

**REGIONAL UTILITY
SERVICE SYSTEMS**

Independent Auditors' Report
Basic Financial Statements and
Required Supplemental Information
Schedule of Findings

June 30, 2009

REGIONAL UTILITY SERVICE SYSTEMS

Contents

	<u>Page</u>
Independent Auditors' Report	1-2
Management Discussion and Analysis	3-7
Financial Statements:	
Statement of Net Assets	8
Statement of Revenues, Expenses and Changes in Net Assets	9
Statement of Cash Flows	10
Notes to Financial Statements	11-18
Supplemental Data:	
Schedule of Expenditures of Federal Awards	19-20
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	21-22
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.	23-24
Schedule of Findings and Questioned Costs.....	25-27
Schedule of Prior Audit Findings.....	28



311 West State Street
Centerville, IA 52544
(641) 437-4296
Fax (641) 437-1574
www.tdtpc.com

TD & T Financial Group, P.C.

Additional Offices:
Burlington
Cedar Rapids
Fairfield
Mt. Pleasant
Oskaloosa
Ottumwa
Pella
Sigourney

Independent Auditors' Report

Commissioners
Regional Utility Service Systems
Fairfield, Iowa

We have audited the financial statements, listed in the table of contents of this report, of Regional Utility Service Systems as of and for the year ended June 30, 2009. These financial statements are the responsibility of Regional Utility Service Systems' management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, 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 that 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 as of June 30, 2009 and the change in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2010 on our consideration of Regional Utility Service Systems' 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.

The management's discussion and analysis on pages 3 through 7 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of expressing an opinion on the basic financial statements of Regional Utility Service Systems taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such data has been subjected to the auditing procedures applied in the audit of the aforementioned financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

TD&T Financial Group, P.C.

Centerville, Iowa
March 2, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Regional Utility Service Systems provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of the Regional Utility Service Systems is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the Commission's financial statement, which follows.

2009 FINANCIAL HIGHLIGHTS

The highlights for the fiscal year July 1, 2008 to June 30, 2009 are as follows:

At the end of June 30, 2009, the Regional Utility Service Systems (RUSS) was near completion on two projects; Argyle and Linby, but did not fully complete any projects during the year, leaving the total number of completed projects at six. The Mt. Union project was awarded for funding fiscal year 2008 through the Iowa Department of Economic Development's Community Development Block Grant program, along with USDA Rural Development grant and loan funding. Construction started in Mt. Union in spring 2009. Contractors continue to work through winter 09/10. Completion is scheduled for spring 2010. Due to changes implemented by the Iowa Department of Natural Resources during this fiscal year, obtaining approval of design plans and specs were delayed, and many projects required re-designing to comply with new standards. Due to the delays caused by the new standards, new projects were delayed to reach award-ready application status. RUSS applied for three additional projects through the Iowa Department of Economic Development combined with funding through USDA Rural Development for the following projects: Selma, Ollie, and Pleasant Plain/East Pleasant Plain.

RUSS applied through the Riverside Casino Foundation for the project of Rubio within Washington County. This project was denied funding, but was encouraged to reapply in the next funding cycle.

RUSS was successful in settling out of court with H. Eugene Jones from Martinsburg. Keokuk County agreed to repair half of the county road in front of Jones' residence.

RUSS is not involved in any litigation during this fiscal year 2009.

RUSS was awarded Earth Day Funds through USDA Rural Development for the Rubio sewer project. However, RUSS is not receiving cooperation from Rubio residents, or adequate support from Washington County, which may lead RUSS to decide to decline funding on the Rubio project.

RUSS predicts that the Ollie (Keokuk County), Selma (Van Buren County), and Pleasant Plain/East Pleasant Plain (Jefferson County) will be awarded grant funding and possibly construction completion in the fiscal year 2011. There are currently seven other projects in the preliminary stages of planning.

