

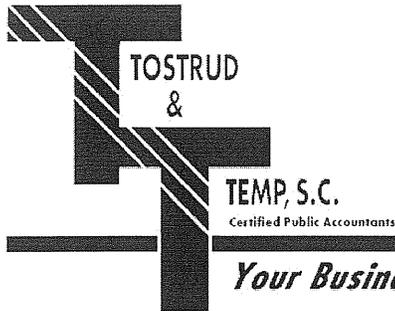
**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

**EASTERN IOWA REGIONAL UTILITY
SERVICE SYSTEMS COMMISSION**

June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Eastern Iowa Regional Utility Service Systems Commission
Dubuque, Iowa

Report On the Financial Statements

We have audited the accompanying proprietary fund statement of net position of the Eastern Iowa Regional Utility Service Systems Commission ("Commission"), as of and for the year ended June 30, 2013, and the proprietary fund statements of revenues, expenses and changes in net position, and cash flows and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Commission, as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required By Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2013, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Commission's internal control over financial reporting and compliance.

Tootind & Temp, S.C.

November 15, 2013

**EASTERN IOWA REGIONAL UTILITY SERVICE SYSTEMS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

The Eastern Iowa Regional Utility Service Systems (EIRUSS) is an organization created by the Cedar, Clinton, Delaware, Jackson, and Jones County Boards of Supervisors under Code of Iowa, Chapter 28E, which allows local governments to establish agreements that enable them to provide joint services and facilities with other agencies and cooperate in other ways of mutual advantage.

The purpose of EIRUSS is to plan, design, develop, finance, construct, own, operate and maintain essential facilities and services including, but not limited to, wastewater treatment systems and water systems for and on behalf of the counties and the cities and unincorporated areas within the counties. East Central Intergovernmental Association (ECIA) is the management agent.

As management agent of EIRUSS, we offer the readers of EIRUSS's financial statements this narrative overview and analysis of the financial activities of EIRUSS for the year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with EIRUSS's financial statements, which follow this discussion and analysis. This report complies with the Governmental Accounting Standards Board (GASB) Statement 34 reporting model.

Fiscal Year 2013 activities included continued construction work on the northern extension of the Fairview wastewater system which has a targeted completion in early fiscal 2014. This extension will serve thirteen residences and one commercial property. Construction also began on the Leisure Lake wastewater project. Portions of this project were completed in November, 2013 and the total project is expected to be complete by the end of fiscal 2014. When completed, the system will serve 309 residences and one commercial property in rural Jackson County. A Request for Qualifications (RFQ) to obtain an engineer consultant to discuss solutions for a sewer system in Elvira was issued near the end of fiscal 2013. Clinton County will be assisting with the funding of this project. Other systems currently in operation include the Center Junction and Fairview South wastewater systems and the Andover water system.

As we look to fiscal 2014, EIRUSS continues to remain focused on providing excellent services to our members in the region.

FINANCIAL HIGHLIGHTS

- The assets of EIRUSS exceeded its liabilities at June 30, 2013 by \$1,903,236 (net assets).
- EIRUSS's net assets increased by 11.6%, or \$198,270, from June 30, 2012 to June 30, 2013.
- Total revenues decreased 38.8%, or approximately \$229,000, from fiscal 2012 to fiscal 2013. This was primarily due to decreased USDA grant funding for the construction of the Fairview wastewater system, as a large portion of the construction was completed in fiscal 2012. Total expenditures increased 17.5%, or approximately \$25,000 from fiscal 2012 to fiscal 2013. This was primarily the result of interest paid on interim financing for the Fairview North and Leisure Lake projects.

