

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

June 10, 2016

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Auditor of State Mary Mosiman today released an audit report on the Xenia Rural Water District.

The District had total revenues of \$16,861,384 for the year ended December 31, 2015, a 23.8% increase over the prior year. Revenues included water sales of \$13,091,658 and water connection fees of \$431,362. The increase in revenues was primarily due to the sale of territory rights and capital assets of \$2,808,629 and an increase in residential water sales of \$505,803.

Expenses totaled \$11,857,499 for the year ended December 31, 2015, a less than 1% decrease from the prior year. Expenses included \$4,396,945 of interest, \$2,763,090 of depreciation/amortization and \$1,327,714 of salaries and wages. The decrease in expenses is due primarily to decreased interest expense and decreases in professional fees.

A copy of the audit report is available for review at the Xenia Rural Water District, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1533-0037-B000>.

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XENIA RURAL WATER DISTRICT

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

DECEMBER 31, 2015 and DECEMBER 31, 2014

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Xenia Rural Water District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before April 2015)		
Dan Lovett	Chair	Apr 2017
Troy Wilson	Vice Chair	Apr 2016
Tom Ballard Gary Becker	Treasurer Treasurer (Effective May 2014)	(Resigned Apr 2014) Apr 2016
Harold Jensen	Secretary	Apr 2016
Amy Kahler (Appointed)	Director (Effective Aug 2014)	Apr 2015
Jerry Carris	Director	Apr 2017
Gary Benjamin (Appointed)	General Manager	Indefinite
Gary Andrews	Controller	Indefinite
(After April 2015)		
Dan Lovett	Chair	Apr 2017
Troy Wilson	Vice Chair	Apr 2016
Gary Becker	Treasurer	Apr 2016
Harold Jensen	Secretary	Apr 2016
Jerry Carris	Director	Apr 2017
Amy Kahler	Director	Apr 2018
Mike Schrum	Director	Apr 2018
Gary Benjamin	General Manager	Indefinite
Gary Andrews	Controller	Indefinite

Xenia Rural Water District



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Independent Auditor's Report

To the Members of the
Xenia Rural Water District:

Report on the Financial Statements

We have audited the accompanying financial statements of the Xenia Rural Water District as of and for the years ended December 31, 2015 and 2014, and the related Notes to Financial Statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Xenia Rural Water District at December 31, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Emphasis of a Matter

As discussed in Note 13, the District adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management’s Discussion and Analysis, the Schedule of the District’s Proportionate Share of the Net Pension Liability and the Schedule of District Contributions on pages 7 through 12 and 39 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 1, 2016 on our consideration of the Xenia Rural Water District’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District’s internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 1, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

As financial management of the District, we offer readers of these financial statements an overview and analysis of the financial activities of the District. This narrative is designed to assist readers in focusing on significant financial issues, identifying changes in the District's financial position and identifying individual issues or concerns.

Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts. It should be read in conjunction with the financial statements which begin on page 14.

FINANCIAL HIGHLIGHTS

- The District implemented Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, during 2015. The beginning net position for governmental activities was restated by \$990,933 to retroactively report the net pension liability and the related deferred outflows and inflows of resources as of January 1, 2015. Pension expense for 2014 and the net pension liability, deferred outflows of resources and deferred inflows of resources at December 31, 2014 were not restated because the information needed to restate those amounts was not available.
- The District's net position increased 305.4%, or \$5,003,885, over the restated December 31, 2014 balance and increased 174.5%, or \$1,671,478, in 2014 as a result of operations, sale of territory rights, decrease in interest expense and other gains or losses in the respective years.
- Operating revenues increased 3.9%, or \$526,806, in 2015. Operating revenues in 2014 increased \$661,575, or 5.2%, over 2013. The increases in operating revenues resulted from rate increases.
- Operating expenses increased 0.04%, or \$2,853, in 2015 due to several factors, including higher depreciation/amortization and repair and maintenance expenses and decreases in expenses for professional fees and fuel. Operating expenses in 2014 increased \$183,107, or 2.5%, from 2013 because of higher salaries and wages and higher repair and maintenance expense.

USING THIS ANNUAL REPORT

The financial statements included in this financial report provide information about the activities and performance of the District using accounting methods similar to those used by private sector businesses. These financial statements combine the District's current financial resources with capital assets and long-term obligations.

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

The Statement of Net Position presents information on the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, changes in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the District's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future years.

The Statement of Cash Flows provides information about the District's sources and uses of cash. The sources and uses of cash are organized by operating activities, capital and related financing activities and investing activities.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the District's financial statements. The Notes to Financial Statements are a required part of the basic financial statements.

Required Supplementary Information presents the District's proportionate share of the net pension liability and related contributions.

FINANCIAL ANALYSIS

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. The District's net position at the end of 2015 totaled \$6,642,477. This compares to \$2,629,525 at the end of 2014 and \$958,047 at the end of 2013 prior to restatement. A summary of the District's net position is presented below.

	Net Position		
	December 31,		
	2015	2014 (Not restated)	2013 (Not restated)
Current assets	\$ 7,004,875	11,026,766	9,647,559
Capital assets, net of accumulated depreciation/amortization	117,380,976	118,823,551	120,628,004
Other noncurrent assets	6,209,123	717,067	321,206
Total assets	130,594,974	130,567,384	130,596,769
Deferred outflows of resources	125,332	-	-
Current liabilities	4,880,764	4,883,694	4,754,004
Noncurrent liabilities	119,094,952	123,054,165	124,884,718
Total liabilities	123,975,716	127,937,859	129,638,722
Deferred inflows of resources	102,113	-	-
Net position:			
Restricted	5,415,405	480,419	66,595
Unrestricted	1,227,072	2,149,106	891,452
Total net position	\$ 6,642,477	2,629,525	958,047

Prior to the restatement, the District's net position increased \$4,012,952 during the year ended December 31, 2015 and increased \$1,671,478 during the year ended December 31, 2014. The increase in net position is primarily the result of increased operating revenues due to rate increases and increased water connection fees, increased nonoperating revenues due to the sale of territory rights, increased customer water connection and relocation fees and decreased nonoperating expenses, primarily lower interest expense. The increase in net position in 2014 was due primarily to rate increases and decreased nonoperating expenses, primarily lower interest expense and decreases in losses related to inventory dispositions and capital asset sales.

Total liabilities of the District were \$123,975,716 and \$127,937,859 at December 31, 2015 and 2014, respectively. Noncurrent liabilities included in total liabilities were \$119,094,952 and \$123,054,165 at December 31, 2015 and 2014, respectively. Total liabilities decreased \$3,962,143 in 2015 and decreased \$1,700,863 in 2014. The decrease in liabilities at December 31, 2015 was primarily the result of the payoff of the Assured Guaranty Corporation liability of \$2,519,867 and principal payments made on the water revenue bonds, series 2006, water and wastewater notes payable and project anticipation notes payable. The decrease in liabilities at December 31, 2014 was primarily the result of principal payments made on the water revenue bonds, series 2006, water and wastewater notes payable and project anticipation notes payable.

A significant portion of the District's total assets, 90% and 91%, were invested in capital assets at December 31, 2015 and 2014, respectively.

Statement of Revenues, Expenses and Changes in Net Position

The following Condensed Statement of Revenues, Expenses and Changes in Net Position summarize the District's operating results for the years ended December 31:

	Revenues, Expenses and Changes in Net Position		
	Year Ended December 31,		
	2015	2014 (Not restated)	2013 (Not restated)
Operating revenues	\$ 13,867,685	13,340,879	12,679,304
Operating expenses	(7,459,566)	(7,456,713)	(7,273,606)
Operating income	6,408,119	5,884,166	5,405,698
Nonoperating revenues	2,993,699	273,588	132,317
Nonoperating expenses	(4,397,933)	(4,486,276)	(4,896,314)
Change in net position	\$ 5,003,885	1,671,478	641,701

The Statement of Revenues, Expenses and Changes in Net Position reflects an increase in net position in 2015, 2014 and 2013.

