



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE

July 9, 2015

Contact: Andy Nielsen
515/281-5834

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

The Regional Utility Service Systems Commission had total revenues of \$1,186,762 for the year ended June 30, 2014, a 77% increase over the prior year. The revenues included user fees of \$369,277, a reimbursement from Washington County of \$386,194 and rural development grant revenue of \$254,810. The significant increase in revenues was due primarily to an increase in rural development grants and a reimbursement from Washington County for the discontinuance of projects.

Expenses for the year ended June 30, 2014 totaled \$969,080, a 64% increase over the prior year, and included \$150,516 for salaries, \$90,847 for interest expense and \$82,465 for legal and professional fees. The significant increase in expenses was primarily due to a loss due to the discontinuance of projects.

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/1414-0022-B00F.pdf>.

###

REGIONAL UTILITY SERVICE SYSTEMS COMMISSION

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

JUNE 30, 2014

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-6
Management's Discussion and Analysis	7-10
Basic Financial Statements:	<u>Exhibit</u>
Statement of Net Position	A 12
Statement of Revenues, Expenses and Changes in Net Position	B 13
Statement of Cash Flows	C 14
Notes to Financial Statements	15-22
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>	25-26
Schedule of Findings	27-28
Staff	29

Regional Utility Service Systems Commission

Officials

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Daryl Wood	Chairperson	Keokuk County
Ernie Schiller	Vice-Chairperson	Lee County
Chris Ball	Secretary/Treasurer	Louisa County
Jim Cary	Member	Des Moines County
Lee Dimmitt	Member	Jefferson County
Greg Kenning	Member	Wapello County
Greg Moeller	Member	Henry County
Jack Seward, Jr.	Member	Washington County
Mike Vander Molen	Member	Mahaska County
Bob Waugh	Member	Van Buren County
Bruce Hudson	Executive Director	

Regional Utility Service Systems Commission



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report

To the Members of the Regional Utility
Service Systems Commission:

Report on the Financial Statements

We have audited the accompanying financial statements of the Regional Utility Service Systems Commission as of and for the year ended June 30, 2014, and the related Notes to Financial Statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Regional Utility Service Systems Commission as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.


Other Matters


Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis on pages 7 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 27, 2015 on our consideration of the Regional Utility Service Systems Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Regional Utility Service Systems Commission's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 27, 2015

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 2014. 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 \$1,107, or less than 1%, over the prior fiscal year. User fees increased \$23,649 and membership fees decreased \$19,000.
- ◆ The Commission's operating expenses were 8.9%, or \$46,587, more in fiscal year 2014 than in fiscal year 2013.
- ◆ The Commission's net position increased 3.6%, or \$217,682, from June 30, 2013 to June 30, 2014.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

FINANCIAL ANALYSIS OF THE COMMISSION

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of the Commission's financial position. The Commission's net position at the end of fiscal years 2014 and 2013 totaled approximately \$6,225,000 and \$6,007,000, respectively. This represents an increase of approximately \$218,000 over fiscal year 2013 and is due primarily to increased funding from the United States Department of Agriculture for rural development grants and other grants. A summary of the Commission's net position is presented below.

Net Position		
	June 30,	
	2014	2013
Current assets	\$ 215,717	238,594
Restricted investments	193,672	198,197
Capital assets, net of accumulated depreciation	8,681,143	9,033,174
Total assets	9,090,532	9,469,965
Current liabilities	91,988	718,193
Noncurrent liabilities	2,773,793	2,744,703
Total liabilities	2,865,781	3,462,896
Net position:		
Net investment in capital assets	5,825,428	5,616,266
Restricted for debt service	185,898	198,197
Unrestricted	213,425	192,606
Total net position	\$ 6,224,751	6,007,069

The unrestricted portion of the Commission's net position (3.4%) may be used to meet the Commission's obligations as they come due. The net investment in capital assets (e.g., land, buildings and equipment portion of net position (94%) are resources allocated to capital assets. The remaining net position is restricted to pay revenue notes.

Statement of Revenues, Expenses and Changes in Net Position

Operating revenues are from sewer users in communities where sewer systems have been completed and assessments from member counties. Operating expenses are expenses paid to operate the sewer systems. Non-operating revenues and expenses are for grant income, interest income and interest expense. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net position for the years ended June 30, 2014 and 2013 is presented below.