**EASTERN IOWA REGIONAL UTILITY SERVICE SYSTEMS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to EIRUSS's basic financial statements. The financial statements included in this report are designed to provide readers with a broad overview of EIRUSS's finances, in a manner similar to a private sector business. EIRUSS utilizes the accrual basis of accounting, which recognizes revenues and expenses when earned, regardless of when cash is received or paid. The following statements are included in this report:

- *Management's Discussion and Analysis* introduces the basic financial statements and provides an analytical overview of EIRUSS's financial activities.
- The *Statement of Net Assets* presents information on EIRUSS's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of EIRUSS is improving or deteriorating.
- All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenditures and Changes in Net Assets*. This statement measures the success of EIRUSS's operations. It can be used to determine whether EIRUSS has successfully recovered all its costs through its rates, fees and other revenues. This statement also measures EIRUSS's profitability and credit worthiness.
- The *Statement of Cash Flows* presents the change in cash and cash equivalents during the year. This information can assist the user of the report in determining how EIRUSS financed its activities and how it met its cash requirements.
- *Notes to Financial Statements* provide additional information essential to a full understanding of the data provided in the basic financial statements.
- *Supplemental Financial Information* further explains and supports the financial statements and includes a schedule of Federal Financial Assistance.

ANALYSIS OF NET ASSETS

As previously noted, net assets may serve over time as a useful indicator of EIRUSS's financial position. The analysis that follows focuses on the changes in the components that make up net assets.

CONDENSED STATEMENT OF NET ASSETS

	2013	2012	NET CHANGE	PERCENT CHANGE
Cash and investments	143,390	34,586	108,804	314.6
Other Current Assets	63,100	14,818	48,282	325.8
Capital Assets	5,351,428	2,884,492	2,466,936	85.5
Total Assets	5,557,918	2,933,896	2,624,022	89.4

**EASTERN IOWA REGIONAL UTILITY SERVICE SYSTEMS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

CONDENSED STATEMENT OF NET ASSETS (Continued)

	2013	2012	NET CHANGE	PERCENT CHANGE
Current Liabilities	3,295,835	484,533	2,811,302	580.2
Long-Term Liabilities	358,847	744,397	(385,550)	(51.8)
Total Liabilities	3,654,682	1,228,930	2,425,752	197.4
Net Investment in Capital Assets	2,501,014	1,735,672	765,342	44.1
Restricted	20,242	14,997	5,265	35.1
Unrestricted	(618,020)	(45,703)	(572,337)	1252.3
Total Net Assets	1,903,236	1,704,966	198,270	11.6

The increase in cash is primarily due to WIRB grant income of \$79,000 received near the end of the fiscal year. A full year of operations of Phase 1 of the Fairview sewer system generated positive cash flow which also contributed to the cash increase. The increase of \$48,000 in Other Current Assets is due to WIRB grant funding receivable. The increase of \$2,466,936 in Capital Assets is due to Construction in Progress on the Leisure Lake sewer project and the Fairview North extension. Current liabilities increased approximately \$2,811,000 due to short term financing to fund the Leisure Lake sewer project as well as construction costs related to the Leisure Lake and Fairview North projects. Long-term liabilities decreased approximately \$385,000 as the Leisure Lake project interim financing was reclassified to short-term as the project is expected to be completed by the end of the next fiscal year.

ANALYSIS OF REVENUES AND EXPENDITURES

The Statement of Revenues, Expenses and Changes in Net Assets identifies the various revenue and expense items which affect the change in net assets.

**CONDENSED STATEMENT OF REVENUES
EXPENSES AND CHANGES IN NET ASSETS**

	2013	2012	NET CHANGE	PERCENT CHANGE
Revenues:				
Grant income	272,310	516,216	(243,906)	(47.2)
Operating revenues	88,819	73,916	14,903	20.2
Misc Income	1,449	0	1,449	
Interest Income	120	94	26	27.7
Total Revenue	362,698	590,226	(229,003)	(38.8)
Expenses:				
Operating Expenses	52,032	60,088	(8,056)	(13.4)
Depreciation	59,507	48,456	11,051	22.8
Interest Expense	52,889	31,348	21,541	68.7
Total Expenses	164,428	139,892	24,536	17.5
Change in Net Assets	198,270	450,334		
Net Assets July 1	1,704,966	1,254,632		
Net Assets June 30	1,903,236	1,704,966	198,270	11.6

**EASTERN IOWA REGIONAL UTILITY SERVICE SYSTEMS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Grant income decreased \$244,000 primarily due to a decrease in USDA grant funds received as Phase 1 of the Fairview wastewater system project was completed in the prior fiscal year. Operating revenue increased primarily due to a full year of operation of the Fairview wastewater system vs. six months in the prior year. Operating Expenses decreased \$8,000 primarily due a decrease in Professional Services expense. Depreciation increased due to a full year of depreciation of the Fairview system assets. Interest expense increased by \$21,500 due to the interim financing on the Fairview North extension and Leisure Lake projects.

