OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Des Moines, Iowa 50319-0004

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David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

Contact: Andy Nielsen
515/281-5834

FOR RELEASE April 28, 2011 6:00 p.m.

Auditor of State David A. Vaudt today released an audit report on the Xenia Rural Water District.

The District had total revenues of $10,491,673 for the year ended December 31, 2010, a less than one percent increase over the prior year. Revenues included water sales of $9,531,751 and system connection fees of $376,867. The increase in revenues was primarily due to an increase in water rates.

Expenses totaled $19,815,545 for the year ended December 31, 2010, a 54.5% increase over the prior year. Expenses included $6,033,527 for interest expense, $3,400,582 for depreciation/amortization and $1,582,779 for salaries and wages. The increase in expenses is due primarily to increased interest expense, holding loss on inventory, impairment loss and increased depreciation/amortization.

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 http://auditor.iowa.gov/reports/1033-0037-B000.pdf.

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XENIA RURAL WATER DISTRICT

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

DECEMBER 31, 2010 and DECEMBER 31, 2009

Table of Contents

Xenia Rural Water District

Officials

Name	Title	Term Expires
Walt Tomenga	Chair	Apr 2011
Thomas Pierce	Vice Chair	Apr 2011
Frank Hayer	Treasurer	Apr 2013
David Larson	Secretary	Apr 2011
Marc DeLong	Director	(Resigned)
Jim Fevold	Director	Apr 2011
Greg Rinehart	Director	Apr 2012
Troy Wilson	Director	Apr 2013
Marc DeLong	Interim Executive Director	Indefinite
Greg Clay	Controller	Indefinite

Xenia Rural Water District

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David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report

To the Members of the
Xenia Rural Water District:

We have audited the accompanying basic financial statements of the Xenia Rural Water District as of and for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

Adverse economic conditions have limited the ability of the District to obtain customers in amounts sufficient to service its long-term debt. As a result, the District's current liabilities exceed current assets by $12,161,226 at December 31, 2010. The District is working on a proposal to restructure its debt. However, there are significant uncertainties regarding the District's ability to continue its operations and to satisfy its creditors on a timely basis. In addition, the District has been unable to renegotiate its borrowings from its lenders. Consequently, adjustments may be required to the recorded asset amounts and classification of liabilities.

In our opinion, except for the adjustments, if any, that may be required to the recorded asset amounts and classification of liabilities discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Xenia Rural Water District at December 31, 2010 and 2009, 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.

The accompanying financial statements have been prepared assuming the District will continue as a going concern. The conditions described in the third paragraph of this report raise substantial doubt about the District's ability to continue as a going concern. The financial statements do not include any adjustments which might result from the outcome of this uncertainty.

In accordance with Government Auditing Standards, we have also issued our report dated April 12, 2011 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 and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 7 through 12 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 12, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

As financial management of the District, we offer readers of this financial statement 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 assets decreased 111%, or $9,323,872, in 2010 and 34.2%, or $4,317,576, in 2009 as a result of operations and other losses in the respective years.
- Operating revenue increased 13.2%, or $1,205,015, in 2010. The increase in operating revenues resulted from a rate increase. Operating revenue in 2009 increased $1,581,326, or 20.9%, over 2008.
- Operating expenses increased 26.4%, or $1,970,446, in 2010 because of factors such as additional depreciation/amortization expense on water lines and improvements, higher rates for purchased water, a decrease in capitalized salaries and wages and continued professional fee expenses. Operating expenses in 2009 increased $1,982,288, or 36.2%, over 2008.

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 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 Assets presents information on the District's assets and liabilities, with the difference between the two reported as net assets. Over time, changes in net assets 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 Assets presents information showing how the District's net assets changed during the most recent year. All changes in net assets 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 receipts and cash payments. The sources and uses of cash are organized by operating activities, capital and related financing activities and investing activities.

The notes 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 further explains and supports the financial statements by presenting the Schedule of Funding Progress for the Retiree Health Plan.

FINANCIAL ANALYSIS

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. The District's net assets at the end of 2010 totaled $(909,891). This compares to $8,413,891 at the end of 2009. A summary of the District's net assets is presented below.

Net Assets			
	December 31,		
	2010	2009	2008 (as restated)
Current assets	$ 4,020,695	3,899,594	1,977,970
Noncurrent assets	1,760,875	3,799,592	12,528,258
Capital assets (net of accumulated depreciation/amortization)	134,034,721	140,498,914	140,984,587
Total assets	139,816,291	148,198,100	155,490,815
Current liabilities	16,181,921	13,252,299	4,526,565
Noncurrent liabilities	124,544,351	126,531,910	138,178,783
Total liabilities	140,726,272	139,784,209	142,705,348
Net assets:			
Invested in capital assets, net of related debt	-	2,552,945	-
Restricted	-	-	5,061,924.00
Unrestricted (deficit)	(909,981)	5,860,946	7,723,543
Total net assets	$ (909,981)	8,413,891	12,785,467

Liabilities of the District exceeded assets for the year ended December 31, 2010 by $909,981 (net assets). Net assets decreased $9,323,872 and $4,371,576 for the years ended December 31, 2010 and 2009, respectively. The decrease in net assets is primarily from interest expense of $6,033,527 in excess of operating income of $916,207 in 2010. Further reasons for the decrease in net assets were impairment losses on capital assets and holding losses on inventory.

Total liabilities of the District were $140,726,272 and $139,784,209 at December 31, 2010 and 2009, respectively. Noncurrent liabilities included in total liabilities were $124,544,351 and $126,531,910 at December 31, 2010 and 2009, respectively. Total liabilities increased $942,063 in 2010 and decreased $2,921,139 in 2009.

A significant portion of the District's total assets, 96% and 95%, were invested in capital assets at December 31, 2010 and 2009, respectively.

Statement of Revenues, Expenses and Changes in Net Assets

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

Changes in Net Assets			
	Year Ended December 31,		
	2010	2009	2008 (as restated)
Operating revenues	$ 10,346,639	9,141,624	7,560,298
Operating expenses	(9,430,432)	(7,459,986)	(5,477,698)
Operating income	916,207	1,681,638	2,082,600
Nonoperating revenue	145,034	1,313,651	2,364,301
Nonoperating expenses	(10,385,113)	(5,363,541)	(4,850,374)
Extraordinary loss	-	(2,003,324)	-
Decrease in net assets	$ (9,323,872)	(4,371,576)	(403,473)

The Statement of Revenues, Expenses and Changes in Net Assets reflects a decrease in the net assets at the end of the years ended December 31, 2010 and 2009.

Year ended December 31, 2010:

The change in net assets in 2010 was a result of the following: 1) Total operating revenue increased 13% over the prior year because of water rate increases and additional usage by industrial customers. The District's water revenue of $9,531,751 increased 13% over 2009. 26% of the water revenue increase was a result of increased gallons purchased by industrial users and volumetric rate increases to users in the industrial user class. On May 15, 2010, a water rate increase of 22% went into effect for residential and commercial users. 2) Operating expenses increased 26% from 2009. Professional fees addressing the District's insolvency accounted for $687,360 of the $1,966,446 increase in operating expenses. Additional depreciation/amortization accounted for $478,675 of the increase. The increase in depreciation/amortization was a result of a full year of depreciation expense on over $20,000,000 of capital asset projects placed in service in 2009 being recognized in 2010 and the inclusion of depreciation expense for the remaining vehicles and equipment previously capitalized as capital asset project costs. Other increases in operating expenses were from payroll overhead no longer capitalized to capital assets and increased rates for purchased water. 3) Non-operating revenues decreased 89% from 2009. The decrease was a result of a lesser number of custom connection fees and a decrease of land generating rental income. Interest income increased 151% as the District increased investment balances. The rate of return earned on investments remained low. 4) Non-operating expenses increased 94% from 2009. The District recognized impairment losses of $2,304,905 on water and wastewater capital assets in Worth County because of construction stoppage and the likely disposal of the assets. A loss of $576,484 was recognized in 2010 for the subsequent year's sale of land held as a prospective water treatment plant site. A holding loss of $1,215,819 occurred from a valuation adjustment of surplus inventory to the lower of cost or market. The market value was based on sales experience on inventory disposal in the subsequent year. A receivable of $254,989 for costs incurred on infrastructure projects to provide the Hartland Township Economic Development Renewal Area in Worth County with water and wastewater services were written off as uncollectible. Interest expense increased 17% to $6,033,527, net of interest capitalized on capital assets of $22,628.

