

VILLAGE OF LAKE ISABELLA
ISABELLA COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2015

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INDEPENDENT AUDITOR'S REPORT

Village Council
Village of Lake Isabella, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Lake Isabella, Michigan (the "Village") as of and for the year ended June 30, 2015, 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, each major fund, and the aggregate remaining fund information of the Village of Lake Isabella, Michigan, as of June 30, 2015, 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 budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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 combining and individual fund financial statements as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements are the responsibility of management and were derived from and relate 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 combining and

individual fund financial statements are 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 December 2, 2015, on our consideration of the Village of Lake Isabella, Michigan'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.

A handwritten signature in dark ink that reads "Gabridge & Company". The script is cursive and fluid, with the ampersand being particularly stylized.

Gabridge & Company, PLC
Grand Rapids, Michigan
December 2, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the Village of Lake Isabella, Michigan (The "Village" or "government") 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, 2015. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- The assets of the Village exceeded its liabilities at the close of the most recent fiscal year by \$3,062,362 (net position). Of this amount, \$555,696, or 18%, represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- At the close of the current fiscal year, the Village's governmental funds reported combined fund balances of \$774,232, a decrease of \$17,166 in comparison with the prior year. Approximately 40% of this amount (\$311,164) is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$311,164, or approximately 98% of total general fund expenditures.

Overview of the Financial Statements

The discussion and analysis provided here is intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support 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 financial information on all of the Village's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the Village'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 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 (governmental 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 governmental activities of the Village include general government, police and fire protection, streets, and community and economic development. The business-type activities of the Village include sewer services and the Village's airport and runway.

The government-wide financial statements can be found on pages 16 – 17 of this report.

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 assessing 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 seven 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. Data from the queens way, castle sevilla, and putter drive funds are presented as a separate column as they are considered nonmajor 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 18 – 21 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 22 – 24 of this report.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire 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 26 - 38 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's budgetary comparison schedules.

Required supplementary information can be found on pages 40 - 42 of this report.

This report also presents other supplementary information which includes the nonmajor fund combining and individual statements. The combining statements are presented immediately following the required supplementary information on budgets.

Combining and individual fund statements and schedules can be found on pages 44 - 45 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the Village, assets exceeded liabilities by \$3,062,362, at the close of the most recent fiscal year.

Village of Lake Isabella Statement of Net Position for Fiscal Years Ended June 30, 2015 and June 30, 2014

	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
ASSETS						
<i>Current Assets</i>						
Cash & Investments	\$ 728,775	\$ 738,217	\$ 33,735	\$ 50,549	\$ 762,510	\$ 788,766
Due from Other Governments	56,882	51,813	-	-	56,882	51,813
Special Assessments	108,821	119,372	-	-	108,821	119,372
Prepaid Items	4,873	12,035	-	-	4,873	12,035
Total Current Assets	899,351	921,437	33,735	50,549	933,086	971,986
<i>Noncurrent Assets</i>						
Special Assessments (long-term)	107,050	217,947	-	-	107,050	217,947
Capital Assets not being Depreciated	5,304	5,304	115,000	115,000	120,304	120,304
Capital Assets being Depreciated	2,704,318	2,932,265	49,032	59,354	2,753,350	2,991,619
Total Assets	3,716,023	4,076,953	197,767	224,903	3,913,790	4,301,856
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	11,463	7,013	-	-	11,463	7,013
Payroll Liabilities	4,835	3,654	-	-	4,835	3,654
Accrued Interest	7,244	9,489	-	-	7,244	9,489
Current Portion of Long-term Debt	186,885	216,685	-	-	186,885	216,685
Total Current Liabilities	210,427	236,841	-	-	210,427	236,841
<i>Noncurrent Liabilities</i>						
Compensated Absences	2,001	1,109	-	-	2,001	1,109
Long-term Debt	639,000	825,885	-	-	639,000	825,885
Total Liabilities	851,428	1,063,835	-	-	851,428	1,063,835
NET POSITION						
Net Investment in Capital Assets	1,883,737	1,894,999	164,032	174,354	2,047,769	2,069,353
Restricted	458,897	508,088	-	-	458,897	508,088
Unrestricted	521,961	610,031	33,735	50,549	555,696	660,580
Total Net Position	\$ 2,864,595	\$ 3,013,118	\$ 197,767	\$ 224,903	\$ 3,062,362	\$ 3,238,021

By far, the largest portion of the Village's net position (\$2,047,769, or 67%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The Village uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the Village's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Village's net position (\$458,897, or 15%) represents resources that are subject to external restrictions on how they may be used. The remaining balance (\$555,696,

or 18%) is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

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.

The Village's overall net position decreased \$175,659 from the prior fiscal year. The reasons for this overall decrease are discussed in the following sections for governmental activities and business-type activities.

Governmental Activities. Governmental activities decreased the Village's net position by \$148,523. The total decrease was the result of total revenues of \$557,761 less total expenses of \$706,284. The primary reason for decrease of net position was depreciation of \$227, 947.

The Village saw their charges for services increase for the year ended June 30, 2015, when they received \$127,055 compared to \$120,460 for the year ended June 30, 2014 as a result of stable rental revenues of Village properties during the year. Operating grants increased by \$6,417 in the current year and general revenues were stable for June 30, 2015. Operating expenses decreased for Village in the current year when compared to the prior year as a result of close monitoring by management and Council.

Business-type Activities. Business-type activities decreased the Village's net position by \$27,136 to \$197,767. The total decrease in net position is comparable with prior years and primarily relates to depreciation expense and contractual services related to the sewer system and airport operations.