OVERVIEW OF BUDGETS

EIRUSS annually adopts an operating budget on a basis consistent with generally accepted accounting principles. Construction (development) budgets are established throughout the year as new projects are approved. All budgets are submitted to USDA for approval.

CAPITAL ASSETS AND DEBT ADMINISTRATION

As of June 30, 2013, EIRUSS had \$5,351,428 invested in capital assets (net of depreciation), including a water treatment building and reservoir in Andover, IA a lagoon, lift station and collection system in both Center Junction, IA and Fairview, IA. Also included in capital assets was \$257,384 in construction in progress on the Fairview wastewater system extension, \$2,605,533 in construction in progress on the Leisure Lake wastewater system project and \$21,952 in prepaid development costs on four additional wastewater system projects. Total outstanding debt was \$2,850,414, which represents the outstanding balance of the USDA long-term loan for the Center Junction wastewater system (\$193,234), the USDA long-term loans for the Andover water system (\$170,223) and interim financing of \$483,860 on the Fairview sewer project and interim financing of \$1,903,097 on the Leisure Lake project.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

EIRUSS's management and the Board of Commissioners considered many factors when setting the fiscal year 2014 development and operating budgets. New projects are dependent on USDA and other funding sources. Decreases in Federal funding levels will continue to be a concern in the year ahead.

As we progress into 2014, we will continue to work collaboratively, developing new and building on already successful partnerships, while management remains committed to building strong and healthy communities and making our region a great place to live and work.

FINANCIAL CONTACT

These financial statements are designed to provide our member communities, funding agencies and creditors with a general overview of EIRUSS's finances and to show EIRUSS's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Mark Schneider, ECIA's Director of Community Development and Public Services or Lisa Weinhold, Director of Finance and Human Resources, 7600 Commerce Park, Dubuque, IA 52002.

Eastern Iowa Regional Utility
Service Systems Commission
STATEMENT OF NET POSITION - PROPRIETARY FUND
June 30, 2013

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	123,148
Cash and cash equivalents - restricted		20,242
Accounts receivables		48,180
Grants receivable		12,500
Prepaid insurance		2,420
Total current assets		206,490

NONCURRENT ASSETS

Property and equipment		2,360,995
Plant and equipment		(185,300)
Accumulated depreciation		2,175,695
Land		290,864
Construction in progress		2,884,869
Total noncurrent assets		5,351,428
Total assets	\$	5,557,918

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Loans payable - current	\$	2,491,567
Accounts payable		
Trade		642,568
Retainage		115,279
Related party		23,953
Accrued interest		22,468
Total current liabilities		3,295,835

NONCURRENT LIABILITIES

Loans payable - noncurrent		358,847
Total liabilities		3,654,682

NET POSITION

Net investment in capital assets		2,501,014
Restricted		20,242
Unrestricted		(618,020)
Total net position		1,903,236
Total liabilities and net position	\$	5,557,918

The accompanying notes are an integral part of this statement.

Eastern Iowa Regional Utility
Service Systems Commission
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
PROPRIETARY FUND**
Year ended June 30, 2013

