



Stephenson, Gracik & Co., P.C.

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HURON SHORE REGIONAL UTILITY AUTHORITY
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2015

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AUDITORS' REPORT

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June 10, 2016

Independent Auditors' Report

Members of the Authority Board
Huron Shore Regional Utility Authority
Iosco County, Michigan

We have audited the accompanying financial statements of the business-type activities of the Huron Shore Regional Utility Authority, Iosco County, Michigan, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the index.

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.

Auditors' Responsibility

Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the business-type activities of the Huron Shore Regional Utility Authority, Iosco County, Michigan, as of December 31, 2015, 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.

Report on Summarized Comparative Information

We have previously audited the Huron Shore Regional Utility Authority's December 31, 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 2, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Members of the Authority Board
Huron Shore Regional Utility Authority
June 10, 2016
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Other Matters

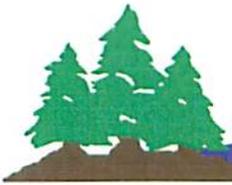
Required Supplementary Information

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, 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.

Stephenson, Grubb & Co., P.C.

Huron Shore Regional Utility Authority

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247 Baldwin Resort Road, East Tawas, Michigan 48730



MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the **Huron Shore Regional Utility Authority**, (the Authority) we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2015.

Financial Highlights

- The Authority's assets exceeded its liabilities by \$19,698,028 (*net position*) for the fiscal year reported. Of this amount, \$1,261,929 (*unrestricted net position*) represents the portion available for spending.
- The Authority's total net position increased by \$384,227 or approximately 2% over the course of the year's operations mainly due to the capital contribution of a water main system from Baldwin Township of \$714,649, offset by a fiscal year loss of \$330,422, which was comparable to the prior year. The Authority's total operating expenses increased by \$21,035 primarily due to an increase in repair and maintenance expense of \$3,508, an increase in contractual services of \$6,642 and an increase in depreciation of \$11,058.
- The Authority's total operating revenues increased by \$66,787 primarily due to an increase in charges for services received from local units of \$63,200.

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 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 investing 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.

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 10 - 16 of this report.

Analysis of Financial Position

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of this year's activities?" The Statement of Net Position, and the Statement of Revenue, Expenses, and Changes in Net Position report information about the Authority's activities in a way that will help answer this question. These two statements report the net position of the Authority and the changes in them. One can think of the Authority's net position (the difference between assets and liabilities) as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions and new or changed government legislation.

Summary of Net Position

The following summarizes the net position of the Huron Shore Regional Utility Authority at December 31, 2015 and 2014:

	Net Position Summary	
	<u>2015</u>	<u>2014</u>
Current Assets	\$ 1,680,440	\$ 1,572,882
Restricted Assets	0	1,963
Capital Assets – net	<u>18,436,099</u>	<u>18,128,920</u>
Total Assets	<u>20,116,539</u>	<u>19,703,765</u>
Current Liabilities	418,511	389,964
Net Position		
Net Investment in Capital Assets	18,436,099	18,003,920
Restricted for Debt Service	0	1,963
Unrestricted	<u>1,261,929</u>	<u>1,307,918</u>
Total Net Position	<u>\$ 19,698,028</u>	<u>\$ 19,313,801</u>

Capital Asset and Debt Administration

Capital Assets. The Authority's investment in capital assets as of December 31, 2015, amounted to \$18,436,099 (net of accumulated depreciation). This investment in capital assets includes the land, land improvements and distribution and collection systems. Net capital assets for the Authority increased by \$307,179. Current year depreciation expense was \$515,521, with ending accumulated depreciation being \$7,590,653. Additions included a new SCADA server system upgrade for \$67,401, a protective membrane roof for ground water storage tanks for \$40,650, and the transfer of Baldwin Township's Water Main & Appurtenances for \$714,649, which totaled \$822,700, while disposals consisted of the fully depreciated SCADA system upgrade that was replaced.

