

LAKE MITCHELL SEWER AUTHORITY

CADILLAC, MICHIGAN

JUNE 30, 2023

LAKE MITCHELL SEWER AUTHORITY
CADILLAC, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board
Lake Mitchell Sewer Authority
Cadillac, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Lake Mitchell Sewer Authority, Wexford County, Cadillac, Michigan as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Lake Mitchell Sewer Authority, as of June 30, 2023, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lake Mitchell Sewer Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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 Lake Mitchell Sewer Authority's 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

Our 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 our 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 and *Government 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 judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement 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 Lake Mitchell Sewer 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 our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lake Mitchell Sewer Authority's ability to continue as a going concern for a reasonable period of time.

We are 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 we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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. 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2023, on our consideration of Lake Mitchell Sewer Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Lake Mitchell Sewer Authority's internal control over financial reporting or on compliance. That report is an integral part of an

audit performed in accordance with *Government Auditing Standards* in considering Lake Mitchell Sewer Authority's internal control over financial reporting and compliance.

UHY LLP

Cadillac, MI
September 14, 2023

LAKE MITCHELL SEWER AUTHORITY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2023

The management of the Lake Mitchell Sewer Authority ("the Authority") offers this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2023, for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the Authority's financial activity. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

Financial Highlights

- ❖ The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$1,758,323 (*net position*). Of this amount, \$664,128 represents unrestricted net position, which may be used to meet the Authority's ongoing obligations to citizens and creditors.
- ❖ The Authority's net position increased by \$244,161 during the fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements.

Basic Financial Statements The financial statements report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information for the Sewer System activities. The Statement of Net Position includes all of the Authority's assets, liabilities, and deferred inflows of resources, and provides information about the nature and amounts investments in resources (assets) and the obligations to its creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing its liquidity and financial flexibility.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the Authority's operations over the past year.

The Statement of Cash Flows is also required to be presented. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

These statements can be found on Pages 8-10 of this report.

Notes to Financial Statements The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on Page 11 of this report.

LAKE MITCHELL SEWER AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2023

Government-Wide Financial Analysis

As noted earlier, net position, over time, may serve as a useful indicator of a government's financial position. In the case of the Lake Mitchell Sewer Authority, assets exceeded liabilities by \$1,758,323 at the close of the most recent fiscal year.

Lake Mitchell Sewer Authority
Net Position

	2023	2022
Assets		
Current and Restricted Assets	\$ 1,500,618	\$ 1,230,614
Capital Assets	372,793	414,916
Total Assets	1,873,411	1,645,530
Liabilities	115,088	131,368
Net Position		
Net Investment in Capital Assets	372,793	414,916
Restricted for Specific Purposes	711,350	752,900
Unrestricted	674,180	346,346
Total Net Position	\$ 1,758,323	\$ 1,514,162

The most significant portion of the Authority's net position (\$711,350) reflects resources that are subject to be used for specific purposes.

An additional portion of the Authority's net position (\$372,793) reflects its investment in capital assets (e.g. buildings, equipment, infrastructure, and others), less any related outstanding debt that was used to acquire or construct those assets. The Authority uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The remaining balance of \$674,180 is unrestricted and may be used to meet the Authority's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Authority is able to report positive balances in all categories of net position. The same situation held true for the prior fiscal year.

LAKE MITCHELL SEWER AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2023

The total net position of the Authority increased \$244,161 in this fiscal year, which is an indicator that the Authority experienced positive financial growth during the year. As a result, the Authority ended the fiscal year in a slightly better condition than when the year started. The reasons for this overall increase are discussed in the following section: business-type activities.

Lake Mitchell Sewer Authority
Change in Net Position

	<u>2023</u>	<u>2022</u>
<u>Revenues</u>		
Charges for Services	\$ 1,155,636	\$ 1,024,620
Interest Income	8,197	512
Miscellaneous Income	11,208	0
Total Revenues	<u>1,175,041</u>	<u>1,025,132</u>
<u>Expenses</u>	<u>930,880</u>	<u>1,081,787</u>
Change in Net Position	244,161	(56,655)
Beginning Net Position	<u>1,514,162</u>	<u>1,570,817</u>
Ending Net Position	<u>\$ 1,758,323</u>	<u>\$ 1,514,162</u>

Business-Type Activities

For the Authority's business-type activities, the results for the current fiscal year were positive in that overall net position increased to reach an ending balance of \$1,758,323. The total increase in net position was \$244,161 from the prior fiscal year. The increase in net position was the result of user fees charged by the Authority exceeding depreciation and other expenses.

