

VILLAGE OF LEXINGTON
Sanilac County, Michigan

ANNUAL FINANCIAL REPORT
with Supplementary Information

FOR THE YEAR ENDED JUNE 30, 2018



VILLAGE OF LEXINGTON
Sanilac County, Michigan

TABLE OF CONTENTS
JUNE 30, 2018

	<u>Page Number</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	4
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet - Governmental Funds	12
Reconciliation of the Balance Sheet for Governmental Funds to the Statement of Net Position	14
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Net Position - Proprietary Funds	18
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	19
Statement of Cash Flows - Proprietary Funds	20
Notes to Financial Statements	21
Required Supplementary Information:	
Budgetary Comparison Information:	
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual -	
General Fund	46
Major Street Fund	47
Local Street Fund	48
Municipal Street Fund	49
County Road Fund	50
Pension System Schedules:	
Schedule of Changes in Net Pension Liability and Related Ratios	51
Schedule of Contributions	52
Retiree Health Benefits Schedules:	
Schedule of Changes in OPEB Liability and Related Ratios	54
Schedule of Contributions	55

VILLAGE OF LEXINGTON
Sanilac County, Michigan

TABLE OF CONTENTS
JUNE 30, 2018

	<u>Page Number</u>
Supplementary Information:	
Detailed Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	56
Combining Balance Sheet - Nonmajor Governmental Funds	58
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds	59
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Cemetery Fund	60
Component Unit - Balance Sheet - Discretely Presented Component Unit - Downtown Development Authority	61
Reconciliation of the Balance Sheet to the Statement of Net Position - Discretely Presented Component Unit - Downtown Development Authority	62
Downtown Development Authority - Discretely Presented Component Unit - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	63
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities - Discretely Presented Component Unit - Downtown Development Authority	64

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, 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, 2018 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 standards applicable to financial audits contained in the *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 judgement, 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 Village'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 Village'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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Lexington, Michigan, as of June 30, 2018 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.

Implementation of GASB Statement No. 75

As discussed in Note 18 to the financial statements, the Village implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. The statement required the Village to record the OPEB liability in the government-wide and proprietary fund financial statements and enhanced financial reporting of the Village's OPEB liability and the related note disclosures of the Plan. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

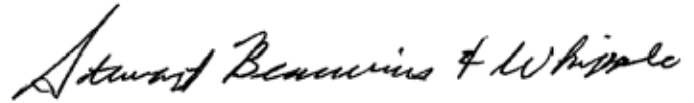
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension system and retiree health benefit schedules, as listed in the table of contents, be presented to supplement the basic financial 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Lexington, Michigan's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2018 on our consideration of the Village of Lexington, 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 cursive script that reads "Stewart Beaumier & Whipple".

Certified Public Accountants

November 1, 2018

VILLAGE OF LEXINGTON, MICHIGAN

Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS

The Village of Lexington, Michigan's (the "Village") annual financial report presents the Village's financial performance during the fiscal year that ended on June 30, 2018. This annual report consists of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information. The basic financial statements include two kinds of statements that present different views of the Village. The first two statements are government-wide financial statements that provide both long-term and short-term information about the Village's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the Village's government, reporting the Village's operations in more detail than the government-wide statements.

Government-wide Financial Statements

The government-wide statements report information about the Village as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the government's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid (full accrual).

The two government-wide statements report the Village's net position and how they have changed. Net position, defined as the difference between the Village's assets and deferred outflows of resources and liabilities and deferred inflows of resources, is one way to measure the Village's financial health or position.

The government-wide financial statements of the Village are divided into two categories:

Governmental Activities – most of the Village's basic services are included here, such as public safety, public works, parks and recreation, and general administration. Property taxes/in lieu of property taxes, state-shared revenue, and charges for services provide most of the funding.

Business-type Activities – the Village charges fees to customers to help it cover the costs of certain services it provides. The Village's water, sewer, and mobile home park operations are treated as business-type activities.

The government-wide financial statements include not only the Village itself (known as the primary government), but also a legally separate component unit, the Downtown Development Authority, for which the Village is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself within this annual financial report.

Fund Financial Statements

The fund financial statements provide more detailed information about the Village's most significant funds, not the Village as a whole. Funds are accounting devices that the Village uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The Village Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and other revenues.

The Village has two types of funds:

Governmental Funds – Most of the Village’s basic services are reported in governmental funds (all funds except Sewer, Water, and MHP) which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the *modified accrual basis of accounting*, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed, short-term view of the Village’s general government operations and the basic services it provides.

Proprietary Funds – Services for which the Village charge customers a fee (Sewer, Water, and MHP) are reported in proprietary funds. Proprietary funds, like the government-wide statements, use the *accrual basis of accounting* and provide both long and short-term financial information. The Village’s financial statements for the *enterprise funds* (a type of proprietary fund) are the same as the financial information for the business-type activities on the government-wide statements but provide more detail and information.

FINANCIAL OVERVIEW (Government-wide financial analysis)

The Village has combined total net position of \$7,183,176, with governmental activities comprising \$1,571,554 and business-type activities making up \$5,611,622 of the total net position at June 30, 2018. This is a net increase of \$136,031 over 2017. In a condensed format, the table below shows the information presented on the statements of net position as of the June 30, 2018 and 2017:

In Thousands

	Governmental Activities		Business-type Activities	
	2018	2017*	2018	2017*
Assets				
Other assets	\$ 1,611	\$ 1,247	\$ 2,417	\$ 2,209
Restricted assets	-	-	332	290
Capital assets	<u>1,675</u>	<u>1,847</u>	<u>7,336</u>	<u>7,378</u>
Total assets	<u>3,286</u>	<u>3,094</u>	<u>10,085</u>	<u>9,877</u>
Deferred Outflows of Resources	<u>26</u>	<u>82</u>	<u>27</u>	<u>79</u>
Liabilities				
Other liabilities	122	28	389	155
Long-term liabilities	<u>1,590</u>	<u>1,588</u>	<u>4,079</u>	<u>4,301</u>
Total liabilities	<u>1,712</u>	<u>1,616</u>	<u>4,468</u>	<u>4,456</u>
Deferred Inflows of Resources	<u>28</u>	<u>6</u>	<u>32</u>	<u>6</u>
Net Position				
Net investment in capital assets	1,675	1,831	5,386	5,223
Restricted	1,013	754	491	453
Unrestricted (Deficit)	(1,116)	(1,031)	(265)	(182)
Total net position	<u>\$ 1,572</u>	<u>\$ 1,554</u>	<u>\$ 5,612</u>	<u>\$ 5,494</u>

* The 2017 balances have been restated to reflect the adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

The Village’s governmental activities experienced an increase in net position of \$17,706 for the year ended June 30, 2018. The Village’s business-type activities experienced an increase in net position of \$118,325 for the year ended June 30, 2018.

The following table shows the changes in net position for 2018 and 2017:

In Thousands

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenue				
Program revenue:				
Charges for services	\$ 384	\$ 364	\$ 1,994	\$ 1,753
Operating grant and contributions	1,129	99	-	-
Capital grants and contributions	-	21	48	47
General revenue:				
Property taxes	536	526	-	-
Unrestricted grants	117	115	-	-
Unrestricted investment income	1	2	5	1
Land use fee (in lieu of property taxes)	185	172	(185)	(172)
Total Revenue	<u>2,352</u>	<u>1,299</u>	<u>1,862</u>	<u>1,629</u>
Program Expenses				
General government	253	312	-	-
Public safety	496	503	-	-
Public works	513	432	-	-
Health and welfare	27	31	-	-
Community and economic development	1,005	9	-	-
Recreation and cultural	72	76	-	-
Other activities	50	54	-	-
Interest on long-term debt	1	1	-	-
Water, sewer, and mobile home park	-	-	1,661	1,489
Total Program Expenses	<u>2,417</u>	<u>1,418</u>	<u>1,661</u>	<u>1,489</u>
Revenue over (under) expenses	(65)	(119)	201	140
Transfers	<u>83</u>	<u>85</u>	(83)	(85)
Changes in net position	<u>\$ 18</u>	<u>\$(34)</u>	<u>\$ 118</u>	<u>\$ 55</u>

Governmental Activities

Revenues for governmental activities including transfers totaled \$2,434,259 in 2018, representing an increase of \$1,050,109 from the prior year. Of this amount, \$1,128,657 was received from operating grants and contributions, an increase of \$1,029,582 from the prior year, which was mainly due to a \$1,000,000 grant received that was passed through for the Cadillac House renovation project. The next largest revenue source was from taxes in the amount of \$536,367, an increase of \$10,007 from 2017.

Business-type Activities

The Village has three business-type activities, the water, sewer, and mobile home park operations. Total revenue including interest income and land use for allocation was \$1,862,371 and expenses including transfers were \$1,744,046, for an increase in net position of \$118,325.

FINANCIAL ANALYSIS OF MAJOR VILLAGE FUNDS

Governmental Funds

The General Fund completed the year with a fund balance of \$306,830, with \$46,099 classified as nonspendable for prepaid expenditures, \$15,315 restricted for the Metro Authority, and the remaining amount of \$245,416 unassigned, which was a result of revenues over expenditures of \$64,000.

For the 2017 fiscal year, the General Fund ended with a fund balance of \$242,830, with \$45,494 classified as nonspendable for prepaids, \$11,392 restricted for the Metro Authority, and the remaining amount of \$185,944 unassigned, which was the result of revenues over expenditures of \$29,763.

The Village's other major governmental funds had the following changes in net position for the year ended June 30, 2018:

- The Major Street Fund had revenues in excess of expenditures of \$55,227.
- The Local Street Fund had revenues in excess of expenditures of \$51,561.
- The Municipal Street Fund had revenues in excess of expenditures of \$113,491.
- The County Road Fund had expenditures in excess of revenues of \$5,753.

Proprietary Funds - See prior discussion of *Business-type Activities*.

BUDGETARY HIGHLIGHTS

The General Fund budget was amended throughout the year as deemed necessary. The change between the final and original budgets resulted in an increase to net change in fund balance from \$59,218 to \$74,445. Both the intergovernmental revenues and community and economic development expenditure budgets were increased by \$1,000,000 for the Community Development Block Grant Cadillac House project. The actual result was a net change in fund balance of \$64,000, or \$10,445 lower than the final budgeted balance.

Since the budget and amended budgets are estimates of what is expected, there are differences between budgets and actual results, of which none are considered significant.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Village had \$9,011,241 invested in capital assets for its governmental and business-type activities (net of accumulated depreciation) as of June 30, 2018. The investment is a capital asset which includes land, buildings and improvements, improvements other than buildings, machinery and equipment, vehicles, mobile home park, and utility systems. During the year, the Village added \$350,226 of capital assets, \$1,113 in the governmental activities, and \$349,113 in the business-type activities. Most of the business-type activities were a result of \$264,663 in water main upgrades, \$62,037 for water system equipment, and \$27,477 for mobile home park building improvements.

Additional information on the Village's capital assets can be found in Note 7 to the financial statements.

Long-term Debt

At year-end, the Village had \$1,950,137 in bonds and notes outstanding versus \$2,170,121 last year, a decrease of \$219,984.

Additional information on the Village's long-term debt can be found in Note 9 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Village of Lexington, population 1,178 (2010 census), is a picturesque community located on the shores of Lake Huron in Sanilac County, Michigan. The Village's proximity to the metropolitan Detroit area and several major roadways, including Interstate 94, have earned the Village its reputation as the "First Resort North" in reference to the Village's idyllic setting and geographic location. Daily during the summer months, the Village often quadruples in population, transforming the Village into a regional hub for the arts, culture, and tourism.

The Village received a Special Legislative Grant, which is being used to pay for a Master Plan project. The planner has been selected and will allow the Village to finish the rest of the certification process to become a Redevelopment Ready Community. The Village was also chosen by MDNR for a study and dredging work to our harbor at the State's expense, USACE is conducting a study of our break wall and the effects on our harbor, and lastly, Michigan Sea Grant has chosen the Village as a Sustainable Small Harbor. Some of these generous designations and projects will include some robust community engagement and a great deal of work between our different committees and our planning firm. All of this will help prepare our residents as our community gears up for growth and development.

A few major projects completed during the 2018 fiscal year are the Water Tower Renovation and Phase II of Water the Water Main Replacement. Other projects scheduled for the 2019 fiscal year are the repaving of the Village parking lot, street repairs, and sidewalk replacement. The Village is also planning a north sanitary sewer project which will expand our capabilities to our most northeast boundaries, tying on new residents to the system and creating opportunity for new development on vacant land. This project is slated to begin in the 2019 fiscal year, but will go past that with the extent of the work required to complete the project.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Shelly McCoy by mail at 7227 Huron Avenue, Suite 100, Lexington, Michigan 48450; by phone at (810) 359-8631, by fax at (810) 359-5622; or by email at treasurer@villageoflexington.com.