Year ended December 31, 2009:

The change in net assets in 2009 was a result of the following: 1) Total operating revenue increased 21% over the prior year because of additional usage by industrial customers and water rate increases. The District's water revenue of $8,426,455 increased 19% over 2008. The water revenue increase was a result of increased sales to an industrial user, an ethanol production plant which began production during 2008 and volumetric rate increases to users in the industrial user class. On March 1, 2009, a water rate increase of 6% went into effect for residential and commercial users. 2) Operating expenses increased 36% from 2008. 38% of the $1,982,288 increase in operating expenses was from additional depreciation expense on the water lines and improvements placed in service during 2009. Other increases in operating expenses were from additional costs for professional fees to address the District's insolvency, payroll overhead no longer capitalized to capital assets and increased quantities of purchased water at a higher cost. 3) Non-operating revenues decreased 44% from 2008. The decrease was a result of no new large connection fees compared to the 2008 fees from an ethanol production plant, a farm expo event and an urban renewal area. Additional connection fee revenue was earned in 2009 from the urban renewal area. FEMA public assistance revenue of $563,123 was earned for repair and improvements of flood damage. Gain on forgiveness of debt of $295,152 was recognized when an agreement on an outstanding engineering account balance was settled. 4) Non-operating expenses increased 11% from 2008. Interest expense increased 20% to $5,172,851, net of interest capitalized on capital assets of $899,607. 5) An extraordinary loss on abandoned projects of $2,003,324 occurred when capital asset projects in progress were determined to be nonviable. Abandoned projects included costs from planning, design and initial development of water treatment facilities, expansion of water lines and wastewater systems.

The 2008 financial statements were restated to correct errors in reporting capital grant revenue, depreciation/amortization expense of purchased capacity of and legal defeasance of refunded capital loan notes. The restatements decreased the beginning net assets in 2009 by $1,696,446.

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 from capital and related financing activities includes principal and interest paid on bonds and notes and the purchase of capital assets. Cash provided by investing activities includes sales of money market securities and interest income.

The following summarize the cash flows:

	Year ended December 31,		
	2010	2009	2008 (as restated)
Cash flows provided (used) by:			
Operating activities	$ 4,657,911	4,750,778	4,042,890
Capital and related financing activities	(5,138,985)	(10,465,407)	(22,440,822)
Investing activities	621,187	7,898,943	17,598,063
Net increase (decrease) in cash	140,113	2,184,314	(799,869)
Cash beginning of year	2,297,294	112,980	912,849
Cash end of year	$ 2,437,407	2,297,294	112,980

CAPITAL ASSETS

The following summarizes capital assets:

	December 31,		
	2010	2009	2008 (as restated)
Nondepreciable assets	$ 3,643,774	5,456,325	23,475,193
Depreciable assets	150,203,865	152,344,395	139,158,214
Intangible assets	4,967,737	5,148,100	
Accumulated depreciation/amortization	(24,780,655)	(22,449,906)	(21,648,820)
Total capital assets, net of accumulated depreciation/amortization	$ 134,034,721	140,498,914	140,984,587

Capital assets net of accumulated depreciation/amortization (including water lines, equipment and buildings) of the District were $134,034,721 and $140,498,914 at December 31, 2010 and 2009, respectively. This is a net decrease of $6,464,193 during the year ended December 31, 2010. Total capital assets decreased because of the disposal of surplus construction equipment, the impairment of water and wastewater systems in Worth County and the reduction in the value of land sold in the subsequent year.

Construction in progress included in nondepreciable capital assets was $633,239 and $1,795,167 at December 31, 2010 and 2009, respectively. Construction in progress decreased during 2010 from construction stoppage and the impairment of assets in Worth County. Development costs of a future water treatment plant site in Dallas County are a significant part of the capital assets remaining in construction in progress at December 31, 2010. During the year ended December 31, 2009, the I-80 transmission and Dallas County transmission water line projects were completed and the District further wound down its in-house construction division. Further details on capital assets are presented in Note 4 of the Notes to Financial Statements.

LONG TERM DEBT

The following summarizes outstanding long-term debt:

	December 31,		
	2010	2009	2008 (as restated)
Revenue notes payable	$ 45,635,253	45,377,746	41,769,492
Revenue bonds payable	81,400,160	82,608,760	82,912,412
CIFG NA payable	1,329,936	-	-
Project anticipation notes payable	9,029,817	9,289,817	15,641,626
Asset purchase agreement payable	76,426	77,579	84,074
Rural community 2000 loan	20,000	20,000	20,000
Total	$ 137,491,592	137,373,902	140,427,604

In 2010, the District issued a $260,000 wastewater revenue capital loan note 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 proceeds of the note paid the balance due on the related anticipation note funding its construction.

The District repaid no principal on previously issued USDA Rural Development long-term water revenue bonds. A principal payment of $1,230,000 on Water Revenue Bonds Series 2006 was paid by the bond insurer when the District did not have sufficient sinking or reserve funds for the payment. For further detail on long-term debt, see Note 7 of the Notes to Financial Statements.

In 2009, USDA Rural Development loaned the District $4,000,000 to repay an anticipation note for miscellaneous capital projects. The District abandoned the North Service Area 4 Phase 1 water distribution project and returned $2,438,351 of a $5,000,000 anticipation note to Bank of America. The District repaid $391,746 of principal on previously issued USDA Rural Development long-term water revenue bonds and $325,000 of principal on Water Revenue Bonds Series 2006.

Debt service coverage has been calculated based on the definitions of gross revenues, operating expenses and special charges as defined in the resolution of Water Revenue Bonds Series 2006. Debt service coverage on the scheduled water parity debt payments of the District was 52% at December 31, 2010 and 65% at December 31, 2009. Covenants of the Series 2006 bonds state net revenues during each fiscal 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.

In 2010, the District again used funds from the restricted cash, Series 2006 reserve to make debt service payments. The balance requirement for the restricted reserve is $5,225,300. At December 31, 2010 and 2009, the balance of restricted cash, Series 2006 reserve was $0 and $579,197, respectively.

The USDA Rural Development bond resolutions require 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. The District did not meet the monthly reserve deposit requirements. Further detail on Reserves and Debt Service is presented in Note 7 of the Notes to Financial Statements.

On July 8, 2010, Standard & Poor's Corporation lowered its long-term and underlying ratings on the District's 2006 water revenue bonds to 'D' from 'BB'. The lowered rating resulted from the District not paying obligations in accordance with terms of the agreements. The District was unable to fully service its June 1, 2010 interest payment and, having exhausted the debt service reserve, filed a claim with the bond insurer for the remainder of the interest payment. On August 20, 2009, Standard & Poor's Corporation had downgraded the long-term and underlying ratings assigned the Series 2006 bonds to 'BB' from 'BBB'.

ECONOMIC OUTLOOK

The District believes there is substantial doubt about its ability to continue as a going concern. The District is not producing sufficient net revenues (gross revenues less on-going costs of operations and maintenance) to stay current on debt payments nor replenish its debt reserves. In this regard, the District did not achieve sufficient net revenues from the water system during 2009 or 2010 to meet sinking fund requirements and debt service reserve funds were exhausted to make partial payment of principal and interest on bonds. The bond insurer of the Series 2006 Water Revenue Bonds covered two payment shortfalls during 2010 as described in Note 7 of the Notes to Financial Statements. Continued decreases in net assets indicate a deteriorating financial position, although a significant amount of the decrease in net assets is attributable to one-time events related to the disposition of surplus and unprofitable assets so essential capital improvements could be funded to maintain the operation of the District.

The District's Board of Directors approved a USDA requested debt work-out plan at its March 2011 meeting. This proposal also has been provided to its parity lenders for consideration. Although further member rate increases, as well as reduced costs by means of improved employee productivity and best practices related to material and supplies costs, are essential elements, further contributions by the ethanol plant owners to whom the District provides one-half of its delivered water, as well as debt restructure and relief from its creditors, bond insurer and bond insurer agent, is critical to resolving the District's financial insolvency.

Additional going concern information is presented in Note 14 of the Notes to Financial Statements, including a description of the essential elements of the Board approved debt work-out plan.

OTHER INFORMATION

In addition to the basic financial statements and accompanying Notes to Financial Statements, this report presents other information, including the Schedule of Funding Progress for the Retiree Health Plan and the Schedule of Findings. This information can be found on pages 40 through 48.