Year ended December 31, 2015:

The change in net position in 2015 was a result of the following: 1) Total operating revenues increased 3.9% over the prior year because of water rate increases. The District's water revenue of \$13,091,658 increased 3.6% over 2014. In January 2015, a water rate increase went into effect for all users. 2) Non-operating revenues increased 994% over 2014. The increase was a result of 2015 sales of territory rights which did not occur in 2014. 3) Non-operating expenses decreased 2.0% from 2014. Interest expense decreased \$76,975, or 1.7%.

Year ended December 31, 2014:

The change in net position in 2014 was a result of the following: 1) Total operating revenues increased 5.2% over the prior year because of a water rate increase. The District's water revenue of \$12,636,898 increased 5.5% over 2013. In January 2014, a water rate increase went into effect for all users. 2) Non-operating revenues increased 107% from 2013. The increase was a result of 2014 gains from the sale of capital assets which did not occur in 2013 and an investment gain which did not occur in 2013. 3) Non-operating expenses decreased 8.4% from 2013. Interest expense decreased \$65,792, or 1.4%.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities includes cash received from customers for water sales and sewer use reduced by employee payroll and payments to suppliers. Cash used by capital and related financing activities includes principal and interest paid on bonds and notes and the purchase of capital assets. Cash provided by investing activities includes sales of money market securities and interest income.

The following summarizes the District's cash flows:

	Year ended December 31,		
	2015	2014 (Not restated)	2013 (Not restated)
Cash flows provided (used) by:			
Operating activities	\$ 9,485,153	8,552,781	7,971,867
Capital and related financing activities	(8,103,475)	(7,251,250)	(5,435,330)
Investing activities	791,861	652,783	(1,428,138)
Net increase in cash and cash equivalents	2,173,539	1,954,314	1,108,399
Cash and cash equivalents beginning of year	8,609,675	6,655,361	5,546,962
Cash and cash equivalents end of year	10,783,214	8,609,675	6,655,361
Investments	-	786,301	1,419,102
Cash, cash equivalents and pooled investments end of year	\$ 10,783,214	9,395,976	8,074,463

CAPITAL ASSETS

The following summarizes the District's capital assets:

	December 31,		
	2015	2014	2013
Nondepreciable/amortizable capital assets	\$ 1,856,718	1,070,910	1,044,094
Depreciable/amortizable capital assets	144,496,724	144,324,933	144,283,886
Intangible assets	5,207,348	5,207,348	4,885,629
Accumulated depreciation/amortization	(34,179,814)	(31,779,640)	(29,585,605)
Total capital assets, net of accumulated depreciation/amortization	\$ 117,380,976	118,823,551	120,628,004

Capital assets, net of accumulated depreciation/amortization, (including water lines, equipment and buildings) of the District were \$117,380,976 and \$118,823,551 at December 31, 2015 and 2014, respectively. This is a net decrease of \$1,442,575 during the year ended December 31, 2015. Total capital assets decreased because of the disposal of equipment and tools and current year depreciation/amortization.

Construction in progress included in nondepreciable/amortizable capital assets was \$967,565 and \$186,757 at December 31, 2015 and 2014, respectively. Further details on capital assets are presented in Note 4 of the Notes to Financial Statements.

LONG TERM DEBT

The following summarizes the District's outstanding long-term debt:

	December 31,		
	2015	2014	2013
Revenue notes	\$ 44,186,403	45,006,327	45,708,810
Revenue bonds	74,562,162	76,040,761	77,459,361
Assured Guaranty Corporation	-	2,519,867	2,519,867
Project anticipation notes	1,413,168	1,438,168	1,443,168
Rural community 2000 loan	-	-	20,000
Total	<u>\$ 120,161,733</u>	<u>125,005,123</u>	<u>127,151,206</u>

In 2015, the District repaid \$816,631 of principal on USDA Rural Development water revenue notes, \$3,293 of principal on USDA Rural Development wastewater revenue notes, \$1,478,599 of principal on water revenue bonds, series 2006, \$25,000 of project anticipation notes and \$2,519,867 of the Assured Guaranty Corporation liability, thereby retiring the debt. For further details on long-term debt, see Note 5 of the Notes to Financial Statements.

In 2014, the District repaid \$669,319 of principal on USDA Rural Development water revenue notes, \$3,164 of principal on USDA Rural Development wastewater revenue notes, \$1,418,600 of principal on water revenue bonds, series 2006, \$5,000 of project anticipation notes and \$20,000 of a Rural Community 2000 Loan through the Iowa Economic Development Authority, thereby retiring the debt.

Debt service coverage has been calculated based on the definitions of gross revenues, operating expenses and special charges as defined in the water revenue bonds, series 2006 resolution. Debt service coverage on the scheduled water parity debt payments of the District was 130% at December 31, 2015 and 127% at December 31, 2014. Covenants of the water revenue bonds, series 2006 state net revenues during each year will be sufficient to pay debt service and deposits into the required funds, but not less than 100% of the debt service payments on the bonds and parity obligations.

The water revenue bonds, series 2006 cash balance requirement for the restricted reserve is \$5,225,300. At December 31, 2015 and 2014, the balance of the restricted cash water revenue bonds, series 2006 reserve was \$5,209,682 and \$330,025, respectively. On March 28, 2013, the District's Board of Directors and Assured Guaranty Corporation completed a forbearance agreement and, as part of the forbearance agreement, the District is allowed to replenish the reserve account over a ten-year period beginning in January 2014 with the reserve account to reflect a fully replenished balance of \$5,225,300 by the end of 2023. Further details on reserves and debt service are presented in Note 5 of the Notes to Financial Statements.

The USDA Rural Development bond resolution requires amounts to be deposited monthly into a reserve account until a balance of one-tenth of one full year's principal and interest payment is on reserve. At December 31, 2015 and 2014, the balance of the restricted cash, USDA water notes reserve was \$197,976 and \$143,957, respectively. On March 29, 2013, USDA approved refinancing all outstanding USDA Rural Development water revenue notes. As part of the refinancing, USDA has allowed the District to replenish the reserve account over a ten-year period beginning in January 2014, with the reserve account to reflect a fully replenished balance of \$1,649,640 by the end of 2023. Further details on reserves and debt service are presented in Note 5 of the Notes to Financial Statements.

In July 2012, CIFG Assurance North America, Inc. (CIFG NA), the bond insurer, and Assured Guaranty Corporation, the reinsurance company, reached a settlement where the water revenue bonds, series 2006 guarantee has been assumed by Assured Guaranty Corporation under the Quota Share Reinsurance Agreement dated January 21, 2009. Because of this guarantee, the long term and underlying ratings on the District's water revenue bonds, series 2006 were raised from 'D' to 'AA'. The District's prior rating of 'D' was the result of the District not paying obligations in accordance with terms of the agreement.

ECONOMIC OUTLOOK

On March 28, 2013, the District's Board of Directors and Assured Guaranty Corporation completed a forbearance agreement and USDA approved refinancing all outstanding USDA Rural Development water revenue notes on March 29, 2013. The forbearance agreement and USDA refinancing were designed to address the District's financial obligations to parity lenders and structure a plan for meeting those obligations.

The forbearance agreement and USDA refinancing have reduced the interest rates on existing debt obligations and have allowed the District to structure the repayment of financial obligations in a manner which allows a more realistic time horizon for repaying debt obligations and replenishing reserve requirements.

Since completion of the forbearance agreement and USDA refinancing, the District has made full debt payments, repaid the entire obligation due to the reinsurance company and in January 2016 the District had fully replenished the water reserve account for the water revenue bonds, series 2006. Under the forbearance agreement, the District was allowed until 2023 to replenish the reserve account and until 2029 to repay the outstanding obligation. In addition, net cash flows for 2015 and 2014 exceeded the amounts projected in the approved plan. The District continues to benefit from increasing membership and is focusing on reducing costs in an effort to stabilize rates. Currently, the District is pursuing the option of calling the water revenue bonds, series 2006 and reissuing the outstanding debt at a lower interest rate.

