OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

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Des Moines, Iowa 50319-0004

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NEWS RELEASE

Contact: Andy Nielsen
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FOR RELEASE May 17, 2017

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

The District had total revenues of $16,625,887 for the year ended December 31, 2016 a 1.4% decrease from the prior year. Revenues included water sales of $13,673,746 and water connection fees of $479,332. The decrease in revenues was primarily due to a decrease in the sale of territory rights and capital assets of $2,573,933 from the prior year and increases in the gain on forgiveness of a liability of $1,675,483 and an increase in residential water sales of $485,775 over the prior year.

Expenses totaled $13,796,283 for the year ended December 31, 2016 a 16.4% increase over the prior year. Expenses included $4,782,242 of interest, $2,844,321 of depreciation/amortization and $1,376,525 for purchased water. The increase in expenses was due primarily to increased interest expense and bond issuance costs.

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/1633-0037-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, 2016 and DECEMBER 31, 2015

1633-0037-B000

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Xenia Rural Water District

Officials

Name	Title	Term Expires
	(Before April 2016)	
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
	(After April 2016)	
Dan Lovett	Chair	Apr 2017
Troy Wilson	Vice Chair	Apr 2019
Gary Becker	Treasurer	Apr 2019
Amy Kahler	Secretary	Apr 2018
Jerry Carris	Director	Apr 2017
Mike Schrum	Director	Apr 2018
Peter Jensen	Director	Apr 2019
Gary Benjamin	General Manager	Indefinite
Gary Andrews	Controller	Indefinite

Xenia Rural Water District

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Mary Mosiman, CPA
Auditor of State

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, 2016 and 2015, and the related Notes to Financial Statements listed in the table of contents.

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, 2016 and 2015, 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.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 10, 2017 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

MARY MOSIMAN, CPA
Auditor of State

May 10, 2017

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’s net position increased 42.6%, or $2,829,604, over the December 31, 2015 balance and increased 305.4%, or $5,003,885, over the restated December 31, 2014 balance. The increase was the result of operations, sale of territory rights and other gains or losses in the respective years.

- Operating revenues increased 4.5%, or $626,890, in 2016. Operating revenues in 2015 increased $526,806, or 3.9%, over 2014. The increases in operating revenues resulted from rate increases.

- Operating expenses increased 4.4%, or $329,549, in 2016 due to several factors, including higher depreciation/amortization and an increase in purchased water. Operating expenses in 2015 increased $2,853, or 0.04%, from 2014 because of higher depreciation/amortization and 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 2016 totaled $9,472,081. This compares to $6,642,477 at the end of 2015 and $2,629,525 at the end of 2014. A summary of the District's net position is presented below.

Net Position

	December 31,		
	2016	2015	2014 (Not restated)
Current assets	$ 8,685,799	7,004,875	11,026,766
Capital assets, net of accumulated depreciation/amortization	116,095,462	117,380,976	118,823,551
Other noncurrent assets	5,816,421	6,209,123	717,067
Total assets	130,597,682	130,594,974	130,567,384
Deferred outflows of resources	916,945	125,332	-
Current liabilities	3,196,834	4,880,764	4,883,694
Noncurrent liabilities	118,716,385	119,094,952	123,054,165
Total liabilities	121,913,219	123,975,716	127,937,859
Deferred inflows of resources	29,327	102,113	-
Net position:			
Restricted	5,018,908	5,415,405	480,419
Unrestricted	4,453,173	1,227,072	2,149,106
Total net position	$ 9,472,081	6,642,477	2,629,525

Net position increased $2,829,604 during the year ended December 31, 2016 and increased $4,012,952, prior to the restatement, during the year ended December 31, 2015. The increase in net position is primarily the result of increased operating revenues due to rate increases and increased water connection fees, increased operating expenses due to higher depreciation/amortization, purchased water costs and wastewater operations expenses, decreased nonoperating revenues due to the net of a gain on the forgiveness of the Assured Guaranty Corporation liability and a decrease in the sale of territory rights and capital assets and increased nonoperating expenses due to bond issuance costs related to refunding bonds issued. The increase in net position in 2015 was due primarily to rate increases and increased water connection fees, increased nonoperating revenues due to the sale of territory rights, increased custom water connection and relocation fees and decreased nonoperating expenses, primarily lower interest expense.

Total liabilities of the District were $121,913,219 and $123,975,716 at December 31, 2016 and 2015, respectively. Noncurrent liabilities included in total liabilities were $118,716,385 and $119,094,952 at December 31, 2016 and 2015, respectively. Total liabilities decreased $2,062,497 in 2016 and decreased $3,962,143 in 2015. The decrease in liabilities at December 31, 2016 was the result of 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, 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.

