

**VILLAGE OF LEXINGTON**  
**Sanilac County, Michigan**

SUPPLEMENTARY INFORMATION TO  
FINANCIAL STATEMENTS

(FEDERAL AWARDS)

For the year ended June 30, 2024

**VILLAGE OF LEXINGTON**  
Sanilac County, Michigan

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**INDEPENDENT AUDITOR'S REPORT ON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY THE UNIFORM GUIDANCE**

To the President and Members of the Village Council  
Village of Lexington  
Lexington, Michigan

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Village of Lexington, Michigan (the "Village"), as of and for the year ended June 30, 2024 and the related notes to the financial statements which collectively comprise the Village's basic financial statements. We issued our report thereon dated October 25, 2024, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements.

The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*UHY* LLP

Port Huron, Michigan  
October 25, 2024

**VILLAGE OF LEXINGTON, MICHIGAN**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year ended June 30, 2024

Federal Grantor/Pass-through Grantor/Program Title	Assistance Listing Number	Federal Expenditures
<b>U.S. Department of Agriculture</b>		
Direct award -		
Water and waste disposal systems for rural communities	10.760	\$ 858,996
Prior year costs - see Note 4		<u>567,818</u>
		1,426,814
<b>U.S. Department of Homeland Security</b>		
Direct award -		
Assistance to firefighters	97.044	107,746
<b>U.S. Department of Treasury</b>		
Direct award -		
COVID-19 - coronavirus state and local fiscal recovery funds	21.027	<u>10,304</u>
<b>Total federal awards</b>		<u><u>\$ 1,544,864</u></u>

**VILLAGE OF LEXINGTON**

Sanilac County, Michigan

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**JUNE 30, 2024**

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

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Village of Lexington, Michigan, (the "Village"), for the year ended June 30, 2024. Expenditures reported on the Schedule are reported on the same basis of accounting as the financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

For purposes of charging indirect costs to federal awards, the Village has elected not to use the 10% de minimis cost rate.

Because the Schedule presents only a selected portion of the operations of the Village, it is not intended to, and does not, present the financial position, changes in net position, or cash flows of the Village.

**NOTE 2 - LOANS**

Funding has been provided for the water and waste disposal systems for rural communities by the U. S. Department of Agriculture ("USDA") project at and for the year ended June 30, 2024 as follows:

Loan amount authorized	<u>\$ 12,997,000</u>
Loan balance at June 30, 2024	<u>\$ 1,426,814</u>
2024 activity - proceeds federally funded	<u>\$ 1,426,814</u>
Expenditures	<u>\$ 1,426,814</u>

**VILLAGE OF LEXINGTON**

Sanilac County, Michigan

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**JUNE 30, 2024**

**NOTE 3 - RECONCILIATION OF FEDERAL AWARD ACTIVITY PER FINANCIAL STATEMENTS TO EXPENDITURES PER SEFA**

The following schedule reconciles federal award activity reported in the financial statements to the expenditures of federal awards reported on the Schedule:

Intergovernmental revenue	\$ 441,582
Less: State funding	<u>(323,532)</u>
	118,050
Proprietary funds -	
Loan proceeds for water and waste disposal systems for rural communities	<u>1,426,814</u>
	<u>\$ 1,544,864</u>

**NOTE 4 - PRIOR-YEAR COSTS REPORTED ON SEFA**

The village incurred costs associated with the water and waste disposal systems for rural communities by the USDA project prior to receiving the funding. The costs were approved by the USDA and the funds were received during the year ended June 30, 2024.

**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 President and Members of the Village Council  
Village of Lexington  
Lexington, Michigan

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Lexington, Michigan (the "Village"), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements and have issued our report thereon dated October 25, 2024.

**Report on Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2024-001 that we consider to be a material weakness.

To the President and Members of the Village Council  
Village of Lexington  
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### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village of Lexington, 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 financial statements. 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.

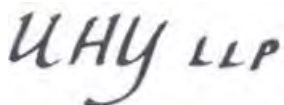
### **The Village's Response to Findings**

Government Auditing Standards requires the auditor to perform limited procedures on the Village's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Village's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

We noted certain matters that were reported to management in a separate letter dated October 25, 2024.

### **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.

The image shows a handwritten signature in dark ink that reads "UHY LLP". The letters are written in a cursive, slightly slanted style.

Port Huron, Michigan  
October 25, 2024



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the President and Members of the Village Council  
Village of Lexington  
Lexington, Michigan

**Report on Compliance for the Major Federal Program**

***Qualified Opinion on the Major Program***

We have audited the Village of Lexington, Michigan's (the "Village") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on of the Village's major federal program for the year ended June 30, 2024. The Village's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion section of our report, the Village complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2024.

