

**HIGGINS LAKE UTILITIES AUTHORITY
ROSCOMMON COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2019**

HIGGINS LAKE UTILITY AUTHORITY

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis.	3-6
Basic Financial Statements:	
Proprietary Fund:	
Statement of Net Position	
Business-type Activities - Enterprise Fund	7
Statement of Revenues, Expenses and Changes in Net Position	
Business-type Activities - Enterprise Fund	8
Statement of Cash Flows	
Business-type Activities - Enterprise Fund	9
Notes to Financial Statements	10-14



James M. Anderson, P.C.

Certified Public Accountant

P.O. Box 255 · Roscommon, MI 48653
Phone: (989) 821-8601 · Fax: (989) 563-3471 · E-mail: janderson@jmacpapc.com

INDEPENDENT AUDITOR'S REPORT

November 13, 2019

Utility Authority Board
Higgins Lake Utilities Authority
Higgins Lake, MI 48627

I have audited the accompanying financial statements of the Higgins Lake Utilities Authority, the business-type activities, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Higgins Lake Utility Authority 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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Higgins Lake Utilities Authority as of June 30, 2019, and the respective changes in financial position and, where applicable and 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 information on pages 3 through 6 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.



JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT

HIGGINS LAKE UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS

As management of the Higgins Lake Utility Authority (the "Utility Authority"), we offer readers of the Utility Authority's financial statements this narrative overview and analysis of the financial activities of the Utility Authority for the fiscal year ended June 30, 2019.

Financial Highlights

- . The assets of the Utility Authority exceeded its liabilities at the close of the most recent fiscal year by \$2,598,727 (*net position*). Of this amount, \$261,166 (*unrestricted net position*) may be used to meet the Utility Authority's ongoing obligations.
- . As of the close of the fiscal year, the Authority had \$4,397,561 in Capital Assets.
- . The Authority had \$2,060,000 in bonds outstanding.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to the Utility Authority's basic financial statements. The Utility Authority's basic financial statements consist of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

Government-wide financial statements. The *Government-wide financial statements* are designed to provide readers with a broad overview of the Utility Authority's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Utility Authority's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Utility Authority is improving or deteriorating.

The *statement of activities* presents information showing how the Utility Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

HIGGINS LAKE UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Both of the Government-wide financial statements present functions of the Utility Authority that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The business-type activities of the Utility Authority currently include providing sewer services.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Utility Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Authority currently has one proprietary fund to account for the sewer activity.

Proprietary funds. Higgins Lake Utility Authority maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the Government-wide financial statements.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10 to 14 of this report.

Government-wide Financial Analysis. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Utility Authority, assets exceeded its liabilities by \$2,598,727 at the close of the most recent fiscal year.

A portion of the Utility Authority's net position (90%) reflects its investment in capital assets (e.g., land, land improvements, buildings, and equipment); less any related debt used to acquire those assets that is still outstanding. The Utility Authority uses these capital assets to provide sewer services to the community; consequently, these assets are *not* available for future spending.

Utility Authority's Net Position

	Business - Type Activities		Variance	%
	2019	2018		
Assets				
Current and Other Assets	\$ 267,592	\$ 257,049	\$ 10,543	4.10
Capital Assets, Net	4,397,561	4,510,513	(112,952)	(2.50)
Total Assets	<u>4,665,153</u>	<u>4,767,562</u>	<u>(102,409)</u>	<u>(2.15)</u>
Liabilities				
Current Liabilities	196,426	235,374	(38,948)	(16.55)
Long Term Liabilities	1,870,000	2,430,000	(560,000)	(23.05)
Total Liabilities	<u>2,066,426</u>	<u>2,665,374</u>	<u>(598,948)</u>	<u>(22.47)</u>
Net Position				
Invested in Capital Assets, Net of Related Debt	2,337,561	1,850,513	487,048	26.32
Unrestricted	261,166	251,675	9,491	3.77
Total Net Position	<u>\$ 2,598,727</u>	<u>\$ 2,102,188</u>	<u>\$ 496,539</u>	<u>23.62</u>

HIGGINS LAKE UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Utility Authority's net position increased by \$496,539 during the current fiscal year. Unrestricted net position - the part of the net position that can be used to finance day to day operations, increased by \$9,491 or 3.77% during the fiscal year ended June 30, 2019.

