

HIGGINS LAKE UTILITIES AUTHORITY
ROSCOMMON COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2023

**HIGGINS LAKE UTILITY AUTHORITY
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INDEPENDENT AUDITOR'S REPORT

November 1, 2023

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

Opinions

I have audited the accompanying financial statements of the Higgins Lake Utilities Authority, the business-type activities, and remaining fund information as of and for the year ended June 30, 2023, 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.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and remaining fund information of the Higgins Lake Utilities Authority as of June 30, 2023, 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.

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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Higgins Lake Utilities Authority ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Higgins Lake Utilities Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Higgins Lake Utilities Authority's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that I identified during the audit.

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 4 through 7 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.



TYLER J. WATTERS, 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, 2023.

Financial Highlights

- The assets of the Utility Authority exceeded its liabilities at the close of the most recent fiscal year by \$3,149,492 (*net position*). Of this amount, \$476,047 (*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 \$3,948,445 in Capital Assets.
- The Authority had \$1,275,000 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.

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.

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

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 11 to 16 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 \$3,149,492 at the close of the most recent fiscal year.

A portion of the Utility Authority’s net position (85%) 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	%
	2023	2022		
Assets				
Current and Other Assets	\$ 485,475	\$ 416,329	\$ 69,146	16.61
Capital Assets, Net	3,948,445	4,060,604	(112,159)	(2.76)
Total Assets	<u>4,433,920</u>	<u>4,476,933</u>	<u>(43,013)</u>	<u>(0.96)</u>
Liabilities				
Current Liabilities	214,428	207,088	7,340	3.54
Long Term Liabilities	1,070,000	1,275,000	(205,000)	(16.08)
Total Liabilities	<u>1,284,428</u>	<u>1,482,088</u>	<u>(197,660)</u>	<u>(13.34)</u>
Net Position				
Invested in Capital Assets, Net of Related Debt	2,673,445	2,585,604	87,841	3.40
Unrestricted	476,047	409,241	66,806	16.32
Total Net Position	<u>\$3,149,492</u>	<u>\$2,994,845</u>	<u>\$ 154,647</u>	<u>5.16</u>

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

The Utility Authority's net position increased by \$154,647 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 \$66,806 or 16.3% during the fiscal year ended June 30, 2023.

Utility Authority's Changes in Net Position

	<u>Business - Type Activities</u>		<u>Variance</u>	<u>%</u>
	<u>2023</u>	<u>2022</u>		
Revenue				
Program Revenue				
Charges for Services	\$ 233,672	\$ 229,541	\$ 4,131	1.80
Non Operating Revenues:				
Interest Earnings	7,114	273	6,841	2,505.86
Grants and Other	-	133,170	(133,170)	(100.00)
Special Assessments	222,344	225,594	(3,250)	(1.44)
Total Revenue	<u>463,130</u>	<u>588,578</u>	<u>(125,448)</u>	<u>(21.31)</u>
Expenses				
Sewer	286,139	439,696	(153,557)	(34.92)
Interest on Long-Term Debt	22,344	25,594	(3,250)	(12.70)
Total Expenses	<u>308,483</u>	<u>465,290</u>	<u>(156,807)</u>	<u>(33.70)</u>
Increase (Decrease) in Net Position	154,647	123,288	31,359	25.44
Net Position - Beginning of Year	<u>2,994,845</u>	<u>2,871,557</u>	<u>123,288</u>	<u>4.29</u>
Net Position - End of Year	<u><u>\$3,149,492</u></u>	<u><u>\$2,994,845</u></u>	<u><u>\$ 154,647</u></u>	<u><u>5.16</u></u>

Business-type Activities.

Total revenue decreased by \$125,448. Operating expenses were down \$156,807 or 33.7% due to an insurance claim in the prior 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.

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

Capital Assets.

The Utility Authority’s investment in capital assets for its business-type activities as of June 30, 2023, amounted to \$3,948,445 (Net of Accumulated depreciation).

	2023	2022	Total % Change 2022-23
Capital Assets Being Depreciated			
Office Equipment	\$ 1,159	\$ 1,159	0.00
Building and Improvements	10,280	10,280	0.00
Sewer System	5,587,803	5,587,803	0.00
Total Capital Assets	5,599,242	5,599,242	0.00
Total Accumulated Depreciation	1,650,797	1,538,638	7.29
Total Net Capital Assets	\$ 3,948,445	\$ 4,060,604	(2.76)

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, 2023 totaled \$222,344 including interest of \$22,344 and principal of \$200,000. Bond Issue #1 was paid off early with a lump sum payment in 2019 and the outstanding principal due for issue #2 at June 30, 2023 was \$1,275,000.