Village of Lake Isabella
Change in Net Position for Fiscal Years Ended June 30, 2015 and June 30, 2014

	Governmental Activities		Business-type Activities		Total Government	
	2015	2014	2015	2014	2015	2014
Revenue						
Program Revenues						
Charges for Services	\$ 127,055	\$ 120,460	\$ -	\$ -	\$ 127,055	\$ 120,460
Operating Grants & Contributions	198,680	192,263	-	-	198,680	192,263
Capital Grants & Contributions	-	-	-	-	-	-
Total Program Revenues	325,735	312,723	-	-	325,735	312,723
General Revenues						
Taxes	61,985	61,359	-	-	61,985	61,359
State Revenue Sharing	146,314	145,577	-	-	146,314	145,577
Other	17,532	1,365	-	-	17,532	1,365
Interest	3,695	21,781	32	2,542	3,727	24,323
Transfers In (Out)	2,500	-	(2,500)	-	-	-
Total General Revenues & Transfers	232,026	230,082	(2,468)	2,542	229,558	232,624
Total Revenues	557,761	542,805	(2,468)	2,542	555,293	545,347
Expenses						
General Government	235,100	248,784	-	-	235,100	248,784
Public Safety	51,116	62,471	-	-	51,116	62,471
Public Works	387,225	409,110	-	-	387,225	409,110
Community and Economic Development	1,317	3,188	-	-	1,317	3,188
Interest on Long-term Debt	31,526	41,633	-	-	31,526	41,633
Airport	-	-	10,322	10,322	10,322	10,322
Sewer	-	-	14,346	7,833	14,346	7,833
Total Expenses	706,284	765,186	24,668	18,155	730,952	783,341
Change in Net Position	(148,523)	(222,381)	(27,136)	(15,613)	(175,659)	(237,994)
Net Position at the Beginning of Period	3,013,118	3,235,499	224,903	240,516	3,238,021	3,476,015
Net Position at the End of Period	\$ 2,864,595	\$ 3,013,118	\$ 197,767	\$ 224,903	\$ 3,062,362	\$ 3,238,021

Financial Analysis of Governmental 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, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Village itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Village's Council.

At June 30, 2015, the Village's governmental funds reported combined fund balances of \$774,232, a decrease of \$17,166 in comparison with the prior year. Approximately 40% of this amount (\$311,164) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable*, *assigned*, or *restricted* to indicate that it is 1) not in spendable form (\$4,873 for prepaid items), or 2) restricted for particular purposes (\$458,195 for major streets, local streets, and debt service obligations).

The general fund is the chief operating fund of the Village. At the end of the current fiscal year, unassigned fund balance of the general fund was \$311,164, while total fund balance increased to \$315,335. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 98 percent of total general fund expenditures and transfers out, while total fund balance represents approximately 99 percent of that same amount.

The fund balance of the Village's general fund increased by \$36,919 during the current fiscal year. The Village Council monitors the expenditures of the general fund closely to ensure that spending does not exceed the Village's available resources.

The major streets fund, a major fund, had a \$23,429 increase in fund balance during the current fiscal year which put the overall fund balance at \$304,427. This increase in fund balance is due to careful monitoring by the Village as well as decreased costs associated with winter maintenance.

The local streets fund, a major fund, had a \$3,493 increase in fund balance during the current fiscal year which put the overall fund balance at \$51,025. This decrease in fund balance is due to the decrease in state revenue sharing during the year.

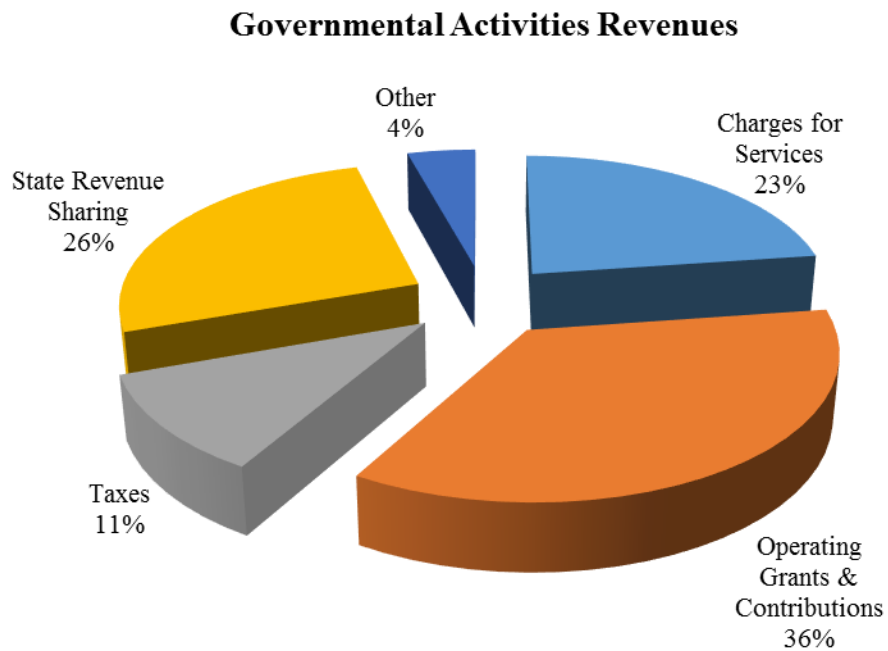
The LSSA fund, a major fund, had a \$57,201 decrease in fund balance during the current fiscal year which put the overall fund balance at \$103,445. This decrease in fund balance is due to the routine debt service payments during the year.

