



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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NEWS RELEASE

FOR RELEASE September 20, 2017

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Auditor of State Mary Mosiman today released an audit report on the Regional Utility Service Systems Commission.

The Regional Utility Service Systems Commission had total revenues of \$1,620,688 for the year ended June 30, 2016, a 9% increase over the prior year. The revenues included user fees of \$456,260, membership dues of \$161,924 and rural development grant revenue of \$967,079. The significant increase in revenues was due primarily to an increase in rural development grants.

Expenses for the year ended June 30, 2016 totaled \$714,155, a 6% increase over the prior year, and included \$143,827 for salaries and benefits, \$93,776 for interest expense and \$93,284 for repair and maintenance.

A copy of the audit report is available for review in the Regional Utility Service Systems Commission's office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1614-0022-BOOF>.

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REGIONAL UTILITY SERVICE SYSTEMS COMMISSION

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2016

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Regional Utility Service Systems Commission

Officials

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Daryl Wood	Chairperson	Keokuk County
Lee Dimmitt	Vice-Chairperson	Jefferson County
Chris Ball	Secretary/Treasurer	Louisa County
Jim Cary	Member	Des Moines County
Ron Fedler	Member	Lee County
Greg Moeller	Member	Henry County
Bob Waugh	Member	Van Buren County
Bruce Hudson	Executive Director	

Regional Utility Service Systems Commission



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Independent Auditor's Report

To the Members of the Regional Utility Service Systems Commission:

Report on the Financial Statements

We have audited the accompanying Statement of Net Position, and related Statements of Revenues, Expenses and Changes in Net Position and Cash Flows of the Regional Utility Service Systems Commission as of and for the year ended June 30, 2016, and the related Notes to Financial Statements which collectively comprise the Regional Utility Service Systems Commission's basic financial statements 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 U.S. generally accepted accounting principles. 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 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 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 Commission'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 Commission'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 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 above present fairly, in all material respects, the financial position of the Regional Utility Service Systems Commission as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Schedule of the Commission's Proportionate Share of the Net Pension Liability and the Schedule of Commission Contributions on pages 8 through 11 and 31 through 34 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 which 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 U.S. generally accepted auditing standards, 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.


Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Regional Utility Service Systems Commission's basic financial statements. The supplementary information included in Schedule 1, the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 6, 2017 on our consideration of the Regional Utility Service Systems Commission'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 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 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 the Regional Utility Service Systems Commission's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

September 6, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Regional Utility Service Systems Commission (Commission) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended June 30 2016. We encourage readers to consider this information in conjunction with the Commission's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The Commission's operating revenues decreased \$94,917, or 12.9%, from the prior fiscal year. User fees decreased \$89,536 and membership fees increased \$23,228.
- The Commission's operating expenses were 6.0%, or \$35,234, more in fiscal year 2016 than in fiscal year 2015.
- The Commission's net position at June 30, 2016 increased 13.1%, or \$906,533, over the June 30, 2015 net position.

USING THIS ANNUAL REPORT

The Regional Utility Service Systems Commission is a 28E organization and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting, which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to the Commission's basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Commission's financial activities.

The Statement of Net Position presents information on the Commission's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position is the basic statement of activities for proprietary funds. This statement presents information on the Commission's operating revenues and expenses, non-operating revenues and expenses and whether the Commission's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the Commission's cash and cash equivalents during the year. This information can assist readers of the report in determining how the Commission financed its activities and how it met its cash requirements.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with the Commission's proportionate share of the net pension liability and related contributions.

Supplementary information includes the Schedule of Expenditures of Federal Awards which provides details of the federal programs benefiting the Commission.

FINANCIAL ANALYSIS OF THE COMMISSION

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of the Commission's financial position. The Commission's net position at the end of fiscal years 2016 and 2015 totaled approximately \$7,832,000 and \$6,925,000, respectively. This represents an increase of approximately \$907,000 over fiscal year 2015 and is due primarily to increased funding from the United States Department of Agriculture for rural development grants. A summary of the Commission's net position is presented below.