USING THIS ANNUAL REPORT

Regional Utility Service Systems is a 28E Commission 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 Regional Utility Service Systems' financial statement. The annual report consists of a financial statement and other information, as follows:

- Management's Discussion and Analysis introduces the financial statement and provides an analytical overview of the Commissions' financial activities.
- The Statement of Net Assets presents information on the Commission's assets and liabilities, with the difference between the two reported as nets 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 users of the report in determining how the Commission financed its activities and how it met its cash requirements.
- The Notes to Financial Statements provides additional information essential to a full understanding of the data provided in the basic financial statement.

FINANCIAL ANALYSIS OF THE COMMISSION

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 June 30, 2009 totaled \$3,718,156. This compares to \$3,657,589 at June 30, 2008. A summary of the Commission's net assets is presented below:

Net Assets		
	June 30, 2009	June 30, 2008
Current assets	\$ 123,666	134,194
Restricted reserves	118,370	78,103
Capital assets at cost, less accumulated depreciation	5,552,762	5,085,772
Total assets	<u>\$ 5,794,798</u>	<u>5,298,069</u>
Current liabilities	\$ 1,166,149	848,935
Non-current liabilities	910,493	791,545
Total liabilities	<u>\$ 2,076,642</u>	<u>1,640,480</u>
Net assets:		
Investment in capital assets, net of related debt	\$ 3,530,439	3,482,805
Restricted	118,370	78,103
Unrestricted	69,347	96,681
Total net assets	<u>\$ 3,718,156</u>	<u>3,657,589</u>

The portion of the Commission's net assets that is restricted will be used to pay revenue note principal and interest when due. The invested capital assets (i.e. land, buildings and equipment), less the related debt portion of net assets are resources allocated to capital assets. The remaining net assets are the unrestricted net assets that can be used to meet the Commission's obligations and needs as they come due.

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, 2009 and 2008 is presented on the following page:

Changes in Net Assets		
	Year ended June 30, 2009	Year ended June 30, 2008
Unrestricted operating revenues:		
User fee revenue	\$ 205,070	139,466
Membership dues	13,000	12,000
Other revenue	5,727	42,739
Total operating revenues	<u>223,797</u>	<u>194,205</u>
Operating expenses:		
Auto expense	1,068	734
Bank service charges	-	226
Management fee	114,103	111,902
Operator labor	18,390	13,780
Depreciation	99,283	82,204
Insurance expense	4,185	4,966
Legal and professional fees	16,910	25,240
License and permits	1,605	210
Miscellaneous	14,512	2,855
Monthly billing fee	504	-
Office supplies	1,716	2,512
Property taxes	-	18
Repairs and maintenance	4,767	1,089
Testing	902	853
User fee expense	-	2,868
Utilities	4,711	4,287
Total operating expenses	<u>282,656</u>	<u>253,744</u>
Net operating loss	<u>(58,859)</u>	<u>(59,539)</u>
Non-operating unrestricted support and revenues (expenses):		
Community Development Block Grant revenue	48,528	187,537
Rural Development Grant revenue	49,557	637,000
NRCS Grant revenue	-	17,500
Other Grant revenue	57,500	12,500
Interest revenue	791	1,665
Interest expense	(36,950)	(42,302)
Total non-operating unrestricted support and revenues	<u>119,426</u>	<u>813,900</u>
Net change in unrestricted net assets	60,567	754,361
Net assets, beginning of year	<u>3,657,589</u>	<u>2,903,228</u>
Net assets, end of year	<u>\$ 3,718,156</u>	<u>3,657,589</u>

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

For the year ended June 30, 2009, operating revenues increased by \$29,592, or 15.2%, primarily as a result of an increased number of users and higher sewer rates. Operating expenses increased by \$28,912, or 11.4%, primarily due to depreciation expense, and an increase in repairs and management fees.

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 include sewer user fees and assessments from member counties reduced by payments to employees and suppliers. Cash used for capital and related financing activities includes loan payments. Cash provided by investing activities includes interest revenue.