Capital Asset and Debt Administration

Capital Assets

The Authority's investment in capital assets as of June 30, 2023, amounted to \$372,793 (net of accumulated depreciation). The Authority has invested in a broad range of capital assets, as detailed below:

Lake Mitchell Sewer Authority
Capital Assets

	<u>2023</u>	<u>2022</u>
Buildings and Improvements	\$ 153,428	\$ 142,208
Machinery and Equipment	53,739	43,382
Vehicles	85,758	85,758
Investment in Sewer System	<u>2,605,673</u>	<u>2,605,673</u>
Total Assets	<u>2,898,598</u>	<u>2,877,021</u>
Less Accumulated Depreciation	<u>2,525,805</u>	<u>2,462,105</u>
Capital Assets, Net of Depreciation	<u>\$ 372,793</u>	<u>\$ 414,916</u>

LAKE MITCHELL SEWER AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2023

Major capital assets purchased during the year include:

- A generator in the amount of \$10,357.
- A new water well in the amount of \$11,220.

There were no capital asset disposals during the fiscal year.

Additional information regarding the Authority's capital assets can be found in the Notes to Financial Statements section.

Economic Outlook for the Authority

The Authority plans to continue to work with its consultants related to operation of the sewer system and future sewer system maintenance and improvements which will be paid for by user fees. Additionally, the Authority is in the process of receiving a USDA Rural Development loan to be used for a portion of significant, long overdue system improvements.

Contacting the Authority's Finance Department

This financial report is designed to provide the wide variety of users of this document with a general overview of the Authority's finances and demonstrate the Authority's accountability for the financial resources entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the Lake Mitchell Sewer Authority, 3161 South Lake Mitchell Drive, Cadillac, Michigan 49601.

LAKE MITCHELL SEWER AUTHORITY
CADILLAC, MICHIGAN

STATEMENT OF NET POSITION
JUNE 30, 2023

ASSETS

CURRENT ASSETS

Cash	\$ 586,645
Accounts Receivable	199,412
Prepaid Expense	<u>3,211</u>
Total Current Assets	<u>789,268</u>

NONCURRENT ASSETS

RESTRICTED ASSETS

Cash	
Repair & Replacement Account	386,007
Cherry Grove Township Restricted Cash Account	<u>325,343</u>
Total Restricted Assets	<u>711,350</u>

CAPITAL ASSETS - (Net of Accumulated Depreciation)

Assets Being Depreciated	<u>372,793</u>
TOTAL ASSETS	<u>1,873,411</u>

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	<u>115,088</u>
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NET POSITION

Net Investment in Capital Assets	372,793
Restricted for Specific Purposes	711,350
Unrestricted	<u>674,180</u>
TOTAL NET POSITION	<u>\$ 1,758,323</u>

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

LAKE MITCHELL SEWER AUTHORITY
CADILLAC, MICHIGAN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2023

OPERATING REVENUES

Charges for Services	\$ 1,155,636
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OPERATING EXPENSES

Supplies	
Office Supplies	15,049
Operating Supplies	5,662
Other Services and Charges	
Professional and Contractual Services and Fees	667,536
Utilities	109,769
Insurance	6,059
Repairs and Maintenance	56,090
Depreciation	63,700
Miscellaneous	7,015

Total Operating Expenses	930,880
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Operating Income (Loss)	224,756
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NONOPERATING REVENUES (EXPENSES)

Interest	8,197
Miscellaneous Income	11,208

Total Nonoperating Revenues (Expenses)	19,405
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Change in Net Position	244,161
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<u>NET POSITION</u> - Beginning of Year	1,514,162
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<u>NET POSITION</u> - End of Year	\$ 1,758,323
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The accompanying notes are an integral part of these financial statements.