Net Position		
	June 30,	
	2016	2015
Current assets	\$ 533,935	626,806
Restricted investments	253,759	226,487
Capital assets, net of accumulated depreciation	10,174,957	9,288,248
Total assets	10,962,651	10,141,541
Deferred outflows of resources	32,153	16,838
Current liabilities	96,673	647,752
Noncurrent liabilities	3,058,311	2,550,796
Total liabilities	3,154,984	3,198,548
Deferred inflows of resources	7,894	34,438
Net position:		
Net investment in capital assets	7,147,999	6,242,104
Restricted for debt service	240,934	205,692
Unrestricted	442,993	477,597
Total net position	\$ 7,831,926	6,925,393

The unrestricted portion of the Commission's net position (6%) may be used to meet the Commission's obligations as they come due. The net investment in capital assets (e.g., land, buildings and equipment portion of net position (91%) are resources allocated to capital assets. The remaining net position is restricted to pay revenue notes.

Statement of Revenues, Expenses and Changes in Net Position

Operating revenues are from sewer users in communities where sewer systems have been completed and assessments from member counties. Operating expenses are expenses paid to operate the sewer systems. Non-operating revenues and expenses are for grant income, interest income and interest expense. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net position for the years ended June 30, 2016 and 2015 is presented below.

	Changes in Net Position	
	Year ended June 30,	
	2016	2015
Operating revenues:		
User fees	\$ 456,260	545,796
Membership dues	161,924	138,696
Other	23,746	52,355
Total operating revenues	641,930	736,847
Operating expenses:		
Salaries and benefits	143,827	168,198
Operator labor and contractual services	6,983	43,723
Auto	9,262	5,047
Repair and maintenance	93,284	45,932
Utilities	13,562	11,401
Office	24,142	8,931
Legal and professional	75,564	85,074
Insurance	9,957	4,941
Testing	2,986	4,465
Depreciation	235,665	186,762
Miscellaneous	5,147	20,671
Total operating expenses	620,379	585,145
Operating income	21,551	151,702
Non-operating revenues (expenses):		
Rural development grant	967,079	751,454
Other grants	11,490	-
Interest income	189	51
Interest expense	(93,776)	(89,735)
Net non-operating revenues	884,982	661,770
Change in net position	906,533	813,472
Net position beginning of year	6,925,393	6,111,921
Net position end of year	\$ 7,831,926	6,925,393

The Statement of Revenues, Expenses and Changes in Net Position reflects a positive year, with an increase in net position during the fiscal year.

In fiscal year 2016, operating revenues decreased \$94,917, or 12.9%. User fees for all systems totaled approximately \$456,000, a decrease of approximately \$90,000 from fiscal year 2015. Operating expenses increased approximately \$35,000, or 6.0%. Non-operating revenues increased approximately \$227,000 due to an increase in rural development grant revenue.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities includes user fees and membership dues reduced by payments to employees and suppliers. Cash received and used by capital and related financing activities includes grant receipts, proceeds from borrowings, the acquisition of capital assets and the repayment of debt. Cash provided by investing activities includes interest income.

CAPITAL ASSETS

At June 30, 2016, the Commission had approximately \$10,175,000 invested in capital assets, net of accumulated depreciation of approximately \$1,481,000. Depreciation expense totaled \$235,665 for fiscal year 2016. More detailed information about the Commission’s capital assets is presented in Note 3 to the financial statements.

LONG-TERM DEBT

At June 30, 2016 and June 30, 2015, the Commission had approximately \$3,002,000 and \$2,799,000 of bonds and other debt outstanding as show below.

Outstanding Debt at Year-End		
	June 30,	
	2016	2015
Revenue bonds	\$ 3,002,460	2,496,077
Revolving loans	-	166,263
Interim financing note	-	136,646
Total	<u>\$ 3,002,460</u>	<u>2,798,986</u>

Additional information about the Commission’s long-term debt is presented in Note 5 to the financial statements.

ECONOMIC FACTORS

The Commission has improved its financial position during the current fiscal year. The net position increased approximately \$907,000, primarily due to increased funding from the United States Department of Agriculture for rural development grants.

CONTACTING THE COMMISSION’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Commission’s finances and to show the Commission’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Regional Utility Service Systems Commission, 1501 W Washington Street, Suite 103, Mt. Pleasant, Iowa 52641.

