OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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NEWS RELEASE

Contact: Andy Nielsen
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FOR RELEASE October 15, 2012

Auditor of State David A. Vaudt today released an audit report on the Regional Utility Service Systems Commission.

The Regional Utility Service Systems Commission had total revenues of $596,709 for the year ended June 30, 2011, a 66% decrease from the prior year. The revenues included user fees of $250,439 and rural development grant revenue of $187,826. The significant decrease in revenues was due primarily to a decrease in rural development grant revenue.

Expenses totaled $540,449, a 53% increase over the prior year, and included $95,923 for contractual services, $70,147 for salaries and $80,103 for interest expense. The significant increase in expenses is due primarily to contractual services and testing.

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 http://auditor.iowa.gov/reports/1114-0022-B00F.pdf.

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REGIONAL UTILITY SERVICE SYSTEMS COMMISSION

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2011

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Regional Utility Service Systems Commission

Officials

Name	Title	Representing
Henry W. Van Weelden	Chairperson	Mahaska County
Ernie Schiller	Vice-Chairperson	Lee County
Steve Burgmeier	Secretary/Treasurer	Jefferson County
Chris Ball	Member	Louisa County
Tom Broeker	Member	Des Moines County
Greg Kenning	Member	Wapello County
Marvin Phillips	Member	Van Buren County
Wes Rich	Member	Washington County
H. Kent White	Member	Henry County
Daryl Wood	Member	Keokuk County

Regional Utility Service Systems Commission

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David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report

To the Members of the Regional Utility
Service Systems Commission:

We have audited the accompanying financial statements of the Regional Utility Service Systems Commission as of and for the year ended June 30, 2011. These financial statements are the responsibility of the Commission's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our 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 at June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 5, 2012 on our consideration of the Regional Utility Service Systems Commission's internal control over financial reporting and 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 and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 7 through 11 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

DAVID A. VAUDT, CPA	WARREN G. JENKINS, CPA
Auditor of State	Chief Deputy Auditor of State

September 5, 2012

Regional Utility Service Systems Commission

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 2011. We encourage readers to consider this information in conjunction with the Commission's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The Commission's operating revenues increased 51%, or $100,176, from fiscal year 2010 to fiscal year 2011. Membership dues increased $36,000 and user fees increased approximately $63,000.
- The Commission's operating expenses were 57%, or $167,841, more in fiscal year 2011 than in fiscal year 2010.
- The Commission's net assets increased 1%, or $56,260, from June 30, 2010 to June 30, 2011.

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 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 Assets presents information on the Commission's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 Assets 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.

FINANCIAL ANALYSIS OF THE ASSOCIATION

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Commission's financial position. The Commission's net assets at the end of fiscal year 2011 totaled approximately $5,176,000. This compares to approximately $5,120,000 at the end of fiscal year 2010. A summary of the Commission's net assets is presented below.

Net Assets		
	June 30,	
	2011	2010
Current assets	$ 320,016	176,222
Restricted investments	152,903	133,865
Capital assets at cost, less accumulated depreciation	7,778,655	7,373,555
Total assets	8,251,574	7,683,642
Current liabilities	291,611	754,284
Noncurrent liabilities	2,783,831	1,809,486
Total liabilities	3,075,442	2,563,770
Net assets:		
Invested in capital assets, net of related debt	4,918,442	5,199,351
Restricted for debt service	152,903	133,865
Unrestricted	104,787	(213,344)
Total net assets	$ 5,176,132	5,119,872

The unrestricted portion of the Commission's net assets (2%) may be used to meet the Commission's obligations as they come due. The invested in capital assets (e.g., land, buildings and equipment), less the related debt portion of net assets (95%) are resources allocated to capital assets. The remaining net assets are restricted to pay revenue notes.

Statement of Revenues, Expenses and Changes in Net Assets

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 assets for the years ended June 30, 2011 and 2010 is presented below.

