

**Village of Lake Isabella
Isabella County**

**Annual Financial Statements
and
Auditors' Report
June 30, 2008**

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Village of Lake Isabella
List of Elected and Appointed Officials
June 30, 2008

Village Council

President

David Torgerson

President Pro-Temp

Dan Pattison

Treasurer

Charles Kiel

Clerk

Jeff Grey

Members

Richard Lacca
Arnold Griffin
Elizabeth Miller

Village Manager

Timothy R. Wolff

Deputy Manager

Jessica Manley



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Independent Auditors' Report

Village Council
Village of Lake Isabella
Isabella County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Lake Isabella as of and for the year ended June 30, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Lake Isabella'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, 2008 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Lake Isabella's basic financial statements. 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Village has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined necessary to supplement, although not a required part of, the basic financial statements.

Yeo & Yeo, P.C.

November 11, 2008
Midland, Michigan

Village of Lake Isabella
Statement of Net Assets
June 30, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,529,223	\$ 165,142	\$ 1,694,365
Receivables			
Special assessments	1,774,680	-	1,774,680
Due from other units of government	54,271	-	54,271
Capital assets not being depreciated	1,414,904	115,000	1,529,904
Capital assets - net of accumulated depreciation	<u>2,454,924</u>	<u>121,290</u>	<u>2,576,214</u>
 Total assets	 <u>7,228,002</u>	 <u>401,432</u>	 <u>7,629,434</u>
Liabilities			
Accounts payable	51,999	-	51,999
Accrued and other liabilities	21,981	-	21,981
Noncurrent liabilities			
Due within one year	370,000	-	370,000
Due in more than one year	<u>2,195,000</u>	<u>-</u>	<u>2,195,000</u>
 Total liabilities	 <u>2,638,980</u>	 <u>-</u>	 <u>2,638,980</u>
Net Assets			
Invested in capital assets, net of related debt	1,304,828	121,290	1,426,118
Restricted for:			
Debt service	600,363	-	600,363
Unrestricted	<u>2,683,831</u>	<u>280,142</u>	<u>2,963,973</u>
 Total net assets	 <u>\$ 4,589,022</u>	 <u>\$ 401,432</u>	 <u>\$ 4,990,454</u>

Village of Lake Isabella
Statement of Activities
For the Year Ended June 30, 2008

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating	Capital	Primary Government		
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental activities							
General government	\$ 159,803	\$ 12,126	\$ -	\$ -	\$ (147,677)	\$ -	\$ (147,677)
Public safety	55,952	-	-	-	(55,952)	-	(55,952)
Public works	284,880	1,745,875	-	-	1,460,995	-	1,460,995
Community and economic development	2,360	-	-	-	(2,360)	-	(2,360)
Interest on long-term debt	92,698	-	-	-	(92,698)	-	(92,698)
Total governmental activities	<u>595,693</u>	<u>1,758,001</u>	<u>-</u>	<u>-</u>	<u>1,162,308</u>	<u>-</u>	<u>1,162,308</u>
Business-type activities							
Airport	<u>10,323</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,323)</u>	<u>(10,323)</u>
Total primary government	<u>\$ 606,016</u>	<u>\$ 1,758,001</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,162,308</u>	<u>(10,323)</u>	<u>1,151,985</u>
General revenues							
Property taxes					59,796	-	59,796
State shared revenue					265,933	-	265,933
Unrestricted investment earnings					51,149	6,554	57,703
Miscellaneous					13,959	-	13,959
Transfers					<u>2,500</u>	<u>(2,500)</u>	<u>-</u>
Total general revenues and transfers					<u>393,337</u>	<u>4,054</u>	<u>397,391</u>
Change in net assets					1,555,645	(6,269)	1,549,376
Net assets - beginning of year					3,046,918	407,701	3,454,619
Prior period adjustment					<u>(13,541)</u>	<u>-</u>	<u>(13,541)</u>
Net assets - beginning of year (restated)					<u>3,033,377</u>	<u>407,701</u>	<u>3,441,078</u>
Net assets - end of year					<u>\$ 4,589,022</u>	<u>\$ 401,432</u>	<u>\$ 4,990,454</u>