Regional Utility Service Systems Commission

Basic Financial Statements

Exhibit A

Regional Utility Service Systems Commission

Statement of Net Position

June 30, 2016

Assets

Current assets:

Cash and cash equivalents	\$	415,676
Receivables:		
Accounts		112,042
Prepaid insurance		6,217
Total current assets		<u>533,935</u>

Noncurrent assets:

Restricted investments		253,759
Capital assets, net of accumulated depreciation		<u>10,174,957</u>
Total noncurrent assets		<u>10,428,716</u>

Total assets10,962,651**Deferred Outflows of Resources**

Pension related deferred outflows		<u>32,153</u>
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Liabilities

Current liabilities:

Accounts payable		40,032
Accrued interest payable		12,825
Current portion of revenue bonds payable		38,996
Compensated absences		4,820
Total current liabilities		<u>96,673</u>

Noncurrent liabilities:

Revenue bonds payable, less current portion		2,963,464
Net pension liability		94,847
Total noncurrent liabilities		<u>3,058,311</u>

Total liabilities3,154,984**Deferred Inflows of Resources**

Pension related deferred inflows		<u>7,894</u>
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Net position

Net investment in capital assets		7,147,999
Restricted for debt service		240,934
Unrestricted		442,993
Total net position	\$	<u><u>7,831,926</u></u>

See notes to financial statements.

Regional Utility Service Systems Commission

Statement of Revenues, Expenses and
Changes in Net Position

Year ended June 30, 2016

Operating revenues:	
User fees	\$ 456,260
Membership dues	161,924
Other	23,746
Total operating revenues	<u>641,930</u>
Operating expenses:	
Salaries and benefits	143,827
Operator labor and contractual services	6,983
Auto	9,262
Repair and maintenance	93,284
Utilities	13,562
Office	24,142
Legal and professional fees	75,564
Insurance	9,957
Testing	2,986
Depreciation	235,665
Miscellaneous	5,147
Total operating expenses	<u>620,379</u>
Operating income	<u>21,551</u>
Non-operating revenues (expenses):	
Rural development grant	967,079
Other grant	11,490
Interest income	189
Interest expense	(93,776)
Net non-operating revenues	<u>884,982</u>
Change in net position	906,533
Net position beginning of year	<u>6,925,393</u>
Net position end of year	<u>\$ 7,831,926</u>

See notes to financial statements.

Regional Utility Service Systems Commission

Regional Utility Service Systems Commission

Statement of Cash Flows

Year ended June 30, 2016

Cash flows from operating activities:	
Cash received from user fees	\$ 466,670
Cash received from membership dues	155,349
Other operating receipts	23,746
Cash paid to suppliers and employees	<u>(441,258)</u>
Net cash provided by operating activities	<u>204,507</u>
Cash flows from capital and related financing activities:	
Rural development grant	1,196,725
Acquisition of capital assets	(1,345,034)
Payment to restricted bond investment accounts	(27,272)
Proceeds from long-term borrowings	947,354
Repayment of long-term borrowings	(743,880)
Interest paid on long-term borrowings	<u>(101,746)</u>
Net cash used by capital and related financing activities	<u>(73,853)</u>
Cash flows from investing activities:	
Interest received	<u>189</u>
Change in cash and cash equivalents	130,843
Cash and cash equivalents at beginning of year	<u>284,833</u>
Cash and cash equivalents at end of year	<u>\$ 415,676</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 21,551
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	235,665
Increase in accounts receivable	9,177
Increase in prepaid expenses	(3,619)
Decrease in accounts payable	(21,902)
Decrease in net pension liability	4,546
Increase in pension related deferred outflows	(15,315)
Increase in pension related deferred inflows	(26,544)
Increase in compensated absences	<u>948</u>
Net cash provided by operating activities	<u>\$ 204,507</u>

See notes to financial statements.

Regional Utility Service Systems Commission

Regional Utility Service Systems Commission

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

The Regional Utility Service Systems Commission was formed in 1999 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Commission is to plan, design, develop, finance, construct, own, operate and maintain wastewater treatment systems for and on behalf of the counties, cities and unincorporated areas within the counties.

The governing body of the Commission is composed of one representative from each of the seven member counties. The member counties are Des Moines, Henry, Jefferson, Keokuk, Lee, Louisa and Van Buren. One commission member is appointed by each of the member counties.

The Commission's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the Regional Utility Service Systems Commission has included all funds, organizations, agencies, boards, commissions and authorities. The Commission has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Commission are such that exclusion would cause the Commission's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Commission to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Commission. The Commission has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of the Commission are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

C. Measurement Focus and Basis of Accounting

The 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 the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Commission distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Commission's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

The following accounting policies are followed in preparing the Statement of Net Position:

Cash and Cash Equivalents – The Commission considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Restricted Investments – Funds set aside for payment of revenue bonds are classified as restricted.

