REGIONAL UTILITY SERVICE SYSTEMS

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

June 30, 2010

REGIONAL UTILITY SERVICE SYSTEMS

Contents

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, 2010. 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, 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, 2010 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 30, 2011 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.

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 applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

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 30, 2011

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, 2010.

2010 FINANCIAL HIGHLIGHTS

The highlights for the fiscal year July 1, 2009 to June 30, 2010 are as follows:

At the end of June 30, 2010, the Regional Utility Service Systems (RUSS) was near completion on one project; Mt. Union, leaving the total number of completed projects at eight. RUSS applied for four additional projects through USDA Rural Development for the following projects: Ollie, Richmond, Rubio and Pleasant Plain/East Pleasant Plain.

RUSS is not involved in any litigation during this fiscal year 2010.

RUSS predicts that the Abingdon, Greenbrier, Lakewood Estates, Pekin, Libertyville Road – all within Jefferson County, and Mooar, Croton, Wever – all within Lee County; will be awarded grant funding and possibly construction completion in the fiscal year 2011. There are currently two other projects, Big Hollow and Augusta, both in Des Moines County, in the preliminary stages of planning.

During the first months of fiscal year 2011, Regional Utilities Service Systems received formal requests to cancel projects in the following communities: Selma (Van Buren County), Franklin (Lee County), and Lake Trio (Washington County).

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, 2010 totaled $5,119,872. This compares to $3,718,156 at June 30, 2009. A summary of the Commission's net assets is presented below:

Net Assets		June 30, 2010	June 30, 2009
Current assets	$	176,222	123,666
Restricted reserves		133,865	118,370
Capital assets at cost, less accumulated depreciation		7,373,555	5,552,762
Total assets	$	7,683,642	5,794,798
Current liabilities	$	754,284	1,166,149
Non-current liabilities		1,809,486	910,493
Total liabilities	$	2,563,770	2,076,642
Net assets:			
Investment in capital assets, net of related debt	$	5,199,351	3,530,439
Restricted		133,865	118,370
Unrestricted		(213,344)	69,347
Total net assets	$	5,119,872	3,718,156

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, 2010 and 2009 is presented on the following page:

Changes in Net Assets		Year ended June 30, 2010	Year ended June 30, 2009
Unrestricted operating revenues:			
User fee revenue	$	187,640	205,070
Membership dues		9,000	13,000
Other revenue		90	5,704
Total operating revenues		196,730	223,774
Operating expenses:			
Auto expense		1,180	1,068
Bank service charges		247	(23)
Salaries and wages		112,343	114,103
Operator labor		22,655	18,390
Depreciation		115,277	99,283
Insurance expense		4,047	4,185
Legal and professional fees		15,943	16,910
License and permits		1,345	1,605
Miscellaneous		950	14,512
Monthly billing fee		-	504
Office supplies		2,812	1,716
Repairs and maintenance		4,712	4,767
Testing		1,600	902
Travel		150	-
Utilities		9,244	4,711
Total operating expenses		292,505	282,633
Net operating loss		(95,775)	(58,859)
Non-operating unrestricted support and revenues (expenses):			
Community Development Block Grant revenue		214,213	48,528
Rural Development Grant revenue		1,310,569	49,557
Other Grant revenue		32,500	57,500
Interest revenue		924	791
Interest expense		(60,715)	(36,950)
Total non-operating unrestricted support and revenues		1,497,491	119,426
Net change in unrestricted net assets		1,401,716	60,567
Net assets, beginning of year		3,718,156	3,657,589
Net assets, end of year	$	5,119,872	3,718,156

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, 2010, operating revenues decreased by $27,044, or 12%, primarily as a result of a one-time easement administration project in fiscal year 2009 that did not occur in 2010. Operating expenses increased by $9,872, or 3%, primarily due to depreciation expense, and an increase in utilities.

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

CAPITAL ASSETS

At June 30, 2010, the Commission had $7,788,609 invested in capital assets, net of accumulated depreciation of $415,054. Depreciation charges totaled $115,277 for the year ended June 30, 2010. 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, 2010, 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, 2010, the outstanding balance of those loans was $327,128. The loans are for three years with zero percent interest.

Revenue bonds payable at June 30, 2010 was $1,724,586.