CAPITAL ASSETS

At June 30, 2009, the Commission had \$5,852,539 invested in capital assets, net of accumulated depreciation of \$299,777. Depreciation charges totaled \$99,283 for the year ended June 30, 2009. More detailed information about the Commission's capital assets is presented in Note 3 to the financial statements.

LONG-TERM DEBT

During the year ended June 30, 2009, Regional Utility Service Systems, was awarded \$2,123,000 of Planning and Design Loans with the Iowa State Revolving Fund to be used for planning and design of 11 new sewer systems. At June 30, 2009, the outstanding balance of those loans was \$173,357. The loans are for three years with zero percent interest.

Revenue bonds payable at June 30, 2009 was \$746,188.

ECONOMIC FACTORS

Regional Utility Service Systems has improved its financial position during the current fiscal year, compared to 2008.

The Iowa Department of Natural Resources has recently changed their 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 RUSS' plans and specifications for all sanitary sewer collection and treatment systems, new construction and completed construction.

RUSS 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

The financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Regional Utility Service Systems' 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 Regional Utility Service Systems, 901 North 8th Street, Fairfield, IA 52556.

REGIONAL UTILITY SERVICE SYSTEMS

Statement of Net Assets

June 30, 2009

Assets

Current assets:

Cash	\$	113,899
Accounts receivable		6,556
Prepaid expenses		3,211
Total current assets		123,666

Restricted reserves:

Bond sinking		62,386
Required reserve		21,669
Funded depreciation		34,315
Total restricted reserves		118,370

Capital assets:

Land		258,772
Sewer systems		5,001,730
Construction in progress		592,037
		5,852,539
Less accumulated depreciation		299,777
Net capital assets		5,552,762

Total assets	\$	5,794,798
--------------	----	-----------

Liabilities and Net Assets

Current liabilities:

Accounts payable	\$	215,667
Accrued interest payable		35,828
Notes payable		905,602
Current portion of long-term liabilities		9,052
Total current liabilities		1,166,149

Long-term liabilities:

Notes payable		173,357
Utility Service Revenue Bonds, less current portion		737,136
Total long-term liabilities		910,493

Total liabilities		2,076,642
-------------------	--	-----------

Net assets:

Investment in capital assets, net of related debt		3,530,439
Restricted		118,370
Unrestricted		69,347
		3,718,156

Total liabilities and net assets	\$	5,794,798
----------------------------------	----	-----------

See accompanying notes to the financial statements.

REGIONAL UTILITY SERVICE SYSTEMS

Statement of Revenues, Expenses and Changes in Net Assets For the Year Ended June 30, 2009

Unrestricted operating revenues:	
User fee revenue	\$ 205,070
Membership dues	13,000
Other revenue	<u>5,727</u>
Total operating revenues	<u>223,797</u>
Operating expenses:	
Auto expense	1,068
Management fee	114,103
Operator labor	18,390
Depreciation	99,283
Insurance expense	4,185
Legal and professional fees	16,910
License and permits	1,605
Miscellaneous	14,512
Monthly billing fee	504
Office expense	1,716
Repairs and maintenance	4,767
Testing	902
Utilities	<u>4,711</u>
Total operating expenses	<u>282,656</u>
Net operating loss	<u>(58,859)</u>
Non-operating unrestricted support and revenues (expenses):	
Community Development Block Grant revenue	48,528
Rural Development Grant revenue	49,557
Other Grant revenue	57,500
Interest revenue	791
Interest expense	<u>(36,950)</u>
Total non-operating unrestricted support and revenues	<u>119,426</u>
Net change in unrestricted net assets	60,567
Net assets, beginning of year	<u>3,657,589</u>
Net assets, end of year	<u>\$ 3,718,156</u>

See accompanying notes to the financial statements.

