612	\$ 424,108	\$ -	\$ -	\$ 444,612	\$ 424,108
	Unrestricted	\$ 412,840	\$ 349,139	\$ 24,163	\$ 21,672	\$ 437,003	\$ 370,811
TOTAL NET POSITION		\$2,700,188	\$2,573,630	\$ 177,873	\$165,059	\$2,878,061	\$ 2,738,689

The net positions are separated into two major components; net investment in capital assets (e.g., buildings, equipment and vehicles and infrastructure), which amounted to \$1,943,770 or 71% of Total Net Position and unrestricted net position of \$370,811 or 14% of Total Net Position. Unrestricted net position may be used to meet the Village's ongoing obligations to its programs. The remaining net positions of the Village (\$424,108 or 15%) represent resources which have some type of external restrictions on how they may be used.

At the end of the current fiscal year, the Village is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

## VILLAGE OF LAKE ISABELLA'S CHANGES IN NET POSITION

			Governmental Activities		Business-Type Activities		Total	
			2016	2017	2016	2017	2016	2017
Revenue								
	Program Revenues							
		Charges for Services	\$ 113,602	\$ 52,606	\$ -	\$ -	\$ 113,602	\$ 52,606
		Operating Grants/Contributions	\$ 204,969	\$ 234,962	\$ -	\$ -	\$ 204,969	\$ 234,962
		Capital Grants/Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Total Program Revenues		\$ 318,571	\$ 287,568	\$ -	\$ -	\$ 318,571	\$ 287,568
	General Revenues							
		Taxes	\$ 63,002	\$ 72,645	\$ -	\$ -	\$ 63,002	\$ 72,645
		SSR	\$ 164,806	\$ 144,329	\$ -	\$ -	\$ 164,806	\$ 144,329
		Other	\$ 13,404	\$ 69,771	\$ -	\$ -	\$ 13,404	\$ 69,771
		Interest	\$ 2,373	\$ 928	\$ 30	\$ 9	\$ 2,403	\$ 937
		Transfers In (Out)	\$ 2,500	\$ -	\$ (2,500)	\$ -	\$ -	\$ -
	Total General Revenues		\$ 246,085	\$ 287,673	\$ (2,470)	\$ -	\$ 243,615	\$ 287,682
	TOTAL REVENUES		\$ 564,656	\$ 575,241	\$ (2,470)	\$ -	\$ 562,186	\$ 575,250
Expenses								
	General Government		\$ 211,801	\$ 206,630	\$ -	\$ -	\$ 211,801	\$ 206,630
	Public Safety		\$ 51,047	\$ 47,260	\$ -	\$ -	\$ 51,047	\$ 47,260
	Public Works		\$ 424,286	\$ 420,394	\$ -	\$ -	\$ 424,286	\$ 420,394
	Com/Econ. Development		\$ 18,499	\$ 11,974	\$ -	\$ -	\$ 18,499	\$ 11,974
	Interest on Long-Term Debt		\$ 23,430	\$ 15,541	\$ -	\$ -	\$ 23,430	\$ 15,541
	Airport		\$ -	\$ -	\$ 10,322	\$ 10,323	\$ 10,322	\$ 10,323
	Sewer		\$ -	\$ -	\$ 7,102	\$ 2,500	\$ 7,102	\$ 2,500
	TOTAL EXPENSES		\$ 729,063	\$ 701,799	\$ 17,424	\$ 12,823	\$ 746,487	\$ 714,622
Change in Net Position			\$ (164,407)	\$ (126,558)	\$ (19,894)	\$ (12,823)	\$ (184,301)	\$ (139,372)
	Net Position Beginning of Period		\$ 2,864,595	\$ 2,700,188	\$ 197,767	\$ 177,873	\$ 3,062,362	\$ 2,878,061
Net Position at the End of Period			\$ 2,700,188	\$ 2,573,630	\$ 177,873	\$ 165,050	\$ 2,878,061	\$ 2,738,689

### FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS:

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

#### *Governmental funds:*

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

At the close of fiscal year, the Village governmental funds reported combined fund balances of \$780,043, an increase of \$19,981 in comparison with the prior year. Approximately 48% of this amount is available for spending at the government's discretion as unassigned fund balance.

At the end of the current fiscal year, unassigned fund balance for the general fund was \$353,103, which is approximately 123% of total general fund expenditures for the year ended June 30, 2017.

***Proprietary Funds:***

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

Unrestricted net position at the end of the year was \$21,672 for the sewer fund and \$0 for the airport fund. The decrease in net position was \$10,323 for the airport fund (all of which was depreciation) and \$2,500 for the sewer fund. The results were consistent with the previous year with one exception as the Village elected not to make a year-end transfer of \$2,500 from the Sewer Fund into the General Fund as is allowed by the Consent Judgement which restricts those funds. The lack of a transfer to cover Administrative Expenses was done as resources are getting critically low, and the Village desires to use these funds for the eventual re-plat of Lake Isabella South and Lake Isabella Golf Estates II.

