

LAKE MITCHELL SEWER AUTHORITY

CADILLAC, MICHIGAN

JUNE 30, 2021



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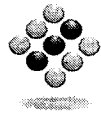
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LAKE MITCHELL SEWER AUTHORITY
CADILLAC, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2021

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September 16, 2021

INDEPENDENT AUDITOR'S REPORT

To the Board
Lake Mitchell Sewer Authority
Cadillac, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Lake Mitchell Sewer Authority, Wexford County, Cadillac, Michigan as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Lake Mitchell Sewer Authority, Wexford County, Cadillac, Michigan as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iii through vi 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 16, 2021, 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.

BAIRD, COTTER AND BISHOP, P.C.

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LAKE MITCHELL SEWER AUTHORITY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2021

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, 2021, 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 \$1,570,817 (*net position*). Of this amount, \$278,375 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 \$542,611 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 1-3 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 4 of this report.

LAKE MITCHELL SEWER AUTHORITY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2021

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 \$1,570,817 at the close of the most recent fiscal year.

Lake Mitchell Sewer Authority
Net Position

	2021	2020
Assets		
Current and Restricted Assets	\$ 1,232,711	\$ 566,553
Capital Assets	477,950	540,985
Total Assets	<u>1,710,661</u>	<u>1,107,538</u>
Liabilities	<u>139,844</u>	<u>79,332</u>
Net Position		
Net Investment in Capital Assets	477,950	540,985
Restricted for Specific Purposes	814,492	0
Unrestricted	<u>278,375</u>	<u>487,221</u>
Total Net Position	<u><u>\$ 1,570,817</u></u>	<u><u>\$ 1,028,206</u></u>

The most significant portion of the Authority's net position (\$814,492) reflects resources that are subject to be used for specific purposes.

An additional portion of the Authority's net position (\$477,950) reflects its investment in capital assets (e.g. land, 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 \$278,375 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.

The total net position of the Authority increased \$542,611 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 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
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2021

Lake Mitchell Sewer Authority
Change in Net Position

	<u>2021</u>	<u>2020</u>
<u>Revenues</u>		
Charges for Services	\$ 975,031	\$ 878,830
Gain on Sale of Capital Assets	0	3,000
Contributions from Local Units	692,640	0
Miscellaneous Revenue	620	3,743
Total Revenues	<u>1,668,291</u>	<u>885,573</u>
<u>Expenses</u>	<u>1,125,680</u>	<u>865,360</u>
Change in Net Position	542,611	20,213
Beginning Net Position	<u>1,028,206</u>	<u>1,007,993</u>
Ending Net Position	<u><u>\$ 1,570,817</u></u>	<u><u>\$ 1,028,206</u></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 \$1,570,817. The total increase in net position was \$542,611 from the prior fiscal year. The increase in net position was the result of a contribution from Cherry Grove Township.

Capital Asset and Debt Administration

Capital Assets

The Authority's investment in capital assets as of June 30, 2021, amounted to \$477,950 (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>2021</u>	<u>2020</u>
Land, Buildings and Building Improvements	\$ 142,208	\$ 142,208
Machinery and Equipment	43,382	43,382
Vehicles	85,758	85,758
Investment in Sewer System	<u>2,605,673</u>	<u>2,605,673</u>
Total Assets	2,877,021	2,877,021
Less Accumulated Depreciation	<u>2,399,071</u>	<u>2,336,036</u>
Capital Assets, Net of Depreciation	<u><u>\$ 477,950</u></u>	<u><u>\$ 540,985</u></u>

LAKE MITCHELL SEWER AUTHORITY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2021

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 applying for a USDA Rural Development loan to be used for 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, 2021

ASSETS

CURRENT ASSETS

Cash	\$ 260,270
Accounts Receivable	155,216
Prepaid Expense	<u>2,733</u>
Total Current Assets	<u>418,219</u>

NONCURRENT ASSETS

RESTRICTED ASSETS

Cash	
Repair & Replacement Account	266,225
Cherry Grove Township Restricted Cash Account	<u>548,267</u>
Total Restricted Assets	<u>814,492</u>

CAPITAL ASSETS

Land, Buildings and Building Improvements	142,208
Machinery and Equipment	43,382
Vehicles	85,758
Investment in Sewer System	<u>2,605,673</u>

Total Capital Assets	2,877,021
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Less Accumulated Depreciation	<u>2,399,071</u>
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Net Capital Assets	<u>477,950</u>
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TOTAL ASSETS	<u>1,710,661</u>
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LIABILITIES

CURRENT LIABILITIES

Accounts Payable	<u>139,844</u>
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NET POSITION

Net Investment in Capital Assets	477,950
Restricted for Specific Purposes	814,492
Unrestricted	<u>278,375</u>

TOTAL NET POSITION	<u>\$ 1,570,817</u>
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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, 2021

OPERATING REVENUES

Charges for Services	\$ 975,031
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OPERATING EXPENSES