ECONOMIC FACTORS

Regional Utility Service Systems has improved its financial position during the current fiscal year, compared to 2009.

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, c/o Geode Resource Conservation & Development, Inc., 308 North 3rd Street, Burlington, IA 52601.

REGIONAL UTILITY SERVICE SYSTEMS

Statement of Net Assets
June 30, 2010

Assets		
Current assets:		
Cash	$	109,847
Accounts receivable		12,932
Grants receivable		49,499
Prepaid expenses		3,944
Total current assets		176,222
Restricted reserves:		
Bond sinking		64,028
Required reserve		28,701
Funded depreciation		41,136
Total restricted reserves		133,865
Capital assets:		
Land		285,922
Sewer systems		5,019,531
Construction in progress		2,483,156
		7,788,609
Less accumulated depreciation		415,054
Net capital assets		7,373,555
Total assets	$	7,683,642
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$	58,451
Accrued interest payable		7,854
Deferred revenue		8,071
Current portion of interim financing notes		390,680
Current portion of notes payable		279,224
Current portion of Utility Service Revenue Bonds		10,004
Total current liabilities		754,284
Long-term liabilities:		
Interim financing notes, less current portion		47,000
Notes payable, less current portion		47,904
Utility Service Revenue Bonds, less current portion		1,714,582
Total long-term liabilities		1,809,486
Total liabilities		2,563,770
Net assets:		
Investment in capital assets, net of related debt		5,199,351
Restricted		133,865
Unrestricted		(213,344)
Total net assets		5,119,872
Total liabilities and net assets	$	7,683,642

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, 2010

Unrestricted operating revenues:		
User fee revenue	$	187,640
Membership dues		9,000
Other revenue		90
Total operating revenues		196,730
Operating expenses:		
Auto expense		1,180
Bank service charges		247
Salaries and wages		112,343
Operator labor		22,655
Depreciation		115,277
Insurance expense		4,047
Legal and professional fees		15,943
License and permits		1,345
Miscellaneous		950
Office expense		2,812
Repairs and maintenance		4,712
Testing		1,600
Travel		150
Utilities		9,244
Total operating expenses		292,505
Net operating loss		(95,775)
Non-operating unrestricted support and revenues (expenses):		
Community Development Block Grant revenue		214,213
Rural Development Grant revenue		1,310,569
Other grant revenue		32,500
Interest revenue		924
Interest expense		(60,715)
Total non-operating unrestricted support and revenues		1,497,491
Net change in unrestricted net assets		1,401,716
Net assets, beginning of year		3,718,156
Net assets, end of year	$	5,119,872

See accompanying notes to the financial statements

REGIONAL UTILITY SERVICE SYSTEMS

Statement of Cash Flows
For the Year Ended June 30, 2010

Cash flows from operating activities:		
Cash received from user fees	$	189,335
Cash received from membership dues		9,000
Other operating receipts		90
Cash paid to suppliers		(363,146)
Net cash provided (used) by operating activities		(164,721)
Cash flows from investing activities:		
Interest received		924
Net cash provided (used) by investing activities		924
Cash flows from capital and related financing activities:		
Receipts from grants		1,507,783
Purchase of capital assets		(1,936,070)
Payment to bond sinking fund		(1,647)
Payment to required reserves		(7,032)
Payment to funded depreciation		(6,821)
Proceeds from interim financing notes		520,078
Repayment of interim financing notes		(988,000)
Proceeds from long-term borrowings		1,141,771
Repayment of long-term borrowings		(9,602)
Interest paid on revenue bonds		(60,715)
Net cash provided (used) by capital and related financing activities		159,745
Net change in cash		(4,052)
Cash at beginning of year		113,899
Cash at end of year	$	109,847
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating loss	$	(95,775)
Adjustments to reconcile net change in unrestricted net assets to net cash provided (used) by operating activities:		
Depreciation		115,277
(Increase) decrease in current assets:		
Accounts receivable		208
Prepaid expenses		(733)
Increase (decrease) in current liabilities:		
Accounts payable		(157,211)
Accrued operating interest payable		(27,974)
Deferred revenue		1,487
Net cash provided (used) by operating activities	$	(164,721)

See accompanying notes to the financial statements

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)

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

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, 2010.

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)

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 deprecated 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 Commission 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 30, 2011, the date which the financial statements were available to be issued.