BASIC FINANCIAL STATEMENTS

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF NET POSITION JUNE 30, 2018

	Primary Government			Component Unit (DDA)
	Governmental Activities	Business-type Activities	Total	
Assets:				
Cash and cash equivalents	\$ 1,473,257	\$ 1,641,408	\$ 3,114,665	\$ 65,248
Investments	-	250,000	250,000	-
Receivables	89,383	147,071	236,454	240
Inventory held for sale	-	34,286	34,286	-
Prepaid expenditures	47,519	34,457	81,976	-
Contracts receivable- reserved capacity	-	310,031	310,031	-
Restricted Assets -				
Cash and cash equivalents	-	331,826	331,826	-
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	320,896	17,495	338,391	-
Assets being depreciated	1,354,441	7,318,409	8,672,850	338,260
Total Assets	3,285,496	10,084,983	13,370,479	403,748
Deferred Outflows of Resources:				
Related to the pension plan	25,916	27,395	53,311	-
Liabilities:				
Payables and accrued liabilities	32,297	269,640	301,937	5,946
Accrued interest	-	12,312	12,312	-
Advances and deposits	89,250	34,127	123,377	-
Unearned revenues	-	73,314	73,314	-
Non-current liabilities				
Accrued vacation and sick pay	36,018	42,038	78,056	-
OPEB liability	1,066,111	1,109,627	2,175,738	-
Net pension liability	488,208	496,098	984,306	-
Unearned revenues	-	481,104	481,104	-
Due within one year	-	843,734	843,734	-
Due in more than one year	-	1,106,403	1,106,403	-
Total Liabilities	1,711,884	4,468,397	6,180,281	5,946
Deferred Inflows of Resources:				
Related to the pension plan	13,811	17,618	31,429	-
Related to the OPEB plan	14,163	14,741	28,904	-
Total Deferred Inflows of Resources	27,974	32,359	60,333	-
Net Position:				
Net investment in capital assets	1,675,337	5,385,767	7,061,104	338,260
Restricted -				
Metro Authority	15,315	-	15,315	-
Streets	997,338	-	997,338	-
Meter replacement	-	159,009	159,009	-
Equipment replacement	-	331,826	331,826	-
Unrestricted (Deficit)	(1,116,436)	(264,980)	(1,381,416)	59,542
Total Net Position	\$ 1,571,554	\$ 5,611,622	\$ 7,183,176	\$ 397,802

The accompanying notes are an integral part of these financial statements.

VILLAGE OF LEXINGTON, MICHIGAN

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues		
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General Government	\$ 252,792	\$ 31,205	\$ -	\$ -
Public Safety	496,277	123,861	6,439	-
Public Works	512,582	223,191	122,218	-
Health and Welfare	27,021	-	-	-
Community and Economic Development	1,005,302	1,000	1,000,000	-
Recreation and Culture	72,431	4,780	-	-
Other activities	49,961	-	-	-
Interest on long-term debt	187	-	-	-
Total governmental activities	<u>2,416,553</u>	<u>384,037</u>	<u>1,128,657</u>	<u>-</u>
Business-type Activities:				
Sewer	314,554	423,027	-	-
Water	909,095	825,189	-	47,978
Mobile Home Park	437,628	746,039	-	-
Total business-type activities	<u>1,661,277</u>	<u>1,994,255</u>	<u>-</u>	<u>47,978</u>
Total Primary Government	<u>\$ 4,077,830</u>	<u>\$ 2,378,292</u>	<u>\$ 1,128,657</u>	<u>\$ 47,978</u>
Component Units				
Downtown Development Authority	<u>\$ 159,441</u>	<u>\$ 1,722</u>	<u>\$ 4,000</u>	<u>\$ -</u>

General revenues:
Property taxes
Grants and contributions not
restricted to specific programs
Unrestricted investment income
Land use fee (in lieu of property taxes)
Transfers
Total general revenues and transfers

Change in net position

Net position at beginning of year, as restated

Net position at end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Position

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit (DDA)
\$(221,587)	\$ -	\$(221,587)	\$ -
(365,977)	-	(365,977)	-
(167,173)	-	(167,173)	-
(27,021)	-	(27,021)	-
(4,302)	-	(4,302)	-
(67,651)	-	(67,651)	-
(49,961)	-	(49,961)	-
(187)	-	(187)	-
<u>(903,859)</u>	<u>-</u>	<u>(903,859)</u>	<u>-</u>
-	108,473	108,473	-
-	(35,928)	(35,928)	-
<u>-</u>	<u>308,411</u>	<u>308,411</u>	<u>-</u>
<u>-</u>	<u>380,956</u>	<u>380,956</u>	<u>-</u>
<u>(903,859)</u>	<u>380,956</u>	<u>(522,903)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(153,719)</u>
536,367	-	536,367	115,836
116,189	-	116,189	-
1,432	4,946	6,378	-
184,808	(184,808)	-	-
82,769	(82,769)	-	-
<u>921,565</u>	<u>(262,631)</u>	<u>658,934</u>	<u>115,836</u>
17,706	118,325	136,031	(37,883)
<u>1,553,848</u>	<u>5,493,297</u>	<u>7,047,145</u>	<u>435,685</u>
<u>\$ 1,571,554</u>	<u>\$ 5,611,622</u>	<u>\$ 7,183,176</u>	<u>\$ 397,802</u>

VILLAGE OF LEXINGTON, MICHIGAN

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	General	Major Street	Local Street	Municipal Street
Assets:				
Cash and cash equivalents	\$ 316,135	\$ 152,705	\$ 287,369	\$ 466,942
Receivables -				
Utilities	14,777	-	-	-
Accounts	30,224	-	-	-
Due from other governmental units	25,525	12,933	5,924	-
Prepaid expenditures	46,099	220	522	-
Total Assets	\$ 432,760	\$ 165,858	\$ 293,815	\$ 466,942
Liabilities:				
Accounts payable	\$ 14,865	\$ 297	\$ 594	\$ 405
Accrued liabilities	13,345	104	398	-
Advances and deposits	89,250	-	-	-
Total Liabilities	117,460	401	992	405
Deferred Inflows of Resources:				
Unavailable revenue	8,470	-	-	-
Fund Balances:				
Nonspendable for -				
Prepays	46,099	220	522	-
Restricted for -				
Streets	-	165,237	292,301	466,537
Metro Authority	15,315	-	-	-
Committed for -				
Cemetery	-	-	-	-
Assigned for -				
Capital Items	-	-	-	-
Unassigned -				
General Fund	245,416	-	-	-
Total Fund Balances	306,830	165,457	292,823	466,537
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 432,760	\$ 165,858	\$ 293,815	\$ 466,942

The accompanying notes are an integral part of these financial statements.

County Road	Other Governmental Funds	Total Governmental Funds
\$ 198,733	\$ 51,373	\$ 1,473,257
-	-	14,777
-	-	30,224
-	-	44,382
-	678	47,519
<u>\$ 198,733</u>	<u>\$ 52,051</u>	<u>\$ 1,610,159</u>
\$ 1,867	\$ 68	\$ 18,096
-	354	14,201
-	-	89,250
<u>1,867</u>	<u>422</u>	<u>121,547</u>
-	-	8,470
-	678	47,519
196,866	-	1,120,941
-	-	15,315
-	36,555	36,555
-	14,396	14,396
-	-	245,416
<u>196,866</u>	<u>51,629</u>	<u>1,480,142</u>
<u>\$ 198,733</u>	<u>\$ 52,051</u>	<u>\$ 1,610,159</u>

VILLAGE OF LEXINGTON, MICHIGAN

**RECONCILIATION OF THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Fund Balances - total governmental funds	\$	1,480,142
--	----	-----------

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.

Capital assets		3,995,033
Accumulated depreciation	(	2,319,696)

Grants and other receivables not available to pay current period expenditures and, therefore, are not reported as revenues in the fund financial statements.		8,470
--	--	-------

Certain pension contributions and changes in pension plan liabilities are reported as deferred outflows (inflows) of resources in the statement of net position, but not reported in the governmental funds.

Net pension liability related deferred outflows (inflows) of resources	\$	12,105
OPEB liability related deferred outflows (inflows) of resources	(	<u>14,163</u>) (2,058)

Long-term liabilities, including notes payable, are not due and payable in the current period, and therefore, are not reported in the funds.

Net pension liability	(	488,208)
OPEB liability	(	1,066,111)
Accrued compensated absences	(	<u>36,018</u>) (<u>1,590,337</u>)

Net Position of governmental activities	\$	<u><u>1,571,554</u></u>
---	----	-------------------------

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

VILLAGE OF LEXINGTON, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	General	Major Street	Local Street	Municipal Street
Revenues:				
Taxes	\$ 307,657	\$ -	\$ -	\$ 123,156
Intergovernmental	1,101,404	75,602	42,693	20,000
Charges for services	320,320	-	-	11,977
Fines and forfeits	6,216	-	-	-
Interest and rent	9,641	-	-	-
Other	230,484	-	-	-
Total Revenues	1,975,722	75,602	42,693	155,133
Expenditures:				
Current -				
General Government	160,786	-	-	-
Public Safety	455,595	-	-	-
Public Works	186,639	40,070	89,210	7,758
Health and Welfare	27,021	-	-	-
Community and Economic Development	1,005,302	-	-	-
Recreation and Cultural	58,477	-	-	-
Other	49,902	-	-	-
Debt Service -				
Principal	-	-	-	-
Interest and Fiscal Charges	-	-	-	-
Total Expenditures	1,943,722	40,070	89,210	7,758
Revenues over (under) expenditures	32,000	35,532	(46,517)	147,375
Other Financing Sources (Uses):				
Transfers in	32,000	38,596	98,078	11,116
Transfers out	-	(18,901)	-	(45,000)
Total Other Financing Sources	32,000	19,695	98,078	(33,884)
Net Change in Fund Balances	64,000	55,227	51,561	113,491
Fund Balances at beginning of year	242,830	110,230	241,262	353,046
Fund Balances at end of year	\$ 306,830	\$ 165,457	\$ 292,823	\$ 466,537

The accompanying notes are an integral part of these financial statements.

County Road	Other Governmental Funds	Total Governmental Funds
\$ 80,962	\$ 24,592	\$ 536,367
-	-	1,239,699
-	7,725	340,022
-	-	6,216
-	591	10,232
-	-	230,484
<u>80,962</u>	<u>32,908</u>	<u>2,363,020</u>
-	-	160,786
-	-	455,595
36,001	32,970	392,648
-	-	27,021
-	-	1,005,302
-	-	58,477
-	-	49,902
-	15,592	15,592
-	187	187
<u>36,001</u>	<u>48,749</u>	<u>2,165,510</u>
<u>44,961</u>	<u>(15,841)</u>	<u>197,510</u>
5,792	29,867	215,449
(45,000)	(23,779)	(132,680)
(39,208)	6,088	82,769
5,753	(9,753)	280,279
<u>191,113</u>	<u>61,382</u>	<u>1,199,863</u>
<u>\$ 196,866</u>	<u>\$ 51,629</u>	<u>\$ 1,480,142</u>

VILLAGE OF LEXINGTON, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Net change in fund balances - total governmental funds	\$	280,279
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay		1,113
Depreciation expense	(	172,407)
<p>Revenues deferred in the governmental funds because they do not provide current financial resources and are reported in the statement of activities.</p>		
	(	11,530)
<p>The issuance of long-term debt (e.g. installment purchase contract) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources to governmental funds. Neither transaction, however, has any effect on net position.</p>		
Payment on promissory note		15,533
<p>Change in deferred outflows/inflows of resources as a result in changes of assumptions, difference between projected and actual earnings, and expected and actual experience.</p>		
	(	77,601)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in the funds.</p>		
Increase in OPEB liability	\$(	41,430)
Decrease in net pension liability		23,720
Decrease in accrued compensated absences		29
		<u>(17,681)</u>
Change in net position of governmental activities	\$	<u>17,706</u>

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

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

JUNE 30, 2018

	Sewer	Water	Mobile Home Park	Total
Assets:				
Current Assets:				
Cash and cash equivalents	\$ 458,080	\$ 594,683	\$ 588,645	\$ 1,641,408
Investments	-	250,000	-	250,000
Accounts receivable	51,284	95,567	220	147,071
Prepaid expenses	3,031	26,937	4,489	34,457
Inventory held for sale	-	-	34,286	34,286
	<u>512,395</u>	<u>967,187</u>	<u>627,640</u>	<u>2,107,222</u>
Restricted Assets:				
Cash and cash equivalents	-	331,826	-	331,826
Noncurrent Assets:				
Capital assets, net	1,274,520	4,762,178	1,299,206	7,335,904
Other Assets:				
Contracts receivable - reserved capacity	-	310,031	-	310,031
Total Assets	<u>1,786,915</u>	<u>6,371,222</u>	<u>1,926,846</u>	<u>10,084,983</u>
Deferred Outflows of Resources:				
Related to the pension plan	7,407	18,171	1,817	27,395
Liabilities:				
Current Liabilities:				
Accounts payable	8,224	252,617	907	261,748
Accrued expenses	1,942	4,790	1,160	7,892
Accrued interest	2,094	7,552	2,666	12,312
Bonds payable (current portion)	-	65,000	-	65,000
Notes payable (current portion)	379,202	339,182	60,350	778,734
Deposits payable	-	-	34,127	34,127
Unearned revenue (current portion)	-	53,927	19,387	73,314
Total Current Liabilities	<u>391,462</u>	<u>723,068</u>	<u>118,597</u>	<u>1,233,127</u>
Long-term Liabilities (less current portions):				
Accrued vacation and sick pay	10,737	24,482	6,819	42,038
OPEB liability	261,088	783,266	65,273	1,109,627
Net pension liability	132,874	329,373	33,851	496,098
Unearned revenue (net of current portion)	-	481,104	-	481,104
Bonds payable (net of current portion)	-	865,000	-	865,000
Notes payable (net of current portion)	-	-	241,403	241,403
Total Long-term Liabilities	<u>404,699</u>	<u>2,483,225</u>	<u>347,346</u>	<u>3,235,270</u>
Total Liabilities	<u>796,161</u>	<u>3,206,293</u>	<u>465,943</u>	<u>4,468,397</u>
Deferred Inflows of Resources:				
Related to the pension plan	4,099	12,409	1,110	17,618
Related to the OPEB plan	3,469	10,405	867	14,741
Total Deferred Inflows of Resources	<u>7,568</u>	<u>22,814</u>	<u>1,977</u>	<u>32,359</u>
Net Position:				
Net investment in capital assets	895,318	3,492,996	997,453	5,385,767
Restricted for meter replacement	85,604	73,405	-	159,009
Restricted for equipment replacement	-	331,826	-	331,826
Unrestricted (Deficit)	9,671	(737,941)	463,290	(264,980)
Total Net Position	<u>\$ 990,593</u>	<u>\$ 3,160,286</u>	<u>\$ 1,460,743</u>	<u>\$ 5,611,622</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2018