Guided by prudent management practices, through economies of scale brought about by an increasing membership and by reducing cash required for annual debt payments, the District is positioning itself to improve affordability while meeting all necessary operating, capital and debt repayment obligations.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This report is designed to present our customers and creditors with a general overview of the District's finances and operating activities. If you have any questions or require additional information, please contact the Controller of the Xenia Rural Water District at (515) 676-2117 or 23998 - 141st Street, Bouton, Iowa 50039.

Basic Financial Statements

Xenia Rural Water District
Statement of Net Position
December 31, 2015 and 2014

	December 31,	
	2015	2014 (Not restated)
Assets		
Current assets:		
Cash, cash equivalents and pooled investments	\$ 5,367,809	8,915,557
Accounts receivable:		
Trade	1,566,602	1,993,506
Other	4,440	41,938
Prepaid expenses	66,024	75,765
Total current assets	7,004,875	11,026,766
Noncurrent assets:		
Note receivable	549,000	-
Inventory	244,718	236,648
Capital assets, net of accumulated depreciation/amortization	117,380,976	118,823,551
Restricted cash:		
USDA Rural Development water notes reserve fund	197,976	143,957
USDA Rural Development wastewater notes reserve fund	7,747	6,437
Water revenue bonds, series 2006 reserve fund	5,209,682	330,025
Total noncurrent assets	123,590,099	119,540,618
Total assets	130,594,974	130,567,384
Deferred Outflows of Resources		
Pension related deferred outflows	125,332	-
Total assets and deferred outflows of resources	\$ 130,720,306	130,567,384

Xenia Rural Water District
Statement of Net Position
December 31, 2015 and 2014

	December 31,	
	2015	2014 (Not restated)
Liabilities		
Current liabilities:		
Accounts payable:		
Trade	\$ 159,141	252,552
Assured Guaranty Corporation	1,675,483	1,675,483
Accrued payroll taxes, IPERS contribution and sales tax	46,899	45,895
Accrued payroll	44,717	41,049
Accrued compensated absences	74,687	46,746
Unearned revenue	12,720	12,720
Customer deposits	67,626	74,051
Sewer payables	41,873	42,949
Advances from others	7,500	7,500
Accrued interest payable:		
USDA Rural Development water revenue notes	68,333	69,600
Water revenue bonds, series 2006	286,374	295,311
Current portion of long-term debt	2,395,411	2,319,838
Total current liabilities	<u>4,880,764</u>	<u>4,883,694</u>
Noncurrent liabilities:		
Unearned revenue	356,160	368,880
Revenue notes payable	43,350,992	44,186,489
Revenue bonds payable	73,002,162	74,540,761
Assured Guaranty Corporation payable	-	2,519,867
Project anticipation notes payable	1,413,168	1,438,168
Net pension liability	972,470	-
Total noncurrent liabilities	<u>119,094,952</u>	<u>123,054,165</u>
Total liabilities	<u>123,975,716</u>	<u>127,937,859</u>
Deferred Inflows of Resources		
Pension related deferred inflows	102,113	-
Net position		
Restricted for debt service	5,415,405	480,419
Unrestricted	1,227,072	2,149,106
Total net position	<u>6,642,477</u>	<u>2,629,525</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 130,720,306</u>	<u>130,567,384</u>

See notes to financial statements.

Xenia Rural Water District

Statement of Revenues, Expenses and
Changes in Net Position

Years ended December 31, 2015 and 2014

	December 31,	
	2015	2014 (not restated)
Operating revenues:		
Water sales:		
Residential	\$ 9,389,027	8,883,224
Commercial	770,191	805,923
Industrial	2,532,632	2,567,461
Wholesale	399,808	380,290
Service charges	238,822	222,969
Contracted billing:		
Water	13,556	5,143
Wastewater	12,840	12,840
Water connection fees	431,362	385,704
Wastewater	76,079	74,510
Miscellaneous	3,368	2,815
Total operating revenues	13,867,685	13,340,879
Operating expenses:		
Provision for depreciation/amortization:		
Wastewater systems	24,919	24,551
Other	2,738,171	2,657,559
Salaries and wages	1,327,714	1,326,969
Purchased water	1,224,264	1,209,165
Professional fees	72,458	178,596
Utilities	339,199	339,181
Chemicals	234,803	247,553
Payroll taxes	100,891	106,606
General insurance	107,775	130,221
Employee benefits	245,932	260,495
Repair and maintenance	518,348	470,679
Wastewater operations	40,391	33,294
Fuel	86,862	132,316
Office expense	177,647	145,170
Postage and freight	4,603	7,817
Telephone	40,279	35,004
Vehicle repair and maintenance	92,138	66,230
Testing and lab	31,463	29,375
Licenses, dues and subscriptions	25,902	25,905
Miscellaneous	2,267	6,174
Bank fees and service charges	14,876	10,850

Xenia Rural Water District

Statement of Revenues, Expenses and
Changes in Net Position

Years ended December 31, 2015 and 2014

	December 31,	
	2015	2014 (not restated)
Operating expenses (continued):		
Continuing education	3,952	7,422
Mileage	894	2,668
Advertising and promotion	1,078	1,279
Directors' per diem	2,447	1,548
Meals and lodging	293	86
Total operating expenses	<u>7,459,566</u>	<u>7,456,713</u>
Operating income	<u>6,408,119</u>	<u>5,884,166</u>
Non-operating revenues (expenses):		
Customer water connection and relocation fees	46,699	5,089
Membership and termination fees	72,050	86,150
Investment gain	5,560	19,982
Interest expense	(4,396,945)	(4,473,920)
Rental income	9,000	9,000
CRP repayment	-	(12,356)
Gain on sale of capital assets	51,731	152,300
Miscellaneous	30	981
Gain (loss) on disposal of inventory	(988)	86
Sale of territory rights and capital assets	2,808,629	-
Net non-operating revenues (expenses)	<u>(1,404,234)</u>	<u>(4,212,688)</u>
Change in net position	5,003,885	1,671,478
Net position beginning of year, as restated	1,638,592	958,047
Net position end of year	<u>\$ 6,642,477</u>	<u>2,629,525</u>

See notes to financial statements.

Xenia Rural Water District

Statement of Cash Flows

Years ended December 31, 2015 and 2014

	December 31,	
	2015	2014 (Not restated)
Cash flows from operating activities:		
Cash received from customers	\$ 14,274,368	13,318,244
Cash payments to employees for services	(1,686,053)	(1,691,975)
Cash payments to suppliers for goods and services	(3,103,162)	(3,073,488)
Net cash provided by operating activities	<u>9,485,153</u>	<u>8,552,781</u>
Cash flows from capital and related financing activities:		
CRP repayment	-	(12,356)
Cash received from customer connection fees	46,699	5,089
Miscellaneous revenues	80,428	92,343
Proceeds from sale of territory rights and capital assets	2,392,706	114,150
Proceeds from sale of excess inventory	4,800	86
Acquisition and construction of capital assets	(1,377,569)	(859,694)
Principal paid on bonds and notes	(4,843,390)	(2,146,083)
Interest paid on bonds and notes	(4,407,149)	(4,444,785)
Net cash used by capital and related financing activities	<u>(8,103,475)</u>	<u>(7,251,250)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	794,047	604,372
Investment income (loss)	(2,186)	48,411
Net cash provided by investing activities	<u>791,861</u>	<u>652,783</u>
Net increase in cash and cash equivalents	2,173,539	1,954,314
Cash and cash equivalents beginning of year	<u>8,609,675</u>	<u>6,655,361</u>
Cash and cash equivalents end of year	10,783,214	8,609,675
Investments	-	786,301
Cash, cash equivalents and pooled investments end of year	<u>\$ 10,783,214</u>	<u>9,395,976</u>

Xenia Rural Water District

Statement of Cash Flows

Years ended December 31, 2015 and 2014

	December 31,	
	2015	2014 (Not restated)
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 6,408,119	5,884,166
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation/amortization – wastewater systems	24,919	24,551
Depreciation/amortization – other	2,738,171	2,657,559
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	426,904	(421,491)
Decrease (increase) in prepaid expenses	9,741	(8,089)
Increase in deferred outflows of resources	(23,429)	-
Increase (decrease) in accounts payable	(93,411)	13,586
Increase in accrued salaries and wages	3,668	7,496
Increase (decrease) in accrued payroll taxes, IPERS and sales tax	28,945	(3,853)
Increase (decrease) in unearned revenues	(12,720)	381,600
Increase in net pension liability	201,351	-
Increase in deferred inflows of resources	(219,604)	-
Increase (decrease) in customer deposits	(6,425)	1,510
Increase (decrease) in sewer payables	(1,076)	15,746
Total adjustments	3,077,034	2,668,615
Net cash provided by operating activities	\$ 9,485,153	8,552,781

See notes to financial statements.