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

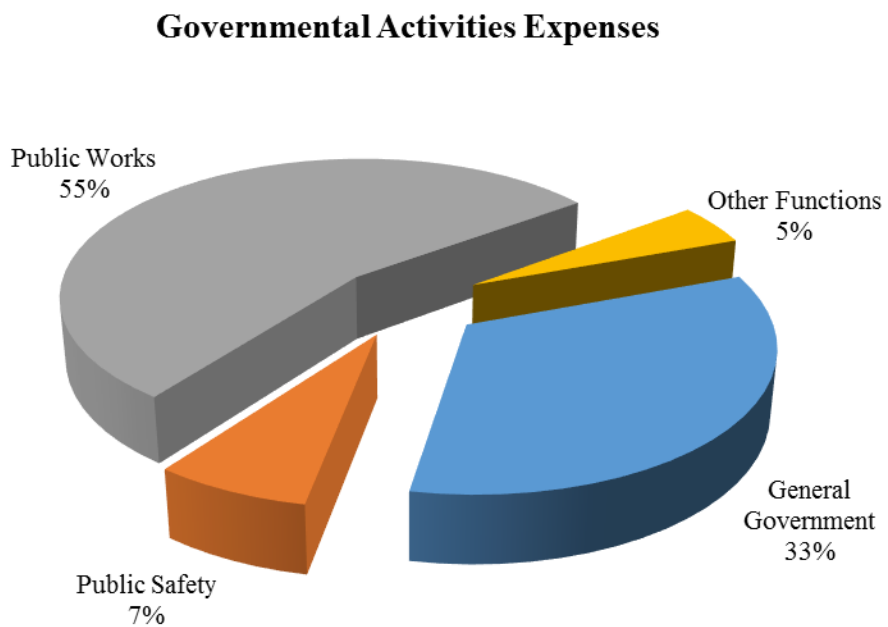
Unrestricted net position at the end of the year was \$33,735 for the sewer fund and \$0 for the airport fund. The decrease in net position was \$10,322 for the airport fund (all of which was depreciation) and \$16,814 for the sewer fund. The results were consistent with the previous year with one exception as contracted services increased in the sewer fund by \$6,513.

Governmental Activities

The following chart summarizes the revenue sources for the governmental activities of the Village for the most recent fiscal year end.



The following chart summarizes the expenses for the governmental activities of the Village for the most recent fiscal year end.



General Fund Budgetary Highlights

Original budget compared to final budget. During the year there was no need to significantly adjust expenditures in the final budget. All other budget amendments during the year were relatively minor.

Final budget compared to actual results. During the current fiscal year the Village had the following significant expenditure in excess of the appropriated amounts in the general fund:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Building & Grounds	\$ 39,750	\$ 41,521	\$ (1,771)
Public Safety - Police & Fire	32,000	33,141	(1,141)

Capital Assets and Debt Administration

Capital Assets

The Village's investment in capital assets for its governmental and business-type activities as of June 30, 2015, amounts to \$2,873,654 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, vehicles, runway, and sewer infrastructure. The following summarizes the Village's capital assets:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Land	\$ 5,304	\$ 115,000	\$ 120,304
Roads	2,219,670	-	2,219,670
Buildings	468,280	-	468,280
Vehicles	16,368	-	16,368
Runway	-	49,032	49,032
	<u>\$ 2,709,622</u>	<u>\$ 164,032</u>	<u>\$ 2,873,654</u>

More detailed information about the Village's capital assets can be found in note 4.

Long-term Debt

As described in Note 6 to the financial statements, the Village had \$825,885 long-term debt at the end of the fiscal year. The Village is well under its legal debt limit as of year-end.

Economic Condition and Outlook

Management estimates that \$325,000 of revenues will be available for appropriation in the general fund in the upcoming budget. Expenditures are expected to change by small amounts compared to 2015. The Village continues to review all budget line items for opportunities to reduce expenditures when possible. The budget will be monitored during the year to identify any necessary amendments. In 2016, the Village plans again to use current revenues to provide essential services and to maintain the Village's financial reserves at similar levels. The ongoing costs of providing essential services for the citizens of the Village will again need to be monitored in order to maintain the financial condition of the Village.

Contacting the Village

This financial report is designed to provide a general overview of the Village's finances to its citizens, customers, investors, and creditors and to demonstrate the Village's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

The Village of Lake Isabella
1010 Clubhouse Dr.
Weidman, MI 48893

BASIC FINANCIAL STATEMENTS

**Village of Lake Isabella
Statement of Net Position
June 30, 2015**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
<i>Current Assets</i>			
Cash & Cash Equivalents	\$ 426,829	\$ 694	\$ 427,523
Investments	301,946	33,041	334,987
Due from Other Governmental Units	56,882	--	56,882
Special Assessments	108,821	--	108,821
Prepaid Items	4,873	--	4,873
Total Current Assets	899,351	33,735	933,086
<i>Noncurrent Assets</i>			
Special Assessments Long-term	107,050	--	107,050
Capital Assets not being Depreciated	5,304	115,000	120,304
Capital Assets being Depreciated	2,704,318	49,032	2,753,350
Total Assets	3,716,023	197,767	3,913,790
LIABILITIES			
<i>Current Liabilities</i>			
Accounts Payable	11,463	--	11,463
Payroll Liabilities	4,835	--	4,835
Accrued Interest	7,244	--	7,244
Current Portion of Long-term Debt	186,885	--	186,885
Total Current Liabilities	210,427	--	210,427
<i>Noncurrent Liabilities</i>			
Long-term Debt	639,000	--	639,000
Compensated Absences	2,001	--	2,001
Total Liabilities	851,428	--	851,428
NET POSITION			
Net Investment in Capital Assets	1,883,737	164,032	2,047,769
<i>Restricted for:</i>			
Streets	355,452	--	355,452
Debt Service	103,445	--	103,445
<i>Unrestricted</i>	521,961	33,735	555,696
Total Net Position	\$ 2,864,595	\$ 197,767	\$ 3,062,362

The Notes to the Financial Statements are an integral part of these financial statements.