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 Assets

December 31, 2010 and 2009

		December 31, 2010	December 31, 2009
Assets			
Current assets:			
Cash and cash equivalents	$	2,437,407	2,297,294
Grants receivable		-	2,435
Accounts receivable:			
Trade		1,429,440	1,138,799
Other		81,320	413,303
Accrued interest receivable		-	18
Prepaid expenses		72,528	47,745
Total current assets		4,020,695	3,899,594
Noncurrent assets:			
Inventory		1,016,044	2,450,385
Capital assets (net of accumulated depreciation/amortization)		134,034,721	140,498,914
Unamortized bond issuance costs		622,609	642,802
Restricted cash:			
USDA Rural Development reserve		61,430	61,373
Series 2006 reserve		-	579,197
Organizational costs (net of amortization)		60,792	65,835
Total noncurrent assets		135,795,596	144,298,506
Total assets	$	139,816,291	148,198,100

Xenia Rural Water District

Statement of Net Assets

December 31, 2010 and 2009

	December 31, 2010	December 31, 2009
Liabilities		
Current liabilities:		
Accounts payable:		
Trade	$ 923,433	325,192
Construction	14,433	572,067
Accrued payroll taxes, IPERS contribution and sales tax	65,305	65,463
Accrued payroll	29,838	28,631
Accrued compensated absences	44,698	69,789
Customer deposits	75,710	72,606
Sewer payables	20,157	20,481
Accrued interest payable:		
USDA Rural Development	1,355,683	823,235
Series 2006 bonds	309,256	313,049
Other bonds and notes	392,167	119,794
Current portion of long-term debt	12,951,241	10,841,992
Total current liabilities	16,181,921	13,252,299
Noncurrent liabilities:		
Revenue notes payable	44,361,057	44,822,244
Revenue bonds payable	80,115,160	81,378,760
Project anticipation notes payable	-	260,000
Asset purchase agreement payable	64,134	70,906
Net OPEB liability	4,000	-
Total noncurrent liabilities	124,544,351	126,531,910
Total liabilities	140,726,272	139,784,209
Net assets		
Invested in capital assets, net of related debt	-	2,552,945
Unrestricted (deficit)	(909,981)	5,860,946
Total net assets	(909,981)	8,413,891
Total liabilities and net assets	$ 139,816,291	148,198,100

See notes to financial statements.

Xenia Rural Water District

Statement of Revenues, Expenses and
Changes in Net Assets

Years ended December 31, 2010 and 2009

	December 31, 2010	December 31, 2009
Operating revenues:		
Water sales:		
Residential	$ 6,353,379	5,786,257
Commercial	600,563	361,500
Industrial	2,399,377	2,107,796
Wholesale	178,432	170,902
Service charges:		
Water	255,402	217,732
Wastewater	214	108
Connection fees:		
Water	230,410	194,011
Wastewater	43,452	30,086
Wastewater revenue	273,359	224,096
Trash and recycle revenue	2,040	2,138
Lab fees	5,085	2,179
Miscellaneous	4,926	44,819
Total operating revenue	10,346,639	9,141,624
Operating expenses:		
Provision for depreciation/amortization:		
Wastewater systems	127,724	126,708
Other	3,272,858	2,795,199
Salaries and wages	1,582,779	1,324,296
Purchased water	1,221,142	1,014,852
Professional fees	1,085,403	398,043
Utilities	335,581	295,966
Chemicals	261,999	274,638
Payroll taxes and IPERS	228,801	176,728
General insurance	218,912	112,745
Employee benefits	190,616	162,501
Repair	167,383	181,955
Wastewater operations	147,642	113,486
Fuel	141,189	87,200
Maintenance	132,729	88,613
Office expense	80,197	61,729
Postage and freight	50,714	56,324
Telephone	47,481	28,690
Vehicle repair and maintenance	35,923	9,460
Testing and lab	32,664	33,688
Amortization of bond costs	25,236	25,187
Licenses, dues and subscriptions	10,051	22,346

Xenia Rural Water District

Statement of Revenues, Expenses and
Changes in Net Assets

Years ended December 31, 2010 and 2009

	December 31, 2010	December 31, 2009
Operating expenses (continued):		
Miscellaneous	13,809	26,789
Bank fees and service charges	6,733	23,181
Continuing education	6,056	7,748
Mileage	2,667	1,583
Advertising and promotion	2,249	2,023
Directors' per diem	1,499	6,138
Meals and lodging	395	2,170
Total operating expenses	9,430,432	7,459,986
Operating income	916,207	1,681,638
Non-operating revenues (expenses):		
Grant revenue	-	41,240
FEMA public assistance grant	-	563,123
Custom connection fees:		
Water	86,211	148,026
Wastewater	16,794	206,020
Interest income	4,466	1,782
Interest expense	(6,033,527)	(5,172,851)
Rental income	37,563	47,250
Holding loss on inventory	(1,215,819)	(190,690)
Unrealized loss on pending land sale	(576,483)	-
Gain on sale of equipment	50,280	11,058
Gain on forgiveness of debt	-	295,152
Impairment loss	(2,304,905)	-
Uncollectible TIF receivable	(254,989)	-
Loss on disposal of inventory	(49,670)	-
Net non-operating revenues (expenses)	(10,240,079)	(4,049,890)
Extraordinary item:		
Loss on abandoned projects	-	(2,003,324)
Change in net assets	(9,323,872)	(4,371,576)
Net assets beginning of year	8,413,891	12,785,467
Net assets (deficit) end of year	$ (909,981)	8,413,891

See notes to financial statements.

Xenia Rural Water District

Statement of Cash Flows

Years ended December 31, 2010 and 2009

	December 31, 2010	December 31, 2009
Cash flows from operating activities:		
Cash received from customers	$ 10,158,422	$ 8,958,188
Cash payments to employees for services	(2,066,010)	(1,928,165)
Cash payments to suppliers for goods and services	(3,434,501)	(2,279,245)
Net cash provided by operating activities	4,657,911	4,750,778
Cash flows from capital and related financing activities:		
Grants received	2,435	59,195
FEMA public assistance grant	-	504,017
Cash received from custom connection fees	80,000	647,453
Proceeds from bonds and other long-term debt	1,589,936	4,586,543
Proceeds from sale of assets	474,398	1,884,805
Acquisition and construction of capital assets	(581,007)	(5,881,068)
Principal paid on bonds and notes	(1,472,246)	(7,640,246)
Interest paid on bonds and notes	(5,232,501)	(4,626,106)
Net cash used by capital and related financing activities	(5,138,985)	(10,465,407)
Cash flows from investing activities:		
Proceeds from sales of investments	579,197	8,166,270
Purchases of investments	(57)	(344,120)
Investment income	42,047	76,793
Net cash provided by investing activities	621,187	7,898,943
Net increase in cash and cash equivalents	140,113	2,184,314
Cash and cash equivalents beginning of year	2,297,294	112,980
Cash and cash equivalents end of year	$ 2,437,407	$ 2,297,294

Xenia Rural Water District

Statement of Cash Flows

Years ended December 31, 2010 and 2009

	December 31, 2010	December 31, 2009
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 916,207	1,681,638
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation - wastewater systems	127,724	126,708
Depreciation - other	3,272,858	2,795,199
Amortization	25,236	25,187
Gain on forgiveness of debt	-	295,152
Loss on disposal of inventory	(49,670)	-
Changes in assets and liabilities:		
Accounts receivable	(190,640)	(216,902)
Prepaid expenses	(24,783)	29,234
Accounts payable	598,241	196,942
Accrued salaries and wages	(23,884)	(211,069)
Accrued payroll taxes, IPERS and sales tax	(158)	(10,118)
Other postemployment benefits	4,000	-
Employee fund	-	(1,367)
Customer deposits	3,504	5,790
Sewer payable	(324)	3,184
Membership refund liability	(400)	31,200
Total adjustments	3,741,704	3,069,140
Net cash provided by operating activities	$ 4,657,911	4,750,778
Non-cash capital activities:		
Holding loss on construction material inventory	$ 1,215,819	190,690
Loss on pending sale of land	(576,484)	-
Impairment loss	(2,304,905)	-
Uncollectible TIF receivable	(254,989)	-
Total	$ (1,920,559)	190,690

See notes to financial statements.

(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 staggering 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.

These financial statements present the Xenia Rural Water District (the primary government) and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operations or financial relationship with the District.

Blended Component Unit

The Xenia Economic Development Corporation is legally separate from the District but is so intertwined with the District it is, in substance, part of the District. The Xenia Economic Development Corporation was organized under Chapter 504A of the Code of Iowa as a non-profit corporation. The Boards for the District and the Corporation are the same. The Corporation receives grants to promote and develop projects for the District. The financial transactions have been discretely presented in Note 10 of the Notes to Financial Statements.

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 applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

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, Liabilities and Net Investments

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

Cash and Cash Equivalents – 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.

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

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 $1,000 and estimated useful lives in excess of two years.

Capital assets of the District are depreciated/amortized using either the straight line or the units of production method, depending on classification. Construction equipment purchased after December 31, 2006 is depreciated/amortized using current year units of production over the estimated total units of production. With the exception of construction equipment purchased after December 31, 2006, capital assets 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

Interest is capitalized on qualified assets. The amount of interest capitalized is calculated using the weighted average cost of interest on outstanding debt multiplied by the construction expenditures for the project until completion of the project. During the years ended December 31, 2010 and 2009, interest costs of $22,628 and $899,607, respectively, were capitalized.