Capital Assets Summary
(Net of depreciation)

Land	\$ 24,957
Land improvements	20,298
Distribution and collection system	<u>18,390,844</u>
Capital Assets - net	<u>\$ 18,436,099</u>

Additional information on capital assets can be found in Note 3 of the Notes to the Financial Statements.

Long-Term Debt

At year end, long-term debt (due in more than one year) amounted to \$0, as the Authority paid off its \$1.3 million dollar General Obligation Bond in the current year. Additional information on long-term debt can be found in Note 4 of the Notes to the Financial Statements.

Summary of Revenues and Expenses:

The following summarizes the revenues and expenses of the Huron Shore Regional Utility Authority at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Operating revenue	\$ 949,384	\$ 882,597
Non-operating revenue	<u>127,207</u>	<u>143,147</u>
Total revenue	<u>1,076,591</u>	<u>1,025,744</u>
Depreciation expense	515,521	504,463
Other operating expenses	889,148	879,171
Non-operating expenses	<u>2,344</u>	<u>10,000</u>
Total expenses	<u>1,407,013</u>	<u>1,393,634</u>
Change in net position before contributions	(330,422)	(367,890)
Capital Contributions	<u>714,649</u>	<u>0</u>
Change in net position	384,227	(367,890)
Net position – beginning of year	<u>19,313,801</u>	<u>19,681,691</u>
Net position – end of year	<u>\$ 19,698,028</u>	<u>\$ 19,313,801</u>

Economic Factors and Next Year's Budget and Rates

The management of the Authority considered many factors in setting the fiscal year 2015 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 each municipality included in the Authority's joint venture. The fees are based on water consumption and are used to pay for operating expenses incurred by the Authority.

The most significant expenses are depreciation expense and professional services paid to F&V Operations & Resource Management, Inc. for operations and maintenance of the Authority.

Requests for Information

This financial report is designed to provide a general overview of the Huron Shore Regional Utility Authority finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Huron Shore Regional Utility Authority, 247 N. Baldwin Resort, East Tawas, Michigan 48730.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

STATEMENT OF NET POSITION
 December 31, 2015
With Comparative Totals for December 31, 2014

	2015	2014
<u>Assets</u>		
Current Assets		
Cash and Cash Equivalents (Note 2)	\$ 1,463,714	\$ 1,370,767
Due from Local Units	199,375	184,747
Prepaid Expenses	17,351	17,368
Restricted Assets:		
Cash and Cash Equivalents (Note 2)	<u>0</u>	<u>1,963</u>
Total Current Assets	<u>1,680,440</u>	<u>1,574,845</u>
Noncurrent Assets:		
Capital Assets Not Being Depreciated (Note 3)	24,957	24,957
Capital Assets, Net of Accumulated Depreciation (Note 3)	<u>18,411,142</u>	<u>18,103,963</u>
Total Noncurrent Assets	<u>18,436,099</u>	<u>18,128,920</u>
Total Assets	<u>20,116,539</u>	<u>19,703,765</u>
<u>Liabilities</u>		
Current Liabilities:		
Accounts Payable	144,616	74,763
Accrued Interest Payable	0	1,172
Unearned Revenue - Tower Rent	273,895	189,029
Current Portion of Long-Term Liabilities (Note 4)	<u>0</u>	<u>125,000</u>
Total Liabilities	<u>418,511</u>	<u>389,964</u>
<u>Net Position</u>		
Net Investment in Capital Assets	18,436,099	18,003,920
Restricted For:		
Debt Service	0	1,963
Unrestricted	<u>1,261,929</u>	<u>1,307,918</u>
Total Net Position	<u>\$ 19,698,028</u>	<u>\$ 19,313,801</u>

The accompanying notes to financial statements are an integral part of this statement.