REGIONAL UTILITY SERVICE SYSTEMS

Statement of Cash Flows For the Year Ended June 30, 2009

Cash flows from operating activities:	
Cash received from user fees	\$ 206,642
Cash received from membership dues	13,000
Other operating receipts	5,727
Cash paid to suppliers	(84,219)
Net cash provided (used) by operating activities	<u>141,150</u>
Cash flows from investing activities:	
Interest received	791
Net cash provided (used) by investing activities	<u>791</u>
Cash flows from capital and related financing activities:	
Receipts from grants	155,585
Purchase of capital assets	(566,273)
Payment to bond sinking fund	(21,451)
Payment to required reserves	(7,032)
Payment to funded depreciation	(11,784)
Proceeds from short-term borrowings	217,794
Proceeds from long-term borrowings	128,000
Repayment of long-term borrowings	(8,482)
Interest paid on revenue bonds	(36,950)
Net cash provided (used) by capital and related financing activities	<u>(150,593)</u>
Net change in cash	(8,652)
Cash at beginning of year	<u>122,551</u>
Cash at end of year	\$ <u><u>113,899</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating loss	\$ (58,859)
Adjustments to reconcile net change in unrestricted net assets to net cash provided (used) by operating activities:	
Depreciation	99,283
(Increase) decrease in current assets:	
Accounts receivable	1,572
Prepaid expenses	304
Increase (decrease) in current liabilities:	
Accounts payable	111,959
Accrued operating interest payable	(13,109)
Net cash provided (used) by operating activities	<u>\$ 141,150</u>

See accompanying notes to the financial statements

REGIONAL UTILITY SERVICE SYSTEMS

Notes to Financial Statements June 30, 2009

Note 1 – Summary of Significant Accounting Policies

Regional Utility Service Systems was formed in 1999 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of this 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 eleven member counties. The member counties are Davis, Des Moines, Henry, Jefferson, Keokuk, Lee, Louisa, Mahaska, Van Buren, Wapello and Washington. One commissioner is appointed by each of the participating political subdivisions.

The significant accounting policies followed by Regional Utility Service Systems are described below to enhance the usefulness of these annual financial statements to the reader.

A. Reporting Entity

Accounting principles generally accepted in the United States of America require that the financial reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Regional Utility Service Systems is considered to be a primary government and there are no other organizations, agencies, boards, commissions or authorities which are required to be included in the financial reporting entity of Regional Utility Service Systems.

B. Basis of Accounting

The financial statements of Regional Utility Service Systems have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Under this basis of accounting, all assets and liabilities associated with the operation of the Commission are included in the Statement of Net Assets.

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 Codification, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

(continued)

REGIONAL UTILITY SERVICE SYSTEMS

Notes to Financial Statements (Continued) June 30, 2009

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation

The accounts of the Commission are organized as an Enterprise Fund. Enterprise funds are utilized to account for the acquisition, operation, and maintenance of governmental facilities and services supported by user charges.

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. Revenue Recognition

Grant or contract revenue is recognized when earned. The grants and contracts are written on an expenditure reimbursement basis and accordingly, grant or contract revenue is earned when allowable program expenditures are incurred. The financial statements present any funds received and not expended as deferred revenue.

E. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Commission considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents.

F. Receivables from Grantor Agencies

Reimbursement procedures used for grants and contracts may result in timing differences between program reimbursements and expenditures as of the beginning and end of the year. Receivables from Grantor Agencies represent an excess of expenditures over cash basis reimbursements at year end.

G. Accounts Receivable

The Commission carries its accounts receivable at cost less any allowance for doubtful accounts. On a periodic basis, the Commission evaluates its accounts receivable and establishes an allowance for doubtful accounts based on a history of past write-offs and collections and current credit conditions. Management has determined no allowance is necessary for the year ended June 30, 2009.

The Commission assesses a one-time 10% interest charge if the invoice is not paid by the sewer customer within 60 days. Regional Utility Service Systems submits an invoice to the City for the past due amount(s).

