

VILLAGE OF LEXINGTON, MICHIGAN

**ANNUAL FINANCIAL REPORT
with Supplementary Information**

FOR THE YEAR ENDED JUNE 30, 2011

**Stewart,
Beauvais
& Whipple P.C.**



CERTIFIED PUBLIC ACCOUNTANTS

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

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VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

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INDEPENDENT AUDITOR'S REPORT

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

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, as of and for the year ended June 30, 2011, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

For the year ended June 30, 2011, as discussed in Note 1, the Village implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. As a result, the fund balance classifications have been changed to comply with this statement.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2011, on our consideration of the Village of Lexington's internal control over financial reporting and 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 the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 and schedule of budgetary comparisons on pages 43 through 46 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 combining and individual nonmajor fund, and the General Fund detailed Schedule of budgetary comparison and discretely presented component unit financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund, and the General Fund detailed Schedule of budgetary comparison and discretely presented component unit financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stewart, Bevanis & Whipple

Certified Public Accountants

October 26, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Village of Lexington's annual financial report presents the Village's financial performance during the fiscal year that ended on June 30, 2011. Please read it in conjunction with the Village's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The net cost of all the Village's governmental programs (all funds except for Sewer, Water, and Mobile Home Park) was \$(852,150) with no new programs added this year.
- In the Village's combined business-type activities (Sewer, Water and MHP) revenues were \$1,654,049 (including general revenues) and expenses were \$1,669,380 (including land use fees) resulting in a decrease in net assets before transfers of \$15,331. The decrease in net assets after consideration of transfers of \$(127,702) was \$143,033.
- The Village of Lexington's total debt from borrowing decreased by \$192,070 or 5% during the current fiscal year for business-type activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of four parts – Management's Discussion and Analysis (this section), the Basic Financial Statements, Required Supplementary Information (RSI), and an optional section that presents combining and individual statements for non-major governmental funds and statements for the discretely presented component unit. The basic financial statements include two kinds of statements that present different views of the Village: Government-wide Financial Statements and Fund Financial 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 and provide long and short-term information. The Statement of Net Assets includes all of the governments' assets and liabilities. 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.

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

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

- Governmental activities (all activities except Sewer, Water, and MHP) – most of the Village's basic services are included here, such as general administration, public safety, public works, and parks/recreation. Property taxes/in lieu of property taxes, charges for services, and state funds finance most of these activities.
- Business-type activities – activities where the Village charges fees to customers to help it cover the cost of services it provides; included here is the Sewer, Water and MHP Funds.
- Component unit – although separate, the Downtown Development Authority is important because the Village is financially accountable for it.

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 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. We describe the relationship (or differences) between governmental activities and governmental funds in reconciliation schedules (Statement of Net Assets and Statement of Activities) on pages 14 and 17.
- Proprietary funds - Services for which the Village charges customers a fee (Sewer, Water, and MHP) are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, 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 or the government-wide statements, but provide more detail and information.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

The Village's combined net assets are \$8,590,364. Our analysis below focuses on the net assets (Table 1) of the Village's governmental and business-type activities.

Table 1

Net Assets of Governmental and Business-type Activities
(In Thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Government</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and Other Assets	\$ 924	\$ 1,029	\$ 1,390	\$ 911	\$ 2,314	\$ 1,940
Restricted Assets	-	-	15	-	15	-
Capital Assets	<u>2,115</u>	<u>1,899</u>	<u>8,845</u>	<u>9,169</u>	<u>10,960</u>	<u>11,111</u>
Total Assets	<u>3,039</u>	<u>2,928</u>	<u>10,250</u>	<u>10,080</u>	<u>13,289</u>	<u>13,051</u>
Long-Term Debt Outstanding	296	324	3,384	3,576	3,680	3,900
Other Liabilities	<u>24</u>	<u>17</u>	<u>995</u>	<u>490</u>	<u>1,019</u>	<u>507</u>
Total Liabilities	<u>320</u>	<u>341</u>	<u>4,379</u>	<u>4,066</u>	<u>4,699</u>	<u>4,407</u>
Net Assets: Invested in Capital Assets, net of debt	1,959	1,663	5,380	5,478	7,339	7,184
Restricted	486	575	84	68	570	643
Unrestricted	<u>274</u>	<u>349</u>	<u>407</u>	<u>468</u>	<u>681</u>	<u>817</u>
Total Net Assets	<u>\$ 2,719</u>	<u>\$ 2,587</u>	<u>\$ 5,871</u>	<u>\$ 6,014</u>	<u>\$ 8,590</u>	<u>\$ 8,644</u>

Governmental Activities

Governmental activities for the Village include four major activities: General Government, Public Safety, Public Works, Recreation and Culture, and Other Activities. General Government includes the Legislative, Administrative, and Clerk departments. Public Safety includes the Police and Fire departments. Public Works includes primarily the Department of Public Works and building and maintenance of the major and local roads. The Village Parks and Recreation department comprise the Recreation and Culture activity. Other Activities includes various municipal program expenses (e.g. insurances).

The largest revenue for governmental activities is the general operating property tax at \$541,955. The taxable value of property in the Village was \$46,320,774 in FY 2011. In FY 2010, it was \$48,793,502 with a decrease of \$2,472,728 of 5.1%.

State shared revenue increased from \$69,756 in FY 2010 to \$79,043 in FY 2011. The State of Michigan collects sales tax and redistributes a portion of these collections to local jurisdictions. State Revenue Sharing is a major source of revenue for the Village. It is somewhat volatile since it fluctuates with the economy and the Legislature's appropriation.

To assist in maintenance and repair of the road system, the Village receives Michigan Transportation Fund money that accounted for \$64,868 listed under program revenues. This money varies from year to year based on state established taxes on fuel and consumption at the gasoline pumps.

Table 2 below presents the cost of each of the Village's governmental activities: general government, public safety, public works, and parks/recreation, and each program's net cost (after reimbursements from other funds). The net cost shows the financial burden that was placed on the Village's general fund (primarily from property tax, fees, and State shared revenue) by each of these functions.

Table 2

	<u>Governmental Activities</u>		<u>Governmental Activities</u>	
	<u>2011</u>		<u>2010</u>	
	<u>Total Cost</u>	<u>Net Cost</u>	<u>Total Cost</u>	<u>Net Cost</u>
	<u>Of Services</u>	<u>Of Services</u>	<u>Of Services</u>	<u>Of Services</u>
General Government	\$ 219,723	\$ 195,453	\$ 255,458	\$ 225,505
Public Safety	411,846	331,652	405,022	300,630
Public Works	281,507	89,571	213,448	(12,339)
Health and Welfare	1,417	1,417	7,384	7,384
Recreation and Culture	52,701	45,432	60,833	46,580
Other Activities	175,125	175,125	182,755	182,755
Interest	<u>13,500</u>	<u>13,500</u>	<u>15,062</u>	<u>15,062</u>
Totals	<u>\$ 1,155,819</u>	<u>\$ 852,150</u>	<u>\$ 1,139,962</u>	<u>\$ 765,577</u>

Business-type Activities

The Village has three business-type activities: Water, Sewer and MHP. Revenues of these activities (see Table 3) decreased by \$120,633 or 7.1%. The Village experienced a net asset decrease of \$143,033 for the year ended June 30, 2011.

Table 3
Changes in Net Assets of Business-type Activities

	<u>2011</u>	<u>2010</u>
<u>Revenues:</u>		
Charges for Services	\$ 1,616,890	\$ 1,724,468
Grants and Contributions	35,963	8,894
Other	(175,873)	(153,611)
Total Revenues	1,476,980	1,579,751
<u>Expenses:</u>		
Water, Sewer, MHP	1,492,311	1,306,392
<u>Transfers:</u>	(127,702)	31,224
Increase (Decrease) in Net Assets	<u>\$(143,033)</u>	<u>\$ 304,583</u>

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

As the Village completed the year, its combined governmental funds (as presented in the balance sheet on page 13) reported a combined fund balance of \$899,787 with \$275,323 from the General Fund; \$105,527 from the Local Street, a major fund; \$179,707 from the Municipal Street, a major fund; \$118,004 from the County Road, a major fund; and \$221,226 from other governmental funds.

Budgetary Highlights

The only significant amendment by the Village Council to the original budget passed in June 2010 was in the Municipal Street Fund to decrease Capital Outlay expenditures by \$113,958 due to a decrease in project size. Even though the budget is passed by the Village Council prior to the beginning of the fiscal year, all expenditures are reviewed and approved as they occur throughout the year. During the budget process the Council discusses major projects proposed for the upcoming year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of FY 2011, the Village had a book value of \$10,960,638 invested in a broad range of capital assets, including police, fire and DPW equipment, buildings, park facilities, roads, and water and sewer lines. Refer to Table 4 on the next page for a schedule showing the Capital Assets at year-end for years ending June 30, 2011 and 2010 reporting Governmental and the Business-type activities. There is also a total column for the Total Primary Government for each year.

Table 4
Capital Assets at Year-end
(Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land and land improvements	\$ 320,896	\$ 320,896	\$ 2,682,796	\$ 2,682,796	\$ 3,003,692	\$ 3,003,692
Construction in progress	104,673	89,427	189,945	189,945	294,618	279,372
Buildings and improvements	364,080	346,026	69,389	69,389	433,469	415,415
Machinery and equipment	323,818	293,108	285,304	266,891	609,122	559,999
Vehicles	782,382	747,033	-	-	782,382	747,033
Improvements other than bldg.	1,471,789	1,183,279	-	-	1,471,789	1,183,279
Water and sewer systems	-	-	<u>10,556,690</u>	<u>10,544,099</u>	<u>10,556,690</u>	<u>10,544,099</u>
Total Capital Assets	3,367,638	2,979,769	13,784,124	13,753,120	17,151,762	16,732,889
Total Accumulated Depreciation	<u>1,252,374</u>	<u>1,080,603</u>	<u>4,938,750</u>	<u>4,584,458</u>	<u>6,191,124</u>	<u>5,665,061</u>
Total Capital Assets, Net	<u>\$ 2,115,264</u>	<u>\$ 1,899,166</u>	<u>\$ 8,845,374</u>	<u>\$ 9,168,662</u>	<u>\$ 10,960,638</u>	<u>\$ 11,067,828</u>

This year's major additions included:

Street paving project	\$ 277,026
Police car	24,008
Bath house	18,054
Water/sewer truck	15,994

Debt

At year-end, the Village had \$3,448,528 in bonds and notes outstanding versus \$3,753,288 last year, a decrease of \$304,760 or 8% as shown in Table 5. The net OPEB Obligation was \$155,308 as of June 30, 2011, representing an increase of \$75,546 or 102% over the prior year ending balance.