LAKE MITCHELL SEWER AUTHORITY
CADILLAC, MICHIGAN

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2023

Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 1,138,162
Cash Received from Miscellaneous Sources	11,208
Cash Payments to Suppliers for Goods and Services	<u>(883,823)</u>
Net Cash Provided by (Used for) Operating Activities	265,547
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(21,577)
Cash Flows from Investing Activities:	
Interest Income	<u>8,197</u>
Net Increase (Decrease) in Cash and Cash Equivalents	252,167
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	
(Includes Restricted Cash)	<u>1,045,828</u>
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	
(Includes Restricted Cash)	<u><u>\$ 1,297,995</u></u>
<u>RECONCILIATION OF OPERATING INCOME</u>	
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	
Operating Income (Loss)	<u>\$ 224,756</u>
Adjustments to Reconcile Operating Income to	
Cash Provided by Operating Activities	
Depreciation and Amortization	63,700
(Increase) Decrease in:	
Accounts Receivable	(17,474)
Prepaid Expense	(363)
Increase (Decrease) in:	
Accounts Payable	(16,280)
Miscellaneous Income	<u>11,208</u>
Total Adjustments	<u>40,791</u>
<u>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>	<u><u>\$ 265,547</u></u>

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

LAKE MITCHELL SEWER AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary governmental is financially accountable.

B. Reporting Entity

The Lake Mitchell Sewer Authority, ("the Authority"), is a public municipal authority incorporated pursuant to Act 233 of the Public Acts of Michigan of 1955, as amended. The Authority was incorporated in 2015 by Cherry Grove Township, Selma Township, and Clam Lake Township, all located in Wexford County. The Authority was formed for the purpose of acquiring, owning, improving, enlarging, extending, and operating a sewage disposal system and related facilities within existing and future sewer service districts of the members.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the Authority's funds. Separate statements for each fund category – proprietary – are presented. The emphasis of fund financial statements is on major enterprise funds. Major individual enterprise funds are reported as separate columns in the fund financial statements.

Lake Mitchell Sewer Authority only reports one enterprise fund which is used to account for the sewer activities of the Authority. The Authority operates the sewer system for residents of Cherry Grove, Selma, and Clam Lake Townships located in the service area.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

LAKE MITCHELL SEWER AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

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

Proprietary funds are accounted for on the flow of *economic resources measurement focus* and use the *accrual basis of accounting*. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of timing of related cash flows. Proprietary funds include a type of fund called enterprise funds. Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

F. Budgetary Information

Currently the Authority has no outstanding bonds. As such it is not required to prepare an annual budget. Formal budgetary control is not imposed under State of Michigan laws on proprietary fund types.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments. The Authority considers all highly liquid investments (including certificates of deposit) to be cash equivalents.

2. Investments

The investment policy adopted by the Authority states that the Authority is limited to investments authorized by Public Act 20 of 1943 (MCL 129.91 et seq), as amended, or as shall be amended in the future, and may include the following:

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution. Authorized depositories shall be designated by the Lake Mitchell Sewer Authority Board at the Board's organizational meeting after each regular election of members.
- (c) Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.

LAKE MITCHELL SEWER AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

(d) Investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (ex Sess) PA7, MCL 124.501 to 124.512.

(e) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.11 to 129.118.

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as acquired.

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

4. *Restricted Assets*

Certain resources of the Authority are classified as restricted assets on the balance sheet because the use is limited by authoritative legislature to be used for specific purposes.

5. *Capital Assets*

Capital assets of the Authority are recorded at cost. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) 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. Capital assets donated to the Authority are recorded at their acquisition value at the date of donation.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed.

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

Buildings and Improvements	10-75	Years
Machinery and Equipment	5-15	Years
Infrastructure	20-75	Years

6. *Unearned Revenue*

Unearned revenue arises when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized. The Authority does not have unearned revenue.

LAKE MITCHELL SEWER AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

7. *Deferred Outflows/Inflows 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 does not have any items that fit these criteria.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. The 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 does not have any items that fit these criteria.

8. *Net Position Flow Assumption*

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

9. *Fund Balance Flow Assumption*

Sometimes the government will fund outlays for a particular purpose both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance.

10. *Use of Estimates*

The presentation of financial statements in conformity with generally accepted accounting principles 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 results could differ from those estimates.