Xenia Rural Water District
Notes to Financial Statements
December 31, 2015 and 2014

(1) Summary of Significant Accounting Policies

The Xenia Rural Water District was formed in 1992 pursuant to the provisions of Chapter 357A.2 of the Code of Iowa. The purpose of the District is to establish, develop, construct, operate and maintain water distribution and wastewater treatment systems for resident members throughout its territory in rural central and north-central Iowa. The District extends credit to customers served, all of whom are located in the State of Iowa.

The governing body of the District is composed of up to nine members, all of whom shall be participating members of the District. The Directors are elected by the participating members who each have one vote at the annual meeting. The Directors are elected to staggered terms so no more than three Directors are elected in any year. Directors hold office for a term of three years and until a successor is elected and has qualified.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the Xenia Rural Water District has included all funds, organizations, agencies, boards, districts and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The District has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of the District are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is the costs (expenses, including depreciation/amortization) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District distinguishes operating revenues from non-operating revenues. Operating revenues generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. All revenues not meeting this definition are reported as non-operating revenues.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

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

Cash, Cash Equivalents and Pooled Investments – The District considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and certificates of deposit which are stated at cost.

Restricted Cash – Funds set aside for payment of debt issuances are classified as restricted.

Accounts Receivable – The District recognizes bad debt expense on the direct write-off method.

Inventory – Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consist of parts for the assembly and repair of new and existing water systems. When inventory is used for capital projects, it is included as a cost of the related project. Excess inventory held for sale is stated at estimated realizable value.

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

Reportable capital assets are defined by the District as assets with initial, individual costs in excess of \$5,000 and estimated useful lives in excess of two years.

Capital assets of the District are depreciated/amortized using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Water system and wells	60
Wastewater systems	15 - 60
Intangibles, purchased capacity	40
Intangibles, software	3 - 5
Plant building	40
Office building and improvements	7 - 39
Equipment and tools	3 - 12
Transportation equipment	3 - 7
Office furniture and equipment	3 - 7

Deferred Outflows of Resources – Deferred outflows of resources represent a consumption of net position which applies to a future year(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the District after the measurement date but before the end of the District’s reporting period.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. The District’s liability for accumulated vacation has been computed based on rates of pay in effect at December 31, 2015 and 2014.

Unearned Revenue – The District enters into contractual agreements with other political subdivisions to sell treatment capacity to those entities. In exchange for purchasing treatment capacity, the political subdivisions will be able to purchase water at a lower wholesale water rate. At the beginning of the agreement, the purchaser makes a cash payment and the District records the amount as unearned revenue and then amortizes the amount into income over a period of 30 years. As of December 31, 2015, the District had \$368,880 of unearned revenue related to contractual agreements and has recognized \$12,720 of revenue during 2015. As of December 31, 2014, the District had not recognized any revenue related to the agreements.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees’ Retirement System (IPERS) and additions to/deductions from IPERS’ fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources – Deferred inflows of resources represents an acquisition of net position which applies to a future year(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

E. Bond Discounts

Bond discounts incurred on the water revenue bonds, series 2006 for the purpose of refunding outstanding obligations are amortized on the straight-line method over the life of the bonds. Bond discounts incurred for the purpose of funding capital projects are treated as a cost of the project and capitalized as a capital asset when the project was started, based on the project budget.

Amortization charged to interest expense for 2015 and 2014 was \$21,401 and \$21,400, respectively.

F. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Cash, Cash Equivalents and Pooled Investments

The District's deposits in banks at December 31, 2015 and 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to ensure there will be no loss of public funds.

The District 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 District; 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.

In addition, the District had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$424,344 pursuant to rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

(3) Sale of Territory Rights

The District holds exclusive rights and responsibilities to provide water service to customers within the District's territory. During the year ended December 31, 2015, the District reached agreements releasing these water service rights to other entities which wish to develop the designated areas. The following is a schedule of the proceeds received by the District from the sale of territory rights.

	<u>Sale of Territory Rights</u>
Hunziker Development Company	\$ 186,408
City of Waukee	2,050,000
Iowa State University Research Park	<u>609,922</u>
Subtotal	2,846,330
Book value of capital assets sold to the City of Waukee	<u>(37,701)</u>
Total	<u>\$ 2,808,629</u>

In October 2015, the District entered into two agreements with Hunziker Development Company (Hunziker). The two property areas are being annexed into the City of Ames and Hunziker wishes to use the City's water service for the properties. In order for the City to provide water service, the City requires undisputed rights. The agreements reached released the District's water service rights related to the properties and provided the District with two payments totaling \$186,408.

In October 2015, the District entered into an agreement with the City of Waukee. The City wishes to provide water service to the property. In order for the City to provide water service, the City requires undisputed rights. The agreement reached released the District's water service rights related to the property and provided the District with a payment of \$2,050,000. In addition to the release of rights, the agreement also included the City's purchase of certain District capital assets on the property. This includes the District's water supply system infrastructure, including piping, pumps and meters. The book value of the capital assets at the time of sale was \$37,701.

In February 2015, the District entered into an agreement with the Iowa State University Research Park (ISURP). The property areas are being annexed into the City of Ames and ISURP wishes to procure Ames water service to the property. In order for the City of Ames to provide water service, the City requires undisputed rights. The agreement reached releases the District's water service rights related to the property and included a promissory note requiring ISURP to pay the District \$609,922, plus interest on the unpaid principal balance at a rate of 2.75% per annum. The payment schedule requires a principal only payment of \$60,922 in February 2015, interest only payments of \$15,097 during calendar years 2016, 2017 and 2018 and annual principal and interest payments totaling \$100,506 beginning in February 2019 and continuing through February 2024.

The following is a schedule of the future payments to be received by the District.