	Sewer	Water	Mobile Home Park	Total
Operating Revenues:				
Charges for services	\$ 382,374	\$ 743,937	\$ 743,164	\$ 1,869,475
Other	14,550	15,912	2,875	33,337
Total Operating Revenues	<u>396,924</u>	<u>759,849</u>	<u>746,039</u>	<u>1,902,812</u>
Operating Expenses:				
Salaries	64,934	175,304	67,261	307,499
Fringe benefits	62,266	154,959	34,515	251,740
Administrative fees	16,568	44,199	43,686	104,453
Contracted services	3,843	11,574	17,940	33,357
Insurance	700	22,476	557	23,733
Repairs and maintenance	3,769	107,687	-	111,456
Equipment rental	12,216	9,161	12,029	33,406
Supplies	10,432	42,560	6,264	59,256
Utilities	45,608	41,634	75,765	163,007
Rubbish expenditures	-	-	34,659	34,659
Mobile home park taxes	-	-	36,234	36,234
Flow back charges	-	13,994	-	13,994
Miscellaneous	2,556	23,290	7,178	33,024
Depreciation	67,135	227,956	84,368	379,459
Total Operating Expenses	<u>290,027</u>	<u>874,794</u>	<u>420,456</u>	<u>1,585,277</u>
Operating Income (Loss)	<u>106,897</u>	<u>(114,945)</u>	<u>325,583</u>	<u>317,535</u>
Non-Operating Revenue (Expenses):				
Interest income	3,823	405	718	4,946
Interest expense and fiscal charges	(12,976)	(34,301)	(17,172)	(64,449)
Loss on disposal of capital asset	(11,551)	-	-	(11,551)
Tap fees	21,627	28,472	-	50,099
Meter charge	4,476	4,476	-	8,952
Land use fee	-	-	(184,808)	(184,808)
Antenna leases	-	32,392	-	32,392
Total Non-Operating Revenue (Expenses)	<u>5,399</u>	<u>31,444</u>	<u>(201,262)</u>	<u>(164,419)</u>
Net Income (Loss) Before Contribution and Transfers	112,296	(83,501)	124,321	153,116
Capital Contribution:				
Non-Village customers	-	47,978	-	47,978
Transfers:				
Transfers out	(12,000)	(12,000)	(58,769)	(82,769)
Change in Net Position	100,296	(47,523)	65,552	118,325
Net Position at beginning of year, as restated	<u>890,297</u>	<u>3,207,809</u>	<u>1,395,191</u>	<u>5,493,297</u>
Net Position end of year	<u>\$ 990,593</u>	<u>\$ 3,160,286</u>	<u>\$ 1,460,743</u>	<u>\$ 5,611,622</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF LEXINGTON, MICHIGAN

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	Sewer	Water	Mobile Home Park	Total
Cash Flows From Operating Activities:				
Cash receipts from customers	\$ 383,909	\$ 719,672	\$ 750,917	\$ 1,854,498
Cash payments to suppliers	(92,181)	(81,194)	(243,287)	(416,662)
Cash payments to employees	(103,163)	(246,335)	(93,925)	(443,423)
Net Cash Provided by Operating Activities	188,565	392,143	413,705	994,413
Cash Flows From Non-capital Financing Activities:				
Land use fee	-	-	(184,808)	(184,808)
Transfers from/to other funds	(12,000)	(12,000)	(58,769)	(82,769)
Net Cash Used by Non-Capital Financing Activities	(12,000)	(12,000)	(243,577)	(267,577)
Cash Flows From Capital and Related Financing Activities:				
Bond and note payments	(48,168)	(95,933)	(60,350)	(204,451)
Interest payments	(13,248)	(34,865)	(17,776)	(65,889)
Meter charge	4,476	4,476	-	8,952
Antenna leases	-	32,392	-	32,392
Equipment replacement fees	-	47,978	-	47,978
Tap fees	21,627	28,472	-	50,099
Acquisition and construction of capital assets	-	(313,838)	(35,275)	(349,113)
Net Cash Used by Capital and Related Financing Activities	(35,313)	(331,318)	(113,401)	(480,032)
Cash Flows From Investing Activities:				
Interest earned	3,823	405	718	4,946
Net Increase in Cash and Cash Equivalents	145,075	49,230	57,445	251,750
Cash and Cash Equivalents at Beginning of Year	313,005	877,279	531,200	1,721,484
Cash and Cash Equivalents at End of Year	\$ 458,080	\$ 926,509	\$ 588,645	\$ 1,973,234
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating income (loss) for the year	\$ 106,897	\$(114,945)	\$ 325,583	\$ 317,535
Adjustments to reconcile operating income (loss) to net cash provided by operating activities -				
Depreciation	67,135	227,956	84,368	379,459
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources -				
Receivables	(13,015)	13,750	1,722	2,457
Deferred outflows of resources	11,917	36,775	2,469	51,161
Prepaid expenses	2,973	(2,585)	(1,516)	(1,128)
Accounts payable/accrued expenses	2,018	253,320	(4,908)	250,430
Unearned revenue	-	(53,927)	185	(53,742)
OPEB liability	10,146	30,439	2,537	43,122
Net pension liability	(5,809)	(17,427)	(1,453)	(24,689)
Deposits	-	-	2,971	2,971
Deferred inflows of resources	6,303	18,787	1,747	26,837
Net Cash Provided by Operating Activities	\$ 188,565	\$ 392,143	\$ 413,705	\$ 994,413

The accompanying notes are an integral part of the financial statements

VILLAGE OF LEXINGTON
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity -

The Village of Lexington, Michigan (the “Village”), was incorporated as a General Law Village in 1855, under provisions of the constitution and general law of the State of Michigan (the “State”), with its Charter provided by Act 3 of 1895. The Village is located in Sanilac County. The Village operates under an elected Village Council, which consists of the President and six Council members, with the daily activities operated by the Village Manager, Clerk, and Treasurer. The Village provides services to its residents in many areas including law enforcement, fire protection, water, sewer, cemetery, parks and recreation, and community and economic development.

These financial statements present the Village and its component unit, an entity for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the government’s operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Village.

DISCRETELY PRESENTED COMPONENT UNIT -

DOWNTOWN DEVELOPMENT AUTHORITY (DDA) - The DDA is controlled by a nine-member Board, who are appointed by the Village Council. The DDA is responsible for the creation of a development and financing plan for the downtown district or a development area within the district to promote economic growth. The DDA must obtain Village Council approval of all development and financing plans. The annual operating budget and any modification also require the approval of the Village Council.

The Downtown Development Authority was included in the scope of the audit of the basic financial statements. Separate audited financial statements for this component unit were not issued.

B. 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 and its component unit. For the most part, the effect of interfund activity has been eliminated from these government-wide 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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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*.

VILLAGE OF LEXINGTON
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

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

C. 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 financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are levied and due. 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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers all revenues available if they are normally collected within 60 days after the year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

State-shared revenue, interest, licenses, and permits associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes, which are levied on July 1 and due on September 14, are recognized as revenue in the year for which they are levied. All other revenue items are considered to be measurable and available only when cash is received by the Village.

The Village reports the following major governmental funds:

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

Major Street Fund - is used to account for the revenue received from the State of Michigan under Act 51, which are specifically earmarked for construction and maintenance of roads designed as Major Streets in the Village.

Local Street Fund - is used to account for the revenue received from the State of Michigan under Act 51, which are specifically earmarked for construction and maintenance of roads designed as Local Streets in the Village.

Municipal Street Fund - is used to account for the revenues received from taxes levied, which are to be used specifically for construction and maintenance of roads in the Village.

County Road Fund - is used to account for the County road millage and related expenditures for road maintenance and improvements.

VILLAGE OF LEXINGTON
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

The Village reports the following major proprietary funds:

Sewer Fund - is used to account for the operations that provide sanitary sewer service to the Village residents.

Water Fund - is used to account for the operations that provide water to both Village residents and the Lexington-Worth Townships Utility Authority.

Mobile Home Park Fund - is used to account for the operations of a mobile home park owned by the Village.

Additionally, the Village reports the following fund types:

Governmental Fund Types -

Special Revenue Fund - is used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than major capital projects.

Capital Project Fund - is used to account for revenue and report financial resources that are restricted, committed, or assigned for the acquisition and/or construction of capital assets not being financed by proprietary funds.

Debt Service Fund - is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for debt service payments.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's enterprise funds and various other functions of the Village. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal on-going operations. The principal operating revenues of the enterprise funds are charges to customers for sales, services, and rent. The principal expenses include costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

VILLAGE OF LEXINGTON
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance -

Deposits and Investments -

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits, savings, certificates of deposit with original maturities of three months or less from the date of acquisition and external investment pools. The investment pools have the general characteristics of demand deposit accounts in that the Village may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty, and for this reason are reported in the financial statements as cash equivalents.

The Village maintains a common checking account for its funds. Each participating fund reports its share separately.

State statutes authorize the Village to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuation per-share value).

Receivables and Payables -

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Inventories and Prepaid Items -

Inventories of governmental funds are recorded as expenditures when purchased. Inventory of the Mobile Home Park consists of a mobile home held for sale and is valued at lower-of-cost or market using the specific identification method.

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.

Property Tax Calendar -

The Village's property tax is levied each July 1 on the taxable value of property located in the Village as of the preceding December 31. The taxes are collected through September 15, after which time they are added to the delinquent roll and must be paid at Sanilac County.

VILLAGE OF LEXINGTON
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Capital Assets -

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government and the discretely presented component unit are depreciated using the straight-line method over the following estimated useful lives:

Building/Improvements	40 years
Utility Systems	40 years
Improvements Other Than Buildings	8-25 years
Machinery/Equipment/Vehicles	5-40 years

Compensated Absences -

In accordance with contracts negotiated with the various employee groups of the Village, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All vested vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee identified resignations and retirements, due to occur within one year.

Long-term Obligations -

In the government-wide financial statements and proprietary fund type 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 statements of net position. Bond premiums and discounts, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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.

VILLAGE OF LEXINGTON
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Deferred Outflows/Inflows of Resources -

In addition to assets, the statement of net position and balance sheet report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The Village reports deferred outflows of resources related to the net pension liability.

In addition to liabilities, the statement of net position and balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time. The Village reports deferred inflows of resources related to unavailable revenue reported in the governmental fund balance sheet for revenues that will not be collected within the 60-day period and deferred inflows of resources related to pensions and other postemployment benefit (OPEB) liabilities.

Fund Balance -

In the fund financial statements, governmental funds have reported fund balances in one or more of the following classifications:

Nonspendable fund balance – the portion of fund balance that is not in a spendable form or is required to maintained intact.

Restricted fund balance – the portion of the fund balance that is mandated for a specific purpose by external parties, constitutional provisions, or enabling legislation.

Committed fund balance – the portion of fund balance where amounts can only be used for specific purposes pursuant to constraints imposed by formal action via Council resolution, to establish, modify or rescind, of the highest level of decision-making authority (Village Council).

Assigned fund balance – the portion of fund balance that reflects the Village's intended use of resources. Such intent currently must be determined by the Village Council. Also, amounts in excess of nonspendable, restricted and committed fund balance in funds other than the General Fund is reported as assigned.

Unassigned fund balance – the portion of fund balance in the General Fund that cannot be classified into one of the four categories above.

When different classifications of fund balance are present, it is the Village's policy that expenditures are to be spent from restricted fund balances first, if appropriate, followed in order by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

VILLAGE OF LEXINGTON
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Estimates -

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Federal Programs -

Federal programs are accounted for as part of the various fund types to which the programs pertain. The Village has not integrated its single audit reports and schedule of expenditures of federal awards as part of the annual financial report. The single audit is issued under a separate cover as supplementary information to the Annual Financial Report.