Capital Assets – Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets of the Commission are land, sewer systems and vehicles. Depreciation is charged using the straight-line method over the estimated useful lives of the assets. Sewer systems are depreciated over fifty years.

Interest is capitalized on qualified assets acquired with certain tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Deferred Outflows of Resources – Deferred outflows of resources represent a consumption of net position applicable to a future year(s) which will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the Commission after the measurement date but before the end of the Commission's reporting period.

Compensated Absences – Commission employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. These accumulations are not recognized as disbursements by the Commission until used or paid. The Commission’s liability for earned vacation payable to employees at June 30, 2016 was \$4,820 based on rates of pay in effect at June 30, 2016.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees’ Retirement System (IPERS) and additions to/deductions from IPERS’ fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payment, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources – Deferred inflows of resources represent an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consists of the unamortized portion of the net difference between projected and actual earnings on IPERS’ investments.

E. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through enabling legislation adopted by the Commission or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the Commission first applies restricted net position to payment of the expenses.

F. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions which affect reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources, disclosure of contingent assets, deferred outflows of resources, liabilities and deferred inflows of resources at the date of the financial statements and revenues and expenses during the reporting period. In these financial statements, assets, deferred outflows of resources, liabilities, deferred inflows of resources and the reported amount of revenues and expenses involve extensive reliance on management’s estimates. Actual results could differ from these estimates.

(2) Cash, Cash Equivalents and Investments

The Commission’s deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to ensure there will be no loss of public funds.

The Commission is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Commission; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Commission had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2016 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 405,440	-	-	405,440
Construction in progress	854,573	1,059,072	1,894,593	19,052
Total capital assets not being depreciated	1,260,013	1,059,072	1,894,593	424,492
Capital assets being depreciated:				
Sewer systems	9,273,349	1,894,593	-	11,167,942
Vehicles	-	63,302	-	63,302
Less accumulated depreciation	1,245,114	235,665	-	1,480,779
Total capital assets being depreciated, net	8,028,235	1,722,230	-	9,750,465
Total capital assets, net	\$ 9,288,248	2,781,302	1,894,593	10,174,957

(4) Interest Cost

The Commission capitalizes interest as a component of the cost of construction in progress. The following is a summary of interest cost during the year ended June 30, 2016:

Interest cost capitalized	\$ 9,125
Interest cost expensed	93,776
Total	<u>\$ 102,901</u>

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2016 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Sewer revenue bonds	\$ 2,496,077	542,000	35,617	3,002,460	38,996
Revolving loans	166,263	-	166,263	-	-
Interim financing note	136,646	405,354	542,000	-	-
Compensated absences	3,872	948	-	4,820	4,820
Net pension liability	90,301	4,546	-	94,847	-
Total	\$ 2,893,159	952,848	743,880	3,102,127	43,816

Sewer Revenue Bonds

Annual debt service requirements to maturity for the sewer revenue bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	38,996	92,003	130,999
2018	40,486	100,806	141,292
2019	47,023	105,304	152,327
2020	53,774	98,000	151,774
2021	55,655	96,122	151,777
2022-2026	309,121	449,748	758,869
2027-2031	368,287	390,582	758,869
2032-2036	439,886	318,983	758,869
2037-2041	526,219	232,191	758,410
2042-2046	578,147	129,691	707,838
2047-2051	382,517	40,506	423,023
2052-2056	162,385	7,534	169,919
Total	\$ 3,002,496	2,061,470	5,063,966

The Commission has pledged future sewer revenues, net of specified operating expenses, to repay \$3,176,500 of sewer revenue bonds issued. Proceeds from the bonds provided financing for the acquisition and construction of wastewater treatment systems. The bonds are payable solely from wastewater customer net revenues (net operating revenues plus depreciation) of the specific projects identified below and are payable through 2056. The revenue bonds outstanding at June 30, 2016 are as follows:

Project	Date of Issue	Final Due Date	Amount Originally Issued	Remaining Principal and Interest at June 30, 2016	Current Year Principal and Interest	Current Year Net Revenues	Percentage of Debt Service to Net Revenues
Mt. Sterling	Oct 2002	Aug 2042	\$ 58,000	81,048	3,287	4,365	75%
Kinross	Oct 2004	Nov 2044	128,500	197,214	7,073	7,241	98%
Webster	Oct 2005	Oct 2045	166,000	254,565	8,823	(1,022)	-863%
Martinsburg	Dec 2005	Dec 2045	200,000	307,859	10,622	6,265	170%
Harper	Jun 2007	Jun 2047	211,000	330,433	11,006	10,383	106%
Keswick	Jul 2009	May 2049	638,000	1,125,875	34,308	26,702	128%
Argyle	Apr 2010	Apr 2050	350,000	602,717	18,261	11,536	158%
Mt. Union	Oct 2010	Jul 2050	297,000	500,509	14,676	20,274	72%
Linby	Feb 2011	Feb 2051	85,000	146,008	3,982	4,760	84%
Pleasant Plain/East							
Pleasant Plain	Aug 2013	Aug 2056	501,000	729,583	18,318	16,586	110%
Ollie	Dec 2015	Dec 2055	542,000	788,155	5,413	40,530	13%
Total			\$ 3,176,500	5,063,966	135,769	147,620	

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- a) The bonds are to be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the systems.
- b) Sufficient monthly transfers shall be made to a bond sinking account for each project for the purpose of making the bond principal and interest payments when due.

- c) Additional monthly transfers to a reserve account are required by each resolution for the purpose of paying principal and interest on the bonds if sufficient funds are not available in the bond sinking account.
- d) The funded depreciation account is restricted for the purpose of paying extraordinary maintenance expenses, repair and capital improvements to the sewer projects or for principal and interest on the bonds when there are insufficient funds in the bond sinking and reserve accounts.

(6) Pension Plan

Plan Description – IPERS membership is mandatory for employees of the Commission, except for those covered by another retirement system. Employees of the Commission are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees’ Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member’s years of service plus the member’s age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member’s first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member’s monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member’s highest five-year average salary except members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member’s monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member’s earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member’s lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member’s beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member’s accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS’ Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the “entry age normal” actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the Commission contributed 8.93% of covered payroll for a total rate of 14.88%.

The Commission’s contributions to IPERS for the year ended June 30, 2016 were \$13,995.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the Commission’s liability for its proportionate share of the net pension liability totaled \$94,847. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission’s proportion of the net pension liability was based on the Commission’s share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the Commission’s proportion was 0.0019198%, which was a decrease of 0.0003571% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Commission recognized pension expense of \$7,999. At June 30, 2016, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,433	-
Changes of assumptions	2,611	-
Net difference between projected and actual earnings on pension plan investments	-	7,894
Changes in proportion and differences between the Commission's contributions and its proportionate share of contributions	14,114	-
Commission contributions subsequent to the measurement date	13,995	-
Total	<u>\$ 32,153</u>	<u>7,894</u>

\$13,995 reported as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2017	\$ 684
2018	684
2019	684
2020	7,307
2021	905
Total	<u>\$ 10,264</u>

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	<u>100%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Commission will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS’ fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS’ investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Commission’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Commission’s proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Commission’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Commission's proportionate share of the net pension liability	\$ 166,060	94,847	34,738

IPERS’ Fiduciary Net Position – Detailed information about IPERS’ fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS’ website at www.ipers.org.

Payables to IPERS – All legally required Commission contributions and legally required employee contributions which had been withheld from employee wages were remitted by the Commission to IPERS by June 30, 2016.

(7) Risk Management

The Commission is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 746 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member’s annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool’s general administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool’s general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year’s member contributions.

The Commission's property and casualty contributions to the Pool are recorded as expenditures from its operating funds at the time of payment to the Pool. The Commission's contributions to the Pool for the year ended June 30, 2016 were \$6,669.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Commission's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Commission's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the Commission's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claims was made or the loss was incurred.

The Commission does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2016, no liability has been recorded in the Commission's financial statements. As of June 30, 2016, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunding to the withdrawing member.

The Commission also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$1,000,000. The Commission assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Required Supplementary Information

Regional Utility Service Systems Commission

Regional Utility Service Systems Commission

Schedule of the Commission's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
Last Two Fiscal Years*

Required Supplementary Information

	<u>2016</u>	<u>2015</u>
Commission's collective proportion of the net pension liability	0.0019198%	0.0022769%
Commission's collective proportionate share of the net pension liability	\$ 94,847	90,301
Commission's covered-employee payroll	\$ 135,467	153,460
Commission's collective proportionate share of the net pension liability as a percentage of its covered-employee payroll	70.01%	58.84%
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

See accompanying independent auditor's report.