Year Ending December 31,	Interest Rates	Principal	Interest	Total
2016	2.75%	\$ -	15,097	15,097
2017	2.75	-	15,097	15,097
2018	2.75	-	15,097	15,097
2019	2.75	85,408	15,098	100,506
2020	2.75	87,757	12,749	100,506
2021-2024	2.75	375,835	26,190	402,025
Total		\$ 549,000	99,328	648,328

(4) Capital Assets

Capital assets activity for the years ended December 31, 2015 and 2014 was as follows:

	Year ended December 31, 2015			
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated/amortized:				
Land	\$ 884,153	5,000	-	889,153
Construction in progress	186,757	1,005,944	(225,136)	967,565
Total capital assets not being depreciated/amortized	1,070,910	1,010,944	(225,136)	1,856,718
Capital assets being depreciated/amortized:				
Office building and improvements	3,399,563	-	-	3,399,563
Office furniture and equipment	256,060	14,435	(2,617)	267,878
Plant building	606,885	-	-	606,885
Wells	62,982	-	-	62,982
Wastewater systems	1,448,641	30,545	-	1,479,186
Water lines	136,235,747	194,591	(58,766)	136,371,572
Intangibles, purchased capacity	5,050,834	-	-	5,050,834
Intangibles, software	156,514	-	-	156,514
Telemetry system	608,416	-	-	608,416
Equipment and tools	1,706,639	338,332	(344,729)	1,700,242
Total capital assets being depreciated/amortized	149,532,281	577,903	(406,112)	149,704,072
Less accumulated depreciation/amortization for:				
Office building and improvements	1,169,250	126,083	-	1,295,333
Office furniture and equipment	214,795	14,557	(2,617)	226,735
Plant building	478,678	14,728	-	493,406
Wells	50,392	1,575	-	51,967
Wastewater systems	155,852	24,919	-	180,771
Water lines	25,932,610	2,261,330	(21,065)	28,172,875
Intangibles, purchased capacity	2,035,620	135,724	-	2,171,344
Intangibles, software	136,660	7,004	-	143,664
Telemetry system	287,626	31,496	-	319,122
Equipment and tools	1,318,157	145,674	(339,234)	1,124,597
Total accumulated depreciation/amortization	31,779,640	2,763,090	(362,916)	34,179,814
Total capital assets being depreciated/amortized, net	117,752,641	(2,185,187)	(43,196)	115,524,258
Capital assets, net	\$ 118,823,551	(1,174,243)	(268,332)	117,380,976

	Year ended December 31, 2014			
	Balance	Increases	Decreases	Balance
	Beginning			End
	of Year			of Year
Capital assets not being depreciated/amortized:				
Land	\$ 884,153	-	-	884,153
Construction in progress	159,941	347,414	(320,598)	186,757
Total capital assets not being depreciated/amortized	1,044,094	347,414	(320,598)	1,070,910
Capital assets being depreciated/amortized:				
Office building and improvements	3,336,629	64,334	(1,400)	3,399,563
Office furniture and equipment	296,744	-	(40,684)	256,060
Plant building	618,339	-	(11,454)	606,885
Wells	62,982	-	-	62,982
Wastewater systems	1,434,944	13,697	-	1,448,641
Water lines	135,993,180	242,567	-	136,235,747
Intangibles, purchased capacity	4,728,209	322,625	-	5,050,834
Intangibles, software	157,420	18,000	(18,906)	156,514
Telemetry system	602,706	5,710	-	608,416
Equipment and tools	1,938,362	183,908	(415,631)	1,706,639
Total capital assets being depreciated/amortized	149,169,515	850,841	(488,075)	149,532,281
Less accumulated depreciation/amortization for:				
Office building and improvements	1,045,371	125,279	(1,400)	1,169,250
Office furniture and equipment	241,371	14,108	(40,684)	214,795
Plant building	475,404	14,728	(11,454)	478,678
Wells	48,817	1,575	-	50,392
Wastewater systems	131,301	24,551	-	155,852
Water lines	23,654,530	2,278,080	-	25,932,610
Intangibles, purchased capacity	1,913,339	122,281	-	2,035,620
Intangibles, software	149,333	6,233	(18,906)	136,660
Telemetry system	255,961	31,665	-	287,626
Equipment and tools	1,670,178	63,610	(415,631)	1,318,157
Total accumulated depreciation/amortization	29,585,605	2,682,110	(488,075)	31,779,640
Total capital assets being depreciated/amortized, net	119,583,910	(1,831,269)	-	117,752,641
Capital assets, net	\$ 120,628,004	(1,483,855)	(320,598)	118,823,551

Depreciation/amortization expense charged to wastewater systems for 2015 and 2014 was \$24,919 and \$24,551, respectively. Depreciation/amortization expense charged to other operations for 2015 and 2014 was \$2,738,171 and \$2,657,559, respectively.

(5) Changes in Long Term Debt

A summary of changes in long-term debt for the years ended December 31, 2015 and 2014 is as follows:

Obligation	Year ended December 31, 2015				
	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
USDA Rural Development:					
Water revenue notes	\$ 44,760,753	-	(816,631)	43,944,122	832,058
Wastewater revenue note	245,574	-	(3,293)	242,281	3,353
Water revenue bonds, series 2006	76,040,761	-	(1,478,599)	74,562,162	1,560,000
Assured Guaranty Corporation	2,519,867	-	(2,519,867)	-	-
Project anticipation notes	1,438,168	-	(25,000)	1,413,168	-
Total	\$ 125,005,123	-	(4,843,390)	120,161,733	2,395,411

Obligation	Year ended December 31, 2014				
	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
USDA Rural Development:					
Water revenue notes	\$ 45,460,072	-	(699,319)	44,760,753	816,614
Wastewater revenue note	248,738	-	(3,164)	245,574	3,224
Water revenue bonds, series 2006	77,459,361	-	(1,418,600)	76,040,761	1,500,000
Assured Guaranty Corporation	2,519,867	-	-	2,519,867	-
Rural Community 2000 loan	20,000	-	(20,000)	-	-
Project anticipation notes	1,443,168	-	(5,000)	1,438,168	-
Total	\$ 127,151,206	-	(2,146,083)	125,005,123	2,319,838

Forbearance Agreement and Debt Restructuring – On March 28, 2013, the District completed a forbearance agreement with Assured Guaranty Corporation, the reinsurance company. The forbearance agreement was intended to provide structure to the District’s repayment schedule for outstanding debt obligations and replenishment of the reserve requirements for the water revenue bonds, series 2006 and the USDA Rural Development water revenue notes. The District has also agreed to future water rate increases necessary to meet debt service coverage requirements. The conditions of the forbearance agreement are included below.

USDA Rural Development Water Revenue Notes – The District had issued water revenue notes totaling \$47,281,900 at December 31, 2012. These water revenue notes, with various issue dates and interest rates ranging from 4.125% to 5.625% per annum, required monthly payments of \$196,946. The District has pledged future water customer receipts, net of specified operating disbursements, to repay the water revenue notes. The original notes were payable solely from water customer net receipts and were payable through 2049.

On March 29, 2013, the District issued water revenue refunding capital loan notes, taxable series 2013 to refund all outstanding USDA Rural Development water revenue notes retroactively to January 1, 2013. The agreement combined the outstanding principal of \$45,147,232 and \$350,235 of accrued interest at December 31, 2012, for a total of \$45,497,467. The notes have a stated interest rate of 1.875% per annum and required an interest only payment on January 1, 2014 of \$853,077. The interest payment was made on December 10, 2013, so \$37,395 was applied to the outstanding principal balance. Interest and principal payments of \$137,407 are due each month beginning on February 1, 2014, with a final maturity date of January 1, 2053.

At December 31, 2015 and 2014, the debt service coverage ratios of the revenues to debt service were 130% and 127%, respectively. At December 31, 2015 and 2014, the note balances totaled \$43,944,122 and \$44,760,753, respectively.

The resolution providing for the issuance of the water revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a water revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) A water reserve account shall be established. There shall annually be deposited to the water reserve account an amount equal to 10% of the water reserve account requirement. This account is restricted for the purpose of paying principal and interest when funds in the sinking account are inadequate.
- (d) An improvement account shall be established for the purpose of paying principal and interest when there is insufficient money in the sinking and reserve accounts and extraordinary maintenance and repair, as needed.
- (e) User rates or charges to consumers shall be sufficient in each year for the payment of the proper and reasonable expenses of operation and maintenance of the system, for the payment of principal and interest on the notes and for the establishment of adequate reserves.
- (f) At all times, persons handling money will be bonded for the faithful performance of their duties. The amount will not be less than the maximum amount of principal and interest coming due in any fiscal year on all obligations of the District.

The District has not deposited required amounts to the improvement account and the amount of surety bond coverage does not meet the minimum requirements of the note resolution.

