

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

March 15, 2013

Contact: Andy Nielsen
515/281-5834

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 \$1,339,822 for the year ended June 30, 2012, a 125% increase over the prior year. The revenues included user fees of \$253,702 and rural development grant revenue of \$966,169. The significant increase in revenues was due primarily to an increase in rural development grants.

Expenses totaled \$589,203, a 9% increase over the prior year, and included \$95,292 for contractual services, \$86,939 for interest expense and \$76,386 for salaries. The increase in expenses is due primarily to increased repair and maintenance costs.

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/1214-0022-B00F.pdf>.

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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, 2012

Table of Contents

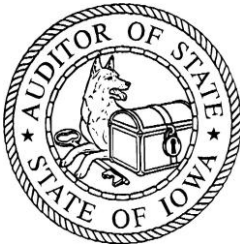
		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Management's Discussion and Analysis		7-11
Basic Financial Statements:	<u>Exhibit</u>	
Statement of Net Assets	A	14
Statement of Revenues, Expenses and Changes in Net Assets	B	15
Statement of Cash Flows	C	16
Notes to Financial Statements		17-24
Supplementary Information:	<u>Schedule</u>	
Schedule of Expenditures of Federal Awards	1	26
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>		29-30
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133		33-34
Schedule of Findings and Questioned Costs		35-39
Staff		40

Regional Utility Service Systems Commission

Officials

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

We have audited the accompanying basic financial statements of the Regional Utility Service Systems Commission as of and for the year ended June 30, 2012. 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.

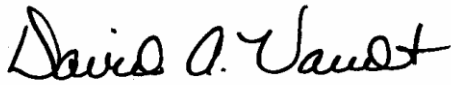
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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, 2012, 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 February 19, 2013 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.

U.S. generally accepted accounting principles require Management's Discussion and Analysis on pages 7 through 11 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 the 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 required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our 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 financial statements or to the 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 19, 2013

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 2012. 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 8.7%, or \$25,947, from fiscal year 2011 to fiscal year 2012. Membership dues increased \$15,000 and user fees increased \$3,263 over the prior year.
- ◆ The Commission's operating expenses were 9.1%, or \$41,918, more in fiscal year 2012 than in fiscal year 2011.
- ◆ The Commission's net assets increased 14.5%, or \$750,619, from June 30, 2011 to June 30, 2012.

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.

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

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 years 2012 and 2011 totaled approximately \$5,927,000 and \$5,176,000, respectively. This represents a \$751,000 increase over fiscal year 2011, due primarily to an increase in rural development grant revenue. A summary of the Commission's net assets is presented below.

	Net Assets	
	June 30,	
	2012	2011
Current assets	\$ 263,143	320,016
Restricted investments	216,141	152,903
Capital assets at cost, less accumulated depreciation	8,917,036	7,778,655
Total assets	9,396,320	8,251,574
Current liabilities	270,865	291,611
Noncurrent liabilities	3,198,704	2,783,831
Total liabilities	3,469,569	3,075,442
Net assets:		
Invested in capital assets, net of related debt	5,482,546	4,918,442
Restricted for debt service	216,141	152,903
Unrestricted	228,064	104,787
Total net assets	\$ 5,926,751	5,176,132

The unrestricted portion of the Commission's net assets (4%) 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 (93%) 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, 2012 and 2011 is presented below.