HURON SHORE REGIONAL UTILITY AUTHORITY
Losco County, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2015
With Comparative Totals for the Year Ended December 31, 2014

	2015	2014
<u>Operating Revenue</u>		
Charges For Services	\$ 797,500	\$ 734,300
Rentals	138,660	138,617
Other Revenue	13,224	9,680
Total Operating Revenue	949,384	882,597
<u>Operating Expenses</u>		
Contractual Services	676,613	669,971
Depreciation	515,521	504,463
Insurance and Bonds	20,838	20,674
Printing and Advertising	1,482	1,528
Professional Fees and Services	42,431	43,000
Repair and Maintenance	147,256	143,748
Other	528	250
Total Operating Expenses	1,404,669	1,383,634
Operating Income (Loss)	(455,285)	(501,037)
<u>Nonoperating Revenue (Expenses)</u>		
Insurance Proceeds	0	6,628
Local Reimbursements	125,750	135,125
Interest and Investment Earnings	1,457	1,394
Interest and Fees Expense	(2,344)	(10,000)
Total Nonoperating Revenue (Expenses)	124,863	133,147
Income (Loss) Before Contributions	(330,422)	(367,890)
Capital Contributions	714,649	0
Change in Net Position	384,227	(367,890)
Net Position - Beginning of Year	19,313,801	19,681,691
Net Position - End of Year	\$ 19,698,028	\$ 19,313,801

The accompanying notes to financial statements are an integral part of this statement.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2015
With Comparative Totals for the Year Ended December 31, 2014

	2015	2014
<u>Cash Flows From Operating Activities</u>		
Receipts From Customers	\$ 1,018,450	\$ 898,679
Payments to Suppliers for Goods and Services	<u>(886,679)</u>	<u>(863,019)</u>
Net Cash Provided (Used) by Operating Activities	<u>131,771</u>	<u>35,660</u>
<u>Cash Flows From Non-Capital Financing Activities</u>		
Insurance Proceeds	<u>0</u>	<u>6,628</u>
<u>Cash Flows From Capital and Related Financing Activities</u>		
Reimbursements from Local Units	126,922	136,297
Acquisition and Construction of Capital Assets	(40,650)	0
Interest and Fees Paid on Long-Term Debt	(3,516)	(11,172)
Repayment of Bonds Payable	<u>(125,000)</u>	<u>(125,000)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(42,244)</u>	<u>125</u>
<u>Cash Flows From Investing Activities</u>		
Interest on Investments	<u>1,457</u>	<u>1,394</u>
Net Increase (Decrease) in Cash and Cash Equivalents	90,984	43,807
Cash and Cash Equivalents at Beginning of Year (Note 1)	<u>1,372,730</u>	<u>1,328,923</u>
Cash and Cash Equivalents at End of Year (Note 1)	<u>\$ 1,463,714</u>	<u>\$ 1,372,730</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u>		
Operating Income (Loss)	\$ (455,285)	\$ (501,037)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	515,521	504,463
Change in Assets and Liabilities:		
Due from Local Units	(15,800)	(183,575)
Accounts Receivable	0	19,480
Prepaid Expenses	17	(168)
Accounts Payable	2,452	16,320
Unearned Revenue	<u>84,866</u>	<u>180,177</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 131,771</u>	<u>\$ 35,660</u>

Supplemental Disclosures:

Noncash Capital and Related Financing Activities

The Authority recorded noncash activity in the form of capital asset acquisition costs of \$714,649 for distribution and collection systems transferred from Baldwin Township.

The accompanying notes to financial statements are an integral part of this statement.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Huron Shore Regional Utility Authority (Authority) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The following is a summary of the significant accounting policies:

A. Description of Authority Operations and Fund Types

The Huron Shore Regional Utility Authority (Authority) operates as a joint venture under the supervision and control of a Board consisting of one representative from each of the following constituent municipalities: City of East Tawas, City of Tawas City, Charter Township of Oscoda, Charter Township of AuSable, Township of Alabaster, Township of Baldwin, and Township of Greenbush. The Authority was established as a joint venture among the above-mentioned municipalities for the purpose of acquiring, owning, improving, enlarging, extending and operating water supply and distribution systems and sewage disposal systems in accordance with the authorization of Act 233, P.A. of Michigan, 1955, as amended.