**GOVERNMENTAL ACTIVITIES:**

The following chart summarizes the major revenue sources for the governmental activities of the Village for the most recent fiscal year end and the prior year as a percentage of total revenues for the fund.

<b>Item</b>	<b>2016</b>	<b>2017</b>
State Shared Revenue	54%	56%
Property Taxes	9%	11%
Charges for Services	5%	1%
Interest & Rents	7%	5%
Other Revenue Sources	22%	27%

One item that will impact how this table looks in future years is that the Village is no longer collecting annual installments for the LSSA bond payment. The final payment of the debt issue was made in the 2016-17 FY, and no collections were included as part of the 2017 summer tax bills.

The following table summarizes the expenses for the governmental activities of the Village for the most recent fiscal year end and the prior year. Expenditures remained consistent with the previous year with respect to the proportion of spending in each area.

<b>Item</b>	<b>2016</b>	<b>2017</b>
Public Works	58%	60%
General Government	29%	29%
Public Safety	7%	7%
Other Functions	6%	4%

**GENERAL FUND BUDGETARY HIGHLIGHTS:**

Differences between the original and final budgets for expenditures were relatively minor and adjustments were made as a part of the Village's budget procedures to address changes in activity during the year.

Budget to actual comparisons for the Village's General Fund were generally favorable.

**CAPITAL ASSETS:**

The Village's investment is capital assets for its governmental and business-type activities as of June 30, 2017, amounted to \$2,398,770 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, infrastructure, runway, and sewer infrastructure as shown below:

<b>Item</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total Primary Government</b>
Land	\$5,304	\$115,000	\$120,304
Roads	\$1,807,839	-	\$1,807,839
Equipment	-	-	-
Buildings	\$442,240	-	\$442,240
Vehicles	-	-	-
Airport/Runway	-	\$28,387	\$28,387
<b>Total</b>	<b>\$2,255,383</b>	<b>\$143,387</b>	<b>\$2,398,770</b>

Additional information on the Village's capital assets can be found in note 7.

**LONG-TERM DEBT:**

As described in Note 8 to the financial statements, the Village had \$455,000 long-term debt at the end of the fiscal year. The Village is well under its legal debt limit as of year-end. When the Village's total debt obligation (principal & interest) is looked at over time, the Village has reduced that amount from \$917,110 in the 2012-13 FY to \$571,448 in the 2017-18 FY. A significant portion of this reduction came when the Village refinanced three separate debt issues (Village Hall, Salt Barn, DPW Property) into a single debt issue with a lower rate.

**FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS:**

The Village Council considered many factors when setting the fiscal year 2017/18 budget. One of the factors is the economy. The Village derives approximately 42% of its revenues in the General Fund from State shared revenue. The Council realizes, and the readers should understand, that there are not sufficient funds available to provide all desirable services or repair every road in the Village's transportation system. The Village continues to review all budget line items for opportunities to reduce expenditures when possible. Therefore, the Council attempts to spend the public's money wisely and equitably, and in the best interest of the citizens of the Village of Lake Isabella.

The Village has taken a conservative approach to spending the public's money. This is due to the restriction on revenue imposed by the Village Charter. With the current wording of the Village Charter, the Village has the authority to levy only 1 Mill of taxation. The Village Charter does allow for an additional 1 Mill, for a period of not more than 3 years if approved by the electorate. This revenue source would generate between \$70,000 and \$75,000 before Headlee Rollback. Likewise, the Village has the ability to levy 1 additional Mill as a Special Assessment for Public Safety, with the same revenue expectation as a voter approved millage.

With these limiting factors in place, the Village has limited options to increase services. In the near future serious discussions will need to be had regarding police coverage and long-term street maintenance. These two items, and how to fund them, will need to be decided on in the near future. Failure to do so could compromise the quality of life enjoyed by residents of the community. While outside economic

factors such as unemployment, regional economic growth, and the overall state and federal economy will play a factor in future operations, no single issue is as impactful as the tax cap in the Village Charter.