See Accompanying Notes to Financial Statements

**Village of Lake Isabella
Governmental Funds
Balance Sheet
June 30, 2008**

	Special Revenue Funds				Debt Service Funds				Nonmajor Governmental Funds	Total Governmental Funds
	General	Major Streets Fund	Local Streets Fund	Capital Project Fund LSSA	Major Streets Debt Fund	Fairway Debt Fund	Castle/Sevilla Debt Fund	LSSA Debt Fund		
Assets										
Cash and cash equivalents	\$ 228,822	\$ 103,294	\$ 66,450	\$ 487,579	\$ 344,322	\$ 20,651	\$ 47,370	\$ 123,506	\$ 107,229	\$ 1,529,223
Receivables										
Special assessments	-	-	-	-	316,877	58,024	61,100	1,264,360	74,319	1,774,680
Due from other units of government	28,252	16,904	9,115	-	-	-	-	-	-	54,271
Due from other funds	-	-	1,109	-	-	-	600	-	-	1,709
Total assets	<u>\$ 257,074</u>	<u>\$ 120,198</u>	<u>\$ 76,674</u>	<u>\$ 487,579</u>	<u>\$ 661,199</u>	<u>\$ 78,675</u>	<u>\$ 109,070</u>	<u>\$ 1,387,866</u>	<u>\$ 181,548</u>	<u>\$ 3,359,883</u>
Liabilities										
Accounts payable	\$ 4,091	\$ -	\$ -	\$ 6,302	\$ -	\$ -	\$ -	\$ 41,606	\$ -	\$ 51,999
Accrued and other liabilities	942	69	69	-	-	-	-	-	-	1,080
Due to other funds	-	-	-	-	-	-	-	-	1,709	1,709
Deferred revenue	14,816	-	-	-	316,877	58,024	61,100	1,264,360	74,319	1,789,496
Total liabilities	<u>19,849</u>	<u>69</u>	<u>69</u>	<u>6,302</u>	<u>316,877</u>	<u>58,024</u>	<u>61,100</u>	<u>1,305,966</u>	<u>76,028</u>	<u>1,844,284</u>
Fund Balances										
Reserved for:										
Debt service	-	-	-	-	344,322	20,651	47,970	81,900	105,520	600,363
Unreserved, reported in:										
General fund	237,225	-	-	-	-	-	-	-	-	237,225
Special revenue funds	-	120,129	76,605	-	-	-	-	-	-	196,734
Capital project funds	-	-	-	481,277	-	-	-	-	-	481,277
Total fund balances	<u>237,225</u>	<u>120,129</u>	<u>76,605</u>	<u>481,277</u>	<u>344,322</u>	<u>20,651</u>	<u>47,970</u>	<u>81,900</u>	<u>105,520</u>	<u>1,515,599</u>
Total liabilities and fund balances	<u>\$ 257,074</u>	<u>\$ 120,198</u>	<u>\$ 76,674</u>	<u>\$ 487,579</u>	<u>\$ 661,199</u>	<u>\$ 78,675</u>	<u>\$ 109,070</u>	<u>\$ 1,387,866</u>	<u>\$ 181,548</u>	<u>\$ 3,359,883</u>

Village of Lake Isabella
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
June 30, 2008

Total fund balances for governmental funds \$ 1,515,599

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 1,414,904

Capital assets - net of accumulated depreciation 2,454,924

Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds. 1,789,496

Certain liabilities are not due and payable in the current period and are not reported in the funds.