**Village of Lake Isabella
Statement of Activities
For the Year Ended June 30, 2015**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental Activities:							
General Government	\$ 235,100	\$ 38,347	\$ 11,500	\$ --	\$ (185,253)	\$ --	\$ (185,253)
Public Safety	51,116	342	--	--	(50,774)	--	(50,774)
Public Works	387,225	88,366	187,180	--	(111,679)	--	(111,679)
Community & Economic Development	1,317	--	--	--	(1,317)	--	(1,317)
Interest on Long-term Debt	31,526	--	--	--	(31,526)	--	(31,526)
Total Governmental Activities	706,284	127,055	198,680	--	(380,549)	--	(380,549)
Business-type Activities:							
Airport	10,322	--	--	--	--	(10,322)	(10,322)
Sewer	14,346	--	--	--	--	(14,346)	(14,346)
Total Business-type Activities	24,668	--	--	--	--	(24,668)	(24,668)
Total Primary Government	\$ 730,952	\$ 127,055	\$ 198,680	\$ --	\$ (380,549)	\$ (24,668)	\$ (405,217)
General Purpose Revenues and Transfers:							
Revenues							
Property Taxes					61,985	--	61,985
State Revenue Sharing					146,314	--	146,314
Other					17,532	--	17,532
Interest Income					3,695	32	3,727
Transfers					2,500	(2,500)	--
Total General Revenues and Transfers					232,026	(2,468)	229,558
Change in Net Position					(148,523)	(27,136)	(175,659)
<i>Net Position at Beginning of Period</i>					3,013,118	224,903	3,238,021
<i>Net Position at End of Period</i>					\$ 2,864,595	\$ 197,767	\$ 3,062,362

The Notes to the Financial Statements are an integral part of these financial statements.

**Village of Lake Isabella
Balance Sheet
Governmental Funds
June 30, 2015**

	<u>Special Revenue</u>			<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>LSSA</u>		
ASSETS						
Cash & Cash Equivalents	\$ 239,553	\$ 136,581	\$ 14,934	\$ 26,695	\$ --	\$ 417,763
Investments	60,547	144,649	29,066	76,750	--	311,012
Due from Other Governmental Units	22,777	24,121	9,984	--	--	56,882
Special Assessments	--	--	--	215,871	--	215,871
Prepaid Items	4,171	421	281	--	--	4,873
<i>Total Assets</i>	<u>\$ 327,048</u>	<u>\$ 305,772</u>	<u>\$ 54,265</u>	<u>\$ 319,316</u>	<u>\$ --</u>	<u>\$ 1,006,401</u>
LIABILITIES						
Accounts Payable	\$ 7,238	\$ 1,165	\$ 3,060	\$ --	\$ --	\$ 11,463
Payroll Liabilities	4,475	180	180	--	--	4,835
<i>Total Liabilities</i>	<u>11,713</u>	<u>1,345</u>	<u>3,240</u>	<u>--</u>	<u>--</u>	<u>16,298</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenues - Special Assessments	--	--	--	215,871	--	215,871
<i>Total Liabilities and Deferred Inflows of Resources</i>	<u>11,713</u>	<u>1,345</u>	<u>3,240</u>	<u>215,871</u>	<u>--</u>	<u>232,169</u>
FUND BALANCE						
Nonspendable	4,171	421	281	--	--	4,873
Restricted	--	304,006	50,744	103,445	--	458,195
Unassigned	311,164	--	--	--	--	311,164
<i>Total Fund Balance</i>	<u>315,335</u>	<u>304,427</u>	<u>51,025</u>	<u>103,445</u>	<u>--</u>	<u>774,232</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<u>\$ 327,048</u>	<u>\$ 305,772</u>	<u>\$ 54,265</u>	<u>\$ 319,316</u>	<u>\$ --</u>	<u>\$ 1,006,401</u>

The Notes to the Financial Statements are an integral part of these financial statements.

Village of Lake Isabella
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2015

Total Fund Balance - Governmental Funds	\$ 774,232
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,709,622
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(825,885)
Compensated absences are not due in and payable in the current period, and therefore, are not reported in the funds.	(2,001)
In the Statement of Net Position, interest is accrued on outstanding bonds, whereas in the governmental funds, the interest expenditure is reported when due.	(7,244)
Special assessments are not available to cover current period expenditures and, therefore, are reported as unavailable revenue in the funds.	215,871
Total Net Position - Governmental Funds	\$ <u>2,864,595</u>

The Notes to the Financial Statements are an integral part of these financial statements.

Village of Lake Isabella
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2015

		<u>Special Revenue</u>		<u>Debt Service</u>		
	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>LSSA</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues						
Property Taxes	\$ 61,985	\$ --	\$ --	\$ --	\$ --	\$ 61,985
Licenses & permits	8,293	--	--	--	--	8,293
State Revenue Sharing	129,903	141,300	62,291	--	--	333,494
Charges for Services	31,882	--	--	128,888	10,464	171,234
Fine & Forfeitures	342	--	--	--	--	342
Rental Income	59,126	--	--	--	--	59,126
Other	38,540	--	--	--	--	38,540
Interest Income	306	237	1,294	1,746	112	3,695
Total Revenues	330,377	141,537	63,585	130,634	10,576	676,709
Expenditures						
General Government	219,354	--	--	--	--	219,354
Public Safety	51,116	--	--	--	--	51,116
Public Works	4,309	94,108	75,715	--	--	174,132
Community & Economic Development	1,317	--	--	--	--	1,317
Debt Service - Principal	26,685	--	--	170,000	20,000	216,685
Debt Service - Interest	15,476	--	--	17,835	460	33,771
Total Expenditures	318,257	94,108	75,715	187,835	20,460	696,375
Excess of Revenues Over (Under) Expenditures	12,120	47,429	(12,130)	(57,201)	(9,884)	(19,666)
Other Financing Sources (Uses)						
Transfers In	24,799	--	24,000	--	8,377	57,176
Transfers Out	--	(24,000)	(8,377)	--	(22,299)	(54,676)
Net Other Financing Sources (Uses)	24,799	--	15,623	--	(13,922)	2,500
Net Change in Fund Balance	36,919	23,429	3,493	(57,201)	(23,806)	(17,166)
<i>Fund Balance at Beginning of Period</i>	<i>278,416</i>	<i>280,998</i>	<i>47,532</i>	<i>160,646</i>	<i>23,806</i>	<i>791,398</i>
Fund Balance at End of Period	\$ 315,335	\$ 304,427	\$ 51,025	\$ 103,445	\$ --	\$ 774,232

The Notes to the Financial Statements are an integral part of these financial statements.

