

VILLAGE OF LEXINGTON, MICHIGAN

**ANNUAL FINANCIAL REPORT
with Supplementary Information**

FOR THE YEAR ENDED JUNE 30, 2016

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

CERTIFIED PUBLIC ACCOUNTANTS



VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

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Sanilac County, Michigan

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Lexington, Michigan as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Lexington, Michigan, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension system schedules, as listed under the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Lexington, Michigan's basic financial statements. The supplementary information, as listed under the table of contents, is presented for purposes of additional analysis, is not a required part of the basic financial statements, is the responsibility of management, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Stewart Beauvais & Whipple, PC.
Certified Public Accountants

November 28, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Village of Lexington's (the "Village's") annual financial report presents the Village's financial performance during the fiscal year that ended on June 30, 2016. 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 \$954,974 with no new programs added this year.
- In the Village's combined business-type activities (Sewer, Water and MHP) revenues were \$1,786,493 (including general revenues) and expenses were \$1,631,842 (including land use fees and transfers), resulting in an increase in net position of \$93,134.

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 supplementary information 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 position includes all of the Village's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

The government-wide financial statements of the Village are divided into 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 basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Village's general government operations and the basic services it provides. We describe the relationship (or differences) between governmental activities and governmental funds in reconciliation schedules on pages 13 and 16.
- Proprietary funds - Services for which the Village charges customers a fee (Sewer, Water, and MHP) are reported in proprietary funds. Proprietary funds, like the government-wide statements, use the accrual basis of accounting and provide both long and short-term financial information. The Village's financial statements for the *enterprise* funds (a type of proprietary fund) are the same as the financial information for the business-type activities on the government-wide statements, but provide more detail and information.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

The Village's combined net position is \$8,234,426. Our analysis below focuses on the net position (Table I) of the Village's governmental and business-type activities.

TABLE I

	Net Position of Governmental and Business-type Activities (in thousands)					
	Governmental Activities		Business-type Activities		Total Government	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$ 1,107	\$ 1,009	\$ 2,187	\$ 2,127	\$ 3,294	\$ 3,136
Restricted Assets	-	-	243	208	243	208
Capital Assets	<u>1,904</u>	<u>1,935</u>	<u>7,548</u>	<u>7,761</u>	<u>9,452</u>	<u>9,696</u>
Total Assets	<u>3,011</u>	<u>2,944</u>	<u>9,978</u>	<u>10,096</u>	<u>12,989</u>	<u>13,040</u>
Deferred Outflows of Resources	<u>130</u>	<u>26</u>	<u>127</u>	<u>28</u>	<u>257</u>	<u>54</u>
Current Liabilities	39	36	149	144	188	180
Non-Current Liabilities	<u>1,065</u>	<u>818</u>	<u>3,735</u>	<u>3,863</u>	<u>4,800</u>	<u>4,681</u>
Total Liabilities	<u>1,104</u>	<u>854</u>	<u>3,884</u>	<u>4,007</u>	<u>4,988</u>	<u>4,861</u>
Deferred Inflows of Resources	<u>12</u>	<u>-</u>	<u>11</u>	<u>-</u>	<u>23</u>	<u>-</u>
Net Position: Net Investment in Capital Assets	1,865	1,875	5,189	5,132	7,054	7,007
Restricted	784	673	391	346	1,175	1,019
Unrestricted (Deficit)	(<u>624</u>)	(<u>432</u>)	<u>630</u>	<u>639</u>	<u>6</u>	<u>207</u>
Total Net Position	<u>\$ 2,025</u>	<u>\$ 2,116</u>	<u>\$ 6,210</u>	<u>\$ 6,117</u>	<u>\$ 8,235</u>	<u>\$ 8,233</u>

Governmental Activities

Governmental activities for the Village include five 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 \$519,335, a decrease of \$4,420 in comparison with the prior year.

State shared revenue decreased from \$91,738 in FY 2015 to \$87,041 in FY 2016. 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 \$91,991 listed under program revenues, an increase of \$9,414 in comparison with the prior year. This money varies from year to year based on state established taxes on fuel and consumption at the gasoline pumps.

Table II below presents the cost of each of the Village's governmental activities: general government, public safety, public works, and parks/recreation, and each function's net cost (after deducting program revenues). The net cost shows the financial burden that was placed on the Village's governmental activities by function.

TABLE II

	Governmental Activities			
	2016		2015	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
General Government	\$ 278,589	\$ 222,415	\$ 262,491	\$ 231,715
Public Safety	524,722	404,815	458,447	331,502
Public Works	482,201	152,749	466,068	136,138
Health and Welfare	26,103	26,103	20,536	20,536
Community and Economic Development	8,719	8,719	4,512	4,512
Recreation and Culture	88,366	77,898	111,962	101,904
Other Activities	60,787	60,787	58,324	58,324
Interest	<u>1,488</u>	<u>1,488</u>	<u>2,125</u>	<u>2,125</u>
Totals	<u>\$ 1,470,975</u>	<u>\$ 954,974</u>	<u>\$ 1,384,465</u>	<u>\$ 886,756</u>

Business-type Activities

The Village has three business-type activities: Water, Sewer, and MHP. Revenues of these activities (see Table III) decreased by \$14,732. The Village experienced a net position increase of \$93,134 for the year ended June 30, 2016.

TABLE III

	Changes in Net Position of Business-type Activities	
	2016	2015
Revenues:		
Charges for Services	\$ 1,739,298	\$ 1,695,055
Grants and Contributions	46,908	46,908
Other	(188,260)	(129,285)
Total Revenues	1,597,946	1,612,678
Expenses:		
Water, Sewer, MHP	(1,443,295)	(1,539,629)
Transfers	(61,517)	(72,071)
Increase in Net Position	\$ 93,134	\$ 978

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

As the Village completed the year, its combined governmental funds (as presented in the balance sheet on pages 11 and 12) reported a combined fund balance of \$1,067,902 with \$213,067 from the General Fund, \$65,269 from the Major Street Fund, \$182,291 from the Local Street Fund, \$336,823 from the Municipal Street Fund, \$191,149 from the County Road Fund, and \$79,303 from other governmental funds.

General Fund Budgetary Highlights

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.

Final budgeted revenues were \$39,708 or 4% less than the original budget, and the expenditures were \$32,870 or 3% higher than the original budget. During the year, the only significant amendments made were to increase General Government by \$10,000 for the Village manager's contracted services and \$13,810 for increased administrative services' wages and fringes.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Village had \$9,451,288 invested in capital assets for its governmental and business-type activities (net of accumulated depreciation) as of June 30, 2016. The investment is a capital asset, which includes land, buildings and improvements, improvements other than buildings, machinery and equipment, vehicles, mobile home park, and utility systems. During the year, the Village added \$302,348 of capital assets, \$143,123 in the governmental activities, and \$159,225 on business-type activities. Of the governmental activities, \$141,942 was spent on vehicle purchases. Most of the business-type activities were a result of \$81,222 for mobile home park improvements and \$43,651 in water and sewer main upgrades.

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

Long-Term Debt

At year-end, the Village had \$2,397,305 in bonds and notes outstanding versus \$2,688,824 last year, a decrease of \$291,519 or approximately 11%.

Additional information on the Village's long-term debt can be found in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

The Village of Lexington is committed to maintaining and supporting local economic development through significant investment in public services, municipal infrastructure, and strategic infill of residential and commercial properties. The results of the Village's continuous investment in the community are evidenced by multi-million-dollar private investments in commercial establishments, most notably, Harborview Plaza and the Cadillac House, as well as multiple new residential homes under construction.

Provided all of the public services found in a large city, Village residents enjoy an exemplary quality of life made possible by decades of sound fiscal management. During fiscal year 2016, the General Fund posted an increase in fund balance of \$4,145. The June 30, 2016 unassigned fund balance for the General Fund was \$152,994. The Village's elected and appointed officials considered many factors when setting the 2017 budget, including tax rates and fees that will be charged for the Village's activities. The revenue from property taxes was budgeted at \$283,858 and State revenue sharing was budgeted at \$93,438.

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 Shelly McCoy, by mail at 7227 Huron Avenue, Suite 100, Lexington, MI 48450, phone 810-359-8631, by fax 810-359-5622, or email: treasurer@villageoflexington.com.