Accrued interest (20,901)

Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. (2,565,000)

Net assets of governmental activities \$ 4,589,022

Village of Lake Isabella
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2008

	Special Revenue Funds				Debt Service Funds				Nonmajor Governmental Funds	Total Governmental Funds
	General	Major Streets Fund	Local Streets Fund	Capital Project Fund LSSA	Major Streets Debt Fund	Fairway Debt Fund	Castle/Sevilla Debt Fund	LSSA Debt Fund		
Revenues										
Taxes	\$ 59,796	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 59,796
Licenses and permits	3,726	-	-	-	-	-	-	-	-	3,726
State revenue sharing	84,733	110,762	55,622	-	-	-	-	-	-	251,117
Local contributions	4,850	-	-	-	-	-	-	-	-	4,850
Charges for services	28,685	-	-	299,494	57,095	15,074	9,272	124,823	5,948	540,391
Interest income	7,348	4,112	2,097	4,783	15,199	691	1,948	1,683	13,288	51,149
Rental income	8,400	-	-	-	-	-	-	-	-	8,400
Other revenue	7,509	-	-	1,600	-	-	-	-	-	9,109
Total revenues	205,047	114,874	57,719	305,877	72,294	15,765	11,220	126,506	19,236	928,538
Expenditures										
Current										
General government	131,470	-	-	-	-	-	-	-	-	131,470
Public safety	55,952	-	-	-	-	-	-	-	-	55,952
Public works	5,714	102,600	82,054	1,369,575	29	236	30	46	-	1,560,284
Community and economic development	1,816	-	-	-	-	-	-	-	-	1,816
Capital outlay	158,490	-	-	-	-	-	-	-	-	158,490
Debt service										
Principal retirement	-	-	-	-	55,000	15,000	13,600	-	41,400	125,000
Interest and fiscal charges	12,153	-	-	-	9,900	2,756	4,430	41,560	10,285	81,084
Total expenditures	365,595	102,600	82,054	1,369,575	64,929	17,992	18,060	41,606	51,685	2,114,096
Excess (deficiency) of revenues over expenditures	(160,548)	12,274	(24,335)	(1,063,698)	7,365	(2,227)	(6,840)	84,900	(32,449)	(1,185,558)
Other financing sources (uses)										
Transfers in	44,200	-	40,025	-	-	-	10,000	-	34,870	129,095
Transfers out	(25,000)	(31,035)	(3,320)	(40,025)	(2,837)	-	(10,558)	(3,000)	(10,820)	(126,595)
Issuance of debt	-	-	-	1,585,000	-	-	-	-	-	1,585,000
Total other financing sources and uses	19,200	(31,035)	36,705	1,544,975	(2,837)	-	(558)	(3,000)	24,050	1,587,500
Net change in fund balance	(141,348)	(18,761)	12,370	481,277	4,528	(2,227)	(7,398)	81,900	(8,399)	401,942
Fund balance - beginning of year	392,114	138,890	64,235	-	339,794	22,878	55,368	-	113,919	1,127,198
Prior period adjustment	(13,541)	-	-	-	-	-	-	-	-	(13,541)
Fund balance - beginning of year restated	378,573	138,890	64,235	-	339,794	22,878	55,368	-	113,919	1,113,657
Fund balance - end of year	\$ 237,225	\$ 120,129	\$ 76,605	\$ 481,277	\$ 344,322	\$ 20,651	\$ 47,970	\$ 81,900	\$ 105,520	\$ 1,515,599

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, 2008

Net change in fund balances - Total governmental funds	\$ 401,942
<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	(137,293)
Capital outlay	1,542,666
Sale of capital assets	(356)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.</p>	
State shared revenue	14,816
Special assessments	1,205,484
<p>Expenses are recorded when incurred in the statement of activities</p>	
Accrued interest	(11,614)
<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	(1,585,000)
Repayments of long-term debt	<u>125,000</u>
Change in net assets of governmental activities	<u>\$ 1,555,645</u>

**Village of Lake Isabella
Proprietary Funds
Statement of Net Assets
June 30, 2008**

	Enterprise Funds		
	Sewer	Airport	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 165,142	\$ -	\$ 165,142
Noncurrent assets			
Capital assets not being depreciated	65,000	50,000	115,000
Capital assets - net of accumulated depreciation	-	121,290	121,290
Total assets	<u>230,142</u>	<u>171,290</u>	<u>401,432</u>
Net Assets			
Invested in capital assets	-	121,290	121,290
Unrestricted	<u>230,142</u>	<u>50,000</u>	<u>280,142</u>
Total net assets	<u>\$ 230,142</u>	<u>\$ 171,290</u>	<u>\$ 401,432</u>