A significant portion of the District's total assets, 89% and 90%, were invested in capital assets at December 31, 2016 and 2015, 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,		
	2016	2015	2014 (Not restated)
Operating revenues	$ 14,494,575	13,867,685	13,340,879
Operating expenses	(7,789,115)	(7,459,566)	(7,456,713)
Operating income	6,705,460	6,408,119	5,884,166
Nonoperating revenues	2,131,312	2,993,699	273,588
Nonoperating expenses	(6,007,168)	(4,397,933)	(4,486,276)
Change in net position	$ 2,829,604	5,003,885	1,671,478

The Statement of Revenues, Expenses and Changes in Net Position reflects an increase in net position in 2016, 2015 and 2014.

Year ended December 31, 2016:

The change in net position in 2016 was a result of the following: 1) Total operating revenues increased 4.5% over the prior year because of water rate increases and increased water connection fees. The District's water revenue of $13,673,746 increased 4.4% over 2015. In January 2016, a water rate increase went into effect for all users. 2) Non-operating revenues decreased 28.8% from 2015. The decrease was a result of the net of gain on the forgiveness of the Assured Guaranty Corporation liability of $1,675,483 and a decrease in the sale of territory rights and capital assets of $2,573,933. 3) Total operating expenses increased due to higher depreciation/amortization, purchased water costs and wastewater operations expenses. 4) Nonoperating expenses increased due to bond issuance costs of $1,143,513 related to the refunding bonds issued.

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%.

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, refunding debt proceeds 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,		
	2016	2015	2014 (Not restated)
Cash flows provided (used) by:			
Operating activities	$ 9,026,770	9,485,153	8,552,781
Capital and related financing activities	(7,880,357)	(8,103,475)	(7,251,250)
Investing activities	26,103	791,861	652,783
Net increase in cash and cash equivalents	1,172,516	2,173,539	1,954,314
Cash and cash equivalents beginning of year	10,783,214	8,609,675	6,655,361
Cash and cash equivalents end of year	11,955,730	10,783,214	8,609,675
Investments	-	-	786,301
Cash, cash equivalents and pooled investments end of year	$ 11,955,730	10,783,214	9,395,976

CAPITAL ASSETS

The following summarizes the District's capital assets:

	December 31,		
	2016	2015	2014
Nondepreciable/amortizable capital assets	$ 1,878,131	1,856,718	1,070,910
Depreciable/amortizable capital assets	145,841,091	144,496,724	144,324,933
Intangible assets	5,212,348	5,207,348	5,207,348
Accumulated depreciation/amortization	(36,836,108)	(34,179,814)	(31,779,640)
Total capital assets, net of accumulated depreciation/amortization	$ 116,095,462	117,380,976	118,823,551

Capital assets, net of accumulated depreciation/amortization, (including water lines, equipment and buildings) of the District were $116,095,462 and $117,380,976 at December 31, 2016 and 2015, respectively. This is a net decrease of $1,285,514 during the year ended December 31, 2016. 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 $988,978 and $967,565 at December 31, 2016 and 2015, 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, 2016	2015	2014
Revenue notes	$ 43,350,899	44,186,403	45,006,327
Revenue bonds	74,001,438	74,562,162	76,040,761
Assured Guaranty Corporation	-	-	2,519,867
Project anticipation notes	1,388,168	1,413,168	1,438,168
Total	$ 118,740,505	120,161,733	125,005,123

In 2016, the District repaid $832,076 of principal on USDA Rural Development water revenue notes, $3,428 of principal on USDA Rural Development wastewater revenue notes and $25,000 of project anticipation notes. In September 2016, the District issued $63,315,000 of water revenue refunding bonds, Series 2016, to refund the water revenue bonds, Series 2006. The bonds were issued at premium of $10,821,841, for a total of $74,136,841.

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.

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 2016 resolution. Debt service coverage on the scheduled water parity debt payments of the District was 136% at December 31, 2016 and 130% at December 31, 2015. Covenants of the water revenue bonds, series 2016 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 refunding bonds, series 2016 cash balance requirement for the restricted reserve is $4,704,000, while the water revenue bonds, series 2006, cash balance requirement for the restricted reserve was $5,225,300. At December 31, 2016, the balance of the restricted cash water revenue refunding bonds, Series 2016 reserve was $4,712,274 and at December 31, 2015, the balance of the restricted cash water revenue bonds, Series 2006 reserve was $5,209,682. 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, 2016 and 2015, the balance of the restricted cash, USDA water notes reserve was $297,576 and $197,976, 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.

In September 2016, the District issued $63,315,000 of water revenue refunding bonds, Series 2016, to refund the water revenue bonds, Series 2006. The bonds were issued at premium of $10,821,841, for a total of $74,136,841. Since completion of the forbearance agreement, USDA refinancing and refunding of the water revenue bonds, the District has made full debt payments, repaid the entire obligation due to the reinsurance company and has fully restricted the cash balance of the water reserve account for the water revenue bonds, series 2016.

The District continues to benefit from increasing membership and is focusing on reducing costs in an effort to stabilize rates. For fiscal year 2017, the District has approved keeping rates unchanged from the fiscal year 2016 approved rates.