Table 5
Outstanding Debt at Year-end

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Debt (paid by the Village)	\$ 156,078	\$ 236,003	\$ -	\$ -	\$ 156,078	\$ 236,003
Debt (paid by specific fee revenues)	-	-	<u>3,292,450</u>	<u>3,517,285</u>	<u>3,292,450</u>	<u>3,517,285</u>
Totals	<u>\$ 156,078</u>	<u>\$ 236,003</u>	<u>\$ 3,292,450</u>	<u>\$ 3,517,285</u>	<u>\$ 3,448,528</u>	<u>\$ 3,753,288</u>

More detailed information about the Village's long-term liabilities is presented in Note 8 of Notes to Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Village of Lexington, population 1,178 (2010 census), is primarily a resort community located in Sanilac County, Michigan. The Village's proximity to the Detroit metropolitan area and several major roadways, including Interstate Highway 94, has helped spur recent residential development. The reported median income level for Lexington is currently \$38,824 (2010 census).

In FY 2011, the General Fund posted an increase to fund balance of \$7,020. The current unassigned fund balance for the general fund is \$204,375. The Village, which relies heavily on property taxes (49% of total revenues for governmental funds), operated at the state-authorized tax rate limit after application of Proposal A and Headlee.

The Village has also adopted a General Fund budget for FY 2012 with revenues of \$1,065,961 and expenditures of \$1,026,050. The Village's elected and appointed officials considered many factors when setting the 2012 budget including tax rates, and fees that will be charged for the Village's activities. The revenue from property taxes was budgeted at \$317,241. State Sales Tax was budgeted at \$72,505.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with 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 Jon Kosht, Village Business Manager, by mail at 7227 Huron Avenue, Suite 100, Lexington, MI 48450, phone 810-359-8631, by fax 810-359-5622, or email: lexingtonmanager@att.net.

BASIC FINANCIAL STATEMENTS

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF NET ASSETS JUNE 30, 2011

	Primary Government			Component Unit (DDA)
	Governmental Activities	Business Type Activities	Total	
ASSETS:				
Cash and cash equivalents	\$ 676,005	\$ 576,996	\$ 1,253,001	\$ 300,387
Investments	-	250,000	250,000	-
Receivables (net of allowance)	79,932	652,841	732,773	2,183
Prepaid expenditures	46,987	27,864	74,851	-
Internal balances	118,287	(118,287)	-	-
Due from component units	2,090	-	2,090	-
Restricted Assets -				
Cash and cash equivalents	-	15,484	15,484	-
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	425,569	207,440	633,009	-
Assets being depreciated	1,689,695	8,637,934	10,327,629	53,638
Total Assets	3,038,565	10,250,272	13,288,837	356,208
LIABILITIES:				
Payables and accrued liabilities	23,514	11,955	35,469	90
Accrued interest	559	25,773	26,332	-
Advances and deposits	-	16,800	16,800	-
Due to primary government	-	-	-	2,090
Unearned revenues	-	940,677	940,677	-
Non-current liabilities				
Net OPEB obligation	101,720	53,588	155,308	-
Due within one year	21,587	229,837	251,424	-
Due in more than one year	172,189	3,100,274	3,272,463	-
Total Liabilities	319,569	4,378,904	4,698,473	2,180
NET ASSETS:				
Investment in capital assets, net of related liabilities	1,959,186	5,379,637	7,338,823	53,638
Net Assets				
Restricted -				
Metro authority	29,191	-	29,191	-
Streets	456,748	-	456,748	-
Meter replacement	-	69,286	69,286	-
Equipment replacement	-	15,484	15,484	-
Unrestricted	273,871	406,961	680,832	300,390
Total Net Assets	\$ 2,718,996	\$ 5,871,368	\$ 8,590,364	\$ 354,028

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

VILLAGE OF LEXINGTON, MICHIGAN

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

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	\$ 219,723	\$ 24,270	\$ -	\$ -
Public Safety	411,846	72,470	-	7,724
Public Works	281,507	124,039	67,897	-
Health and Welfare	1,417	-	-	-
Recreation and Culture	52,701	7,269	-	-
Other Activities	175,125	-	-	-
Interest on Long-Term debt	13,500	-	-	-
Total governmental activities	<u>1,155,819</u>	<u>228,048</u>	<u>67,897</u>	<u>7,724</u>
Business type activities:				
Sewer	246,266	290,828	-	-
Water	794,346	614,681	-	35,963
Mobile Home Park	451,699	711,381	-	-
Total business type activities	<u>1,492,311</u>	<u>1,616,890</u>	<u>-</u>	<u>35,963</u>
Total Primary Government	<u>\$ 2,648,130</u>	<u>\$ 1,844,938</u>	<u>\$ 67,897</u>	<u>\$ 43,687</u>
Component Units				
Downtown Development Authority	<u>53,084</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Component Units	<u>\$ 53,084</u>	<u>\$ -</u>	<u>\$ -</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 assets

Net assets at beginning of year

Prior period adjustment

Net assets at beginning of year, as restated

Net assets at end of year

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

Net (Expense) Revenue and Change in Net Assets

Primary Government			
Governmental Activities	Business Type Activities	Total	Component Unit (DDA)
\$(195,453)	\$ -	\$(195,453)	\$ -
(331,652)	-	(331,652)	-
(89,571)	-	(89,571)	-
(1,417)	-	(1,417)	-
(45,432)	-	(45,432)	-
(175,125)	-	(175,125)	-
(13,500)	-	(13,500)	-
<u>(852,150)</u>	<u>-</u>	<u>(852,150)</u>	<u>-</u>
-	44,562	44,562	-
-	(143,702)	(143,702)	-
-	259,682	259,682	-
<u>-</u>	<u>160,542</u>	<u>160,542</u>	<u>-</u>
<u>(852,150)</u>	<u>160,542</u>	<u>(691,608)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(53,084)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(53,084)</u>
541,955	-	541,955	128,139
84,947	-	84,947	-
2,374	1,196	3,570	558
177,069	(177,069)	-	-
<u>137,732</u>	<u>(127,702)</u>	<u>10,030</u>	<u>(10,030)</u>
<u>944,077</u>	<u>(303,575)</u>	<u>640,502</u>	<u>118,667</u>
<u>91,927</u>	<u>(143,033)</u>	<u>(51,106)</u>	<u>65,583</u>
2,587,069	6,014,401	8,601,470	288,445
<u>40,000</u>	<u>-</u>	<u>40,000</u>	<u>-</u>
<u>2,627,069</u>	<u>6,014,401</u>	<u>8,641,470</u>	<u>288,445</u>
<u>\$ 2,718,996</u>	<u>\$ 5,871,368</u>	<u>\$ 8,590,364</u>	<u>\$ 354,028</u>

VILLAGE OF LEXINGTON, MICHIGAN

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	General	Local Street	Municipal Street	County Road
ASSETS				
Assets:				
Cash and cash equivalents	\$ 61,563	\$ 102,395	\$ 181,909	\$ 118,004
Receivables -				
Utilities	13,512	-	-	-
Accounts	23,662	2,520	-	-
Due from other governmental units -				
State	29,460	-	-	-
Local	2,832	-	-	-
Due from other funds	118,287	-	-	-
Due from component unit	1,412	-	565	-
Prepaid expenditures	41,757	1,014	2,575	-
	<u>\$ 292,485</u>	<u>\$ 105,929</u>	<u>\$ 185,049</u>	<u>\$ 118,004</u>
Total Assets	<u>\$ 292,485</u>	<u>\$ 105,929</u>	<u>\$ 185,049</u>	<u>\$ 118,004</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 9,287	\$ 142	\$ 5,342	\$ -
Accrued liabilities	7,875	260	-	-
	<u>17,162</u>	<u>402</u>	<u>5,342</u>	<u>-</u>
Total Liabilities	<u>17,162</u>	<u>402</u>	<u>5,342</u>	<u>-</u>
Fund Balances:				
Nonspendable for:				
Prepays	41,757	1,014	2,575	-
Restricted for:				
Streets	-	104,513	177,132	118,004
Metro Authority	29,191	-	-	-
Committed for:				
Cemetery	-	-	-	-
Capital Items	-	-	-	-
Unassigned:				
General Fund	204,375	-	-	-
Total Equity	<u>275,323</u>	<u>105,527</u>	<u>179,707</u>	<u>118,004</u>
Total Liabilities and Fund Equity	<u>\$ 292,485</u>	<u>\$ 105,929</u>	<u>\$ 185,049</u>	<u>\$ 118,004</u>

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

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 212,134	\$ 676,005
-	13,512
-	26,182
7,946	37,406
-	2,832
-	118,287
113	2,090
<u>1,641</u>	<u>46,987</u>
<u><u>\$ 221,834</u></u>	<u><u>\$ 923,301</u></u>

\$ -	\$ 14,771
<u>608</u>	<u>8,743</u>
<u>608</u>	<u>23,514</u>

1,641	46,987
52,428	452,077
-	29,191
36,255	36,255
130,902	130,902
-	204,375
<u>221,226</u>	<u>899,787</u>
<u><u>\$ 221,834</u></u>	<u><u>\$ 923,301</u></u>

VILLAGE OF LEXINGTON, MICHIGAN

RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Fund Balances - total governmental funds		\$	899,787
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Capital assets			3,367,638
Accumulated depreciation		(	1,252,374)
Long - term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.			
Notes payable	(	156,078)	
Net OPEB obligation	(	101,720)	
Accrued compensated absences	(	37,698)	
Accrued interest	(	559)	
			<u>296,055</u>
Net Assets of governmental activities		\$	<u>2,718,996</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, 2011**