Village of Lake Isabella
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2008

	Enterprise Funds		
	Sewer	Airport	Total
Operating expenses			
Depreciation	\$ -	\$ 10,323	\$ 10,323
Operating income (loss)	-	(10,323)	(10,323)
Nonoperating revenue (expenses)			
Interest income	6,554	-	6,554
Income (loss) before transfers out	6,554	(10,323)	(3,769)
Transfers out	(2,500)	-	(2,500)
Change in net assets	4,054	(10,323)	(6,269)
Net assets - beginning of year	226,088	181,613	407,701
Net assets - end of year	\$ 230,142	\$ 171,290	\$ 401,432

**Village of Lake Isabella
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2008**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Airport</u>	<u>Total</u>
Cash flows from operating activities			
Payments to other funds	\$ (579)	\$ -	\$ (579)
Cash flows from noncapital financing activities			
Transfers to other funds	(2,500)	-	(2,500)
Cash flows from investing activities			
Interest received	6,554	-	6,554
Net increase in cash and cash equivalents	3,475	-	3,475
Cash and cash equivalents - beginning of year	161,667	-	161,667
Cash and cash equivalents - end of year	\$ 165,142	\$ -	\$ 165,142
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating loss	\$ -	\$ (10,323)	\$ (10,323)
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation and amortization expense	-	10,323	10,323
Changes in assets and liabilities			
Due to other funds	(579)	-	(579)
Net cash provided (used) by operating activities	\$ (579)	\$ -	\$ (579)

Village of Lake Isabella
Notes to Financial Statements
June 30, 2008

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, 2008

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 Street 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 Street 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 Capital Project Fund accounts for the bonded construction of the Village's roads and streets.

The Major Street Debt Fund, Fairway Debt Fund, and Castle/Sevilla, 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 recognizes as operating revenue the portion of tap fees intended to

Village of Lake Isabella
Notes to Financial Statements
June 30, 2008

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.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

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. 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 2007 taxable valuation of the government totaled \$70,287,640, on which ad valorem taxes consisted of 0.8465 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, plant 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 \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

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

Property, plant 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	3 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

Village of Lake Isabella
Notes to Financial Statements
June 30, 2008

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 reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

Comparative data

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

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	\$ 112,025	\$ 115,185	\$ 3,160
Public safety	26,964	27,264	300
Public works	5,608	5,714	106
Community and economic development	1,410	1,816	406

Village of Lake Isabella
Notes to Financial Statements
June 30, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS

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

	Cash and Cash Equivalents
Governmental activities	\$ 1,529,223
Business-type activities	165,142
	\$ 1,694,365

The breakdown between deposits and investments is as follows:

	Primary Government
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 1,694,365

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 government has no policy that would limit the amount that may be issued in any one issuer.

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 does not have a policy for custodial credit risk. As of year end, \$913,437 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Consistent with the government's investment policy, the government's investments are held by a counterparty and are not insured.

Village of Lake Isabella
Notes to Financial Statements
June 30, 2008

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	<u>\$ 1,774,680</u>	Debt service funds

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

	Unavailable
Village government	
State shared revenue	\$ 14,816
Special assessments	<u>1,774,680</u>
	<u>\$ 1,789,496</u>