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, 2016 and 2015

	December 31,		
		2016	2015
Assets			
Current assets:			
Cash, cash equivalents and pooled investments	$	6,936,822	5,367,809
Accounts receivable:			
Trade		1,707,229	1,566,602
Other		-	4,440
Prepaid expenses		41,748	66,024
Total current assets		8,685,799	7,004,875
Noncurrent assets:			
Note receivable		549,000	549,000
Inventory		248,513	244,718
Capital assets, net of accumulated depreciation/amortization		116,095,462	117,380,976
Restricted cash:			
USDA Rural Development water notes reserve fund		297,576	197,976
USDA Rural Development wastewater notes reserve fund		9,058	7,747
Refunding water revenue bonds, series 2016 reserve fund		4,712,274	-
Water revenue bonds, series 2006 reserve fund		-	5,209,682
Total noncurrent assets		121,911,883	123,590,099
Total assets		130,597,682	130,594,974
Deferred Outflows of Resources			
Deferred outflows related to debt refunding losses	$	531,438	-
Pension related deferred outflows		285,507	125,332
Total deferred outflows of resources		816,945	125,332
Total assets and deferred outflows of resources	$	131,414,627	130,720,306

Xenia Rural Water District

Statement of Net Position

December 31, 2016 and 2015

	December 31,	
Liabilities	2016	2015
Current liabilities:		
Accounts payable:		
Trade	$ 279,598	159,141
Assured Guaranty Corporation	-	1,675,483
Accrued payroll taxes, IPERS contribution and sales tax	49,419	46,899
Accrued payroll	54,246	44,717
Accrued compensated absences	67,921	74,687
Unearned revenue	12,720	12,720
Customer deposits	61,940	67,626
Sewer payables	41,025	41,873
Advances from others	-	7,500
Accrued interest payable:		
USDA Rural Development water revenue notes	67,042	68,333
Refunding water revenue bonds, series 2016	971,642	286,374
Current portion of long-term debt	1,591,281	2,395,411
Total current liabilities	3,196,834	4,880,764
Noncurrent liabilities:		
Unearned revenue	343,440	356,160
Revenue notes payable	42,499,616	43,350,992
Revenue bonds payable	73,261,438	73,002,162
Project anticipation notes payable	1,388,168	1,413,168
Net pension liability	1,223,723	972,470
Total noncurrent liabilities	118,716,385	119,094,952
Total liabilities	121,913,219	123,975,716
Deferred Inflows of Resources		
Pension related deferred inflows	29,327	102,113
Net position		
Restricted for debt service	5,018,908	5,415,405
Unrestricted	4,453,173	1,227,072
Total net position	9,472,081	6,642,477
Total liabilities, deferred inflows of resources and net position	$ 131,414,627	130,720,306

See notes to financial statements.

Xenia Rural Water District

Statement of Revenues, Expenses and
Changes in Net Position

Years ended December 31, 2016 and 2015

	December 31,	
	2016	2015
Operating revenues:		
Water sales:		
Residential	$ 9,874,802	9,389,027
Commercial	793,606	770,191
Industrial	2,602,784	2,532,632
Wholesale	402,554	399,808
Service charges	234,787	238,822
Contracted billing:		
Water	5,116	13,556
Wastewater	12,840	12,840
Water connection fees	479,332	431,362
Wastewater	85,168	76,079
Miscellaneous	3,586	3,368
Total operating revenues	14,494,575	13,867,685
Operating expenses:		
Provision for depreciation/amortization:		
Wastewater systems	25,304	24,919
Other	2,819,017	2,738,171
Salaries and wages	1,312,316	1,327,714
Purchased water	1,376,525	1,224,264
Professional fees	42,129	72,458
Utilities	330,659	339,199
Chemicals	215,778	234,803
Payroll taxes	101,093	100,891
General insurance	125,564	107,775
Employee benefits	316,515	245,932
Repair and maintenance	517,578	518,348
Wastewater operations	122,990	40,391
Fuel	64,601	86,862
Office expense	206,446	177,647
Postage and freight	4,436	4,603
Telephone	38,359	40,279
Vehicle repair and maintenance	77,084	92,138
Testing and lab	31,420	31,463
Licenses, dues and subscriptions	28,931	25,902
Miscellaneous	5,479	2,267
Bank fees and service charges	19,354	14,876

Xenia Rural Water District

Statement of Revenues, Expenses and
Changes in Net Position

Years ended December 31, 2016 and 2015

	December 31, 2016	December 31, 2015
Operating expenses (continued):		
Continuing education	3,693	3,952
Mileage	2,671	894
Advertising and promotion	1,068	1,078
Directors' per diem	-	2,447
Meals and lodging	105	293
Total operating expenses	7,789,115	7,459,566
Operating income	6,705,460	6,408,119
Non-operating revenues (expenses):		
Custom water connection and relocation fees	9,802	46,699
Membership and termination fees	88,978	72,050
Investment gain	26,103	5,560
Interest expense	(4,782,242)	(4,396,945)
Rental income	9,000	9,000
Gain on disposal of capital assets	86,771	51,731
Loss on disposal of inventory	(80,996)	(988)
Gain on forgiveness of liability	1,675,483	-
Miscellaneous	62	30
Bond issuance costs	(1,143,513)	-
Sale of territory rights and capital assets	234,696	2,808,629
Net non-operating revenues (expenses)	(3,875,856)	(1,404,234)
Change in net position	2,829,604	5,003,885
Net position beginning of year	6,642,477	1,638,592
Net position end of year	$ 9,472,081	$ 6,642,477

See notes to financial statements.