***Basis for Qualified Opinion***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Village and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Village's compliance with the compliance requirements referred to above.

To the President and Members of the Village Council  
Village of Lexington  
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### ***Matters Giving Rise to Qualified Opinion on the Major Program***

As described in the accompanying schedule of findings and questioned costs, the Village did not comply with requirements regarding Assistance Listing No. 10.760, *Water and waste disposal systems for rural communities*, as described in finding number 2024-003 for procurement.

Compliance with such requirements is necessary, in our opinion, for the Village to comply with the requirements applicable to that program.

### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Village's federal programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Village's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Village's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Village's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

To the President and Members of the Village Council  
Village of Lexington  
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- Obtain an understanding of the Village's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

#### ***Other Matters***

The results of our auditing procedures disclosed another instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2024-002. Our opinion on the major federal program is not modified with respect to this matter.

*Government Auditing Standards* requires the auditor to perform limited procedures on the Village's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Village's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

#### **Report on Internal Control over Compliance**

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

To the President and Members of the Village Council  
Village of Lexington  
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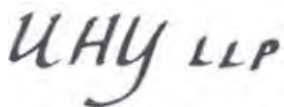
*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2024-002 and 2024-003 to be a material weaknesses.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* requires the auditor to perform limited procedures on the Village's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Village's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

We noted certain matters that were reported to management in a separate letter dated October 25, 2024.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

The logo for UHY LLP, featuring the letters 'UHY' in a large, stylized, handwritten font, with 'LLP' in a smaller, simpler font to the right.

Port Huron, Michigan  
October 25, 2024

**VILLAGE OF LEXINGTON**  
**Sanilac County, Michigan**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the year ended June 30, 2024**

**Section I - Summary Of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal controls over financial reporting:  
 Material weakness(es) identified?  x  yes   no  
 Significant deficiency(ies) identified that are not considered to be material weaknesses?   yes  x  none reported

Noncompliance material to financial statements noted?   yes  x  no

**Federal Awards**

Internal control over major programs:  
 Material weakness(es) identified?  x  yes   no  
 Significant deficiency(ies) identified that are not considered to be material weaknesses?   yes  x  none reported

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a) of the Uniform Guidance?  x  yes   no

Identification of major program:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
#10.670	U.S. Department of Agriculture - Water and waste disposal systems for rural communities

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee?   yes  x  no

**VILLAGE OF LEXINGTON**  
Sanilac County, Michigan  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the year ended June 30, 2024

**Section II - Financial Statement Findings**

**2024-001: Preparation of financial statements in accordance with generally accepted accounting principles**

**Type:** Material weakness in internal control

**Repeat Finding:** Yes

**Criteria:** Statement on Auditing Standards No. 115, "Communicating Internal Control Related Matters Identified in an Audit," specifies that the Village is responsible for internal control over financial reporting. This financial reporting responsibility entails determining whether the financial statements, including the notes, are being presented in accordance with generally accepted accounting principles.

**Condition:** Management routinely prepares internal financial information to assess operations and the financial position of the Village on an ongoing basis. Although the internal financial information is useful to management, it is not presented in accordance with generally accepted accounting principles. The Village contracts with us, the auditors, to help prepare adjustments to convert the financial statements from a modified cash basis to the modified accrual or accrual basis; to record the information necessary for the GASB Statement Nos. 34 (government-wide presentation), 68 (net pension liability), and 75 (net OPEB liability) adjustments; and to draft the financial statements, including all necessary notes, in accordance with generally accepted accounting principles. (During our audit, we proposed a number of closing/audit entries, some of which were material to the financial statements.)

**Cause:** The Village has made the decision that it is more cost effective/efficient to outsource the preparation of its financial statements to the external auditors than to incur the time and expense of obtaining the necessary training and expertise required to prepare the report in accordance with generally accepted accounting principles.

**Effect:** There is the possibility that a misstatement of the Village's financial statements that is more than inconsequential could occur and not be prevented or detected by the Village.

**View of responsible officials and planned corrective action plan:** See attached corrective action plan.

**VILLAGE OF LEXINGTON**  
Sanilac County, Michigan  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the year ended June 30, 2024

**Section III - Federal Award Findings**

**2024-002: Written Policies and Procedures**

**Assistance Listing Number, Federal Agency, and Program Name:** Assistance Listing Number 10.760, U. S Department of Agriculture - Water and waste disposal systems for rural communities

**Federal Award Identification Number and Year:** RD Loan 92-12 Loan Period 9/6/23 - 9/1/2063, RD Loan 10 Loan and RD Loan 13 Loan period 1/1/24 - 1/1/2064

**Type:** Material weakness in internal control and material noncompliance with laws and regulations

**Repeat Finding:** No

**Criteria:** The Office of Management and Budget (OMB) provides requirements for federal awards in 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Under the Uniform Guidance, non-federal entities must have written procedures for five (5) of the compliance areas, if applicable, and it is recommended that entities have written procedures for any of the other applicable compliance areas that are significant to grant administration.