Utility Authority's Changes in Net Position				
Business - Type Activities				
	<u>2019</u>	<u>2018</u>	<u>Variance</u>	<u>%</u>
Revenue				
Program Revenue				
Charges for Services	\$ 170,035	\$ 171,170	\$ (1,135)	(0.66)
Non Operating Revenues:				
Interest Earnings	234	141	93	65.96
Grants and Other	558	993	(435)	(43.81)
Special Assessments	644,869	283,666	361,203	127.33
Total Revenue	<u>815,696</u>	<u>455,970</u>	<u>359,726</u>	<u>78.89</u>
Expenses				
Sewer	274,288	284,837	(10,549)	(3.70)
Interest on Long-Term Debt	44,869	58,666	(13,797)	(23.52)
Total Expenses	<u>319,157</u>	<u>343,503</u>	<u>(24,346)</u>	<u>(7.09)</u>
Increase (Decrease) in Net Position	496,539	112,467	384,072	341.50
Net Position - Beginning of Year	<u>2,102,188</u>	<u>1,989,721</u>	<u>112,467</u>	<u>5.65</u>
Net Position - End of Year	<u>\$ 2,598,727</u>	<u>\$ 2,102,188</u>	<u>\$ 496,539</u>	<u>23.62</u>

Business-type Activities. Total revenue increased by \$359,726. This is due to the prepaid special assessments being transferred from the Townships to the Authority to be used to pay off the bonds held by Mercantile Bank. Operating expenses were down \$24,346 or 7.09% due to reduced repairs and engineering fees in the current year.

Financial Analysis of Government's Funds. As noted earlier, the Utility Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Capital Assets. The Utility Authority's investment in capital assets for its business-type activities as of June 30, 2019, amounted to \$4,397,561 (Net of Accumulated depreciation).

	<u>2019</u>	<u>2018</u>	<u>Total Percentage Change 2018-19</u>
Capital Assets Being Depreciated			
Office Equipment	\$ 830	\$ 830	0.00
Building and Improvements	10,280	10,280	0.00
Sewer System	5,587,803	5,587,803	0.00
Total Capital Assets	5,598,913	5,598,913	0.00
Total Accumulated Depreciation	1,201,352	1,088,400	10.38
Total Net Capital Assets	<u>\$ 4,397,561</u>	<u>\$ 4,510,513</u>	<u>(2.50)</u>

HIGGINS LAKE UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Long term debt.

Higgins Lake Utility Authority had two outstanding bond issues dated January 8, 2008 and September 20, 2007. These issues were used to assist in the construction of the sewer system. The original amount of issue #1 was \$840,000 and the original amount of issue #2 was \$3,815,000. The rate of interest is 4.0 to 5.0% for Bond #1 and 1.625% for bond #2. Payments for the year ended June 30, 2019 totaled \$644,869 including interest of \$44,869 and principal of \$600,000. Bond Issue #1 was paid off early with a lump sum and the outstanding principal due for issue #2 at June 30, 2019 was \$2,060,000.

Operation and the Future

During the fiscal year 2018/2019 we successfully completed our tenth year of operation which puts us over half way to paying off the 20-year loan. The board approved paying the bond off early which saved thousands of dollars in interest.

The O&M budget is becoming very tight and there was a couple of members that didn't feel we had a large enough reserve for equipment replacement so the board elected to increase the O&M fee from \$105 to \$140 a quarter with the increase to be deposited into an ER&R replacement fund. That increase took effect July 1, 2019.

In regards to expansion, a feasibility study regarding sewer project around the lake is currently taking place and the board is still in discussions with the North State Park for possible connection.

Requests for Information.