Xenia Rural Water District

Statement of Cash Flows

Years ended December 31, 2016 and 2015

	December 31, 2016	2015
Cash flows from operating activities:		
Cash received from customers	$ 14,334,694	14,274,368
Cash payments to employees for services	(2,237,787)	(1,686,053)
Cash payments to suppliers for goods and services	(3,070,137)	(3,103,162)
Net cash provided by operating activities	9,026,770	9,485,153
Cash flows from capital and related financing activities:		
Cash received from customer connection fees	9,802	46,699
Miscellaneous revenues	94,980	80,428
Proceeds from sale of territory rights and capital assets	328,757	2,392,706
Proceeds from sale of excess inventory	(80,996)	4,800
Acquisition and construction of capital assets	(1,569,892)	(1,377,569)
Principal paid on bonds and notes	(75,558,069)	(4,843,390)
Interest paid on bonds and notes	(4,098,265)	(4,407,149)
Refunding debt proceeds	73,185,616	-
Other capital and related financing activities	(192,290)	-
Net cash used by capital and related financing activities	(7,880,357)	(8,103,475)
Cash flows from investing activities:		
Proceeds from sale of investments	-	794,047
Investment income (loss)	26,103	(2,186)
Net cash provided by investing activities	26,103	791,861
Net increase in cash and cash equivalents	1,172,516	2,173,539
Cash and cash equivalents beginning of year	10,783,214	8,609,675
Cash and cash equivalents end of year	$ 11,955,730	10,783,214

Xenia Rural Water District

Statement of Cash Flows

Years ended December 31, 2016 and 2015

	December 31, 2016	December 31, 2015
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 6,705,460	6,408,119
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation/amortization – wastewater systems	25,304	24,919
Depreciation/amortization – other	2,819,017	2,738,171
Gain on forgiveness of liability	1,675,483	-
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(140,627)	426,904
Decrease in prepaid expenses	24,276	9,741
Increase in deferred outflows of resources	(691,613)	(23,429)
Decrease in accounts payable	(1,555,026)	(93,411)
Increase in accrued salaries and wages	9,529	3,668
Increase (decrease) in accrued payroll taxes, IPERS and sales tax	(4,246)	28,945
Decrease in unearned revenues	(12,720)	(12,720)
Increase in net pension liability	251,253	201,351
Increase in deferred inflows of resources	(72,786)	(219,604)
Decrease in customer deposits	(5,686)	(6,425)
Decrease in sewer payables	(848)	(1,076)
Total adjustments	2,321,310	3,077,034
Net cash provided by operating activities	$ 9,026,770	9,485,153

See notes to financial statements.

Xenia Rural Water District

(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 amortized 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 include unamortized bond refunding losses and pension related amounts. Deferred outflows of resources represent a consumption of net position applicable to a future year(s) which 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 and debt refunding losses.

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, 2016 and 2015.

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, 2016, the District had $356,160 of unearned revenue related to contractual agreements and has recognized $12,720 of revenue during 2016. As of December 31, 2015, the District had $368,880 of unearned revenue related to contractual agreements and had recognized $12,720 of revenue during 2015.

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 applicable to a future year(s) which 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 2016 and 2015 was $14,267 and $21,401, respectively.

In September 2016, the District issued water revenue refunding bonds to refund the water revenue bonds, series 2006. In a current refunding, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow or inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. The difference between these amounts at the time of the refunding was $538,274, of which $6,836 was recognized as a component of interest expense for 2016. The deferred outflow reported at December 31, 2016 was $531,438 which will be amortized over the next 25 years.

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, 2016 and 2015 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 $1,208,021 pursuant to rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals for the IPAIT investments. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

(3) Sale of Territory Rights

The District holds exclusive rights and responsibilities to provide water service to customers within the District's territory. The District has reached various agreements releasing these water service rights to other entities which wish to develop certain areas within the District's territory. Per several of the agreements, when individual lots in the designated areas are sold to third parties, the District will be paid $2,700 for each lot. During the year ended December 31, 2016, the District received $234,900 pursuant to the agreements, less related expenses of $204, for a total of $234,696.

During the year ended December 31, 2015, the District reached the following agreements and received the following proceeds related to the sale of territory rights.