H. Revenues and Expenditures/Expenses

1. *Proprietary Funds Operating and Nonoperating Revenues and Expenses*

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods

LAKE MITCHELL SEWER AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for services. Operating expenses for the enterprise fund include cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. DETAILED NOTES ON ALL FUNDS

A. Cash Deposits with Financial Institutions

As of June 30, 2023, the Entity had deposits subject to the following risk:

Custodial credit risk – deposits. In the case of deposits, this is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2023, \$805,005 of the government's bank balance of \$1,305,005 was exposed to custodial credit risk because it was uninsured and uncollateralized. As of June 30, 2023, deposits of \$1,297,995 are reported on the financial statements as cash, with \$711,350 being restricted cash.

Interest rate risk. The Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSOs). Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Concentration of credit risk. The Township will minimize Concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township'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.

Foreign currency risk. The Township is not authorized to invest in investments which have this type of risk; therefore, it is not addressed in the investment policy.

B. Receivables

Receivables as of year-end for the Authority were \$199,412. By ordinance, the Authority can place substantially all of its delinquent receivables on the tax rolls as a lien against real property. As a result, its uncollectible accounts are virtually nil.

LAKE MITCHELL SEWER AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

C. Capital Assets

A summary of changes in the Authority's capital assets follows:

	Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023
Capital Assets, being depreciated				
Buildings and Improvements	\$ 142,208	\$ 11,220	\$ 0	\$ 153,428
Machinery and Equipment	43,382	10,357	0	53,739
Vehicles	85,758	0	0	85,758
Investment in Sewer System	2,605,673	0	0	2,605,673
Total Capital Assets, being depreciated	2,877,021	21,577	0	2,898,598
Less Accumulated Depreciation for:				
Buildings and Improvements	141,961	399	0	142,360
Machinery and Equipment	43,382	777	0	44,159
Vehicles	61,466	10,410	0	71,876
Investment in Sewer System	2,215,296	52,114	0	2,267,410
Total Accumulated Depreciation	2,462,105	63,700	0	2,525,805
Net Capital Assets	\$ 414,916	\$ (42,123)	\$ 0	\$ 372,793

Depreciation expense for the year ended June 30, 2023, amounted to \$63,700.

III. OTHER INFORMATION

A. Interest Income and Expense

For the year ended June 30, 2023, interest income on deposits was \$8,197.

B. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority purchases commercial insurance for insuring property and casualty, crime, general liability and errors and omissions. The Authority pays annual premiums to the insurance company for the respective insurance coverage. The Authority has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

C. Subsequent Event

After June 30, 2023, the Authority executed two contracts related to the rehabilitation of the sewer systems. Contract 1 in the amount of \$4,371,550 is for grinder pump stations improvements, gravity main cleaning and televising. Contract 2 in the amount of \$4,884,000 is for pump station upgrades. No adjustments were made to the financial statements as a result of the subsequent event.

D. Contingency

Under the terms of various federal and state grants and regulatory requirements, periodic audits are required, and certain cost may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the Authority. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

E. Restricted Net Position

The \$711,350 restricted net position reported on the statement of net position represents monies restricted by agreements and rate regulations:

Repair & Replacement Account	\$ 386,007
Cherry Grove Township Restricted Cash Account	<u>325,343</u>
Total Restricted Net Position	<u>\$ 711,350</u>

F. USDA Rural Development Loan

On July 21, 2020, the Lake Mitchell Sewer Authority signed USDA Form RD 1940-1 "Request for Obligation of Funds". By signing this form, the Authority is conditionally approved for a loan in the amount of \$9,388,000. The term of the loan will be 40 years and the interest rate will be the lower of the rate at the time of loan closing or the rate at the time Form RD 1940-1 is approved by the USDA. The rate at July 21, 2020 was 1.875%. The loan will be used to rehabilitate and/or replace the sewer infrastructure.

G. Administrative Consent Order

On September 14, 2022, the Authority entered into an Administrative Consent Order (ACO) with the State of Michigan. This ACO requires the Authority to upgrade the Sewer System based on an agreed upon timeline. The current phase of the required upgrade contracts have been awarded and will be primarily funded with the USDA Rural Development Loan. However, this funding will not cover the next phase of the agreed upon required rehabilitation of the system. The Authority is continuing to explore ways to finance the future required rehabilitation.