**REQUESTS FOR INFORMATION:**

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

Timothy R. Wolff, CPM, ICMA-CM  
Lake Isabella Village Manager  
1010 Clubhouse Drive  
Lake Isabella, MI 48893  
989.644.8654

**GOVERNMENT-WIDE  
FINANCIAL STATEMENTS**



Village of Lake Isabella  
Statement of Net Position  
June 30, 2017

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 715,617	\$ 21,672	\$ 737,289
Accounts receivable	136	-	136
Due from other governmental units	66,362	-	66,362
Prepaid expenses	2,832	-	2,832
	<u>784,947</u>	<u>21,672</u>	<u>806,619</u>
Total current assets	784,947	21,672	806,619
Noncurrent assets			
Capital assets not being depreciated	5,304	115,000	120,304
Capital assets being depreciated, net	2,250,079	28,387	2,278,466
	<u>2,255,383</u>	<u>143,387</u>	<u>2,398,770</u>
Total noncurrent assets	2,255,383	143,387	2,398,770
Total assets	3,040,330	165,059	3,205,389
<b>Liabilities</b>			
Current liabilities			
Accounts payable	4,904	-	4,904
Accrued interest	3,401	-	3,401
Compensated absences, due within one year	509	-	509
Bonds payable, due within one year	20,000	-	20,000
	<u>28,814</u>	<u>-</u>	<u>28,814</u>
Total current liabilities	28,814	-	28,814
Noncurrent liabilities			
Compensated absences, due beyond one year	2,886	-	2,886
Bonds payable, due beyond one year	435,000	-	435,000
	<u>437,886</u>	<u>-</u>	<u>437,886</u>
Total noncurrent liabilities	437,886	-	437,886
Total liabilities	466,700	-	466,700
<b>Net Position</b>			
Net investment in capital assets	1,800,383	143,387	1,943,770
Restricted	424,108	-	424,108
Unrestricted	349,139	21,672	370,811
	<u>2,573,630</u>	<u>165,059</u>	<u>2,738,689</u>
Total net position	\$ 2,573,630	\$ 165,059	\$ 2,738,689

Village of Lake Isabella  
Statement of Activities  
For the year ended June 30, 2017

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
<b>Functions/Programs</b>							
Governmental activities							
General government	\$ 206,630	\$ -	\$ 8,205	\$ -	\$ (198,425)	\$ -	\$ (198,425)
Public safety	47,260	455	-	-	(46,805)	-	(46,805)
Public works	408,183	38,580	226,757	-	(142,846)	-	(142,846)
Community and economic development	11,974	1,360	-	-	(10,614)	-	(10,614)
Debt service	15,541	-	-	-	(15,541)	-	(15,541)
Total governmental activities	689,588	40,395	234,962	-	(414,231)	-	(414,231)
Business-type activities							
Airport	10,323	-	-	-	-	(10,323)	(10,323)
Sewer	2,500	-	-	-	-	(2,500)	(2,500)
Total Business-type activities	12,823	-	-	-	-	(12,823)	(12,823)
Total government	<u>\$ 692,088</u>	<u>\$ 40,395</u>	<u>\$ 234,962</u>	<u>\$ -</u>	(414,231)	(12,823)	(427,054)
General revenues							
Property taxes					72,645	-	72,645
State grants					144,329	-	144,329
Interest					928	9	937
Other revenues					69,771	-	69,771
Total general revenues					287,673	9	287,682
Change in net position					(126,558)	(12,814)	(139,372)
Net position - beginning of year					2,700,188	177,873	2,878,061
Net position - end of year					<u>\$ 2,573,630</u>	<u>\$ 165,059</u>	<u>\$ 2,738,689</u>

The notes to the financial statements are an integral part of this statement.



**FUND FINANCIAL STATEMENTS**



Village of Lake Isabella  
Balance Sheet  
Governmental Funds  
June 30, 2017

	General	Special Revenue Major Street	Local Street	Debt Service LSSA	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 320,334	\$ 318,137	\$ 62,744	\$ 14,402	\$ 715,617
Accounts receivable	-	136	-	-	136
Due from other governmental units	22,496	29,250	14,616	-	66,362
Due from other funds	14,402	-	-	-	14,402
Prepaid expenditures	1,832	500	500	-	2,832
Total assets	<u>\$ 359,064</u>	<u>\$ 348,023</u>	<u>\$ 77,860</u>	<u>\$ 14,402</u>	<u>\$ 799,349</u>
<b>Liabilities</b>					
Accounts payable	\$ 4,129	\$ 122	\$ 653	\$ -	\$ 4,904
Due to other funds	-	-	-	14,402	14,402
Total liabilities	4,129	122	653	14,402	19,306
<b>Fund balances</b>					
Nonspendable	1,832	500	500	-	2,832
Restricted	-	347,401	76,707	-	424,108
Unassigned	353,103	-	-	-	353,103
Total fund balances	<u>354,935</u>	<u>347,901</u>	<u>77,207</u>	<u>-</u>	<u>780,043</u>
Total liabilities and fund balances	<u>\$ 359,064</u>	<u>\$ 348,023</u>	<u>\$ 77,860</u>	<u>\$ 14,402</u>	<u>\$ 799,349</u>

Village of Lake Isabella  
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds  
to Net Position of Governmental Activities on the Statement of Net Position  
June 30, 2017

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Total fund balance - governmental funds	\$ 780,043
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Add: Capital assets	5,321,471
Deduct: Accumulated depreciation	(3,066,088)
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:	
Deduct: Accrued interest	(3,401)
Deduct: Compensated absences	(3,395)
Deduct: Bonds payable	<u>(455,000)</u>
Net position of governmental activities	<u>\$ 2,573,630</u>