BASIC FINANCIAL STATEMENTS

VILLAGE OF LEXINGTON, MICHIGAN

**STATEMENT OF NET POSITION
JUNE 30, 2016**

	Primary Government			Component Unit (DDA)
	Governmental Activities	Business Type Activities	Total	
Assets:				
Cash and cash equivalents	\$ 972,282	\$ 1,381,211	\$ 2,353,493	\$ 183,818
Investments	-	250,000	250,000	-
Receivables	78,956	97,586	176,542	-
Inventory held for sale	-	64,082	64,082	-
Prepaid expenditures	55,816	25,585	81,401	700
Contracts receivable- reserved capacity	-	367,885	367,885	-
Restricted Assets -				
Cash and cash equivalents	-	243,472	243,472	-
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	320,896	55,480	376,376	-
Assets being depreciated	1,582,652	7,492,260	9,074,912	229,372
Total Assets	<u>3,010,602</u>	<u>9,977,561</u>	<u>12,988,163</u>	<u>413,890</u>
Deferred Outflows of Resources:				
Related to the pension plan	<u>130,045</u>	<u>127,075</u>	<u>257,120</u>	<u>-</u>
Liabilities:				
Payables and accrued liabilities	26,402	36,266	62,668	1,582
Accrued interest	-	15,133	15,133	-
Advances and deposits	12,750	27,661	40,411	-
Unearned revenues	-	69,940	69,940	-
Non-current liabilities				
Net OPEB obligation	472,749	235,146	707,895	-
Net pension liability	506,479	515,342	1,021,821	-
Unearned revenues	-	588,958	588,958	-
Due within one year	22,069	204,451	226,520	-
Due in more than one year	63,665	2,190,837	2,254,502	-
Total Liabilities	<u>1,104,114</u>	<u>3,883,734</u>	<u>4,987,848</u>	<u>1,582</u>
Deferred Inflows of Resources:				
Related to the pension plan	<u>11,734</u>	<u>11,275</u>	<u>23,009</u>	<u>-</u>
Net Position:				
Net investment in capital assets	1,865,282	5,188,701	7,053,983	229,372
Restricted -				
Metro Authority	7,499	-	7,499	-
Streets	775,532	-	775,532	-
Meter replacement	-	147,178	147,178	-
Equipment replacement	-	243,472	243,472	-
Unrestricted (Deficit)	<u>(623,514)</u>	<u>630,276</u>	<u>6,762</u>	<u>182,936</u>
Total Net Position	<u>\$ 2,024,799</u>	<u>\$ 6,209,627</u>	<u>\$ 8,234,426</u>	<u>\$ 412,308</u>

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

VILLAGE OF LEXINGTON, MICHIGAN

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

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	\$ 278,589	\$ 56,174	\$ -	\$ -
Public Safety	524,722	101,965	2,942	15,000
Public Works	482,201	233,473	95,979	-
Health and Welfare	26,103	-	-	-
Community and Economic Development	8,719	-	-	-
Recreation and Culture	88,366	10,468	-	-
Other activities	60,787	-	-	-
Interest on long-term debt	1,488	-	-	-
Total governmental activities	<u>1,470,975</u>	<u>402,080</u>	<u>98,921</u>	<u>15,000</u>
Business type activities:				
Sewer	331,481	369,541	-	-
Water	711,010	641,576	-	46,908
Mobile Home Park	400,804	728,181	-	-
Total business type activities	<u>1,443,295</u>	<u>1,739,298</u>	<u>-</u>	<u>46,908</u>
Total Primary Government	<u>\$ 2,914,270</u>	<u>\$ 2,141,378</u>	<u>\$ 98,921</u>	<u>\$ 61,908</u>
Component Units				
Downtown Development Authority	<u>\$ 107,485</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 position

Net position at beginning of year

Net position at end of year

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

Net (Expense) Revenue and Change in Net Position

Primary Government			Component Unit (DDA)
Governmental Activities	Business Type Activities	Total	
\$(222,415)	\$ -	\$(222,415)	\$ -
(404,815)	-	(404,815)	-
(152,749)	-	(152,749)	-
(26,103)	-	(26,103)	-
(8,719)	-	(8,719)	-
(77,898)	-	(77,898)	-
(60,787)	-	(60,787)	-
(1,488)	-	(1,488)	-
<u>(954,974)</u>	<u>-</u>	<u>(954,974)</u>	<u>-</u>
-	38,060	38,060	-
-	(22,526)	(22,526)	-
-	327,377	327,377	-
<u>-</u>	<u>342,911</u>	<u>342,911</u>	<u>-</u>
<u>(954,974)</u>	<u>342,911</u>	<u>(612,063)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(107,485)</u>
519,335	-	519,335	106,598
92,242	-	92,242	-
1,706	287	1,993	-
188,547	(188,547)	-	-
61,517	(61,517)	-	-
<u>863,347</u>	<u>(249,777)</u>	<u>613,570</u>	<u>106,598</u>
(91,627)	93,134	1,507	(887)
<u>2,116,426</u>	<u>6,116,493</u>	<u>8,232,919</u>	<u>413,195</u>
<u>\$ 2,024,799</u>	<u>\$ 6,209,627</u>	<u>\$ 8,234,426</u>	<u>\$ 412,308</u>

VILLAGE OF LEXINGTON, MICHIGAN

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	General	Major Street	Local Street	Municipal Street
Assets:				
Cash and cash equivalents	\$ 128,713	\$ 58,367	\$ 176,389	\$ 336,005
Receivables -				
Utilities	11,183	-	-	-
Accounts	18,352	-	-	-
Due from other governmental units -				
State	33,267	9,023	7,131	-
Prepaid expenditures	52,574	611	990	818
Total Assets	\$ 244,089	\$ 68,001	\$ 184,510	\$ 336,823
 Liabilities:				
Accounts payable	\$ 6,692	\$ 2,336	\$ 1,650	\$ -
Accrued liabilities	11,580	396	569	-
Advances and deposits	12,750	-	-	-
Total Liabilities	31,022	2,732	2,219	-
 Fund Balances:				
Nonspendable for:				
Prepays/advances	52,574	611	990	818
Restricted for:				
Streets	-	64,658	181,301	336,005
Metro Authority	7,499	-	-	-
Committed for:				
Cemetery	-	-	-	-
Capital Items	-	-	-	-
Unassigned:				
General Fund	152,994	-	-	-
Total Fund Balances	213,067	65,269	182,291	336,823
Total Liabilities and Fund Balances	\$ 244,089	\$ 68,001	\$ 184,510	\$ 336,823

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

<u>County Road</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 193,457	\$ 79,351	\$ 972,282
-	-	11,183
-	-	18,352
-	-	49,421
<u>-</u>	<u>823</u>	<u>55,816</u>
<u>\$ 193,457</u>	<u>\$ 80,174</u>	<u>\$ 1,107,054</u>
\$ 2,308	\$ -	\$ 12,986
-	871	13,416
<u>-</u>	<u>-</u>	<u>12,750</u>
<u>2,308</u>	<u>871</u>	<u>39,152</u>
-	823	55,816
191,149	-	773,113
-	-	7,499
-	35,268	35,268
-	43,212	43,212
<u>-</u>	<u>-</u>	<u>152,994</u>
<u>191,149</u>	<u>79,303</u>	<u>1,067,902</u>
<u>\$ 193,457</u>	<u>\$ 80,174</u>	<u>\$ 1,107,054</u>

VILLAGE OF LEXINGTON, MICHIGAN

RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Fund Balances - total governmental funds		\$	1,067,902
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Capital assets			3,907,476
Accumulated depreciation		(	2,003,928)
Certain pension contributions and changes in pension plan liabilities are reported as deferred outflows (inflows) of resources in the statement of net position.			
Deferred outflows of resources	\$	130,045	
Deferred inflows of resources	(	11,734)	118,311
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Notes payable	(	38,266)	
Net pension liability	(	506,479)	
Net OPEB obligation	(	472,749)	
Accrued compensated absences	(	47,468)	(1,064,962)
Net Position of governmental activities		\$	<u>2,024,799</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, 2016**

	General	Major Street	Local Street	Municipal Street
Revenues:				
Taxes	\$ 298,691	\$ -	\$ -	\$ 119,375
Intergovernmental -				
State	108,971	54,865	37,126	-
Charges for services	343,790	-	-	-
Fines and forfeits	2,569	-	-	-
Interest and rent	11,223	-	-	-
Other	222,206	2,046	-	-
Total Revenues	987,450	56,911	37,126	119,375
Expenditures:				
Current -				
General Government	145,163	-	-	-
Public Safety	468,793	-	-	-
Public Works	206,972	69,896	91,156	38,276
Health and Welfare	26,103	-	-	-
Community and Economic Development	8,719	-	-	-
Recreation and Cultural	74,768	-	-	-
Other	60,787	-	-	-
Debt Service				
Principal	-	-	-	-
Interest and Fiscal Charges	-	-	-	-
Total Expenditures	991,305	69,896	91,156	38,276
Revenues over (under) expenditures	(3,855)	(12,985)	(54,030)	81,099
Other Financing Sources (Uses):				
Transfers in	8,000	38,666	96,735	8,842
Transfers out	-	(13,547)	-	(45,000)
Total Other Financing Sources (Uses)	8,000	25,119	96,735	(36,158)
Net Change in Fund Balances	4,145	12,134	42,705	44,941
Fund Balances at beginning of year	208,922	53,135	139,586	291,882
Fund Balances at end of year	\$ 213,067	\$ 65,269	\$ 182,291	\$ 336,823