Upcoming Accounting Pronouncement -

The Governmental Accounting Standards Board (GASB) issued the following statement that may have an impact on the Village's financial statements when adopted. The Village is currently evaluating the implications of this pronouncement.

GASB Statement No. 87, *Leases*, was issued in June 2017 and will become effective for the Village's June 30, 2021 fiscal year. The objective of the statement is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use of an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the government's leasing activities.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary Compliance -

The General and Special Revenue Funds' budgets shown in the financial statements were prepared on a basis consistent with accounting principles generally accepted in the United States of America and on the same modified accrual basis used to reflect actual results.

The Village Manager and Finance Committee prepare the proposed operating budgets for the year commencing the following July 1. The operating budgets include proposed expenditures and resources to finance them.

Prior to June 30, the proposed budgets are presented to the Village Council. The Council holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through passage of a Village Council Resolution.

VILLAGE OF LEXINGTON
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - (cont'd):

The approved budgets of the Village were adopted for the general and special revenue funds at the function level. These are the enacted levels under the State of Michigan Uniform Budgeting and Accounting Act and the legally adopted levels of the budget. State statutes do not require legally adopted budgets for debt service or capital projects funds.

Budgets are maintained throughout the year at the account level, to provide additional control in preventing over-expenditures at the legally adopted levels. Amendments at the function level for the general and special revenue funds must be approved by the Village Council.

Budget amounts are reported as originally adopted and as final amended by the Village Council, during the year.

Michigan Public Act 621 of 1978, Section 18, as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated at the legally enacted level. The Michigan Department of Treasury requires the reporting of any significant overages at the legal level of budgetary control (any overages at the legal level of budgetary control greater than 10% of total expenditures and the overage itself is larger than 10%). For the fiscal year ended June 30, 2018, the Village had the following overages that exceeded this threshold as follows:

	Final Amended Budget	Amount Expended	Budget Variance
Primary Government - County Road Fund - Public Works	\$ 30,221	\$ 36,001	\$ 5,788
Municipal Street Fund - Public Works	6,659	7,758	1,099

NOTE 3 - DEPOSITS AND INVESTMENTS:

As of June 30, 2018, the carrying amount of the deposits and investments is as follows:

	Primary Government	Component Units	Total
Deposits - Cash on hand - Petty Cash	\$ 300	\$ -	\$ 300
Deposits with Financial Institutions - Checking Certificates of Deposit	3,248,106 <u>250,000</u>	65,248 <u>-</u>	3,313,354 <u>250,000</u>
Total Deposits	3,498,106	65,248	3,563,354
Investments - Investment Trust Fund	<u>198,085</u>	<u>-</u>	<u>198,085</u>
	\$ 3,696,491	\$ 65,248	\$ 3,761,739

VILLAGE OF LEXINGTON
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):

	Primary Government	Component Units	Total
Reconciliation to Combined Balance Sheet - Reported as Cash and Cash Equivalents			
Petty Cash	\$ 300	\$ -	\$ 300
Cash in Checking	3,248,106	65,248	3,313,354
Investment Trust Fund	198,085	-	198,085
	3,446,491	65,248	3,511,739
Reported as Investments - Certificates of Deposit	250,000	-	250,000
	<u>\$ 3,696,491</u>	<u>\$ 65,248</u>	<u>\$ 3,761,739</u>

Authorized Deposits and Investments -

The Village's investment policy and Act 217 PA 1982, as amended, authorizes the Village to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

The Village's investment policy and Act 20 PA 1994 as amended by Act 1997 PA 1999 authorizes the Village to invest surplus funds in bonds, securities and other direct obligations of the United States government or an agency or instrumentality of the United States; certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution only if the bank, savings and loan association, or credit union is eligible to be a depository of funds belonging to the State; bankers' acceptances of United States banks; commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services, which mature not more than 270 days after the date of purchase; mutual funds registered under the Investment Company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 365, 129.111 to 129.118; investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

The Village's investment policy primary objectives, in order of priority, are safety, diversification, liquidity, and return on investment. The Village Treasurer is responsible for the investment program.

Custodial Credit Risk - Deposits - is the risk that in the event of a bank failure, the Village's deposits may not be returned. As an indication of the level of deposit custodial credit risk assumed by the Village, as of June 30, 2018, the bank balance of the Village's deposits was \$3,629,057, of which \$566,893 was insured by depository insurance with the remaining balance of \$3,062,164 uninsured and uncollateralized.

VILLAGE OF LEXINGTON
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):

Credit Risk - Investments - is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Village Investment Policy limits the types of investments the Village can purchase to those authorized by State law.

The Village utilized MILAF, a comprehensive cash management service program developed exclusively for Michigan school districts and municipalities. MILAF is not subject to regulatory oversight and is not registered within the SEC, however, does issue a separate financial statement which can be obtained at www.milaf.org. MILAF is rated AAAM by Standard & Poors. The portfolio is managed to maintain a dollar-weighted average portfolio maturity of 60 days or less and seeks to maintain a constant share value of \$1.00. MILAF invests primarily in U.S. governmental securities, commercial paper, and repurchase agreements. MILAF is considered a money market fund, as defined by the GASB, and as such is recorded at amortized cost, which approximates fair value. The fair value of the Village's investment is the same as the value of the pool shares. This fund is not subject to the fair value disclosure. As of June 30, 2018, the Village has \$198,085 (fair value) in the external investment pool with an average of one day to mature.

Custodial Credit Risk - Investments - is the risk that in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments that are in the possession of another party. The Village's investment policy does not address custodial credit risk.

Concentration of Credit Risk - Investments - is the risk of loss attributed to the magnitude of the Village's investment in a single issuer. The Village's investment policy addresses concentration of credit risk in that investments must be diversified.

Interest Rate Risk - Investments - is the risk that the value of investments will decrease as a result of a rise in interest rates. The Village's investment policy states that the investment portfolio shall be designed with the objective of obtaining a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio. At year-end, the Village's investments have the following range of maturity dates:

	<u>Fair Value</u>	<u>Maturity</u> <u><1 Year</u>
Certificates of Deposits	\$ 250,000	\$ 250,000

NOTE 4 - TAXES:

The Village property taxes are levied each July on the assessed valuation of the property in the Village as of the preceding December 31, as adjusted by the March and July Board of Review.

Assessed values are established annually by the respective Village/Township and are equalized by the State at an estimated percentage of the current market value. Real and personal property for the Village of Lexington for the fiscal year 2018 had a taxable value of \$45,934,158. The millage rates levied by the Village were 7.5936 for General Operating, 3.0372 for Municipal Streets, and 0.6071 for Cemetery.

The County of Sanilac (the "County") has established a Tax Collection Revolving Fund whereby all local units of government are paid for the delinquent real property taxes each year. A County-wide property tax for road improvements is levied by the County of Sanilac and distributed to the cities, villages, and townships of the County.

VILLAGE OF LEXINGTON
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 - RECEIVABLES:

Receivables in the governmental and business-type activities are as follows:

	Governmental Activities	Business-type Activities
Utilities	\$ 14,777	\$ 147,071
Accounts	30,224	-
Due from other governmental units	44,382	-
	\$ 89,383	\$ 147,071

NOTE 6 - INTERFUND TRANSFERS:

The composition of interfund balances as of June 30, 2018 is as follows:

Transfers In and Out -

Transfers In	Transfers Out	Amount
Primary Government		
General Fund	Cemetery Fund	\$ 8,000 (1)
General Fund	Sewer Fund	12,000 (4)
General Fund	Water Fund	12,000 (4)
Major Street Fund	Municipal Street Fund	25,000 (1)
Major Street Fund	Mobile Home Park Fund	13,596 (1)
Local Street Fund	County Road Fund	45,000 (1)
Local Street Fund	Major Street Fund	18,901 (2)
Local Street Fund	Municipal Street Fund	20,000 (1)
Local Street Fund	Mobile Home Park Fund	14,177 (1)
Municipal Street Fund	Mobile Home Park Fund	11,116 (1)
County Road Fund	Mobile Home Park Fund	5,792 (1)
Cemetery Fund	Mobile Home Park Fund	9,017 (1)
Capital Project Fund	Mobile Home Park Fund	5,071 (1)
Debt Service Fund	Capital Project Fund	15,779 (3)
		\$ 215,449

- (1) To support operations and/or capital costs
- (2) Application of Act 51 revenue allocation
- (3) To support payment of related debt
- (4) Sewer/Water sample proceeds over cost

VILLAGE OF LEXINGTON
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 - CAPITAL ASSETS:

Capital asset activity of the primary government for the year ended June 30, 2018 was as follows:

Primary Government:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Disposals/ Adjustments</u>	<u>Balance</u> <u>June 30, 2018</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 320,896	\$ -	\$ -	\$ 320,896
Capital assets, being depreciated:				
Buildings and building improvements	428,571	-	-	428,571
Improvements other than buildings	1,820,351	-	-	1,820,351
Machinery and equipment	384,702	1,113	(14,475)	400,290
Vehicles	<u>1,024,925</u>	<u>-</u>	<u>-</u>	<u>1,024,925</u>
Total capital assets being depreciated	<u>3,658,549</u>	<u>1,113</u>	<u>(14,475)</u>	<u>3,674,137</u>
Less accumulated depreciation for:				
Buildings and building improvements	331,332	8,526	-	339,858
Improvements other than buildings	791,642	83,070	-	874,712
Machinery and equipment	344,254	9,517	(14,475)	368,246
Vehicles	<u>665,586</u>	<u>71,294</u>	<u>-</u>	<u>736,880</u>
Total accumulated depreciation	<u>2,132,814</u>	<u>172,407</u>	<u>(14,475)</u>	<u>2,319,696</u>
Total capital assets being depreciated, net	<u>1,525,735</u>	<u>(171,294)</u>	<u>-</u>	<u>1,354,441</u>
Governmental activities capital assets, net	<u>\$ 1,846,631</u>	<u>\$(171,294)</u>	<u>\$ -</u>	<u>\$ 1,675,337</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 17,495	\$ -	\$ -	\$ 17,495
Construction in progress	<u>12,863</u>	<u>-</u>	<u>12,863</u>	<u>-</u>
Total capital assets, not being depreciated	<u>30,358</u>	<u>-</u>	<u>12,863</u>	<u>17,495</u>
Capital assets, being depreciated:				
Buildings and improvements	92,274	27,478	-	119,752
Mobile home park	2,783,493	6,424	-	2,789,917
Utility systems	11,119,506	264,663	35,469	11,348,700
Machinery and equipment	<u>222,864</u>	<u>63,411</u>	<u>20,383</u>	<u>265,892</u>
Total capital assets being depreciated	<u>14,218,137</u>	<u>361,976</u>	<u>55,852</u>	<u>14,524,261</u>
Less accumulated depreciation for:				
Buildings and improvements	44,606	3,693	-	48,299
Mobile home park	1,440,705	81,731	-	1,522,436
Utility systems	5,204,884	283,015	23,918	5,463,981
Machinery and equipment	<u>180,499</u>	<u>11,020</u>	<u>20,383</u>	<u>171,136</u>
Total accumulated depreciation	<u>6,870,694</u>	<u>379,459</u>	<u>44,301</u>	<u>7,205,852</u>
Total capital assets being depreciated, net	<u>7,347,443</u>	<u>(17,483)</u>	<u>11,551</u>	<u>7,318,409</u>
Business activities capital assets, net	<u>\$ 7,377,801</u>	<u>\$(17,483)</u>	<u>\$ 24,414</u>	<u>\$ 7,335,904</u>

VILLAGE OF LEXINGTON
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 - CAPITAL ASSETS - (cont'd):

Discretely Presented Component Unit:	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Disposals/ Adjustments</u>	<u>Balance</u> <u>June 30, 2018</u>
Capital assets, being depreciated:				
Leasehold improvements	\$ 5,894	\$ -	\$ -	\$ 5,894
Building and improvements	89,817	-	-	89,817
Improvements other than buildings	173,408	-	-	173,408
Equipment	<u>138,147</u>	<u>7,039</u>	-	<u>145,186</u>
Total capital assets being depreciated	<u>407,266</u>	<u>7,039</u>	-	<u>414,305</u>
Less accumulated depreciation for:				
Leasehold improvements	3,465	383	-	3,848
Buildings and improvements	12,064	4,491	-	16,555
Improvements other than buildings	37,762	8,670	-	46,432
Equipment	<u>-</u>	<u>9,210</u>	-	<u>9,210</u>
Total accumulated depreciation	<u>53,291</u>	<u>22,754</u>	-	<u>76,045</u>
Component unit capital assets, net	<u>\$ 353,975</u>	<u>\$(15,715)</u>	<u>\$ -</u>	<u>\$ 338,260</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General Government	\$ 16,441
Public Safety	41,795
Public Works	104,774
Recreation and Cultural	<u>9,397</u>
Total depreciation expense - Governmental Activities	<u>\$ 172,407</u>
Business-type Activities:	
Sewer Fund	\$ 67,135
Water Fund	227,956
Mobile Home Park Fund	<u>84,368</u>
Total depreciation expense - Business-type Activities	<u>\$ 379,459</u>

NOTE 8 - PAYABLES:

Payables in the governmental and business-type activities are as follows:

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>
Accounts payable	\$ 18,096	\$ 261,748
Accrued liabilities	<u>14,201</u>	<u>7,892</u>
	<u>\$ 32,297</u>	<u>\$ 269,640</u>

VILLAGE OF LEXINGTON
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 9 - LONG-TERM DEBT:

PRIMARY GOVERNMENT -

The following is a summary of changes in the long-term liabilities (including current portions) for the year ended June 30, 2018:

	Balance <u>July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2018</u>	Due Within <u>One Year</u>
<u>Governmental Activities:</u>					
Governmental Funds -					
2014 Promissory Note	\$ 15,533	\$ -	\$ 15,533	\$ -	\$ -
Accrued sick and vacation	<u>36,047</u>	<u>-</u>	<u>29</u>	<u>36,018</u>	<u>-</u>
Total Governmental Activities	<u>51,580</u>	<u>-</u>	<u>15,562</u>	<u>36,018</u>	<u>-</u>
<u>Business-type Activities:</u>					
2002 Promissory Note (MHP)	362,103	-	60,350	301,753	60,350
1999 WSS Bonds/Contracts Payable	995,000	-	65,000	930,000	65,000
2013 Promissory Note (Water)	370,115	-	30,933	339,182	339,182
2013 Promissory Note (Sewer)	217,370	-	18,168	199,202	199,202
2013 Promissory Note (Lift Station)	210,000	-	30,000	180,000	180,000
Accrued sick and vacation	<u>24,900</u>	<u>17,138</u>	<u>-</u>	<u>42,038</u>	<u>-</u>
Total Business-type Activities	<u>2,179,488</u>	<u>17,138</u>	<u>204,451</u>	<u>1,992,175</u>	<u>843,734</u>
Total Primary Government	<u>\$ 2,231,068</u>	<u>\$ 17,138</u>	<u>\$ 220,013</u>	<u>\$ 2,028,193</u>	<u>\$ 843,734</u>

Significant details regarding outstanding long-term debt (including current portions) are presented as follows:

Accrued Vacation and Sick Pay:

In accordance with contracts negotiated with the various employee groups of the Village, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contracts. The governmental activities' portion of \$36,018 as well as the proprietary funds and business-type activities' portion of \$42,038 has been recorded as a long-term liability.

\$ 78,056

1999 Water Fund Contracts Payable:

Pursuant to provisions of Act 185, Public Acts of Michigan, 1957, as amended, the Village of Lexington and other applicable municipalities and the County of Sanilac have entered into contracts whereby the Village has agreed to pay the County annual installments to retire the Village's portion of a bond issue, plus interest. In order to pay such amounts to the County, the Village is obligated to the extent necessary, to levy ad valorem taxes without limitation as to the rate or amount on all taxable property. It is the intention of the Village Council to pay the Village's portion of the obligation from debt retirement charges and operating revenue generated by the Water Fund.

VILLAGE OF LEXINGTON
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 9 - LONG-TERM DEBT - (cont'd):

In order to finance the cost of the improvements the Sanilac County Department of Public Works has participated in the Drinking Water Revolving Fund through which the Department of Environmental Quality Bonds, dated September 30, 1999, have been sold in the amount of \$1,904,339. The Village makes the debt service payments directly to the State of Michigan which includes interest at 2.5% payable semi-annually.

\$ 930,000

The annual requirement for the 1996 Drinking Water Revolving Loan is as follows:

Year	Principal	Interest
2019	\$ 65,000	\$ 22,438
2020	70,000	20,750
2021	70,000	19,000
2022	75,000	17,188
2023	75,000	15,313
2024-2028	400,000	47,375
2029-2030	175,000	4,428
	<u>\$ 930,000</u>	<u>\$ 146,492</u>

2002 Mobile Home Park Promissory Note:

In August 2002, the Village of Lexington refinanced its 1996 SDS Revenue Bond of \$600,000 and its 1996 WSS Revenue Bond of \$586,000 for constructing additions and improvements to the mobile home park with a promissory note. The principal refinanced was \$1,207,011 at an interest rate of 5.30%, due semi-annually. Principal payments are due annually starting September 1, 2003 through September 1, 2022 in the amount of \$60,351.

\$ 301,753

2013 SDS and WSS Promissory Note:

On September 1, 2013, the Village of Lexington refinanced its 2003 promissory note for constructing and improvements to the sewer and water system. The principal refinanced was \$736,509 at an interest rate of 3.00%, due semi-annually. Principal payments were due annually based on an amortization schedule through September 1, 2018, upon which a lump sum payment of \$538,384 was due. A loan extension agreement was signed on September 6, 2018, extending the maturity date to December 1, 2018. The Village is working with their bond counsel to issue bonds with the intention of refunding this obligation prior to December 1, 2018.

\$ 538,384

VILLAGE OF LEXINGTON
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 9 - LONG-TERM DEBT - (cont'd):

2013 Lift Station Promissory Note:

On September 17, 2013, the Village of Lexington entered into a promissory note in the amount of \$300,000 to purchase and install a sewage lift station. Annual principal payments of \$30,000 starting September 1, 2014 through September 17, 2018, upon which a lump sum payment of \$180,000 with an interest rate of 3.5%, payable semi-annually, was due. A loan extension was signed on September 6, 2018, extending the maturity date to December 1, 2018. This loan was subsequently paid in full on October 5, 2018.

\$ 180,000

The annual requirements to amortize the promissory note obligations outstanding at June 30, 2018 are as follows:

Year	2002 MHP		2013 SDS and WSS		2013 Lift Station	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 60,350	\$ 14,394	\$ 538,384	\$ 8,504	\$ 180,000	\$ 3,308
2020	60,351	11,195	-	-	-	-
2021	60,351	7,996	-	-	-	-
2022	60,351	4,798	-	-	-	-
2023	<u>60,350</u>	<u>1,635</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 301,753</u>	<u>\$ 40,018</u>	<u>\$ 538,384</u>	<u>\$ 8,504</u>	<u>\$ 180,000</u>	<u>\$ 3,308</u>

NOTE 10 - PENSION PLANS:

Defined Benefit Plan:

Plan Descriptions -

The Village of Lexington participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer state-wide public employee defined benefit pension plan that covers all employees that work at least 40 hours per week. The pension plan is closed to new-hires. MERS was created under Public Act 135 of 1945 and now operates under Public Act 220 of 1996. MERS was established to provide retirement, survivor, and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1974, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information at www.mersofmich.com or by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to the pension and pension expense have been determined on the same basis as they are reported by the pension plan (the "Plan"). The Plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due pursuant to legal, statutory, and contractual requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with benefit terms.

VILLAGE OF LEXINGTON
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 - PENSION PLANS - (cont'd):

The membership at December 31, 2017 was comprised of 5 active participants, 9 retirees and beneficiaries, and 2 other vested inactive participants.

Benefits Provided -

Retirement benefits are calculated as 2.5% of the employee's final three-year average salary times the employee's years of service. Employees are vested after 6 years of service. Normal retirement age is 60. Early retirement with a reduced benefit is at 50 with 25 years of service or at 55 with 15 years of service or for an unreduced benefit at 55 with 25 years of service. Employees are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability benefits are determined in the same manner as retirement benefits but are payable immediately. An employee who leaves service may withdraw his or her contributions, plus accumulated interest. Benefit terms provide for annual cost-of-living adjustments to each employee's retirement benefit subsequent to the employee's retirement date of 2.25%.

Benefit terms, within the parameters established by MERS, are established and amended by authority of Village Council.

Contributions -

Participants of the Plan contribute 5% of compensation with the remaining amount contributed by the Village based on actuarially determined amounts. The Village pays the actuarially determined amount, which for the year ended June 30, 2018 was \$6,432 per month for general employees, with fiscal year contributions of \$77,184.

Net Pension Liability -

The net pension liability of the Village has been measured as of December 31, 2017 as determined by an actuarial valuation performed as of that date. The changes in the net pension liability are composed of the following:

	<u>Total Pension Liability</u>	<u>Plan's Net Position</u>	<u>Net Pension Liability</u>
Beginning balance	\$ 2,671,596	\$ 1,638,881	\$ 1,032,715
Service cost	24,583	-	24,583
Interest on total pension liability	207,858	-	207,858
Net investment income	-	212,547	(212,547)
Difference between expected and actual experience	11,320	-	11,320
Contributions from employer	-	72,108	(72,108)
Contributions from employees	-	10,887	(10,887)
Benefit payments	(171,324)	(171,324)	-
Administrative costs	<u>-</u>	<u>(3,372)</u>	<u>3,372</u>
Ending balance	<u>\$ 2,744,033</u>	<u>\$ 1,759,727</u>	<u>\$ 984,306</u>

Plan fiduciary net position as a percentage of the total pension liability 64%

VILLAGE OF LEXINGTON
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 - PENSION PLANS - (cont'd):

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions -

For the year ended June 30, 2018, the Village recognized pension expense of \$155,468, including \$77,623 in the government-wide and \$77,845 in the proprietary fund financial statements of the primary government. At June 30, 2018, the Village reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Primary Government		
Net difference between projected and actual earnings on Plan investments	\$ -	\$ 31,429
Contributions made subsequent to the measurement date	38,593	-
Difference between expected and actual experience	<u>14,718</u>	<u>-</u>
	<u>\$ 53,311</u>	<u>\$ 31,429</u>

The amounts of deferred outflows of resources and deferred inflows of resources related to pension, excluding contributions to the plan subsequent to the measurement date which will be recognized by the Plan in the next measurement period, will be recognized in pension expense as follows:

2019	\$ 24,196
2020	3,675
2021	(27,561)
2022	<u>(17,021)</u>
	<u>\$(16,711)</u>

Actuarial Assumptions -

The total pension liability was determined by an actuarial valuation as of December 31, 2017. The valuation used the following actuarial assumptions based on the most recent study of Plan experience covering the period from January 1, 2009 through December 31, 2013.

Salary Increases - 3.75%

Inflation - 2.5%

Investment Rate of Return - 7.75%

VILLAGE OF LEXINGTON
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 - PENSION PLANS - (cont'd):

Mortality Rates - 50% Male and 50% Female blend of the following tables: 1) the RP-2014 Healthy Annuitant Mortality Tables with rates multiplied by 105%; 2) the RP-2014 Employee Mortality Tables; and 3) the RP-2014 Juvenile Mortality Tables. For disabled retirees, the RP-2014 Disabled Retiree Mortality Tables using a 50% Male and 50% Female blend were used.

Discount Rate - The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that Village contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Projected Cash Flows - Based on the assumptions above, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected real rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of December 31, 2017 for each major asset class included in the Plan's target asset allocation, as disclosed in the investment footnote of the Plan, are summarized in the following table.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equity	57.5 %	5.0 %
Global Fixed Income	20.0	2.2
Real Assets	12.5	4.2
Diversifying Strategies	10.0	6.6

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the Village, calculated using the discount rate of 8.00 percent, as well as what the Village's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00 percent) or 1-percentage-point higher (9.00 percent) than the current rate.

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1 % Increase (9.00%)
Net pension liability of the Primary Government	\$ 1,280,601	\$ 984,306	\$ 730,940

VILLAGE OF LEXINGTON
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 - PENSION PLANS - (cont'd):

Defined Contribution Plan:

Effective June 27, 2011, the Village has established a defined contribution plan for all employees hired after January 1, 2005. The Plan requires the Village to contribute/match on behalf of each participant 3% of each participating employees' base salary if the participating employee contributes at least 6% of their base salary to the Plan. Participants are not required to make a contribution to the Plan. Both employer and employee contributions are 100% vested immediately. Employees are eligible to begin contribution to the Plan 90 days after hire. The Village Council has the authority to rescind the match provision due to budget constraints via Council resolution. Employer contributions to the Plan for the year ended June 30, 2018 totaled \$17,031.

NOTE 11 - POSTEMPLOYMENT BENEFITS:

Plan Description -

The Village of Lexington, Michigan, administers the Village Retiree Health Plan (the "OPEB Plan"), a single-employer defined benefit other postemployment benefit (OPEB) plan that provides postemployment benefits other than pensions to any employee that retires on or after attaining age 55 with a minimum of 25 years of continuous service or 30 years of non-continuous service with the Village. Management of the OPEB Plan is provided by the Village Council. The OPEB Plan does not issue a publicly-available financial report as it is audited within the financial report of the Village.

Summary of Significant Accounting Policies -

For purposes of measuring OPEB liability, deferred outflows of resources, deferred inflows of resources related to OPEB, and OPEB expense, a simplified version of the entry age actuarial cost method was used. The unfunded OPEB liability is being amortized as a level percentage of payroll on an open period with a remaining amortization period of 30 years.

Benefits Provided -

The Village provides 100% of the health insurance premium to eligible employees upon retirement.

OPEB Plan Membership -

At June 30, 2018, OPEB Plan membership consisted of 13 active members and 8 inactive members or beneficiaries receiving benefits.

Contributions -

During the year ended June 30, 2018, annually required contributions were \$195,433 and actual contributions of \$58,398 were made. The valuation, dated June 30, 2018, determined a required contribution of 37.2% of covered payroll. There are no required member contributions.