Village of Lake Isabella  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the year ended June 30, 2017

	General	Special Revenue Major Street	Local Street	Debt Service LSSA	Total Governmental Funds
<b>Revenues</b>					
Property taxes	\$ 72,645	\$ -	\$ -	\$ -	\$ 72,645
Licenses and permits	1,360	-	-	-	1,360
State grants	134,500	161,029	75,557	-	371,086
Charges for services	7,500	-	-	-	7,500
Fines and forfeitures	455	-	-	-	455
Interest and rents	31,416	205	62	325	32,008
Other revenues	73,580	-	-	109,918	183,498
Total revenues	321,456	161,234	75,619	110,243	668,552
<b>Expenditures</b>					
General government	157,699	-	-	-	157,699
Public safety	47,260	-	-	-	47,260
Public works	4,937	106,510	85,176	-	196,623
Community and economic development	11,974	-	-	-	11,974
Other expenditures	33,538	-	-	-	33,538
Debt service:					
Principal	19,000	-	-	165,000	184,000
Interest	13,889	-	-	3,588	17,477
Total expenditures	288,297	106,510	85,176	168,588	648,571
Excess of revenues over (under) expenditures	33,159	54,724	(9,557)	(58,345)	19,981
<b>Other financing sources (uses)</b>					
Transfers in	12,211	-	30,000	5,685	47,896
Transfers out	(5,685)	(37,917)	(4,294)	-	(47,896)
Total other financing sources (uses)	6,526	(37,917)	25,706	5,685	-
<b>Net change in fund balance</b>	39,685	16,807	16,149	(52,660)	19,981
<b>Fund balance - beginning of year</b>	315,250	331,094	61,058	52,660	760,062
<b>Fund balance - end of year</b>	\$ 354,935	\$ 347,901	\$ 77,207	\$ -	\$ 780,043

The notes to the financial statements are an integral part of this statement.

Village of Lake Isabella  
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, 2017

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Net change in fund balances - total governmental funds	\$ 19,981
Amounts reported for governmental activities in the statement of activities are 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 as depreciation expense.	
Deduct: Depreciation expense	(226,353)
Long-term debt payments are reported as financing uses in the governmental funds and thus contribute to the change in fund balance. However, long-term payments reduce long-term liabilities on the State of Net Position.	
Add: Change in accrued interest	1,936
Deduct: Change in compensated absences	(600)
Add: Principal payments on debt	184,000
Special assessments are reported as program revenues (operating grants and contributions) in the Statement of Activities and are reported in the year the receivable is effective.	
Deduct: Special assessment receivable	<u>(105,522)</u>
Change in net position of governmental activities	<u><u>\$ (126,558)</u></u>

Village of Lake Isabella  
Statement of Net Position  
Proprietary Funds  
June 30, 2017

	Business-Type Activities Enterprise Funds		
	Airport	Sewer	Total
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ -	\$ 21,672	\$ 21,672
Total current assets	-	21,672	21,672
Noncurrent assets			
Capital assets not being depreciated	50,000	65,000	115,000
Capital assets being depreciated, net	28,387	-	28,387
Total noncurrent assets	78,387	65,000	143,387
Total assets	78,387	86,672	165,059
<b>Liabilities</b>			
Current liabilities			
Accounts payable	-	-	-
Total current liabilities	-	-	-
<b>Net position</b>			
Net investment in capital assets	78,387	65,000	143,387
Unrestricted	-	21,672	21,672
Total net position	\$ 78,387	\$ 86,672	\$ 165,059

Village of Lake Isabella  
Statement of Revenues, Expenses and Changes in Net Position  
Proprietary Funds  
For the year ended June 30, 2017

	Business-Type Activities Enterprise Funds		
	Airport	Sewer	Total
<b>Operating revenues</b>			
Charges for services	\$ -	\$ -	\$ -
Total operating revenues	-	-	-
<b>Operating expenses</b>			
Contracted services	-	2,500	2,500
Depreciation	10,323	-	10,323
Total operating expenses	10,323	2,500	12,823
Operating income (loss)	(10,323)	(2,500)	(12,823)
<b>Nonoperating revenues (expenses)</b>			
Interest income	-	9	9
<b>Change in net position</b>	(10,323)	(2,491)	(12,814)
<b>Net position - beginning of year</b>	88,710	89,163	177,873
<b>Net position - end of year</b>	\$ 78,387	\$ 86,672	\$ 165,059

Village of Lake Isabella  
Statement of Cash Flows  
Proprietary Funds  
For the year ended June 30, 2017