Changes in Net Assets		
	Year ended June 30,	
	2012	2011
Operating revenues:		
User fees	\$ 253,702	250,439
Membership dues	60,000	45,000
Other	9,151	1,467
Total operating revenues	<u>322,853</u>	<u>296,906</u>
Operating expenses:		
Salaries	76,386	70,147
Operator labor	28,724	27,134
Contractual services	95,292	95,923
Auto	10,310	1,442
Repair and maintenance	41,469	4,036
Utilities	17,406	14,614
Office	3,624	1,059
Legal and professional	26,328	63,744
Insurance	4,615	4,359
Licenses and permits	1,850	1,515
Testing	29,014	31,288
Depreciation	146,447	140,718
Travel	1,213	-
Miscellaneous	19,586	4,367
Total operating expenses	<u>502,264</u>	<u>460,346</u>
Operating loss	<u>(179,411)</u>	<u>(163,440)</u>
Non-operating revenues (expenses):		
Community Development Block grant	-	15,287
Rural development grant	966,169	187,826
Other grants	50,000	95,774
Interest income	800	916
Interest expense	(86,939)	(80,103)
Net non-operating revenues	<u>930,030</u>	<u>219,700</u>
Change in net assets	750,619	56,260
Net assets beginning of year	<u>5,176,132</u>	<u>5,119,872</u>
Net assets end of year	<u>\$ 5,926,751</u>	<u>5,176,132</u>

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

In fiscal year 2012, operating revenues increased \$25,947, or 8.7%, primarily the result of an increase in membership dues. Membership dues increased \$1,000 to \$6,000 per Member County for fiscal year 2012. User fees for all systems, which totaled approximately \$254,000, increased for fiscal year 2012. Operating expenses increased \$41,918, or 9.1%. The increase was primarily due to an increase in repair and maintenance costs to operate the system. Non-operating revenues increased approximately \$717,166, primarily due to increased funding from the United States Department of Agriculture for rural development grants.

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, 2012, the Commission had approximately \$8,917,000 invested in capital assets, net of accumulated depreciation of approximately \$702,000. Depreciation expense totaled \$146,447 for fiscal year 2012. More detailed information about the Commission’s capital assets is presented in Note 4 to the financial statements.

LONG-TERM DEBT

At June 30, 2012, the Commission had approximately \$3,221,000 of bonds and other debt outstanding, compared to approximately \$2,860,000 at June 30, 2011, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2012	2011
Revenue bonds	\$ 2,076,330	2,098,989
Revolving loans	631,695	545,558
Interim financing	512,905	215,666
Total	\$ 3,220,930	2,860,213

ECONOMIC FACTORS

The Commission has improved its financial position during the current fiscal year, compared to fiscal year 2011.

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 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 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, 2012

Assets

Current assets:

Cash and cash equivalents	\$ 79,103
Receivables:	
Accounts	95,206
Grants	84,018
Prepaid insurance	4,816
Total current assets	<u>263,143</u>

Noncurrent assets:

Restricted investments	216,141
Capital assets, net of accumulated depreciation	8,917,036
Total noncurrent assets	<u>9,133,177</u>

Total assets9,396,320**Liabilities**

Current liabilities:

Accounts payable	213,560
Accrued interest payable	33,784
Current portion of revenue bonds	22,226
Compensated absences	1,295
Total current liabilities	<u>270,865</u>

Noncurrent liabilities:

Interim financing notes	512,905
Revolving loans	631,695
Revenue bonds, less current portion	2,054,104
Total noncurrent liabilities	<u>3,198,704</u>

Total liabilities3,469,569**Net assets**

Invested in capital assets, net of related debt	5,482,546
Restricted for debt service	216,141
Unrestricted	228,064
Total net assets	<u><u>\$ 5,926,751</u></u>

See notes to financial statements.

Regional Utility Service Systems Commission

Statement of Revenues, Expenses and
Changes in Net Assets

Year ended June 30, 2012

Operating revenues:	
User fees	\$ 253,702
Membership dues	60,000
Other	9,151
Total operating revenues	<u>322,853</u>
Operating expenses:	
Salaries and wages	76,386
Operator labor	28,724
Contractual services	95,292
Auto	10,310
Repair and maintenance	41,469
Utilities	17,406
Office	3,624
Legal and professional fees	26,328
Insurance	4,615
License and permits	1,850
Testing	29,014
Depreciation	146,447
Travel	1,213
Miscellaneous	19,586
Total operating expenses	<u>502,264</u>
Operating loss	<u>(179,411)</u>
Non-operating revenues (expenses):	
Rural development grant	966,169
Other grants	50,000
Interest income	800
Interest expense	(86,939)
Total non-operating revenues	<u>930,030</u>
Change in net assets	750,619
Net assets beginning of year	<u>5,176,132</u>
Net assets end of year	<u>\$ 5,926,751</u>

See notes to financial statements.