Supplies	
Office Supplies	6,618
Operating Supplies	2,906
Other Services and Charges	
Professional and Contractual Services and Fees	783,353
Utilities	107,214
Insurance	5,442
Repairs and Maintenance	154,545
Depreciation	63,035
Miscellaneous	2,567

Total Operating Expenses	<u>1,125,680</u>
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Operating Income (Loss)	<u>(150,649)</u>
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NONOPERATING REVENUES (EXPENSES)

Contributions from Local Units	692,640
Miscellaneous Revenue	<u>620</u>

Total Nonoperating Revenues (Expenses)	<u>693,260</u>
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Change in Net Position	542,611
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<u>NET POSITION</u> - Beginning of Year	<u>1,028,206</u>
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<u>NET POSITION</u> - End of Year	<u><u>\$ 1,570,817</u></u>
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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, 2021

Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 1,113,384
Cash Payments to Suppliers for Goods and Services	<u>(1,002,157)</u>
Net Cash Provided by (Used for) Operating Activities	<u>111,227</u>
Cash Flows from Capital and Related Financing Activities:	
Operating Grants	692,640
Miscellaneous Income	<u>620</u>
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>693,260</u>
Net Increase (Decrease) in Cash and Cash Equivalents	804,487
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	<u>270,275</u>
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	<u><u>\$ 1,074,762</u></u>
<u>RECONCILIATION OF OPERATING INCOME</u>	
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	
Operating Income (Loss)	<u>\$ (150,649)</u>
Adjustments to Reconcile Operating Income to	
Cash Provided by Operating Activities	
Depreciation and Amortization	63,035
(Increase) Decrease in:	
Accounts Receivable	138,353
Prepaid Expense	(24)
Increase (Decrease) in:	
Accounts Payable	<u>60,512</u>
Total Adjustments	<u>261,876</u>
<u>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>	<u><u>\$ 111,227</u></u>

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

LAKE MITCHELL SEWER AUTHORITY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

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, 2021

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
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

(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 Building Improvements	10-75	Years
Machinery and Equipment	5-15	Years
Land Improvements	25-50	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
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

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 this 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 this 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.

LAKE MITCHELL SEWER AUTHORITY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

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 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 and Investments

The Authority's deposits are all on deposit with TCF Bank in Cadillac, Michigan.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2021, \$582,091 of the Authority's bank balance of \$1,082,091 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the Township's investment policy does not specifically address custodial credit risk, the Township typically limits its exposure to such risk by controlling who holds the Township's deposits.

Interest rate risk. The Authority 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 Authority'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).

Concentration of credit risk. 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.

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

LAKE MITCHELL SEWER AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

Fair Market Value Disclosure - The Authority is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. These may include quoted prices from similar activities, interest rates, prepayment speeds, credit risk, and others. Debt securities are valued in accordance with evaluated bid price supplied by the pricing service and generally categorized as Level 2 in the hierarchy. Securities that are categorized as Level 2 in the hierarchy include, but are not limited to, repurchase agreements, U.S. government agency securities, corporate securities, and commercial paper.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the reporting entity's own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There are two types of valuation techniques most commonly used and vary depending on the level of investment. These two techniques are the market approach and income approach. The market approach uses prices and other relevant information generated by the market transactions involving identical or similar assets and liabilities. The income approach discounts future amounts to a single current amount and the discount rate used in the process should reflect current market expectations about risks associated with those future cash flows.

The Authority does not have any investments subject to the fair value measurement.

The carrying amount of deposits and investments is as follows:

	<u>Total</u>
Deposits	<u>\$ 1,074,762</u>

LAKE MITCHELL SEWER AUTHORITY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

The above amounts are reported in the financial statements as follows:

	<u>Total</u>
Cash	\$ 260,270
Cash - Restricted	<u>814,492</u>
	<u>\$ 1,074,762</u>

B. Receivables

Receivables as of year-end for the Authority were \$155,216. 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.

C. Capital Assets

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

	Balance July 1, 2020	Additions	Deletions	Balance June 30, 2021
Capital Assets, being depreciated				
Land, Buildings and Building Improvements	\$ 142,208	\$ 0	\$ 0	\$ 142,208
Machinery and Equipment	43,382	0	0	43,382
Vehicles	85,758	0	0	85,758
Investment in Sewer System	<u>2,605,673</u>	<u>0</u>	<u>0</u>	<u>2,605,673</u>
Total Capital Assets, being depreciated	<u>2,877,021</u>	<u>0</u>	<u>0</u>	<u>2,877,021</u>
Less Accumulated Depreciation for:				
Land, Buildings and Building Improvements	140,940	511	0	141,451
Machinery and Equipment	43,382	0	0	43,382
Vehicles	40,646	10,410	0	51,056
Investment in Sewer System	<u>2,111,068</u>	<u>52,114</u>	<u>0</u>	<u>2,163,182</u>
Total Accumulated Depreciation	<u>2,336,036</u>	<u>63,035</u>	<u>0</u>	<u>2,399,071</u>
Net Capital Assets	<u>\$ 540,985</u>	<u>\$ (63,035)</u>	<u>\$ 0</u>	<u>\$ 477,950</u>

Depreciation expense for the year ended June 30, 2021, amounted to \$63,035.