The basic financial statements of the Huron Shore Regional Utility 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.

B. 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.

C. 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 Huron Shore Regional Utility 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.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

A statement of revenue, expenses and changes in net position provides information about the Authority's financial activities during the year ended December 31, 2015. 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 water distribution systems. Other revenues, such as local reimbursements for debt payments, are not generated from operations and are considered to be nonoperating revenues. Operating expenses include the cost of maintaining the water distribution system, administrative expenses, and depreciation on capital assets.

A statement of cash flows provides information about the Authority's sources and uses of cash and cash equivalents during the year ended December 31, 2015. Increases and decreases in cash and cash equivalents are classified as either operating, noncapital financing, capital financing, or investing.

D. 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 receipt may not occur until after the period ends.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial 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 that time.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

E. Cash and Cash Equivalents

For presentation on the financial statements, investments in the 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. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value, except for repurchase agreements and certificates of deposit which are reported at cost which approximates fair value. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Receivables

Receivables generally consist of due from local units. 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 December 31, 2015 was \$0.

G. 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.

H. 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 government as assets with an initial individual cost of more than \$5,000. 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:

<u>Descriptions</u>	<u>Estimated Lives</u>
Land Improvements	20 years
Distribution System	50 years
Computer Equipment	5 years

I. Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. 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 and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to 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 and deferred inflows of resources related to the 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.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Net Position (Continued)

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.

The restricted assets and restricted net position represent the assets to be used for the retirement of general obligation bond issues.

J. 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.

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended December 31, 2015.

L. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

Cash and Cash Equivalents	\$ <u>1,463,714</u>
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The breakdown between deposits and investments is as follows:

Bank Deposits (Checking and Savings Accounts)	\$ <u>1,463,714</u>
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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 December 31, 2015, \$1,196,234 of the Authority's bank balance of \$1,446,234 was exposed to custodial credit risk because it was uninsured and uncollateralized.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

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.

Interest Rate Risk and Foreign Currency Risk

The Authority's investment policy does not address interest rate risk and foreign currency risk.

Investments

The Authority Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Authority to deposit and invest in the following:

- λ Accounts of federally insured banks, credit unions and savings and loan associations
- λ Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- λ United States government or federal agency obligation repurchase agreements
- λ Banker's acceptances of United States banks
- Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Authority's deposits and investments are in accordance with statutory authority.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

NOTE 3 - CAPITAL ASSETS

A summary of changes in capital asset activity follows:

	<u>Balance 01/01/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/15</u>
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 24,957	\$ 0	\$ 0	\$ 24,957
Capital Assets Being Depreciated:				
Land Improvements	29,346	0	0	29,346
Distribution and Collection Systems	<u>25,166,958</u>	<u>822,700</u>	<u>(17,209)</u>	<u>25,972,449</u>
Subtotal	<u>25,196,304</u>	<u>822,700</u>	<u>(17,209)</u>	<u>26,001,795</u>
Less Accumulated Depreciation for:				
Land Improvements	(7,581)	(1,467)	0	(9,048)
Distribution and Collection Systems	<u>(7,084,760)</u>	<u>(514,054)</u>	<u>17,209</u>	<u>(7,581,605)</u>
Subtotal	<u>(7,092,341)</u>	<u>(515,521)</u>	<u>17,209</u>	<u>(7,590,653)</u>
Capital Assets Being Depreciated	<u>18,103,963</u>	<u>307,179</u>	<u>0</u>	<u>18,411,142</u>
Business-Type Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 18,128,920</u>	<u>\$ 307,179</u>	<u>\$ 0</u>	<u>\$ 18,436,099</u>

NOTE 4 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the Authority for the year ended December 31, 2015:

	<u>Balance 01/01/15</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance 12/31/15</u>	<u>Due Within One Year</u>
<u>Business-Type Activities</u>					
Primary Government:					
Bonds Payable	<u>\$ 125,000</u>	<u>\$ 0</u>	<u>\$ (125,000)</u>	<u>\$ 0</u>	<u>\$ 0</u>

NOTE 5 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and natural disasters. The Authority has purchased commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 6 - MAINTENANCE CONTRACT

The Huron Shore Regional Utility Authority contracts with F&V Operations & Resource Management, 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 December 31, 2015, the monthly fee was \$55,002. For the year ended December 31, 2015, the total amount paid to the firm was \$657,172.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

NOTE 7 - RELATED PARTY TRANSACTIONS

The Huron Shore Regional Utility Authority contracts with Kenneth B. Cook, CPA, P.C. for monthly accounting services. This company is considered to be a related party to the Authority due to the fact that Kenneth B. Cook, CPA is the Vice Chairman on the Authority Board. During the current year, the Authority paid Kenneth B. Cook, CPA, P.C. \$5,418 for monthly accounting services and had an amount due of \$383 as of December 31, 2015.

NOTE 8 - COMPARATIVE DATA

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations.



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Gerald D. Gracik Jr., CPA
James J. Gracik, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA
Robert J. Morand, CPA

June 10, 2016

Management and the Board
Huron Shore Regional Utility Authority
Iosco County, Michigan

We have audited the financial statements of the business-type activities of the Huron Shore Regional Utility Authority for the year ended December 31, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted 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 April 12, 2016. Professional standards also require that we communicate to you the following information related to our audit. The appendices to this letter set forth those communications as follows:

I Communication with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel of the Authority during the audit and met with management on June 10, 2016. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Authority Board, others within the Authority and the Michigan Department of Treasury and are not intended to be, and should not be, used by anyone other than those specified parties.

Very truly yours,

Stephenson, Gracik & Co., P.C.

**APPENDIX I
COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 12, 2016, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit as outlined in our engagement letter related to planning matters dated April 12, 2016.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

- Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Huron Shore Regional Utility Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2015. We noted no transactions entered into by the government unit 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 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. Management has corrected all such misstatements.

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 June 10, 2016.

**APPENDIX I
COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Huron Shore Regional Utility 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 the Huron Shore Regional Utility 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.

Other Matters

We applied certain limited procedures to the management’s discussion and analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

APPENDIX II MANAGEMENT COMMENTS

In planning and performing our audit of the financial statements of the business-type activities of the Huron Shore Regional Utility Authority as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Huron Shore Regional Utility Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Huron Shore Regional Utility Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Huron Shore Regional Utility Authority's internal control.

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

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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 deficiency in the Huron Shore Regional Utility Authority's internal control to be a significant deficiency:

FINANCIAL STATEMENT PREPARATION CONTROLS

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of Huron Shore Regional Utility Authority's financial statements. However, if at any point in the audit we as auditors are part of the Authority's control system for producing reliable financial statements, auditing standards indicate that the Authority has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

An example of where the Authority relies on the auditor as a control for producing reliable financial statements is in the adjustments needed at year end in relation to the depreciation expense. The effect of this is that financial reports prepared before audit adjustments are made are not accurate in relation to capital assets. We commend management on the financial accounting structure that is in place and encourage management to continue pushing towards there being no adjustments needed at year end.

View of Responsible Officials:

Huron Shore Regional Utility Authority has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with Generally Accepted Accounting Principles, and determined that it is in the best interests 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.

Huron Shore Regional Utility Authority's response to the finding in our audit is described above. We did not audit the Authority's response and, accordingly, we express no opinion on it.

**APPENDIX II
MANAGEMENT COMMENTS**

STATUS OF PRIOR YEAR COMMENTS:

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Financial Statement Preparation Controls		X		
Conflict of Interest Policy	X			