Changes in Net Assets		
	Year ended June 30,	
	2011	2010
Operating revenues:		
User fees	$ 250,439	187,640
Membership dues	45,000	9,000
Other	1,467	90
Total operating revenues	296,906	196,730
Operating expenses:		
Salaries	70,147	112,343
Operator labor	27,134	22,655
Contractual services	95,923	-
Auto	1,442	1,180
Repair and maintenance	4,036	4,712
Utilities	14,614	9,244
Office	1,059	2,812
Travel	-	150
Legal and professional	63,744	15,943
Insurance	4,359	4,047
Licenses and permits	1,515	1,345
Testing	31,288	1,600
Depreciation	140,718	115,277
Miscellaneous	4,367	1,197
Total operating expenses	460,346	292,505
Operating loss	(163,440)	(95,775)
Non-operating revenues (expenses):		
Community Development Block grant	15,287	214,213
Rural development grant	187,826	1,310,569
Other grants	95,774	32,500
Interest income	916	924
Interest expense	(80,103)	(60,715)
Net non-operating revenues	219,700	1,497,491
Change in net assets	56,260	1,401,716
Net assets beginning of year	5,119,872	3,718,156
Net assets end of year	$ 5,176,132	5,119,872

The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in net assets at the end of the fiscal year.

In fiscal year 2011, operating revenues increased $100,176, or 51%, primarily the result of an increase in user fees. The Mt. Union, Argyle and Lindy systems were completed and in use during fiscal year 2011. User fees for these three systems totaled approximately $64,000. In addition, membership dues increased from $1,000 to $5,000 per member county. Operating expenses increased $167,841, or 57%. The increase was primarily due to an increase in contractual services of approximately $96,000 for administrative services for fiscal year 011 due to a lack of Commission staff. In addition, testing expenses increased approximately $30,000 due to new systems and additional testing required of waste water. Non-operating revenues decreased approximately $1.3 million, primarily due to decreased funding from the United States Department of Agriculture for rural development grants due to fewer projects in process during fiscal year 2011.

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 and the acquisition of capital assets and repayment of debt. Cash provided by investing activities includes interest income.

CAPITAL ASSETS

At June 30, 2011, the Commission had approximately $7,779,000 invested in capital assets, net of accumulated depreciation of approximately $566,000. Depreciation expense totaled $140,718 for fiscal year 2011. More detailed information about the Commission's capital assets is presented in Note 4 to the financial statements.

LONG-TERM DEBT

At June 30, 2011, the Commission had approximately $2,860,000 of bonds and other debt outstanding, compared to approximately $2,489,000 at June 30, 2010, as shown below.

Outstanding Debt at Year-End

	June 30,	
	2011	2010
Revenue bonds	$ 2,098,989	1,724,586
Revolving loans	545,558	327,128
Interim financing	215,666	437,680
Total	$ 2,860,213	2,489,394

ECONOMIC FACTORS

The Commission has improved its financial position during the current fiscal year, compared to 2010.

The Iowa Department of Natural Resources recently changed its standards on the Carbonaceous Biochemical Oxygen Demand (CBOD) and ammonia limits entering Iowa waterways and streams. The change in standards requires stricter treatment of sewage, which will increase the operating costs for both operator and lab testing for each of the systems.

The Iowa Department of Natural Resources must provide approval of all of the Commission’s plans and specifications for all sanitary sewer collection and treatment systems, new construction and completed construction.

The Commission established a Sustainability Committee to come up with options for the Board to make decisions to assist in more sustainability of the organization.

CONTACTING THE ASSOCIATION’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 St., Ste. 103, Mt. Pleasant, IA 52641.

Regional Utility Service Systems Commission

Basic Financial Statements

Regional Utility Service Systems Commission

Statement of Net Assets

June 30, 2011

Assets		
Current assets:		
Cash and cash equivalents	$	208,807
Receivables:		
Accounts		103,462
Grants		3,000
Prepaid insurance		4,747
Total current assets		320,016
Noncurrent assets:		
Restricted investments		152,903
Capital assets (net of accumulated depreciation)		7,778,655
Total noncurrent assets		7,931,558
Total assets		8,251,574
Liabilities		
Current liabilities:		
Accounts payable		204,004
Accrued interest payable		11,225
Current portion of revolving loans		59,096
Current portion of revenue bonds		17,286
Total current liabilities		291,611
Noncurrent liabilities:		
Interim financing notes		215,666
Revolving loans, less current portion		486,462
Revenue bonds, less current portion		2,081,703
Total noncurrent liabilities		2,783,831
Total liabilities		3,075,442
Net assets		
Invested in capital assets, net of related debt		4,918,442
Restricted for debt service		152,903
Unrestricted		104,787
Total net assets	$	5,176,132

See notes to financial statements.