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

County Road	Other Governmental Funds	Total Governmental Funds
\$ 77,407	\$ 23,862	\$ 519,335
-	-	200,962
-	15,456	359,246
-	-	2,569
-	244	11,467
-	-	224,252
<u>77,407</u>	<u>39,562</u>	<u>1,317,831</u>
-	37,969	183,132
-	-	468,793
31,806	-	438,106
-	-	26,103
-	-	8,719
-	-	74,768
-	-	60,787
-	22,069	22,069
-	1,488	1,488
<u>31,806</u>	<u>61,526</u>	<u>1,283,965</u>
<u>45,601</u>	<u>(21,964)</u>	<u>33,866</u>
5,347	39,031	196,621
(45,000)	(31,557)	(135,104)
(39,653)	7,474	61,517
5,948	(14,490)	95,383
<u>185,201</u>	<u>93,793</u>	<u>972,519</u>
<u>\$ 191,149</u>	<u>\$ 79,303</u>	<u>\$ 1,067,902</u>

VILLAGE OF LEXINGTON, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Net change in fund balances - total governmental funds	\$	95,383
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay		143,123
Depreciation expense	(	174,516)

The issuance of long-term debt (e.g. installment purchase contract) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources to governmental funds. Neither transaction, however, has any effect on net position.

Payment on promissory note		22,069
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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.

Increase in net OPEB obligation	\$(	113,082)
Increase in net pension liability	(	147,591)
Change in deferred outflows/inflows of resources as a result in changes of assumptions, difference between projected and actual earnings, and proportionate share differences		91,746
Increase in accrued compensated absences	(<u>8,759)</u>
		<u>(177,686)</u>

Change in net position of governmental activities	\$(<u><u>91,627)</u></u>
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The notes to the financial statements are an integral part of this statement.

VILLAGE OF LEXINGTON, MICHIGAN

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016**

	Business Type Activities-Enterprise Funds			
	Sewer	Water	Mobile Home Park	Total
Assets:				
Current Assets:				
Cash and cash equivalents	\$ 308,731	\$ 701,701	\$ 370,779	\$ 1,381,211
Investments	-	250,000	-	250,000
Accounts receivable	30,988	66,070	528	97,586
Prepaid expenses	4,825	19,269	1,491	25,585
Inventory held for sale	-	-	64,082	64,082
	<u>344,544</u>	<u>1,037,040</u>	<u>436,880</u>	<u>1,818,464</u>
Restricted Assets:				
Cash and cash equivalents	-	243,472	-	243,472
Noncurrent Assets:				
Capital assets, net	1,420,831	4,721,251	1,405,658	7,547,740
Other Assets:				
Contracts receivable- reserved capacity	-	367,885	-	367,885
Total Assets	<u>1,765,375</u>	<u>6,369,648</u>	<u>1,842,538</u>	<u>9,977,561</u>
Deferred Outflows of Resources:				
Related to the pension plan	31,939	88,908	6,228	127,075
Liabilities:				
Current Liabilities:				
Accounts payable	10,032	12,289	10,121	32,442
Accrued expenses	1,035	2,357	432	3,824
Accrued interest	2,638	8,680	3,815	15,133
Bonds payable (current portion)	-	65,000	-	65,000
Notes payable (current portion)	48,167	30,933	60,351	139,451
Deposits payable	-	-	27,661	27,661
Unearned revenue	-	53,927	16,013	69,940
Total Current Liabilities	<u>61,872</u>	<u>173,186</u>	<u>118,393</u>	<u>353,451</u>
Long-Term Liabilities (less current portions):				
Accrued vacation and sick pay	9,452	23,156	3,641	36,249
Net OPEB obligation	63,931	133,497	37,718	235,146
Net pension liability	137,267	342,989	35,086	515,342
Unearned revenue (net of current portion)	-	588,958	-	588,958
Bonds payable (net of current portion)	-	995,000	-	995,000
Notes payable (net of current portion)	427,370	370,115	362,103	1,159,588
Total Long-Term Liabilities	<u>638,020</u>	<u>2,453,715</u>	<u>438,548</u>	<u>3,530,283</u>
Total Liabilities	<u>699,892</u>	<u>2,626,901</u>	<u>556,941</u>	<u>3,883,734</u>
Deferred Inflows of Resources:				
Related to the pension plan	2,761	8,053	461	11,275
Net Position:				
Net investment in capital assets	945,294	3,260,203	983,204	5,188,701
Restricted for meter replacement	75,029	72,149	-	147,178
Restricted for equipment replacement	-	243,472	-	243,472
Unrestricted	74,338	247,778	308,160	630,276
Total Net Position	<u>\$ 1,094,661</u>	<u>\$ 3,823,602</u>	<u>\$ 1,291,364</u>	<u>\$ 6,209,627</u>

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

VILLAGE OF LEXINGTON, MICHIGAN

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	Business Type Activities-Enterprise Funds			
	Sewer	Water	Mobile Home Park	Total
Operating Revenues:				
Charges for services	\$ 317,855	\$ 579,164	\$ 725,597	\$ 1,622,616
Other	36,042	5,059	2,584	43,685
Total Operating Revenues	<u>353,897</u>	<u>584,223</u>	<u>728,181</u>	<u>1,666,301</u>
Operating Expenses:				
Salaries	70,197	137,516	28,462	236,175
Fringe benefits	66,717	137,736	18,583	223,036
Administrative fees	21,552	45,071	43,312	109,935
Contracted services	9,326	1,199	19,563	30,088
Insurance	1,571	15,095	102	16,768
Repairs and maintenance	3,221	3,988	-	7,209
Equipment rental	20,661	6,941	20,197	47,799
Supplies	15,062	49,731	19,990	84,783
Utilities	37,314	37,224	65,478	140,016
Rubbish expenditures	-	-	34,659	34,659
Mobile home park taxes	-	-	36,948	36,948
Flow back charges	-	10,800	-	10,800
Miscellaneous	1,304	3,706	7,264	12,274
Depreciation	68,272	222,515	81,529	372,316
Total Operating Expenses	<u>315,197</u>	<u>671,522</u>	<u>376,087</u>	<u>1,362,806</u>
Operating Income (Loss)	<u>38,700</u>	<u>(87,299)</u>	<u>352,094</u>	<u>303,495</u>
Non-Operating Revenues (Expenses):				
Interest income	139	17	131	287
Interest expense and fiscal charges	(16,284)	(39,488)	(24,717)	(80,489)
Tap fees	6,581	19,106	-	25,687
Meter charge	9,063	9,063	-	18,126
Land use fee	-	-	(188,547)	(188,547)
Antenna leases	-	29,184	-	29,184
Total Non-Operating Revenues (Expenses)	<u>(501)</u>	<u>17,882</u>	<u>(213,133)</u>	<u>(195,752)</u>
Net Income (Loss) Before Contribution and Transfers	38,199	(69,417)	138,961	107,743
Capital Contribution:				
Non-Village customers	-	46,908	-	46,908
Transfers:				
Transfers out	-	-	(61,517)	(61,517)
Change in Net Position	38,199	(22,509)	77,444	93,134
Net Position at beginning of year, as restated	<u>1,056,462</u>	<u>3,846,111</u>	<u>1,213,920</u>	<u>6,116,493</u>
Net Position end of year	<u>\$ 1,094,661</u>	<u>\$ 3,823,602</u>	<u>\$ 1,291,364</u>	<u>\$ 6,209,627</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, 2016**