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

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 required 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
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	2.75		90,171	10,335	100,506
2022-2024	2.75		285,664	15,854	301,518
Total		$	549,000	84,230	633,230

(4) Capital Assets

Capital assets activity for the years ended December 31, 2016 and 2015 was as follows:

	Year ended December 31, 2016			
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated/amortized:				
Land	$ 889,153	-	-	889,153
Construction in progress	967,565	1,405,804	(1,384,391)	988,978
Total capital assets not being depreciated/amortized	1,856,718	1,405,804	(1,384,391)	1,878,131
Capital assets being depreciated/amortized:				
Office building and improvements	3,399,563	57,709	-	3,457,272
Office furniture and equipment	267,878	-	-	267,878
Plant building	606,885	-	-	606,885
Wells	62,982	-	-	62,982
Wastewater systems	1,479,186	15,606	-	1,494,792
Water lines	136,371,572	1,103,526	-	137,475,098
Intangibles, purchased capacity	5,050,834	-	-	5,050,834
Intangibles, software	156,514	5,000	-	161,514
Telemetry system	608,416	-	-	608,416
Equipment and tools	1,700,242	362,843	(195,317)	1,867,768
Total capital assets being depreciated/amortized	149,704,072	1,544,684	(195,317)	151,053,439
Less accumulated depreciation/amortization for:				
Office building and improvements	1,295,333	126,724	-	1,422,057
Office furniture and equipment	226,735	13,270	-	240,005
Plant building	493,406	14,728	-	508,134
Wells	51,967	1,575	-	53,542
Wastewater systems	180,771	25,304	-	206,075
Water lines	28,172,875	2,292,226	-	30,465,101
Intangibles, purchased capacity	2,171,344	135,724	-	2,307,068
Intangibles, software	143,664	7,559	-	151,223
Telemetry system	319,122	28,066	-	347,188
Equipment and tools	1,124,597	199,145	(188,027)	1,135,715
Total accumulated depreciation/amortization	34,179,814	2,844,321	(188,027)	36,836,108
Total capital assets being depreciated/amortized, net	115,524,258	(1,299,637)	(7,290)	114,217,331
Capital assets, net	$ 117,380,976	106,167	(1,391,681)	116,095,462

	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

Depreciation/amortization expense charged to wastewater systems for 2016 and 2015 was $25,304 and $24,919, respectively. Depreciation/amortization expense charged to other operations for 2015 and 2014 was $2,819,017 and $2,738,171, respectively.

(5) Changes in Long Term Debt

A summary of changes in long-term debt for the years ended December 31, 2016 and 2015 is as follows:

Obligation		Year ended December 31, 2016 Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
USDA Rural Development:						
Water revenue notes	$	43,944,122	-	(832,076)	43,112,046	847,794
Wastewater revenue note		242,281	-	(3,428)	238,853	3,487
Water revenue bonds, series 2006		74,562,162	-	(74,562,162)	-	-
Refunding water revenue bonds, series 2016		-	74,136,841	(135,403)	74,001,438	740,000
Project anticipation notes		1,413,168	-	(25,000)	1,388,168	-
Total	$	120,161,733	74,136,841	(75,558,069)	118,740,505	1,591,281

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

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, 2016 and 2015, the debt service coverage ratios of the revenues to debt service were 136% and 130%, respectively. At December 31, 2016 and 2015, the note balances totaled $43,112,046 and $43,944,122, 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 amount of surety bond coverage obtained by the District did not meet the minimum requirements of the note resolution until December 31, 2016.

<u>USDA Rural Development Wastewater Revenue Note</u> – 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, 2016 and 2015, the note balance totaled $238,853 and $242,281, 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, 2016 and 2015, the debt service coverage ratios of net receipts to debt service were (327%) and 114%, 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 amount of surety bond coverage obtained by the District did not meet the minimum requirements of the note resolution until December 31, 2016. The District has not maintained user rates at a sufficient level for payment of expenses for operation and maintenance of the system and for principal and interest on the wastewater revenue notes.

Water Revenue Bonds – The District had 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 cost of improvements and extensions to the District's water system. The bonds were payable solely from water customer net receipts and payable through 2041. The total principal remaining to be paid on the bonds at December 31, 2015 was $75,115,000 and the debt service coverage ratio of the net receipts (excluding connection fees) to debt service was 130%.

In September 2016, the District issued $63,315,000 of water revenue refunding bonds, Series 2016, to refund the water revenue bonds, Series 2006. The bonds were issued at a premium of $10,821,841, with interest rates ranging from 2.00% to 5.00%. The City reduced its total debt service payments by $17,532,541 and obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of $8,296,360 on the refunding.

The resolution providing for the issuance of the water revenue refunding bonds, Series 2016, 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 amount of surety bond coverage obtained by the District did not meet the minimum requirements of the note resolution until December 31, 2016.

<u>Assured Guaranty Corporation</u> – 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. During fiscal year 2015, the District made a payment to retire the entire outstanding debt obligation.

<u>Project Anticipation Notes</u> – 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 during the years ended December 31, 2016 and 2015, reducing the outstanding principal balance to $1,388,168 at December 31, 2016.