	General	Local Street	Municipal Street	County Road
Revenues:				
Taxes	\$ 313,665	\$ -	\$ 123,488	\$ 80,118
Intergovernmental -				
State	89,796	20,779	-	-
Charges for services	201,094	-	-	-
Fines and forfeits	1,516	-	-	-
Interest and rent	546	170	711	388
Other	194,445	480	-	-
Total Revenues	<u>801,062</u>	<u>21,429</u>	<u>124,199</u>	<u>80,506</u>
Expenditures:				
Current -				
General Government	140,853	-	-	-
Public Safety	391,705	-	-	-
Public Works	-	80,910	-	33,360
Health and Welfare	1,417	-	-	-
Recreation and Cultural	70,159	-	-	-
Other	175,125	-	-	-
Capital Outlay	-	6,475	197,831	90,000
Debt Service				
Principal	28,000	-	-	-
Interest and Fiscal Charges	4,800	-	-	-
Total Expenditures	<u>812,059</u>	<u>87,385</u>	<u>197,831</u>	<u>123,360</u>
Revenues under expenditures	<u>(10,997)</u>	<u>(65,956)</u>	<u>(73,632)</u>	<u>(42,854)</u>
Other Financing Sources (Uses):				
Transfers in	7,987	79,149	56,602	31,431
Transfers out	-	-	-	(55,000)
Transfers in from component unit	10,030	-	-	-
Total Other Financing Sources (Uses)	<u>18,017</u>	<u>79,149</u>	<u>56,602</u>	<u>(23,569)</u>
Net change in Fund Balance	7,020	13,193	(17,030)	(66,423)
Fund Balances at beginning of year	<u>268,303</u>	<u>92,334</u>	<u>196,737</u>	<u>184,427</u>
Fund Balances at end of year	<u>\$ 275,323</u>	<u>\$ 105,527</u>	<u>\$ 179,707</u>	<u>\$ 118,004</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 24,684	\$ 541,955
44,089	154,664
13,353	214,447
-	1,516
559	2,374
133	195,058
<u>82,818</u>	<u>1,110,014</u>
38,192	179,045
-	391,705
65,735	180,005
-	1,417
-	70,159
-	175,125
15,246	309,552
11,925	39,925
8,974	13,774
<u>140,072</u>	<u>1,360,707</u>
<u>(57,254)</u>	<u>(250,693)</u>
47,492	222,661
(39,959)	(94,959)
-	10,030
<u>7,533</u>	<u>137,732</u>
(49,721)	(112,961)
<u>270,947</u>	<u>1,012,748</u>
<u>\$ 221,226</u>	<u>\$ 899,787</u>

VILLAGE OF LEXINGTON, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

Net change in fund balances - total governmental funds		\$(	112,961)
<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			387,869
Depreciation expense		(	171,771)
<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>			
Principal payments on long term liabilities	39,925		
Decrease in accrued interest	274		
Increase in net OPEB obligation	(50,531)		
Increase in accrued compensated absences	(878)	(	<u>11,210)</u>
Change in net assets of governmental activities		\$	<u><u>91,927</u></u>

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

VILLAGE OF LEXINGTON, MICHIGAN

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011**

	Business Type Activities-Enterprise Funds			
	Sewer	Water	Mobile Home Park	Total
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 125,637	\$ 254,136	\$ 197,223	\$ 576,996
Investments	-	250,000	-	250,000
Accounts receivable	48,894	590,250	13,697	652,841
Due from other funds	21,300	-	55,000	76,300
Prepaid expenses	1,890	25,355	619	27,864
Restricted Assets -				
Cash and cash equivalents	-	15,484	-	15,484
Total Current Assets	<u>197,721</u>	<u>1,135,225</u>	<u>266,539</u>	<u>1,599,485</u>
Property, Plant and Equipment:				
Property, plant and equipment	2,130,384	8,740,365	2,723,430	13,594,179
Less - accumulated depreciation	(970,228)	(2,950,554)	(1,017,968)	(4,938,750)
Total Property, Plant and Equipment (net of accumulated depreciation)	<u>1,160,156</u>	<u>5,789,811</u>	<u>1,705,462</u>	<u>8,655,429</u>
Construction in progress	<u>189,945</u>	<u>-</u>	<u>-</u>	<u>189,945</u>
Total Property, plant and equipment (net)	<u>1,350,101</u>	<u>5,789,811</u>	<u>1,705,462</u>	<u>8,845,374</u>
Total Assets	<u>1,547,822</u>	<u>6,925,036</u>	<u>1,972,001</u>	<u>10,444,859</u>
LIABILITIES:				
Current Liabilities:				
Accounts payable	2,693	4,069	1,742	8,504
Accrued expenses	1,075	1,636	740	3,451
Accrued interest	2,366	12,529	10,878	25,773
Bonds payable (current portion)	-	55,000	65,000	120,000
Notes payable (current portion)	18,310	31,176	60,351	109,837
Due to other funds	173,287	21,300	-	194,587
Deposits payable	-	-	16,800	16,800
Unearned revenue	-	924,246	16,431	940,677
Total Current Liabilities	<u>197,731</u>	<u>1,049,956</u>	<u>171,942</u>	<u>1,419,629</u>
Long-Term Liabilities (less current portions):				
Accrued vacation and sick pay	4,567	28,548	4,546	37,661
Net OPEB obligation	11,013	30,096	12,479	53,588
Bonds payable (net of current portion)	-	1,305,000	260,000	1,565,000
Notes payable (net of current portion)	308,490	525,267	663,856	1,497,613
Total Long-Term Liabilities	<u>324,070</u>	<u>1,888,911</u>	<u>940,881</u>	<u>3,153,862</u>
Total Liabilities	<u>521,801</u>	<u>2,938,867</u>	<u>1,112,823</u>	<u>4,573,491</u>
NET ASSETS:				
Investment in capital assets, net of related liabilities	850,014	3,873,368	656,255	5,379,637
Restricted for meter replacement	34,495	34,791	-	69,286
Restricted for equipment replacement	-	15,484	-	15,484
Unrestricted	<u>141,512</u>	<u>62,526</u>	<u>202,923</u>	<u>406,961</u>
Total Net Assets	<u>\$ 1,026,021</u>	<u>\$ 3,986,169</u>	<u>\$ 859,178</u>	<u>\$ 5,871,368</u>

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

VILLAGE OF LEXINGTON, MICHIGAN

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	Business Type Activities-Enterprise Funds			
	Sewer	Water	Mobile Home Park	Total
Operating Revenues:				
Charges for services	\$ 281,477	\$ 578,481	\$ 709,191	\$ 1,569,149
Other	276	2,208	2,190	4,674
Total Operating Revenues	<u>281,753</u>	<u>580,689</u>	<u>711,381</u>	<u>1,573,823</u>
Operating Expenses:				
Salaries	42,848	123,075	42,693	208,616
Fringe benefits	25,127	57,201	19,206	101,534
Post employment benefits	5,754	16,528	5,733	28,015
Administrative fees	17,484	40,872	61,984	120,340
Contracted services	11,396	19,551	14,817	45,764
Insurance	233	13,462	186	13,881
Repairs and maintenance	4,931	22,432	6,337	33,700
Equipment rental	19,457	2,753	6,869	29,079
Supplies	5,231	36,059	7,232	48,522
Utilities	34,402	41,448	74,283	150,133
Rubbish expenditures	-	-	31,873	31,873
Mobile home park taxes	-	-	42,961	42,961
Flow back charges	-	9,300	-	9,300
Miscellaneous	12,023	9,234	1,419	22,676
Bad debts	-	116,274	-	116,274
Depreciation	53,005	227,337	77,850	358,192
Total Operating Expenses	<u>231,891</u>	<u>735,526</u>	<u>393,443</u>	<u>1,360,860</u>
Operating Income (Loss)	<u>49,862</u>	<u>(154,837)</u>	<u>317,938</u>	<u>212,963</u>
Non-Operating Revenues (Expenses):				
Interest income	179	747	270	1,196
Interest expense and fiscal charges	(14,375)	(58,820)	(58,256)	(131,451)
Tap-in fees	421	1,185	-	1,606
Meter charge	8,654	8,955	-	17,609
Land use fee	-	-	(177,069)	(177,069)
Antenna leases	-	23,852	-	23,852
Total Non-Operating Revenues (Expenses)	<u>(5,121)</u>	<u>(24,081)</u>	<u>(235,055)</u>	<u>(264,257)</u>
Net Income (Loss) Before Contribution and Transfers	44,741	(178,918)	82,883	(51,294)
Capital Contribution:				
Non-Village customers	-	35,963	-	35,963
Transfers:				
Transfers out	-	-	(127,702)	(127,702)
Change in Net Assets	44,741	(142,955)	(44,819)	(143,033)
Net Assets at beginning of year	<u>981,280</u>	<u>4,129,124</u>	<u>903,997</u>	<u>6,014,401</u>
Net Assets end of year	<u>\$ 1,026,021</u>	<u>\$ 3,986,169</u>	<u>\$ 859,178</u>	<u>\$ 5,871,368</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, 2011**

	Business Type Activities-Enterprise Funds			
	Sewer	Water	Mobile Home Park	Total
Cash Flows From Operating Activities:				
Cash receipts from customers	\$ 274,262	\$ 658,060	\$ 726,062	\$ 1,658,384
Cash payments to suppliers	(103,690)	(192,004)	(255,018)	(550,712)
Cash payments to employees	(67,595)	(177,273)	(54,495)	(299,363)
Cash (payments) reimbursements for interfund services used/provided	(9,300)	9,300	-	-
Net Cash Provided by Operating Activities	<u>93,677</u>	<u>298,083</u>	<u>416,549</u>	<u>808,309</u>
Cash Flows From Non-capital Financing Activities:				
Land use fee	-	-	(177,069)	(177,069)
Transfers from/to other funds	-	-	(127,702)	(127,702)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>-</u>	<u>-</u>	<u>(304,771)</u>	<u>(304,771)</u>
Cash Flows From Capital and Related Financing Activities:				
Bond and note payments	(18,309)	(86,176)	(120,350)	(224,835)
Interest payments	(14,508)	(59,389)	(59,581)	(133,478)
Tap-in fees	421	1,185	-	1,606
Meter charge	8,654	8,955	-	17,609
Antenna leases	-	23,852	-	23,852
Equipment replacement fees	-	35,963	-	35,963
Acquisition and construction of capital assets	(20,588)	(7,997)	(6,319)	(34,904)
Net Cash Used by Capital and Related Financing Activities	<u>(44,330)</u>	<u>(83,607)</u>	<u>(186,250)</u>	<u>(314,187)</u>
Cash Flows From Investing Activities:				
Interest earned	179	747	270	1,196
Net Cash Provided by Investing Activities	<u>179</u>	<u>747</u>	<u>270</u>	<u>1,196</u>
Net Increase (Decrease) in Cash and Cash Equivalents	49,526	215,223	(74,202)	190,547
Cash and Cash Equivalents at Beginning of Year	<u>76,111</u>	<u>54,397</u>	<u>271,425</u>	<u>401,933</u>
Cash and Cash Equivalents at End of Year	<u>\$ 125,637</u>	<u>\$ 269,620</u>	<u>\$ 197,223</u>	<u>\$ 592,480</u>
Reconciliation of Net Income to Net Cash Provided by Operating Activities:				
Operating income (loss) for the year	\$ 49,862	\$(154,837)	\$ 317,938	\$ 212,963
Adjustments to reconcile operating income (loss) to net cash provided by operating activities -				
Depreciation	53,005	227,337	77,850	358,192
Accounts receivable written off	-	116,273	-	116,273
Changes in assets and liabilities-				
Receivables	(7,491)	(421,874)	7,341	(422,024)
Due from/to other funds, net	(9,300)	9,300	-	-
Prepaid expenses	(764)	3,526	(146)	2,616
Accounts payable/accrued expenses	2,611	2,584	493	5,688
Unearned revenue	-	499,246	2,760	502,006
Net OPEB obligation	5,754	16,528	5,733	28,015
Deposits	-	-	4,580	4,580
Net Cash Provided By Operating Activities	<u>\$ 93,677</u>	<u>\$ 298,083</u>	<u>\$ 416,549</u>	<u>\$ 808,309</u>