	Business-Type Activities Enterprise Funds		
	Airport	Sewer	Total
<b>Cash flows from operating activities:</b>			
Payments to suppliers / outsiders	\$ -	\$ (2,500)	\$ (2,500)
<b>Cash flows from investing activities:</b>			
Interest income	-	9	9
Net increase (decrease) in cash and cash equivalents	-	(2,491)	(2,491)
Cash and cash equivalents - beginning of year	-	24,163	24,163
Cash and cash equivalents - end of year	<u>\$ -</u>	<u>\$ 21,672</u>	<u>\$ 21,672</u>
<b>Cash flows from operating activities:</b>			
Income from operations	\$ (10,323)	\$ (2,500)	\$ (12,823)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	10,323	-	10,323
Net cash provided by operating activities	<u>\$ -</u>	<u>\$ (2,500)</u>	<u>\$ (2,500)</u>



## NOTES TO THE FINANCIAL STATEMENTS



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

The accounting policies of the Village of Lake Isabella (the Village) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Village. All amounts shown are in dollars.

##### **Reporting Entity**

The Village is governed by a seven member Village Council which has responsibility and control over all activities related to the Village. The Village receives funding from local, state and federal government sources and must comply with all of the requirements of these funding source entities. Council members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

##### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Village. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function 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 consumers who purchase, use or directly benefit from services 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. Other items, including taxes and intergovernmental payments, not properly included among program revenues, are reported instead as general revenues.

Net position is restricted when constraints placed on it are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, generally it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

##### **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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 revenue 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.

Fund Financial Statements - The 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 Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. 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 severance pay, are recorded only when payment is due.

Proprietary Fund Financial Statements – The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relate to charges to customers for services provided. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition on reported as nonoperating revenue and expenses.

The Village reports the following major governmental funds:

- The General Fund is the Village'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 Street Fund accounts for the resources of State revenue sharing of Trunkline maintenance revenues, gas and weight tax revenues and local road program revenues that are restricted for use on major streets.
- The Local Street Fund accounts for the resources of State revenue sharing of gas and weight tax revenues and local road program revenues that are restricted for use on local streets.
- The LSSA Fund accounts for the bonded construction of the Village's roads and streets, collection of special assessment revenues, and the payment of long-term debt.

The Village reports the following major proprietary funds:

- The Airport Fund accounts for the assets of the Village's airport.
- The Sewer Fund accounts for the activities of the Village's sewage collection system.

### **Budgetary Data**

Budgets are adopted by the Village for the major general and special revenue funds. The budgets are adopted and prepared on the modified accrual basis of accounting. The budgets are adopted at the function level and control is exercised at the activity level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

### **Cash and Cash Equivalents**

The Village's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Village's deposits are in accordance with statutory authority.

### **Receivables and Payables**

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

### **Inventory**

The Village does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

### Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the Village as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Village are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Land	Not Depreciated
Buildings	20 – 50
Equipment	5 – 7
Roads	20 – 25
Vehicles	5 – 7
Runway	20

### Compensated Absences

It is the Village's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. These compensated absences are accrued in the government-wide financial statements.

### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Village has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Village has no items that qualify for reporting in this category.

### Long-Term Obligations

Long-term debt and other long-term liabilities are reported as liabilities in the statements of net position.

### Net Position and Fund Balances

Restricted net position shown in the government-wide financial statements will generally be different from amounts reported as reserved/designated fund balances in the governmental funds financial statements. This occurs because of differences in the measurement focus and basis of accounting used in the government-wide and fund financial statements and because of the use of funds to imply that restrictions exist.

#### Fund Balances - Reserves and Designations

The Village has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance—amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.
- Restricted fund balance—amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- The Village would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these classified funds.
- Committed fund balance—amounts constrained to specific purposes by the Village itself, using its highest level of decision-making authority (Village Council). To be reported as committed, amounts cannot be used for any other purpose unless the Village takes the same highest level action to remove or change the constraint.
- Assigned fund balance—amounts the Village intends to use for a specific purpose. Intent can be expressed by the Village Council or by an official or body to which the Village Council delegates the authority.
- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

#### Net Position – Restrictions

Net position in the government-wide financial statements are reported as restricted when constraints placed on net position use is either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

#### **Property Tax Revenue**

The Village's property tax is levied on July 1<sup>st</sup> on the taxable valuation of property (as defined by State statutes) located in the Village as of the preceding December 31<sup>st</sup>.

Taxes are payable to the Village from July 1, to March 1, at which time they are turned over to the County for reimbursement from its revolving tax fund.

It is the Village's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2016 taxable valuation of property located in the Village for operating purposes totaled \$75 million, on which ad valorem taxes levied consisted of 0.8424 mills for operating.