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

	USDA Rural Development								
	Water Revenue Refunding			Wastewater			Refunding Water Revenue Bonds,		
Year Ending	Capital Loan Notes			Revenue Notes			Series 2006		
December 31,	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2017	$ 847,794	801,090	1,648,884	3,487	9,569	13,056	740,000	3,755,553	4,495,553
2018	863,827	785,057	1,648,884	3,626	9,430	13,056	1,475,000	3,023,400	4,498,400
2019	880,164	768,720	1,648,884	3,771	9,285	13,056	1,505,000	2,993,900	4,498,900
2020	896,810	752,074	1,648,884	3,922	9,134	13,056	1,550,000	2,948,750	4,498,750
2021	913,771	735,114	1,648,885	4,079	8,977	13,056	1,595,000	2,902,250	4,497,250
2022-2026	4,834,700	3,409,720	8,244,420	22,978	42,302	65,280	9,255,000	13,232,000	22,487,000
2027-2031	5,309,491	2,934,929	8,244,420	27,956	37,324	65,280	11,815,000	10,674,750	22,489,750
2032-2036	5,830,909	2,413,511	8,244,420	34,013	31,267	65,280	15,320,000	7,403,000	22,723,000
2037-2041	6,403,532	1,840,888	8,244,420	41,382	23,898	65,280	20,060,000	3,118,250	23,178,250
2042-2046	7,032,389	1,212,031	8,244,420	50,347	14,930	65,277	-	-	-
2047-2051	7,723,003	521,417	8,244,420	43,292	4,200	47,492	-	-	-
2052-2056	1,575,656	15,552	1,591,208	-	-	-	-	-	-
Total	$ 43,112,046	16,190,103	59,302,149	238,853	200,316	439,169 *	63,315,000	50,051,853	113,366,853

Year Ending	Project Anticipation Notes			Total		
December 31,	Principal	Interest	Total	Principal	Interest	Total
2017	$ -	-	-	1,591,281	4,566,212	6,157,493
2018	-	-	-	2,342,453	3,817,887	6,160,340
2019	-	-	-	2,388,935	3,771,905	6,160,840
2020	-	-	-	2,450,732	3,709,958	6,160,690
2021	-	-	-	2,512,850	3,646,341	6,159,191
2022-2026	-	-	-	14,112,678	16,684,022	30,796,700
2027-2031	1,388,168	-	1,388,168	18,540,615	13,647,003	32,187,618
2032-2036	-	-	-	21,184,922	9,847,778	31,032,700
2037-2041	-	-	-	26,504,914	4,983,036	31,487,950
2042-2046	-	-	-	7,082,736	1,226,961	8,309,697
2047-2051	-	-	-	7,766,295	525,617	8,291,912
2052-2056	-	-	-	1,575,656	15,552	1,591,208
Total	$ 1,388,168	-	1,388,168	108,054,067	66,442,272	174,496,339

* - The unamortized premium on the water revenue refunding bonds, series 2016 at December 31, 2016 totaled $10,686,438 and the unamortized discount on the water revenue bonds, series 2006 at December 31, 2015 totaled $552,838.

(6) Pension Plan

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, PO 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, except members with service before June 30, 2012 will use the highest three-year average salary as of that date 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 – 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 percentage point. 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 2016 and 2015, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the District contributed 8.93% of covered payroll for a total rate of 14.88%.

The District's contributions to IPERS for the year ended December 31, 2016 and 2015 were $125,997 and $122,493, respectively.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At December 31, 2016 and 2015, the District reported a liability of $1,223,723 and $972,470, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and June 30, 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. 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, 2016, the District's proportion was 0.0194448%, which was a decrease of 0.000239% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016 and 2015, the District recognized pension expense of $145,407 and $87,898, respectively. The District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016 Deferred Outflows of Resources	2016 Deferred Inflows of Resources	2015 Deferred Outflows of Resources	2015 Deferred Inflows of Resources
Differences between expected and actual experience	$ 10,815	14,605	14,693	-
Changes of assumptions	18,670	-	26,775	-
Net difference between projected and actual earnings on IPERS' investments	174,341	-	-	80,935
Changes in proportion and differences between District contributions and its proportionate share of contributions	18,734	14,722	22,302	21,178
District contributions subsequent to the measurement date	62,947	-	61,562	-
Total	$ 285,507	29,327	125,332	102,113

Deferred outflows of resources related to pensions of $62,947 and $61,562 represent the amount the District contributed subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ending December 31, 2017 and year ended 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,	2016 Amount	2015 Amount
2017	$ 22,746	(28,250)
2018	22,746	(28,250)
2019	95,761	(28,250)
2020	52,939	44,552
2021	(959)	1,855
Total	$ 193,233	(38,343)

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement as follows:

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.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2016 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%	1.90%
Domestic equity	24	5.85
International equity	16	6.32
Private equity/debt	11	10.31
Real estate	8	3.87
Credit opportunities	5	4.48
U.S. TIPS	5	1.36
Other real assets	2	6.42
Cash	1	(0.26)
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%)
December 31, 2016	$ 1,979,818	1,223,723	585,569
December 31, 2015	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, 2016 and 2015, the District reported payables to IPERS of $9,753 and $9,327, respectively, for legally required District contributions and $6,498 and $6,214, respectively, for legally required District contributions which had been withheld from employee wages but not yet remitted to IPERS.