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, 2010 and 2009.

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.

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

E. Organizational Costs and Bond Issuance Costs

Organizational expenses of the District are amortized on the straight-line method over forty years.

Underwriter's costs incurred on Water Revenue Bonds, Series 2006 for the purpose of refunding currently outstanding obligations are amortized on the straight-line method over the life of the bonds. Underwriter's costs 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.

Bond discounts incurred on Water Revenue Bonds, Series 2006 for the purpose of refunding currently 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 operations and interest expense for 2010 and 2009 was $46,635 and $46,635, respectively. Estimated amortization expense for each of the ensuing years through December 31, 2015 is $46,635.

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 and liabilities and 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 and Investments

The District's deposits in banks at December 31, 2010 and 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to insure there will be no loss of public funds.

The 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 Investment Trust which are valued at an amortized cost of $62,709 pursuant to rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

(3) Pension and Retirement Benefits

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

Plan members were required to contribute 4.30% of their annual covered salary until July 1, 2010, at which time the contribution rate changed to 4.50% of their annual covered salary. The District was required to contribute 6.65% of annual covered payroll until July 1, 2010, at which time the contribution rate changed to 6.95% of annual covered payroll. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended December 31, 2010, 2009 and 2008 were $105,941, $181,859 and $304,738, respectively, equal to the required contributions for each year.

(4) Capital Assets

Capital assets activity for the years ended December 31, 2010 and 2009 was as follows:

	Year ended December 31, 2010			
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	$ 3,661,158	-	(650,623)	3,010,535
Construction in progress	1,795,167	33,829	(1,195,757)	633,239
Total capital assets not being depreciated	5,456,325	33,829	(1,846,380)	3,643,774
Capital assets being depreciated/amortized:				
Office building and improvements	3,275,189	-	-	3,275,189
Office furniture and equipment	549,958	16,666	(3,294)	563,330
Plant building	618,339	-	-	618,339
Wells	62,982	-	-	62,982
Wastewater systems	2,980,028	4,206	(995,900)	1,988,334
Water lines	137,440,251	142,954	(229,986)	137,353,219
Intangibles, purchased capacity	4,728,209	-	-	4,728,209
Intangibles, software	419,891	1,615	(181,978)	239,528
Telemetry system	601,458	-	(48,038)	553,420
Equipment and tools	6,463,192	9,500	(1,036,638)	5,436,054
Transportation equipment	352,998	-	-	352,998
Total capital assets being depreciated/amortized	157,492,495	174,941	(2,495,834)	155,171,602
Less accumulated depreciation/amortization for:				
Office building and improvements	550,587	122,994	-	673,581
Office furniture and equipment	466,136	39,319	(3,295)	502,160
Plant building	413,741	16,669	-	430,410
Wells	42,519	1,575	-	44,094
Wastewater systems	154,113	127,714	(143,852)	137,975
Water lines	14,808,568	2,392,374	(45,341)	17,155,601
Intangibles, purchased capacity	1,429,203	121,059	-	1,550,262
Intangibles, software	204,783	77,863	(69,905)	212,741
Telemetry system	143,234	27,129	-	170,363
Equipment and tools	4,007,115	435,706	(820,671)	3,622,150
Transportation equipment	229,907	51,411	-	281,318
Total accumulated depreciation/amortization	22,449,906	3,413,813	(1,083,064)	24,780,655
Total capital assets being depreciated/amortized, net	135,042,589	(3,238,872)	(1,412,770)	130,390,947
Capital assets, net	$ 140,498,914	(3,205,043)	(3,259,150)	134,034,721

	Year ended December 31, 2009			
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	$ 3,518,148	143,010	-	3,661,158
Construction in progress	19,957,045	3,812,210	(21,974,088)	1,795,167
Total capital assets not being depreciated	23,475,193	3,955,220	(21,974,088)	5,456,325
Capital assets being depreciated/amortized:				
Office building and improvements	2,140,319	1,140,173	(5,303)	3,275,189
Office furniture and equipment	549,178	780	-	549,958
Plant building	616,436	1,903	-	618,339
Wells	62,982	-	-	62,982
Wastewater systems	2,922,360	57,668	-	2,980,028
Water lines	116,055,817	21,427,533	(43,099)	137,440,251
Intangibles, purchased capacity	4,728,209	-	-	4,728,209
Intangibles, software	324,574	95,317	-	419,891
Telemetry system	484,757	116,701	-	601,458
Equipment and tools	10,817,035	3,957	(4,357,800)	6,463,192
Transportation equipment	456,547	27,611	(131,160)	352,998
Total capital assets being depreciated/amortized	139,158,214	22,871,643	(4,537,362)	157,492,495
Less accumulated depreciation/amortization for:				
Office building and improvements	464,416	86,186	(15)	550,587
Office furniture andequipment	424,639	41,497	-	466,136
Plant building	397,071	16,670	-	413,741
Wells	40,945	1,574	-	42,519
Wastewater systems	27,259	126,854	-	154,113
Water lines	12,630,990	2,180,609	(3,031)	14,808,568
Intangibles, purchased capacity	1,308,144	121,059	-	1,429,203
Intangibles, software	138,764	66,019	-	204,783
Telemetry system	119,156	24,078	-	143,234
Equipment and tools	5,795,745	705,044	(2,493,674)	4,007,115
Transportation equipment	301,691	59,376	(131,160)	229,907
Total accumulated depreciation/amortization	21,648,820	3,428,966	(2,627,880)	22,449,906
Total capital assets being depreciated/amortized, net	117,509,394	19,442,677	(1,909,482)	135,042,589
Capital assets, net	$ 140,984,587	23,397,897	(23,883,570)	140,498,914

Governmental Accounting Standards Board Statement No. 51, Accounting and Financial Reporting for Intangible Assets, was implemented during the year ended December 31, 2010. Purchased capacity with a net book value of $3,177,947 and $3,299,006 at December 31, 2010 and 2009, respectively, were reclassified as intangibles, purchased capacity. Computer software with a net book value of $10,857 and $125,513 at December 31, 2010 and 2009, respectively, which was previously reported as office furniture and equipment has been reclassified as intangibles, software. Computer software with a net book value of $15,930 and $89,595 at December 31, 2010 and 2009, respectively, which was previously reported as equipment and tools has been reclassified as intangibles, software. Restatement of the beginning net assets and capital assets was not necessary because the assets were being depreciated.

Depreciation/amortization charged to wastewater systems for 2010 and 2009 was $127,724 and $126,708, respectively. Depreciation/amortization charged to other operations for 2010 and 2009 was $3,272,858 and $2,795,199, respectively.

Depreciation/amortization capitalized as capital assets for 2010 and 2009 was $13,231 and $507,059, respectively.

(5) 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.

(6) Major Customers

Water sales revenue to three ethanol plants was $2,395,334 and $2,062,091 for the years ended December 31, 2010 and 2009, respectively. This represents 23% of total operating revenue for each year. The balance due from these customers and included in accounts receivable-trade was $184,771 and $167,537 at December 31, 2010 and 2009, respectively.

(7) Changes in Long Term Liabilities

A summary of changes in long-term liabilities for the years ended December 31, 2010 and 2009 is as follows:

	Year ended December 31, 2010				
	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
USDA Rural Development:					
Water revenue notes	$ 45,377,746	-	-	$ 45,377,746	1,271,440
Wastewater revenue notes		260,000	(2,493)	257,507	2,756
Water revenue bonds, Series 2006	82,608,760	-	(1,208,600)	81,400,160	1,285,000
CIFG Assurance North America, Inc.	-	1,329,936	-	1,329,936	1,329,936
Rural Community 2000 loan	20,000	-	-	20,000	20,000
Project anticipation notes	9,289,817	-	(260,000)	9,029,817	9,029,817
Asset purchase agreement	77,579	-	(1,153)	76,426	12,292
Net OPEB liability	-	4,000	-	4,000	-
Total	$ 137,373,902	1,593,936	(1,472,246)	137,495,592	12,951,241

	Year ended December 31, 2009				
	Balance Beginning of Year (as restated)	Additions	Deletions	Balance End of Year	Due Within One Year
USDA Rural Development:					
Water revenue notes	$ 41,769,492	4,000,000	(391,746)	$ 45,377,746	555,503
Water revenue bonds, Series 2006	82,912,412	-	(303,652)	82,608,760	1,230,000
Rural Community 2000 loan	20,000	-	-	20,000	20,000
Project anticipation notes	15,641,626	86,542	(6,438,351)	9,289,817	9,029,817
Loan agreement	-	500,000	(500,000)	-	-
Asset purchase agreement	84,074	-	(6,495)	77,579	6,672
Total	$ 140,427,604	4,586,542	(7,640,244)	137,373,902	10,841,992

USDA Rural Development Water Revenue Notes – The District has issued water revenue notes totaling $47,281,900 at December 31, 2010. The water revenue notes bear interest at rates ranging from 4.125% to 5.625% per annum. The District has pledged future water customer receipts, net of specified operating disbursements, to repay the water revenue notes. The notes are payable solely from water customer net receipts and are payable through 2049. At December 31, 2010 and 2009, the debt service coverage ratios of the revenues to debt service were 52% and 61%, respectively.