(continued)

REGIONAL UTILITY SERVICE SYSTEMS

Notes to Financial Statements (Continued) June 30, 2009

Note 1 – Summary of Significant Accounting Policies (Continued)

H. Capital Assets

Capital Assets are accounted for at historical cost. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is charged using the straight-line method over the estimated useful lives of the assets. Sewer systems are depreciated over fifty years.

The cost of repairs and maintenance is charged to expense, while the cost of renewals or substantial betterments are capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Interest is capitalized on qualified assets acquired with certain 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.

I. 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 either 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 Agency first applies restricted resources.

J. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that 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.

K. Date of Management's Review

Management has evaluated subsequent events through March 2, 2010, the date which the financial statements were available to be issued.

REGIONAL UTILITY SERVICE SYSTEMS

Notes to Financial Statements (Continued) June 30, 2009

Note 2 – Cash and Investments

The Commission's deposits in banks at June 30, 2009 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 disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

Note 3 – Capital Assets

The following is a detail by project of the capital assets balance presented in the statement of net assets:

		<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Capital assets not being depreciated:					
Land	\$	218,584	40,188	-	258,772
Construction in progress		<u>134,777</u>	<u>457,260</u>	<u>-</u>	<u>592,037</u>
Total capital assets not being depreciated		<u>353,361</u>	<u>497,448</u>	<u>-</u>	<u>850,809</u>
Capital assets being depreciated:					
Sewer systems		4,932,905	68,825	-	5,001,730
Less accumulated depreciation		<u>200,494</u>	<u>99,283</u>	<u>-</u>	<u>299,777</u>
Total capital assets being depreciated, net		<u>4,732,411</u>	<u>(30,458)</u>	<u>-</u>	<u>4,701,953</u>
Total capital assets, net	\$	<u>5,085,772</u>	<u>466,990</u>	<u>-</u>	<u>5,552,762</u>

REGIONAL UTILITY SERVICE SYSTEMS

Notes to Financial Statements (Continued) June 30, 2009

Note 4 – Interest Cost

The Commission capitalizes interest as a component of the cost of construction in progress. The following is a summary of interest cost incurred during the year ended June 30, 2009:

Interest cost capitalized	\$ 34,237
Interest cost expensed	<u>36,950</u>
 Total interest cost incurred	 \$ <u>71,187</u>

Note 5 – Interim Financing

The following table shows the changes in short-term debt:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Interim Financing	\$ <u>687,808</u>	<u>217,794</u>	<u>-</u>	<u>905,602</u>

The Commission is indebted to First National Bank in the amount of \$123,502 as of June 30, 2009. The note is due May 1, 2010 including interest at 4.75 percent per annum. The note is secured by the Argyle sewer project.

The Commission was indebted to First National Bank in the amount of \$638,000 as of June 30, 2009. The note was due June 30, 2009 including interest at 5.30 percent per annum. The note was paid in July 2009 with no penalty. The note was secured by the Keswick sewer project.

The Commission is indebted to First National Bank in the amount of \$144,100 as of June 30, 2009. The note is due March 1, 2010 including interest at 4.25 percent per annum. The note is secured by the Mt. Union sewer project.

Note 6 – Long-Term Liabilities

The following table shows the changes in long-term liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Revenue Bonds	\$ <u>754,670</u>	<u>-</u>	<u>8,482</u>	<u>746,188</u>

(continued)

REGIONAL UTILITY SERVICE SYSTEMS

Notes to Financial Statements (Continued) June 30, 2009

Note 6 – Long-Term Liabilities (Continued)

Annual debt service requirements to maturity for the Utility Services Revenue Bonds are as follows:

Year Ending <u>June 30,</u>	Total	
	Principal	Interest
2010	\$ 9,052	31,724
2011	9,447	31,329
2012	9,860	30,916
2013	10,290	30,486
2014	10,739	30,037
2015-2019	61,151	142,729
2020-2024	75,719	128,164
2025-2029	93,760	110,120
2030-2034	116,107	87,773
2035-2039	143,786	60,094
2040-2044	167,665	26,379
2045-2047	<u>38,612</u>	<u>1,286</u>
Totals	\$ <u>746,188</u>	<u>711,037</u>

The resolution providing for the issuance of the bonds includes the following provisions:

- A. The notes are to be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- B. Sufficient monthly cash transfers shall be made to the Bond Sinking Fund for the purpose of making the note principal and interest payments when due. This account can only be used for the retirement of note principal and interest.