This financial report is designed to provide a general overview of the Utility Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

**Paul Tatro, Business Manager
Higgins Lake Utility Authority
P.O. Box 437
Higgins Lake, MI 48627**

HIGGINS LAKE UTILITY AUTHORITY
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2019

	Business-type Activities Enterprise Fund
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 261,681
Customer receivables	5,561
Prepaid expenses	350
Total Current Assets	267,592
Noncurrent Assets:	
Capital assets	4,397,561
Total Noncurrent Assets	4,397,561
Total Assets	4,665,153
LIABILITIES	
Current Liabilities:	
Accounts payable	6,426
Current portion of long-term debt	190,000
Total Current Liabilities	196,426
Noncurrent Liabilities:	
Long-term debt	1,870,000
Total Noncurrent Liabilities	1,870,000
Total Liabilities	2,066,426
NET POSITION	
Invested in Capital Assets, Net of Related Debt	2,337,561
Unrestricted	261,166
Total Net Position	\$ 2,598,727

The accompanying notes are an integral part of these statements.

HIGGINS LAKE UTILITY AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2019

	Business-type Activities Enterprise Fund
	Fund
OPERATING REVENUES	
Charges for services	\$ 170,035
Total Operating Revenues	170,035
OPERATING EXPENSES	
Board per diems	2,964
Professional services	2,938
Contracted services	94,202
Printing and publishing	352
Insurance	3,258
Office expenses	2,397
License and permits	3,650
Education and dues	878
Utilities	46,497
Rent	4,200
Depreciation	112,952
Total Operating Expenses	274,288
OPERATING INCOME (LOSS)	(104,253)
NON OPERATING REVENUES (EXPENSES)	
Interest income	234
Special assessments	644,869
Miscellaneous	558
Interest expense	(44,869)
Net Nonoperating Revenues (Expenses)	600,792
CHANGE IN NET POSITION	496,539
NET POSITION - July 1, 2018	2,102,188
NET POSITION - June 30, 2019	\$ 2,598,727

The accompanying notes are an integral part of these statements.

HIGGINS LAKE UTILITY AUTHORITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2019

	<u>Business-type Activities Enterprise Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 173,105
Cash payments to suppliers for goods and services	(160,284)
Net Cash Provided (Used) by Operating Activities	<u>12,821</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Miscellaneous revenue	558
Special assessment proceeds	644,869
Principal and interest paid on bonds	(644,869)
Capital purchases	-
Net Cash Provided by Capital and Related Financing Activities	<u>558</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	<u>234</u>
NET increase (decrease) in cash	13,613
CASH - July 1, 2018	<u>248,068</u>
CASH - June 30, 2019	<u>\$ 261,681</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	
Operating income (loss)	\$ (104,253)
Adjustments to reconcile net income to cash provided by operating activities:	
Depreciation	112,952
(Increase) decrease in customers receivables	3,070
(Increase) decrease in prepaid expense	-
Increase (decrease) in accounts payable	<u>1,052</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 12,821</u>

The accompanying notes are an integral part of these statements.

HIGGINS LAKE UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Higgins Lake Utility Authority ("the Utility Authority") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the more significant polices used by the Utility Authority:

Reporting Entity

The Utility Authority was created on February 16, 2007, under Public Act 233 of 1955 to create and operate a sewage disposal and water supply system in Lyon Township of Roscommon County and Beaver Creek Township of Crawford County. The Utility Authority operates under an appointed Utility Authority Board composed of three members appointed by the Lyon Township Board, one member appointed by the Beaver Creek Township Board, and a fifth member appointed by mutual consent of both boards. Not more than one member shall be an elected township official from each township. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Utility Authority's reporting entity, and which organizations are legally separate, component units of the Utility Authority. Based on the application criteria, the Utility Authority does not contain any component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and statement of revenues, expenses and changes in net position) report information as a whole on all of the nonfiduciary activities of the Utility Authority. For the most part, the effect of interfund activity has been removed from these statements. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. All the Utility Authority's government-wide activities are considered business-type activities.

The accounts of the Utility Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenses. Currently the Authority has only one fund for the sewer activity.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenses are recognized in accounts and reported in financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

HIGGINS LAKE UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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

The Utility Authority reports the Sewer Fund account for the activity of the sewage collection system.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with standards of the Governmental Accounting Standards Board. The Utility Authority has elected to follow private-sector standards issued after November 30, 1989 for its business-type activities.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods and services or privileges provided; (2) operating grants and contributions; (3) capital grants and contributions, including special assessment (if any).