The resolutions providing for the issuance of the water revenue notes include 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. Annually, there shall be deposited to the water reserve account an amount equal to 10 percent 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 repairs, as needed.

(e) User rates or charges to consumers shall be sufficient in each year for the payment of the proper and reasonable expenses of operation and maintenance of the system, for the payment of principal and interest on the notes and for the establishment of adequate reserves.

(f) At all times, persons handling money will be bonded for the faithful performance of their duties. The amount will not be less than the maximum amount of principal and interest coming due in any fiscal year on all obligations of the District.

The District has not maintained the required balance in the water reserve account. In addition, the District has not maintained user rates at a sufficient level for payment of principal and interest on the notes and has not deposited sufficient amounts to the sinking or improvement accounts as required. Additionally, the amount of surety bond insurance does not meet the minimum requirements of the note resolutions.

Details of the USDA Rural Development water revenue notes at December 31, 2010 and 2009 are as follows:

Loan No.	Issue Date	Interest Rate	Maturity Date	Monthly Payment	Amount Originally Issued	Note Balances December 31, 2010	Note Balances December 31, 2009
91-13	12/29/1993	5.250%	12/29/2033	$ 1,024	200,000	162,304	162,304
91-14	9/23/1994	5.625	9/23/2034	5,360	1,000,000	813,548	813,548
91-15	9/23/1994	5.375	9/23/2034	3,640	700,000	583,025	583,025
91-27	2/11/1999	4.500	2/1/2039	3,113	672,200	607,189	607,189
91-31	9/27/2001	4.750	9/27/2041	19,846	4,143,100	3,872,775	3,872,775
91-38	9/27/2001	4.750	9/27/2041	3,771	787,100	703,621	703,621
91-46	10/19/2001	4.750	9/27/2041	1,916	400,000	373,826	373,826
91-41	12/21/2001	4.750	9/27/2041	17,325	3,500,000	3,271,641	3,271,641
91-44	6/21/2002	4.750	6/21/2042	11,752	2,453,400	2,324,303	2,324,303
91-66	9/26/2003	4.250	1/1/2043	6,882	1,536,000	1,467,380	1,467,380
91-64	9/26/2003	4.250	1/1/2043	6,630	1,479,900	1,413,817	1,413,817
91-62	9/26/2003	4.250	1/1/2043	9,008	2,010,700	1,920,915	1,920,915
91-52	6/25/2004	4.375	1/1/2044	15,960	3,500,000	3,391,331	3,391,331
91-58	6/25/2004	4.250	1/1/2044	2,565	572,500	554,281	554,281
91-56	6/25/2004	4.375	1/1/2044	2,204	4,845,000	4,694,543	4,694,543
25-61	9/26/2005	4.125	9/26/2044	6,675	1,517,000	1,486,687	1,486,687
25-73	9/26/2005	4.125	9/26/2044	15,278	3,500,000	3,430,072	3,430,072
40-01	9/26/2005	4.125	9/26/2045	7,700	1,750,000	1,710,894	1,710,894
25-70	9/26/2005	4.125	9/26/2045	15,400	3,500,000	3,430,072	3,430,072
25-71	9/26/2005	4.125	9/26/2045	8,800	2,000,000	1,960,041	1,960,041
40-03	2/1/2006	4.125	2/1/2046	5,346	1,215,000	1,205,481	1,205,481
40-05	12/20/2007	4.375	12/20/2047	8,831	2,000,000	2,000,000	2,000,000
40-04	1/30/2009	4.250	1/30/2049	17,920	4,000,000	4,000,000	4,000,000
Total				$ 196,946	47,281,900	45,377,746	45,377,746

USDA Rural Development Wastewater Revenue Note – On January 8, 2010, the District issued a $260,000 Wastewater Revenue Capital Loan 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 Series 2010 note bears interest at 4.00% per annum with monthly principal and interest payments of $1,088. The note matures on January 8, 2050.

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, 2010, the debt service coverage ratio of the revenues to debt service was 230%.

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 in 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 repairs, 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 insurance does not meet the minimum requirements of the note resolution.

Details of the USDA Rural Development wastewater revenue note at December 31, 2009 and 2010 are as follows:

Loan No.	Issue Date	Interest Rate	Maturity Date	Monthly Payment	Amount Originally Issued	Note Balances December 31, 2010	Note Balances December 31, 2009
92-06	1/8/2010	4.000	12/1/2049	$ 1,088	260,000	257,507	-

Water Revenue Bonds – The District has pledged future water customer receipts, net of specified operating disbursements, to repay $83,865,000 of water revenue bonds issued in November 2006. Proceeds from the bonds provided financing to refund certain outstanding USDA Rural Development water revenue notes, lease purchase obligation agreements and water revenue capital loan notes and for the costs of improvements and extension to the District's water system. The bonds are payable solely from water customer net receipts and are payable through 2041. The total principal remaining to be paid on the bonds is $82,060,000. At December 31, 2010 and 2009, the debt service coverage ratios of the revenues (excluding connection fees) to debt service were 52% and 64%, respectively.

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

(a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holder holds a lien on the future earnings of the funds.

(b) Sufficient monthly transfers shall be made to a water revenue bond sinking account for the purpose of making the bond principal and interest payments when due.

(c) A water reserve account shall be established. This account is restricted for the purpose of paying principal and interest when funds in the sinking account are inadequate.

(d) An improvement account shall be established for the purpose of paying principal and interest when there is insufficient money in the sinking and reserve accounts and extraordinary maintenance and repairs, 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 insurance does not meet the minimum requirements of the bond resolution and the District has not maintained the required balance in the water reserve account. In addition, the District has not maintained user rates at a sufficient level for payment of principal and interest on the bonds and has not deposited sufficient amounts to the sinking or improvement accounts as required.

CIFG Assurance North America, Inc. (CIFG NA)

During 2010, CIFG Assurance North America, Inc. (CIFG NA), the bond insurer, paid the District's deficiency of $1,329,936 of principal and interest payments on the water revenue bonds. The principal of $1,230,000 paid by the bond insurer continues to accrue interest at the stated rate of the bond. Accrued interest payable to CIFG NA was $3,741 at December 31, 2010. The outstanding balances at December 31, 2010 and 2009, including accrued interest, were $1,333,677 and $0, respectively.

Rural Community 2000 Loan

The District obtained a $200,000 loan in 1993 from the Iowa Department of Economic Development under the Rural Community 2000 program. The loan is interest free and requires annual principal payments of $20,000 through 2009. The District was in default for non-payment of the outstanding loan balance at December 31, 2010 and December 31, 2009. The outstanding balances at December 31, 2010 and 2009 were $20,000 and $20,000, respectively.

Project Anticipation Notes

In 2006, the District entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. (Trustee for the issuance of planning and design loans.) The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the costs of planning, designing and constructing improvements and extensions to the water system. The funds were drawn by the District from the Trustee upon request to reimburse the District for costs as they were incurred. The District has drawn $1,468,168. The District decided not to move forward with the projects and received approval from the Iowa Finance Authority to extend the maturity date from October 16, 2009 to October 16, 2010 and then to October 16, 2011. The District made no principal or interest payments during 2010 or 2009. Iowa Finance Authority project anticipation notes outstanding at December 31, 2010 and 2009 are as follows:

				Note Balances	
	Interest			December 31,	
Project	Rate	Maturity Date	Limit	2010	2009
Beaver Creek Treatment Plant	0.00%	10/16/2011	$ 917,000	917,000	917,000
North Service Area 3 Phase IIB	0.00	10/16/2011	175,000	175,000	175,000
Service Area 3, Phase II	0.00	10/16/2011	250,000	18,168	18,168
Winn/Worth	0.00	10/16/2011	358,000	358,000	358,000
Total			$ 1,700,000	1,468,168	1,468,168

In a prior year, the District entered into project anticipation loan notes to finance construction of new projects. As security, the District committed to retire the project anticipation notes through proceeds from the issuance of additional USDA water and wastewater revenue notes with the remainder of the project anticipation notes payable from other unrestricted assets. In 2009, the maturity date of the F & M Bank note was extended from October 1, 2009 to January 1, 2010. Payments of $260,000 of principal and $592 of interest were made during the year ended December 31, 2010. Project anticipation notes outstanding for Bank of America and F & M Bank notes at December 31, 2010 and 2009 are as follows:

	Interest			December 31,	
Lender	Rate	Maturity Date	Limit	2010	2009
F & M Bank	3.90%	1/1/2010	$ 260,000	-	260,000
Bank of America	3.70	6/1/2010	5,000,000	5,000,000	5,000,000
Bank of America	3.16	11/15/2010	5,000,000	2,561,649	2,561,649
Total				$ 7,561,649	7,821,649

At December 31, 2010, the District is in default on the notes.