NOTE 5 - CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 5,304	\$ -	\$ -	\$ 5,304
Construction in progress	153,520	1,409,600	153,520	1,409,600
Total capital assets not being depreciated	<u>158,824</u>	<u>1,409,600</u>	<u>153,520</u>	<u>1,414,904</u>
Capital assets being depreciated				
Roads	3,226,930	-	-	3,226,930
Buildings	8,300	275,000	-	283,300
Street equipment	6,835	-	4,260	2,575
Office equipment	12,427	11,586	6,990	17,023
Vehicles	5,900	-	-	5,900
Total capital assets being depreciated	<u>3,260,392</u>	<u>286,586</u>	<u>11,250</u>	<u>3,535,728</u>
Less accumulated depreciation for				
Roads	927,381	133,011	-	1,060,392
Buildings	6,024	1,186	-	7,210
Street equipment	5,290	515	4,260	1,545
Office equipment	9,810	2,581	6,634	5,757
Vehicles	5,900	-	-	5,900
Total accumulated depreciation	<u>954,405</u>	<u>137,293</u>	<u>10,894</u>	<u>1,080,804</u>
Net capital assets being depreciated	<u>2,305,987</u>	<u>149,293</u>	<u>356</u>	<u>2,454,924</u>
Governmental activities capital assets, net	<u>\$ 2,464,811</u>	<u>\$ 1,558,893</u>	<u>\$ 153,876</u>	<u>\$ 3,869,828</u>

Village of Lake Isabella
Notes to Financial Statements
June 30, 2008

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	74,839	10,323	-	85,162
Net capital assets being depreciated	131,613	(10,323)	-	121,290
Business-type capital assets, net	<u>\$ 246,613</u>	<u>\$ (10,323)</u>	<u>\$ -</u>	<u>\$ 236,290</u>

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

Governmental activities	
General government	\$ 2,553
Public works	134,196
Community and economic development	544
Total governmental activities	<u>137,293</u>
Business-type activities	
Water	10,323
Total primary government	<u>\$ 147,616</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.

Village of Lake Isabella
Notes to Financial Statements
June 30, 2008

The details for interfund transfers are as follows:

Funds Transferred From	Funds Transferred To	Amount
Major Streets Fund	General Fund	\$ 6,165
Local Streets Fund	General Fund	3,320
Sewer Fund	General Fund	2,500
Major Streets Debt Fund	General Fund	2,837
Local Streets Debt Fund	General Fund	5,000
Queensway Debt Fund	General Fund	5,462
Castle/Sevilla Debt Fund	General Fund	10,558
Putter Drive Debt Fund	General Fund	5,358
Local Streets Special Assessments Fund	General Fund	3,000
Local Streets Special Assessments Fund	Local Streets Fund	40,025
Major Streets Fund	2003 MDOT Debt Fund	24,870
General Fund	Queensway Debt Fund	5,000
General Fund	Castle/Sevilla Debt Fund	10,000
General Fund	Putter Drive Debt Fund	5,000
		<u>\$ 129,095</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, 2008

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	\$ -	\$ -	\$ 275,000	\$ -
2003 michigan Transportation	225,000	2013	3.20 - 3.60%	\$25,000	145,000	-	20,000	125,000	25,000
Special assessment obligations									
Major Streets Bonds	515,000	2012	3.10 - 3.50%	\$55,000	330,000	-	55,000	275,000	55,000
Fairway Drive Bonds	140,000	2012	3.15%	\$15,000 - \$20,000	95,000	-	15,000	80,000	15,000
Queensway Bonds	140,000	2013	3.60%	\$10,000 - \$15,000	100,000	-	15,000	85,000	15,000
Castle/sevilla Bonds	180,000	2014	4.15 - 4.60%	\$13,600	108,800	-	13,600	95,200	13,600
Putter Drive Bonds	180,000	2014	4.15 - 4.60%	\$6,400	51,200	-	6,400	44,800	6,400
LSSA Drive Bonds	1,585,000	2016	4.35%	\$160,000 - \$240,000	-	1,585,000	-	1,585,000	240,000
					<u>\$ 1,105,000</u>	<u>\$ 1,585,000</u>	<u>\$ 125,000</u>	<u>\$ 2,565,000</u>	<u>\$ 370,000</u>
Total governmental activities									

Village of Lake Isabella
Notes to Financial Statements
June 30, 2008

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

Year Ending December 31,	Governmental Activities	
	Principal	Interest
2009	370,000	99,990
2010	305,000	86,579
2011	295,000	74,704
2012	305,000	62,752
2013	310,000	50,425
2014-2018	741,000	120,078
2019-2023	38,000	53,992
2024-2028	53,000	43,807
2029-2033	74,000	28,301
2034-2036	74,000	7,727
	\$ 2,565,000	\$ 628,355

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

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

Litigation – Village of Lake Isabella 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 investing activities.