LAKE MITCHELL SEWER AUTHORITY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

III. OTHER INFORMATION

A. Interest Income and Expense

For the year ended June 30, 2021, interest income on deposits and investments was \$111.

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.

C. 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.

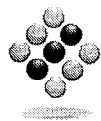
D. Restricted Net Position

The \$558,865 restricted net position reported on the statement of net position represents monies restricted by agreements and rate regulations:

Repair & Replacement Account	\$ 266,225
Cherry Grove Township Restricted Cash Account	<u>548,267</u>
Total Restricted Net Position	<u><u>\$ 814,492</u></u>

E. 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%, however, as noted above, this rate may change. If funded, the loan will be used to rehabilitate and/or replace the sewer infrastructure.



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September 16, 2021

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

To the Board
Lake Mitchell Sewer Authority
Cadillac, Michigan

We have audited the financial statements of Lake Mitchell Sewer Authority for the year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 16, 2020. Professional standards also require that we communicate to you the following information related to our 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 Lake Mitchell Sewer Authority are described in Note I to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during fiscal year 2020-2021. We noted no transactions entered into by Lake Mitchell Sewer 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 estimates affecting the Lake Mitchell Sewer Authority's financial statements were:

Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the estimates in determining that they are 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

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

Corrected and Uncorrected Misstatements

Professional standards require us 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. The material misstatements detected as a result of audit procedures were corrected by management and were related to adjusting financial records from cash basis to the modified accrual basis of accounting.

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 our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 16, 2021.

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 Lake Mitchell Sewer Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

During the course of our audit of the basic financial statements of the Lake Mitchell Sewer Authority for the year ended June 30, 2021, we noted the following item which we feel deserves comment:

Bank Reconciliations

During our audit we noticed bank reconciliations were started timely, but not all reconciling items were dealt with in a timely manner to fully complete the reconciliation process. Typical internal controls are either preventative or detective and corrective. In this case the internal control worked to detect the bank reconciliation issue; however, the corrective piece of the control was not done timely. We recommend the bank balances be reconciled to the general ledger each month and any differences be investigated and corrected in a timely manner.

Other Matters

We applied certain limited procedures to the Management Discussion and Analysis, which is required supplementary information (RSI). Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restrictions on Use

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

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September 16, 2021

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

To the Board
Lake Mitchell Sewer Authority
Cadillac, Michigan

In planning and performing our audit of the financial statements of Lake Mitchell Sewer Authority as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we considered Lake Mitchell Sewer Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lake Mitchell Sewer Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Lake Mitchell Sewer Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section 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, we identified certain deficiencies in internal control that we 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 entity'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. We consider the following deficiencies in internal control to be material weaknesses:

1) *Lack of Segregation of Duties*

Criteria: Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the government. A key element of internal control is the segregation of incompatible duties.

Condition: The government has certain accounting functions that are performed by the same individual and are not subject to a consistent documented independent review and approval.

Cause: This condition is primarily the result of staffing constraints typical of smaller governmental units. Some of the control activities may be occurring on a routine basis but are not being documented.

Effect: As a result of this condition, the government is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected by management on a timely basis.

Recommendation: There are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties. Recognizing this fact, we encourage the government to mitigate this risk by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials: Management recognizes that this limitation is a natural outgrowth of the small number of staff and applies its judgment in determining how best to allocate the government's resources to provide an appropriate balance between sound internal controls and fiscal prudence.

Corrective Action Plan: The government is unable to hire additional employees at this time to improve the segregation of duties within the accounting function. We realize that segregation of duties is important in order to increase internal control. Management oversight has been an alternative means of monitoring internal control along with continuing to try and reassign some duties within the accounting process to other individuals. Management will continue to monitor the situation and explore cost effective ways to improve this internal control limitation.

2) *Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements*

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including related footnotes (i.e., external financial reporting).

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditor to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Cause: This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the government's internal controls over the preparation of financial statements in accordance with GAAP are incomplete. Instead, the government relies, in part, on its external auditors for assistance with this task.

Recommendation: Due to the complexity of GAAP financial statements and the costs required to obtain knowledge to prepare them, it is recommended that the Authority continue to outsource this service.

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

Corrective Action: The Authority has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interest of the Authority to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation. The persons responsible for the corrective action is the Authority Board. Unless circumstances change, the Authority Board will continue to rely on its external auditors and realizes this comment will be repeated in subsequent years.

Lake Mitchell Sewer Authority's written response to the material weaknesses identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly we express no opinion on it.

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

BAIRD, COTTER AND BISHOP, P.C.

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