The contributions of OPEB Plan members and the Village are established and may be amended by the Village Council. Most administrative costs consist of processing retiree health insurance payments of the OPEB Plan and are paid with Village resources.

VILLAGE OF LEXINGTON
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 - POSTEMPLOYMENT BENEFITS - (cont'd):

Methods and Assumptions -

Valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in the OPEB liability and the value of assets, (none at June 30, 2018) consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement Age of Active Employees - Based on the required retirement age for the covered group, active plan members were assumed to retire at age 55.

Marital Status - Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality - Life expectancies were based on mortality tables from the National Center for Health Statistics. The United States Life Tables for Males and for Females were obtained from the Center for Disease Control (www.cdc.gov). The most recent data are the life tables for males and females, 2014 version (Tables 2 and 3 from the National Vital Statistics Report, Vol. 66, No. 4 dated August 14, 2017).

Turnover - Nongroup-specific age-based turnover data from GASB Statement No. 45 was used as the basis for assigning active members a probability of remaining employment until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare Cost Trend Rate - The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. The rate was estimated at 4.9 percent for 2020, fluctuating between 4.4 percent and 4.9 percent before decreasing to 4.7 percent in 2025 and for the years thereafter.

Health Insurance Premiums - 2019 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Payroll Growth Rate - The expected long-term payroll growth rate assumption of 2.0 percent was based on the salary increases per the union contract.

Discount Rate - A discount rate of 2.98% was used. The discount rate was based on the S&P Municipal Bond 20-Year High Grade Index.

VILLAGE OF LEXINGTON
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 - POSTEMPLOYMENT BENEFITS - (cont'd):

OPEB Liability of the Village -

The OPEB liability of the Village has been measured as of June 30, 2018 by a simplified version of the entry age actuarial cost method.

Beginning Balance		\$	2,091,186
Service cost			106,752
Interest on OPEB liability			67,881
Expected and actual differences	(		31,683)
Benefit payments	(		<u>58,398)</u>
Ending Balance		\$	<u>2,175,738</u>

As of June 30, 2018, the Village did not have any assets set aside to offset the OPEB liability.

OPEB Expense and Deferred Inflows of Resources Related to OPEB -

For the year ended June 30, 2018, the Village recognized OPEB expenses of \$113,456 for the OPEB Plan in the government-wide and proprietary fund financial statements of the primary government. At June 30, 2018, the Village reported deferred inflows of resources related to OPEB from the following source:

Difference between expected and actual experience		\$	<u>28,904</u>
---	--	----	---------------

The amounts of deferred inflows of resources related to OPEB (excluding contributions) will be recognized in OPEB expense as follows:

2019		\$	2,779
2020			2,779
2021			2,779
2022			2,779
2023			2,779
2024-2029			<u>15,009</u>
		\$	<u>28,904</u>

Sensitivity of the OPEB Liability to Changes in the Discount Rate -

The following presents the OPEB liability of the Village, calculated using the discount rate of 2.98% as well as what the OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (1.98%) or one-percentage-point higher (3.98%) than the current rate.

	1% Decrease (1.98%)	Current Discount Rate (2.98%)	1% Increase (3.98%)
	<u> </u>	<u> </u>	<u> </u>
OPEB liability	\$ <u>2,490,197</u>	\$ <u>2,175,738</u>	\$ <u>1,908,637</u>

VILLAGE OF LEXINGTON
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 - POSTEMPLOYMENT BENEFITS - (cont'd):

Sensitivity of the OPEB Liability to Changes in the Healthcare Cost Trend Rates -

The following presents the OPEB liability of the Village, calculated using the healthcare cost trend rate of 4.90%, decreasing to 4.40% before increasing to 4.90% and then decreasing to 4.70%, as well as what the OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage-point lower (3.90%) or one percentage-point higher (5.90%) than the current rate.

	1% Decrease <u>(3.40-3.90%)</u>	Current Healthcare Cost Trend Rate <u>(4.40-4.90%)</u>	1% Increase <u>(5.40-5.90%)</u>
OPEB Liability	\$ <u>1,877,154</u>	\$ <u>2,175,738</u>	\$ <u>2,540,498</u>

NOTE 12 - EXTERNAL SALE OF WATER:

In addition to the sale of water to Village residents, the Village sells water through contracts with the Worth Township Department of Public Works (DPW), formally the Lexington-Worth Townships Utility Authority (LWTUA), and Sanilac Township. The contract with the Worth Township DPW requires monthly payments for usage based on flow times a specified fixed unit rate per thousand gallons. In addition, the contract requires the Worth Township DPW to make quarterly payments of \$11,727 to the Village to be maintained in a reserve account for equipment replacement. The quarterly payments are to be made on January 1, April 1, July 1, and October 1. The reserve account will be utilized for Worth Township DPW's share of water treatment plant related equipment replacement and associated labor. The balance of this reserve account reported in the Village Water Fund at June 30, 2018 is \$331,826. Also, the contract requires the Worth Township DPW to pay its 45.5% share of future semi-annual debt service payments on the indebtedness incurred by the Village for the water plant intake system. Payments of \$14,643 are due each year to the Village on March 1 and September 1 based on the Worth Township DPW average annual debt service share. The Village has recorded contracts receivable reserved capacity in the Water Fund, classified as other assets, of \$310,031 and corresponding unearned revenue of \$310,031 at June 30, 2018 to account for the future debt service principle requirements.

The contract with Sanilac Township requires monthly payments for usage based on flow times a specified fixed unit rate per thousand gallons. In addition, a part of the contract was for the Township to reserve capacity in the water plant for twenty years at a cost of \$500,000, which was paid at the end of fiscal 2007. The reserve capacity is recorded in the Water Fund of the Village and is being amortized over the twenty years effective July 1, 2008. The unearned revenue balance for this reserved capacity at June 30, 2018 is \$225,000.

NOTE 13 - RESTRICTED ASSETS:

The restricted assets of \$331,826 in the Water Fund are for equipment replacement.

VILLAGE OF LEXINGTON
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 14 - RISK MANAGEMENT:

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, injuries to employees, medical benefits provided to employees, etc. The Village has purchased insurance coverage for each of these types of losses; however, the Village would be responsible should the limit of coverages be exceeded.

In the normal course of its operations, the Village often becomes a party to various claims and lawsuits. In the opinion of the Village's legal counsel, if any of these claims should result in an unfavorable resolution to the Village, the Village's liability would be limited to its deductible under insurance policies. The insurer would pay the losses, and there should be no material effect on the financial position of the Village.

NOTE 15 - RESTRICTED NET POSITION:

The net position has been restricted in the entity-wide statement of net position at June 30, 2018 for the following purposes:

Governmental Activities:

General Fund -		
Metro Authority		\$ <u>15,315</u>
Major Street Fund -	\$ 165,457	
Pension Liability	(9,764)	
OPEB Liability	<u>(21,322)</u>	134,371
Local Street Fund -	292,823	
Pension Liability	(29,292)	
OPEB Liability	<u>(63,967)</u>	199,564
Municipal Street Fund		466,537
County Road Fund		<u>196,866</u>
		<u>997,338</u>
Total Restricted Net Position - Governmental Activities		<u>1,012,653</u>

Business-type Activities:

Water Fund		
Meter Replacement		85,604
Sewer Fund		
Meter Replacement	73,405	
Equipment Replacement	<u>331,826</u>	<u>405,231</u>
Total Restricted Net Position - Business-type Activities		<u>490,835</u>

Total Restricted Net Position	<u>\$ 1,503,488</u>
-------------------------------	---------------------

VILLAGE OF LEXINGTON
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 16 - SUBSEQUENT EVENTS:

During September 2018, the Village signed a \$48,203 contract to construct various sections of concrete sidewalk within the Village and a \$82,295 contract to construct and/or crack-seal various sections of street and parking areas within the Village.

NOTE 17 - MAINTENANCE CONTRACT COMMITMENT:

During August 2018, the Village signed a contract for water tank maintenance in the amount of \$329,629, of which \$100,000 was due paid to the contractor as of June 30, 2018, with a remaining balance on the contract of \$229,629 due in the future. The annual fees for fiscal years 2019-2022 are \$51,793 per year, with an additional \$22,457 due in fiscal year 2023.

NOTE 18 - CHANGE IN ACCOUNTING PRINCIPLE:

During the year, the Village adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. The statement requires the OPEB liability and related deferred outflows of resources and deferred inflows of resources for the Village be reported on the statement of net position and within the note disclosures. The effect of implementing this statement decreased net position at June 30, 2017 of governmental activities by \$436,808, business-type activities by \$771,485 (\$169,300 for the Sewer Fund, \$583,290 for the Water Fund, and \$18,895 for the Mobile Home Park Fund).

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF LEXINGTON, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 348,945	\$ 307,618	\$ 307,657	\$ 39
Intergovernmental	100,138	1,105,389	1,101,404	(3,985)
Charges for services	284,113	303,164	320,320	17,156
Fines and forfeits	1,900	6,106	6,216	110
Interest and rents	9,400	8,645	9,641	996
Other	232,310	265,560	230,484	(35,076)
Total Revenues	<u>976,806</u>	<u>1,996,482</u>	<u>1,975,722</u>	<u>(20,760)</u>
Expenditures:				
General Government	157,870	169,763	160,786	8,977
Public Safety	469,230	461,255	455,595	5,660
Public Works	177,160	185,602	186,639	(1,037)
Health and Welfare	31,042	26,894	27,021	(127)
Community and Economic Development	7,700	1,004,448	1,005,302	(854)
Recreation and Culture	52,586	54,543	58,477	(3,934)
Other	54,000	51,532	49,902	1,630
Total Expenditures	<u>949,588</u>	<u>1,954,037</u>	<u>1,943,722</u>	<u>10,315</u>
Revenues over expenditures	27,218	42,445	32,000	(10,445)
Other Financing Sources:				
Transfers in	32,000	32,000	32,000	-
Net Change in Fund Balance	59,218	74,445	64,000	(10,445)
Fund Balance at beginning of year	242,830	242,830	242,830	-
Fund Balance at end of year	<u>\$ 302,048</u>	<u>\$ 317,275</u>	<u>\$ 306,830</u>	<u>\$(10,445)</u>

VILLAGE OF LEXINGTON, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - MAJOR STREET FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Intergovernmental	\$ 45,000	\$ 62,670	\$ 75,602	\$ 12,932
Expenditures:				
Public Works -				
Salaries	16,091	8,556	8,376	180
Fringe benefits	10,222	5,509	5,353	156
Administrative fees	4,800	4,022	4,983	(961)
Supplies	3,000	3,730	3,696	34
Equipment rental	10,265	18,400	16,866	1,534
Repairs and maintenance	500	220	515	(295)
Purchased services	2,000	-	-	-
Traffic and street lights	14,000	2,000	-	2,000
Other	540	340	281	59
Total Expenditures	<u>61,418</u>	<u>42,777</u>	<u>40,070</u>	<u>2,707</u>
Revenues over (under) expenditures	<u>(16,418)</u>	<u>19,893</u>	<u>35,532</u>	<u>15,639</u>
Other Financing Sources (Uses):				
Transfers in	41,487	38,596	38,596	-
Transfers out	<u>(16,000)</u>	<u>(20,300)</u>	<u>(18,901)</u>	<u>1,399</u>
Total Other Financing Sources	<u>25,487</u>	<u>18,296</u>	<u>19,695</u>	<u>1,399</u>
Net Change in Fund Balance	9,069	38,189	55,227	17,038
Fund Balance at beginning of year	<u>110,230</u>	<u>110,230</u>	<u>110,230</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 119,299</u>	<u>\$ 148,419</u>	<u>\$ 165,457</u>	<u>\$ 17,038</u>

VILLAGE OF LEXINGTON, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - LOCAL STREET FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental	\$ 24,600	\$ 36,769	\$ 42,693	\$ 5,924
Expenditures:				
Public Works -				
Salaries	21,380	21,247	21,502	(255)
Fringe benefits	22,696	11,110	12,057	(947)
Administrative fees	6,120	6,497	2,636	3,861
Supplies	4,000	6,577	6,583	(6)
Equipment rental	26,891	44,500	40,726	3,774
Repairs and maintenance	250	508	1,101	(593)
Purchase of services	2,800	716	716	-
Other	4,600	4,046	3,889	157
	88,737	95,201	89,210	5,991
Capital Outlay	8,000	-	-	-
Total Expenditures	96,737	95,201	89,210	5,991
Revenues under expenditures	(72,137)	(58,432)	(46,517)	11,915
Other Financing Sources:				
Transfers in	100,090	105,689	98,078	(7,611)
Net Change in Fund Balance	27,953	47,257	51,561	4,304
Fund Balance at beginning of year	241,262	241,262	241,262	-
Fund Balance at end of year	\$ 269,215	\$ 288,519	\$ 292,823	\$ 4,304