Note 2 – Cash and Investments

The Commission's deposits in banks at June 30, 2010 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:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	$ 258,772	27,150	-	285,922
Construction in progress	592,037	1,891,119	-	2,483,156
Total capital assets not being depreciated	850,809	1,918,269	-	2,769,078
Capital assets being depreciated:				
Sewer systems	5,001,730	17,801	-	5,019,531
Less accumulated depreciation	299,777	115,277	-	415,054
Total capital assets being depreciated, net	4,701,953	(97,476)	-	4,604,477
Total capital assets, net	$ 5,552,762	1,820,793	-	7,373,555

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, 2010:

Interest cost capitalized	$ 27,543
Interest cost expensed	60,715
Total interest cost incurred	$ 88,258

Note 5 – Interim Financing

The following table shows the changes in interim financing debt:

		Beginning Balance	Additions	Retirements	Ending Balance
Interim Financing	$	905,602	520,078	988,000	437,680

The Commission is indebted to First National Bank in the amount of $25,680 as of June 30, 2010. The note is due February 1, 2011 including interest at 4.5 percent per annum. The note is secured by the Rubio sewer project.

The Commission was indebted to First National Bank in the amount of $68,000 as of June 30, 2010. The note is due October 1, 2010 including interest at 4.25 percent per annum. The note is secured by the Linby sewer project.

The Commission is indebted to First National Bank in the amount of $297,000 as of June 30, 2010. The note is due December 31, 2010 including interest at 4.25 percent per annum. The note is secured by the Mt. Union sewer project.

The Commission is indebted to First National Bank in the amount of $47,000 as of June 30, 2010. The note is due September 1, 2011 including interest at 4.75 percent per annum and is included in long-term liabilities. The note is secured by the Pleasant Plain sewer project.

Note 6 – Utility Service Revenue Bonds

The following table shows the changes in revenue bonds:

		Beginning Balance	Additions	Retirements	Ending Balance
Revenue Bonds	$	746,188	988,000	9,602	1,724,586

(continued)

Note 6 – Utility Service Revenue Bonds (Continued)

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

Year Ending June 30,	Total Principal	Total Interest
2011	$ 10,004	65,218
2012	17,427	86,354
2013	18,259	72,078
2014	19,059	71,278
2015	19,893	70,443
2016-2020	113,325	338,359
2021-2025	140,419	311,268
2026-2030	173,998	277,686
2031-2035	215,615	236,069
2036-2040	267,197	184,487
2041-2045	307,646	121,814
2046-2050	421,744	66,085
Totals	$ 1,724,586	1,901,139

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, 2010 is $64,028.

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, 2010 is $28,701. The Bonds bear interest at rates ranging from 4.125% to 4.5% with maturity dates ranging from August 2042 to April 2050.

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, 2010 is $41,136.

Note 7 – Notes Payable

The following table shows the changes in notes payable:

		Beginning Balance	Additions	Retirements	Ending Balance
Notes Payable	$	173,357	153,771	-	327,128

Future annual maturities of the notes payable are as follows:

Year ending June 30,		
2011	$	279,224
2012		47,904

These notes payable are Planning and Design Loans borrowed from the State of Iowa and bear no interest with maturity dates ranging from January 2011 to December 2012. Repayment on these loans comes from the future financing of the construction of the related project or as allowed by the Commission's Chapter 28F agreement. The notes are secured by the related projects.

Note 8 – Contingent Liability

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

Note 9 – 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 634 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.

(continued)

Note 9 – Risk Management (Continued)

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, 2010 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 $150,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2010, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

(continued)

Note 9 – Risk Management (Continued)

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.

Note 10 – Commitments

The Commission has entered into various contracts with construction companies to construct sewer projects. The amount remaining on these contracts was approximately $4,600,000 at June 30, 2010 and are contingent on the contractors performing work as outlined in contracts.