The balance in the bond sinking fund at June 30, 2009 is \$62,386.

- C. A Reserve Fund shall be maintained for the purpose of paying principal and interest on the notes when insufficient funds are available in the Sinking Fund.

Monthly transfers of \$342 shall be made to the Debt Service Reserve Fund until the balance in this restricted account equals \$40,776. The balance in the Reserve Fund at June 30, 2009 is \$21,669.

- D. The Funded Depreciation Fund is restricted for the purpose of paying extraordinary maintenance expenses, repairs and capital improvements to the sewer projects or for principal and interest on the notes when there are insufficient funds in the Sinking and Reserve Funds.

Monthly transfers of \$546 shall be made to the Funded Depreciation Fund. The balance in the Funded Depreciation Fund at June 30, 2009 is \$34,315.

REGIONAL UTILITY SERVICE SYSTEMS

Notes to Financial Statements (Continued) June 30, 2009

Note 7 – Contingent Liability

Regional Utility Service Systems is contingently liable to grantors for monies received until each contract has been closed by the grantor.

Note 8 – Risk Management

Regional Utility Service Systems is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 577 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 200 percent 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.

Regional Utility Service Systems' 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. Regional Utility Service Systems' contributions to the Pool for the year ended June 30, 2009 were \$3,149.

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 and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

(continued)

REGIONAL UTILITY SERVICE SYSTEMS

Notes to Financial Statements (Continued) June 30, 2009

Note 8 – Risk Management (Continued)

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. As of June 30, 2009, 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 claims and claims 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 capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

Regional Utility Service Systems also carries commercial insurance purchased from other insurers for coverage associated with workman's compensation and fidelity bond coverage. Regional Utility Service Systems 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.

REGIONAL UTILITY SERVICE SYSTEMS

Supplemental Data

June 30, 2009

REGIONAL UTILITY SERVICE SYSTEMS

Schedule of Expenditures of Federal Awards For the Period July 1, 2008 through June 30, 2009

<u>Federal Grantor/ Pass Through Grantor</u>	<u>CFDA Number</u>	<u>Program Disbursements</u>
U.S. Department of Agriculture:		
Water and Waste Disposal Systems for Rural Communities Grant (Keswick)*	10.760	\$ 44,556
Water and Waste Disposal Systems for Rural Communities Grant (Harper)*	10.760	5,000
Water and Waste Disposal Systems for Rural Communities Loan (Webster)*	10.760	164,342
Water and Waste Disposal Systems for Rural Communities Loan (Martinsburg)*	10.760	198,011
Water and Waste Disposal Systems for Rural Communities Loan (Mt. Sterling R-1)*	10.760	43,974
Water and Waste Disposal Systems for Rural Communities Loan (Mt. Sterling R-2)*	10.760	11,436
Water and Waste Disposal Systems for Rural Communities Loan (Kinross)*	10.760	125,908
Water and Waste Disposal Systems for Rural Communities Loan (Harper R-1)*	10.760	174,000
Water and Waste Disposal Systems for Rural Communities Loan (Harper R-2)*	10.760	37,000
Water and Waste Disposal Systems for Rural Communities Interim Financing (Argyle)*	10.760	123,502
Water and Waste Disposal Systems for Rural Communities Interim Financing (Mt. Union)*	10.760	144,100
Water and Waste Disposal Systems for Rural Communities Interim Financing (Keswick)*	10.760	<u>638,000</u>
Total U.S. Department of Agriculture		<u>1,709,829</u>