VILLAGE OF LEXINGTON, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - MUNICIPAL STREET FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 139,564	\$ 123,141	\$ 123,156	\$ 15
Intergovernmental	-	20,000	20,000	-
Charges for services	-	13,070	11,977	(1,093)
Total Revenues	139,564	156,211	155,133	(1,078)
Expenditures:				
Public Works -				
Administrative fees	-	3,536	4,635	(1,099)
Supplies	-	3,123	3,123	-
Contracted services	1,000	-	-	-
	1,000	6,659	7,758	(1,099)
Capital Outlay	60,000	-	-	-
Total Expenditures	61,000	6,659	7,758	(1,099)
Revenues over expenditures	78,564	149,552	147,375	(2,177)
Other Financing Sources (Uses):				
Transfers in	22,578	11,116	11,116	-
Transfers out	(45,000)	(45,000)	(45,000)	-
Total Other Financing Uses	(22,422)	(33,884)	(33,884)	-
Net Change in Fund Balance	56,142	115,668	113,491	(2,177)
Fund Balance at beginning of year	353,046	353,046	353,046	-
Fund Balance at end of year	\$ 409,188	\$ 468,714	\$ 466,537	\$(2,177)

VILLAGE OF LEXINGTON, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - COUNTY ROAD FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
County road millage	\$ 78,500	\$ 80,962	\$ 80,962	\$ -
Expenditures:				
Public Works -				
Administrative fees	2,172	5,149	6,781	(1,632)
Equipment rental	10,265	1,772	1,772	-
Traffic and street lights	11,000	22,300	26,456	(4,156)
Other	150	1,000	992	8
Total Expenditures	23,587	30,221	36,001	(5,780)
Revenues over expenditures	54,913	50,741	44,961	(5,780)
Other Financing Sources (Uses):				
Transfers in	14,613	16,187	5,792	(10,395)
Transfers out	(45,000)	(45,000)	(45,000)	-
Total Other Financing Uses	(30,387)	(28,813)	(39,208)	(10,395)
Net Change in Fund Balance	24,526	21,928	5,753	(16,175)
Fund Balance at beginning of year	191,113	191,113	191,113	-
Fund Balance at end of year	\$ 215,639	\$ 213,041	\$ 196,866	\$(16,175)

VILLAGE OF LEXINGTON, MICHIGAN

**EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
PLAN FISCAL YEARS**

	For the Year Ended December 31,			
	2017	2016	2015	2014
Total Pension Liability:				
Service Cost	\$ 24,583	\$ 24,982	\$ 34,143	\$ 38,481
Interest	207,858	200,310	191,430	183,478
Change in assumptions	-	-	135,873	-
Differences between expected and actual experience	11,320	27,174	(34,513)	-
Benefit payments, including refunds	(171,324)	(144,521)	(133,157)	(113,632)
 Change in total pension liability	 72,437	 107,945	 193,776	 108,327
 Total pension liability, beginning of year	 <u>2,671,596</u>	 <u>2,563,651</u>	 <u>2,369,875</u>	 <u>2,261,548</u>
 Total pension liability, end of year	 <u>\$ 2,744,033</u>	 <u>\$ 2,671,596</u>	 <u>\$ 2,563,651</u>	 <u>\$ 2,369,875</u>
 Plan Fiduciary Net Position:				
Contributions - Employer	\$ 72,108	\$ 57,696	\$ 48,808	\$ 50,947
Contributions - Member	10,887	14,285	16,305	18,868
Net investment income	212,547	173,008	(24,042)	99,790
Benefit payments, including refunds	(171,324)	(144,521)	(133,157)	(113,632)
Administrative expenses	(3,372)	(3,417)	(3,534)	(3,664)
 Net change in plan fiduciary net position	 120,846	 97,051	 (95,620)	 52,309
 Plan fiduciary net position, beginning of year	 <u>1,638,881</u>	 <u>1,541,830</u>	 <u>1,637,450</u>	 <u>1,585,141</u>
 Plan fiduciary net position, end of year	 <u>\$ 1,759,727</u>	 <u>\$ 1,638,881</u>	 <u>\$ 1,541,830</u>	 <u>\$ 1,637,450</u>
 Village's Net Pension Liability - Ending	 <u>\$ 984,306</u>	 <u>\$ 1,032,715</u>	 <u>\$ 1,021,821</u>	 <u>\$ 732,425</u>
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	 64.13%	 61.34%	 60.14%	 69.09%
 Covered Employee Payroll	 \$ 217,742	 \$ 211,878	 \$ 306,231	 \$ 345,123
 Village's Net Pension Liability as a Percentage of Covered Employee Payroll	 452.1%	 487.4%	 333.7%	 212.2%

* GASB Statement No. 68 was implemented for fiscal year ended June 30, 2015. These schedules are being built prospectively. Ultimately, 10 years of data will be presented.

VILLAGE OF LEXINGTON, MICHIGAN

**EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS
LAST TEN FISCAL YEARS**

	Year Ended June 30,					
	2018	2017	2016	2015	2014	2013
Actuarially determined contributions	\$ 77,184	\$ 67,032	\$ 50,238	\$ 52,272	\$ 47,672	\$ 56,854
Contributions in relation to the actuarially determined contribution	<u>77,184</u>	<u>67,032</u>	<u>50,238</u>	<u>52,272</u>	<u>47,672</u>	<u>56,854</u>
Contribution Deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 231,445	\$ 242,345	\$ 313,380	\$ 350,899	\$ 345,123	\$ 381,934
Contributions as a Percentage of Covered Employee Payroll	33.35%	27.66%	16.03%	14.90%	13.81%	14.89%

Valuation Date December 31, two years prior to the end of the fiscal year

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll, open
Remaining amortization period	10 years 10 years
Asset valuation method	5-year smoothed market value
Salary increases	3.75%
Investment rate of return	7.75%
Retirement age	Replacement Index up to age 70, then 100%
Mortality	RP-2014 Healthy Annuitant Mortality Table with 50% Male and 50% Female Blend

The plan is considered closed to new-hires.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 56,430	\$ 61,633	\$ 58,328	\$ 54,075
<u>56,430</u>	<u>61,633</u>	<u>58,328</u>	<u>54,075</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 486,492	\$ 475,249	\$ 493,911	\$ 493,299
11.60%	12.97%	11.81%	10.96%

VILLAGE OF LEXINGTON, MICHIGAN

**RETIREE HEALTH BENEFITS
SCHEDULE OF CHANGES IN OPEB LIABILITY AND RELATED RATIOS
PLAN FISCAL YEAR**

	Year Ended June 30, 2018*
OPEB Liability	
Service Cost	\$ 106,752
Interest	67,881
Differences between expected and actual experience	(31,683)
Benefit payments, including refunds	(58,398)
	<hr/>
Change in OPEB liability	84,552
OPEB liability, beginning of year	<hr/> 2,091,186
OPEB liability, end of year	<hr/> <u>\$ 2,175,738</u>
Covered Employee Payroll	 \$ 525,823
Village's OPEB Liability as a Percentage of Covered Employee Payroll	 413.8%

* GASB Statement No. 75 was implemented for fiscal year ended June 30, 2018. These schedules are being built prospectively. Ultimately 10 years will be presented.

VILLAGE OF LEXINGTON, MICHIGAN

**RETIREE HEALTH BENEFITS
SCHEDULE OF CONTRIBUTIONS
LAST TEN FISCAL YEARS**

	Annual Determined Contribution	Contributions in Relation to the Annual Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2018*	\$ 195,433	\$ 58,398	\$ 137,035	\$ 525,823	11.11%

Valuation Date: June 30, 2018

Methods and Assumptions Used to Determine Contribution Rates:

Simplified Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	30 years, Open
Wage Inflation	2.00%
Salary Increases	2.00%
Investment Rate of Return	2.98%
Years of Service	25 years of continuous service, or 30 years of non-continuous service with the Village
Mortality	National Center for Health Statistics 2014 version (Tables 2 and 3 from the National Vital Statistics Report, Vol.66 No. 7 dated August 14, 2017)
Health Care Trend Rates	Initial trend of 4.90% in 2020, fluctuating between 4.40% and 4.90% before decreasing to 4.70% in 2025 and for years thereafter

* GASB Statement No. 75 was implemented for fiscal year ended June 30, 2018 and does not require retroactive implementation.

SUPPLEMENTARY INFORMATION

VILLAGE OF LEXINGTON, MICHIGAN

**DETAILED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 348,945	\$ 307,618	\$ 307,657	\$ 39
Intergovernmental -				
State	100,138	1,105,389	1,101,404	(3,985)
Charges for services	284,113	303,164	320,320	17,156
Fines and forfeits	1,900	6,106	6,216	110
Interest and rents	9,400	8,645	9,641	996
Other	232,310	265,560	230,484	(35,076)
	<u>976,806</u>	<u>1,996,482</u>	<u>1,975,722</u>	<u>(20,760)</u>
Expenditures:				
General Government -				
Village council	15,265	14,580	11,565	3,015
Village manager	77,133	44,836	45,361	(525)
Village clerk	68,387	74,866	73,390	1,476
Administrative services	141,997	160,653	156,972	3,681
	<u>302,782</u>	<u>294,935</u>	<u>287,288</u>	<u>7,647</u>
Less: Reimbursement from other funds	(144,912)	(125,172)	(126,502)	1,330
Total General Government	<u>157,870</u>	<u>169,763</u>	<u>160,786</u>	<u>8,977</u>
Public Safety -				
Fire department	317,372	331,107	332,496	(1,389)
Police department	151,858	130,148	123,099	7,049
Total Public Safety	<u>469,230</u>	<u>461,255</u>	<u>455,595</u>	<u>5,660</u>
Public Works -				
Department of public works	71,737	79,685	80,662	(977)
Rubbish collection/disposal	105,423	105,917	105,977	(60)
Total Public Works	<u>177,160</u>	<u>185,602</u>	<u>186,639</u>	<u>(1,037)</u>
Health and Welfare -				
Environment	10,000	5,352	5,469	(117)
Ambulance	21,042	21,542	21,552	(10)
Total Health and Welfare	<u>31,042</u>	<u>26,894</u>	<u>27,021</u>	<u>(127)</u>
Community and Economic Development -				
Planning	7,700	4,448	5,302	(854)
CDBG grant	-	1,000,000	1,000,000	-
Total Community and Economic Development	<u>7,700</u>	<u>1,004,448</u>	<u>1,005,302</u>	<u>(854)</u>
Recreation and Culture -				
Parks and recreation	41,496	44,168	48,037	(3,869)
Community center	11,090	10,375	10,440	(65)
Total Recreation and Culture	<u>52,586</u>	<u>54,543</u>	<u>58,477</u>	<u>(3,934)</u>

Continued

VILLAGE OF LEXINGTON, MICHIGAN

**DETAILED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Other -				
Retiree health insurance	\$ 54,000	\$ 51,532	\$ 49,902	\$ 1,630
Total Expenditures	<u>949,588</u>	<u>1,954,037</u>	<u>1,943,722</u>	<u>10,315</u>
Revenues over (under) expenditures	27,218	42,445	32,000	(10,445)
Other Financing Sources:				
Transfers in	<u>32,000</u>	<u>32,000</u>	<u>32,000</u>	<u>-</u>
Net Change in Fund Balance	59,218	74,445	64,000	(10,445)
Fund Balance at beginning of year	<u>242,830</u>	<u>242,830</u>	<u>242,830</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 302,048</u></u>	<u><u>\$ 317,275</u></u>	<u><u>\$ 306,830</u></u>	<u><u>\$(10,445)</u></u>

Concluded

VILLAGE OF LEXINGTON, MICHIGAN

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018**

	Cemetery Fund	Capital Project Fund	Debt Service Fund	Total
Assets:				
Cash and cash equivalents	\$ 36,977	\$ 14,396	\$ -	\$ 51,373
Prepaid expenditures	678	-	-	678
Total Assets	\$ 37,655	\$ 14,396	\$ -	\$ 52,051
 Liabilities:				
Accounts payable	\$ 68	\$ -	\$ -	\$ 68
Accrued liabilities	354	-	-	354
Total Liabilities	422	-	-	422
 Fund Balances:				
Nonspendable for:				
Prepays	678	-	-	678
Committed for:				
Cemetery	36,555	-	-	36,555
Assigned for -				
Capital Items	-	14,396	-	14,396
Total Fund Balances	37,233	14,396	-	51,629
Total Liabilities and Fund Balances	\$ 37,655	\$ 14,396	\$ -	\$ 52,051

VILLAGE OF LEXINGTON, MICHIGAN

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	Cemetery Fund	Capital Project Fund	Debt Service Fund	Total
Revenues:				
Taxes	\$ 24,592	\$ -	\$ -	\$ 24,592
Charges for services	7,725	-	-	7,725
Interest	591	-	-	591
Total Revenues	32,908	-	-	32,908
Expenditures:				
Public Works	32,970	-	-	32,970
Debt Service -				
Principal	-	-	15,592	15,592
Interest	-	-	187	187
Total Expenditures	32,970	-	15,779	48,749
Revenues under expenditures	(62)	-	(15,779)	(15,841)
Other Financing Sources (Uses):				
Transfers in	9,017	5,071	15,779	29,867
Transfers out	(8,000)	(15,779)	-	(23,779)
Total Other Financing Sources (Uses)	1,017	(10,708)	15,779	6,088
Net Change in Fund Balances	955	(10,708)	-	(9,753)
Fund Balances at beginning of year	36,278	25,104	-	61,382
Fund Balances at end of year	\$ 37,233	\$ 14,396	\$ -	\$ 51,629