**Condition:** The Village does not have documented written procedures over the required compliance areas. The five areas are procedures for determining the allowability of costs in accordance with Subpart E - Cost Principles of the Uniform Guidance and the terms and conditions of the federal award; standards of conduct covering conflicts of interest and governing actions of employees engaged in the selection, award, and administration of contracts; procurement procedures; procedures for conducting technical evaluations of proposals and selecting recipients; and travel policy stating the lodging and subsistence costs incurred by employees and officers for travel will comply with the non-federal entity's written travel policy.

**Identification of How Likely Questioned Costs Were Computed:** N/A

**Known Questioned Costs:** None

**Context:** N/A

**Cause/Effect:** The Village controls were not adequate to ensure it followed the federal requirement over these processes.

**Recommendation:** We recommend the Village adopt written policies and procedures. In addition, we recommend that management review and modify the procurement policy to include all the necessary items outlined in the Uniform Guidance.

**View of responsible officials and planned corrective action plan:** See attached corrective action plan.

**VILLAGE OF LEXINGTON**  
**Sanilac County, Michigan**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the year ended June 30, 2024**

**2024-003: Procurement**

**Assistance Listing Number, Federal Agency, and Program Name:** Assistance Listing Number 10.760, U. S Department of Agriculture - Water and waste disposal systems for rural communities

**Federal Award Identification Number and Year:** RD Loan 92-12 Loan Period 9/6/23 - 9/1/2063, RD Loan 10 Loan and RD Loan 13 Loan period 1/1/24 - 1/1/2064

**Type:** Material weakness in internal control and material noncompliance with laws and regulations

**Repeat Finding:** No

**Criteria:** Per 2 CFR 200.318 (a), the non-Federal entity must have and use documented procurement procedures, consistent with State, local, and tribal laws and regulations and the standards of this section, for the acquisition of property or services required under a Federal award or subaward. The non-Federal entity's documented procurement procedures must conform to the procurement standards identified in §§ 200.317 through 200.327. In addition, per 2 CFR 200.318(i), the non-Federal entity must maintain records sufficient to detail the history of procurement.

**Condition:** The Village did not utilize federal procurement requirements cited above for the engineering services for the Water and Sewer Fund project.

**Identification of How Likely Questioned Costs Were Computed:** The questioned costs were determined from actual engineering design and construction cost billed (federal portion) during the July 6, 2018 through June 30, 2024 period as summarized from the request for disbursement of funds submitted.

**Known Questioned Costs:** \$562,676

**Context:** We tested the procurement of three contracts and identified one contract that did not follow federal procurement requirements.

**Cause/Effect:** The Village's controls were not adequate to ensure it followed the federal requirement for procurement process. As a results, there was one instance of noncompliance related to procurements.

**Recommendation:** We recommend the Village follow federal procurement as required in 2 CFR 200.319 (d) for all contracts reimbursed with federal funds.

**View of responsible officials and planned corrective action plan:** See attached corrective action plan.

**Section IV- Prior Years' Findings and Questioned Costs**

There were none reported.





October 28, 2024

To: Audit Manager  
Local Government Financial Services Division  
Department of Treasury  
State of Michigan

Re: Village of Lexington Corrective Action Plan  
Fiscal Year 2024, Muni Code 763050

Dear Audit Manager,

This corrective action plan is being submitted in response to the schedule of findings for the fiscal year ending June 30, 2024.

2024-002: Written Policies and Procedures.

While the Village of Lexington followed current internal controls for all aspects of the federal awards granted, we did not adopt a document that covered all five compliance areas as outlined in the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

A written policy and procedure document will be adopted by the Council by December 31, 2024.

2024-003: Procurement

The Village of Lexington hired, through a bid process, Townley Engineering to design needed water and sewer expansion and upgrades for the purpose of submitting to USDA for Water and waste disposal systems for rural communities grants in 2017. The Village was awarded funding and has worked closely with USDA representatives as we have moved through the program. A budget for all costs was approved as part of the grant award. All invoices, including all engineering fees, are approved directly by our assigned Area Specialist. The project costs are currently all within budget. The Village of Lexington will ensure that engineering services follow correct procurement procedures in any future grant program it is awarded.

A handwritten signature in black ink that reads "Lori Fisher".

Lori Fisher  
Village Manager  
Village of Lexington