Regional Utility Service Systems Commission

Statement of Revenues, Expenses and
Changes in Net Assets

Year ended June 30, 2011

Operating revenues:		
User fees	$	250,439
Membership dues		45,000
Other		1,467
Total operating revenues		296,906
Operating expenses:		
Salaries and wages		70,147
Operator labor		27,134
Contractual services		95,923
Auto		1,442
Repair and maintenance		4,036
Utilities		14,614
Office		1,059
Legal and professional fees		63,744
Insurance		4,359
License and permits		1,515
Testing		31,288
Depreciation		140,718
Miscellaneous		4,367
Total operating expenses		460,346
Operating loss		(163,440)
Non-operating revenues (expenses):		
Community Development Block grant		15,287
Rural development grant		187,826
Other grants		95,774
Interest income		916
Interest expense		(80,103)
Total non-operating revenues		219,700
Change in net assets		56,260
Net assets beginning of year		5,119,872
Net assets end of year	$	5,176,132

See notes to financial statements.

Regional Utility Service Systems Commission

Statement of Cash Flows

Year ended June 30, 2011

Cash flows from operating activities:		
Cash received from user fees	$	155,838
Cash received from membership dues		41,000
Other operating receipts		1,467
Cash paid to suppliers and employees		(174,876)
Net cash provided by operating activities		23,429
Cash flows from capital and related financing activities:		
Receipts from capital grants		345,386
Acquisition of capital assets		(545,818)
Payment to bond restricted investment accounts		(19,040)
Proceeds from interim financing notes		142,986
Repayment of interim financing notes		(365,000)
Proceeds from long-term borrowings		623,308
Repayment of long-term borrowings		(30,475)
Interest paid on revenue bonds		(76,732)
Net cash provided by capital and related financing activities		74,615
Cash flows from investing activities:		
Interest received		916
Net change in cash and cash equivalents		98,960
Cash and cash equivalents at beginning of year		109,847
Cash and cash equivalents at end of year	$	208,807
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$	(163,440)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation		140,718
Increase in accounts receivable		(90,530)
Increase in prepaid expenses		(801)
Increase in accounts payable		145,553
Decrease in unearned revenue		(8,071)
Net cash provided by operating activities	$	23,429

See notes to financial statements.

(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 ten member counties. The member counties are Des Moines, Henry, Jefferson, Keokuk, Lee, Louisa, Mahaska, Van Buren, Wapello and Washington. One commission member is appointed by each of the participating political subdivisions.

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 applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

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, Liabilities and Net Assets

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

Cash, Investments 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 and sewer systems. 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.

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. Since there were no Commission employees at June 30, 2011, there is no compensated absences liability.

E. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, 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 assets are 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 assets are available, the Commission first applies restricted net assets.

F. Use of Estimates

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

(2) Cash and Investments

The Commission's deposits in banks at June 30, 2011 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 insure 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. 3, as amended by Statement No. 40.

(3) Pension and Retirement Benefits

The Commission contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.50% of their annual covered salary and the Association is required to contribute 6.95% of covered salary. Contribution requirements are established by state statute. The Commission's contributions to IPERS for the year ended June 30, 2011 was $3,781, equal to the required contribution for the year.

(4) Capital Assets

A summary of capital assets at June 30, 2011 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	$ 285,922	37,518	-	323,440
Construction in progress	2,483,156	508,300	2,061,825	929,631
Total capital assets not being depreciated	2,769,078	545,818	2,061,825	1,253,071
Capital assets being depreciated:				
Sewer systems	5,019,531	2,061,825	-	7,081,356
Less accumulated depreciation	415,054	140,718	-	555,772
Total capital assets being depreciated, net	4,604,477	1,921,107	-	6,525,584
Total capital assets, net	$ 7,373,555	2,466,925	2,061,825	7,778,655

(5) 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, 2011:

Interest cost capitalized	$ 13,369
Interest cost expensed	80,103
Total	$ 93,472

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2011 is as follows:

	Balance Beginning of Year	Additions	Retirements	Balance End of Year	Due Within One Year
Revenue bonds	$ 1,724,586	382,000	7,597	2,098,989	17,286
Revolving loans	327,128	241,308	22,878	545,558	59,096
Interim financing	437,680	142,986	365,000	215,666	-
Total	$ 2,489,394	766,294	395,475	2,860,213	76,382