NOTE 11 - PRIOR PERIOD ADJUSTMENT

In the general fund state shared revenue has been recognized in prior year, which was not received within 60 days from year end. Following the modified accrual method of accounting, revenue in the amount of \$13,541 had to be recognized as current year state shared revenue.

Village of Lake Isabella
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under)
				Final Budget
Revenues				
Taxes				
Property taxes	\$ 58,500	\$ 59,581	\$ 59,581	\$ -
Penalties and interest	200	215	215	-
Licenses and permits	3,000	3,726	3,726	-
State revenue sharing	85,000	85,326	84,733	(593)
Local contributions	4,500	4,850	4,850	-
Charges for services	28,000	28,685	28,685	-
Interest income	8,500	7,348	7,348	-
Rental income	5,900	8,400	8,400	-
Other revenue	675	7,675	7,509	(166)
Transfer in	<u>23,500</u>	<u>27,200</u>	<u>44,200</u>	<u>17,000</u>
Total revenues	<u>217,775</u>	<u>233,006</u>	<u>249,247</u>	<u>16,241</u>
Expenditures				
General government				
Township board	4,425	2,403	2,403	-
Manager	95,800	86,527	89,535	3,008
Clerk	11,728	8,053	8,058	5
Treasurer	14,519	11,876	11,876	-
Elections	2,490	2,006	2,006	-
Buildings and grounds	<u>18,400</u>	<u>17,445</u>	<u>17,592</u>	<u>147</u>
Total general government	<u>147,362</u>	<u>128,310</u>	<u>131,470</u>	<u>3,160</u>
Public safety				
Code enforcement	23,593	26,964	27,264	300
Fire department	<u>28,000</u>	<u>28,688</u>	<u>28,688</u>	<u>-</u>
Total public safety	<u>51,593</u>	<u>55,652</u>	<u>55,952</u>	<u>300</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, 2008

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Public works				
Public works	8,775	4,685	4,705	20
Street lighting	975	923	1,009	86
Total public works	<u>9,750</u>	<u>5,608</u>	<u>5,714</u>	<u>106</u>
Community and economic development				
Planning	1,400	923	1,143	220
Zoning	550	487	673	186
Total community and economic development	<u>1,950</u>	<u>1,410</u>	<u>1,816</u>	<u>406</u>
Capital outlay	-	158,490	158,490	-
Debt service				
Interest and fiscal charges	-	12,153	12,153	-
Transfers out	4,000	25,000	25,000	-
Total expenditures	<u>214,655</u>	<u>386,623</u>	<u>390,595</u>	<u>3,972</u>
Excess (deficiency) of revenues over expenditures	<u>3,120</u>	<u>(153,617)</u>	<u>(141,348)</u>	<u>12,269</u>
Fund balance - beginning of year	-	300,123	392,114	91,991
Prior period adjustment	-	-	(13,541)	(13,541)
Fund balance - beginning of year (restated)	-	300,123	378,573	78,450
Fund balance - end of year	<u>\$ 3,120</u>	<u>\$ 146,506</u>	<u>\$ 237,225</u>	<u>\$ 90,719</u>