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

Assets, Liabilities, and Net Position

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments (certificates of deposit) with a maturity of 12 months or less.

Capital Assets - Capital assets, which include property, plant, equipment, infrastructure are reported in the business-type activities column of the government-wide financial statements. Capital assets are defined by the Utility Authority as assets with an initial individual cost of more than \$1000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

HIGGINS LAKE UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Position (Continued)

Property, plant, equipment and infrastructure are depreciated using the straight-line method over the following useful lives:

Sewer System	50 years
Equipment	5-10 years

Long-Term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long term obligations (if any) are reported as liabilities in the business-type activities and the proprietary fund statement of net position.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 amounts could vary from those estimates.

Deferred Outflows of Resources - In addition to assets, the statement of net position will sometimes 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 (expense/expenditure) until then. The Authority has no items that qualify for reporting in this category.

Deferred Inflows of Resources - In addition to liabilities, the statement of net position will sometimes report 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 (revenue) until that time. The Authority has no items that qualify for reporting in this category.

NOTE B - DEPOSITS AND INVESTMENTS

Deposits are carried at cost. Deposits are in one financial institution in the name of the Higgins Lake Utility Authority Treasurer. Michigan Compiled Laws, Section 129.91, as amended, authorizes the Utility Authority to deposit and invest in the accounts of a state or nationally chartered bank, a state or federally chartered savings and loan association, a savings bank, or a credit union whose deposits are insured by an agency of the U.S. government and which maintains a principal office or branch office in this state under the law of this state of the United States; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund.

HIGGINS LAKE UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE B - DEPOSITS AND INVESTMENTS (CONTINUED)

The Utility Authority's investments are in accordance with statutory authority.

At year-end, the Utility Authority's deposits were reported in the basic financial statements in the following categories:

	Business-type Activities
Cash and cash equivalents	\$ 261,681

The bank balance of the Utility Authority's deposits is \$261,881, of which 95% is covered by federal depository insurance.

Investments are classified into three categories of credit risk as follows:

- Category 1: Insured or collateralized with securities held by the Utility Authority or its agent in the Utility Authority's name.
- Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the Utility Authority's name.
- Category 3: Uncollateralized (includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Utility Authority's name).

The Utility Authority did not have any investments to be classified as to risk at year end.

NOTE C - CAPITAL ASSETS

Capital Assets Activity for the year was as follows:

	Balance 7/1/2018	Additions	Deductions	Balance 6/30/2019
Capital Assets Being Depreciated:				
Office Equipment	\$ 830	\$ -	\$ -	\$ 830
Building and improvements	10,280	-	-	10,280
Sewer System	5,587,803	-	-	5,587,803
Total	5,598,913	-	-	5,598,913
Less Accumulated Depreciation:	1,088,400	112,952	-	1,201,352
Total Net Capital Assets	\$ 4,510,513	\$ (112,952)	\$ -	\$ 4,397,561

Depreciation expense for the Authority was \$112,952.

HIGGINS LAKE UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE D - RISK MANAGEMENT

Higgins Lake Utility Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent insurance companies. Settled claims from these risks have not exceeded insurance coverage for the last fiscal year.

NOTE E - LONG TERM DEBT

The Utility Authority's outstanding debt at June 30, 2019 is composed of one sewage disposal revenue bond. The series is payable, both as to principal and interest, solely from the net revenues of the sewer system.

	Balance July 1 2018	Additions (Reductions)	Balance June 30 2019	Due Within One Year
Bond No. 1 - Issue date 1/8/08 Original amount - \$810,000 Interest at the rates of 4.0 to 5.0% due semi-annually commencing 10/8/08. Principal due annually in amounts \$40,000 commencing 10/8/08. Final Payment was recorded on 10/1/18	\$ 410,000	\$ (410,000)	\$ -0-	\$ -0-
Bond No. 2 - issue date 9/20/07 Original amount - \$3,815,000 Interest at the rate of 1.625% due semi-annually commencing 10/1/08. Principal due annually in amounts ranging from \$165,000 to \$220,000 commencing 10/1/09. Final payment due 10/1/28.	<u>2,250,000</u>	<u>(190,000)</u>	<u>2,060,000</u>	<u>190,000</u>
Totals	<u>\$2,660,000</u>	<u>\$ (600,000)</u>	<u>\$2,060,000</u>	<u>\$ 190,000</u>

