

Northport/Leelanau Township Utilities Authority

Leelanau County, Michigan

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

February 28, 2022

Dennis, Gartland & Niergarth

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Northport/Leelanau Township Utilities Authority

MANAGEMENT’S DISCUSSION AND ANALYSIS

Year Ended February 28, 2022

Northport/Leelanau Township Utilities Authority (“the Authority”), a local governmental unit located in Leelanau County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management’s Discussion and Analysis, a requirement of GASB 34, is intended to be the Authority’s administration’s discussion and analysis of the financial results for the fiscal year ended February 28, 2022 along with specific comparative information as required.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant highlights for the year ended February 28, 2022.

- The Authority’s net assets decreased by \$18,291 or 6.9% in 2022, compared to a decrease of \$47,210 or 15.2% in 2021. Operating revenues increased by approximately \$24,000 in 2022 whereas expenses remained relatively flat compared to 2021.
- The Authority invested \$55,708 in capital assets during the year.

Overview of the Financial Statements

This annual report includes this management’s discussion and analysis report, the independent auditors’ report and the basic financial statements of the Authority. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the Authority 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 about its activities. The Statement of Net Position includes all of the Authority’s assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

All of the current year’s revenues and expenses are accounted for in the Statement of Revenue, Expenses and Changes in Net Position. This statement measures the success of the Authority’s operations over the past year and can be used to determine whether the Authority has successfully recovered all of its costs through its user fees and other charges, profitability and credit worthiness.

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

Notes to Financial Statements

The accompanying notes to financial statements provide information essential to a full understanding of the financial statements. The notes to financial statements are presented on pages 8-14 of this report,

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The Authority as a Whole

The following table shows, in a condensed format, the net position as of the current date compared to the prior year:

	<u>2022</u>	<u>2021</u>
Assets		
Current assets	\$ 793,613	\$ 703,820
Capital assets, net of accumulated depreciation	<u>207,401</u>	<u>173,704</u>
TOTAL ASSETS	<u>\$1,001,014</u>	<u>\$ 877,524</u>
Liabilities		
Current liabilities	<u>\$ 755,073</u>	<u>\$ 613,292</u>
Net Position		
Invested in capital assets, net of related debt	207,401	173,704
Unrestricted	<u>38,540</u>	<u>90,528</u>
Total net position	<u>245,941</u>	<u>264,232</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$1,001,014</u>	<u>\$ 877,524</u>

Results of Operations

For the fiscal years ended February 28, 2022 and 2021, results of operations were as follows:

	<u>2022</u>	<u>%</u>	<u>2021</u>	<u>%</u>
Operating revenue	<u>\$ 385,631</u>	<u>100.00%</u>	<u>\$ 361,403</u>	<u>100.0%</u>
Expenses				
Other operating expenses	\$ 381,911	99.0%	\$ 394,313	109.1%
Depreciation	<u>22,011</u>	<u>5.7%</u>	<u>14,300</u>	<u>4.0%</u>
Total expenses	<u>403,922</u>	<u>104.7%</u>	<u>408,613</u>	<u>113.1%</u>
Change in Net Position	<u>\$ (18,291)</u>	<u>(4.7%)</u>	<u>\$ (47,210)</u>	<u>(13.1%)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Capital Assets and Debt Administration

Capital Assets

The Authority's investment in capital assets as of February 28, 2022, amounted to \$207,401, net of accumulated depreciation. A summary of changes in capital assets for the year then ended follows:

	<u>Balance</u> <u>3/1/2021</u>	<u>2021-22</u> <u>Additions</u>	<u>2021-22</u> <u>Disposals</u>	<u>Balance</u> <u>2/28/2022</u>
Land improvements	\$ 106,597	\$ -	\$ -	\$ 106,597
Plant equipment	130,109	55,708	-	185,817
Office furniture and equipment	<u>15,337</u>	<u>-</u>	<u>-</u>	<u>15,337</u>
	252,043	55,708	-	307,751
Less: accumulated depreciation	<u>(78,339)</u>	<u>(22,011)</u>	<u>-</u>	<u>(100,350)</u>
Net capital assets	<u>\$ 173,704</u>	<u>\$ 33,697</u>	<u>\$ -</u>	<u>\$ 207,401</u>

Debt Administration

The Authority had no long-term debt as of February 28, 2022 and 2021.