Business Type Activities-Enterprise Funds

	Sewer	Water	Mobile Home Park	Total
Cash Flows From Operating Activities:				
Cash receipts from customers	\$ 367,937	\$ 535,885	\$ 741,996	\$ 1,645,818
Cash payments to suppliers	(111,328)	(166,418)	(303,100)	(580,846)
Cash payments to employees	(109,560)	(213,034)	(36,561)	(359,155)
Cash (payments) reimbursements for interfund services used/provided	(32,587)	(11,700)	-	(44,287)
Net Cash Provided by Operating Activities	<u>114,462</u>	<u>144,733</u>	<u>402,335</u>	<u>661,530</u>
Cash Flows From Non-capital Financing Activities:				
Land use fee	-	-	(188,547)	(188,547)
Transfers from/to other funds	-	-	(61,517)	(61,517)
Net Cash Used in Non-Capital Financing Activities	<u>-</u>	<u>-</u>	<u>(250,064)</u>	<u>(250,064)</u>
Cash Flows From Capital and Related Financing Activities:				
Bond and note payments	(48,167)	(95,933)	(125,350)	(269,450)
Interest payments	(16,556)	(40,053)	(26,131)	(82,740)
Meter charge	9,063	9,063	-	18,126
Antenna leases	-	29,184	-	29,184
Equipment replacement fees	-	46,908	-	46,908
Tap fees	6,581	19,106	-	25,687
Acquisition and construction of capital assets	(45,292)	(37,985)	(75,948)	(159,225)
Net Cash Used in Capital and Related Financing Activities	<u>(94,371)</u>	<u>(69,710)</u>	<u>(227,429)</u>	<u>(391,510)</u>
Cash Flows From Investing Activities:				
Interest earned	139	17	131	287
Net Cash Provided by Investing Activities	<u>139</u>	<u>17</u>	<u>131</u>	<u>287</u>
Net Increase (Decrease) in Cash and Cash Equivalents	20,230	75,040	(75,027)	20,243
Cash and Cash Equivalents at Beginning of Year	288,501	870,133	445,806	1,604,440
Cash and Cash Equivalents at End of Year	<u>\$ 308,731</u>	<u>\$ 945,173</u>	<u>\$ 370,779</u>	<u>\$ 1,624,683</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating income (loss) for the year	\$ 38,700	\$(87,299)	\$ 352,094	\$ 303,495
Adjustments to reconcile operating income (loss) to net cash provided by operating activities -				
Depreciation	68,272	222,515	81,529	372,316
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources -				
Receivables	14,040	17,386	6,457	37,883
Deferred outflows of resources	(24,349)	(71,017)	(4,059)	(99,425)
Due from/to other funds, net	(32,587)	(11,700)	-	(44,287)
Inventory held for sale	-	-	(64,082)	(64,082)
Prepaid expenses	(1,117)	(2,226)	(600)	(3,943)
Accounts payable/accrued expenses	(3,598)	(1,021)	10,253	5,634
Unearned revenue	-	(65,724)	3,994	(61,730)
Net OPEB obligation	17,612	34,477	7,136	59,225
Net pension liability	34,728	101,289	5,788	141,805
Deposits	-	-	3,364	3,364
Deferred inflows of resources	2,761	8,053	461	11,275
Net Cash Provided by Operating Activities	<u>\$ 114,462</u>	<u>\$ 144,733</u>	<u>\$ 402,335</u>	<u>\$ 661,530</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, 2016

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 financing plans. The annual operating budget and any modification also require the approval of the Village Council.

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

B. Government-wide and Fund Financial Statements -

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been 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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation -

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are levied and due. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers all revenues available if they are normally collected within 60 days after the year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

State shared revenue, 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 for which they are levied. All other revenue items are considered to be measurable and available only when cash is received by the Village.

The Village reports the following major governmental funds:

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

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

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

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

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

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

The Village reports the following major proprietary (enterprise) 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 Fund - is used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than major capital projects.

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.

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.

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.

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

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

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

Deposits and Investments -

The Village 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 external investment pools. The investment pools have the general characteristics of demand deposit accounts in that the Village may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty, and for this reason are reported in the financial statements as cash equivalents.

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 accounts and property tax receivables are shown net of estimated uncollectible balances. An allowance was not required at June 30, 2016.

Inventories and Prepaid Items -

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Property Tax Calendar -

The Village's property tax is levied each July 1 on the taxable value of property located in the Village as of the preceding December, as adjusted by the March and July Board of Reviews. Taxes are collected through September 14.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

Capital Assets -

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

Compensated Absences -

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

Long-Term Obligations -

In the government-wide financial statements and proprietary fund type fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position. Bond premiums and discounts 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. Issuance costs are expensed at the time they are incurred.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

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

Deferred Outflows/Inflows of Resources -

In addition to assets, the statement of net position and balance sheet report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses) until then. The Village has the following items that qualify for reporting in this category: pension payments made subsequent to the measurement date, pension related changes in assumptions, and the net difference between expected and actual plan investment earnings, which are all reported on the government-wide and proprietary fund statements of net position. The contributions made subsequent to the measurement date are recognized in the following plan year, and the other pension related deferred outflows of resources are amortized over the expected remaining service lives of the participants, with the exception of the net difference between expected and actual plan investment earnings which is amortized over five (5) years.

In addition to liabilities, the statement of net position and balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time. The Village has one item that qualified for reporting under this category, which was the difference between expected and actual experience. This deferred inflow is amortized over the average expected remaining service lives of the participants.

Fund Balance -

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

Nonspendable fund balance – the portion of fund balance that is not in a spendable form.

Restricted fund balance – the portion of the fund balance that has limitations imposed on by external sources.

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

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

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

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

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

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.

Upcoming Accounting Pronouncements -

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

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plan Other Than Pension Plans*, was issued in June 2015 and will become effective for the Village's June 30, 2018 fiscal year. The statement requires governments providing defined benefit plans to report the net OPEB liability in their statement of net position. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets accumulated in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries.

GASB Statement No. 77, *Tax Abatement Disclosures*, was issued in August 2015 and will become effective for the Village's June 30, 2017 fiscal year. The statement requires governments that enter into tax abatement agreements to disclose certain information about agreements, including the tax being abated, the authority under which abatements are provided, the gross dollar amount of taxes abated during the period, and commitments made by the government.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary Compliance -

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

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

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

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.

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, 2016, the Village incurred expenditures in the general and certain special revenue funds of the primary government, which were in excess of the amounts appropriated as follows:

	<u>Final Amended Budget</u>	<u>Amount Expended</u>	<u>Budget Variance</u>
Primary Government -			
General Fund -			
General Government	\$ 143,161	\$ 145,163	\$ 2,002
Public Safety	467,016	468,793	1,777
Public Works	203,295	206,972	3,677
Health and Welfare	26,040	26,103	63
Community and Economic Development	7,900	8,719	819
Recreation and Culture	70,575	74,768	4,193
Major Street Fund -			
Public Works	65,923	69,896	3,973
Local Street Fund -			
Public Works	86,359	91,156	4,797
Component Unit -			
DDA -			
Public Works	87,437	93,944	6,504

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 - DEPOSITS AND INVESTMENTS:

As of June 30, 2016, the carrying amount of the deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Total</u>
Deposits -			
Cash on hand -			
Petty Cash	\$ 400	\$ -	\$ 400
Deposits with Financial Institutions -			
Checking	2,402,713	183,818	2,586,531
Savings/Certificates of Deposit	<u>250,000</u>	<u>-</u>	<u>250,000</u>
Total Deposits	<u>2,652,713</u>	<u>183,818</u>	<u>2,836,531</u>
Investments -			
Investment Trust Fund	<u>193,852</u>	<u>-</u>	<u>193,852</u>
	<u>\$ 2,846,965</u>	<u>\$ 183,818</u>	<u>\$ 3,030,783</u>
Reconciliation to Combined Balance Sheet -			
Reported as Cash and Cash Equivalents			
Petty Cash	\$ 400	\$ -	\$ 400
Cash in Checking	2,402,713	183,818	2,586,531
Investment Trust Fund	<u>193,852</u>	<u>-</u>	<u>193,852</u>
	2,596,965	183,818	2,780,783
Reported as Investments -			
Certificates of Deposit	<u>250,000</u>	<u>-</u>	<u>250,000</u>
	<u>\$ 2,846,965</u>	<u>\$ 183,818</u>	<u>\$ 3,030,783</u>

Authorized Deposits and Investments -

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

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

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

The Michigan Liquid Asset Fund Plus - Money Market Fund (MILAF + Fund) is considered a money market fund as defined by the GASB, and as such, is recorded as amortized cost which approximates fair value. The MILAF+ Fund requires no notification of redemptions to avoid penalties. This fund is not subject to the fair value disclosures of GASB Statement No. 72.

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

Custodial Credit Risk - Deposits - is the risk that in the event of a bank failure, the Village's deposits may not be returned.

As of June 30, 2016, the bank balance of the Village's deposits was \$2,924,816, of which \$500,000 was insured by depository insurance, with the remaining balance of \$2,424,816 uninsured and uncollateralized.

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.

As of June 30, 2016, the Village of Lexington had \$193,852 invested in the MILAF+ Fund. The fund invests in commercial paper, U.S. governmental securities, and repurchase agreements. The MILAF+ Fund has the rating from Standard & Poor's of AAAM and one (1) average day to maturity. The MILAF+ Fund is not subject to regulatory oversight and is not registered with the SEC, however, issues a separate audited financial statement. The MILAF+ Fund operates like a money market fund, with each share valued at \$1.00. The carrying value of the Village's position in the pool is the same as the value of the MILAF+ Fund pool shares.

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.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

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, 2016, the Village has \$193,852 invested in the MILAF+ Fund, an external investment pool. The fund portfolios are offered exclusively to Michigan School Districts and Municipalities.