Future payments due are as follows:

	Principal	Interest	Total
Year ended June 30,			
2020	\$ 190,000	\$ 31,931	\$ 221,931
2021	195,000	28,803	223,803
2022	200,000	25,594	225,594
2023	200,000	22,344	222,344
2024	205,000	19,053	224,053
2025	205,000	15,722	220,722
2026	210,000	12,350	222,350
2027	215,000	8,897	223,897
2028	220,000	5,363	225,363
2029	<u>220,000</u>	<u>1,787</u>	<u>221,787</u>
	<u>\$2,060,000</u>	<u>\$ 171,844</u>	<u>\$2,231,844</u>

NOTE F - SPECIAL ASSESSMENT

Special Assessment payments are collected by Lyon Township and distributed to the Authority for debt service payments. The Township holds all excess payments in a trust account on behalf of the Authority.



James M. Anderson, P.C.

Certified Public Accountant

P.O. Box 255 · Roscommon, MI 48653
Phone: (989) 821-8601 · Fax: (989) 563-3471 · E-mail: janderson@jmacpapc.com

November 13, 2019

Utility Authority Board
Higgins Lake Utility Authority
Higgins Lake, MI 48627

In planning and performing my audit of the financial statements of the business-type activities and the aggregate remaining fund information of the Higgins Lake Utility Authority, Higgins Lake, Michigan as of June 30, 2019, in accordance with U.S. generally accepted auditing standards, I considered the Authority's internal control over financial reporting as a basis for designing audit procedures that are appropriate in circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, I do not express an opinion of the effectiveness of the Authority's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, I identified certain deficiencies in internal control that I consider to be material weaknesses.

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

Segregation of Duties

The relatively small number of people involved in the accounting functions of the Authority and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Authority Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

Financial Reporting

My professional standards now define an element of internal control as the Authority's ability to prepare a complete set of financial statements with footnotes in accordance with U.S. generally accepted accounting principles. I am required to communicate to the Authority Board if the Authority is unable to complete this task without assistance from its auditor.

It is not uncommon that many small and medium size governmental units cannot provide the resources to accomplish this task. This is the situation with the Higgins Lake Utility Authority.

However, I have reviewed the periodic financial reporting prepared by management and provided the Authority Board and determined it is appropriate for the size of the governmental unit. This information appears to meet the reporting requirements of the Authority Board and provides it sufficient information for it to perform its oversight responsibilities.

The above comments are not intended to reflect on the performance or capability of the Utility Authority management.

This communication is intended solely for the information and use of management, the Utility Authority Board and others within the organization and is not intended to be and should not be, used by anyone other than these specified parties.



JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT



James M. Anderson, P.C.

Certified Public Accountant

P.O. Box 255 · Roscommon, MI 48653
Phone: (989) 821-8601 · Fax: (989) 563-3471 · E-mail: janderson@jmacpapc.com

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE AT THE CONCLUSION OF THE AUDIT

November 13, 2019

Utility Authority Board
Higgins Lake Utilities Authority
Higgins Lake, MI 48627

I have audited the financial statements of the Higgins Lake Utility Authority for the year ended June 30, 2019. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my letter to you dated November 11, 2019. Professional standards also require that I communicate to you the following information related to my audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Higgins Lake Utility Authority are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2018-2019. I noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the accumulated depreciation and depreciation expense is based on historical cost and estimated useful life. I evaluated the key factors and assumptions used to develop the accumulated depreciation and depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing my audit.

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

I have requested certain representations from management that are included in the management representation letter dated November 13, 2019.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Restriction on Use

This information is intended solely for the information and use of the Authority Board and management of Houghton Lake Utility Authority and is not intended to be, and should not be, used by anyone other than these specified parties.



James M. Anderson, P.C.
Certified Public Accountant