Revenue Bonds

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

Year ending June 30,	Principal	Interest	Total
2012	$ 17,286	95,719	113,005
2013	22,226	99,987	122,213
2014	23,839	85,505	109,344
2015	24,857	84,488	109,345
2016	25,918	83,427	109,345
2017-2021	147,171	399,556	546,727
2022-2026	181,430	365,294	546,724
2027-2031	223,707	323,017	546,724
2032-2036	275,888	270,835	546,723
2037-2041	339,840	206,425	546,265
2042-2046	365,903	129,790	495,693
2047-2051	450,924	54,983	505,907
Total	$ 2,098,989	2,199,026	4,298,015

The Commission has pledged future sewer revenues, net of specified operating expenses, to repay $2,133,500 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 project as identified below and are payable through 2051. The revenue bonds outstanding at June 30, 2011 are as follows:

Project	Date of Issue	Final Due Date	Amount Originally Issued	Remaining Principal and Interest at June 30, 2011	Current Year Principal and Interest	Current Year Net Revenues	Percentage of Debt Service to Net Revenues
Mt. Sterling	Oct 2002	Aug 2042	$ 58,000	97,274	3,216	4,488	72%
Kinross	Oct 2004	Nov 2044	128,500	232,658	7,080	9,163	78
Webster	Oct 2005	Oct 2045	166,000	299,214	8,832	7,894	112
Martinsburg	Dec 2005	Dec 2045	200,000	361,035	10,632	16,789	63
Harper	Jun 2007	Jun 2047	211,000	385,493	11,016	14,619	76
Keswick	Jul 2009	May 2049	638,000	1,296,705	23,516	44,229	54
Argyle	Apr 2010	Apr 2050	350,000	878,675	14,438	14,225	102
Mt. Union	Oct 2010	Jul 2050	297,000	579,348	15,262	(11,093)	-
Lindy	Feb 2011	Feb 2051	85,000	167,613	1,291	3,913	33
Total			$ 2,133,500	4,298,015	95,283	104,227	

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 funds.

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 are required by each resolution to a reserve account 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.

The Commission did not make sufficient transfers to the bond sinking accounts for the Mt. Union and Lindy projects and to the reserve accounts for the Kinross, Webster, Martinsburg, Harper, Keswick and Argyle projects.

Revolving Loans

The Commission has entered into interim loan and disbursement agreements with the Iowa Finance Authority (IFA) for issuance of interest free interim project notes. The loans were issued pursuant to the provisions of Chapter 28F of the Code of Iowa for the purpose of paying the costs of planning and designing the acquisition and construction of plants and systems for sanitary sewer service. Repayment of these loans will come from future financing of the construction of the related project or as allowed by the Commission's 28E agreement. The Commission receives drawdowns from IFA for costs as they are incurred. The following revolving loans are outstanding at June 30, 2011.

Project	Loan ID	Agreement Date	Original Loan	Amount Disbursed	Maturity Date
Richmond	PDCW0678	Jan 14, 2008	$ 193,000	126,085	Jan 14, 2013
Lake Trio	PDCW0671	Jan 14, 2008	193,000	24,852	Jan 14, 2013
Rubio	PDCW0673	Jan 14, 2008	193,000	80,073	Jan 14, 2013
Selma	PDCW0670	Jan 14, 2008	193,000	59,096	Jan 14, 2011
Pleasant Plain	C0041P	May 7, 2008	193,000	124,383	May 7, 2013
Ollie	C0174P	Dec 9, 2009	193,000	131,069	Dec 9, 2012
Total				$ 545,558	

The Selma revolving loan was repaid on October 18, 2011.

Interim Financing

A summary of changes in interim financing debt is as follows:

	Balance Beginning of Year	Additions	Retirements	Balance End of Year
Interim financing	$ 437,680	142,986	365,000	215,666

The Commission is indebted to First National Bank in the amount of $25,905 as of June 30, 2011. The note, including interest at 4.5% per annum, is due August 1, 2012. The note is secured by the Rubio sewer project and will be repaid by the issuance of revenue bonds.

The Commission is indebted to First National Bank in the amount of $189,761 as of June 30, 2011. The note, including interest at 4.75% per annum, is due September 1, 2012. The note is secured by the Pleasant Plain sewer project and will be repaid by the issuance of revenue bonds.

(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 645 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 operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current 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 to equal 150% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current 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 risk pool are recorded as expenses at the time of payment to the risk pool. The Commission's contributions to the Pool for the year ended June 30, 2011 were $4,359.