(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 were $2,602,784 and $2,532,632 for the years ended December 31, 2016 and 2015, respectively. This represents 18.0% and 18.3% of total operating revenues for each year, respectively. The balances due from these customers and included in accounts receivable-trade were $203,582 and $185,844 at December 31, 2016 and 2015, 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, 2016 and 2015. 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, 2016 and 2015 were $67,921 and $74,687, respectively. This liability has been computed based on rates of pay in effect at December 31, 2016 and December 31, 2015, respectively.

(11) Assured Guaranty Corporation – Contingent Liability

The District's financial statements for the year ended December 31, 2015 included a liability payable to Assured Guaranty Corporation, the reinsurance company, of $1,675,483. This liability consisted 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.

In September 2016, the District issued $63,315,000 of water revenue refunding bonds, Series 2016, to refund the water revenue bonds, Series 2006. Due to the defeasance of the water revenue bonds, series 2006, Assured Guaranty agreed to forgive the liability in full.

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 Two Fiscal Years*
(In Thousands)

Required Supplementary Information

	2016	2015
District's proportion of the net pension liability	0.0194448%	0.0196837%
District's proportionate share of the net pension liability (asset)	$ 1,224	972
District's covered-employee payroll	$ 1,379	1,391
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	88.76%	69.88%
IPERS' fiduciary net position as a percentage of the total pension liability	81.82%	85.19%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

Xenia Rural Water District

Schedule of District Contributions

Iowa Public Employees' Retirement System
For the Last Ten Years
(In Thousands)

Required Supplementary Information

		2016	2015	2014	2013
Statutorily required contribution	$	126	122	121	106
Contributions in relation to the statutorily required contribution		(126)	(122)	(121)	(106)
Contribution deficiency (excess)	$	-	-	-	-
District's covered-employee payroll	$	1,427	1,379	1,391	1,247
Contributions as a percentage of covered-employee payroll		8.83%	8.85%	8.70%	8.50%

See accompanying independent auditor's report.

	2012	2011	2010	2009	2008	2007
	110	109	106	182	305	236
	(110)	(109)	(106)	(182)	(305)	(236)
	-	-	-	-	-	-
	1,341	1,494	1,692	2,950	5,073	4,168
	8.20%	7.30%	6.26%	6.17%	6.01%	5.66%

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for 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.

Legislative action in 2008 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.

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 (unfunded actuarial liability) 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 future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

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

Xenia Rural Water District

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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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, 2016 and 2015, and the related Notes to Financial Statements, and have issued our report thereon dated May 10, 2017.

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, 2016 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

MARY MOSIMAN, CPA
Auditor of State

May 10, 2017

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the District's financial statements.

Condition – Responsibilities for collection, deposit preparation and reconciliation functions are not segregated from those for recording and accounting for cash, maintaining detailed accounts receivable records and making adjustments to customer accounts.

Cause – The District has a limited number of employees and procedures have not been designed or implemented to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the District's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The District should review its operating procedures to obtain the maximum internal control possible under the circumstances. The District should utilize current personnel, including members of the Board, to provide additional control through review of financial transactions, reconciliations and reports.

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 that 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

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all inventory items by maintaining appropriate accounting records and ensuring the records are reviewed by an independent person. The District maintains an inventory of parts for the assembly and repair of new and existing water systems.

Condition – 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.

Cause – Procedures have not been designed and implemented to ensure inventory is properly safeguarded and the inventory duties are properly segregated.

Effect – When inventory is not adequately safeguarded and the inventory duties are not properly segregated, the opportunity for misappropriation and undetected errors can result.

Recommendation – The District should develop and implement procedures to ensure the inventory is properly safeguarded, the inventory duties are properly segregated and the inventory is 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. Also, because operations personnel are always on call, parts at headquarters must be accessible for emergency repair situations at all hours. With the elimination of surplus inventoried parts, efforts have been made to reduce inventory to include only parts used regularly in ordinary operations. Disposing of unneeded surplus parts and focusing on parts used on a regular basis will result in fewer parts to manage, offering better safeguarding of inventory and more accurate reporting.

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 count which mitigates the risk of staff covering up theft by requiring collusion amongst all staff involved in the physical count. Office staff will also support field staff in counting the more valuable inventory items, with the purpose of minimizing opportunities for misappropriation.

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 has not maintained user rates at a sufficient level for payment of expenses for operation and maintenance of the system and for principal and interest on the wastewater revenue notes.

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

While the District maintains surety bond coverage for employee theft, the amount of coverage did not meet the water and wastewater revenue note and water revenue bond resolution requirements until December 31, 2016. Coverage meeting the resolution requirements was obtained effective December 31, 2016.