See Accompanying Notes to Financial Statements

Village of Lake Isabella
Required Supplemental Information
Budgetary Comparison Schedule
Major Street Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
State revenue sharing	\$ 106,000	\$ 119,602	\$ 110,762	\$ (8,840)
Interest income	6,250	4,112	4,112	-
Total revenues	<u>112,250</u>	<u>123,714</u>	<u>114,874</u>	<u>(8,840)</u>
Expenditures				
Current				
Public works	84,055	102,601	102,600	(1)
Transfers out	27,000	31,035	31,035	-
Total expenditures	<u>111,055</u>	<u>133,636</u>	<u>133,635</u>	<u>(1)</u>
Excess of revenues (deficiency) over expenditures	1,195	(9,922)	(18,761)	(8,839)
Fund balance - beginning of year	<u>138,890</u>	<u>138,890</u>	<u>138,890</u>	<u>-</u>
Fund balance - end of year	<u>\$ 140,085</u>	<u>\$ 128,968</u>	<u>\$ 120,129</u>	<u>\$ (8,839)</u>

Village of Lake Isabella
Required Supplemental Information
Budgetary Comparison Schedule
Local Street Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
State revenue sharing	\$ 56,000	\$ 60,361	\$ 55,622	\$ (4,739)
Interest income	3,500	2,097	2,097	-
Transfers in	-	40,025	40,025	-
Total revenues	<u>59,500</u>	<u>102,483</u>	<u>97,744</u>	<u>(4,739)</u>
Expenditures				
Current				
Public works	52,977	88,183	82,054	(6,129)
Transfers out	-	3,320	3,320	-
Total expenditures	<u>52,977</u>	<u>91,503</u>	<u>85,374</u>	<u>(6,129)</u>
Excess of revenues (deficiency) over expenditures	6,523	10,980	12,370	1,390
Fund balance - beginning of year	<u>64,235</u>	<u>64,235</u>	<u>64,235</u>	<u>-</u>
Fund balance - end of year	<u>\$ 70,758</u>	<u>\$ 75,215</u>	<u>\$ 76,605</u>	<u>\$ 1,390</u>

**Village of Lake Isabella
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008**

	Debt Service Funds			Total Nonmajor Governmental Funds
	2003 MDOT Debt Fund	Queensway Debt Fund	Putter Drive Debt Fund	
Assets				
Cash and cash equivalents	\$ 148	\$ 79,380	\$ 27,701	\$ 107,229
Receivables				
Special assessments	-	39,002	35,317	74,319
	\$ 148	\$ 118,382	\$ 63,018	\$ 181,548
Liabilities				
Due to other funds	\$ -	\$ 1,109	\$ 600	\$ 1,709
Deferred revenue	-	39,002	35,317	74,319
	-	40,111	35,917	76,028
Fund Balances				
Reserved for:				
Debt service	148	78,271	27,101	105,520
	\$ 148	\$ 118,382	\$ 63,018	\$ 181,548

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, 2008

	Debt Service Funds			Total Nonmajor Governmental Funds
	2003 MDOT Debt Fund	Queensway Debt Fund	Putter Drive Debt Fund	
Revenues				
Charges for services	\$ -	\$ -	\$ 5,948	\$ 5,948
Interest income	7	12,078	1,203	13,288
Total revenues	<u>7</u>	<u>12,078</u>	<u>7,151</u>	<u>19,236</u>
Expenditures				
Debt service				
Principal retirement	20,000	15,000	6,400	41,400
Interest and fiscal charges	4,870	3,330	2,085	10,285
Total expenditures	<u>24,870</u>	<u>18,330</u>	<u>8,485</u>	<u>51,685</u>
Excess (deficiency) of revenues over expenditures	<u>(24,863)</u>	<u>(6,252)</u>	<u>(1,334)</u>	<u>(32,449)</u>
Other financing sources (uses)				
Transfers in	24,870	5,000	5,000	34,870
Transfers out	-	(5,462)	(5,358)	(10,820)
Total other financing sources and uses	<u>24,870</u>	<u>(462)</u>	<u>(358)</u>	<u>24,050</u>
Net change in fund balance	7	(6,714)	(1,692)	(8,399)
Fund balance - beginning of year	<u>141</u>	<u>84,985</u>	<u>28,793</u>	<u>113,919</u>
Fund balance - end of year	<u>\$ 148</u>	<u>\$ 78,271</u>	<u>\$ 27,101</u>	<u>\$ 105,520</u>

See Accompanying Notes to Financial Statements