Regional Utility Service Systems Commission

Schedule of Commission Contributions

Iowa Public Employees' Retirement System
Last Six Fiscal Years

Required Supplementary Information

	2016	2015	2014	2013
Statutorily required contribution	\$ 13,995	11,745	13,305	12,492
Contributions in relation to the statutorily required contribution	(13,995)	(11,745)	(13,305)	(12,492)
Contribution deficiency (excess)	\$ -	-	-	-
Commission's covered-employee payroll	156,714	135,467	153,460	144,083
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.67%

See accompanying independent auditor's report.

Note: GASB Statement No. 68 requires ten years of information be presented in this table. However, until a full 10-year trend is compiled, the Commission will present information for those years for which information is available.

<u>2012</u>	<u>2011</u>
6,164	6,781
<u>(6,164)</u>	<u>(6,781)</u>
<u>-</u>	<u>-</u>
76,382	97,568
8.07%	6.95%

Regional Utility Service Systems Commission

Notes to Required Supplementary Information – Pension Liability

Year ended June 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projects salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

Supplementary Information

Regional Utility Service Systems Commission

Regional Utility Service Systems Commission

Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

Grantor/Program	CFDA Number	Expenditures
Direct:		
U.S. Department of Agriculture:		
Water and Waste Disposal Systems for Rural Communities	10.760	\$ <u>1,251,680</u>

See accompanying independent auditor's report.

Basis of Presentation – The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the Regional Utility Service Systems Commission under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Regional Utility Service Systems Commission, it is not intended to and does not present the financial position, changes in financial position or cash flows of the Regional Utility Service Systems Commission.

Summary of Significant Accounting Policies – Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Regional Utility Service Systems Commission has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

**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**



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STATE OF IOWA

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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 Members of the Regional Utility Service Systems Commission:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the Regional Utility Service Systems Commission as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, and have issued our report thereon dated September 6, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission'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 described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control we consider to be material weaknesses and 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 a material misstatement of the Regional Utility Service Systems Commission's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-15 through II-C-15 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-D-15 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Regional Utility Service Systems Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters required to be reported under Government Auditing Standards. However, we noted an immaterial instance of non-compliance or other matter which is described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Commission's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Commission. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.


The Regional Utility Service Systems Commission's Responses to the Findings

The Regional Utility Service Systems Commission's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Regional Utility Service Systems Commission's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

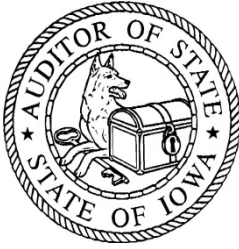
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Regional Utility Service Systems Commission during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State

September 6, 2017



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Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by the Uniform Guidance

To the Members of the Regional Utility Service Systems Commission:

Report on Compliance for Each Major Federal Program

We have audited the Regional Utility Service Systems Commission's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2016. The Regional Utility Service Systems Commission's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Regional Utility Service Systems Commission's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Regional Utility Service Systems Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Regional Utility Service Systems Commission's compliance.

Opinion on the Major Federal Program

In our opinion, the Regional Utility Service Systems Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.


Report on Internal Control Over Compliance

The management of the Regional Utility Service Systems Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Regional Utility Service Systems Commission's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Regional Utility Service Systems Commission's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


MARY MOSIMAN, CPA
Auditor of State

September 6, 2017

Regional Utility Service Systems Commission

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Part I: Summary of the Independent Auditor's Results:

- (a) An unmodified opinion was issued on the financial statements.
- (b) Material weaknesses and a significant deficiency in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 10.760 – Water and Waste Disposal Systems for Rural Communities.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The Regional Utility Service Systems Commission did not qualify as a low-risk auditee.

Regional Utility Service Systems Commission

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-16 Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Commission's financial statements.

Condition – Generally, one individual has control over the following areas for the Association:

- (1) One employee opens the mail and has access to accounting records, including posting receipts, prepare billings and maintaining the accounts receivable records.
- (2) Bank reconciliations were not always reviewed by an independent person.

Cause – The Commission has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the Commission's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The Commission should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including Commission members, to provide additional control through review of financial transactions, reconciliations and reports.

Response – The Executive Director has access to the accounting records at any time and works closely with the Finance Manager.

The Executive Director receives e-mails regarding all deposits made by the Finance Manager as they are done electronically.