REGIONAL UTILITY SERVICE SYSTEMS

Supplemental Data

June 30, 2010

REGIONAL UTILITY SERVICE SYSTEMS

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Federal Grantor/ Program Title	Federal CFDA Number		Disbursements/ Expenditures
U.S. Department of Agriculture:			
Water and Waste Disposal Systems for Rural Communities:			
Keswick Grant	10.760	$	15,411
Argyle Grant	10.760		507,000
Linby Grant	10.760		130,000
Mt. Union Grant	10.760		625,174
General Grant	10.760		5,000
Keswick R1 Loan*	10.760		537,500
Keswick R2 Loan*	10.760		100,500
Argyle Loan*	10.760		350,000
Rubio Interim Financing*	10.760		25,680
Linby Interim Financing*	10.760		68,000
Pleasant Plain Interim Financing*	10.760		47,000
Mt. Union Interim Financing*	10.760		297,000
			2,708,265
U.S. Department of Housing and Urban Development:			
Pass-through program from:			
City of Mt. Union - Community Development Block Grant	14.228		164,714
		$	2,872,979

*This is the ending loan or interim financing balance.

REGIONAL UTILITY SERVICE SYSTEMS

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Note 1 – Basis of Presentation

The purpose of the Schedule of Expenditures of Federal Awards (the Schedule) is to present a summary of those activities of the Commission for the year ended June 30, 2010 which have been financed by the United States government (federal awards). For purposes of the Schedule, federal awards include all federal assistance entered into directly between the Commission and the federal government and sub-awards from nonfederal organizations made under federally sponsored agreements. Ending loan and interim financing balances have been shown on the Schedule if the loan was new in the fiscal year, had continuing compliance requirements or if the interim financing is to be repaid from the proceeds of governmental loans. Interim financing loans which had beginning balances for the year ended June 30, 2010 but were repaid by Federal loans during the year and have zero balances at June 30, 2010 have not been included in the Schedule. Because the Schedule presents only a selected portion of the activities of the Commission, it is not intended to and does not present the financial position, activities, and cash flows of the Commission.

Note 2 – Summary of Significant Accounting Policies

Deductions or expenditures for direct costs are recognized as incurred, using the accrual method of accounting and the cost accounting principles contained in the United States Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments.* Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Loan Balances

Balances as of June 30, 2010 for those loans not included in the Schedule as described in Note 1 above are as follows:

Webster Loan	$ 160,096
Martinsburg Loan	193,378
Mt. Sterling R1 Loan	42,701
Mt. Sterling R2 Loan	11,083
Kinross Loan	122,918
Harper R1 Loan	170,217
Harper R2 Loan	36,195

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, 2010, and have issued our report thereon dated March 30, 2011. 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 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying scheduling of findings and questioned costs to be material weaknesses: 2010-1 through 2010-9.

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*.

Comments involving statutory and other legal matters about the Commission’s operations for the year ended June 30, 2010 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.

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.

We noted certain other matters that we reported to management of Regional Utility Service Systems in a separate letter dated March 30, 2011.

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 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 30, 2011

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 That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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 could have a direct and material effect on its major federal program for the year ended June 30, 2010. 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 could have a direct and material effect on its major federal program for the year ended June 30, 2010.

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance with OMB Circular A-133, 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 *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned duties, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance in the Organization's internal control that might be deficiencies, 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 30, 2011

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

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 nine significant deficiencies in internal control over financial reporting and all 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:

<u>Material Weaknesses</u>

Finding 2010-1: <u>Lack of Segregation of Duties</u>

<u>Condition</u> – 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.

<u>Criteria</u> – Internal controls should be in place to provide reasonable assurance that duties are properly segregated.

<u>Cause</u> – There are a limited number of office employees and this does not allow for proper segregation of duties.

<u>Effect</u> – Because of the inadequate segregation of duties, misstatements could go undetected.

<u>Recommendation</u> – 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.

(continued)

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

Response – The Organization will work on better segregating duties, such as implementing the following changes:

- Program assistant will receive all payments, document receipts and complete deposits at the corresponding financial institution. The Fiscal manager will complete data entry into QuickBooks. Program Assistant will receive and date stamp all invoices. Fiscal Manager will complete all data entry into QuickBooks as accounts payable.
- Fiscal manager will prepare checks for approval by board of directors meeting where the payments will be reviewed and approved by the board of directors. The approved payments will then be signed by the board treasurer.
- Bank statements will be opened, reviewed and date stamped by the Program Assistant. The Fiscal Manager will complete the account reconciliation. The reconciliation report will then be approved by the board of directors.

Conclusion – Response accepted.