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:

**Higgins Lake Utility Authority
P.O. Box 437
Higgins Lake, MI 48627
(800)989-7851
admin@hlua.org**

HIGGINS LAKE UTILITY AUTHORITY
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2023

	Business-type Activities Enterprise Fund
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 480,894
Customer receivables	4,581
Prepaid expenses	-
Total Current Assets	485,475
Noncurrent Assets:	
Capital assets	3,948,445
Total Noncurrent Assets	3,948,445
Total Assets	4,433,920
LIABILITIES	
Current Liabilities:	
Accounts payable	7,072
Deferred revenue	2,356
Current portion of long-term debt	205,000
Total Current Liabilities	214,428
Noncurrent Liabilities:	
Long-term debt	1,070,000
Total Noncurrent Liabilities	1,070,000
Total Liabilities	1,284,428
NET POSITION	
Invested in Capital Assets, Net of Related Debt	2,673,445
Unrestricted	476,047
Total Net Position	\$ 3,149,492

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, 2023

	Business-type Activities Enterprise Fund
OPERATING REVENUES	
Charges for services	\$ 233,672
Total Operating Revenues	233,672
OPERATING EXPENSES	
Board per diems	1,325
Professional services	3,235
Contracted services	77,222
Repairs and maintenance	10,971
Printing and publishing	618
Insurance	11,805
Office expenses	3,389
License and permits	3,650
Education and dues	1,426
Utilities	56,139
Rent	4,200
Depreciation	112,159
Total Operating Expenses	286,139
OPERATING INCOME (LOSS)	(52,467)
NON OPERATING REVENUES (EXPENSES)	
Interest income	7,114
Special assessments	222,344
Interest expense	(22,344)
Net Nonoperating Revenues (Expenses)	207,114
CHANGE IN NET POSITION	154,647
NET POSITION - July 1, 2022	2,994,845
NET POSITION - June 30, 2023	\$ 3,149,492

The accompanying notes are an integral part of these statements.

**HIGGINS LAKE UTILITY AUTHORITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2023**

	<u>Business-type Activities Enterprise Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 233,458
Cash payments to suppliers for goods and services	<u>(173,796)</u>
Net Cash Provided (Used) by Operating Activities	<u>59,662</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Special assessment proceeds	222,344
Principal and interest paid on bonds	(222,344)
Deferred special assessment proceeds	2,356
Capital purchases	<u>-</u>
Net Cash Provided by Capital and Related Financing Activities	<u>2,356</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	<u>7,114</u>
NET increase (decrease) in cash	69,132
CASH - July 1, 2022	<u>411,762</u>
CASH - June 30, 2023	<u><u>\$ 480,894</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	
Operating income (loss)	\$ (52,467)
Adjustments to reconcile net income to cash provided by operating activities:	
Depreciation	112,159
(Increase) decrease in customers receivables	(214)
(Increase) decrease in prepaid expense	200
Increase (decrease) in accounts payable	<u>(16)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 59,662</u></u>

The accompanying notes are an integral part of these statements.

**HIGGINS LAKE UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

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 (CONTINUED)
JUNE 30, 2023

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.

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

HIGGINS LAKE UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Position (Continued)

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 (CONTINUED)
JUNE 30, 2023

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	\$ 480,894

The bank balance of the Utility Authority’s deposits is \$482,604 of which 52% 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.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counter party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Authority’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments.

Concentration of Credit Risk

The Authority has not adopted a policy that indicates how the Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority’s investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

HIGGINS LAKE UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2023

NOTE C - CAPITAL ASSETS

Capital Assets Activity for the year was as follows:

	<u>Balance</u> <u>7/1/2022</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/2023</u>
Capital Assets Being Depreciated:				
Office Equipment	\$ 1,159	\$ -	\$ -	\$ 1,159
Building and improvements	10,280	-	-	10,280
Sewer System	5,587,803	-	-	5,587,803
Total	5,599,242	-	-	5,599,242
Less Accumulated Depreciation:	1,538,638	112,159	-	1,650,797
Total Net Capital Assets	<u>\$ 4,060,604</u>	<u>\$ (112,159)</u>	<u>\$ -</u>	<u>\$ 3,948,445</u>

Depreciation expense for the Authority was \$112,159.

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 - 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.

NOTE F – DEFERRED REVENUE

Deferred revenue consists of \$2,356 of special assessment collections that are for a future year debt service payment.



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NOTE G - LONG TERM DEBT

The Utility Authority's outstanding debt at June 30, 2023 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 2022	Additions (Reductions)	Balance June 30 2023	Due Within One Year
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.	\$ 1,475,000	\$ (200,000)	\$ 1,275,000	\$ 205,000

Future payments due are as follows:

Year ended June 30,	Principal	Interest	Total
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	220,000	1,787	221,787
	<u>\$ 1,275,000</u>	<u>\$ 63,172</u>	<u>\$ 1,338,172</u>



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COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES

November 1, 2023

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, 2023, 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.

A handwritten signature in black ink that reads "Tyler Watters CPA". The signature is written in a cursive style with a horizontal line through the middle of the letters.

TYLER J. WATTERS, P.C.
CERTIFIED PUBLIC ACCOUNTANT



Tyler J. Watters, P.C.

Certified Public Accountant

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

November 1, 2023

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, 2023. 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 September 29, 2023. 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 2022-2023. 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 1, 2023.

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.



Tyler J. Watters, P.C.
Certified Public Accountant