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 in an amount not to exceed $2,650,000 per claim. For members requiring specific coverage from $3,000,000 to $12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to $150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. 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, 2011, no liability has been recorded in the Commission's financial statements. As of June 30, 2011, 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. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Commission also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond. 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.

(8) Commitments

The Commission has entered into various contracts with construction companies to construct sewer projects. The amount remaining on these contracts was approximately $1,198,000 at June 30, 2011 and are contingent on the contractors performing work as outlined in contracts.

(9) Pending Litigation

The Commission is a defendant in a lawsuit arising in the normal course of business. In the opinion of management, with the advice of its legal counsel, the ultimate disposition of these matters will not have a material adverse effect on the financial position and the results of operations of the Commission.

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 <u>Government Auditing Standards</u>

Regional Utility Service Systems Commission

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STATE OF IOWA

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David A. Vaudt, CPA
Auditor of State

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 the accompanying financial statements of the Regional Utility Service Systems Commission as of and for the year ended June 30, 2011, and have issued our report thereon dated September 5, 2012. 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.

Internal Control Over Financial Reporting

Management of the Regional Utility Service Systems Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

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 Commission's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in the Commission's internal control described in the accompanying Schedule of Findings as items (A) through (C) 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 deficiencies described in the accompanying Schedule of Findings as items (D) through (G) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Commission's operations for the year ended June 30, 2011 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 findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Commission's responses, we did not audit the Regional Utility Service Systems Commission's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the members and customers of the Regional Utility Service Systems Commission and other parties to whom the Commission may report and is not intended to be and should not be used by anyone other than these specified parties.

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.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 5, 2012

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-11 Segregation of Duties – One important aspect of the internal control system is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One employee opens the mail, has access to accounting records, including posting receipts, prepares billings and maintains the accounts receivable records. In addition, a listing of cash receipts is not prepared.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Regional Utility Service Systems Commission should review its operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel including Commission members.

Response – Beginning in September 2011, the Regional Utility Service Systems Commission (Commission) hired a new Executive Director and Finance Manager. The following processes were implemented:

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

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

The Executive Director reviews and approves all invoices and other items which are 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.

Conclusion – Response accepted.

II-B-11 Monthly Bank Reconciliations – Although monthly bank reconciliations were prepared and reviewed, the reconciliations included significant reconciling items which were the result of incorrect postings to various accounts. These reconciling items were reviewed and corrected by current Commission staff.

Recommendation – To provide better control over financial transactions and overall accountability, staff should continue to review significant reconciling items as part of the monthly bank reconciliation process.

Response – The Commissioners are presented with the bank reconciliation reports at every Board meeting, with the Secretary/Treasurer signing off on them after the Board has made a motion to approve the bank reconciliation reports. The Finance Manager will apprise the Board of any “significant” reconciling items which may need to be addressed.

Conclusion – Response acknowledged. In addition, the Secretary/Treasurer of the Commission should also review the bank reconciliations for significant reconciling items.

II-C-11 Reconciliation of Utility Billings, Collections and Accounts Receivable – Utility billings, collections and accounts receivable were not reconciled.

Recommendation – Procedures should be established to reconcile utility billings, collections and accounts receivable. The Commission should review the reconciliation and monitor delinquencies.

Response – Beginning with the hiring of a new Executive Director and Finance Manager, the Commission implemented an internal office procedure to ensure the Executive Director reviews all customer billings, collections and accounts receivable for accuracy on a monthly basis with the Finance Manager.

Conclusion – Response accepted.

II-D-11 Computer Systems – During our review of internal control, the existing control activities in the Commission's computer systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following deficiencies in the computer systems were noted:

The Commission does not have written policies for:

- Password privacy and confidentiality.
- Requiring password changes because the software does not require users to change log-ins/passwords periodically.
- Logging off unattended terminals or screensaver protected terminals.
- Fire protection.
- Backing up computers and off-site storage of back-ups
- Disposal of sensitive information.

Also, the Commission does not have a written disaster recovery plan.

Recommendation – The Commission should develop written policies addressing the above items in order to improve the Commission's control over computer systems. A written disaster recovery plan should be developed.

Response – Beginning with the hiring of a new Finance Manager, the Commission now has a policy and procedure in place to ensure computer systems are protected with passwords and set up to log off unattended terminals.

External backup drives are safeguarded. A backup of the system is performed every night.

Conclusion – Response acknowledged. The Commission should also develop a disaster recovery plan.