(continued)

REGIONAL UTILITY SERVICE SYSTEMS

Schedule of Expenditures of Federal Awards (Continued) For the Period July 1, 2008 through June 30, 2009

<u>Federal Grantor/ Pass Through Grantor</u>	<u>CFDA Number</u>	<u>Program Disbursements</u>
U.S. Department of Housing and Urban Development:		
Iowa Department of Economic Development:		
Community Development Block Grant (Keswick)	14.228	<u>48,528</u>
Total U.S. Department of Housing and Urban Development		<u>48,528</u>
		\$ <u>1,758,357</u>

*This program is considered to be a major program. Loan balances at June 30, 2009 for Mt. Sterling R-1 and R-2 totaled \$43,397 and \$11,275, respectively. The loan balance at June 30, 2009 for Kinross totaled \$124,464. The loan balance at June 30, 2009 for Webster totaled \$162,458. The loan balance at June 30, 2009 for Martinsburg totaled \$195,750. The loan balance at June 30, 2009 for Harper R-1 and R-2 totaled \$172,222 and \$36,622, respectively. The interim financing balance at June 30, 2009 for Argyle totaled \$123,502. The interim financing balance at June 30, 2009 for Keswick totaled \$638,000. The interim financing balance at June 30, 2009 for Mt. Union totaled \$144,100.



311 West State Street
Centerville, IA 52544
(641) 437-4296
Fax (641) 437-1574
www.tdtpc.com

TD & T Financial Group, P.C.

Additional Offices:
Burlington
Cedar Rapids
Fairfield
Mt. Pleasant
Oskaloosa
Ottumwa
Pella
Sigourney

Independent Auditors' 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*

Commissioners
Regional Utility Service Systems
Fairfield, Iowa

We have audited the financial statements of Regional Utility Service Systems as of and for the year ended June 30, 2009, and have issued our report thereon dated March 2, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 Commissions' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2009-1 and 2009-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described in the accompanying schedule of findings and questioned costs as items 2009-1 and 2009-2 are 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, noncompliance 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 noncompliance that are required to be reported under *Government Auditing Standards*.

Regional Utilities Service Systems' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Regional Utilities Service Systems' responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the board of directors, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

TD&T Financial Group, P.C.

Centerville, Iowa
March 2, 2010



311 West State Street
Centerville, IA 52544
(641) 437-4296
Fax (641) 437-1574
www.tdtpc.com

TD & T Financial Group, P.C.

Additional Offices:
Burlington
Cedar Rapids
Fairfield
Mt. Pleasant
Oskaloosa
Ottumwa
Pella
Sigourney

Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and Internal
Control Over Compliance in Accordance with OMB Circular A-133

Commissioners
Regional Utility Service Systems
Fairfield, Iowa

Compliance

We have audited the compliance of Regional Utility Service Systems with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. Regional Utility Service Systems' major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Regional Utility Service Systems' management. Our responsibility is to express an opinion on the Regional Utility Service Systems' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 noncompliance 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 Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, Regional Utility Service Systems complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Regional Utility Service Systems is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Regional Utility Service Systems' internal control over compliance with 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, but not for the purpose of expressing an opinion on the effectiveness of Regional Utility Service Systems' internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Regional Utility Service Systems' internal control over compliance.

A control deficiency in the Organization's internal control over compliance exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Regional Utility Service Systems' ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Regional Utility Service Systems' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Organization's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily disclose all deficiencies in the Organization's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that 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 Board of Directors, management, and 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.

TD&T Financial Group, P.C.