Economic Factors and Next Year's Budget and Rates

The management of the Authority considered many factors in setting the fiscal year 2023 budget. As always, the overriding factor was to keep expenses at or below the amount of revenue. The majority of revenue generated by the Authority is derived from operations and maintenance fees. These fees are collected from sewer customers residing in the Village of Northport and Leelanau Township. The fees are based upon a fixed amount per Residential Equivalent Unit (REU) and are billed quarterly. During the year ended February 28, 2022, the Authority approved a \$23 increase per REU per quarter. The Authority continues to evaluate the possibility of further increases in quarterly operation fees in order to build reserves for potential system failures and capital expenditures.

Subsequent to February 28, 2022, it was observed there was a reduction in flow along a portion of the gravity sewer main on North Shore Drive. The affected portion of the main is approximately 995' long. The estimated cost to repair the sewer main is in the range of \$150,000 to \$350,000. The Authority has obtained an advance from the Village of Northport in the amount of \$350,000 to cover this repair. The advance bears interest at a rate of 2% and is payable over 5 years.

Contacting the Authority's Management

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the revenues it receives. If you have any questions concerning this report please contact Joni Scott at (231) 386-5182.



DENNIS, GARTLAND & NIERGARTH
Business Advisors Since 1973

Certified Public Accountants

Brad P. Niergarth, CPA
James G. Shumate, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA
Shelly A. Ashmore, CPA
James M. Taylor, CPA
Trina B. Ochs, CPA
John A. Blair, CPA
Aaron J. Mansfield, CPA
Elizabeth A. Hedden, CPA
Jonathan P. Benjamin, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Northport/Leelanau Township Utilities Authority

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of the Northport/Leelanau Township Authority (the "Authority"), as of and for the year ended February 28, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table on contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority as of February 28, 2022 and the respective changes in financial position and 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 the 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.

To the Board of Trustees
Northport/Leelanau Township Utilities Authority

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 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 judgment 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 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 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.

To the Board of Trustees
Northport/Leelanau Township Utilities Authority

Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Township'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 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standard 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.

Certified Public Accountants
Traverse City, Michigan

December 16, 2022

Northport/Leelanau Township Utilities Authority

STATEMENT OF NET POSITION

February 28, 2022

ASSETS

Current Assets

Cash and cash equivalents	\$ 621,888
Accounts receivable, net	133,933
Other receivables	31,883
Prepaid expenses	<u>5,909</u>

Total Current Assets 793,613

Non-current Assets

Capital assets, net of accumulated depreciation	<u>207,401</u>
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Total Assets \$ 1,001,014

Liabilities

Accounts payable	\$ 9,222
Accrued expenses	1,684
Due to other governmental units	<u>744,167</u>

Total liabilities 755,073

Net Position

Net investment in capital assets	207,401
Unrestricted	<u>38,540</u>

Total Net Position \$ 245,941

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

Northport/Leelanau Township Utilities Authority

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

Year Ended February 28, 2022

Operating Revenue	
Charges for services	\$ 381,464
Other revenue	4,167
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Total operating revenue	385,631
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Operating Expenses	
Contractual services	229,343
Utilities	77,775
Salaries and related expenses	34,071
Depreciation	22,011
Repairs and maintenance	17,038
Operating supplies	10,404
Insurance and bonds	7,303
Permits	4,434
Other	1,055
Professional fees and services	488
	<hr/>
	403,922
	<hr/>
Change in Net Position	(18,291)
Net Position, beginning of year	264,232
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Net Position, end of year	\$ 245,941
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The accompanying notes are an integral part of these financial statements.