Village of Lake Isabella
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended June 30, 2015

Total Net Change in Fund Balances - Governmental Funds	\$ (17,166)
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.	(227,947)
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 debt payments reduce long-term liabilities on the Statement of Net Position. This represents the amount of long-term debt principal payments made during the year.	216,685
Decrease in accrued interest.	2,245
Increase in compensated absences.	(892)
Special assessments are reported as program revenues (operating grants and contributions) in the Statement of Activities and are reported when in the year the receivable is effective.	(121,448)
Changes in Net Position - Governmental Funds	\$ <u>(148,523)</u>

The Notes to the Financial Statements are an integral part of these financial statements.

**Village of Lake Isabella
Statement of Net Position
Proprietary Funds
June 30, 2015**

	Business-type Activities - Enterprise Funds		
	Airport	Sewer	Total Enterprise Funds
ASSETS			
<i>Current Assets</i>			
Cash & Cash Equivalents	\$ --	\$ 694	\$ 694
Investments	--	33,041	33,041
<i>Total Current Assets</i>	--	33,735	33,735
<i>Noncurrent Assets</i>			
Capital Assets not being Depreciated	50,000	65,000	115,000
Capital Assets being Depreciated	49,032	--	49,032
<i>Total Assets</i>	99,032	98,735	197,767
LIABILITIES			
<i>Current Liabilities</i>			
<i>Total Current Liabilities</i>	--	--	--
<i>Noncurrent Liabilities</i>			
<i>Total Liabilities</i>	--	--	--
NET POSITION			
Net Investment in Capital Assets	99,032	65,000	164,032
<i>Unrestricted</i>	--	33,735	33,735
<i>Total Net Position</i>	\$ 99,032	\$ 98,735	\$ 197,767

The Notes to the Financial Statements are an integral part of these financial statements.

Village of Lake Isabella
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2015

	Business-type Activities - Enterprise Funds		
	Airport	Sewer	Total Enterprise Funds
Operating Revenues			
<i>Total Operating Revenues</i>	--	--	--
Operating Expenses			
Contractual Services	\$ --	\$ 14,346	\$ 14,346
Depreciation	10,322	--	10,322
<i>Total Operating Expenses</i>	10,322	14,346	24,668
<i>Operating Income (Loss)</i>	(10,322)	(14,346)	(24,668)
Non-Operating Revenues (Expenses)			
Interest Income	--	32	32
<i>Net Non-Operating Revenues (Expenses)</i>	--	32	32
<i>Income Before Contributions and Transfers</i>	(10,322)	(14,314)	(24,636)
Transfers In	--	--	--
Transfers Out	--	(2,500)	(2,500)
<i>Change In Net Position</i>	(10,322)	(16,814)	(27,136)
Net Position at Beginning of Period	109,354	115,549	224,903
Net Position at End of Period	\$ 99,032	\$ 98,735	\$ 197,767

The Notes to the Financial Statements are an integral part of these financial statements.

**Village of Lake Isabella
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2015**

	Business-type Activities - Enterprise Funds		
	Airport	Sewer	Total Enterprise Funds
Cash Flows from Operating Activities			
Cash Payments to Suppliers for Goods and Services	\$ -	\$ (14,346)	\$ (14,346)
Total Cash Flows from (used by) Operating Activities	-	(14,346)	(14,346)
Cash Flows From Non-capital and Related Financing Activities			
Transfers In (Out)	-	(2,500)	(2,500)
Total Cash Flows from (used by) Non-capital and Related Financing Activities	-	(2,500)	(2,500)
Cash Flows From Investing Activities			
Proceeds from Sales and Maturities of Investments	-	17,023	17,023
Interest Received	-	32	32
Total Cash Flows from Investing Activities	-	17,055	17,055
Net Increase (Decrease) in Cash and Equivalents	-	209	209
<i>Cash and Equivalents - Beginning of Year</i>	-	485	485
Cash and Equivalents - End of Year	\$ -	\$ 694	\$ 694
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating Income	\$ (10,322)	\$ (14,346)	\$ (24,668)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities			
Depreciation Expense	10,322	-	10,322
Net Cash Provided (Used) by Operating Activities	\$ -	\$ (14,346)	\$ (14,346)

The Notes to the Financial Statements are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Village of Lake Isabella

Notes to the Financial Statements

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Village of Lake Isabella (the “Village” or “government”) have been prepared in conformity with generally accepted accounting principles 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 more significant of the Village’s accounting policies are described below.

Reporting Entity

The Village is located in Isabella County, Michigan, and provides services to its residents in many areas including police and fire protection, community enrichment and development, streets, and sewer services. The Village is an incorporated home rule Village governed by a seven-member Council elected by the citizens of the Village. The Village Council consists of the president, president pro-tempore, clerk, treasurer and three members.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 61, “*The Financial Reporting Entity*,” these financial statements present the Village. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. There are no other units that should be included in the financial statements.

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 nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *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 given function or segment 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 and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

Village of Lake Isabella

Notes to the 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 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 or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and compensated absences expenditures are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be 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 Village.