II-E-11 Accounts Receivable – The accounts receivable aging summary maintained by the Commission included approximately $40,000 of receivables which had been received in prior years. These receivables were adjusted for report purposes.

Recommendation – The Commission should review the accounts receivable aging summary to ensure the accuracy of all receivables.

Response – The accounts receivable aging summary as of June 30, 2012 has been reviewed by the Commission and determined to be accurate.

The accounts receivable aging summary is reviewed and presented to the Commissioners at each monthly meeting for their review and approval to ensure accuracy of all accounts receivables.

Conclusion – Response accepted.

II-F-11 Customer Accounts – The Commission does not have a written policy pertaining to write-offs or adjustments to customer accounts. Additionally, write-offs or adjustments to customer accounts should be approved by the Commission.

Recommendation – The Commission should establish a formal written policy for writing off or adjusting customer accounts and all write-offs or adjustments should be approved by the Commission.

Response – Beginning with the hiring of a new Finance Manager the Commission now has an internal office procedure in place requiring any "uncollectible" customer accounts which need to be written off or adjusted to be approved by the Commission and documented in the Commission meeting minutes.

Conclusion – Response accepted.

II-G-11 Timesheets – Timesheets were not maintained for Commission employees.

Recommendation – Timesheets should be maintained to support hours worked and should be approved and initialed by the employee's supervisor.

Response – Timesheets are now calculated, signed and approved by the Executive Director each pay period and filed in the Finance Manager's office.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

(1) Questionable Expenses – No expenses we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

(2) Travel Expense – No expenditures of money for travel expenses of spouses of Commission officials or employees were noted.

(3) Commission Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

The Commission did not always publish minutes within twenty days as required by Chapter 28E.6(3) of the Code of Iowa. Minutes for one meeting were not published.

In addition, a listing of approved claims should be included in the minutes.

Recommendation – The Commission should publish minutes as required. In addition, a listing of approved claims should be included in the minutes.

Response – Minutes are not approved until the next meeting which is beyond the 20 days. We will consult legal counsel regarding the disposition of this matter.

Conclusion – Response acknowledged. In addition, the listing of approved claims should be included in the minutes.

(4) Deposits and Investments – Except the Commission has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa, no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted.

Recommendation – The Commission should adopt a written investment policy to comply with the provisions of Chapter 12B.10B of the Code of Iowa.

Response – On October 13, 2011, the Commission adopted a written investment policy as required.

Conclusion – Response accepted.

(5) Revenue Bonds – The Commission has established the required sinking and reserve accounts for each project as required by the bond resolution. However, sufficient monthly transfers were not made to the Lindy and Mt. Union bond sinking accounts and the Kinross, Webster, Martinsburg, Harper, Keswick and Argyle reserve accounts.

In addition, the bond resolutions require the Commission to establish rates to be charged to the customers of the Commission to produce net revenues at least sufficient to pay the expenses of operation and maintenance of the system and to leave a balance of net revenues sufficient to pay the principal and interest of outstanding sewer revenue obligations. The net revenues of the Webster, Argyle and Mt. Union systems were not sufficient to pay the current year principal and interest.

Recommendation – The Commission should ensure sufficient transfers are made to the bond sinking and reserve accounts as required by the bond resolutions. In addition, the Commission should review sewer rates to ensure adequate net revenues are sufficient to pay the principal and interest.

Response – The Commissioners have approved the new "rate study" which will be used to determine accurate customer rates are being charged to ensure net revenues are sufficient to pay expenses of operation and maintenance of the system and have adequate funds to cover principal and interest on the outstanding sewer revenue obligations. The rate study will be reviewed on a yearly basis by Commission staff and the Commissioners.

The new "accounting system" was put in place July 1, 2011 to ensure sufficient transfers were being made on a monthly basis to the sinking (debt) and reserve accounts for each system as required by the bond resolutions.

Conclusion – Response accepted.

(6) Vehicle Usage – The Commission owns a vehicle for use by employees while on Commission business. The Commission has not established a formal policy to regulate the use of the vehicle.

Recommendation – The Commission should adopt a formal written policy regulating the use of the vehicle.

Response – The Commission now has a vehicle policy in place stating the company vehicles will be returned daily to the Commission office unless otherwise approved by the Executive Director.

Conclusion – Response accepted.

Regional Utility Service Systems Commission

Staff

This audit was performed by:

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