Finding 2010-2: Preparation of Financial Statements in Accordance with Accounting Principles Generally Accepted in the United States of America

Condition – 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, 2010, 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.

Criteria – Internal controls should be in place that provide reasonable assurance that the financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and that procedures be adapted so that the accounting records are realiable.

Cause – Management has determined the cost of obtaining 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.

(continued)

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

Effect – The financial statements did not accurately report the assets, liabilities, net assets, revenues and expenses of the Organization.

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 – The fiscal manager at Geode RC&D, Inc. (interim administrator for the Commission) requested an independent review in February. This review indicated that the fiscal manager is adequately trained and that no further training was necessary. Periodic reviews will be conducted to ensure that no additional training is necessary.

Conclusion – Response accepted.

Finding 2010-3: Documentation of Approval of Bank Reconciliations

Condition – Although we were advised that all bank reconciliations are approved by a responsible employee, no indication of such review was evident on the reconciliations selected for review.

Criteria – Bank reconciliation should be reviewed by someone other than the preparer of the reconciliation and document such.

Cause – Management does not document review of bank reconciliations as they are performed online.

Effect – Misstatements could go undetected.

Recommendation – We recommend that the reconciliations be signed as an indication of approval. We also recommend that the reconciliations be signed and dated by employees preparing them. As a prompt to the preparer and reviewer/approver to sign the reconciliation, preprinted reconciliation forms could include a signature block with space for the signatures, or a stamp with a signature block could be applied to the reconciliations.

Response – Bank reconcilations will be provided to the board of directors for review, approval and signature of the treasurer. The reconciliation will be signed and dated by the person completing the reconciliation.

Conclusion – Response accepted.

(continued)

Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2010

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

Finding 2010-4: Reconciliation of Accounts Receivable to the General Ledger

Condition – During our accounts receivable audit procedures, we noted that accounts receivable were not being reconciled with the general ledger and that the detail of the receivables included account balances that were no longer outstanding.

Criteria – Receivables should be removed from the accounting records when collected or when written off and reconciled with the general ledger in order to ensure the receivables listing is complete and accurate.

Cause – Cash receipts are not always posted against the corresponding receivable in the general ledger.

Effect – Misstatements could go undetected.

Recommendation – We recommend removing these accounts receivable once paid or when written off as approved by the Board.

Response – The Commission will establish a policy for handling accounts receivable that are paid or determined to be delinquent. The approval of write-offs of any delinquent accounts and amounts will be made by the board of directors and will be signed by a member of the executive board.

Conclusion – Response accepted.

Finding 2010-5: Review of Accounts Receivable Aging

Condition – We noted that there were several customers had current balances and balances over 90 days old.

Criteria – Receivables should be reviewed and delinquent accounts should be communicated to the responsible community to ensure receivables listing is complete and to reduce the risk of uncollectable accounts.

Cause – The listing of receivables is not utilized by the Organization for review of delinquent accounts.

Effect – Misstatements could go undetected.

Recommendation – We suggest review of the past-due accounts monthly by the board and documentation of turning accounts over to the corresponding community in the board minutes.

(continued)

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

Response – The board will establish a collection protocol based on deadlines cited in joint agreements with counties and communities in collecting past due accounts. Actions referring to the responsible entities will be documented in the board meeting minutes.

Conclusion – Response accepted.

Finding 2010-6: Recording Accounts Payable and Payment Practices

Condition – The Organization does not maintain an adequate purchasing/accounts payable system. An accurate listing of open payables is not available as a tool for management to properly manage accounts payable.

Criteria – Invoices should be entered into the general ledger when received and should be included as an expense when incurred.

Cause – Invoices are entered into the general ledger when paid and invoices are not always paid on a timely basis.

Effect – Past due accounts, lost purchase discounts and poor vendor relations could occur. Also monthly reports of expenses are incomplete and incorrect decisions could be made from the financial reports containing incomplete records.

Recommendation – We suggest the Organization use the existing general ledger system to process and manage accounts payable, evaluate all purchase discounts and take advantage of discounts to the extent possible. The Organization should also consider establishing a policy regarding timely payment of invoices to ensure vendors are paid on a timely basis in order to improve relations with vendors.

Response – All invoices will be entered into accounts payable upon receipt. The Commission is working to streamline the process for draw-down of funds and timely payment of vendors. On occasion, this process becomes encumbered due to timing of funding, but timeliness will be a goal during the next fiscal year.