Changes in Net Position		
	Year ended June 30,	
	2014	2013
Operating revenues:		
User fees	\$ 369,277	345,628
Membership dues	79,000	98,000
Other	3,334	6,876
Total operating revenues	<u>451,611</u>	<u>450,504</u>
Operating expenses:		
Salaries	150,516	144,937
Operator labor	18,010	24,511
Contractual services	26,169	35,212
Auto	6,757	6,863
Repair and maintenance	39,211	41,582
Utilities	11,331	14,275
Office	10,034	8,686
Legal and professional	82,465	47,729
Insurance	8,643	4,628
Licenses and permits	-	2,125
Testing	3,031	9,249
Depreciation	181,858	174,275
Miscellaneous	31,220	8,586
Total operating expenses	<u>569,245</u>	<u>522,658</u>
Operating loss	<u>(117,634)</u>	<u>(72,154)</u>
Non-operating revenues (expenses):		
Rural development grant	254,810	168,884
Reimbursement from Washington County for the discontinuance of projects	386,194	-
Reimbursement from Lee County for project rehabilitation	44,000	-
Other grants	50,024	50,000
Interest income	123	393
Loss due to discontinuance of projects	(308,988)	-
Interest expense	(90,847)	(66,805)
Net non-operating revenues	<u>335,316</u>	<u>152,472</u>
Change in net position	217,682	80,318
Net position beginning of year	<u>6,007,069</u>	<u>5,926,751</u>
Net position end of year	<u>\$ 6,224,751</u>	<u>6,007,069</u>

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

In fiscal year 2014, operating revenues increased \$1,107, or less than 1%. User fees for all systems totaled approximately \$369,000, an increase of approximately \$24,000 over for fiscal year 2013. Operating expenses increased \$46,587, or 8.9%. Non-operating revenues increased approximately \$516,000, primarily due to increased funding from the United States Department of Agriculture for rural development grants and a reimbursement from Washington County for the discontinuance of projects.

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, 2014, the Commission had approximately \$8,681,000 invested in capital assets, net of accumulated depreciation of approximately \$1,058,000. Depreciation expense totaled \$181,858 for fiscal year 2014. More detailed information about the Commission’s capital assets is presented in Note 4 to the financial statements.

LONG-TERM DEBT

At June 30, 2014, the Commission had approximately \$2,799,000 of bonds and other debt outstanding, compared to approximately \$3,235,000 at June 30, 2013, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2014	2013
Revenue bonds	\$ 2,526,436	2,051,270
Revolving loans	166,263	671,266
Interim financing note	105,951	512,905
Total	\$ 2,798,650	3,235,441

Additional information about the Commission’s long-term debt is presented in Note 7 to the financial statements.

ECONOMIC FACTORS

The Commission has improved its financial position during the current fiscal year. The net position increased approximately \$218,000, primarily due to increased funding from the United States Department of Agriculture for rural development grants.

CONTACTING THE COMMISSION’S FINANCIAL MANAGEMENT

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

Basic Financial Statements

Exhibit A

Regional Utility Service Systems Commission

Statement of Net Position

June 30, 2014

Assets

Current assets:

Cash and cash equivalents	\$ 125,891
Receivables:	
Accounts	75,546
Grants	12,500
Prepaid insurance	1,780
Total current assets	<u>215,717</u>

Noncurrent assets:

Restricted investments	193,672
Capital assets, net of accumulated depreciation	8,681,143
Total noncurrent assets	<u>8,874,815</u>

Total assets9,090,532**Liabilities**

Current liabilities:

Accounts payable	57,065
Accrued interest payable	7,774
Current portion of revenue bonds	24,857
Compensated absences	2,292
Total current liabilities	<u>91,988</u>

Noncurrent liabilities:

Interim financing note	105,951
Revolving loans	166,263
Revenue bonds, less current portion	2,501,579
Total noncurrent liabilities	<u>2,773,793</u>

Total liabilities2,865,781**Net position**

Net investment in capital assets	5,825,428
Restricted for debt service	185,898
Unrestricted	213,425
Total net position	<u>\$ 6,224,751</u>

See notes to financial statements.

Regional Utility Service Systems Commission

Statement of Revenues, Expenses and
Changes in Net Position

Year ended June 30, 2014

Operating revenues:	
User fees	\$ 369,277
Membership dues	79,000
Other	3,334
Total operating revenues	<u>451,611</u>
Operating expenses:	
Salaries	150,516
Operator labor	18,010
Contractual services	26,169
Auto	6,757
Repair and maintenance	39,211
Utilities	11,331
Office	10,034
Legal and professional fees	82,465
Insurance	8,643
Testing	3,031
Depreciation	181,858
Miscellaneous	31,220
Total operating expenses	<u>569,245</u>
Operating loss	<u>(117,634)</u>
Non-operating revenues (expenses):	
Rural development grant	254,810
Reimbursement from Washington County for the discontinuance of projects	386,194
Reimbursement from Lee County for project rehabilitation	44,000
Other grants	50,024
Interest income	123
Loss due to discontinuance of projects	(308,988)
Interest expense	(90,847)
Net non-operating revenues	<u>335,316</u>
Change in net position	217,682
Net position beginning of year	<u>6,007,069</u>
Net position end of year	<u>\$ 6,224,751</u>
See notes to financial statements.	