The Village of Lake Isabella reports the following major governmental funds:

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

The ***major streets fund*** accounts for the maintenance and improvement activities for streets designated as "major" within the Village. Funding is primary through state shared gas and weight taxes.

The ***local streets fund*** accounts for the maintenance and improvement activities for streets designated as "local" within the Village. Funding is primary through state shared gas and weight taxes.

The ***LSSA fund*** accounts for the bonded construction of the Village's road and streets, collection of special assessment revenues, and the payment of long-term debt.

Village of Lake Isabella

Notes to the Financial Statements

The Village reports the following major proprietary funds:

The *sewer fund* accounts for the activities of the Village's sewage collection system.

The *airport fund* accounts for the assets of the Village's airport.

Additionally, the government reports the following fund types:

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

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

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* 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 enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Budgetary and Budgetary Accounting

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The general fund and special revenue funds are subject to legal budgetary accounting controls and all are budgeted annually. The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Village Council, by resolution, adopts a budget for the next fiscal year on or before June 30 each year.
2. Public hearings are conducted to obtain taxpayer comments.
3. The Village shall appropriate the money needed for municipal purposes during the next fiscal year of the Village and shall provide for a levy of the amount necessary to be raised by taxes upon real and personal property.
4. Budgetary control is exercised at the activity level, which is the level at which expenditures may not legally exceed appropriations. Any revisions that alter the total expenditures of any activity (i.e., budget amendments) require approval by the Village Council. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.

Village of Lake Isabella

Notes to the Financial Statements

5. The budget and approved appropriations lapse at the end of the fiscal year.
6. The Village does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Assets, Liabilities, and Fund Equity

Deposits and Investments

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, except for investment funds which are considered to be part of the investment portfolio. Investments are stated at fair value based on quoted market price. Certificates of deposits are stated at cost which approximates fair value.

State statutes and Village policy authorize the Village to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- In United States government or federal agency obligation repurchase agreements.
- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan or any of its political subdivisions which are rated as investment grade.
- Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). Any residual balances

Village of Lake Isabella

Notes to the Financial Statements

outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade receivables are shown net of an allowance for uncollectibles, as applicable. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., sewer system, streets, and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the Village as assets with an estimated useful life in excess of two years and an initial individual cost of more than \$2,500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market 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 asset lives are not capitalized.

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

<u>Description</u>	<u>Years</u>
Buildings	7-50
Equipment	5-7
Roads	20-25
Vehicles	4-10

Compensated Absences

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

Village of Lake Isabella

Notes to the Financial Statements

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

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.

Deferred Inflows of Resources

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

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be

Village of Lake Isabella

Notes to the Financial Statements

used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The *committed fund balance* classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Village Council is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the *assigned fund balance* classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Village Council, the budget or finance committee, or the Village Manager, is authorized to assign fund balance. The Village Council, the budget or finance committee, or the Village Manager may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Unassigned fund balance is the residual classification for the Village's general fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the Village Council.

Property Tax Revenue Recognition

The Village property tax is levied on July 1 on the taxable valuation of property located in the Village as of the preceding December 31. The billings are due on or before August 31, after which time the bill becomes delinquent and penalties and interest may be assessed by the Village; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Isabella County.

Village of Lake Isabella

Notes to the Financial Statements

It is the Village's policy to recognize revenues in the current year when they are levied and made available for the financing of Village operations. The Village considers property taxes levied on July 1 to be revenues of the current period.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Subsequent Events

Subsequent events have been evaluated through December 2, 2015, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would have a significant impact on the financial condition of the Village.

Note 2 – Excess of Expenditures Over Budget

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2015, the Village incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Building & Grounds	\$ 39,750	\$ 41,521	\$ (1,771)
Public Safety - Police & Fire	32,000	33,141	(1,141)
Local Streets			
Transfers Out	-	8,377	(8,377)

Village of Lake Isabella

Notes to the Financial Statements

Note 3 – Cash and Investments

Following is a reconciliation of deposit and investment balances as of June 30, 2015:

	Primary Government
Statement of Net Position	
Cash & Cash Equivalents	\$ 427,523
Investments	334,987
Total Deposits and Investments	\$ 762,510
 Deposits and Investments	
Cash & Cash Equivalents	\$ 427,323
Certificates of Deposit	334,987
Cash on Hand	200
Total	\$ 762,510

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the Village's deposits might not be returned. State law does not require and the Village does not have a policy for deposit custodial credit risk. As of year-end, \$168,957 of the Village's bank balance of \$418,957 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the Village believes it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution with which it deposits Village funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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. As of year-end, the Village had \$344,085 invested with Raymond James & Associates that was held by counterparty in the Village's name of which the full amount is protected with the Securities Investor Protection Corporation (SIPC).

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The Village's investment policy authorizes investments in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory authority.

Village of Lake Isabella

Notes to the Financial Statements

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

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.

Note 4 – Capital Assets

Capital asset activity for governmental activities during the year was as follows:

Primary Government	<u>June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2015</u>
Capital assets not being depreciated				
Land	\$ 5,304	\$ -	\$ -	\$ 5,304
Capital assets being depreciated				
Roads	4,685,009	-	-	4,685,009
Buildings	546,000	-	-	546,000
Street Equipment	2,575	-	-	2,575
Office Equipment	17,023	-	-	17,023
Vehicles	75,102	-	-	75,102
Total capital assets, being depreciated	<u>5,325,709</u>	<u>-</u>	<u>-</u>	<u>5,325,709</u>
Less accumulated depreciation				
Roads	2,259,425	205,914	-	2,465,339
Buildings	64,700	13,020	-	77,720
Street Equipment	2,575	-	-	2,575
Office Equipment	16,963	60	-	17,023
Vehicles	49,781	8,953	-	58,734
Total accumulated depreciation	<u>2,393,444</u>	<u>227,947</u>	<u>-</u>	<u>2,621,391</u>
Total capital assets	<u>\$ 2,937,569</u>	<u>\$ (227,947)</u>	<u>\$ -</u>	<u>\$ 2,709,622</u>