Asset Purchase Agreement

The District entered into an asset purchase agreement with Coats Utilities Company on November 5, 2007. As part of this agreement, the District assumed Capmark Loans #01-03244-01 and #01-03244-03 from Coats Utilities Company for the assets collateralizing the loans. Capmark Loan #01-03244-01 bears interest at 5.0% per annum and requires monthly principal and interest payments of $470, with a maturity date of May 6, 2017. Capmark loan #01-03244-03 bears interest at 5.0% per annum and requires monthly principal and interest payments of $377, with a maturity date of May 11, 2022. $1,153 of principal and $541 of interest were paid during the year ended December 31, 2010. The balances outstanding at December 31, 2010 and 2009 were $76,426 and $77,579, respectively. The District was in default for insufficient payments of the outstanding loan balance at December 31, 2010.

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

Year ending December 31,	USDA Rural Development Revenue Notes Principal	Interest		Total		Water Revenue Bonds, Series 2006 Principal	Interest	Total
2011	$ 1,274,196	3,364,232	#	4,638,428		1,285,000	3,711,075	4,996,075
2012	642,157	1,952,773		2,594,930		1,335,000	3,662,888	4,997,888
2013	688,643	1,924,250		2,612,893		1,385,000	3,609,488	4,994,488
2014	719,245	1,893,695		2,612,940		1,440,000	3,554,088	4,994,088
2015	751,219	1,861,768		2,612,987		1,500,000	3,496,488	4,996,488
2016-2020	4,288,076	8,777,653		13,065,729		8,505,000	16,469,900	24,974,900
2021-2025	5,331,697	7,735,581		13,067,278		10,580,000	14,396,512	24,976,512
2026-2030	6,631,347	6,437,850		13,069,197		13,140,000	11,835,256	24,975,256
2031-2035	7,872,787	4,842,508		12,715,295		16,550,000	8,573,963	25,123,963
2036-2040	9,320,175	2,995,846		12,316,021		21,345,000	4,278,462	25,623,462
2041-2045	7,037,734	1,019,791		8,057,525		4,995,000	230,300	5,225,300
2046-2050	1,077,977	113,650		1,191,627		-	-	-
Total	$ 45,635,253	42,919,597		88,554,850	*	82,060,000	73,818,420	155,878,420

Year ending December 31,	Project Anticipation Notes Principal	Interest		Total	Rural Community 2000 Loan Principal	Interest	Total
2011	$ 9,029,817	385,349	@	9,415,166	20,000	-	20,000
2012	-	-		-	-	-	-
2013	-	-		-	-	-	-
2014	-	-		-	-	-	-
2015	-	-		-	-	-	-
2016-2020	-	-		-	-	-	-
2021-2025	-	-		-	-	-	-
2026-2030	-	-		-	-	-	-
2031-2035	-	-		-	-	-	-
2036-2040	-	-		-	-	-	-
2041-2045	-	-		-	-	-	-
2046-2050	-	-		-	-	-	-
Total	$ 9,029,817	385,349		9,415,166	20,000	-	20,000

Year ending December 31,	Asset Purchase Agreement Principal	Interest		Total	Total Principal	Interest	Total
2011	$ 12,292	9,420	&	21,712	11,621,305	7,470,076	19,091,381
2012	7,119	3,045		10,164	1,984,276	5,618,706	7,602,982
2013	7,483	2,681		10,164	2,081,126	5,536,419	7,617,545
2014	7,866	2,298		10,164	2,167,111	5,450,081	7,617,192
2015	8,269	1,895		10,164	2,259,488	5,360,151	7,619,639
2016-2020	26,666	4,455		31,121	12,819,742	25,252,008	38,071,750
2021-2025	6,731	275		7,006	15,918,428	22,132,368	38,050,796
2026-2030	-	-		-	19,771,347	18,273,106	38,044,453
2031-2035	-	-		-	24,422,787	13,416,471	37,839,258
2036-2040	-	-		-	30,665,175	7,274,308	37,939,483
2041-2045	-	-		-	12,032,734	1,250,091	13,282,825
2046-2050	-	-		-	1,077,977	113,650	1,191,627
Total	$ 76,426	24,069		100,495	136,821,496	117,147,435	253,968,931

* - The unamortized discount at December 31, 2010 and 2009 totaled $659,840 and $681,240, respectively.

- Includes unpaid water revenue note interest of $1,355,683 at December 31, 2010.

@ - Includes unpaid interest of $385,349 at December 31, 2010.

& - Includes unpaid interest of $3,077 at December 31, 2010.

(8) Leases

The District leases mailing equipment from Pitney Bowes Global Financial Services. The cost of leases expensed to operations and included in office expense was $14,146 and $10,250 for the years ended December 31, 2010 and 2009, respectively.

The following is a schedule by year of future minimum rental payments required under operating leases which have partial or remaining non-cancelable lease terms in excess of one year as of December 31, 2010:

Year Ending Deember 31,	Total Minimum Lease Payments
2011	$ 10,377
2012	6,956
2013	3,564
Total	$ 20,897

The District leases land to an employee under an operating lease. The land is enrolled in the United States Department of Agriculture Farm Service Agency Conservation Reserve Program. The future annual lease payments are calculated by multiplying the Conservation Reserve Program annual contract payment by 79.25%. The lease expires in 2017. The District's investment in property subject to the operating lease was $568,986 and $907,667 at December 31, 2010 and 2009, respectively. The District is attempting to renegotiate this lease to revise the terms.

The following is a schedule by year of minimum future rentals on non-cancelable operating leases as of December 31, 2010:

Year Ending December 31,	Total Estimated Rental Receipts
2011	$ 15,958
2012	15,958
2013	15,168
2014	15,168
2015	15,168
2016 - 2024	26,097
Total	$ 103,517

The District has entered into a lease agreement with RTK of Iowa exchanging the use of water towers as base stations for use of the GPS network. The lease expires in 2013 and the tenant has an option to renew the agreement for an additional five year period.

The District leased land to farm tenants during 2010 and 2009 totaling $20,900 each year. The lease terms were from April 15 through November 30, 2010 and 2009, respectively, at which time the leases automatically terminated.

(9) Related Party Transactions

An employee of the District pays rent for land and the periodic use of equipment used to maintain the land to the standards of the USDA Farm Service Agency Conservation Reserve Program. Rent payments received by the District for land and equipment totaled $15,663 and $26,350 for 2010 and 2009, respectively. Rental income receivable was $15,663 and $0 at December 31, 2010 and 2009, respectively.

(10) Discretely Presented Component Unit

During 2003, the Xenia Economic Development Corporation was formed as a component unit of the District. The Xenia Economic Development Corporation was organized as a not-for-profit corporation for the purpose of obtaining grant funding.

The Xenia Economic Development Corporation was named as a sub-recipient of a Rural Community Development Initiative grant in 2006. The $63,000 grant from Iowa Rural Water Association was awarded to train local officials and to provide assistance in the development of housing and business in rural communities. The Rural Community Development Initiative grant is a service type grant, and revenues from this grant are realized as services are performed. The District is compensated by the Xenia Economic Development Corporation for the services performed for this grant.

Condensed statements of net assets:

	December 31, 2010	December 31, 2009
Assets:		
Cash	$ -	2,517
Grant receivable	-	-
Organizational fees	-	500
Total	$ -	3,017
Liabilities and Net Assets:		
Accounts payable	$ -	2,434
Deferred grant revenue	-	-
Unrestricted net assets	-	583
Total	$ -	3,017

Condensed statement of revenues, expenses and changes in net assets:

	Year ended December 31, 2010	Year ended December 31, 2009
Operating revenues (expenses):		
Service grant revenue	$ -	7,888
Contract labor	-	(7,888)
Operating income	-	-
Other revenues	(583)	17
Change in net assets	(583)	17
Net assets beginning of year	583	566
Net assets end of year	$ -	583

(11) 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, 2010 and 2009 was $44,698 and $69,789, respectively. This liability has been computed based on rates of pay in effect at December 31, 2010 and December 31, 2009, respectively.

(12) Impairment Loss

Management of the District computed an impairment loss for water and wastewater system assets in accordance with GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.