	<u>Programs</u>	<u>General</u>	<u>Total</u>
OPERATING REVENUE			
Grant income	\$ 222,310	\$ 50,000	\$ 272,310
Service fees collected	88,819	-	88,819
Miscellaneous income	242	1,207	1,449
Total operating revenue	<u>311,371</u>	<u>51,207</u>	<u>362,578</u>
OPERATING EXPENSE			
Administrative expense	19,972	41,032	61,004
Architect and engineering fees	136,095	-	136,095
Audit fees	1,755	1,020	2,775
Legal fees	2,775	-	2,775
Insurance	-	1,234	1,234
Subcontractor costs	2,328,508	-	2,328,508
Other costs	1,386	264	1,650
Depreciation expense	59,507	-	59,507
Service fee costs	44,434	-	44,434
Total operating expense	<u>2,594,432</u>	<u>43,550</u>	<u>2,637,982</u>
Less construction in progress	<u>2,526,443</u>	<u>-</u>	<u>2,526,443</u>
Net operating expense	67,989	43,550	111,539
Operating income	243,382	7,657	251,039
NONOPERATING INCOME (EXPENSE)			
Interest income	39	81	120
Interest expense	(52,889)	-	(52,889)
	<u>(52,850)</u>	<u>81</u>	<u>(52,769)</u>
CHANGE IN NET POSITION	190,532	7,738	198,270
NET POSITION AT JULY 1, 2012	<u>1,633,144</u>	<u>71,822</u>	<u>1,704,966</u>
NET POSITION AT JUNE 30, 2013	<u>\$ 1,823,676</u>	<u>\$ 79,560</u>	<u>\$ 1,903,236</u>

The accompanying notes are an integral part of this statement.

Eastern Iowa Regional Utility
Service Systems Commission
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
Year ended June 30, 2013

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 40,808
Cash received from grants	272,310
Payments to suppliers for goods and services	(37,999)
Miscellaneous income	1,449
Net cash provided by operating activities	276,568

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(1,835,567)
Loan proceeds	1,706,016
Interest payments	(33,912)
Payment of principal on long-term debt	(4,421)
Net cash used in capital and related financing activities	(167,884)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	120
Net cash provided by investing activities	120

Net increase in cash and cash equivalents 108,804

CASH AND CASH EQUIVALENTS AT JULY 1, 2012 34,586

CASH AND CASH EQUIVALENTS AT JUNE 30, 2013 \$ 143,390

**RECONCILIATION OF OPERATING INCOME TO
TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income	\$ 251,039
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	59,507
Increase (decrease) in cash due to changes in:	
Accounts receivable	(48,011)
Prepaid insurance	(271)
Accounts payable	14,304
Total adjustments	25,529
Net cash provided by operating activities	\$ 276,568

The accompanying notes are an integral part of this statement.

Eastern Iowa Regional Utility
Service Systems Commission
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE A - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

On February 11, 2005 the Eastern Iowa Regional Utility Service Systems Commission ("Commission") was created as a public body corporate and politic and separate legal entity pursuant to Chapter 28E of the Code of Iowa by the Counties of Cedar, Clinton, Delaware, Jackson and Jones, Iowa.

The Commission was created for the purpose of planning, designing, developing, financing, constructing, owning, operating and maintaining essential facilities and services including, but not limited to, wastewater treatment systems and water systems for and on behalf of the Counties and the cities and unincorporated areas within the Counties.

1. Financial Statements

The financial statements of the Eastern Iowa Regional Utility Service Systems Commission ("Commission") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the Commission are described below.

2. Component Units

Accounting principles generally accepted in the United States of America (GAAP) require that these financial statements include the primary government and its component units. Component units are separate organizations that are included in the Commission's reporting entity because of the significance of its operational or financial relationships with the Commission. All significant activities and organizations with which the Commission exercises oversight responsibility have been considered for inclusion in the financial statements. The Commission has no component units, and it is not included in any other governmental reporting entity.

3. Basis of Presentation

The accounts of the Commission are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The Commission has the following proprietary fund:

Enterprise Fund - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing

Eastern Iowa Regional Utility
Service Systems Commission
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2013

**NOTE A - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES -
CONTINUED**

3. Basis of Presentation - Continued

basis be financed or recovered primarily through user charges; or (b) where the government body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The Commission accounts for its water and sewer utilities as enterprise funds.

4. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement Focus - Enterprise funds are accounted for on an economic resources measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Enterprise fund type operating statements present increases (revenue) and decreases (expenses) in total net position.