Village of Lake Isabella

Notes to the Financial Statements

Capital asset activity for business-type activities during the year was as follows:

Business-type Activities	<u>June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2015</u>
Capital assets not being depreciated				
Land	\$ 115,000	\$ -	\$ -	\$ 115,000
Capital assets being depreciated				
Runway	206,452	-	-	206,452
Sewer System	-	-	-	-
Total capital assets, being depreciated	<u>206,452</u>	<u>-</u>	<u>-</u>	<u>206,452</u>
Less accumulated depreciation				
Runway	147,098	10,322	-	157,420
Total accumulated depreciation	<u>147,098</u>	<u>10,322</u>	<u>-</u>	<u>157,420</u>
Total capital assets	<u>\$ 174,354</u>	<u>\$ (10,322)</u>	<u>\$ -</u>	<u>164,032</u>

Depreciation expense was charged to governmental functions of the Village as follows:

Governmental Activities

General Government	\$ 14,854
Public Works	213,093
Total Governmental Activities	<u>\$ 227,947</u>

Business-type Activities

Airport Fund	<u>\$ 10,322</u>
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Note 5 – Interfund Balances & Interfund Transfers

As of June 30, 2015, the Village had no interfund balances.

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

The following interfund transfers occurred between funds of the Village for the current year:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Nonmajor Governmental	\$ 22,299
General	Sewer	2,500
Nonmajor Governmental	Local Streets	8,377
Local Streets	Major Streets	24,000

Interfund transfers are used to: 1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; 2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service

Village of Lake Isabella

Notes to the Financial Statements

payments become due; and 3) use unrestricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 6 – 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.

The following is a summary of long-term debt activity of the Village for the year ended June 30, 2015:

Governmental Activities	Interest Rate	Maturity	June 30, 2014	Additions	Reductions	June 30, 2015	Due Within One Year
General Obligation Bonds & Notes							
2013 Refunding bonds	2.99%	2040	\$ 514,000	\$ -	\$ 20,000	\$ 494,000	\$ 20,000
Truck Note Payable	2.99%	2016	13,570	-	6,685	6,885	6,885
Special Assessment Bonds							
Castle	4.40-4.60%	2014	13,600	-	13,600	-	-
Putter	4.40-4.60%	2014	6,400	-	6,400	-	-
LSSA	4.35%	2016	495,000	-	170,000	325,000	160,000
Total Primary Government Long-term Debt			\$ 1,042,570	\$ -	\$ 216,685	\$ 825,885	\$ 186,885

Compensated absences increased from \$1,109 to \$2,001 as of June 30, 2015 and are expected to be paid from the general fund.

Annual debt service requirements, exclusive of compensated absences, to maturity are as follows:

	Governmental Activities		
	Principal	Interest	Total
2016	\$ 186,885	\$ 25,335	\$ 212,220
2017	184,000	17,477	201,477
2018	20,000	13,306	33,306
2019	21,000	12,693	33,693
2020	21,000	12,065	33,065
2021-2025	80,000	52,953	132,953
2026-2030	104,000	39,169	143,169
2031-2035	122,000	22,216	144,216
2036-2040	87,000	5,038	92,038
Totals	\$ 825,885	\$ 200,252	\$ 1,026,137

Village of Lake Isabella

Notes to the Financial Statements

Note 7 – Retirement Plan

The Village offers 457b retirement program through Nationwide Retirement Services for all regular full time employees. The Village matches employee contributions up to a total of 5% of the employee's base rate of pay. Employer contributions related to the program for the year ended June 30, 2015 were \$2,850.

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 10 – Contingent Liabilities

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

Note 11 – Related Party Transactions

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

REQUIRED SUPPLEMENTARY INFORMATION

Village of Lake Isabella
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended June 30, 2015

	Budgeted Amounts			Variance Positive (Negative) Final to Actual
	Original	Final	Actual	
Revenues				
Property Taxes	\$ 60,000	\$ 60,500	\$ 61,985	\$ 1,485
Licenses & permits	9,500	10,250	8,293	(1,957)
State Revenue	126,500	126,500	129,903	3,403
Charges for Services	30,000	31,500	31,882	382
Fine & Forfeitures	--	250	342	92
Rental Income	40,580	56,580	59,126	2,546
Other	30,900	21,000	38,540	17,540
Interest	--	400	306	(94)
Total Revenues	297,480	306,980	330,377	23,397
Other Financing Sources				
Transfers In	--	--	24,799	24,799
Total Revenues and Other Financing Sources	297,480	306,980	355,176	48,196
Expenditures				
General Government				
Council	2,850	2,850	2,749	101
Manager & Administrative	141,800	145,875	140,393	5,482
Elections	150	700	--	700
Clerk	16,075	16,075	15,448	627
Treasurer	20,650	20,650	19,243	1,407
Building & Grounds	30,500	39,750	41,521	(1,771)
Total General Government	212,025	225,900	219,354	6,546
Public Safety				
Public Safety - Police & Fire	32,000	32,000	33,141	(1,141)
Code Enforcement	25,450	27,050	17,975	9,075
Total Public Safety	57,450	59,050	51,116	7,934
Public Works				
Cal Brewer Airport	3,275	3,275	3,060	215
Street Lights	1,350	1,350	1,249	101
Total Public Works	4,625	4,625	4,309	316
Economic & Community Development				
Planning & Zoning	2,600	2,600	1,317	1,283
Debt Service	41,863	41,863	42,161	(298)
Total Expenditures	318,563	334,038	318,257	15,781
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	(21,083)	(27,058)	36,919	63,977
Net Change in Fund Balance	(21,083)	(27,058)	36,919	63,977
Fund Balance at Beginning of Period	278,416	278,416	278,416	--
Fund Balance at End of Period	\$ 257,333	\$ 251,358	\$ 315,335	\$ 63,977