The District has received an offer of $2,350,000 for water and wastewater assets in Worth County with a carrying value, net of accumulated depreciation/amortization, of $3,460,831 at December 31, 2010. The District is not fully utilizing the water and wastewater assets as intended. The District has recorded an impairment loss of $1,110,831 for the difference between the net carrying value at year end and the market value of the assets for the year ended December 31, 2010

The District has incurred costs of $1,194,074 for construction of water and wastewater assets in Worth County. The District has stopped construction on those assets and an impairment loss of $1,194,074 has been recorded for the year ended December 31, 2010.

The impairment loss on assets totaling $2,304,905 has been recorded as a non-operating loss on the statement of revenues, expenses and changes in net assets. A corresponding reduction in capital assets has been recorded at December 31, 2010.

(13) Subsequent Events

On January 7, 2011, the District agreed to sell undeveloped real estate totaling approximately 181 acres in Dallas County for $820,000, its appraised value. The District recognized a nonoperating loss of $576,483. This transaction was settled and legally recorded on March 2, 2011. The District's Board of Directors authorized the sale at the offered value at the December regular Board meeting and provided the interim Executive Director the power to execute the contract documents.

On January 20, 2011, the District's Board of directors approved and signed the renegotiated RTK of Iowa/Ogden Telephone Company lease agreement which removes all RTK of Iowa GPS base stations and related equipment from its elevated tank tower structures by December 1, 2011. At the same meeting, the Board of Directors approved a "phase 1" implementation of capital improvements to remediate water quality issues in its Woodward System, including improvements to its water treatment plant and related distribution system. In addition, other phase 1 capital items included improvements to the Stratford water treatment plant to return it to its design capacity as well as improvements to the Madrid north pump station to inject necessary chemical additives to maintain appropriate water quality in its Madrid North System.

As of March 16, 2011 the District, has sold surplus water main pipe and parts inventory for net proceeds totaling $276,535, with a reported value of $881,151. Based on this asset disposition experience, all remaining surplus pipe and parts inventory was written down to lower of cost or market value. The application of a 69% write down of the balance of the identified surplus inventory was recognized in 2010 as a holding loss totaling $1,215,819.

On March 29, 2011, the District auctioned and received net sale proceeds of approximately $1,290,000 for surplus construction equipment and vehicles with a net book value of approximately $600,000. All identified surplus construction equipment and vehicles have been disposed of via public auction or private sale using independent and documented appraisal values.

On March 31, 2011, the District's Board of Directors approved a debt work-out proposal. The document addresses a request of the USDA, in a letter dated September 27, 2010, to propose a written debt workout plan. No District creditor has agreed formally to the proposal in writing, although parity lenders are participating in and discussing possible agreement. A summary description of the debt work-out proposal is described in Note 14 of the Notes to Financial Statements.

(14) Going Concern

The District is past due since October 1, 2009 on monthly USDA Rural Development water revenue note principal and interest payments, except for partial payment of interest totaling $1,466,451 during 2010. The USDA notified the District in late 2009 it must enter into a formal debt workout agreement to resolve its payment deficiencies. If an agreement cannot be reached, or the agreement is unable to correct the deficiency, other servicing actions, such as debt re-amortization or rescheduling, transfer and assumption, sale, receivership or foreclosure, may be considered.

The net revenues of the District did not meet the debt service coverage ratio requirement of not less than 100% of the principal and interest payments on the Water Revenue Bonds, Series 2006 ("Series 2006 bonds") during the year. Without sufficient net water revenues, the District cannot pay principal and interest coming due on the bonds from the sinking fund. Related debt reserve funds are depleted and the bond insurer paid claims for the District's deficiency applicable to principal and interest due on the Series 2006 bonds as described in Note 7 of the Notes to Financial Statements.

Assured Guaranty Corporation ("Assured"), acting as an agent for the bond insurer of the Series 2006 bonds, requested the District implement water rate increases to a level recommended by a consultant engaged by the outside counsel representing Assured. The consultant's report, issued in early 2010, concluded the District would still not meet its financial obligations in 2010 and thereafter with the recommended water rate structure. Assured previously has reserved rights under the Series 2006 bond resolution, approved by the District's Board of Directors, to obtain a writ of mandamus as well as petition a court to appoint a receiver should timely resolution of the District's debt default not occur.

In addition to the parity obligations, the District has $7,561,649 of Bank of America project anticipation notes which are past due and in default. These anticipation notes are subordinate to the claims of the parity lenders - the USDA and the Series 2006 public bondholders.

The Board of Directors adopted a debt work-out proposal at the March 31, 2011 monthly Board meeting. The plan's key elements include: 1) additional water rate increases to the District's membership, 2) requested amendments to ethanol plant water purchase agreements to more adequately recover the incremental cost of capital improvements constructed to serve each plant, 3) debt re-amortization by the USDA and the Iowa Finance Authority at interest rates lower than stated in existing debt instruments, 4) legal fee forgiveness by Assured (agent for the public bond insurer), 5) debt forgiveness by CIFG Assurance North America, Inc. related to Series 2006 bond payment deficiencies on June 1, 2010 and December 1, 2010, 6) debt forgiveness by Bank of America totaling approximately 80% of the current outstanding principal and accrued interest, 7) continued reduction in employee costs as well as material and supplies costs via improved productivity, cost management and sourcing and purchasing from outside suppliers and contractors and 8) replenishment of parity lender debt reserve funds over a five-year period.

(15) Litigation

Bank of America, N.A. ("BOA") filed a lawsuit against the District on September 17, 2010. The action concerns two anticipation notes purchased by BOA from the District. BOA is seeking a money judgment of approximately $7,500,000 plus accrued interest. The District acknowledges the debts, but contends the anticipation notes can only be paid by issuing long-term revenue debt. The District is currently unable to issue additional debt. BOA's application for temporary injunction was denied on March 15, 2011. The action is currently set for trial in July 2011.

(16) Other Postemployment Benefits (OPEB)

The District implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions, during the year ended December 31, 2010.

Plan Description. The District operates a single-employer health benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 37 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug and dental benefits are provided through a medical and dental plan administered by Wellmark and Principal Financial Group, respectively. Retirees under age 65 would pay the same premium for the medical/prescription drug and dental benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy. The contribution requirements of plan members are established and may be amended by the District. The District currently finances the benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation. The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount determined using the alternate measurement method permitted by GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended December 31, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	$ 4,000
Contributions made	-
Increase in net OPEB obligation	4,000
Net OPEB obligation beginning of year	-
Net OPEB obligation end of year	$ 4,000

For the year ended December 31, 2010, the District contributed $0 to the plan and there were no contributions from plan members eligible for benefits.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of December 31, 2010 are summarized as follows:

Year Ended December 31,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	$ 4,000	0%	$ 4,000

Funded Status and Funding Progress. As of December 31, 2010, the actuarial accrued liability was $14,884, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $14,884. The covered payroll (annual payroll of active employees covered by the plan) was approximately $1,428,474 and the ratio of the UAAL to covered payroll was 1.05%. As of December 31, 2010, there were no trust fund assets.

The projection of future benefit payments for ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the January 1, 2010 valuation date, a simplified version of the unit credit actuarial cost method was used. The assumptions include a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 1% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the 2004 United States Live Tables. Annual retirement and termination probabilities were developed from the assumption active plan members were assumed to retire at age 62, or the first subsequent year in which the member would qualify for normal benefits under IPERS.

Required Supplementary Information

Xenia Rural Water District

Schedule of Funding Progress for the
Retiree Health Plan
(In Thousands)

Year Ended December 31,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	January 1, 2010	-	$ 15	15	0.00%	$ 1,428	1.05%

See Note 16 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

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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 the accompanying financial statements of the Xenia Rural Water District as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated April 12, 2011. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Xenia Rural Water District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Xenia Rural Water District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in and internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control over financial reporting we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

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 deficiencies described in the accompanying Schedule of Findings as items (B) through (D) to be significant deficiencies.

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 no instances of non-compliance or other matters required to be reported under Government Auditing Standards. However, we noted certain immaterial instance of non-compliance or other matters that 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, 2010 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 identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit the Xenia Rural Water District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the members and customers of the Xenia Rural Water District and other parties to whom the District may report, and is not intended to be and should not be used by anyone other than these specified parties.

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.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 12, 2011

Xenia Rural Water District

Schedule of Findings

Year ended December 31, 2010

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Financial Reporting –We identified certain material adjustments to the inventory and capital asset amounts in the District's financial statements. Adjustments were subsequently made by the District.

We also identified a component unit which should be blended with the District's financial statements instead of being discretely presented.

Recommendation – The District should implement procedures to ensure all required adjustments are recorded in the District's financial statements. Also, potential component units should be evaluated according to criteria established by the Governmental Accounting Standards Board and properly presented.

Response – The material adjustments were for valuations of inventory and capital assets which were, in part, disposed of subsequent to the end of the year. The values from subsequent disposals were the basis for the material adjustments.