Basis of Accounting - Proprietary funds are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting and in accordance with accounting procedures prescribed by the Wisconsin Public Service Commission. Under this method, all assets and liabilities associated with operations are included on the balance sheet, revenues are recorded when earned, and expenses are recorded when liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Commission are charges for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

For its proprietary activities, the Commission does not apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989. The proprietary funds apply all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as statements and interpretations of the FASB, the Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Eastern Iowa Regional Utility
Service Systems Commission
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2013

**NOTE A - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES -
CONTINUED**

**4. Measurement Focus, Basis of Accounting and Financial Statement
Presentation - Continued**

Statement of Net Position - The statement of net position is designed to display the financial position of the Commission. The Commission's fund equity is no longer reported as retained earnings and contributed capital, but rather as net position which is broken down into three categories defined as follows:

- Invested in capital assets, net of related debt - This component of net position consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted - Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, contributors, or law or regulations of other governments.
- *Unrestricted* - Net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Statement of Revenues, Expenses, and Changes in Net Position - The statement of revenues, expenses, and changes in net position is the operating statement for proprietary funds. Revenues are reported by major source. This statement distinguishes between operating and nonoperating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income.

5. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Commission considers all highly liquid investments with an initial maturity of three months or less when acquired to be cash equivalents.

6. Cash and Cash Equivalents - Restricted

Restricted cash is segregated resources for loan reserves.

7. Accounts Receivable

Accounts receivable have been shown at gross amount. No provision for uncollectible accounts receivable has been provided since it is believed that the amount of such allowance would not be material. There is no unbilled revenue at June 30, 2013.

Eastern Iowa Regional Utility
Service Systems Commission
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2013

**NOTE A - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES -
CONTINUED**

8. Due To/From Other Programs

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "due to and from other funds." Noncurrent portions of long-term interfund loans receivable/payable are reported in "advance to/from" accounts.

9. Capital Assets

Buildings and all equipment are carried at cost and depreciated on a straight-line basis over 40 years. When property is retired or otherwise removed from service, the accumulated provision for depreciation is reduced by its cost and removed, and increase by the salvage value or other amount realized from its retirement or removal.

Additions to and replacements of utility plant are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction when significant. The cost of renewals and betterments relating to retirement units is added to plant accounts. The cost of property replaced, retired, or otherwise disposed of, is deducted from plant accounts and, generally, together with removal costs less salvage, is charged to accumulated depreciation.

Interest is capitalized on utility property with tax exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest cost is amortized on the same basis as the related asset is depreciated.

10. Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. If they are not to be liquidated with expendable available financial resources, no liability is recognized in the governmental fund statements. The related expenditure is recognized when the liability is liquidated. Claims and judgments are recorded in the government-wide statements and proprietary funds as expenses when the related liabilities are incurred. There were no significant claims or judgments at year-end.

Eastern Iowa Regional Utility
Service Systems Commission
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2013

NOTE A - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

12. Subsequent Events

The Commission has evaluated subsequent events through November 15, 2013, the date which the financial statements were available to be issued.

NOTE B - CASH DEPOSITS

Cash as of June 30, 2013 is classified in the accompanying financial statements as follows:

Statement of net position	
Cash and cash equivalents	\$ 123,148
Cash and cash equivalents - restricted	<u>20,242</u>
Total	<u>\$ 143,390</u>

Cash and investments as of June 30, 2013 consist of the following:

	Carrying Amount	Bank Balance
Investment checking/savings and money market accounts	\$ 143,390	\$ 143,522

The Commission's deposits in banks at June 30, 2013 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 the depositories to ensure there will be no loss of public funds.

Eastern Iowa Regional Utility
Service Systems Commission
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2013

NOTE B - CASH DEPOSITS - CONTINUED

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

The Commission had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

NOTE C - BUDGETS

The Commission is not required to adopt a formal budget per the existing by-laws. The Commission prepares budgets specific to each project they decide to pursue and utilize them at this level to manage their progress through to completion.