Village of Lake Isabella
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Major Streets
For the Year Ended June 30, 2015

	Budgeted Amounts			Variance Positive (Negative) Final to Actual
	Original	Final	Actual	
Revenues				
State Revenue	\$ 124,000	\$ 124,000	\$ 141,300	\$ 17,300
Interest	200	200	237	37
Total Revenues	124,200	124,200	141,537	17,337
Expenditures				
Routine Maintenance	85,074	86,824	56,527	30,297
Traffic Service	1,500	1,500	471	1,029
Winter Maintenance	36,500	36,400	30,767	5,633
Admin	7,750	7,750	6,343	1,407
Total Expenditures	130,824	132,474	94,108	38,366
Other Financing Uses				
Transfers Out	24,000	24,000	24,000	--
Total Expenditures and Other Financing Uses	154,824	156,474	118,108	38,366
Excess (Deficiency) of Revenues Over Expenditures and Other Uses	(30,624)	(32,274)	23,429	55,703
Net Change in Fund Balance	(30,624)	(32,274)	23,429	55,703
Fund Balance at Beginning of Period	280,998	280,998	280,998	--
Fund Balance at End of Period	\$ 250,374	\$ 248,724	\$ 304,427	\$ 55,703

Village of Lake Isabella
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Local Streets
For the Year Ended June 30, 2015

	Budgeted Amounts			Variance Positive (Negative) Final to Actual
	Original	Final	Actual	
Revenues				
State Revenue	\$ 60,000	\$ 60,000	\$ 62,291	\$ 2,291
Interest	150	150	1,294	1,144
Total Revenues	60,150	60,150	63,585	3,435
Other Financing Sources				
Transfers In	24,000	24,000	24,000	--
Total Revenues and Other Financing Sources	84,150	84,150	87,585	3,435
Expenditures				
Routine Maintenance	42,206	42,206	41,338	868
Traffic Service	1,250	1,250	297	953
Winter Maintenance	35,400	35,400	29,806	5,594
Admin	5,750	5,750	4,274	1,476
Total Expenditures	84,606	84,606	75,715	8,891
Other Financing Uses				
Transfers Out	--	--	8,377	(8,377)
Total Expenditures and Other Financing Uses	84,606	84,606	84,092	514
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(456)	(456)	3,493	3,949
Net Change in Fund Balance	(456)	(456)	3,493	3,949
Fund Balance at Beginning of Period	47,532	47,532	47,532	--
Fund Balance at End of Period	\$ 47,076	\$ 47,076	\$ 51,025	\$ 3,949

OTHER SUPPLEMENTARY INFORMATION

**Village of Lake Isabella
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2015**

	Debt Service			Total Nonmajor Governmental Funds
	Queens Way	Castle Sevilla	Putter Drive	
ASSETS				
<i>Total Assets</i>	\$ --	\$ --	\$ --	\$ --
LIABILITIES				
<i>Total Liabilities</i>	--	--	--	--
FUND BALANCE				
Unassigned	--	--	--	--
<i>Total Fund Balance</i>	--	--	--	--
<i>Total Liabilities and Fund Balance</i>	\$ --	\$ --	\$ --	\$ --

Village of Lake Isabella
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2015

	Debt Service			Total Nonmajor Governmental Funds
	Queens Way	Castle Sevilla	Putter Drive	
Revenues				
Charges for Services	\$ --	\$ 6,303	\$ 4,161	\$ 10,464
Interest Income	12	58	42	112
Total Revenues	12	6,361	4,203	10,576
Expenditures				
Debt Service - Principal	--	13,600	6,400	20,000
Debt Service - Interest	--	313	147	460
Total Expenditures	--	13,913	6,547	20,460
Excess of Revenues Over (Under) Expenditures	12	(7,552)	(2,344)	(9,884)
Other Financing Sources (Uses)				
Transfers In	--	7,172	1,205	8,377
Transfers Out	(19,880)	(1,591)	(828)	(22,299)
Net Other Financing Sources (Uses)	(19,880)	5,581	377	(13,922)
Net Change in Fund Balance	(19,868)	(1,971)	(1,967)	(23,806)
<i>Fund Balance at Beginning of Period</i>	<i>19,868</i>	<i>1,971</i>	<i>1,967</i>	<i>23,806</i>
Fund Balance at End of Period	\$ --	\$ --	\$ --	\$ --

December 2, 2015

To the Village Council
Village of Lake Isabella

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Lake Isabella, Michigan (the “Village”) for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 22, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year 2015. We noted no transactions entered into by the Village during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Management’s estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management’s estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 2, 2015.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to management's discussion and analysis and the budgetary comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual nonmajor fund financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Village Council and management of the Village of Lake Isabella and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in dark ink that reads "Gabridge & Company". The script is cursive and fluid, with the ampersand being particularly stylized.

Gabridge & Company, PLC
Grand Rapids, MI

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, each major fund, and the aggregate remaining fund information of Village of Lake Isabella, Michigan, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Village of Lake Isabella, Michigan's basic financial statements, and have issued our report thereon dated December 2, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Village of Lake Isabella, Michigan'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 Village of Lake Isabella, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of Village of Lake Isabella, Michigan'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 Village of Lake Isabella, Michigan'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.

A handwritten signature in dark ink that reads "Gabridge & Company". The script is cursive and fluid, with the ampersand clearly visible.

Gabridge & Company, PLC
Grand Rapids, MI
December 2, 2015