USDA Rural Development Wastewater Revenue Note – On January 8, 2010, the District issued a \$260,000 wastewater revenue note, series 2010 for the purpose of paying the construction costs of a community-wide sanitary sewer collection and treatment system to serve the residents of Bouton. The note proceeds paid the outstanding principal of the \$260,000 project anticipation note from F & M Bank. The note bears interest at 4.00% per annum with monthly principal and interest payments of \$1,088. The note matures on January 8, 2050. At December 31, 2015 and 2014, the note balance totaled \$242,281 and \$245,574, respectively.

The District has pledged future wastewater customer receipts, net of specified operating disbursements, to repay the wastewater revenue note. The note is payable solely from wastewater customer net receipts and is payable through 2050. At December 31, 2015 and 2014, the debt service coverage ratios of net receipts to debt service were 114% and 200%, respectively.

The resolution providing for the issuance of the wastewater revenue note includes the following provisions:

- (a) The note will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a wastewater revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) A wastewater reserve account shall be established. Monthly payments of \$109 shall be deposited to the wastewater reserve account. This account is restricted for the purpose of paying principal and interest when funds in the sinking account are inadequate.
- (d) An improvement account shall be established for the purpose of paying principal and interest when there is insufficient money in the sinking and reserve accounts and extraordinary maintenance and repair, as needed.
- (e) User rates or charges to consumers shall be sufficient in each year for the payment of the proper and reasonable expenses of operation and maintenance of the system, for the payment of principal and interest on the note and for the establishment of adequate reserves.
- (f) At all times, persons handling money will be bonded for the faithful performance of their duties. The amount will not be less than the maximum amount of principal and interest coming due in any fiscal year on all obligations of the District.

The District has not deposited required amounts to the improvement account and the amount of surety bond coverage does not meet the minimum requirements of the note resolution.

Water Revenue Bonds – The District has pledged future water customer receipts, net of specified operating disbursements, to repay \$83,865,000 of water revenue bonds issued in November 2006. Proceeds from the bonds provided financing to refund certain outstanding USDA Rural Development water revenue notes, lease purchase obligation agreements and water revenue capital loan notes and pay the costs of improvements and extensions to the District’s water system. The bonds are payable solely from water customer net receipts and are payable through 2041. The total principal remaining to be paid on the bonds at December 31, 2015 is \$75,115,000. At December 31, 2015 and 2014, the debt service coverage ratios of the net receipts (excluding connection fees) to debt service were 130% and 127%, respectively.

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holder holds a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a water revenue bond sinking account for the purpose of making the bond principal and interest payments when due.

- (c) A water reserve account shall be established. This account is restricted for the purpose of paying principal and interest when funds in the sinking account are inadequate.
- (d) An improvement account shall be established for the purpose of paying principal and interest when there is insufficient money in the sinking and reserve accounts and extraordinary maintenance and repair, as needed.
- (e) User rates or charges to consumers shall be sufficient in each year for the payment of the proper and reasonable expenses of operation and maintenance of the system, for the payment of principal and interest on the bonds and for the establishment of adequate reserves.
- (f) At all times, persons handling money will be bonded for the faithful performance of their duties. The amount will not be less than the maximum amount of principal and interest coming due in any fiscal year on all obligations of the District.

The District has not maintained the required balance in the water reserve account, has not deposited required amounts to the improvement account and the amount of surety bond coverage does not meet the minimum requirements of the bond resolution.

Assured Guaranty Corporation – In July 2012, CIFG Assurance North America, Inc. (CIFG NA), the bond insurer, and Assured Guaranty Corporation, the reinsurance company, reached a settlement where the water revenue bonds, series 2006 guarantee, including principal and interest payments of \$1,329,936 made by CIFG NA in 2010, was assumed by Assured Guaranty Corporation under the Quota Share Reinsurance Agreement dated January 21, 2009. During 2011, Assured Guaranty Corporation paid the District's deficiency of \$1,110,644 of principal payments on the water revenue bonds, series 2006. Total principal and interest of \$2,440,580 paid by the reinsurance company continued to accrue interest, which totaled \$79,287, for a total outstanding balance of \$2,519,867.

The District entered in a forbearance agreement which, among other things, addressed the repayment of the outstanding balance owed to Assured Guaranty Corporation. The deficiency payments were to be paid semi-annually through December 1, 2029. The first nine years required interest only payments. The outstanding balance at December 31, 2014 was \$2,519,867. During fiscal year 2015, the District made a payment to retire the entire outstanding debt obligation.

Project Anticipation Notes – In 2006, the District entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. (Trustee for the issuance of planning and design loans.) The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the costs of planning, designing and constructing improvements and extensions to the water system. The funds were drawn by the District from the Trustee upon request to reimburse the District for costs as they were incurred. The District has drawn \$1,468,168. The District decided not to move forward with the projects and received approval from the Iowa Finance Authority to extend the maturity date from October 16, 2009 to October 16, 2010 and then to October 16, 2011.

As a condition of the forbearance agreement, the District refinanced the project anticipation notes due to the Iowa Finance Authority. The refinanced project anticipation notes are interest free and are due in full on January 1, 2032. The District made principal payments of \$25,000 and \$5,000 during the years ended December 31, 2015 and 2014, respectively, reducing the outstanding principal balance to \$1,413,168 at December 31, 2015.

A summary of the annual principal and interest payments to maturity is as follows:

USDA Rural Development									
Year Ending December 31,	Water Revenue Refunding Capital Loan Notes			Wastewater Revenue Notes			Water Revenue Bonds, Series 2006		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 832,058	816,826	1,648,884	3,353	9,703	13,056	1,560,000	3,436,487	4,996,487
2017	847,794	801,090	1,648,884	3,487	9,569	13,056	1,620,000	3,374,087	4,994,087
2018	863,827	785,057	1,648,884	3,626	9,430	13,056	1,700,000	3,293,088	4,993,088
2019	880,164	768,720	1,648,884	3,771	9,285	13,056	1,775,000	3,220,838	4,995,838
2020	896,810	752,074	1,648,884	3,922	9,134	13,056	1,850,000	3,145,400	4,995,400
2021-2025	4,744,962	3,499,458	8,244,420	22,094	43,186	65,280	10,580,000	14,396,513	24,976,513
2026-2030	5,210,940	3,033,480	8,244,420	26,881	38,399	65,280	13,140,000	11,835,256	24,975,256
2031-2035	5,722,679	2,521,741	8,244,420	32,705	32,575	65,280	16,550,000	8,573,963	25,123,963
2036-2040	6,284,674	1,959,746	8,244,420	39,790	25,490	65,280	21,345,000	4,278,463	25,623,463
2041-2045	6,901,859	1,342,561	8,244,420	48,411	16,866	65,277	4,995,000	230,300	5,225,300
2046-2050	7,579,654	664,766	8,244,420	54,241	6,381	60,622	-	-	-
2051-2053	3,178,701	61,427	3,240,128	-	-	-	-	-	-
Total	\$ 43,944,122	17,006,946	60,951,068	242,281	210,018	452,299 *	75,115,000	55,784,394	130,899,394

Year Ending December 31,	Project Anticipation Notes			Total		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ -	-	-	2,395,411	4,263,016	6,658,427
2017	-	-	-	2,471,281	4,184,746	6,656,027
2018	-	-	-	2,567,453	4,087,575	6,655,028
2019	-	-	-	2,658,935	3,998,843	6,657,778
2020	-	-	-	2,750,732	3,906,608	6,657,340
2021-2025	-	-	-	15,347,056	17,939,157	33,286,213
2026-2030	-	-	-	18,377,821	14,907,135	33,284,956
2031-2035	1,413,168	-	1,413,168	23,718,552	11,128,279	34,846,831
2036-2040	-	-	-	27,669,464	6,263,699	33,933,163
2041-2045	-	-	-	11,945,270	1,589,727	13,534,997
2046-2050	-	-	-	7,633,895	671,147	8,305,042
2051-2052	-	-	-	3,178,701	61,427	3,240,128
Total	\$ 1,413,168	-	1,413,168	120,714,571	73,001,358	193,715,929

* - The unamortized discount on the water revenue bonds, series 2006 at December 31, 2015 and 2014 totaled \$552,838 and \$574,239, respectively.