Regional Utility Service Systems Commission

Statement of Cash Flows

Year ended June 30, 2012

Cash flows from operating activities:	
Cash received from user fees	\$ 261,958
Cash received from membership dues	60,000
Other operating receipts	9,151
Cash paid to suppliers and employees	<u>(345,035)</u>
Net cash used by operating activities	<u>(13,926)</u>
Cash flows from capital and related financing activities:	
Receipts from capital grants	935,151
Acquisition of capital assets	(1,284,828)
Proceeds from bond sinking fund	48,773
Payment to bond restricted investment accounts	(112,011)
Proceeds from interim financing notes	297,239
Proceeds from long-term borrowings	170,085
Repayment of long-term borrowings	(106,607)
Interest paid on revenue bonds	<u>(64,380)</u>
Net cash used by capital and related financing activities	<u>(116,578)</u>
Cash flows from investing activities:	
Interest received	<u>800</u>
Net change in cash and cash equivalents	(129,704)
Cash and cash equivalents at beginning of year	<u>208,807</u>
Cash and cash equivalents at end of year	<u>\$ 79,103</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (179,411)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	146,447
Decrease in accounts receivable	8,256
Increase in prepaid expenses	(69)
Increase in accounts payable	<u>10,851</u>
Net cash used by operating activities	<u>\$ (13,926)</u>

See notes to financial statements.

Regional Utility Service Systems Commission

Notes to Financial Statements

June 30, 2012

(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 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 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. The Commission's liability for accumulated vacation has been computed based on rates of pay in effect at June 30, 2012.

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 U.S. generally accepted accounting principles 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, 2012 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 5.38% of their annual covered salary and the Commission is required to contribute 8.07% of covered salary. Contribution requirements are established by state statute. The Commission's contributions to IPERS for the years ended June 30, 2012 and June 30, 2011 were \$6,164 and \$3,781, respectively, equal to the required contribution for those years.

(4) Capital Assets

A summary of capital assets at June 30, 2012 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 323,440	-	1,000	322,440
Construction in progress	929,631	1,026,982	-	1,956,613
Total capital assets not being depreciated	1,253,071	1,026,982	1,000	2,279,053
Capital assets being depreciated:				
Sewer systems	7,081,356	258,846	-	7,340,202
Less accumulated depreciation	555,772	146,447	-	702,219
Total capital assets being depreciated, net	6,525,584	112,399	-	6,637,983
Total capital assets, net	\$ 7,778,655	1,139,381	1,000	8,917,036

(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, 2012:

Interest cost capitalized	\$ 24,449
Interest cost expensed	86,939
Total	\$ 111,388

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Revenue bonds	\$ 2,098,989	-	22,659	2,076,330	22,226
Revolving loans	545,558	170,085	83,948	631,695	-
Interim financing	215,666	297,239	-	512,905	-
Compensated absences	-	1,295	-	1,295	1,295
Total	\$ 2,860,213	468,619	106,607	3,222,225	23,521

Revenue Bonds

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

Year ending June 30,	Principal	Interest	Total
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	27,025	82,320	109,345
2018-2022	153,459	393,268	546,727
2023-2027	189,189	357,535	546,724
2028-2032	233,283	313,440	546,723
2033-2037	287,709	259,014	546,723
2038-2042	352,424	191,878	544,302
2043-2047	341,904	114,975	456,879
2048-2051	394,497	37,469	431,966
Total	\$ 2,076,330	2,103,306	4,179,636

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, 2012 are as follows:

Project	Date of Issue	Final Due Date	Amount Originally Issued	Remaining Principal and Interest at June 30, 2012	Current Year Principal and Interest	Current Year Net Revenues	Percentage of Debt Service to Net Revenues
Mt. Sterling	Oct 2002	Aug 2042	\$ 58,000	93,930	3,212	(2,321)	-
Kinross	Oct 2004	Nov 2044	128,500	225,539	7,073	3,964	178%
Webster	Oct 2005	Oct 2045	166,000	289,951	8,823	8,132	108
Martinsburg	Dec 2005	Dec 2045	200,000	350,387	10,621	10,297	103
Harper	Jun 2007	Jun 2047	211,000	374,494	11,005	14,342	77
Keswick	Jul 2009	May 2049	638,000	1,263,112	32,438	39,487	82
Argyle	Apr 2010	Apr 2050	350,000	847,158	17,256	16,172	107
Mt. Union	Oct 2010	Jul 2050	297,000	568,902	22,254	(10,227)	-
Linby	Feb 2011	Feb 2051	85,000	166,163	6,623	1,639	404
Total			\$ 2,133,500	4,179,636	119,305	81,485	

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 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 reserve account for the Kinross, Webster, Martinsburg, Harper and Keswick 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 28E 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, 2012.

Project	Loan ID	Agreement Date	Original Loan	Amount Disbursed	Maturity Date
Richmond	PDCW0678	Jan 14, 2008	\$ 193,000	193,000	Jan 14, 2014
Rubio	PDCW0673	Jan 14, 2008	193,000	98,142	Jan 14, 2014
Pleasant Plain	C0041P	May 7, 2008	193,000	162,855	May 7, 2014
Ollie	C0174P	Dec 9, 2009	193,000	177,698	Dec 9, 2015
Total				<u>\$ 631,695</u>	

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	\$ 215,666	297,239	-	512,905

The Commission is indebted to First National Bank in the amount of \$25,905 as of June 30, 2012. The note, including interest at 4.5% per annum, is due January 1, 2014. 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 \$487,000 as of June 30, 2012. The note, including interest at 4.75% per annum, is due September 1, 2013. 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 663 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, 2012 were \$5,159.

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, 2012, no liability has been recorded in the Commission's financial statements. As of June 30, 2012, 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 \$248,020 at June 30, 2012 and are contingent on the contractors performing work as outlined in contracts.

Supplementary Information

Schedule 1

Regional utility Service Systems Commission

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

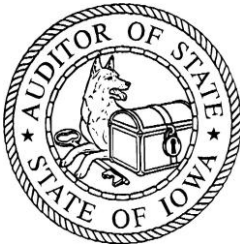
Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Agriculture:			
Water and Waste Disposal Systems for Rural Communities	10.760		\$ 681,194
Water and Waste Disposal Systems for Rural Communities - ARRA	10.781	IA-04-128360885	<u>509,198</u>
Total			<u>\$ 1,190,392</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Regional Utility Service Systems Commission and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

**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**

Regional Utility Service Systems Commission



OFFICE OF AUDITOR OF STATE
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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 the accompanying financial statements of the Regional Utility Service Systems Commission as of and for the year ended June 30, 2012, and have issued our report thereon dated February 19, 2013. 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

The 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 and Questioned Costs, we identified deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility 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 Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-12 and II-B-12 to be material weaknesses.

Compliance and Other Matters

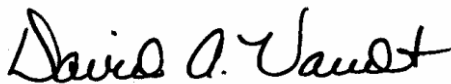
As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material 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 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, 2012 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 and Questioned Costs. 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, including federal awarding agencies and pass-through entities, 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

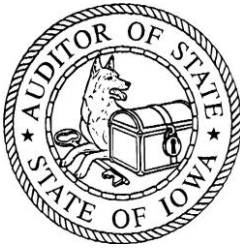


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 19, 2013

Regional Utility Service Systems Commission

**Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133**



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Independent Auditor's Report on Compliance
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To the Members of the Regional Utility
Service Systems Commission:

Compliance

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) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Regional Utility Service Systems Commission's major federal programs for the year ended June 30, 2012. The Regional Utility Service Systems Commission's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal program is the responsibility of the Regional Utility Service Systems Commission's management. Our responsibility is to express an opinion on the Regional Utility Service Systems Commission's compliance based on our audit.