#### **Estimates**

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

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

##### **Excess of Expenditures over Appropriations**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year-end.

Prior to July 1<sup>st</sup> a proposed budget for the next fiscal year is prepared and presented to the Village council, along with recommendations. This operating budget includes proposed expenditures and the means of financing them

Village of Lake Isabella  
Notes to the Financial Statements  
June 30, 2017

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for the fiscal year commencing the following July 1<sup>st</sup>. The council holds public hearings and final budgets are adopted prior to July 1<sup>st</sup>.

Prior to July 1<sup>st</sup>, the budget is legally enacted pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978, as amended).

The Village Treasurer is authorized to transfer budgeted amounts between departments within any fund; however, council must approve any revisions that alter the total expenditures of any fund.

Formal budgetary integration is employed as a management control device during the year. The Village does not maintain a formalized encumbrance accounting system.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is at the function level.

Excess of Expenditures over Appropriations in Budgeted Funds

During the year, the Village incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as shown as negative variances in the Budgetary Comparison Schedules in this report.

**NOTE 3 - CASH AND INVESTMENTS**

At year-end, the carrying amount of the Village's cash, deposits and investments was as follows:

Cash and Cash Equivalents	
Petty Cash	200
Checking, Savings & Money Market Accounts	481,695
Certificates of Deposit	255,394
Total	737,289

Investments. State statutes authorize the Village to invest in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. As of year-end, the Village had no such investments.

The Village's investment policy complies with the state statutes and has no additional investment policies that would limit its investment choices.

Custodial Credit Risk – Deposits. The bank balance of the Village's deposits was \$737,089 of which \$250,000 is covered by federal depository insurance. The remaining amount is uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution with which it deposits government funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Interest rate risk. In accordance with its investment policy, 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.

Village of Lake Isabella  
Notes to the Financial Statements  
June 30, 2017

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**Interest Rate Risk – Investments.** Under state statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Village's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

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

**Custodial credit risk – investments.** For an investment, it is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and prequalifying the financial institutions, broker/dealers, intermediaries and advisors with which the Village will do business.

**Foreign currency risk.** The Village is not authorized to invest in investments which have this type of risk.

**NOTE 4 – DUE FROM OTHER GOVERNMENTAL UNITS**

As of year-end, amounts due from other governmental units for the Village's individual major governmental funds were as follows:

Due from other governmental units	
<i>General Fund</i>	
State of Michigan – State Shared Revenues	22,496
<i>Major Street Fund</i>	
State of Michigan – Act 51	29,250
<i>Local Street Fund</i>	
State of Michigan – Act 51	14,616
Totals	66,362

**NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES**

The amounts of interfund receivable and payable shown on the fund financial statements as of year-end are as follows:

Receivable Fund	Amount	Payable Fund	Amount
General Fund	14,402	LSSA	14,402

Village of Lake Isabella  
Notes to the Financial Statements  
June 30, 2017

**NOTE 6 – INTERFUND TRANSFERS**

As of year-end, the composition of interfund transfers is as follows:

Fund	Transfers in	Transfers out
General	12,211	5,685
Major	-	37,917
Local	30,000	4,294
LSSA	5,685	-
Totals	47,896	47,896

The transfers from the major street fund to the local street fund are done to cover operating expenses. The resources provided from the State of Michigan via Act 51 to maintain the Village's 18+ miles of roads in the local street network are not sufficient to meet our needs. The transfers from the major and local street funds to the general fund are to reimburse the general fund for administrative costs. The transfer from the general fund to the LSSA fund was to cover final costs of the fund.

**NOTE 7 - CAPITAL ASSETS**

A summary of changes in the Village's capital asset activity for governmental activities is as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	5,304	-	-	5,304
Capital assets being depreciated				
Buildings	546,000	-	-	546,000
Equipment	19,598	-	(3,642)	15,956
Roads	4,685,009	-	-	4,685,009
Vehicles	75,102	-	(5,900)	69,202
Total capital assets being depreciated	5,325,709	-	(9,542)	5,316,167
Accumulated Depreciation				
Buildings	(90,740)	(13,020)	-	(103,760)
Equipment	(19,598)	-	3,642	(15,956)
Roads	(2,671,253)	(205,917)	-	(2,877,170)
Vehicles	(67,686)	(7,416)	5,900	(69,202)
Total accumulated depreciation	(2,849,277)	(226,353)	9,542	(3,066,088)
Net capital assets being depreciated	2,476,432	(226,353)	-	2,250,079
Net capital assets	2,481,736	(226,353)	-	2,255,383

Depreciation expense for the governmental activities was charged to governmental functions of the Village as follows: \$14,793 to general government, \$211,560 to public works.