The accompanying notes are an integral part of the financial statements

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity -

The Village of Lexington, Michigan, was incorporated as a General Law Village in 1855, under provisions of the constitution and general law of the State of Michigan, 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 more than 1,104 residents in many areas including law enforcement, water, sewer, cemetery and parks and recreation.

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 Council, 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 financial plans. The annual operating budget and any modification also requires 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.

JOINT VENTURE -

VILLAGE OF LEXINGTON BUILDING AUTHORITY - The Authority was created in 1979 to facilitate the financing, construction and operation of a municipal building for the use of both the Village and the Township of Lexington. The Authority operates under a board of commissioners consisting of 3 members appointed by the Village Council. Financing of the Authority, to include debt retirement and operational expenses consists of the Village contributing 80% and the Township 20%. The transactions of the Building Authority are subject to a separate audit and are not included in this report. The Authority's audit can be obtained by contacting the Authority office at 7227 Huron Avenue, Suite 100, Lexington, Michigan 48450.

B. Government-wide and fund financial statements -

The government-wide financial statements (i.e., the statement of net assets 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 removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

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*.

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual proprietary 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 judgments, are recorded only when payment is due.

State shared revenue, licenses, and interest 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 due. All other revenue items are considered to be measurable and available only when cash is received by the government.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

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.

Local Street Fund - is used to account for Act 51 money restricted for local street maintenance and improvements.

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.

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 government reports the following fund types:

Special Revenue Funds - are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects.

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

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.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for the business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating 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 sale, rent and services. Operating expenses for Enterprise Funds include costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity -

Deposits and Investments -

The Village maintains a common checking account for its funds. Each participating fund reports its share separately. To the extent that some funds have negative balances in their share of common cash, such negative balances represent temporary interfund borrowings and, at June 30, have been recorded as interfund payables to funds with positive balances.

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 financial institution pooled funds. The financial institution pooled funds 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.

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".

Advances from other funds, as reported in the fund financial statements, are offset by a fund balance classification of nonspendable for the amount of the advance outstanding.

All trade and property tax receivables are shown net of an allowance for uncollectible.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

Inventories and Prepaid Items -

Inventories of governmental funds are recorded as expenditures when purchased.

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, as adjusted by the March and July Board of Reviews. Taxes are collected through September 14.

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. 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 two years. 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 assets 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.

As permitted by GASB Statement No. 34, the Village has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to July 1, 2003.

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.

	<u>Years</u>
Building/Improvements	40
Utility Systems	40
Road Systems/Other	
Infrastructure	8-25
Equipment	5-40

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

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 assets. Bond premiums and discounts, as well as issuance costs, 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund 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 cannot be spent based on its form or because it must be maintained intact.

Restricted fund balance – limitations imposed on use by external sources.

Committed fund balance – amounts that can only be used for specific purposes pursuant to constraints imposed by formal action via Council resolution (e.g. 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.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

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. If unrestricted resources are used and the expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the Village's policy to use committed first, then assigned, and then unassigned.

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.

Accounting Change -

For the year ended June 30, 2011, the Village implemented Government Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Information -

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.

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.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

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

Michigan Public Acts 621 of 1978, Section 18(1), as amended, provides that a local government unit shall not incur expenditures in excess of the amount appropriated.

During fiscal year ended June 30, 2011, the Village incurred expenditures in the General and Special Revenue Funds of the primary government and the Special Revenue Fund of the Downtown Development Authority, which were in excess of the amounts appropriated as follows:

	Final Amended Budget	Amount Expended	Budget Variance
Primary Government -			
General Fund -			
General Government	\$ 140,489	\$ 140,853	\$ 364
Public Safety	365,885	391,705	25,820
Recreation and Culture	63,667	70,159	6,492
Local Street Fund -			
Public Works	79,990	80,910	920
Municipal Street Fund -			
Capital Outlay	197,042	197,831	789
County Road Fund -			
Public Works	32,970	33,360	390
Cemetery Fund -			
Transfers Out	-	7,987	7,987
Component Unit -			
Downtown Development Authority -			
Public Works	54,402	54,951	549

NOTE 3 - DEPOSITS AND INVESTMENTS:

As of June 30, 2011, the carrying amount of the deposits and investments is as follows:

	Primary Government	Component Units	Total
Deposits -			
Cash on hand -			
Petty Cash	\$ 400	\$ -	\$ 400
Deposits with Financial Institutions -			
Checking	1,076,190	300,387	1,376,577
Savings/Certificates of Deposit	250,000	-	250,000
Total Deposits	<u>1,326,190</u>	<u>300,387</u>	<u>1,626,577</u>
Investments -			
Investment Trust Fund	191,895	-	191,895
	<u>\$ 1,518,485</u>	<u>\$ 300,387</u>	<u>\$ 1,818,872</u>

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

Reconciliation to Combined Balance Sheet -			
Reported as Cash and Cash Equivalents			
Petty Cash	\$ 400	\$ -	\$ 400
Cash in Checking	1,076,190	300,387	1,376,577
Investment Trust Fund	<u>191,895</u>	<u>-</u>	<u>191,895</u>
	1,268,485	300,387	1,568,872
Reported as Investments -			
Certificates of Deposit	<u>250,000</u>	<u>-</u>	<u>250,000</u>
	<u>\$ 1,518,485</u>	<u>\$ 300,387</u>	<u>\$ 1,818,872</u>

Deposits -

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.

Deposit insurance regulations provide that deposits of governmental units are to be separately insured for an unlimited amount for all non-interest bearing accounts (only if governments can make an unlimited number of transfers/withdrawals and advance notice of withdrawals are not required) and \$250,000 for all interest bearing savings and demand deposits. Money Market and NOW accounts do not qualify for unlimited insurance.

As of June 30, 2011, the bank balance of the Village's deposits was \$1,708,636, which was insured by depository insurance.

Investments -

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 or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grades by not less than one standard rating service, 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 3657, 129.111 to 129.118; investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

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.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

As of June 30, 2011, the Village of Lexington had \$191,895 invested in The Michigan Liquid Asset Fund Plus - Money Market Fund. The fund invests in asset-backed commercial paper, commercial paper, U.S. Government and agency obligations and repurchase agreements. The Michigan Liquid Assets Fund Plus - Money Market Fund has the rating from Standard & Poor's of AAAM.

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.

As of June 30, 2011, the Village has \$191,895 invested in the Michigan Liquid Asset Fund Plus (MILAF+), an external investment pool. The fund portfolios are offered exclusively to Michigan School Districts and Municipalities.

The investment pool has been reported in the financial statements as a cash equivalent because it has 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.

Interest Rate Risk - Investments - is the risk that the value of investments will decrease as a result of a rise in interest rates. The Michigan Liquid Asset Fund Plus - Money Market Fund investment purchases have several maturities. The portfolio seeks to maintain a net asset value of \$1.00 per share. The Village 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 other than the Michigan Liquid Asset Fund Plus - Money Market Fund have the following range of maturity dates:

	Maturity (Years)		
	Fair Value	<1	1-5
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 2011 had a taxable value of \$46,320,774. The millage rates levied by the Village were 7.7309 for General Operating, 3.0922 for Municipal Streets and 0.6182 for Cemetery.

The County of Sanilac 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 is levied by the County of Sanilac and distributed to the Cities, Villages and Townships of the County.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5 - RECEIVABLES:

	Governmental Activities	Business-type Activities
Accounts	\$ 39,694	\$ 652,841
Intergovernmental	40,238	-
	\$ 79,932	\$ 652,841

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year there was no deferred revenue relating to the governmental activities of the Village.