(6) Pension Plan

December 31, 2015

Plan Description - IPERS membership is mandatory for employees of the District, except for those covered by another retirement system. Employees of the District are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member’s years of service plus the member’s age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member’s first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member’s monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member’s highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member’s monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member’s earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member’s lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member’s beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member’s accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS’ Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1%. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the “entry age normal” actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the District contributed 8.93% for a total rate of 14.88%.

The District’s contributions to IPERS for the year ended December 31, 2015 were \$122,493.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At December 31, 2015, the District reported a liability of \$972,470 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the District's proportion was 0.0196837%, which was a decrease of 0.000240% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the District recognized pension expense of \$87,898. At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 14,693	-
Changes of assumptions	26,775	-
Net difference between projected and actual earnings on pension plan investments	-	80,935
Changes in proportion and differences between District contributions and its proportionate share of contributions	22,302	21,178
District contributions subsequent to the measurement date	61,562	-
Total	<u>\$ 125,332</u>	<u>102,113</u>

\$61,562 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2016	\$ (28,250)
2017	(28,250)
2018	(28,250)
2019	44,552
2020	1,855
Total	<u>\$ (38,343)</u>

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 1,702,620	972,470	356,171

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to IPERS - At December 31, 2015, the District reported payables to IPERS of \$9,327 for legally required District contributions and \$6,214 for legally required District contributions which had been withheld from employee wages but not yet remitted to IPERS.

December 31, 2014 and 2013

The District contributes to the Iowa Public Employees' Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report which includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members were required to contribute 5.95% of their annual covered salary. The District was required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended December 31, 2014 and 2013 were \$106,205 and \$109,584, respectively, equal to the required contributions for each year.

(7) Risk Management

The District 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. The District assumes liability for any deductibles and claims in excess of coverage limitations.

(8) Major Customers

Water sales revenue to three ethanol plants was \$2,532,632 and \$2,567,461 for the years ended December 31, 2015 and 2014, respectively. This represents 18.3% and 19.1% of total operating revenues for each year, respectively. The balances due from these customers and included in accounts receivable-trade were \$185,844 and \$204,971 at December 31, 2015 and 2014, respectively.

(9) Leases

The District leases land to a farm tenant, with lease terms of April 2012 through September 2019. The District's investment in property subject to the lease was \$575,265 at December 31, 2015 and 2014. The land is enrolled in the U.S. Department of Agriculture Farm Service Agency Conservation Reserve Program (CRP). The District had an agreement in place with the farm tenant to receive 50% of the tenant's CRP payment, which amounted to \$6,178 annually and was received by the District through fiscal year 2013. In April 2014, the District was notified by the U.S. Department of Agriculture (USDA) it was not eligible to receive CRP funding. The USDA requested the CRP funds collected by the District in years 2012 and 2013 be repaid. The District repaid \$12,356 during the year ended December 31, 2014. The farm tenant now receives and retains the CRP payment.

(10) Compensated Absences

District employees accumulate a limited amount of earned but unused vacation leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as expenses by the District until used or paid. The District's liability for earned vacation payable to employees at December 30, 2015 and 2014 was \$74,687 and \$46,746, respectively. This liability has been computed based on rates of pay in effect at December 31, 2015 and December 31, 2014, respectively.

(11) Assured Guaranty Corporation – Contingent Liability

The District's financial statements for the years ended December 31, 2015 and December 31, 2014 include a liability payable to Assured Guaranty Corporation, the reinsurance company, of \$1,675,483. This liability consists of unpaid legal fees and expenses incurred by Assured Guaranty Corporation. As part of the forbearance agreement, Assured Guaranty Corporation agreed to waive, but not forgo, the reimbursement of these expenses by the District. If no termination events occur prior to December 1, 2019 and each December 1 thereafter for 10 years, Assured Guaranty Corporation will permanently forgo 1/10th of the amount due each year.

(12) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB Statement No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. Beginning net position was restated to retroactively report the beginning net pension liability, deferred outflows of resources and deferred inflows of resources, as follows:

	<u>Net Position</u>
Net position December 31, 2014, as previously reported	\$ 2,629,525
Net pension liability at December 31, 2014	(771,119)
Deferred inflows of resources:	
Related to the net difference between projected and actual investment earnings	(294,083)
Related to the change in proportion and difference between the District's proportionate share of contributions	(27,634)
Deferred outflows of resources:	
Related to difference between expected and actual experience	8,381
Related to change in assumptions	34,031
Related to prior year contributions made after the June 30, 2014 measurement date	59,491
Net position January 1, 2015, as restated	<u>\$ 1,638,592</u>

Required Supplementary Information

Xenia Rural Water District

Xenia Rural Water District

Schedule of the District's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
Last Fiscal Year*
(In Thousands)

Required Supplementary Information

	<u>2015</u>
District's proportion of the net pension liability	0.0196837%
District's proportionate share of the net pension liability (asset)	\$ 972
District's covered-employee payroll	\$ 1,391
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	69.88%
Plan fiduciary net position as a percentage of the total pension liability	85.19%

* The amounts presented for each fiscal year were determined as of June 30.

See accompanying independent auditor's report.

Xenia Rural Water District
 Schedule of District Contributions
 Iowa Public Employees' Retirement System
 Last Ten Fiscal Years
 (In Thousands)

Required Supplementary Information

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	\$ 122	121	106	110
Contributions in relation to the statutorily required contribution	<u>(122)</u>	<u>(121)</u>	<u>(106)</u>	<u>(110)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 1,379	1,391	1,247	1,341
Contributions as a percentage of covered-employee payroll	8.85%	8.70%	8.50%	8.20%

See accompanying independent auditor's report.

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
109	106	182	305	236	196
<u>(109)</u>	<u>(106)</u>	<u>(182)</u>	<u>(305)</u>	<u>(236)</u>	<u>(196)</u>
-	-	-	-	-	-
1,494	1,692	2,950	5,073	4,168	3,502
7.30%	6.26%	6.17%	6.01%	5.66%	5.60%

Xenia Rural Water District

Notes to Required Supplementary Information – Pension Liability

Year ended June 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25% to 4.00%.
- Lowered the inflation assumption from 3.50% to 3.25%.
- Lowered disability rates for sheriffs, deputies and protection occupation members.

Xenia Rural Water District



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

To the Members of the
Xenia Rural Water District:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the Xenia Rural Water District as of and for the years ended December 31, 2015 and 2014, and the related Notes to Financial Statements, and have issued our report thereon dated June 1, 2016.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Xenia Rural Water District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item (A) to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item (B) to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Xenia Rural Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of non-compliance required to be reported under Government Auditing Standards, which is described as item (C) in the accompanying Schedule of Findings. We also noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended December 31, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Xenia Rural Water District's Responses to the Findings

The Xenia Rural Water District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Xenia Rural Water District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 1, 2016

Xenia Rural Water District
Schedule of Findings
Year ended December 31, 2015

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The initial receipt collection is done by an employee who has the ability to post collections and make adjustments to customer accounts.

Additionally, the employee responsible for reconciling is able to post adjustments to the customer accounts receivable ledger and has access to original customer checks electronically deposited to the bank.

Recommendation - The District should review its operating procedures to obtain the maximum internal control possible under the circumstances, including utilizing members of the Board of Directors.

Response - The District has limited staff available for billing, collections and accounting responsibilities which limits the District's ability to implement ideal internal control measures. However, measures are taken to reduce the internal control risks inherent to a limited staff. A physical receipt is provided to customers who pay at the office, which is reconciled to the cash drawer, limiting the opportunity for theft of cash. The employee tasked with reconciling does not have access to cash and journal entries made by this employee are reviewed by management. The District will continue to review and monitor its internal control policies in an effort to maximize internal control effectiveness with its limited staff.

Conclusion - Response accepted.