Village of Lake Isabella  
Notes to the Financial Statements  
June 30, 2017

A summary of changes in the Village's capital asset activity for business-type activities is as follows:

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	115,000	-	-	115,000
Capital assets being depreciated				
Runway	206,452	-	-	206,452
Sewer Systems	-	-	-	-
Total capital assets being depreciated	206,452	-	-	206,452
Accumulated Depreciation				
Runway	(167,742)	(10,323)	-	(178,065)
Total accumulated depreciation	(167,742)	(10,232)	-	(178,065)
Net capital assets being depreciated	38,710	(10,232)	-	28,387
Net capital assets	153,710	(10,232)	-	143,387

**NOTE 8 - LONG-TERM DEBT**

*Governmental Funds:*

General Obligation Limited Tax Refunding Bonds – Series 2013 - On July 29, 2013, the Village issued General Obligation Limited Tax Refunding Bonds in the amount of \$530,000 in order to refinance and combine three different debt issues from prior years. Those three debt issues were the Village Hall construction (2007), Salt Barn construction (2009), and purchase of the DPW property (2010). The Village combined these into a single issue, with a lower rate. The bonds bear interest at a rate of 2.99% per annum. Payments on the bonds are due April 1 and October 1 of each year until fiscal year 2040.

Special Assessment Bonds – Series 2007 - On August 24, 2007, the Village issued Special Assessment Bonds in the amount of \$1,585,000 in order to pave 13 miles of local streets. The bonds bear interest at a rate of 4.35% per annum. Payments on the bonds are due April 1 and October 1 of each year until fiscal year 2017.

Long-term debt activity for the year was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
<i>General Government</i>					
Compensated Abs.	2,795	1,020	(420)	3,395	509
General Obligation Bonds	474,000	-	(19,000)	455,000	20,000
Special Assessment Bonds	165,000	-	(165,000)	-	-
Total	641,795	1,020	(184,420)	458,395	20,509

The annual requirements to pay remaining principal and interest on the outstanding obligations are shown in the *Schedule of Long-Term Debt* at the back of this report.

**NOTE 9 – RETIREMENT PLAN**

**Deferred Compensation Retirement Plan – 457 (b)**

Plan Description

The Village offers all regular, full-time employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plan were held in trust, as described in IRC Section 457 (b) for the exclusive benefit of the participants (employees) and their beneficiaries. Nationwide Retirement Services acts as the custodian for the plan and holds the custodial account for the beneficiaries of this Section 457 plan.

The assets may not be diverted to any other use. The Administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the Village's financial statements.

Plan provisions are established or amended by Council resolution. Under the plan, employees may elect to defer a portion of their wages, subject to Internal Revenue Service limits. This plan is funded by employee and employer contributions.

Eligibility

All regular, full-time employees are immediately eligible for the plan upon hire.

Contributions

Under the plan, employees may elect to defer a portion of their salaries and defer paying income taxes on the deferred portion until the withdrawal date. The Village contributes 1% of base pay to the employees account, and provides a match of up to an additional 4% of base pay.

Normal Retirement Age & Vesting

Retirement age as defined by the plan is 70 ½ years of age. All contributions are 100% vested immediately.

Forfeitures

Contributions are 100% vested immediately therefore there are no forfeitures.

Funding

For the year ended June 30<sup>th</sup>, the Village contributed \$2,250 and the employees contributed \$1,320 to the plan.

**NOTE 10 - RISK MANAGEMENT**

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance from independent insurance providers. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

**REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGETARY COMPARISON SCHEDULE**



Village of Lake Isabella  
Budgetary Comparison Schedule  
General Fund  
For the year ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 63,500	\$ 92,028	\$ 72,645	\$ (19,383)
Licenses and permits	2,000	1,280	1,360	80
State grants	129,000	129,000	134,500	5,500
Charges for services	9,250	20,025	7,500	(12,525)
Fines and forfeitures	500	445	455	10
Interest and rents	39,080	31,506	31,416	(90)
Other revenues	82,600	73,710	73,580	(130)
Total revenues	325,930	347,994	321,456	(26,538)
<b>Expenditures</b>				
General government				
Council	4,250	1,800	1,130	670
Manager and administrative	95,700	88,553	89,329	(776)
Elections	1,500	445	445	-
Clerk	15,825	15,100	15,225	(125)
Treasurer	19,600	20,150	20,449	(299)
Building and grounds	27,600	32,176	31,121	1,055
Public safety				
Police and fire	41,750	36,500	34,304	2,196
Code enforcement	27,150	14,425	12,956	1,469
Public works				
Cal Brewer Airport	3,275	3,130	3,103	27
Street lights	-	1,700	1,834	(134)
Community and economic development				
Planning and zoning	2,300	10,636	11,974	(1,338)
Other expenditures	32,103	34,478	33,538	940
Debt service	32,889	32,889	32,889	-
Total expenditures	303,942	291,982	288,297	3,685
<b>Other financing sources (uses)</b>				
Transfers in	-	-	12,211	(12,211)
Transfers out	-	-	(5,685)	5,685
Total other financing sources (uses)	-	-	6,526	(6,526)
<b>Net change in fund balance</b>	21,988	56,012	39,685	(22,853)
<b>Fund balance, beginning of year</b>	315,250	315,250	315,250	-
<b>Fund balance, end of year</b>	<u>\$ 337,238</u>	<u>\$ 371,262</u>	<u>\$ 354,935</u>	<u>\$ (22,853)</u>