Regional Utility Service Systems Commission

Statement of Cash Flows

Year ended June 30, 2014

Cash flows from operating activities:	
Cash received from user fees	\$ 397,689
Cash received from membership dues	79,000
Other operating receipts	3,334
Cash paid to suppliers and employees	<u>(509,404)</u>
Net cash used by operating activities	<u>(29,381)</u>
Cash flows from capital and related financing activities:	
Receipts from disposition of capital grants	742,944
Acquisition of capital assets	(138,816)
Proceeds from bond sinking fund	6,718
Payment to restricted bond investment accounts	(2,192)
Proceeds from long-term borrowings	622,110
Repayment of long-term borrowings	(1,058,901)
Interest paid on long-term borrowings	<u>(125,859)</u>
Net cash provided by capital and related financing activities	<u>46,004</u>
Cash flows from investing activities:	
Interest received	<u>123</u>
Change in cash and cash equivalents	16,746
Cash and cash equivalents at beginning of year	<u>109,145</u>
Cash and cash equivalents at end of year	<u>\$ 125,891</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (117,634)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	181,858
Decrease in accounts receivable	28,412
Decrease in prepaid expenses	3,295
Decrease in accounts payable	(124,402)
Decrease in compensated absences	<u>(910)</u>
Net cash used by operating activities	<u>\$ (29,381)</u>

See notes to financial statements.

Regional Utility Service Systems Commission

Notes to Financial Statements

June 30, 2014

(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 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 Position

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

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

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

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

Reportable capital assets of the Commission are land 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, 2014.

E. Net Position

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

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, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to ensure there will be no loss of public funds.

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

The Commission had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 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 5.95% of their annual covered salary and the Commission is required to contribute 8.93% of covered salary. Contribution requirements are established by state statute. The Commission's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$13,305, \$12,492 and 6,164, respectively, equal to the required contribution for those years.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2014 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 322,440	83,000	-	405,440
Construction in progress	477,783	26,339	308,988	195,134
Total capital assets not being depreciated	<u>800,223</u>	<u>109,339</u>	<u>308,988</u>	<u>600,574</u>
Capital assets being depreciated:				
Sewer systems	9,109,445	29,476	-	9,138,921
Less accumulated depreciation	876,494	181,858	-	1,058,352
Total capital assets being depreciated, net	<u>8,232,951</u>	<u>(152,382)</u>	<u>-</u>	<u>8,080,569</u>
Total capital assets, net	<u>\$ 9,033,174</u>	<u>(43,043)</u>	<u>308,988</u>	<u>8,681,143</u>

(5) Washington County Project Discontinuance

In April 2013, the Washington County Board of Supervisors voted to no longer seek the Regional Utility Service Systems Commission’s assistance with providing wastewater systems in the communities of Richmond and Rubio. As a result, the sanitary sewer service upgrade projects in these cities were abandoned and previously capitalized construction costs totaling \$308,988 were deleted from the Commission’s capital assets. The capital asset deletion is reflected as a loss due to discontinuance of projects in the Commission’s financial statements. In November 2013, the Commission received \$386,194 from Washington County as payment in full for the County’s obligation for these projects and revenue bonds outstanding of \$306,055 issued for the projects were retired during the year.

(6) 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, 2014:

Interest cost capitalized	\$ 8,151
Interest cost expensed	<u>90,847</u>
Total	<u>\$ 98,998</u>

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2014 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Sewer revenue bonds	\$ 2,051,270	501,000	25,834	2,526,436	24,857
Revolving loans	671,266	15,159	520,162	166,263	-
Interim financing note	512,905	105,951	512,905	105,951	-
Compensated absences	3,202	-	910	2,292	2,292
Total	<u>\$ 3,238,643</u>	<u>622,110</u>	<u>1,059,811</u>	<u>2,800,942</u>	<u>27,149</u>

Sewer Revenue Bonds

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

Year ending June 30,	Principal	Interest	Total
2015	\$ 24,857	95,238	120,095
2016	31,928	102,120	134,048
2017	35,189	92,759	127,948
2018	36,518	91,430	127,948
2019	37,901	90,047	127,948
2020-2024	212,271	427,474	639,745
2025-2029	256,223	383,520	639,743
2030-2034	309,846	329,897	639,743
2035-2039	375,345	264,397	639,742
2040-2044	445,030	184,876	629,906
2045-2049	363,460	104,247	467,707
2050-2054	383,282	16,134	399,416
2055-2056	14,586	323	14,909
Total	\$ 2,526,436	2,182,462	4,708,898

The Commission has pledged future sewer revenues, net of specified operating expenses, to repay \$2,634,500 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 2056. The revenue bonds outstanding at June 30, 2014 are as follows:

Project	Date of Issue	Final Due Date	Amount Originally Issued	Remaining Principal and Interest at June 30, 2014	Current Year Principal and Interest	Current Year Net Revenues	Percentage of Debt Service to Net Revenues
Mt. Sterling	Oct 2002	Aug 2042	\$ 58,000	87,504	3,213	8,488	38%
Kinross	Oct 2004	Nov 2044	128,500	211,480	7,074	19,248	37%
Webster	Oct 2005	Oct 2045	166,000	272,351	8,824	14,468	61%
Martinsburg	Dec 2005	Dec 2045	200,000	329,019	10,622	27,012	39%
Harper	Jun 2007	Jun 2047	211,000	352,940	11,008	27,828	40%
Keswick	Jul 2009	May 2049	638,000	1,194,577	34,310	68,066	50%
Argyle	Apr 2010	Apr 2050	350,000	810,139	18,262	18,258	100%
Mt. Union	Oct 2010	Jul 2050	297,000	530,532	14,679	22,674	65%
Linby	Feb 2011	Feb 2051	85,000	154,706	4,317	9,492	45%
Pleasant Plain/East Pleasant Plain	Aug 2013	Aug 2056	501,000	765,650	-	277,066	0%
Total			\$ 2,634,500	4,708,898	112,309	492,600	

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

- a) The bonds are to be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the systems.
- b) Sufficient monthly transfers shall be made to a bond sinking account for each project for the purpose of making the bond principal and interest payments when due.
- c) Additional monthly transfers to a reserve account are required by each resolution for the purpose of paying principal and interest on the bonds if sufficient funds are not available in the bond sinking account.
- d) The funded depreciation account is restricted for the purpose of paying extraordinary maintenance expenses, repair and capital improvements to the sewer projects or for principal and interest on the bonds when there are insufficient funds in the bond sinking and reserve accounts.

Revolving Loans

The Commission has entered into interim loan and disbursement agreements with the Iowa Finance Authority (IFA) for the 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, 2014.

Project	Loan ID	Agreement Date	Original Loan	Amount Disbursed	Maturity Date
Ollie	C0174P	Dec 9, 2009	\$ 193,000	<u>166,263</u>	Dec 9, 2015

Interim Financing Note

A summary of changes in the interim financing note is as follows:

	Balance Beginning of Year	Additions	Retirements	Balance End of Year
\$	512,905	105,951	512,905	105,951

The Commission is indebted to First National Bank for \$105,951 as of June 30, 2014. The note, including interest at 3.25% per annum, is due September 1, 2015. The note is secured by the Ollie sewer project and will be repaid by the issuance of revenue bonds.

(8) 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 700 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate 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 property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Commission's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The Commission's contributions to the Pool for the year ended June 30, 2014 were \$5,248.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Commission's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$150,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Commission's risk-sharing certificate.

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

The Commission does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2014, no liability has been recorded in the Commission's financial statements. As of June 30, 2014, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

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

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

(9) Commitments

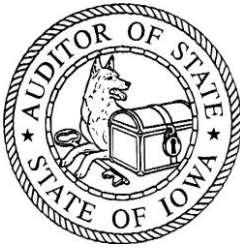
The Commission has entered into various contracts with construction companies to construct sewer projects. The amounts remaining on these contracts was approximately \$144,803 at June 30, 2014 and are contingent on the contractors performing work as outlined in the contracts.

(10) Subsequent Event

On February 11, 2015, the Commission approved contracts totaling \$1,538,112 for a sanitary sewer improvement project for the City of Ollie. Project costs will be paid with proceeds from the issuance of revenue bonds.

**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
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Members of the Regional Utility
Service Systems Commission:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the Regional Utility Service Systems Commission as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, and have issued our report thereon dated May 27, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control 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 Regional Utility Service Systems Commission's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in the Regional Utility Service Systems Commission's internal control described in the accompanying Schedule of Findings as items (A) and (B) to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Regional Utility Service Systems Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters required to be reported under Government Auditing Standards. However, we noted an immaterial instance of non-compliance or another matter which is 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, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Commission. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

Purpose of this Report

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

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


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 27, 2015

Regional Utility Service Systems Commission

Schedule of Findings

Year ended June 30, 2014

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control 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 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 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.

- (B) 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. The review of the reconciliation should be documented by the signature or initials of the reviewer and the date of review.

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

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

The 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

Year ended June 30, 2014

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 disbursements of Commission 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.

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

Recommendation – The Commission should publish minutes as required.

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

Conclusion – Response accepted.


- (4) 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.
- (5) Revenue Bonds – The Commission has established the required sinking and reserve accounts for each project as required by the bond resolutions.

Regional Utility Service Systems Commission

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager
Jesse J. Harthan, Staff Auditor
Chad C. Lynch, Assistant Auditor
Marcus B. Johnson, Assistant Auditor


Andrew E. Nielsen, CPA
Deputy Auditor of State