NOTE D - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors; and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE E - RELATED PARTY

The Eastern Iowa Regional Utility Service Systems Commission, related to the East Central Intergovernmental Association through common management, is provided management services and office space. Balances with ECIA at and for the years ended June 30, 2013 and June 30, 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Accounts payable	\$ 23,953	\$ 9,460
Management services	\$ 68,986	\$ 49,730

Eastern Iowa Regional Utility
Service Systems Commission
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2013

NOTE F - UTILITY FIXED ASSETS

A summary of changes in Water and/or Wastewater Utility property, plant, and equipment during the current year follows:

	Balances 6/30/12	Additions	Transfers & Disposals	Balances 6/30/13
Andover Water System				
<i>Assets not being depreciated</i>				
Land	\$ 1,292	\$ -	\$ -	\$ 1,292
<i>Assets being depreciated</i>				
Well and well pump	130,192	-	-	130,192
Distribution system	181,724	-	-	181,724
Storage reservoir	81,439	-	-	81,439
Treatment building	129,928	-	-	129,928
Other capitalized costs	109,134	-	-	109,134
	<u>633,709</u>	<u>-</u>	<u>-</u>	<u>633,709</u>
Less accumulated depreciation	49,646	16,293	-	65,939
Andover totals	<u>584,063</u>	<u>(16,293)</u>	<u>-</u>	<u>567,770</u>
Center Junction Wastewater System				
<i>Assets not being depreciated</i>				
Land	61,467	-	-	61,467
<i>Assets being depreciated</i>				
Collection system	335,831	-	-	335,831
Lift station	40,000	-	-	40,000
Service lines	61,608	-	-	61,608
Lagoon	193,585	-	-	193,585
Other capitalized costs	213,447	-	-	213,447
	<u>905,938</u>	<u>-</u>	<u>-</u>	<u>905,938</u>
Less accumulated depreciation	65,095	21,111	-	86,206
Center Junction totals	<u>840,843</u>	<u>(21,111)</u>	<u>-</u>	<u>819,732</u>
Fairview Wastewater System				
<i>Assets not being depreciated</i>				
Land	37,762	-	-	37,762
Construction in progress	6,743	250,641	-	257,384
<i>Assets being depreciated</i>				
Collection system	61,624	-	-	61,624
Lift station	117,601	-	-	117,601
Service lines	215,689	-	-	215,689
Lagoon	299,234	-	-	299,234
Other capitalized costs	189,958	-	-	189,958
	<u>928,611</u>	<u>250,641</u>	<u>-</u>	<u>1,179,252</u>
Less accumulated depreciation	11,051	22,103	-	33,154
Fairview totals	<u>917,560</u>	<u>228,538</u>	<u>-</u>	<u>1,146,098</u>
Other projects				
<i>Assets not being depreciated</i>				
Land	190,343	-	-	190,343
Construction in progress	351,683	2,275,802	-	2,627,485
Other projects totals	<u>542,026</u>	<u>2,275,802</u>	<u>-</u>	<u>2,817,828</u>
Total fixed assets	<u>\$ 2,884,492</u>	<u>\$ 2,466,936</u>	<u>\$ -</u>	<u>\$ 5,351,428</u>

Eastern Iowa Regional Utility
Service Systems Commission
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2013

NOTE G - CONSTRUCTION IN PROGRESS

A summary of changes in construction in progress as of 6/30/13 follows.

Projects	Balances 6/30/12	Additions	Transfers & Disposals	Balances 6/30/13
Construction in progress				
Fairview	\$ 6,743	\$ 250,641	\$ -	\$ 257,384
Leisure Lake	329,731	2,275,802	-	2,605,533
Prepaid development costs				
Elvira	8,296	-	-	8,296
Lake Delhi	9,916	-	-	9,916
Petersburg	3,608	-	-	3,608
Morley	132	-	-	132
	<u>21,952</u>	<u>-</u>	<u>-</u>	<u>21,952</u>
Total construction in progress	<u>\$ 358,426</u>	<u>\$ 2,526,443</u>	<u>\$ -</u>	<u>\$ 2,884,869</u>

NOTE H - LOAN RESERVES

On November 6, 2009, the Commission secured loans from the USDA which require certain amounts to be reserved for operations and maintenance, debt service and depreciation. As of June 30, 2013 the sum of these reserve balances were as follows:

	Andover	Center Junction	Total
Debt service	\$ 3,366	\$ 4,176	\$ 7,542
Depreciation	5,636	7,064	12,700
	<u>\$ 9,002</u>	<u>\$ 11,240</u>	<u>\$ 20,242</u>

The debt service requires annual deposits of \$918 for Andover and \$1,044 for Center Junction until they are fully funded. Andover will be fully funded once it reaches \$9,180 in fiscal year 2019 and Center Junction will be fully funded once it reaches \$10,440 in fiscal year 2019. In addition, both projects require annual depreciation deposits of \$1,537 and \$1,766 for Andover and Center Junction, respectively, until the loan is paid in full.

The future debt service and depreciation reserve deposits are as follows:

	Andover	Center Junction	Total
2014	\$ 2,455	\$ 2,810	\$ 5,265
2015	2,455	2,810	5,265
2016	2,455	2,810	5,265
2017	2,455	2,810	5,265
2018	2,455	2,810	5,265
2019 - 2023	8,603	9,874	18,477
2024 - 2028	7,685	8,830	16,515
2029 - 2033	7,685	8,830	16,515
2034 - 2038	7,685	8,830	16,515
2039 - 2043	7,685	8,830	16,515
2044 - 2048	7,685	8,830	16,515
2049	1,537	1,766	3,303
	<u>\$ 60,840</u>	<u>\$ 69,840</u>	<u>\$ 130,680</u>

Eastern Iowa Regional Utility
Service Systems Commission
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2013

NOTE I - NONCURRENT LIABILITIES

Summary and details of the Commission's noncurrent liabilities are set below:

	Balance 6/30/12	Additions	Payments	Balance 6/30/13	
Noncurrent liabilities	\$ 744,397	\$ -	\$ 385,550	\$ 358,847	
Detailed Description				Balance at 6/30/13	Due Within One Year
\$199,796 of sewer revenue bonds financed by the USDA dated June 3, 2009 and due in monthly installments of \$870, including interest at 4.125% per annum beginning August 1, 2010 until May 1, 2048				\$ 193,234	\$ 2,518
\$140,000 of utility bonds financed by the USDA dated November 3, 2009 and due in monthly installments of \$609, including interest at 4.125% per annum beginning August 1, 2011 until June 1, 2049				136,946	1,691
\$33,000 of utility bonds financed by the USDA dated November 3, 2009 and due in monthly installments of \$152, including interest at 4.50% per annum beginning August 1, 2011 until November 1, 2048				32,322	377
\$1,000 of utility bonds financed by the USDA dated November 3, 2009 and due in monthly installments of \$4 including interest at 2.50% per annum beginning August 1, 2011 until December 1, 2040				955	24
\$400,000 bank note with Exchange State Bank at 3.90% interest to be converted to USDA loan at 2.375% interest within next two fiscal years to be repaid over a 40 year period after conversion				583,860	583,860
\$380,941 bank note with Maquoketa State Bank at 2.09% interest due at maturity, August 1, 2013. Loan to be converted to USDA loan at 2.25% with repayment over 40 years with monthly interest only payments for the first two years				1,903,097	1,903,097
Total long-term obligations				2,850,414	\$ 2,491,567
Less current maturities				2,491,567	
Total noncurrent liabilities				\$ 358,847	

NOTE J - LONG-TERM OBLIGATIONS

Maturities of long-term obligations at June 30, 2013 are as follows:

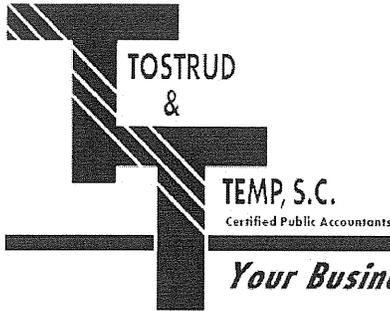
	Principal	Interest	Total
2014	\$ 2,491,567	\$ 15,010	\$ 2,506,577
2015	4,805	14,815	19,620
2016	5,008	14,612	19,620
2017	5,220	14,400	19,620
2018	5,440	14,180	19,620
2019 - 2023	30,853	67,247	98,100
2024 - 2028	37,952	60,148	98,100
2029 - 2033	46,688	51,412	98,100
2034 - 2038	57,442	40,663	98,105
2039 - 2043	70,538	27,439	97,977
2044 - 2048	86,709	11,188	97,897
2049	8,192	177	8,369
	\$ 2,850,414	\$ 331,291	\$ 3,181,705