Interest Rate Risk - Investments - is the risk that the value of investments will decrease as a result of a rise in interest rates. The MILAF+ 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 MILAF+ 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 2016 had a taxable value of \$43,938,850. 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 for road improvements is levied by the County of Sanilac and distributed to the Cities, Villages, and Townships of the County.

NOTE 5 - RECEIVABLES:

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

	Governmental Activities	Business-type Activities
Accounts	\$ 29,535	\$ 97,586
Intergovernmental	49,421	-
	\$ 78,956	\$ 97,586

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 - INTERFUND TRANSFERS:

Transfers In and Out -

Transfers In	Transfers Out	Amount
Primary Government		
General Fund	Cemetery Fund	\$ 8,000 (1)
Major Street Fund	Municipal Street Fund	25,000 (1)
Major Street Fund	Mobile Home Park Fund	13,666 (1)
Local Street Fund	County Road Fund	45,000 (1)
Local Street Fund	Major Street Fund	13,547 (2)
Local Street Fund	Municipal Street Fund	20,000 (1)
Local Street Fund	Mobile Home Park Fund	18,188 (1)
Municipal Street Fund	Mobile Home Park Fund	8,842 (1)
County Road Fund	Mobile Home Park Fund	5,347 (1)
Cemetery Fund	Mobile Home Park Fund	10,032 (1)
Capital Project Fund	Mobile Home Park Fund	5,442 (1)
Debt Service Fund	Capital Project Fund	23,557 (3)
		\$ 196,621

- (1) To support operations and/or capital costs
- (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, 2016 was as follows:

	Balance July 1, 2015	Additions	Disposals/ Adjustments	Balance June 30, 2016
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 320,896	\$ -	\$ -	\$ 320,896
Capital assets, being depreciated:				
Buildings and building improvements	428,571	-	-	428,571
Improvements other than buildings	1,819,170	1,181	-	1,820,351
Machinery and equipment	369,598	-	-	369,598
Vehicles	844,893	141,942	18,775	968,060
Total capital assets being depreciated	3,462,232	143,123	18,775	3,586,580
Less accumulated depreciation for:				
Buildings and building improvements	314,282	8,525	-	322,807
Improvements other than buildings	610,804	92,549	-	703,353
Machinery and equipment	323,556	10,654	-	334,210
Vehicles	599,545	62,788	18,775	643,558
Total accumulated depreciation	1,848,187	174,516	18,775	2,003,928
Total capital assets being depreciated, net	1,614,045	(31,393)	-	1,582,652
Governmental activities capital assets, net	\$ 1,934,941	\$(31,393)	\$ -	\$ 1,903,548

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

	Balance <u>July 1, 2015</u>	<u>Additions</u>	Disposals/ <u>Adjustments</u>	Balance <u>June 30, 2016</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 17,495	\$ -	\$ -	\$ 17,495
Construction in progress	<u>18,053</u>	<u>37,985</u>	<u>18,053</u>	<u>37,985</u>
Total capital assets, not being depreciated	<u>35,548</u>	<u>37,985</u>	<u>18,053</u>	<u>55,480</u>
Capital assets, being depreciated:				
Buildings and improvements	81,774	10,500	-	92,274
Mobile home park	2,677,545	81,222	-	2,758,767
Utility systems	10,870,607	43,651	-	10,914,258
Machinery and equipment	<u>225,263</u>	<u>3,920</u>	<u>6,319</u>	<u>222,864</u>
Total capital assets being depreciated	<u>13,855,189</u>	<u>139,293</u>	<u>6,319</u>	<u>13,988,163</u>
Less accumulated depreciation for:				
Buildings and improvements	39,509	2,549	-	42,058
Mobile home park	1,279,801	80,174	-	1,359,975
Utility systems	4,644,924	279,020	-	4,923,944
Machinery and equipment	<u>165,672</u>	<u>10,573</u>	<u>6,319</u>	<u>169,926</u>
Total accumulated depreciation	<u>6,129,906</u>	<u>372,316</u>	<u>6,319</u>	<u>6,495,903</u>
Total capital assets being depreciated, net	<u>7,725,283</u>	<u>(233,023)</u>	<u>-</u>	<u>7,492,260</u>
Business activities capital assets, net	<u>\$ 7,760,831</u>	<u>\$(195,038)</u>	<u>\$ 18,053</u>	<u>\$ 7,547,740</u>
Discretely Presented Component Unit:				
Capital assets, being depreciated:				
Leasehold improvements	\$ 5,894	\$ -	\$ -	\$ 5,894
Building and improvements	12,330	77,487	-	89,817
Improvements other than buildings	<u>173,408</u>	<u>-</u>	<u>-</u>	<u>173,408</u>
Total capital assets being depreciated	<u>191,632</u>	<u>77,487</u>	<u>-</u>	<u>269,119</u>
Less accumulated depreciation for:				
Leasehold improvements	2,698	383	-	3,082
Buildings and improvements	3,083	4,491	-	7,573
Improvements other than buildings	<u>20,422</u>	<u>8,670</u>	<u>-</u>	<u>29,092</u>
Total accumulated depreciation	<u>26,203</u>	<u>13,544</u>	<u>-</u>	<u>39,747</u>
Component unit capital assets, net	<u>\$ 165,429</u>	<u>\$ 63,943</u>	<u>\$ -</u>	<u>\$ 229,372</u>

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

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

Governmental Activities:	
General Government	\$ 25,223
Public Safety	47,671
Public Works	92,087
Recreation and Cultural	<u>9,535</u>
Total depreciation expense-governmental activities	<u>\$ 174,516</u>
Business-type Activities:	
Sewer	\$ 68,272
Water	222,515
Mobile Home Park	<u>81,529</u>
Total depreciation expense - business-type activities	<u>\$ 372,316</u>

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, 2016:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Governmental Funds -					
2014 Promissory Note	\$ 60,335	\$ -	\$ 22,069	\$ 38,266	\$ 22,069
Accrued sick and vacation	<u>38,709</u>	<u>8,759</u>	<u>-</u>	<u>47,468</u>	<u>-</u>
Total Governmental Funds	<u>99,044</u>	<u>8,759</u>	<u>22,069</u>	<u>85,734</u>	<u>22,069</u>
Business-type Activities:					
2002 Promissory Note (MHP)	482,804	-	60,350	422,454	60,351
1996 General Obligation Unlimited Tax (Mobile Home Park)	65,000	-	65,000	-	-
1999 WSS Bonds/Contracts Payable	1,125,000	-	65,000	1,060,000	65,000
2013 Promissory Note (Water)	431,981	-	30,933	401,048	30,933
2013 Promissory Note (Sewer)	253,704	-	18,167	235,537	18,167
2013 Promissory Note (Lift Station)	270,000	-	30,000	240,000	30,000
Accrued sick and vacation	<u>42,261</u>	<u>-</u>	<u>6,012</u>	<u>36,249</u>	<u>-</u>
Total Business-type Activities	<u>2,670,750</u>	<u>-</u>	<u>275,462</u>	<u>2,395,288</u>	<u>204,451</u>
	<u>\$ 2,769,794</u>	<u>\$ 8,759</u>	<u>\$ 297,531</u>	<u>\$ 2,481,022</u>	<u>\$ 226,520</u>

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

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

2014 Promissory Note:

The Village entered into a purchase agreement on December 23, 2008 in the amount of \$187,500 to purchase property for cemetery expansion. On February 25, 2014 the outstanding balance of the installment contract of \$88,783 was refinanced. Monthly installments of \$1,963 are due beginning March 23, 2014 through February 25, 2018, including an interest rate of 2.95%.

\$ 38,266

The annual requirements for the 2014 promissory note obligation at June 30, 2016 are as follows:

Year	Principal	Interest
2017	\$ 22,069	\$ 824
2018	16,197	171
	\$ 38,266	\$ 995

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 \$47,468 as well as the proprietary funds and business-type activities' portion of \$36,249 has been recorded as a long-term liability.

\$ 83,717

1999 Water Fund Contracts Payable -

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

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

\$ 1,060,000

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

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

Year	Principal	Interest
2017	\$ 65,000	\$ 25,688
2018	65,000	24,063
2019	65,000	22,438
2020	70,000	20,750
2021	70,000	19,000
2022-2026	385,000	66,938
2027-2030	340,000	17,375
	\$ 1,060,000	\$ 196,252

2002 Mobile Home Park Promissory Note:

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

\$ 422,454

2013 SDS and WSS Promissory Note:

On September 1, 2013 the Village of Lexington refinanced its 2003 promissory note for constructing and improvements to the sewer and water system. The principal refinanced was \$736,509 at an interest rate of 3.00%, due semi-annually. Principal payments are due annually based on an amortization schedule of fifteen years starting September 1, 2014.