NOTE 6 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS:

Interfund receivable and payable balances described as Due From and Due To Other Funds on the Balance Sheet reflect amounts due or owed to a particular fund by another fund of the Village. These amounts include only short-term obligations on open accounts, and not current portions of long-term loans. A summary of these balances by fund type at June 30, 2011, is as follows:

	Due From	Due To
Due To/From:		
Primary Government		
General Fund -		
Sewer Fund (Enterprise Fund)	\$ 118,287	\$ -
Mobile Home Park Fund -		
Sewer Fund (Enterprise Fund)	55,000	-
Enterprise Fund - Sewer Fund -		
General Fund	-	118,287
Water Fund (Enterprise Fund)	21,300	-
Mobile Home Park Fund (Enterprise Fund)	-	55,000
Enterprise Fund - Water Fund -		
Sewer Fund (Enterprise Fund)	-	21,300
	\$ 194,587	\$ 194,587
Due To/From Component Unit:		
General Fund	\$ 1,412	\$ -
Municipal Street Fund	565	-
Cemetery Fund	113	-
Downtown Development Authority	-	2,090
	\$ 2,090	\$ 2,090

The amounts due between funds are to reclassify certain expenses and record transfers between funds.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS - (cont'd):

Transfers In and Out

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Primary government		
General Fund	Cemetery Fund	\$ 7,987 (1)
Major Street Fund	Mobile Home Park Fund	11,846 (1)
Local Street Fund	County Road Fund	55,000 (1)
Local Street Fund	Major Street Fund	11,073 (2)
Local Street Fund	Mobile Home Park Fund	13,076 (1)
Municipal Street Fund	Mobile Home Park Fund	56,602 (1)
County Road Fund	Mobile Home Park Fund	31,431 (1)
Cemetery Fund	Mobile Home Park Fund	10,943 (1)
Capital Project Fund	Mobile Home Park Fund	3,804 (1)
Debt Service Fund	Capital Project Fund	<u>20,899 (3)</u>
		<u>\$ 222,661</u>

Transfers from Component Unit:

General Fund	Downtown Development Authority	<u>\$ 10,030 (1)</u>
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- (1) To support operations
- (2) Application of Act 51 revenue allocation
- (3) To support payment of related debt

NOTE 7 - CAPITAL ASSETS:

Primary Government

Capital asset activity of the primary government for the year ended June 30, 2011 was as follows:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 320,896	\$ -	\$ -	\$ 320,896
Construction in progress	<u>89,427</u>	<u>15,246</u>	<u>-</u>	<u>104,673</u>
Total capital assets, not being depreciated	<u>410,323</u>	<u>15,246</u>	<u>-</u>	<u>425,569</u>
Capital assets, being depreciated:				
Buildings and building improvements	346,026	18,054	-	364,080
Improvements other than buildings	1,183,279	288,510	-	1,471,789
Machinery and equipment	293,108	30,710	-	323,818
Vehicles	<u>747,033</u>	<u>35,349</u>	<u>-</u>	<u>782,382</u>
Total capital assets being depreciated	<u>2,569,446</u>	<u>372,623</u>	<u>-</u>	<u>2,942,069</u>
Less accumulated depreciation for:				
Buildings and building improvements	274,505	7,215	-	281,720
Improvements other than buildings	180,680	78,210	-	258,890
Machinery and equipment	212,360	33,663	-	246,023
Vehicles	<u>413,058</u>	<u>52,683</u>	<u>-</u>	<u>465,741</u>
Total accumulated depreciation	<u>1,080,603</u>	<u>171,771</u>	<u>-</u>	<u>1,252,374</u>
Total capital assets being depreciated, net	<u>1,488,843</u>	<u>200,852</u>	<u>-</u>	<u>1,689,695</u>
Governmental activities capital assets, net	<u>\$ 1,899,166</u>	<u>\$ 216,098</u>	<u>\$ -</u>	<u>\$ 2,115,264</u>

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

	Balance <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2011</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 17,495	\$ -	\$ -	\$ 17,495
Construction in progress	<u>189,945</u>	<u>-</u>	<u>-</u>	<u>189,945</u>
Total capital assets, not being depreciated	<u>207,440</u>	<u>-</u>	<u>-</u>	<u>207,440</u>
Capital assets, being depreciated:				
Buildings and improvements	69,389	-	-	69,389
Mobile home park	2,665,301	-	-	2,665,301
Utility systems	10,544,099	12,591	-	10,556,690
Machinery and equipment	<u>266,891</u>	<u>22,313</u>	<u>3,900</u>	<u>285,304</u>
Total capital assets being depreciated	<u>13,545,680</u>	<u>34,904</u>	<u>3,900</u>	<u>13,576,684</u>
Less accumulated depreciation for:				
Buildings and improvements	28,622	1,930	-	30,552
Mobile home park	901,137	75,501	-	976,638
Utility systems	3,520,080	262,963	-	3,783,043
Machinery and equipment	<u>134,619</u>	<u>17,798</u>	<u>3,900</u>	<u>148,517</u>
Total accumulated depreciation	<u>4,584,458</u>	<u>358,192</u>	<u>3,900</u>	<u>4,938,750</u>
Total capital assets being depreciated, net	<u>8,961,222</u>	<u>(323,288)</u>	<u>-</u>	<u>8,637,934</u>
Business activities capital assets, net	<u>\$ 9,168,662</u>	<u>\$(323,288)</u>	<u>\$ -</u>	<u>\$ 8,845,374</u>
Discretely Presented Component Unit:				
Capital assets, being depreciated:				
Leasehold improvements	\$ 3,409	\$ 1,420	\$ -	\$ 4,829
Building and improvements	-	12,330	-	12,330
Improvements other than buildings	<u>39,526</u>	<u>-</u>	<u>-</u>	<u>39,526</u>
Total capital assets being depreciated	<u>42,935</u>	<u>13,750</u>	<u>-</u>	<u>56,685</u>
Less accumulated depreciation for:				
Leasehold improvements	\$ -	\$ 454	\$ -	\$ 454
Buildings and improvements	-	617	-	617
Improvements other than buildings	<u>-</u>	<u>1,976</u>	<u>-</u>	<u>1,976</u>
Total accumulated depreciation	<u>-</u>	<u>3,047</u>	<u>-</u>	<u>3,047</u>
Component unit capital assets, net	<u>\$ 42,935</u>	<u>\$ 10,703</u>	<u>\$ -</u>	<u>\$ 53,638</u>

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

Governmental Activities:	
General Government	\$ 44,537
Public Safety	46,841
Public Works	71,869
Recreation and Cultural	<u>8,524</u>
Total Depreciation Expense-Governmental activities	<u>\$ 171,771</u>
Business-type Activities:	
Sewer	\$ 53,005
Water	227,337
Mobile Home Park	<u>77,850</u>
Total Depreciation Expense-Business-type Activities	<u>\$ 358,192</u>

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 8 - LONG-TERM LIABILITIES:

PRIMARY GOVERNMENT -

The following is a summary of changes in the long-term liabilities (including current portions) of the Primary Government for the year ended June 30, 2011:

	Restated Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due Within One Year
<u>Governmental Activities:</u>					
Governmental Funds -					
Installment purchase - Land	\$ 133,603	\$ -	\$ 11,925	\$ 121,678	\$ 12,787
Capital lease payable	62,400	-	28,000	34,400	8,800
Net OPEB Obligation	51,189	50,531	-	101,720	-
Accrued sick and vacation	<u>36,820</u>	<u>878</u>	<u>-</u>	<u>37,698</u>	<u>-</u>
Total Governmental Funds	<u>284,012</u>	<u>51,409</u>	<u>39,925</u>	<u>295,496</u>	<u>21,587</u>
<u>Business-type Activities:</u>					
2002 Promissory Note (MHP)	784,557	-	60,350	724,207	60,351
1996 General Obligation Unlimited					
Tax (Mobile Home Park)	385,000	-	60,000	325,000	65,000
1999 WSS Bonds/Contracts Payable	1,415,000	-	55,000	1,360,000	55,000
2003 Promissory Note (Water/Sewer)	932,728	-	49,485	883,243	49,486
Net OPEB Obligation	25,573	28,015	-	53,588	-
Accrued sick and vacation	<u>32,911</u>	<u>4,750</u>	<u>-</u>	<u>37,661</u>	<u>-</u>
Total Business-type Activities	<u>3,575,769</u>	<u>32,765</u>	<u>224,835</u>	<u>3,383,699</u>	<u>229,837</u>
	<u>\$ 3,859,781</u>	<u>\$ 84,174</u>	<u>\$ 264,760</u>	<u>\$ 3,679,195</u>	<u>\$ 251,424</u>

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

Installment Purchase:

The Village purchased property on December 23, 2008.

The installments are payable on the 23rd of each month through December 23, 2018 in the amount of \$1,742, including interest at an interest rate of 7 percent. See Note 10 for additional information.

\$ 121,678

Capital Lease Payable:

The Village entered into a long-term lease agreement with the Village of Lexington's Building Authority. See Note 9 for additional information. The June 30, 2010 balance has been restated to reflect a prior period adjustment of \$40,000 to reduce the lease obligation as described in Note 17.

\$ 34,400

Net OPEB Obligation:

In addition to the pension benefits, the Village provides postemployment healthcare benefits for eligible employees as described in Note 12. The governmental activities portion of \$101,720 as well as the enterprise funds' portion of \$53,588 has been recorded in the government-wide financial statements as a long-term liability.

\$ 155,308

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 8 - LONG-TERM LIABILITIES - (cont'd):

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 \$37,698 as well as the enterprise funds' portion of \$37,661 has been recorded in the government-wide financial statements as a long-term liability.

\$ 75,359

1996 General Obligation Unlimited Tax Bonds:

The \$995,000 1996 General Obligation Unlimited Tax Bonds, dated March 1, 1996, were issued for public improvements at the Village's campground and mobile home park. Annual principal payments of \$65,000 through October 1, 2015, with interest ranging from 5.30 to 5.35 percent payable semi-annually. It is the intention of the Village Council to pay the obligation from operating revenue.

\$ 325,000

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.

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 semiannually.

\$ 1,360,000

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 8 - LONG-TERM LIABILITIES - (cont'd):

The annual requirement for the 1996 General Obligation Bond and Drinking Water Revolving Loan are as follows:

<u>Year</u>	<u>1996 General Obligation Bond</u>		<u>Drinking Water Revolving Loan</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 65,000	\$ 15,633	\$ 55,000	\$ 33,313
2013	65,000	12,171	60,000	31,875
2014	65,000	8,694	60,000	30,375
2015	65,000	5,217	60,000	28,875
2016	65,000	1,739	65,000	27,312
2017-2021	-	-	335,000	111,938
2022-2026	-	-	385,000	66,938
2027-2031	-	-	340,000	17,375
	<u>\$ 325,000</u>	<u>\$ 43,454</u>	<u>\$ 1,360,000</u>	<u>\$ 348,001</u>

SDS and WSS Revenue Bonds Refinanced:

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 \$60,350.

\$ 724,207

SDS and WSS Revenue Bonds Refinanced -

In August 2003 the Village of Lexington refinanced its 1984 SDS Revenue Bond of \$540,000, 1993 A WSS Revenue Bonds of \$95,000 and 1993 B WSS Revenue Bonds of \$755,000 for constructing and improvements to the sewer and water system with a promissory note. The principal refinanced was \$1,229,643 at an interest rate of 4.25%, due semi-annually. Principal payments are due annually based on an amortization schedule of twenty five years starting September 1, 2004, in the amount of \$49,486 with a lump sum of \$784,271 due on September 1, 2013.