Conclusion – Response accepted.

(continued)

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

Finding 2010-7: Prior Year Adjustments

Condition – Prior year adjustments were not recorded in the general ledger.

Criteria – Representation of management's approval of adjustments to accounting records determined from prior audits was received before release of prior audit reports. However, those adjustments were not recorded into the general ledger. Thus, accounting records for the current year contained material misstatements.

Cause – Management did not record prior years audit adjustments.

Effect – The general ledger did not accurately reflect the assets, liabilities, net assets, revenues and expenses of the Organization during the year.

Recommendation – We recommend that adjusting audit journal entries proposed during the audit process, and approved by management, be recorded as of the last day of the audit period.

Response – Adjusting journal entries will be recorded as of the last day of the audit period. The goal is to significantly reduce/eliminate required entries through improved bookkeeping techniques.

Conclusion – Response accepted.

Finding 2010-8: Records Maintained on Cash Basis

Condition – Records are primarily maintained on the cash basis of accounting during the year, with invoices recorded when paid and fixed asset costs being expensed.

Criteria – Accounting records should be maintained on the accrual basis, which is in accordance with accounting principles generally accepted in the United States of America.

Cause – Management maintains the majority of records in the general ledger on the cash basis and adjustments are made at year end to convert to accrual basis.

Effect – The interim financials did not accurately reflect the assets, liabilities, net assets, revenues and expenses of the Organization during the year.

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

(continued)

Response – For fiscal year 2012, the books will be kept utilizing the accrual method with adequately trained staff. Geode RC&D, interim administrator, is working with the accounting on recommendations to refine the bookkeeping system in an effort to address the concerns under this finding.

Conclusion – Response accepted.

Finding 2010-9: Proper Recognition of Property and Equipment and Long-term Liabilities

Condition – Property and equipment purchases and loan transactions were recorded as expenses and revenues in the accounting records.

Criteria – Costs incurred to construct or purchase property and equipment should be recorded as assets when the costs are incurred. Loans received should be recorded as a liability when received and repayment of the loan principal should be applied against the liability when the payment is made.

Cause – Management recorded the payments for the construction or acquisition of property and equipment as an expense, and the receipt of loan proceeds as revenue when received.

Effect – The general ledger did not accurately reflect the assets, liabilities, net assets, revenues and expenses of the Organization during the year.

Recommendation – We recommend that property and equipment and notes payable accounts be set up prior to each project as assets or liabilities and costs or loans be recorded accordingly.

Response – For fiscal year 2012, the books will be kept utilizing the accrual method with adequately trained staff. Geode RC&D, interim administrator, is working with the accounting on recommendations to refine the bookkeeping system in an effort to address the concerns under this finding.

Conclusion – Response accepted.

(continued)

REGIONAL UTILITY SERVICE SYSTEMS

Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2010

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

IV. Other findings related to required statutory reporting:

10-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, 2010.

10-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.

10-IV-3 Travel Expense – No disbursements of Commissions' money for travel expenses of spouses of Commissions' officials or employees were noted.

10-IV-4 Commission Minutes – No transactions were found that we believe should have been approved in the Commission minutes but were not.

10-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, 2010

Program	Findings/Noncompliance	Questioned Costs
	None	

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

Centerville, Iowa
March 30, 2011

To the Management and Board of Directors of
Regional Utility Service Systems
Fairfield, Iowa

In planning and performing our audit of the financial statement of Regional Utility Service Systems for the year ended June 30, 2010, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control.

However, during our audit, we became aware of matters that are an opportunity to strengthen internal control and operating efficiency. We previously reported on the Organization's internal control in our report dated March 30, 2011. This letter does not affect our report dated March 30, 2011 on the financial statement of Regional Utility Service Systems.

We will review the status of these comments during our next audit engagement. We have already discussed these suggestions with management personnel, and we will be pleased to discuss these comments in further detail at your convenience. Our comments are as follows:

Consolidation of Trial Balance Accounts

During our audit, we noted there are accounts created for each project for items such as land, cash, sewer projects, etc. We suggest consolidating these accounts into one main control account and maintaining project detail using the class function in Quickbooks.

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

Sincerely,

TD&T Financial Group, P.C.