Northport/Leelanau Township Utilities Authority

STATEMENT OF CASH FLOWS

Year Ended February 28, 2022

Cash Flows From Operating Activities	
Receipts from customers	\$ 394,778
Payments to suppliers for goods and services	(385,826)
Payments to employees	<u>(33,508)</u>
Cash flows from operating activities	<u>(24,556)</u>
Cash Flows from Non-Capital Financing Activities	
Increase in amounts due to other governmental units	173,911
Amounts paid to other governmental units	<u>(26,858)</u>
Cash flows from non-capital financing activities	<u>147,053</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition of capital assets	<u>(55,709)</u>
Net Increase in Cash and Cash Equivalents	66,788
Cash and Cash Equivalents, beginning of year	<u>555,100</u>
Cash and Cash Equivalents, end of year	<u>\$ 621,888</u>

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

Northport/Leelanau Township Utilities Authority

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The accounting and reporting framework and the more significant accounting principles and practices of Northport/Leelanau Township Utilities Authority (the “Authority”) are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the Authority’s financial activities for the fiscal year ended February 28, 2022.

Description of Authority Operations and Fund Types

The Authority operates as a joint venture under the supervision and control of a Board consisting of two representatives each from the Village of Northport and Leelanau Township and one additional representative appointed by mutual consent and action of both the Leelanau Township Board and the Northport Village Council. The Authority was established as a joint venture among the above-mentioned municipalities to acquire, own, improve, enlarge, extend and operate a sewage disposal system in under the provisions of Act 233, Public Acts of Michigan, 1955, as amended.

The basic financial statements of the Authority are prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. All activities over which the Authority exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the Authority are not misleading. The primary government of the Authority consists of all funds, departments, boards, and agencies that are not legally separate from the Authority.

Component units are legally separate organizations for which the Authority is financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization’s governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

Northport/Leelanau Township Utilities Authority

NOTES TO FINANCIAL STATEMENTS

In addition, the primary government is also financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a high level of government, or (3) a jointly appointed board. The Authority does not have any component units.

Fund Accounting

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Proprietary Fund

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

The Authority's Enterprise Fund reports operations that provide services which are financed primarily by user charges or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

Basis of Presentation

The Authority's basic financial statements consist of a statement of net position, a statement of revenue, expenses and changes in net position, and a statement of cash flows. Government wide financial statements report information about the Authority as a whole. The Authority has only one fund which is business-type in nature, so the financial statements present one set of statements that meets both the government-wide and fund requirements.

A statement of net position provides information about the assets, liabilities, and net position of the Authority at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net position is classified according to external donor restrictions or availability of assets to satisfy Authority obligations. Net investment in capital assets represents the value of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.

Unrestricted net position includes all other net position, including that which has been designated by management to be used for other than general operation purposes.

A statement of revenue, expenses and changes in net position provides information about the Authority's financial activities during the year ended February 28, 2022. Revenue and expenses are classified as either operating or nonoperating, and all changes in net position are reported, including capital contributions. Operating revenues and expenses generally result from providing the use of sewer disposal systems. Operating expenses include the cost of maintaining the sewer disposal system, administrative expenses, and fixed asset depreciation.

Northport/Leelanau Township Utilities Authority

NOTES TO FINANCIAL STATEMENTS

A statement of cash flows provides information about the Authority's sources and uses of cash and cash equivalents during the year ended February 28, 2022. Increases and decreases in cash and cash equivalents are classified as either operating, noncapital financing, capital financing, or investing.

Measurement Focus and Basis of Accounting

The term measurement focus is used to denote what is being measured and reported in the Authority's operating statement. The Authority is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Authority is better off or worse off economically as a result of events and transactions of the period.

The term basis of accounting is used to determine when a transaction or event is recognized on the Authority's operating statement. The Authority uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipts may not occur until after the period ends.

Cash and Cash Equivalents

For presentation on the financial statements, investments in cash, management pools and investments with an original maturity of three months or less at the time they are purchased by the Authority are considered to be cash equivalents.

Receivables

Receivables generally consist of accounts due from customers. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectability. The allowance for doubtful accounts at February 28, 2022 was \$0.

Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the statement of net position.

Northport/Leelanau Township Utilities Authority

NOTES TO FINANCIAL STATEMENTS

Capital Assets

Capital assets are stated at cost. Depreciation has been provided using the straight-line method over the estimated useful life of the assets.