\$ 636,585

2013 Lift Station Promissory Note:

On September 17, 2013 the Village of Lexington entered into a promissory note in the amount of \$300,000 to purchase and install a sewage lift station. Annual principal payments of \$30,000 starting September 1, 2014 through September 1, 2022 at an interest rate of 3.5%, due semi-annually.

\$ 240,000

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

The annual requirements to amortize the promissory note obligations outstanding at June 30, 2016 are as follows:

Year	2002 MHP		2013 SDS and WSS		2013 Lift Station	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 60,351	\$ 17,850	\$ 49,100	\$ 18,675	\$ 30,000	\$ 7,989
2018	60,351	14,607	49,101	17,181	30,000	6,924
2019	60,351	11,390	49,101	15,688	30,000	5,860
2020	60,351	8,121	49,101	14,231	30,000	4,807
2021	60,351	4,878	49,101	12,701	30,000	3,730
2022-2026	120,699	1,635	245,505	44,860	90,000	4,803
2027-2029	-	-	145,576	3,003	-	-
	<u>\$ 422,454</u>	<u>\$ 58,481</u>	<u>\$ 636,585</u>	<u>\$ 126,339</u>	<u>\$ 240,000</u>	<u>\$ 34,113</u>

NOTE 9 - PENSION PLANS:

Defined Benefit Plan:

Plan Descriptions -

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

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

The membership at December 31, 2015 was comprised of 7 active participants, 7 retirees and beneficiaries, and 2 other vested inactive participants.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9 - PENSION PLANS - (cont'd):

Benefits Provided -

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

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

Contributions -

Participants of the Plan contribute 5% of compensation with the remaining amount contributed by the Village based on actuarially determined amounts. The Village pays the actuarially determined amount which for the year ended June 30, 2016 was 16.16% of covered payroll for general employees.

Net Pension Liability -

The net pension liability of the Village has been measured as of December 31, 2015 as determined by an actuarial valuation performed as of that date and is composed of the following:

	<u>Total Pension Liability</u>	<u>Plan's Net Position</u>	<u>Net Pension Liability</u>
Beginning balance	\$ 2,369,875	\$ 1,637,450	\$ 732,425
Service cost	34,143	-	34,143
Interest on total pension liability	191,430	-	191,430
Net investment income	-	(24,042)	24,042
Difference between expected and actual experience	(34,513)	-	(34,513)
Changes in assumptions	135,873	-	135,873
Contributions from employer	-	48,808	(48,808)
Contributions from employees	-	16,305	(16,305)
Benefit payments	(133,157)	(133,157)	-
Administrative costs	-	(3,534)	3,534
	<u>\$ 2,563,651</u>	<u>\$ 1,541,830</u>	<u>\$ 1,021,821</u>
Ending balance			

Plan fiduciary net position as a percentage of the total pension liability 60%

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9 - PENSION PLANS - (cont'd):

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

For the year ended June 30, 2016, the Village recognized pension expense of \$159,738, including \$81,359 in the government-wide and \$78,379 in the proprietary fund financial statements of the primary government. At June 30, 2016, the Village reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Primary Government		
Net difference between projected and actual earnings on Plan investments	\$ 142,358	\$ -
Contributions made subsequent to the measurement date	24,180	-
Difference between expected and actual experience	-	23,009
Changes in assumptions	90,582	-
	\$ 257,120	\$ 23,009

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

2017	\$ 70,827
2018	70,827
2019	37,041
2020	31,236
	\$ 209,931

Actuarial Assumptions -

The total pension liability was determined by an actuarial valuation as of December 31, 2015. The valuation used the following actuarial assumptions based on the most recent study of Plan experience covering the period from December 31, 2009 through December 31, 2013.

Salary increases - 3.75%

Inflation - 2.5%

Investment rate of return - 8.25%, 8.00% on December 31, 2015 and thereafter

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9 - PENSION PLANS - (cont'd):

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

Discount Rate - The discount rate used to measure the total pension liability was 8.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that Village contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

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

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of December 31, 2015 for each major asset class included in the Plan's target asset allocation, as disclosed in the investment footnote of the Plan, are summarized in the following table.

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the Village, calculated using the discount rate of 8.25 percent, as well as what the Village's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.25 percent) or 1-percentage-point higher (9.25 percent) than the current rate.

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1 % Increase (9.25%)
Net pension liability of the Primary Government	\$ 1,308,092	\$ 1,021,821	\$ 777,446

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9 - PENSION PLANS - (cont'd):

Defined Contribution Plan:

Effective June 27, 2011, the Village has established a defined contribution plan for all employees hired after January 1, 2005. The Plan requires the Village to contribute/match on behalf of each participant 3% of each participating employees' base salary if the participating employee contributes at least 6% of their base salary to the Plan. Participants are not required to make a contribution to the Plan. Both employer and employee contributions are 100% vested immediately. Employees are eligible to begin contribution to the Plan 90 days after hire. The Village Council has the authority to rescind the match provision due to budget constraints via Council resolution. Employer contributions to the Plan for the year ended June 30, 2016 totaled \$6,975.

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS:

Plan Description -

In addition to the pension benefits described in Note 9, 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.

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:

	Primary Government
Annual required contribution	\$ 241,155
Interest on net OPEB obligation	26,780
Adjustment to annual required contribution	(34,841)
Annual OPEB cost (expense)	233,094
Contributions made	(60,787)
Increase in net OPEB obligation	172,307
Net OPEB obligation - beginning of year	535,588
Net OPEB obligation - end of year	\$ 707,895

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS - (cont'd):

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 %
6/30/13	-	2,080,039	2,080,039	-	486,492	427.6
6/30/16	-	2,319,909	2,319,909	-	687,254	337.6

Schedule of Employer Contributions

Year Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2014	\$ 162,093	39 %	\$ 433,306
2015	160,606	36	535,588
2016	233,094	26	707,895

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 5.1% to 6.2%, (d) life expectancies for males and females based on the 2011 life tables obtained from cdc.gov, 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.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 - 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 account for equipment replacement. The quarterly payments are to be made on January 1, April 1, July 1, and October 1. The reserve account will be utilized for LWTUA's share of water treatment plant related equipment replacement and associated labor. The balance of this reserve account at June 30, 2016 reported in the Village Water Fund is \$243,472. 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 contracts receivable reserved capacity in the Water Fund, classified as other assets of \$367,885 and corresponding unearned revenue of \$367,885 at June 30, 2016, to account for the future debt service principle requirements.

The contract with Sanilac Township requires monthly payments for usage based on flow times a specified fixed unit rate per thousand gallons. In addition, a part of the contract was for the Township to reserve capacity in the water plant for twenty years at a cost of \$500,000, which was paid at the end of fiscal 2007. The reserve capacity is recorded in the Water Fund of the Village and it being amortized over the twenty years effective July 1, 2008. The unearned revenue balance for this reserved capacity at June 30, 2016 is \$275,000.

NOTE 12 - RESTRICTED ASSETS:

The restricted assets of \$243,472 in the Water Fund are for equipment replacement.

NOTE 13 - RISK MANAGEMENT:

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

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

NOTE 14 - CONSTRUCTION COMMITMENT:

During June 2016, the Village signed a contract for water main improvements in the amount of \$169,637. Construction for this project began in July 2016.

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, 2016**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 293,894	\$ 298,691	\$ 298,691	\$ -
Intergovernmental - State	115,526	115,716	108,971	(6,745)
Charges for services	355,928	321,531	343,790	22,259
Fines and forfeits	1,300	2,479	2,569	90
Interest and rents	7,000	10,050	11,223	1,173
Other	227,876	213,349	222,206	8,857
Total Revenues	<u>1,001,524</u>	<u>961,816</u>	<u>987,450</u>	<u>25,634</u>
Expenditures:				
General Government	120,680	143,161	145,163	(2,002)
Public Safety	466,122	467,016	468,793	(1,777)
Public Works	202,155	203,295	206,972	(3,677)
Health and Welfare	25,040	26,040	26,103	(63)
Community and Economic Development	7,500	7,900	8,719	(819)
Recreation and Culture	61,607	70,575	74,768	(4,193)
Other	66,313	64,300	60,787	3,513
Total Expenditures	<u>949,417</u>	<u>982,287</u>	<u>991,305</u>	<u>(9,018)</u>
Revenues over (under) expenditures	52,107	(20,471)	(3,855)	16,616
Other Financing Sources:				
Transfers in	8,000	8,000	8,000	-
Net Change in Fund Balance	60,107	(12,471)	4,145	16,616
Fund Balance at beginning of year	<u>208,922</u>	<u>208,922</u>	<u>208,922</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 269,029</u>	<u>\$ 196,451</u>	<u>\$ 213,067</u>	<u>\$ 16,616</u>