The component unit was wound down during the year. Future activities are not anticipated.

Conclusions – Response accepted.

(B) Adjusting Journal Entries – During the year, standard and nonstandard journal entries are entered into the accounting system by District personnel and the Controller. The Controller reviews standard and nonstandard journal entries entered by the accounting staff. However, there is no independent review of journal entries entered by the Controller.

Recommendation – The District should develop procedures to ensure all standard and nonstandard journal entries are reviewed and approved by an independent person. The independent review should be evidenced by the reviewer's initials or signature, documentation of specific entries reviewed and the date reviewed.

Response – The District will develop a documented review procedure for the approval of adjusting journal entries.

Conclusion – Response accepted.

(C) Capital Assets - A physical observation of capital assets is not performed periodically by an employee having no responsibility for the assets.

Recommendation - Capital assets should be tested periodically by an employee having no responsibility for the assets.

Response – The District will implement a process of periodic observation of capital assets.

Conclusion – Response accepted.

(D) Rental Lease Agreement – The District has entered into a lease agreement with an employee for CRP land owned by the District. However, the lease terms are not encompassed in the agreement. Additionally, District management asserts the agreement may be void because it was signed by the executive secretary of the former Director and not by the Director.

Under the agreement, the amount of rent paid to the District is based on a verbal agreement with the tenant. Annually, the tenant remits a rent payment based on the amounts received from the USDA, less the costs to maintain the property. However, supporting documentation of the costs incurred to maintain the property are not provided to the District.

The District has discussed the details of the lease agreement with the USDA and has received a confirmation letter from them regarding compliance of this CRP agreement.

Recommendation – The District should reduce the terms of the agreement to writing and ensure the employee provides supporting documentation to evidence the costs to maintain the property.

The District should also consult legal counsel to determine if the agreement signed by the executive secretary is enforceable.

Response – The District will execute a re-negotiated written land lease with the existing tenant or engage another party who will assume the existing CRP contracts.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

(1) Questionable Disbursements – No expenditures we believe may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979 were noted.

(2) Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted.

(3) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not, except as follows:

The District Board of Directors went into closed session numerous times during the year ended December 31, 2010. However, the vote of each member to go into closed session was not documented in accordance with Chapter 21.5 of the Code of Iowa.

Recommendation - Closed sessions should be held in compliance with Chapter 21.5 of the Code of Iowa and the meetings should state the vote of each individual Board member or that there was a unanimous vote.

Response – The District will announce publicly at the open session and enter in the minutes the vote of each member on the question of holding the closed session and the reason for the closed session.

Conclusion – Response accepted.

(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 Revenue Notes and Bonds – Instances of non-compliance with the water revenue note and bond resolutions were noted, as follows:

The District is in default on the USDA water revenue notes at December 31, 2010. The District also requested CIFG NA, the bond insurer for the Wells Fargo Series 2006 water revenue bonds, to make partial required debt payments. This appears to violate provisions of the water revenue note and bond resolutions which state the District shall maintain user rates at a sufficient level for payment of expenses for operation and maintenance of the system and for payment of principal and interest on the notes and bonds.

The District did not meet the minimum balance requirements or make adequate transfers to the water reserve, sinking and improvement accounts.

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

Recommendation – The District should review the note and bond provisions and comply with the requirements.

Response – The Board of Directors adopted a debt work-out proposal dated March 31, 2011 that proposes a solution to keep the District functioning as a going concern. The debt work-out proposal addresses the default of the USDA water revenue notes and water reserve balance requirements.

In 2010, the District adopted a 22% rate increase for its residential and commercial water users. The District established water reserve, sinking and improvement funds that comply with note and bond provisions to the extent of the revenues that existed. The District sought any additional surety bond coverage, but was unable to obtain the additional coverage necessary to comply with note and bond provisions.

Conclusion – Response acknowledged.

(6) Wastewater Revenue Notes and Bonds – Instances of non-compliance with the wastewater revenue note and bond resolutions were noted, as follows:

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

Recommendation – The District should review the note and bond provisions and comply with the requirements.

Response – The District sought additional surety bond coverage, but was unable to obtain the additional coverage necessary to comply with the note provisions.

Conclusion – Response acknowledged.

(7) Financial Condition – The District is in default on approximately $45 million of outstanding USDA revenue notes and is in default on other outstanding loans and notes, including those held by Bank of America and the Iowa Department of Economic Development. Also, the District was not able to make full payment on approximately $82 million of outstanding Wells Fargo Series 2006 water revenue bonds, requiring CIFG NA, the bond insurer, to make partial payments. Additionally, the District is in a net asset deficit position at December 31, 2010.

Recommendation – The District should raise rates, when possible, to generate sufficient funds to make required principal and interest payments and consult legal counsel to resolve these matters.

Response – The Board of Directors adopted a debt work-out proposal dated March 31, 2011 that proposes a solution to keep the District functioning as a going concern. The debt work-out proposal addresses the default of the long-term liabilities in part through an increase in water rates.

Conclusion – Response acknowledged.

(9) Other Information Required by the Bond Resolution

Insurance – The following insurance policies were in force at December 31, 2010:

Insurer	Description	Amount	Expiration Date
EMC Insurance Companies	Property:		
	Blanket: Buildings and personal property	$ 37,348,028	5/1/11
	Extra expense	75,000	5/1/11
	Contractors equipment	4,258,247	5/1/11
	Leased contractors equipment	300,000	5/1/11
	Miscellaneous property - Radios and GPS	78,850	5/1/11
	Data processing - equipment and software	132,500	5/1/11
	Off-site tools and equipment:		
	Per installation site	300,000	5/1/11
	Property temporarily off premises	20,000	5/1/11
	Property in transit	40,000	5/1/11
EMC Insurance Companies	General liability coverage:		
	General aggregate	2,000,000	5/1/11
	Products general liability	2,000,000	5/1/11
	Personal and/or advertising	1,000,000	5/1/11
	Each occurrence	1,000,000	5/1/11
	Fire damage	100,000	5/1/11
	Medical expense	5,000	5/1/11
EMC Insurance Companies	Automobile coverage:		
	Liability	1,000,000	5/1/11
	Medical payments	1,000	5/1/11
	Uninsured motorists	100,000	5/1/11
	Underinsured motorists	100,000	5/1/11
Chartis Specialty Workers Comp Group	Workers' compensation:		
	Employee liability limit	1,000,000	5/1/11
EMC Insurance Companies	Commercial umbrella:		
	Policy aggregate	5,000,000	5/1/11
EMC Insurance Companies	Public officials errors and omissions:		
	Each loss	1,000,000	5/1/11
	Aggregate	1,000,000	5/1/11
EMC Insurance Companies	Fidelity coverage:		
	Per loss - Employee Dishonesty	1,000,000	5/1/11
	Per loss deductible	10,000	5/1/11
EMC Insurance Companies	Employee benefit liability:		
	Each loss from administrative errors	1,000,000	5/1/11
	Aggregate	1,000,000	5/1/11

Water Rates – The following water rates were in force at December 31, 2010:

	Gallons	Rate
RESIDENTIAL/COMMERCIAL		
Rural 5/8" meter (non-franchise users)		
Minimum	0-2,000	\$41.60 to \$48.00
Steps	per 1,000 after minimum	\$12.20 to \$4.00
Franchise 5/8" meter		
Minimum	0-2,000	\$14.20 to \$42.20
Steps	per 1,000 after minimum	\$9.50 to \$4.00
City of Boone contracted rate:		
Minimum	0-1,000	\$8.49
Steps	per 1,000 after minimum	\$7.25 to \$4.45
3/4" meter		
Minimum	0-4,000	\$91.00 to \$136.50
Steps	per 1,000 after minimum	\$12.20 to \$4.00
1" meter		
Minimum	0-6,000	\$62.90 to \$144.10
Steps	per 1,000 after minimum	\$7.50 to \$4.00
1 1/2" meter		
Minimum	0-10,000	\$168.20 to \$240.20
Steps	per 1,000 after minimum	\$4.20 to \$4.00
2" meter		
Minimum	0-16,000	\$131.90 to \$384.30
Steps	per 1,000 after minimum	\$4.00
6" meter		
Minimum	0-16,000	\$362.60
Steps	per 1,000 after minimum	\$3.70
INDUSTRIAL	fixed cost	\$14,631.00 to \$67,228.00
	per 1,000 after minimum	\$2.13 to \$1.66
WHOLESALE	no minimum/per 1,000 charge	\$6.00 to \$1.80

Statistical Information

Water Customers served at December 31, 2010:

Description	Number
Residential	9,184
Commercial	262
Industrial	4
Wholesale	5
Total	9,455

Xenia Rural Water District

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Brett M. Zeller, Staff Auditor
Gelu Sherpa, CPA, Staff Auditor
Ryan A. Yeager, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State