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 – In 2016, the District did incur wastewater expenses in the Bouton wastewater system that exceeded the 2016 revenues from the Bouton wastewater system. However, the cumulative net cash flows from the Bouton wastewater system are still a net positive. Rates for the Bouton wastewater system were increased for 2017 to offset increases in expenses. Management does not anticipate expenses for future years to reach the levels experienced in 2016.

The District will contact the United States Department of Agriculture (USDA) and confirm that fully replenishing the wastewater revenue note reserve account is allowed under current agreements. If it is allowed, the District will replenish the wastewater revenue note reserve account as soon as authorized.

Surety bond coverage meeting the requirements under the District's bond resolution was obtained as of December 31, 2016 and will be maintained at the appropriate level going forward.

Conclusion – Response accepted.

Other Findings Related to Required Statutory Reporting:

(1) Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted.

The District purchased pizza for staff meetings totaling $105.

Recommendation – The District should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the District should establish written policies and procedures, including the requirement for proper documentation.

Response – It is very rare for the District to provide food/refreshments to staff during meetings, but it does occasionally happen. Going forward, the District will discontinue the practice of providing food/refreshments to staff, with the exception of providing food to staff unable to take lunch due to major emergency repairs or in instances where the District's managers foot the cost of providing food/refreshments.

Conclusion – Response accepted.

(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).

(6) Other Information Required by the Bond Resolution –

Insurance – The following insurance policies were in force at December 31, 2016:

Insurer	Description	Amount	Expiration Date
EMC Insurance	Property:		
Companies	Blanket: Buildings and personal property	$33,420,071	12/31/16
	Extra expense	75,000	12/31/16
	Contractors equipment	607,236	12/31/16
	Leased contractors equipment	300,000	12/31/16
	Miscellaneous property - radios	26,600	12/31/16
	Data processing - equipment and software	132,500	12/31/16
	Off-site tools and equipment:		
	Per installation site	50,000	12/31/16
	Property temporarily off premises	20,000	12/31/16
	Property in transit	40,000	12/31/16
EMC Insurance	General liability coverage:		
Companies	General aggregate	2,000,000	12/31/16
	Products general liability	2,000,000	12/31/16
	Personal and/or advertising	1,000,000	12/31/16
	Each occurrence	1,000,000	12/31/16
	Fire damage	100,000	12/31/16
	Medical expense	5,000	12/31/16
EMC Insurance	Automobile coverage:		
Companies	Liability	1,000,000	12/31/16
	Medical payments	1,000	12/31/16
	Uninsured motorists	100,000	12/31/16
	Underinsured motorists	100,000	12/31/16
Liberty Mutual	Workers' compensation:		
Workers Comp Group	Employee liability limit	1,000,000	12/31/16
EMC Insurance	Commercial umbrella:		
Companies	Policy aggregate	5,000,000	12/31/16
EMC Insurance	Public officials errors and omissions:		
Companies	Liability aggregate limit	3,000,000	12/31/16
	Additional Side A limit	1,000,000	12/31/16
	EPL aggregate limit	1,000,000	12/31/16
	Maximum aggregate	4,000,000	12/31/16
EMC Insurance	Fidelity coverage:		
Companies	Per loss - Employee dishonesty	7,600,000	12/31/17
	Per loss deductible	50,000	12/31/17
EMC Insurance	Employee benefit liability:		
Companies	Each loss from administrative errors	1,000,000	12/31/16
	Aggregate	2,000,000	12/31/16

Xenia Rural Water District

Schedule of Findings

Year ended December 31, 2016

Water Rates – The following water rates were in effect at December 31, 2016:

RESIDENTIAL/COMMERCIAL	Gallons	Rate
Rural 5/8" meter (non-franchise users):		
Minimum	0-1,000	$65.20
Steps	per 1,000 after minimum	$13.00 to $5.50
Franchise 5/8" to 2" meter		
Minimum	0-1,000	$48.90 to $391.20
Steps	per 1,000 after minimum	$9.80
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	$130.50
Steps	per 1,000 after minimum	$13.00 to $5.50
1" meter:		
Minimum	0-1,000	$195.70
Steps	per 1,000 after minimum	$13.00 to $5.50
1 1/2" meter:		
Minimum	0-1,000	$326.10
Steps	per 1,000 after minimum	$5.50
2" meter or 6" meter:		
Minimum	0-1,000	$521.80
Steps	per 1,000 after minimum	$5.50
INDUSTRIAL	fixed cost	$14,631.00 to $67,228.00
	per 1,000 after minimum	$2.87 to $1.77
WHOLESALE	no minimum/per 1,000 charge	$13.00 to $1.80

Statistical Information

Description	Number
Residential	9,414
Commercial	352
Industrial	4
Wholesale	11
Total	9,781

Staff

This audit was performed by:

Tammy A. Hollingsworth, CIA, Manager
Stephen J. Hoffman, Senior Auditor II
Jesse J. Probasco, CPA, Senior Auditor
Jacob N. Bennett, Assistant Auditor
Luke M. Bormann, Assistant Auditor
Jason J. Miller, Assistant Auditor

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