- (B) Inventory - The District maintains an inventory of parts for the assembly and repair of new and existing water systems. The inventory is easily accessible to all employees and the inventory duties are not properly segregated. The individuals who are responsible for the District's inventory also perform the annual inventory counts. Inventory tracking sheets are to be completed daily, but are not always accurate and there is no evidence of review by those responsible for the inventory documented on the sheets.

Recommendation - The District should develop procedures to ensure the inventory is properly safeguarded and accurately tracked. The review of the daily tracking sheets should be documented by those responsible for the inventory. Also, a person who does not have responsibility for inventory should perform the inventory counts.

Response - Due to the nature of the District's operations, operations personnel are granted access to inventoried parts. In an effort to minimize travel, operations personnel carry parts in their vehicles rather than driving back to District headquarters as parts are needed. Operations personnel are always on call, therefore parts at headquarters must be accessible for emergency repair situations at all hours.

Each inventoried part is counted on a monthly, quarterly or annual basis determined based on the frequency the part is purchased/used. Multiple employees knowledgeable of the parts are involved in the physical inventory county which mitigates the risk of staff covering up theft by requiring collusion among all staff involved in the physical count.

Xenia Rural Water District
Schedule of Findings
Year ended December 31, 2015

The District's management continues to review the shortcomings of internal controls for inventory and how to better safeguard inventoried parts and ensure they are properly accounted for and allocated once placed in service.

Conclusion – Response accepted.

INSTANCE OF NON-COMPLIANCE:

- (C) Long Term Notes, Bonds and Loans – Instances of non-compliance with the water and wastewater revenue note resolutions and the water revenue bond resolution were noted, as follows

The District did not meet the minimum balance requirements or make adequate transfers to the water revenue bond, water and wastewater revenue note improvement accounts according to the water revenue bond resolution and the water and wastewater revenue note resolutions.

The District did not meet the minimum balance requirements or make adequate transfers to the water revenue bond reserve account according to the water revenue bond resolution.

While the District maintains surety bond coverage for employee theft, the amount of coverage does not meet the note and bond resolution requirements.

Recommendation – The District should review the note and bond provisions and comply with the requirements. Also, the District should consult legal counsel to resolve these matters.

Response – The District signed a forbearance agreement with Assured Guaranty Corporation on March 28, 2013 and refinanced all water service notes held by USDA on March 29, 2013. Under both of these contracts, the District has been allowed a grace period for replenishing the reserve funds for both the Series 2006 bonds and the USDA water revenue notes. As of January 2016, the District has fully replenished the water revenue bond reserve in accordance with the bond resolution.

The Improvement Fund has not been funded due to the cash balance available in the Revolving Fund, which is available exclusively for water service capital expenditures. The cash currently available in the Revolving Fund is sufficient to meet all of the District's current capital improvement needs. In the future as cash needs arise, cash will be transferred from the Surplus Fund to the Improvement Fund to meet those needs.

Each year, the District has approached the market in an effort to maintain the surety bond coverage requirements, but such coverage has proven unobtainable.

Conclusion – Response accepted.

Xenia Rural Water District
Schedule of Findings
Year ended December 31, 2015

Other Findings Related to Required Statutory Reporting:

- (1) Questionable Disbursements – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General opinion dated April 25, 1979 were noted.
- (2) Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted.
- (3) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (4) Deposits and Investments – Deposits and investments were in compliance with Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- (5) Water and Wastewater Revenue Notes and Water Revenue Bonds – Instances of non-compliance with the water and wastewater revenue note and the water revenue bond resolutions are detailed in item (C).

Xenia Rural Water District
Schedule of Findings
Year ended December 31, 2015

(6) Other Information Required by the Bond Resolution –

Insurance – The following insurance policies were in force at December 31, 2015:

Insurer	Description	Amount	Expiration Date
EMC Insurance Companies	Property:		
	Blanket: Buildings and personal property	\$32,134,684	5/1/16
	Extra expense	75,000	5/1/16
	Contractors equipment	540,236	5/1/16
	Leased contractors equipment	300,000	5/1/16
	Miscellaneous property - radios	26,600	5/1/16
	Data processing - equipment and software	132,500	5/1/16
	Off-site tools and equipment:		
	Per installation site	50,000	5/1/16
	Property temporarily off premises	20,000	5/1/16
	Property in transit	40,000	5/1/16
EMC Insurance Companies	General liability coverage:		
	General aggregate	2,000,000	5/1/16
	Products general liability	2,000,000	5/1/16
	Personal and/or advertising	1,000,000	5/1/16
	Each occurrence	1,000,000	5/1/16
	Fire damage	100,000	5/1/16
	Medical expense	5,000	5/1/16
EMC Insurance Companies	Automobile coverage:		
	Liability	1,000,000	5/1/16
	Medical payments	1,000	5/1/16
	Uninsured motorists	100,000	5/1/16
	Underinsured motorists	100,000	5/1/16
Liberty Mutual Workers Comp Group	Workers' compensation:		
	Employee liability limit	1,000,000	5/1/16
EMC Insurance Companies	Commercial umbrella:		
	Policy aggregate	5,000,000	5/1/16
EMC Insurance Companies	Public officials errors and omissions:		
	Liability aggregate limit	3,000,000	5/1/16
	Additional Side A limit	1,000,000	5/1/16
	EPL aggregate limit	1,000,000	5/1/16
	Maximum aggregate	4,000,000	5/1/16
EMC Insurance Companies	Fidelity coverage:		
	Per loss - Employee dishonesty	1,000,000	5/1/16
	Per loss deductible	10,000	5/1/16
EMC Insurance Companies	Employee benefit liability:		
	Each loss from administrative errors	1,000,000	5/1/16
	Aggregate	2,000,000	5/1/16

Xenia Rural Water District
 Schedule of Findings
 Year ended December 31, 2015

Water Rates – The following water rates were in effect at December 31, 2015:

<u>RESIDENTIAL/COMMERCIAL</u>	<u>Gallons</u>	<u>Rate</u>
Rural 5/8" meter (non-franchise users):		
Minimum	0-1,000	\$63.30
Steps	per 1,000 after minimum	\$12.60 to \$5.30
Franchise 5/8" to 2"		
Minimum	0-1,000	\$47.50 to \$380.00
Steps	per 1,000 after minimum	\$9.50
City of Boone contracted rate:		
Minimum	0-1,000	\$8.49
Steps	per 1,000 after minimum	\$4.45 to \$7.25
3/4" meter:		
Minimum	0-1,000	\$126.70
Steps	per 1,000 after minimum	\$12.60 to \$5.30
1" meter:		
Minimum	0-1,000	\$190.00
Steps	per 1,000 after minimum	\$12.60 to \$5.30
1 1/2" meter:		
Minimum	0-1,000	\$316.60
Steps	per 1,000 after minimum	\$5.30
2" meter or 6" meter:		
Minimum	0-1,000	\$506.60
Steps	per 1,000 after minimum	\$5.30
<u>INDUSTRIAL</u>	fixed cost	\$14,631.00 to \$67,228.00
	per 1,000 after minimum	\$2.86 to \$1.77
<u>WHOLESALE</u>	no minimum/per 1,000 charge	\$7.87 to \$1.80

Statistical Information

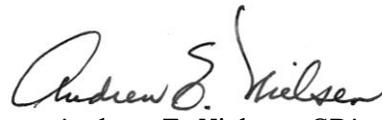
Description	Number
Residential	9,341
Commercial	350
Industrial	4
Wholesale	10
Total	<u>9,705</u>

Xenia Rural Water District

Staff

This audit was performed by:

Tammy A. Hollingsworth, CIA, Manager
Stephen J. Hoffman, Senior Auditor
Anthony M. Heibult, Staff Auditor
Dan S. Nilsen, Staff Auditor
Jesse J. Probasco, CPA, Staff Auditor
Alison C. Anker, Assistant Auditor
Preston R. Grygiel, Assistant Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State