VILLAGE OF LEXINGTON, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - MAJOR STREET FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Intergovernmental -				
State	\$ 45,000	\$ 49,601	\$ 54,865	\$ 5,264
Other	-	2,046	2,046	-
Total Revenues	<u>45,000</u>	<u>51,647</u>	<u>56,911</u>	<u>5,264</u>
Expenditures:				
Public Works -				
Salaries	20,468	16,553	16,884	(331)
Fringe benefits	12,626	12,069	11,441	628
Administrative fees	6,762	6,762	7,755	(993)
Supplies	4,500	5,260	5,412	(152)
Equipment rental	18,022	12,250	12,214	36
Repairs and maintenance	500	-	-	-
Purchased services	500	500	675	(175)
Traffic and street lights	13,500	10,000	11,603	(1,603)
Other	907	2,529	3,912	(1,383)
Total Expenditures	<u>77,785</u>	<u>65,923</u>	<u>69,896</u>	<u>(3,973)</u>
Revenues under expenditures	<u>(32,785)</u>	<u>(14,276)</u>	<u>(12,985)</u>	<u>1,291</u>
Other Financing Sources (Uses):				
Transfers in	39,736	43,105	38,666	(4,439)
Transfers out	(11,250)	(13,547)	(13,547)	-
Total Other Financing Sources (Uses)	<u>28,486</u>	<u>29,558</u>	<u>25,119</u>	<u>(4,439)</u>
Net Change in Fund Balance	(4,299)	15,282	12,134	(3,148)
Fund Balance at beginning of year	<u>53,135</u>	<u>53,135</u>	<u>53,135</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 48,836</u>	<u>\$ 68,417</u>	<u>\$ 65,269</u>	<u>\$(3,148)</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, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Intergovernmental - State	\$ 18,000	\$ 47,490	\$ 37,126	\$(10,364)
Expenditures:				
Public Works -				
Salaries	28,129	20,645	21,217	(572)
Fringe benefits	15,900	15,258	14,539	719
Administrative fees	7,623	7,623	8,948	(1,325)
Supplies	12,000	4,900	6,151	(1,251)
Equipment rental	40,695	29,360	30,423	(1,063)
Repairs and maintenance	250	-	-	-
Purchase of services	2,000	5,641	5,641	-
Other	5,182	2,932	4,237	(1,305)
Total Public Works	<u>111,779</u>	<u>86,359</u>	<u>91,156</u>	<u>(4,797)</u>
Capital Outlay	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>112,779</u>	<u>86,359</u>	<u>91,156</u>	<u>(4,797)</u>
Revenues under expenditures	(94,779)	(38,869)	(54,030)	(15,161)
Other Financing Sources:				
Transfers in	<u>98,773</u>	<u>88,085</u>	<u>96,735</u>	<u>8,650</u>
Net Change in Fund Balance	3,994	49,216	42,705	(6,511)
Fund Balance at beginning of year	<u>139,586</u>	<u>139,586</u>	<u>139,586</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 143,580</u>	<u>\$ 188,802</u>	<u>\$ 182,291</u>	<u>\$(6,511)</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, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Taxes	\$ 119,749	\$ 119,374	\$ 119,375	\$ 1
Expenditures:				
Capital Outlay	<u>25,000</u>	<u>38,276</u>	<u>38,276</u>	<u>-</u>
Revenues over expenditures	<u>94,749</u>	<u>81,098</u>	<u>81,099</u>	<u>1</u>
Other Financing Sources (Uses):				
Transfers in	12,740	19,242	8,842	(10,400)
Transfers out	<u>(45,000)</u>	<u>(45,000)</u>	<u>(45,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(32,260)</u>	<u>(25,758)</u>	<u>(36,158)</u>	<u>(10,400)</u>
Net Change in Fund Balance	62,489	55,340	44,941	(10,399)
Fund Balance at beginning of year	<u>291,882</u>	<u>291,882</u>	<u>291,882</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 354,371</u></u>	<u><u>\$ 347,222</u></u>	<u><u>\$ 336,823</u></u>	<u><u>\$ (10,399)</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, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
County road millage	\$ 75,000	\$ 77,407	\$ 77,407	\$ -
Expenditures:				
Public Works -				
Administrative fees	11,094	11,094	5,825	5,269
Equipment rental	18,022	12,242	12,214	28
Supplies	<u>13,907</u>	<u>10,907</u>	<u>13,767</u>	<u>(2,860)</u>
Total Expenditures	<u>43,023</u>	<u>34,243</u>	<u>31,806</u>	<u>2,437</u>
Revenues over expenditures	<u>31,977</u>	<u>43,164</u>	<u>45,601</u>	<u>2,437</u>
Other Financing Sources (Uses):				
Transfers in	15,855	18,305	5,347	(12,958)
Transfers out	<u>(45,000)</u>	<u>(45,000)</u>	<u>(45,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(29,145)</u>	<u>(26,695)</u>	<u>(39,653)</u>	<u>(12,958)</u>
Net Change in Fund Balance	2,832	16,469	5,948	(10,521)
Fund Balance at beginning of year	<u>185,201</u>	<u>185,201</u>	<u>185,201</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 188,033</u>	<u>\$ 201,670</u>	<u>\$ 191,149</u>	<u>\$(10,521)</u>

VILLAGE OF LEXINGTON

**EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST TEN FISCAL YEARS
(PLAN YEAR)**

	For the Year Ended December 31,			
	2015	2014	2013*	2012-2006*
Total Pension Liability				
Service Cost	\$ 34,143	\$ 38,481	\$ -	\$ -
Interest	191,430	183,478	-	-
Change in assumptions	135,873	-	-	-
Differences between expected and actual experience	(34,513)	-	-	-
Benefit payments, including refunds	(133,157)	(113,632)	-	-
	193,776	108,327	-	-
Change in total pension liability				
Total pension liability, beginning of year	\$ 2,369,875	2,261,548	-	-
Total pension liability, end of year	<u>\$ 2,563,651</u>	<u>\$ 2,369,875</u>	<u>\$ 2,261,548</u>	<u>\$ -</u>
Plan Fiduciary Net Position				
Contributions - Employer	\$ 48,808	\$ 50,947	\$ -	\$ -
Contributions - Member	16,305	18,868	-	-
Net investment income	(24,042)	99,790	-	-
Benefit payments, including refunds	(133,157)	(113,632)	-	-
Administrative expenses	(3,534)	(3,664)	-	-
	(95,620)	52,309	-	-
Net change in plan fiduciary net position				
Plan fiduciary net position, beginning of year	\$ 1,637,450	1,585,141	-	-
Plan fiduciary net position, end of year	<u>\$ 1,541,830</u>	<u>\$ 1,637,450</u>	<u>\$ 1,585,141</u>	<u>\$ -</u>
Village's Net Pension Liability - Ending	<u>\$ 1,021,821</u>	<u>\$ 732,425</u>	<u>\$ 676,407</u>	<u>\$ -</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	60.14%	69.09%	70.09%	0.00%
Covered Employee Payroll	\$ 306,231	\$ 345,123		
Village's Net Pension Liability as a Percentage of Covered Employee Payroll	333.7%	212.2%		

* GASB 68 was implemented for fiscal year ended June 30, 2015. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

VILLAGE OF LEXINGTON

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially determined contributions	\$ 50,238	\$ 52,272	\$ 47,672	\$ 56,854	\$ 56,430	\$ 61,633
Contributions in relation to the actuarially determined contribution	<u>50,238</u>	<u>52,272</u>	<u>47,672</u>	<u>56,854</u>	<u>56,430</u>	<u>61,633</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 313,380	\$ 350,899	\$ 345,123	\$ 381,934	\$ 486,492	\$ 475,249
Contributions as a Percentage of Covered Employee Payroll	16.03%	14.90%	13.81%	14.89%	11.60%	12.97%

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll, open
Remaining amortization period	25 years
Asset valuation method	10-year smoothed market value
Salary increases	1% for 2016, 2% for 2017, 3% for 2018, and 4.5% thereafter
Investment rate of return	8.0%
Retirement age	Replacement Index up to age 70, then 100%
Mortality	1994 Group Annuity Mortality Table with 50% Male and 50% Female blend

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 58,328	\$ 54,075	\$ 70,138	\$ 61,128
<u>58,328</u>	<u>54,075</u>	<u>70,138</u>	<u>61,128</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 493,911	\$ 493,299	\$ 491,022	\$ 497,837
11.81%	10.96%	14.28%	12.28%