The Executive Director reviews and approves all invoices and other items received through the mail and stamped as such.

The Executive Director will request to see all mail, before being opened, occasionally throughout the month for review.

Regional Utility Service Systems Commission

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

An independent review of bank reconciliations will be done and signed off on monthly a monthly basis by the secretary of the Board of Directors.

Conclusion – Response accepted.

II-B-16 Reconciliation of Utility Billings, Collections and Accounts Receivable

Criteria – An effective internal control system provides for internal controls related to maintaining delinquent account listings, reconciling utility billings, collections and delinquent accounts and comparing utility collections to deposits to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent account balances.

Condition – Utility billings, collections and accounts receivable were not reconciled.

Cause – Policies have not been established and procedures have not been implemented to maintain delinquent account listings, reconcile billings, collections and delinquent accounts and to reconcile collections to deposits.

Effect – This condition could result in unrecorded or misstated receipts, improper or unauthorized adjustments and write-offs and/or misstated delinquent account balances.

Recommendation – Procedures should be established to reconcile customer billings, collections and delinquent accounts monthly. The Commission should review the reconciliations and monitor delinquencies and improve write-offs of uncollectible accounts.

Response – An internal office procedure is in place to assure the Executive Director will review on a monthly basis, with the Finance Manager, select community customer billings, collections and accounts receivable for accuracy.

The Finance Manager will provide a month end reconciliation to the Executive Director for review.

The Board of Directors receives monthly reports on customer billings, collections and accounts receivables for approval.

Conclusion – Response accepted.

II-C-16 Financial Reporting

Criteria – A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the Commission's financial statements.

Regional Utility Service Systems Commission

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Condition – Certain account receivables and account payables were not properly recorded in the Commission’s financial statements.

Cause – Commission policies do not require and procedures have not been established to require independent review of year end cut-off transactions to ensure the Commission’s financial statements are accurate and reliable.

Effect – Lack of policies and procedures resulted in Commission employees not detecting the errors in the normal course of performing their assigned functions.

Recommendation – The Commission should establish procedures to ensure all receivables and payables are identified and properly reported in the Association’s financial statements.

Response – We will implement procedures to ensure receivables and payables are properly recorded in the financial statements.

Conclusion – Response accepted.

II-D-16 Bank Reconciliations

Criteria – An effective internal control system provides for internal controls related to reconciling bank statements to Commission records.

Condition – The June 2016 bank reconciliation did not balance to the Commission’s general ledger.

Cause – Policies have not been established and procedures have not been implemented to reconcile bank account balances to the Commission’s general ledger.

Effect – This condition could result in unrecorded or misstated receipts, improper or unauthorized adjustments and write-offs and/or misstated account balances.

Recommendation – Procedures should be established to reconcile bank account balances to the Commission’s general ledger. All variances between book and bank balances should be investigated and resolved timely.

Response – We have worked with our consultant and resolved the variance. We will implement procedures to review this more timely.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Regional Utility Service Systems Commission

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over the major program were noted.

Regional Utility Service Systems Commission

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-16 Questionable Expenses – No expenses we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 5, 1979 were noted.

IV-B-16 Travel Expense – No disbursements of Commission money for travel expenses of spouses of Commission officials or employees were noted.

IV-C-16 Commission Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

Minutes for one of five meetings tested were not published within 20 days as required by Chapter 28E.6(3) of the Code of Iowa.

Recommendation – The Commission should publish minutes as required.

Response – The Commission will publish draft minutes within 20 days as required by Chapter 28E.6 (3) of the Code of Iowa.

Conclusion – Response accepted.

IV-D-16 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted.

IV-E-16 Revenue Bonds – The Commission has established the required sinking and reserve accounts for each project as required by the bond resolutions.

IV-F-16 Payroll – The Commission did not file 1099 forms with the Internal Revenue Service (IRS) for contract labor paid in excess of \$600.

Recommendation – The Commission should ensure 1099 forms are properly completed and filed.

Response – The Commission will submit 1099 form to the IRS and maintain the documents in our office.

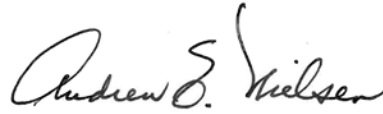
Conclusion – Response accepted.

Regional Utility Service Systems Commission

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager
Chad C. Lynch, Staff Auditor
Lucas P. Mullen, Staff Auditor
Kristen R. Finke, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, stylized initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State