Centerville, Iowa
March 2, 2010

REGIONAL UTILITY SERVICE SYSTEMS

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2009

I. Summary of auditors' results:

- A. The auditors' report expresses an unqualified opinion on the financial statements of Regional Utility Service Systems.
- B. There were two significant deficiencies in internal control over financial reporting and both are material weaknesses.
- C. There were no instances of noncompliance that would be material to the financial statements of the auditee reported.
- D. There were no significant deficiencies in the internal control over major programs disclosed by the audit.
- E. Auditor issued an unqualified opinion on compliance of major programs.
- F. The audit disclosed no audit findings which the auditor is required to report.
- G. The following program was considered to be a major program:
U.S. Department of Agriculture, Water and Waste Disposal Systems for Rural Communities, 10.760
- H. The threshold between a Type A and Type B Program was \$300,000.
- I. The auditee did not qualify as a low risk auditee.

II. Findings related to the financial statements:

Material Weaknesses

Finding 2009-1: Lack of Segregation of Duties

Condition – An important aspect of the internal control over financial reporting is the segregation of duties amongst employees to prevent an individual employee from handling duties that are incompatible. We noted that a few people have essentially all responsibility for accounting and financial transactions.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Organization should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – Due to the limited number of office employees, segregation of duties is very difficult. However, we will have the manager or another official review receipts, posting, and payroll on a test basis and bank reconciliations monthly.

Conclusion – Response accepted.

(continued)

REGIONAL UTILITY SERVICE SYSTEMS

Schedule of Findings and Questioned Costs (Continued) For the Year Ended June 30, 2009

II. Findings related to the financial statements (continued):

Finding 2009-2: Preparation of Financial Statements in Accordance with Accounting Principles Generally Accepted in the United States of America

Condition – The internal control structure of the Organization has focused primarily on the objective of effectiveness and efficiency of operations (i.e., performance and mission goals and safeguarding of resources). However, the system of internal control over the objectives of reliability of financial reporting contains certain deficiencies. A key element of financial reporting is the ability of management to select and apply the appropriate accounting principles to prepare financial statements in accordance with accounting principles generally accepted in the United States of America. For the year ended June 30, 2009, there was no one on staff with sufficient knowledge to prepare GAAP-based financial statements. As a result, certain adjustments were required to be made to the accounting records subsequent to the start of the audit process. Material adjustments included the recording of prior year audit adjustments, recording accounts receivable, recording accounts payable, capitalizing fixed assets, and recording depreciation. In addition, there were adjustments to move loan transactions posted as income to long-term debt. Since these adjustments resulted in a material misstatement of the financial statements, this deficiency is deemed to be a material weakness.

Recommendation – We recommend that personnel in charge of accounting receive additional training in order to prepare the financial statements in accordance with accounting principles generally accepted in the United States of America.

Response – Management has determined the cost to obtain adequate knowledge and training in order to prepare financial statements, including required disclosures, in accordance with accounting principles generally accepted in the United States of America would exceed the benefit. Management will therefore continue to rely on the auditors in preparing the financial statements.

Conclusion – Response accepted.

III. There were no findings and questioned costs for Federal awards.

IV. Other findings related to required statutory reporting:

- 09-IV-1 Official Depositories – A resolution naming official depositories has been approved by the Organization. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2009.

(continued)

REGIONAL UTILITY SERVICE SYSTEMS

Schedule of Findings and Questioned Costs (Continued) For the Year Ended June 30, 2009

IV. Other findings related to required statutory reporting (continued):

- 09-IV-2 Questionable Disbursements – We noted no disbursements that we believe may constitute an unlawful disbursement from public funds as defined in the Attorney General’s opinion dated April 25, 1979.
- 09-IV-3 Travel Expense – No disbursements of Commissions' money for travel expenses of spouses of Commissions' officials or employees were noted.
- 09-IV-4 Commission Minutes – No transactions were found that we believe should have been approved in the Commission minutes but were not.
- 09-IV-5 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Organization’s investment policy were noted.

REGIONAL UTILITY SYSTEM SERVICES

Schedule of Prior Audit Findings For the Year Ended June 30, 2009

Questioned
Program

Findings/Noncompliance

Costs

None