\$ 883,243

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 8 - LONG-TERM LIABILITIES - (cont'd):

The annual requirements to amortize the 2002 and 2003 promissory note obligations outstanding at June 30, 2011 are as follows:

<u>Year</u>	<u>2002 Promissory Note</u>		<u>2003 Promissory Note</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 60,351	\$ 34,065	\$ 49,486	\$ 37,100
2013	60,350	30,822	49,486	34,870
2014	60,351	27,579	784,271	32,737
2015	60,350	24,398	-	-
2016	60,351	21,093	-	-
2017-2021	301,753	56,845	-	-
2022-2023	120,701	1,635	-	-
	<u>\$ 724,207</u>	<u>\$ 196,437</u>	<u>\$ 883,243</u>	<u>\$ 104,707</u>

NOTE 9 - BUILDING AUTHORITY LEASE:

The Village entered into a lease agreement with the Village of Lexington Building Authority to help finance the payment of debt and maintenance on the municipal building. Upon retirement of the debt, title of the building will transfer to both the Village and the Township of Lexington as tenants in common reflecting an 80%, 20% interest, respectively. In accordance with FASB Statement 13, the building (80%) is recorded in the financial statements of the Village at a cost of \$228,000 and accumulated depreciation of \$168,435.

Future minimum lease payments of the Village's portion of the debt owed on the building are as follows:

<u>Year Ended</u> <u>June 30,</u>	
2012	\$ 10,520
2013	10,880
2014	11,200
2015	<u>5,880</u>
	38,480
Less - interest	(4,080)
Long-Term Lease Payable	<u>\$ 34,400</u>

Following is a summary of the Government-wide Statement of Net Assets and Government-wide Statement of Activities of the Village of Lexington Building Authority as of and for the fiscal year ended June 30, 2011:

Assets	\$ 75,469
Liabilities	<u>43,000</u>
Net Assets	<u>\$ 32,469</u>
Revenues	\$ 22,383
Expenses	(35,461)
Change in Net Assets	<u>\$(13,078)</u>
Prior Period Adjustment	<u>\$(50,000)</u>

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 10 - LAND PURCHASE AGREEMENT:

The Village entered into a Land installment purchase contract on December 23, 2008 in the amount of \$187,500. \$150,000 to be paid in monthly installments of \$1,742, including interest at an interest rate of 7%. The installment payments are due the 23rd of each month to December 23, 2018. There shall be no prepayment of the agreement within the first 5 years except in the event any portion of the property purchased is sold by the Village, then 75% of the purchase price of that portion sold shall be applied to the principal of the installment contract. When the Village develops and constructs a cemetery on this property, the Village is liable to provide the seller with twenty (20) cemetery lots (4'x8') at no cost to the seller. The outstanding balance of the installment contract at year end was \$121,678.

Future minimum installment payments of the Village owed on the purchase contract are as follows:

Year Ended <u>June 30,</u>	
2012	\$ 20,900
2013	20,900
2014	20,900
2015	20,900
2016	20,900
2017-2018	<u>52,201</u>
	156,701
Less - Interest	<u>(35,023)</u>
Long-term Installment Payments	<u>\$ 121,678</u>

NOTE 11 - EMPLOYEE PENSION PLAN:

Plan Description -

The Village of Lexington participates in the Municipal Employees Retirement System (MERS); a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. 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 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The plan adopted by the Village Council requires members to contribute 5% of their annual compensation. The Village is required to contribute at an actuarially determined rate for general employees. The contribution requirements of plan members and the Village are established and may be amended by the Village, depending on the MERS contribution program adopted by the Village.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 11 - EMPLOYEE PENSION PLAN - (cont'd):

Annual Pension Costs -

For fiscal 2011, the Village's annual pension cost of \$61,633 for the Plan was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2009 actuarial valuations using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% (b) projected salary increases of 4.5% per year annually attributable to inflation (c) additional projected salary increases ranging from 4.5% to 12.90% per year, depending on an age related scale to reflect merit, longevity, and promotional salary increases. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes an adjustment to reflect market value. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 29 years for positive unfunded liabilities and 10 years for negative unfunded liabilities. The amortization period for positive unfunded liabilities will reduce by one year until reaching an amortization period of 20 years, which will be reestablished with each annual valuation. The 10 year amortization period for negative unfunded liabilities will be reestablished with each annual valuation.

Three-Year Trend Information

Fiscal Year Ending,	Annual Pension Costs (APC)	Percentage of APC Contribution	Net Pension Obligation
June 30, 2009	\$ 54,075	100 %	\$ -
June 30, 2010	58,328	100	-
June 30, 2011	61,633	100	-

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio AAL (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2008	\$ 1,181,868	\$ 1,678,242	\$ 496,374	70 %	\$ 491,022	101 %
2009	1,293,117	1,794,342	501,225	72	493,299	102
2010	1,419,430	1,920,242	500,812	74	493,991	101

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS:

Plan Description -

In addition to the pension benefits described in Note 11, the Village of Lexington provides post-retirement health insurance for any employee that retires on or after attaining age 55 with a minimum of 25 years of continued employment with the Village through a single-employer defined benefit health care plan.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS - (cont'd):

Funding Policy -

The Village recognizes the cost of providing these benefits on a “pay-as-you-go” basis, except in the government-wide statements and the proprietary funds where the unfunded annual required contributions (ARC) is recorded as a long-term liability. The plan requires no member contributions at this time.

Annual OPEB Cost and Net OPEB Obligation -

The Village’s annual other postemployment benefits (OPEB) cost is based on the annual required contribution of the employer (ARC), an amount calculated in accordance with the alternative measurement method permitted by GASB No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents the level of funding necessary to cover the normal cost each year and the amortization of any unfunded actuarial liabilities (or funding excess) amortized over a period of thirty years. The Village’s annual OPEB cost for the year, the amount actually contributed, and changes in net OPEB obligation are as follows:

	<u>Primary Government</u>
Annual required contribution	\$ 122,802
Interest on net OPEB obligation	3,838
Adjustment to annual required contribution	(4,994)
Annual OPEB cost (expense)	121,646
Contributions made	(43,100)
Increase in net OPEB obligation	78,546
Net OPEB obligation - beginning of year	<u>76,762</u>
Net OPEB obligation - end of year	<u>\$ 155,308</u>

Funded Status and Progress -

The projection of future benefit payments for an obligation for an ongoing plan involves estimates for the value of reported amounts and assumptions about the probability or occurrence of events far into the future. Amounts determined regarding the funding 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.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (AAL) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c
6/30/10	\$ -	\$ 1,490,516	\$ 1,490,516	- %	\$ 493,299	302.2 %

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS - (cont'd):

Schedule of Employer Contributions

Year Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2010	\$ 122,802	37 %	\$ 76,762
2011	121,646	35	155,308

Methods and Assumptions -

The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculation.

The benefit costs were developed using the individual entry age actuarial cost method. The actuarial assumptions included (a) 5% net investment rate of return, (b) 5% discount rate, (c) projected health care cost increases of 3.9% to 6.8%, (d) life expectancies for males and females of 76 and 81 years, respectively, and (e) 25 years minimum service with the Village have been met.

The assumptions and determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

NOTE 13 - WATER REVENUE DISPUTE SETTLEMENT:

The Village of Lexington through a contract (Interlocal Water Supply Agreement) dated November 13, 2001 sold water to the Lexington-Worth Townships Utilities Authority (LWTUA). In September 2009 both parties filed suit against each other asserting that certain terms of the agreement were breached. On December 28, 2010, the Village and the LWTUA reached a settlement agreement. Under the terms of the settlement the Village was unable to recover \$116,274 of the disputed amount of \$243,992 which had been recognized as revenue in prior years. As a result, the Village has recognized a bad debt expense of \$116,274 for the year ended June 30, 2011.

NOTE 14 - EXTERNAL SALE OF WATER:

In addition to the sale of water to Village residents, the Village sells water through contracts with the Lexington-Worth Townships Utility Authority (LWTUA) and Sanilac Township. The contract with the LWTUA requires monthly payments for usage based on flow times a specified fixed unit rate per thousand gallons. In addition, the contract requires the LWTUA to make quarterly payments of \$11,727 to the Village to be maintained in a reserve for equipment replacement account. The quarterly payments are to be made on January 1, April 1, July 1, and October 1. The reserve account will be utilized for LWTUA's share of water treatment plant related equipment replacement and associated labor. The balance of this reserve account at June 30, 2011 reported in the Village Water Fund is \$15,484. Also, the contract requires the LWTUA 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 LWTUA average annual debt service share. The Village has recorded in the Water Fund a receivable and corresponding unearned revenue of \$512,519 at June 30, 2011 to account for the future debt service principle requirements.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 14 - EXTERNAL SALE OF WATER - (cont'd):

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 it being amortized over the twenty years effective July 1, 2008. The unearned revenue balance for this reserved capacity at June 30, 2011 is \$400,000.

NOTE 15 - RESTRICTED ASSETS:

The restricted assets of \$15,484 in the Water Fund are for equipment replacement.

NOTE 16 - 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.

NOTE 17 - PRIOR PERIOD ADJUSTMENT:

A prior period adjustment for \$40,000 has been made in the government-wide financial statements to correct the portion of the Village's lease payable considered overstated at June 30, 2010.