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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination on the Regional Utility Service Systems Commission's compliance with those requirements.

In our opinion, the Regional Utility Service Systems Commission complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

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 requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Regional Utility Service Systems Commission's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control

over compliance in accordance with OMB Circular A-133, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and users of the Regional Utility Service Systems Commission and other parties to whom the Regional Utility Service Systems Commission may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 19, 2013

Regional Utility Service Systems Commission

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

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

- (a) A unqualified opinion was issued on the financial statements.
- (b) Material weaknesses 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 programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each of the major programs.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were:
 - CFDA Number 10.760 – Water and Waste Disposal Systems for Rural Communities
 - CFDA Number 10.781 – Water and Waste Disposal Systems for Rural Communities - ARRA
- (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, 2012

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-12 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 and has access to accounting records, including posting receipts, preparing billings and maintaining the accounts receivable records.

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

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

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

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

Conclusion – Response accepted.

II-B-12 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 – An internal office procedure is in place to ensure the RUSS Executive Director will review on a monthly basis, with the RUSS Finance Manager all customer billings, collections and accounts receivable for accuracy.

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

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

Conclusion – Response accepted.

Regional Utility Service Systems Commission
Schedule of Findings and Questioned Costs
Year ended June 30, 2012

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

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 programs were noted.

Regional Utility Service Systems Commission

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-12 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.
- IV-B-12 Travel Expense – No disbursements of Commission money for travel expenses of spouses of Commission officials or employees were noted.
- IV-C-12 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 – RUSS has been and will continue sending “Draft” copies of RUSS board meeting minutes for publication within a week to 10 days after the board meeting has occurred.

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

- IV-D-12 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-12 Revenue Bonds – The Commission has established the required sinking and reserve accounts for each project as required by the bond resolutions. However, sufficient monthly transfers were not made to the Kinross, Webster, Martinsburg, Harper and Keswick 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 Mt Sterling, Kinross, Webster, Martinsburg, Argyle, Mt. Union and Linby 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.

Regional Utility Service Systems Commission

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Response – RUSS began using a “flat rate” for all users August 2012 for each community based on the operations and maintenance needed for each system as well as the needed funds to cover principal and interest on the outstanding sewer revenue obligations. The rate study will be reviewed on a yearly basis by RUSS staff and the RUSS Board of Directors.

The RUSS Executive Director will work with the bond attorney to revise the current bond resolutions for Kinross, Webster, Martinsburg, Harper and Keswick to reflect the appropriate amount needed for transferring funds to the systems sinking and reserve accounts.

Conclusion – Response accepted.

IV-F-12 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the Commission to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The Commission retains neither the actual cancelled checks nor cancelled checks through electronic image.

Recommendation – The Commission should obtain and retain an image of both the front and back of each cancelled check as required.

Response – RUSS Finance Manager has contacted the bank requesting RUSS receive the electronic image of both the front and back of cancelled checks. This will occur for the January 2013 bank statement.

RUSS will retain all bank statements with electronic cancelled checks (front and back images) as required.

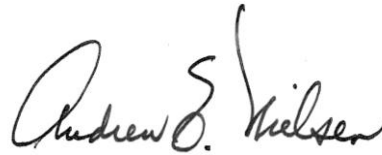
Conclusion – Response accepted.

Regional Utility Service Systems Commission

Staff

This audit was performed by:

Michelle B. Meyer, CPA, Manager
James H. Pitcher, CPA, Staff Auditor
Matthew S. Nye, Assistant Auditor
Jason R. Ropte, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State