VILLAGE OF LEXINGTON, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CEMETERY FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 27,893	\$ 24,589	\$ 24,592	\$ 3
Charges for services	10,000	9,217	7,725	(1,492)
Interest	220	502	591	89
Total Revenues	<u>38,113</u>	<u>34,308</u>	<u>32,908</u>	<u>(1,400)</u>
Expenditures:				
Public Works -				
Salaries	5,220	6,754	7,435	(681)
Fringe benefits	6,765	3,443	3,521	(78)
Administrative fees	2,040	2,981	3,012	(31)
Insurance	300	300	722	(422)
Supplies	1,700	2,160	2,137	23
Equipment rental	10,020	12,810	11,744	1,066
Purchase of services	2,000	2,175	2,235	(60)
Lot buy back	500	-	-	-
Other	2,175	3,894	2,164	1,730
Total Expenditures	<u>30,720</u>	<u>34,517</u>	<u>32,970</u>	<u>1,547</u>
Revenues over (under) expenditures	<u>7,393</u>	<u>(209)</u>	<u>(62)</u>	<u>147</u>
Other Financing Sources (Uses):				
Transfers in	7,980	9,017	9,017	-
Transfers out	(8,000)	(8,000)	(8,000)	-
Total Other Financing Sources (Uses)	<u>(20)</u>	<u>1,017</u>	<u>1,017</u>	<u>-</u>
Net Change in Fund Balance	7,373	808	955	147
Fund Balance at beginning of year	<u>36,278</u>	<u>36,278</u>	<u>36,278</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 43,651</u>	<u>\$ 37,086</u>	<u>\$ 37,233</u>	<u>\$ 147</u>

COMPONENT UNIT

VILLAGE OF LEXINGTON, MICHIGAN

**BALANCE SHEET
DISCRETELY PRESENTED COMPONENT UNIT
DOWNTOWN DEVELOPMENT AUTHORITY
JUNE 30, 2018**

Assets:

Cash and cash equivalents	\$	65,248
Accounts receivable		<u>240</u>
Total Assets	\$	<u><u>65,488</u></u>

Liabilities:

Accounts payable	\$	5,946
------------------	----	-------

Fund Balance:

Unrestricted		<u>59,542</u>
--------------	--	---------------

Total Liabilities and Fund Balance	\$	<u><u>65,488</u></u>
------------------------------------	----	----------------------

VILLAGE OF LEXINGTON, MICHIGAN

**RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DISCRETELY PRESENTED COMPONENT UNIT - DOWNTOWN DEVELOPMENT AUTHORITY
JUNE 30, 2018**

Fund Balance	\$	59,542
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the fund.		
Capital assets		414,305
Accumulated depreciation	(	<u>76,045)</u>
Net Position of governmental activities	\$	<u><u>397,802</u></u>

VILLAGE OF LEXINGTON, MICHIGAN

**DOWNTOWN DEVELOPMENT AUTHORITY
DISCRETELY PRESENTED COMPONENT UNIT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Taxes	\$ 110,426	\$ 110,426	\$ 115,836	\$ 5,410
Other	20,000	20,000	5,722	(14,278)
	<u>130,426</u>	<u>130,426</u>	<u>121,558</u>	<u>(8,868)</u>
Expenditures:				
Public Works	127,730	127,730	136,687	(8,957)
Capital Outlay	-	-	7,039	(7,039)
	<u>127,730</u>	<u>127,730</u>	<u>143,726</u>	<u>(15,996)</u>
Net Change in Fund Balance	2,696	2,696	(22,168)	(24,864)
Fund Balance at beginning of year	<u>81,710</u>	<u>81,710</u>	<u>81,710</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 84,406</u>	<u>\$ 84,406</u>	<u>\$ 59,542</u>	<u>\$(24,864)</u>

VILLAGE OF LEXINGTON, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNIT - DOWNTOWN DEVELOPMENT AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2018**

Net change in fund balance \$(22,168)

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.

Capital outlay	7,039
Depreciation	(22,754)

Change in net position of governmental activities \$(37,883)

AUDIT COMMUNICATION LETTER

November 1, 2018

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Lexington, Michigan (the "Village"), for the year ended June 30, 2018 and have issued our report thereon dated November 1, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated March 15, 2018. Professional standards 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 of Lexington are described in Note 1 to the financial statements. As noted in Note 18 to the financial statements, the Village implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The statement required the Village to record its OPEB liability and related deferred outflows of resources and deferred inflows of resources in the government-wide and proprietary fund financial statements and enhanced note disclosures. We noted no transactions entered into by the governmental unit 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 financial statements were:

Management's estimate of depreciation. Management estimates are based on historical data and estimated useful lives.

Management's estimate for the Municipal Employees' Retirement System's net pension liability, which is based on the Plan's audit of the net pension liability by reporting unit.

Management's estimate of the unfunded postemployment healthcare plan liability, which is based on various valuations of the Plan's methods and assumptions.

We evaluated the key factors and assumptions used to develop depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of Other Postemployment Benefits in Note 11 to the financial statements describes the benefits provided to retirees other than pensions. This disclosure is particularly sensitive to financial statement users because of the dollar amount of the OPEB liability at year-end and future impact this obligation may have if the Village continues to not fund the annual required contribution.

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

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit. However, we were requested to assist the Village in preparing various closing entries and audit schedules.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements as a whole. We assist the Village with various closing entries and proposed the following material adjustments that were corrected by management:

- Adjustments to the Water Fund reserve capacity deferrals
- Adjustments to administration and mobile home park allocations
- Adjustment to the Major and Local Street Funds for the amount transferred between funds
- Adjustment for excess funds transferred to the Debt Fund to pay off a promissory note

Assistance with GASB Statement No. 34 Presentation

As a result of our assistance with the GASB Statement No. 34 presentation, we proposed several entries, which include adjusting the net pension and OPEB liabilities for the governmental activities to the June 30, 2018 account balances to reflect the differences between the governmental funds and the government-wide financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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 November 1, 2018.

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 applications of an accounting principle to the governmental unit’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 Finding or Issues

In the Independent Auditor’s Report on Internal Control Over Financial Reporting and On Compliance and Other Matters, which is presented in the Village’s single audit and provided as Attachment B to this letter, we noted material weaknesses and a significant deficiency.

In addition to the Independent Auditor’s Report on Internal Control, we noted a few other items that although are not considered material weaknesses or significant deficiencies could improve controls, the operational efficiency and/or compliance with laws and regulations. These items are discussed in Attachment A.

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 governmental unit’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

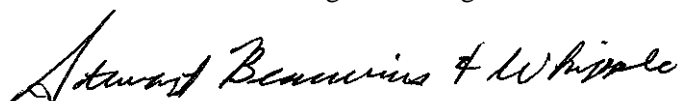
We applied certain limited procedures to management’s discussion and analysis, budgetary comparison information, and pension and retiree health benefit schedules, which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of 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.

With respect to the supplementary information accompanying the financial statements, 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 Lexington and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to be of service to the Council of the Village of Lexington.



Certified Public Accountants

Attachment A

The following are items that we discussed with management that are not considered material weaknesses or significant deficiencies, however, are items that could improve controls, the operational efficiency of the accounting department, and/or compliance with laws and regulations:

Bank accounts under the Village's EIN should be reviewed.

The Village currently has one bank account that was created under the Village's employer identification number (EIN) which is processing receipts and disbursements with little oversight by the Village. It is also our understanding that the activity (revenues and expenditures) of this account is not included in the General Ledger of the Village.

We understand that this separate account aids the Village's fire department in the processing of payments for those activities and allows flexibility for the group. However, because the Village's EIN number is being utilized, responsibility for the activities and reporting of these accounts fall under the Village.

We recommend the Village evaluate this situation and establish an oversight process for this account including the inclusion of the activity in the General Ledger of the municipality.

The Village's administration allocation between various department's funds should be reviewed.

During the audit, differences were noted while performing reasonableness testing on the Village's administration cost allocation.

To ensure that the costs that are allocated between the various department's funds are reasonable and consistent, we recommend the Village review and update the Central Service Cost Allocation Plan. The allocated costs should then be periodically reviewed to verify that the central service costs for the Village are allocated on a basis consistent with the Plan methodology. The composition of the costs to be allocated should be challenged periodically to ensure the cost pool is complete and the bases of allocation continue to be valid. In addition, the cost allocation document should also be updated for the current Uniform Guidance referencing.

Written procedures for federal awards should be enhanced.

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. 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.

**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 *GOVERNMENTAL 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 discretely presented component unit, 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, 2018 and the related notes to the financial statements, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated November 1, 2018.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings as items 2018-001 and 2018-002 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings as item 2018-003 to be a significant deficiency.

Compliance and Other Matters

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

We noted certain matters that we reported to management in a separate letter dated November 1, 2018.

Village of Lexington's Response to Findings

The Village's response to the findings identified in our audit are described in the accompanying schedule of findings. The Village's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

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 Village'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 Village of Lexington's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Certified Public Accountants

November 1, 2018

VILLAGE OF LEXINGTON
Sanilac County, Michigan

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

2018-001: The Downtown Development Authority's (DDA) segregation of duties should be evaluated.

Type: Material weakness in internal controls over financial reporting.

Criteria: Segregation of duties is a basic building block of sustainable risk management and internal controls of an entity. Proper segregation should be evaluated for all the key processes and accounting areas of an entity. One element of consideration for an entity when evaluating key processes and accounting areas should be to segregate to the extent possible the duties involving access to the General Ledger and subsidiary records, custody over assets, and authorization privileges.

Condition: While performing audit testing, it was noted that manual disbursement checks are being prepared and that the check sequence is not being monitored to ensure that the DDA Board is reviewing and approving all checks written.

In addition, the DDA utilizes QuickBooks accounting software for internal financial reporting. The users of this software have the capability to make changes to the accounting records such as deleting or modifying transactions previously inputted into the system. The software has the capability to track such changes, but currently the DDA hasn't implemented a process to monitor reports generated off the software to detect modifications made to the accounting records.

Cause: The DDA has not properly implemented internal control elements relating to segregation of duties with regard to the accounting processes and use of the accounting software.

Effect: The failure to implement the aforementioned internal controls exposes the DDA to increased risk of misstatement and errors, including potential fraudulent financial reporting or misappropriation of assets.

Recommendation: In order to improve controls, we recommend that the accounting software be used to process all disbursement checks. Someone independent of the disbursement process should then monitor the check sequence to ensure that the DDA Board is reviewing and approving all checks written.

We also suggest establishing responsibility to a person independent of the accounting process within the DDA to monitor reports generated off the software that provide the tracking of activity.

View of responsible officials and corrective action plan: Management is in the process of preparing the view of responsible officials and planned corrected action plan, which will be incorporated in the Supplementary Information to Financial Statements (Federal Awards) to be issued prior to December 31, 2018.

VILLAGE OF LEXINGTON
Sanilac County, Michigan

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

2018-002: Preparation of the financial statements in accordance with generally accepted accounting principles

Type: Material weakness in internal controls over financial reporting.

Criteria: Accounting standards specify that management must design, implement and maintain control-related policies and procedures to assure that financial data is properly assembled, analyzed, classified, recorded, and reported. This includes preparation of the financial statements in accordance with generally accepted accounting principles.

Condition: The Village has historically relied on its independent external auditors for their expertise and technical skills to prepare and present the financial statements in accordance with generally accepted accounting principles, including the footnotes and the government-wide presentation required by GASB Statement No. 34, as part of the annual audit process. Management then reviews the report once it has been prepared but doesn't possess the expertise on-staff to ensure the financial statements and note disclosures are presented in accordance with generally accepted accounting principles.

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's current internal control process.

Recommendation: With the implementation of any internal control procedure both the efficiency and cost must be evaluated with the risk. We recommend that the Village continue to evaluate the risk and cost of not performing this internal control function in-house.

View of responsible officials and corrective action: Management is in the process of preparing the view of responsible officials and planned corrected action plan, which will be incorporated in the Supplementary Information to Financial Statements (Federal Awards) to be issued prior to December 31, 2018.

2018-003: The process for receipting police department tickets should be reviewed.

Type: Significant deficiency in internal controls over financial reporting.

Criteria: The Village should have controls in place to ensure that all police department tickets are properly accounted for.

Condition: The Village currently does not maintain the sequence of tickets issued. The Village does not compare the receipts deposited to the tickets issued to ensure all tickets and funds are accounted for.

**VILLAGE OF LEXINGTON
Sanilac County, Michigan**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

Cause: The Village's process for the receipting of police department tickets does not include maintaining the sequence of all tickets issued and the subsequent comparison of the receipts deposited to the original tickets issued.

Effect: As a result of the condition, the Village is exposed to an increased risk that misstatements, whether through error or fraud, may occur and not be prevented, detected or corrected on a timely basis.

Recommendation: We recommend the Village assign someone independent of the police department to maintain the sequence of tickets issued from the prenumbered ticket book. This record could then be subsequently compared to the receipts deposited by the Village office to ensure all tickets and funds are properly accounted for.

View of responsible officials and corrective action: Management is in the process of preparing the view of responsible officials and planned corrected action plan, which will be incorporated in the Supplementary Information to Financial Statements (Federal Awards) to be issued prior to December 31, 2018.