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, 2011**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 320,793	\$ 312,254	\$ 313,665	\$ 1,411
Intergovernmental - State	70,797	70,631	89,796	19,165
Charges for services	239,806	203,581	201,094	(2,487)
Fines and forfeits	-	-	1,516	1,516
Interest and rents	18,000	30,985	546	(30,439)
Other	177,508	177,508	194,445	16,937
Total Revenues	<u>826,904</u>	<u>794,959</u>	<u>801,062</u>	<u>6,103</u>
Expenditures:				
General Government	149,048	140,489	140,853	(364)
Public Safety	378,934	365,885	391,705	(25,820)
Health and Welfare	5,000	1,500	1,417	83
Recreation and Culture	64,310	63,667	70,159	(6,492)
Other	192,880	182,978	175,125	7,853
Debt Service				
Principal	28,000	28,000	28,000	-
Interest	4,800	4,800	4,800	-
Total Expenditures	<u>822,972</u>	<u>787,319</u>	<u>812,059</u>	<u>(24,740)</u>
Revenues over (under) expenditures	<u>3,932</u>	<u>7,640</u>	<u>(10,997)</u>	<u>(18,637)</u>
Other Financing Sources:				
Transfers in	-	-	7,987	7,987
Transfers in from component unit	-	-	10,030	10,030
	<u>-</u>	<u>-</u>	<u>18,017</u>	<u>18,017</u>
Net Change in Fund Balance	3,932	7,640	7,020	(620)
Fund Balance at beginning of year	<u>268,303</u>	<u>268,303</u>	<u>268,303</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 272,235</u>	<u>\$ 275,943</u>	<u>\$ 275,323</u>	<u>\$(620)</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, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Intergovernmental -				
State	\$ 13,884	\$ 17,426	\$ 20,779	\$ 3,353
Interest	1,600	634	170	(464)
Other	-	-	480	480
Total Revenues	<u>15,484</u>	<u>18,060</u>	<u>21,429</u>	<u>3,369</u>
Expenditures:				
Public Works -				
Salaries	15,282	22,800	20,063	2,737
Fringe benefits	6,663	6,376	7,919	(1,543)
Administrative fees	5,238	5,238	5,238	-
Supplies	2,500	3,000	4,488	(1,488)
Equipment rental	20,138	36,111	37,025	(914)
Repairs and maintenance	750	500	446	54
Purchase of services	-	5,600	5,542	58
Other	275	365	189	176
Total Public Works	<u>50,846</u>	<u>79,990</u>	<u>80,910</u>	<u>(920)</u>
Capital Outlay	21,000	8,475	6,475	2,000
Total Expenditures	<u>71,846</u>	<u>88,465</u>	<u>87,385</u>	<u>1,080</u>
Revenues under expenditures	(56,362)	(70,405)	(65,956)	4,449
Other Financing Sources:				
Transfers in	<u>77,101</u>	<u>79,076</u>	<u>79,149</u>	<u>73</u>
Net change in Fund Balance	20,739	8,671	13,193	4,522
Fund Balance at beginning of year	<u>92,334</u>	<u>92,334</u>	<u>92,334</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 113,073</u>	<u>\$ 101,005</u>	<u>\$ 105,527</u>	<u>\$ 4,522</u>

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, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Taxes	\$ 122,818	\$ 122,924	\$ 123,488	\$ 564
Interest	1,500	711	711	-
Total Revenues	<u>124,318</u>	<u>123,635</u>	<u>124,199</u>	<u>564</u>
Expenditures:				
Capital Outlay	<u>311,000</u>	<u>197,042</u>	<u>197,831</u>	<u>(789)</u>
Revenues under expenditures	(186,682)	(73,407)	(73,632)	(225)
Other Financing Sources:				
Transfers in	<u>40,675</u>	<u>51,885</u>	<u>56,602</u>	<u>4,717</u>
Net change in Fund Balance	(146,007)	(21,522)	(17,030)	4,492
Fund Balance at beginning of year	<u>196,737</u>	<u>196,737</u>	<u>196,737</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 50,730</u></u>	<u><u>\$ 175,215</u></u>	<u><u>\$ 179,707</u></u>	<u><u>\$ 4,492</u></u>

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, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
County road millage	\$ 65,012	\$ 79,968	\$ 80,118	\$ 150
Interest	800	388	388	-
Total Revenues	<u>65,812</u>	<u>80,356</u>	<u>80,506</u>	<u>150</u>
Expenditures:				
Public Works -				
Administrative fees	6,510	6,510	6,510	-
Equipment rental	12,486	15,900	16,142	(242)
Utilities	8,700	10,560	10,708	(148)
Total Public Works	<u>27,696</u>	<u>32,970</u>	<u>33,360</u>	<u>(390)</u>
Capital Outlay	90,000	90,000	90,000	-
Total Expenditures	<u>117,696</u>	<u>122,970</u>	<u>123,360</u>	<u>(390)</u>
Revenues under expenditures	<u>(51,884)</u>	<u>(42,614)</u>	<u>(42,854)</u>	<u>(240)</u>
Other Financing Sources (Uses):				
Transfers in	31,570	31,570	31,431	(139)
Transfers out	(55,000)	(55,000)	(55,000)	-
Total Other Sources (Uses)	<u>(23,430)</u>	<u>(23,430)</u>	<u>(23,569)</u>	<u>(139)</u>
Net change in Fund Balance	(75,314)	(66,044)	(66,423)	(379)
Fund Balance at beginning of year	<u>184,427</u>	<u>184,427</u>	<u>184,427</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 109,113</u>	<u>\$ 118,383</u>	<u>\$ 118,004</u>	<u>\$(379)</u>

OTHER 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, 2011**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 320,793	\$ 312,254	\$ 313,665	\$ 1,411
Intergovernmental -				
State	70,797	70,631	89,796	19,165
Charges for services	239,806	203,581	201,094	(2,487)
Fines and forfeits	-	-	1,516	1,516
Interest and rents	18,000	30,985	546	(30,439)
Other	177,508	177,508	194,445	16,937
	826,904	794,959	801,062	6,103
Expenditures:				
General Government -				
Village council	17,067	18,221	16,538	1,683
Village manager	55,911	48,533	52,683	(4,150)
Village clerk	55,808	55,790	56,681	(891)
Administrative services	169,195	166,878	163,884	2,994
	297,981	289,422	289,786	(364)
Less: Reimbursement from other funds	(148,933)	(148,933)	(148,933)	-
Total General Government	149,048	140,489	140,853	(364)
Public Safety -				
Fire department	142,266	121,813	122,363	(550)
Police department	236,668	244,072	269,342	(25,270)
Total Public Safety	378,934	365,885	391,705	(25,820)
Public Works -				
Department of public works	62,308	86,955	96,817	(9,862)
Less: Reimbursement from other funds	(62,308)	(86,955)	(96,817)	9,862
Total Public Works	-	-	-	-

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, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Health and Welfare - MS4	\$ 5,000	\$ 1,500	\$ 1,417	\$ 83
Recreation and Culture - Parks and recreation	64,310	63,667	70,159	(6,492)
Other - Municipal programs	192,880	182,978	175,125	7,853
Debt Service - Principal	28,000	28,000	28,000	-
Interest	4,800	4,800	4,800	-
	<u>32,800</u>	<u>32,800</u>	<u>32,800</u>	<u>-</u>
Total Expenditures	<u>822,972</u>	<u>787,319</u>	<u>812,059</u>	<u>(24,740)</u>
Revenues over (under) expenditures	<u>3,932</u>	<u>7,640</u>	<u>(10,997)</u>	<u>(18,637)</u>
Other Financing Sources:				
Transfers in	-	-	7,987	7,987
Transfers in from component unit	-	-	10,030	10,030
	<u>-</u>	<u>-</u>	<u>18,017</u>	<u>18,017</u>
Net change in Fund Balance	3,932	7,640	7,020	(620)
Fund Balance at beginning of year	<u>268,303</u>	<u>268,303</u>	<u>268,303</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 272,235</u>	<u>\$ 275,943</u>	<u>\$ 275,323</u>	<u>\$(620)</u>

VILLAGE OF LEXINGTON, MICHIGAN

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011

	Special Revenue Funds		Capital Project Fund	Debt Service Fund	Total
	Major Street	Cemetery			
ASSETS					
Cash and cash equivalents	\$ 44,770	\$ 36,462	\$ 130,902	\$ -	\$ 212,134
Due from other governmental units - State	7,946	-	-	-	7,946
Due from component unit	-	113	-	-	113
Prepaid expenditures	1,082	559	-	-	1,641
Total Assets	<u>\$ 53,798</u>	<u>\$ 37,134</u>	<u>\$ 130,902</u>	<u>\$ -</u>	<u>\$ 221,834</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accrued liabilities	<u>\$ 288</u>	<u>\$ 320</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 608</u>
Fund Balance:					
Nonspendable for:					
Prepays	1,082	559	-	-	1,641
Restricted for:					
Streets	52,428	-	-	-	52,428
Committed for:					
Cemetery	-	36,255	-	-	36,255
Capital Items	-	-	130,902	-	130,902
Total Fund Balance	<u>53,510</u>	<u>36,814</u>	<u>130,902</u>	<u>-</u>	<u>221,226</u>
Total Liabilities and Fund Balance	<u>\$ 53,798</u>	<u>\$ 37,134</u>	<u>\$ 130,902</u>	<u>\$ -</u>	<u>\$ 221,834</u>

VILLAGE OF LEXINGTON, MICHIGAN

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Special Revenue Funds</u>		<u>Capital Project Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
	<u>Major Street</u>	<u>Cemetery</u>			
Revenues:					
Taxes	\$ -	\$ 24,684	\$ -	\$ -	\$ 24,684
Intergovernmental -					
State	44,089	-	-	-	44,089
Charges for services					
Sale of lots / Internment fees	-	13,353	-	-	13,353
Interest	132	106	321	-	559
Other	-	133	-	-	133
	<u>44,221</u>	<u>38,276</u>	<u>321</u>	<u>-</u>	<u>82,818</u>
Expenditures:					
General Government	-	38,192	-	-	38,192
Public Works	65,735	-	-	-	65,735
Capital Outlay	-	15,246	-	-	15,246
Debt Service -					
Principal	-	-	-	11,925	11,925
Interest	-	-	-	8,974	8,974
	<u>65,735</u>	<u>53,438</u>	<u>-</u>	<u>20,899</u>	<u>140,072</u>
Revenues over (under) expenditures	<u>(21,514)</u>	<u>(15,162)</u>	<u>321</u>	<u>(20,899)</u>	<u>(57,254)</u>
Other Financing Sources (Uses):					
Transfers in	11,846	10,943	3,804	20,899	47,492
Transfers out	(11,073)	(7,987)	(20,899)	-	(39,959)
Total Other Financing Sources (Uses)	<u>773</u>	<u>2,956</u>	<u>(17,095)</u>	<u>20,899</u>	<u>7,533</u>
Net change in Fund Balances	<u>(20,741)</u>	<u>(12,206)</u>	<u>(16,774)</u>	<u>-</u>	<u>(49,721)</u>
Fund Balances at beginning of year	<u>74,251</u>	<u>49,020</u>	<u>147,676</u>	<u>-</u>	<u>270,947</u>
Fund Balances at end of year	<u>\$ 53,510</u>	<u>\$ 36,814</u>	<u>\$ 130,902</u>	<u>\$ -</u>	<u>\$ 221,226</u>