Village of Lake Isabella  
Budgetary Comparison Schedule  
Major Street Fund  
For the year ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
State grants	\$ 158,850	\$ 161,678	\$ 161,029	\$ (649)
Interest and rents	250	190	205	15
Total revenues	159,100	161,868	161,234	(634)
<b>Expenditures</b>				
Public works	140,574	114,299	106,510	7,789
Total expenditures	140,574	114,299	106,510	7,789
Excess of revenues over (under) expenditures	18,526	47,569	54,724	7,155
<b>Other financing sources (uses)</b>				
Operating transfers (out)	(37,000)	(37,775)	(37,917)	(142)
Total other financing sources (uses)	(37,000)	(37,775)	(37,917)	(142)
<b>Net change in fund balance</b>	(18,474)	9,794	16,807	7,013
<b>Fund balance, beginning of year</b>	331,094	331,094	331,094	-
<b>Fund balance, end of year</b>	<u>\$ 312,620</u>	<u>\$ 340,888</u>	<u>\$ 347,901</u>	<u>\$ 7,013</u>

Village of Lake Isabella  
Budgetary Comparison Schedule  
Local Street Fund  
For the year ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
State grants	\$ 70,000	\$ 70,000	\$ 75,557	\$ 5,557
Interest	110	60	62	2
Total revenues	70,110	70,060	75,619	5,559
<b>Expenditures</b>				
Public works	96,356	93,411	85,176	8,235
Total expenditures	96,356	93,411	85,176	8,235
Excess of revenues over (under) expenditures	(26,246)	(23,351)	(9,557)	13,794
<b>Other financing sources (uses)</b>				
Transfers in	30,000	30,000	30,000	-
Transfers out	-	-	(4,294)	(4,294)
Total other financing sources (uses)	30,000	30,000	25,706	(4,294)
<b>Net change in fund balance</b>	3,754	6,649	16,149	9,500
<b>Fund balance, beginning of year</b>	61,058	61,058	61,058	-
<b>Fund balance, end of year</b>	<u>\$ 64,812</u>	<u>\$ 67,707</u>	<u>\$ 77,207</u>	<u>\$ 9,500</u>

**OTHER SUPPLEMENTAL INFORMATION**

**SCHEDULE OF LONG-TERM DEBT**



Village of Lake Isabella  
Schedule of Long-Term Debt  
June 30, 2017

	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<b>General Obligation Limited Tax Refunding Bonds - Series 2013 - \$530,000</b>				
Fiscal year ending June 30,				
2018	2.99%	\$ 20,000	\$ 13,006	\$ 33,006
2019	2.99%	21,000	12,693	33,693
2020	2.99%	21,000	12,065	33,065
2021	2.99%	15,000	11,527	26,527
2022	2.99%	15,000	11,078	26,078
2023	2.99%	16,000	10,615	26,615
2024	2.99%	17,000	10,121	27,121
2025	2.99%	17,000	9,613	26,613
2026	2.99%	20,000	9,060	29,060
2027	2.99%	20,000	8,461	28,461
2028	2.99%	21,000	7,848	28,848
2029	2.99%	21,000	7,220	28,220
2030	2.99%	22,000	6,578	28,578
2031	2.99%	24,000	5,891	29,891
2032	2.99%	24,000	5,173	29,173
2033	2.99%	24,000	4,455	28,455
2034	2.99%	25,000	3,722	28,722
2035	2.99%	25,000	2,975	27,975
2036	2.99%	27,000	2,198	29,198
2037	2.99%	28,000	1,375	29,375
2038	2.99%	10,000	807	10,807
2039	2.99%	11,000	493	11,493
2040	2.99%	11,000	164	11,164
		<u>\$ 455,000</u>	<u>\$ 157,138</u>	<u>\$ 612,138</u>
Totals		<u>\$ 455,000</u>	<u>\$ 157,138</u>	<u>\$ 612,138</u>

SUMMARY DEBT SCHEDULE
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Fiscal year ending June 30,						
2018	\$	20,000	\$	13,006	\$	33,006
2019		21,000		12,693		33,693
2020		21,000		12,065		33,065
2021		15,000		11,527		26,527
2022		15,000		11,078		26,078
2023-2027		90,000		47,870		137,870
2028-2032		112,000		32,710		144,710
2033-2037		129,000		14,725		143,725
2038-2040		32,000		1,464		33,464
Totals	\$	455,000	\$	157,138	\$	612,138





**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Village Council  
Village of Lake Isabella

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Lake Isabella (the Village), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated October 20, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Roslund, Prestage & Company, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants  
October 20, 2017