SUPPLEMENTAL FINANCIAL INFORMATION

Eastern Iowa Regional Utility
Service Systems Commission
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
BY PROGRAM
Year ended June 30, 2013

	Andover	Center Junction	Elvira	Fairview	Lake Delhi	Leisure Lake	Morley	Peters- burg	Subtotal	General	Total
OPERATING REVENUE											
Grant income	\$ -	\$ -	\$ -	\$ 95,476	\$ -	\$ 126,834	\$ -	\$ -	\$ 222,310	\$ 50,000	\$ 272,310
Service fees collected	27,508	29,194	-	32,117	-	-	-	-	88,819	-	88,819
Miscellaneous income	-	-	-	242	-	-	-	-	242	1,207	1,449
Total operating revenue	27,508	29,194	-	127,835	-	126,834	-	-	311,371	51,207	362,578
OPERATING EXPENSE											
Administrative expense	-	-	-	4,376	-	15,596	-	-	19,972	41,032	61,004
Architect and engineering fees	-	-	-	26,710	-	109,385	-	-	136,095	-	136,095
Audit fees	585	585	-	585	-	-	-	-	1,755	1,020	2,775
Legal fees	-	-	-	30	-	2,745	-	-	2,775	-	2,775
Insurance	-	-	-	-	-	-	-	-	-	1,234	1,234
Subcontractor costs	-	-	-	200,894	-	2,127,614	-	-	2,328,508	-	2,328,508
Other costs	-	-	-	-	-	1,386	-	-	1,386	264	1,650
Depreciation expense	16,293	21,112	-	22,102	-	-	-	-	59,507	-	59,507
Service fee costs	17,681	13,889	-	12,401	-	463	-	-	44,434	-	44,434
Total operating expense	34,559	35,586	-	267,098	-	2,257,189	-	-	2,594,432	43,550	2,637,982
Less construction in progress	-	-	-	250,641	-	2,275,802	-	-	2,526,443	-	2,526,443
Net operating expense	34,559	35,586	-	16,457	-	(18,613)	-	-	67,989	43,550	111,539
Operating income (loss)	(7,051)	(6,392)	-	111,378	-	145,447	-	-	243,382	7,657	251,039
NONOPERATING INCOME (EXPENSE)											
Interest income	13	13	-	13	-	-	-	-	39	81	120
Interest expense	(7,166)	(8,017)	-	(18,630)	-	(19,076)	-	-	(52,889)	-	(52,889)
	(7,153)	(8,004)	-	(18,617)	-	(19,076)	-	-	(52,850)	81	(52,769)
CHANGE IN NET POSITION	(14,204)	(14,396)	-	92,761	-	126,371	-	-	190,532	7,738	198,270
NET POSITION AT JULY 1, 2012	398,748	655,932	-	458,136	-	120,328	-	-	1,633,144	71,822	1,704,966
NET POSITION AT JUNE 30, 2013	\$ 384,544	\$ 641,536	\$ -	\$ 550,897	\$ -	\$ 246,699	\$ -	\$ -	\$ 1,823,676	\$ 79,560	\$ 1,903,236

OTHER REPORT



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Commissioners
Eastern Iowa Regional Utility Service Systems Commission
Dubuque, Iowa

We have audited, 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, the financial statements of the Eastern Iowa Regional Utility Service Systems Commission, which comprise the proprietary fund statement of net position as of June 30, 2013, and the related proprietary fund statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon November 15, 2013.

Internal Control Over Financial Reporting

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

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 Commission's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 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 or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

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

Tostrud & Temp, S.C.

November 15, 2013