VILLAGE OF LEXINGTON, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
MAJOR STREET				
Revenues:				
Intergovernmental -				
State	\$ 29,467	\$ 32,977	\$ 44,089	\$ 11,112
Interest	500	132	132	-
Total Revenues	29,967	33,109	44,221	11,112
Expenditures:				
Public Works -				
Salaries	16,065	19,650	17,202	2,448
Fringe benefits	7,392	6,957	8,153	(1,196)
Administrative fees	5,447	5,447	5,447	-
Supplies	2,500	2,500	2,173	327
Equipment rental	12,486	15,800	16,142	(342)
Repairs and maintenance	500	350	186	164
Purchased services	-	7,100	5,556	1,544
Traffic and street lights	8,700	11,700	10,708	992
Other	-	90	168	(78)
Total Public Works	53,090	69,594	65,735	3,859
Capital outlay	750	-	-	-
Total Expenditures	53,840	69,594	65,735	3,859
Revenues under expenditures	(23,873)	(36,485)	(21,514)	14,971
Other Financing Sources (Uses):				
Transfers in	12,093	12,093	11,846	(247)
Transfers out	(11,250)	(11,250)	(11,073)	177
Total Other Financing Sources (Uses)	843	843	773	(70)
Net change in fund balance	(23,030)	(35,642)	(20,741)	14,901
Fund Balance at beginning of year	74,251	74,251	74,251	-
Fund Balance at end of year	\$ 51,221	\$ 38,609	\$ 53,510	\$ 14,901

Continued

VILLAGE OF LEXINGTON, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
CEMETERY				
Revenues:				
Taxes	\$ 24,554	\$ 24,571	\$ 24,684	\$ 113
Charges for services -				
Sale of lots / Internment fees	5,000	12,000	13,353	1,353
Interest	200	235	106	(129)
Other	-	-	133	133
Total Revenues	29,754	36,806	38,276	1,470
Expenditures:				
General Government -				
Salaries	12,510	9,500	9,306	194
Fringe benefits	5,721	6,077	5,612	465
Administrative fees	3,498	3,498	3,498	-
Insurance	145	145	120	25
Supplies	100	250	365	(115)
Equipment rental	8,724	13,700	12,602	1,098
Purchase of services	7,500	5,820	4,945	875
Lot buy back	500	750	750	-
Repairs and maintenance	330	330	-	330
Utilities	1,100	960	994	(34)
Total General Government	40,128	41,030	38,192	2,838
Capital outlay	20,000	29,500	15,246	14,254
Total Expenditures	60,128	70,530	53,438	17,092
Revenues under expenditures	(30,374)	(33,724)	(15,162)	18,562
Other Financing Sources (Uses):				
Transfers in	10,877	10,877	10,943	66
Transfers out	-	-	(7,987)	(7,987)
Total Other Financing Sources (Uses)	10,877	10,877	2,956	(7,921)
Net change in Fund Balance	(19,497)	(22,847)	(12,206)	10,641
Fund Balance at beginning of year	51,506	51,506	49,020	(2,486)
Fund Balance at end of year	\$ 32,009	\$ 28,659	\$ 36,814	\$ 8,155

Concluded

COMPONENT UNIT

VILLAGE OF LEXINGTON, MICHIGAN
BALANCE SHEET
DISCRETELY PRESENTED COMPONENT UNIT
DOWNTOWN DEVELOPMENT AUTHORITY
JUNE 30, 2011

ASSETS

Cash and cash equivalents	\$	300,388
Accounts receivable		<u>2,182</u>
Total Assets	\$	<u><u>302,570</u></u>

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable	\$	90
Due to other funds		<u>2,090</u>
Total Liabilities		2,180

Fund Balance:

Unrestricted		<u>300,390</u>
Total Liabilities and Fund Balance	\$	<u><u>302,570</u></u>

VILLAGE OF LEXINGTON, MICHIGAN

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNIT-DOWNTOWN DEVELOPMENT AUTHORITY
JUNE 30, 2011**

Fund Balances - total governmental funds	\$	300,390
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital assets		56,685
Accumulated depreciation	(	<u>3,047</u>)
Net Assets of governmental activities	\$	<u><u>354,028</u></u>

VILLAGE OF LEXINGTON, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY

SPECIAL REVENUE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget Positive (Negative)</u>
Revenues:				
Taxes	\$ 110,840	\$ 130,230	\$ 128,139	\$(2,091)
Interest	800	558	558	-
	<u>111,640</u>	<u>130,788</u>	<u>128,697</u>	<u>(2,091)</u>
Expenditures:				
Public Works	75,610	54,402	54,951	(549)
Capital Outlay	26,000	10,000	8,836	1,164
	<u>101,610</u>	<u>64,402</u>	<u>63,787</u>	<u>615</u>
Revenues over expenditures	10,030	66,386	64,910	(1,476)
Other Financing Uses:				
Transfers out	<u>(10,030)</u>	<u>(10,030)</u>	<u>(10,030)</u>	<u>-</u>
Net Change in Fund Balance	-	56,356	54,880	(1,476)
Fund Balance at beginning of year	<u>245,510</u>	<u>245,510</u>	<u>245,510</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 245,510</u></u>	<u><u>\$ 301,866</u></u>	<u><u>\$ 300,390</u></u>	<u><u>\$(1,476)</u></u>

VILLAGE OF LEXINGTON, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNIT-DOWNTOWN DEVELOPMENT AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2011**

Net change in fund balances - total governmental funds	\$	54,880
<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		13,750
Depreciation	(	<u>3,047</u>)
Change in net assets of governmental activities	\$	<u><u>65,583</u></u>

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Lexington as of and for the year ended June 30, 2011, which collectively comprise the Village of Lexington's basic financial statements and have issued our report thereon dated October 26, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Lexington's internal control over financial reporting as a basis for designing our auditing procedures 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 of Lexington's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses, which are referenced as 11-01 and 11-02 that we consider to be significant deficiencies. A significant deficiency is a deficiency, or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Lexington's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements non-compliance 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 of the Village of Lexington in a separate letter dated October 26, 2011.

The Village of Lexington's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Village of Lexington's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Village Council, others within the Village of Lexington, and the Michigan Department of Treasury and is not intended to be and should be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script that reads "Stewart, Beauvais & Whipple".

Certified Public Accountants

October 26, 2011

VILLAGE OF LEXINGTON

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2011

11-01 - Preparation of Financial Statements in Accordance with Generally Accepted Accounting Principles (GAAP).

As is the case with many similar-sized entities, the Village has historically relied on its independent external auditors to assist in preparing the annual financial statements, including the footnotes and GASB No. 34 financial statements, as part of its annual audit process. Statement on Auditing Standard No. 115 "Communicating Internal Control Related Matters Identified in an Audit" specifies that the auditee is responsible for internal control over financial reporting.

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

As a result, the Village lacks internal controls over the preparation of its GAAP financial statements.

Response: The Village has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and has determined that it is in the best interest of the Village to outsource this task to the external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

11-02 - Controls over the receipting and receivable process.

At the present time, the entire receipting process does not have the division of duties to provide for appropriate internal controls because there are instances where one individual performs the billing, receipting and recording functions and also makes deposits at the bank. It was also noted that the Village did not reconcile the detailed utility billing accounts receivable ledger or the mobile home park receivable ledger to the general ledger.

We recommend that the receipting process be reviewed to implement division of duties where ever possible. We also recommend the Village perform the reconciliation of the detailed utility accounts receivable ledger and the mobile home park receivable ledger to the general ledger on a monthly basis.

Response: The Village will reconcile on a monthly basis the detailed utility billing and mobile home park receivable listings to the general ledger receivable control accounts. It is difficult to always have division of duties in a small office environment; however, when ever possible duties will be segregated.

AUDIT COMMUNICATION LETTER

October 26, 2011

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 for the year ended June 30, 2011, and have issued our report thereon dated October 26, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our preliminary audit communication letter dated July 13, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Lexington are described in Note 1 to the financial statements. The Village adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Accordingly, the effect on the Village of this new standard was to provide new fund balance classifications and a hierarchy for the determination of classification based on the extent to which the Village is bound to observe constraints imposed upon the use of resources. We noted no transaction 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. 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.

Management's estimate of the annual other postemployment benefits cost is based on a calculation in accordance with the alternative method permitted by GASB Statement No. 45.

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 12 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 Net OPEB obligation at year end and future impact this number may have if the Village does not fund the annual required contribution.

Difficulties Encountered in Performing the Audit

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

Financial Reporting Adjustments

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. The following material misstatements detected as a result of audit procedures were corrected by management (we also proposed and management recorded a number of immaterial and adjustment closing entries):

- To adjust/record fire, utility and mobile home park accounts receivable balances
- To adjust prepaid expenditure balances
- To adjust the net OPEB Obligation

Assistance with GASB No. 34 Presentation

As a result of our assistance with the GASB No. 34 presentation, we proposed several entries to the June 30, 2011 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 October 26, 2011.

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 factors. To our knowledge, there were no such consultations with other accountants.

Other Audit Finding or Issues

In addition to the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters, 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.

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.

Sincerely,

A handwritten signature in cursive script that reads "Stewart, Beauvais & Whipple".

Attachment A

The following is a list of 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:

Approval of expenditures.

The Village does not currently state the total dollar amount or sequence of check numbers where disbursements are approved by Council. This creates the possibility of a payment being made without approval of the Village Council.

We recommend that Council minutes indicate the total amount of expenditures approved for payment or indicate the check number sequence and that a check register be attached each time the bills are approved.

Contingency Plan

It was noted during the audit that the Village does not have a contingency plan in place.

We recommend the Village consider preparing a contingency plan for the Village's daily activities in the event of disaster.

The Village should consider updating certain policies and procedures

- **Electronic Transactions**

Public Act 738 of 2002 requires that each governing body adopt a policy for Automated Clearing House (ACH) arrangements and electronic transactions of funds. The policy should contain procedures and personnel responsible for payment approval, accounting, reporting and general overseeing of compliance issues.

We recommend that a policy be adopted for electronic transactions. In addition, a record of all electronic transactions should be maintained to document which accounts are involved and the purpose of the transfer.

- **Investment Policy**

During 2006, GASB No. 40 became effective for all governmental units. The Statement requires that the governmental unit disclose additional information regarding the types of investments held, length of maturity, security's rating, any limitation on the amounts that can be invested with any one financial institution or type of investment, etc. In addition, it discusses four types of risk: custodial credit risk, interest rate risk, credit risk and concentration of credit risk. (See Note 3 to the annual financial statements.)

We recommend that the current Village investment policy be reviewed and modified to address each type of risk and types of investments.