Capital assets are defined by the Authority as assets with an initial individual cost of more than \$1,000. Expenditures for maintenance, repairs and renewals are charged to operations as incurred and betterments are capitalized. The Authority eliminates the cost and related allowances from the accounts for assets sold or retired and resulting gains or losses therefrom are included in operations concurrently. Donated fixed assets are recorded at their fair market values as of the date received.

Capital assets are depreciated using the straight-line method over the following useful lives:

Improvements, other than buildings	20 years
Plant equipment	5 to 20 years
Office equipment	5 years

Net Position

Net position represents the difference between assets less liabilities. The Authority reports three categories of net position on the government-wide financial statements as follows:

Net investment in capital assets – consists of net capital assets reduced by outstanding balances of any related debt obligations attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyers of the Authority's bonds. Restricted net position is reduced by liabilities related to the restricted assets. As of February 28, 2022, the Authority had no restricted assets.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the Authority.

The Authority's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Northport/Leelanau Township Utilities Authority

NOTES TO FINANCIAL STATEMENTS

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the Authority, these revenues are charges for services.

Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

Use of Estimates in the Preparation of Financial Statements

The preparation 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 amounts could differ from those estimates.

NOTE B - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended by Act 196 P.A. 1997) authorizes local governmental units to make deposits and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Authority is allowed to invest in bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the Board, in accordance with Public Act 196 of 1997, has authorized all of the investments in the State statutory authority as listed above. The Authority's deposits and investment policies are in accordance with statutory authority.

At February 28, 2022, the Authority's cash and equivalents, and investments include bank deposits of \$621,888.

Custodial Credit Risk

In the event of bank failure, the Township's uninsured deposits may not be returned to it. At February 28, 2022, \$391,694 of the Township's deposits were exposed to custodial credit risk because they were uninsured and uncollateralized.

Northport/Leelanau Township Utilities Authority

NOTES TO FINANCIAL STATEMENTS

NOTE C – INVESTMENTS IN CAPITAL ASSETS

A summary of changes in capital asset activity follows:

	<u>Balance</u> <u>3/01/22</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2/28/22</u>
<u>Business-Type Activities</u>				
Capital Assets Being Depreciated:				
Land improvements	\$106,597	\$ -	\$ -	\$106,597
Plant equipment	130,109	55,708	-	185,817
Office equipment	<u>15,337</u>	<u>-</u>	<u>-</u>	<u>15,337</u>
	252,043	55,708	-	307,751
Less accumulated depreciation	<u>(78,339)</u>	<u>(22,011)</u>	<u>-</u>	<u>(100,350)</u>
Capital assets, net of depreciation	<u>\$173,704</u>	<u>\$ 33,697</u>	<u>\$ -</u>	<u>\$ 207,401</u>

NOTE D - 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; injuries to employees and natural disasters. The Authority has purchased commercial property, inland marine, crime, general liability, automotive, public official’s liability and employment practices liability insurance for all claims. A separate Workers Compensation policy has been purchased. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE E – MAINTENANCE CONTRACT

The Authority contracts with Operations Management International, Inc. to provide all routine operation and maintenance of the Authority’s facilities. A monthly fee is paid to the firm for standard services and is subject to an annual review. As of February 28, 2022, the monthly fee was \$14,271. For the year ended February 28, 2022, the total amount paid to the firm was \$187,500.

Northport/Leelanau Township Utilities Authority

NOTES TO FINANCIAL STATEMENTS

NOTE F – SUBSEQUENT EVENTS

The Authority has evaluated events and transactions for potential recognition and disclosure through December 16, 2022, the date the financial statements were available to be issued.

Subsequent to year end, it was observed there was a reduction in flow along a portion of a gravity sewer main. The affected portion of the main is approximately 995 feet long. The estimated cost to repair the sewer main is in the range of \$100,000 to \$350,000. The Authority has obtained an advance from the Village of Northport in the amount of \$350,000 to cover the cost of this repair. The advance bears interest at a rate of 2% and is payable over the next 5 years with the final payment due January 2028. .