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, 2016**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 293,894	\$ 298,691	\$ 298,691	\$ -
Intergovernmental -				
State	115,526	115,716	108,971	(6,745)
Charges for services	355,928	321,531	343,790	22,259
Fines and forfeits	1,300	2,479	2,569	90
Interest and rents	7,000	10,050	11,223	1,173
Other	227,876	213,349	222,206	8,857
	<u>1,001,524</u>	<u>961,816</u>	<u>987,450</u>	<u>25,634</u>
Expenditures:				
General Government -				
Village council	14,820	11,986	11,602	384
Village manager	42,745	53,803	52,613	1,190
Village clerk	64,320	64,767	64,884	(117)
Administrative services	153,785	167,595	167,486	109
	<u>275,670</u>	<u>298,151</u>	<u>296,585</u>	<u>1,566</u>
Less: Reimbursement from other funds	(154,990)	(154,990)	(151,422)	(3,568)
Total General Government	<u>120,680</u>	<u>143,161</u>	<u>145,163</u>	<u>(2,002)</u>
Public Safety -				
Fire department	166,264	169,412	173,994	(4,582)
Police department	299,858	297,604	294,799	2,805
Total Public Safety	<u>466,122</u>	<u>467,016</u>	<u>468,793</u>	<u>(1,777)</u>
Public Works -				
Department of public works	95,232	103,639	107,316	(3,677)
Metro	1,500	-	-	-
Rubbish collection/disposal	105,423	99,656	99,656	-
Total Public Works	<u>202,155</u>	<u>203,295</u>	<u>206,972</u>	<u>(3,677)</u>
Health and Welfare -				
Environment	5,000	6,000	6,063	(63)
Ambulance	20,040	20,040	20,040	-
Total Health and Welfare	<u>25,040</u>	<u>26,040</u>	<u>26,103</u>	<u>(63)</u>
Community and Economic Development -				
Planning	7,500	7,900	8,719	(819)
Recreation and Culture -				
Parks and recreation	52,907	57,148	61,377	(4,229)
Community center	8,700	13,427	13,391	36
Total Recreation and Culture	<u>61,607</u>	<u>70,575</u>	<u>74,768</u>	<u>(4,193)</u>

Continued

VILLAGE OF LEXINGTON, MICHIGAN

**DETAILED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Other -				
Retiree Health Insurance	\$ 66,313	\$ 64,300	\$ 60,787	\$ 3,513
Total Expenditures	949,417	982,287	991,305	(9,018)
Revenues over (under) expenditures	52,107	(20,471)	(3,855)	16,616
Other Financing Sources:				
Transfers in	8,000	8,000	8,000	-
Net Change in Fund Balance	60,107	(12,471)	4,145	16,616
Fund Balance at beginning of year	208,922	208,922	208,922	-
Fund Balance at end of year	\$ 269,029	\$ 196,451	\$ 213,067	\$ 16,616

Concluded

VILLAGE OF LEXINGTON, MICHIGAN

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016**

	Cemetery Fund	Capital Project Fund	Debt Service Fund	Total
Assets:				
Cash and cash equivalents	\$ 36,139	\$ 43,212	\$ -	\$ 79,351
Prepaid expenditures	823	-	-	823
Total Assets	\$ 36,962	\$ 43,212	\$ -	\$ 80,174
 Liabilities:				
Accrued liabilities	\$ 871	\$ -	\$ -	\$ 871
 Fund Balances:				
Nonspendable for:				
Prepays	823	-	-	823
Committed for:				
Cemetery	35,268	-	-	35,268
Capital Items	-	43,212	-	43,212
Total Fund Balances	36,091	43,212	-	79,303
Total Liabilities and Fund Balances	\$ 36,962	\$ 43,212	\$ -	\$ 80,174

VILLAGE OF LEXINGTON, MICHIGAN

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	Cemetery Fund	Capital Project Fund	Debt Service Fund	Total
Revenues:				
Taxes	\$ 23,862	\$ -	\$ -	\$ 23,862
Charges for services				
Sale of lots / Internment fees	15,456	-	-	15,456
Interest	244	-	-	244
	39,562	-	-	39,562
Expenditures:				
General Government	37,969	-	-	37,969
Debt Service -				
Principal	-	-	22,069	22,069
Interest	-	-	1,488	1,488
	37,969	-	23,557	61,526
Revenues over (under) expenditures	1,593	-	(23,557)	(21,964)
Other Financing Sources (Uses):				
Transfers in	10,032	5,442	23,557	39,031
Transfers out	(8,000)	(23,557)	-	(31,557)
Total Other Financing Sources (Uses)	2,032	(18,115)	23,557	7,474
Net Change in Fund Balances	3,625	(18,115)	-	(14,490)
Fund Balances at beginning of year	32,466	61,327	-	93,793
Fund Balances at end of year	\$ 36,091	\$ 43,212	\$ -	\$ 79,303

VILLAGE OF LEXINGTON, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CEMETERY FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Taxes	\$ 23,941	\$ 23,862	\$ 23,862	\$ -
Charges for services -				
Sale of lots / Internment fees	9,500	14,949	15,456	507
Interest	200	212	244	32
Total Revenues	<u>33,641</u>	<u>39,023</u>	<u>39,562</u>	<u>539</u>
Expenditures:				
General Government -				
Salaries	8,606	9,763	9,763	-
Fringe benefits	3,439	3,943	3,749	194
Administrative fees	3,954	3,954	3,910	44
Insurance	264	260	260	-
Supplies	500	500	432	68
Equipment rental	12,324	13,990	15,641	(1,651)
Purchase of services	3,000	5,245	2,045	3,200
Lot buy back	-	400	371	29
Repairs and maintenance	100	100	-	100
Other	1,221	1,227	1,798	(571)
Total General Government	<u>33,408</u>	<u>39,382</u>	<u>37,969</u>	<u>1,413</u>
Capital Outlay	8,000	-	-	-
Total Expenditures	<u>41,408</u>	<u>39,382</u>	<u>37,969</u>	<u>1,413</u>
Revenues over (under) expenditures	<u>(7,767)</u>	<u>(359)</u>	<u>1,593</u>	<u>1,952</u>
Other Financing Sources (Uses):				
Transfers in	8,052	9,397	10,032	635
Transfers out	<u>(5,000)</u>	<u>(8,000)</u>	<u>(8,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>3,052</u>	<u>1,397</u>	<u>2,032</u>	<u>635</u>
Net Change in Fund Balance	(4,715)	1,038	3,625	2,587
Fund Balance at beginning of year	<u>32,466</u>	<u>32,466</u>	<u>32,466</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 27,751</u>	<u>\$ 33,504</u>	<u>\$ 36,091</u>	<u>\$ 2,587</u>

COMPONENT UNIT

VILLAGE OF LEXINGTON, MICHIGAN

BALANCE SHEET
DISCRETELY PRESENTED COMPONENT UNIT
DOWNTOWN DEVELOPMENT AUTHORITY
JUNE 30, 2016

Assets:

Cash and cash equivalents	\$	183,818
Prepaid expenditures		<u>700</u>
Total Assets	\$	<u><u>184,518</u></u>

Liabilities:

Accounts payable	\$	<u>1,582</u>
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Fund Balance:

Nonspendable for -		
Prepays		700
Assigned		147,665
Unrestricted		<u>34,571</u>
Total Fund Balance		<u><u>182,936</u></u>

Total Liabilities and Fund Balance	\$	<u><u>184,518</u></u>
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VILLAGE OF LEXINGTON, MICHIGAN

**RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL ACTIVITIES TO THE STATEMENT OF NET POSITION
DISCRETELY PRESENTED COMPONENT UNIT-DOWNTOWN DEVELOPMENT AUTHORITY
JUNE 30, 2016**

Fund Balances - total governmental funds	\$	182,936
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital assets		269,119
Accumulated depreciation	(	<u>39,747)</u>
Net Position of governmental activities	\$	<u><u>412,308</u></u>

VILLAGE OF LEXINGTON, MICHIGAN

**DOWNTOWN DEVELOPMENT AUTHORITY
DISCRETELY PRESENTED COMPONENT UNIT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget Positive (Negative)</u>
Revenues:				
Taxes	\$ 121,036	\$ 121,036	\$ 106,598	\$(14,438)
Expenditures:				
Public Works	114,015	87,437	93,941	(6,504)
Capital Outlay	150,000	100,000	77,487	22,513
	<u>264,015</u>	<u>187,437</u>	<u>171,428</u>	<u>16,009</u>
Net Change in Fund Balance	(142,979)	(66,401)	(64,830)	1,571
Fund Balance at beginning of year	<u>247,766</u>	<u>247,766</u>	<u>247,766</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 104,787</u></u>	<u><u>\$ 181,365</u></u>	<u><u>\$ 182,936</u></u>	<u><u>\$ 1,571</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, 2016**

Net change in fund balances - total governmental funds	\$(64,830)
 Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	77,487
Depreciation	<u>(13,544)</u>
Change in net position of governmental activities	<u><u>\$(887)</u></u>