



**OFFICE OF AUDITOR OF STATE**  
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Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE \_\_\_\_\_ June 25, 2013

Contact: Andy Nielsen  
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The Office of Auditor of State today released an audit report on the Xenia Rural Water District.

The District had total revenues of \$12,217,282 for the year ended December 31, 2012, a 36.5% decrease from the prior year. Revenues included water sales of \$11,391,993 and system connection fees of \$383,764. The decrease in revenues was primarily due to gains of \$1,187,184 from the sale of capital assets and \$6,669,701 from forgiveness of debt by a creditor in 2011.

Expenses totaled \$14,281,582 for the year ended December 31, 2012, a 6.8% decrease from the prior year. Expenses included \$5,730,435 of interest, \$2,800,254 of depreciation/amortization and \$1,294,032 for salaries and wages. The decrease in expenses is due primarily to decreased operating and interest expense.

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/1233-0037-B000.pdf>.

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**XENIA RURAL WATER DISTRICT**

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

**DECEMBER 31, 2012 and DECEMBER 31, 2011**

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## Xenia Rural Water District

### Officials

#### (Before April 2012)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Walt Tomenga	Chair	Apr 2013
Greg Rinehart	Vice Chair	Apr 2012
Steve Mestad	Treasurer	Apr 2014
Jean Bromert	Secretary	(Resigned)
Frank Hayer	Director	Apr 2013
Dan Lovett	Director	Apr 2013
Troy Wilson	Director	Apr 2013
Dave Bert (Appointed)	Director	Apr 2014
Tamera Mason	General Manager	Indefinite
Greg Clay	Controller	(Resigned)
Gary Andrews (Appointed)	Interim Controller	Indefinite

#### (After April 2012)

Walt Tomenga	Chair	(Resigned)
Dan Lovett	Chair (Effective Oct 2012)	Apr 2013
Dan Lovett	Vice Chair (Through Sept 2012)	(Resigned)
Vacant	Vice Chair (Effective Oct 2012)	Apr 2013
Tom Ballard	Treasurer	Apr 2015
Frank Hayer	Secretary	Apr 2013
Troy Wilson	Director	Apr 2013
Dave Bert	Director	(Resigned)
Jean Bromert (Appointed)	Director	Apr 2014
Steve Mestad	Director	(Resigned)
Tamera Mason	General Manager	(Resigned)
Dr. L.D. McMullen (Appointed)	General Manager	Indefinite
Gary Andrews	Controller	Indefinite

**Xenia Rural Water District**



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Independent Auditor's Report

To the Members of the  
Xenia Rural Water District:

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Xenia Rural Water District as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified 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 restructured debt obligations to extend the terms and to reclassify short term debt to long term debt. However, significant uncertainties remain regarding the District's ability to continue its operations and to satisfy its obligations to its creditors on a timely basis. Consequently, adjustments may be required to the recorded asset amounts and the classification of liabilities.

### Qualified Opinion

In our opinion, except for the adjustments, if any, that may be required to the recorded asset amounts and the 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, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

### Emphasis of Matter

The accompanying financial statements have been prepared assuming the District will continue as a going concern. The conditions described in the sixth 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.


### Other Matters

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 11 and 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 6, 2013 on our consideration of the Xenia Rural Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

June 6, 2013



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

### FINANCIAL HIGHLIGHTS

- ◆ The District's net position decreased 68.8%, or \$(2,064,300), in 2012 and increased 430%, or \$3,911,557, in 2011 as a result of operations and other gains or losses in the respective years.
- ◆ Operating revenue increased 7.2%, or \$807,862, in 2012. The increase in operating revenues resulted from a rate increase. Operating revenue in 2011 increased \$937,757, or 9.1%, over 2010.
- ◆ Operating expenses decreased 7.2%, or \$639,795, in 2012 because of factors such as lower salaries and wages, lower wastewater operation expenses and lower fuel, maintenance, insurance and depreciation expenses. Operating expenses in 2011 decreased \$548,450, or 5.8%, from 2010 because of lower salaries and wages, lower purchased water expenses and lower professional fee expenses.

### USING THIS ANNUAL REPORT

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

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

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

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

The Statement of Cash Flows provides information about the District's sources and uses of cash 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 to Financial Statements provide additional information essential to a full understanding of the data provided in the District's financial statements. The Notes to Financial Statements are a required part of the basic financial statements.

Required Supplementary Information further explains and supports the financial statements by presenting the Schedule of Funding Progress for the Retiree Health Plan.

## FINANCIAL ANALYSIS

### Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. The District's net position at the end of 2012 totaled \$937,276. This compares to \$3,001,576 at the end of 2011 and \$(909,981) at the end of 2010. A summary of the District's net position is presented below.

	Net Position		
	December 31,		
	2012	2011	2010
Current assets	\$ 7,048,170	7,671,317	4,020,695
Noncurrent assets	1,230,157	1,346,532	1,760,875
Capital assets, net of accumulated depreciation/amortization	123,816,737	126,728,850	134,034,721
Total assets	132,095,064	135,746,699	139,816,291
Current liabilities	3,973,529	10,159,659	16,181,921
Noncurrent liabilities	127,184,259	122,585,464	124,544,351
Total liabilities	131,157,788	132,745,123	140,726,272
Net position:			
Restricted	3,819	2,509	-
Unrestricted (deficit)	933,457	2,999,067	(909,981)
Total net position	\$ 937,276	3,001,576	(909,981)

Net position decreased \$2,064,300 during the year ended December 31, 2012 and increased \$3,911,557 during the year ended December 31, 2011. The decrease in net position is primarily the result of \$5,730,435 of interest expense and a loss of \$308,959 due to the write down of surplus land to fair market value. Reasons for the increase in net position in 2011 was a gain due to the forgiveness of project anticipation notes and a gain on the disposition of capital assets.

Total liabilities of the District were \$131,157,788 and \$132,745,123 at December 31, 2012 and 2011, respectively. Noncurrent liabilities included in total liabilities were \$127,184,259 and \$122,585,464 at December 31, 2012 and 2011, respectively. Total liabilities decreased \$1,587,335 in 2012 and decreased \$7,981,149 in 2011. The decrease in liabilities at December 31, 2012 was primarily the result of a principal payment made on the water revenue bonds, Series 2006 and a decrease in interest payable. The decrease in liabilities at December 31, 2011 was primarily the result of project anticipation note debt forgiveness.

A significant portion of the District's total assets, 94% and 93%, were invested in capital assets at December 31, 2012 and 2011, respectively.

### Statement of Revenues, Expenses and Changes in Net Position

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

	Revenues, Expenses and Changes in Net Position		
	Year Ended December 31,		
	2012	2011	2010
Operating revenues	\$ 12,092,258	11,284,396	10,346,639
Operating expenses	(8,242,187)	(8,881,982)	(9,430,432)
Operating income	3,850,071	2,402,414	916,207
Nonoperating revenue	125,024	7,958,094	195,314
Nonoperating expenses	(6,039,395)	(6,448,951)	(10,435,393)
Change in net position	\$ (2,064,300)	\$ 3,911,557	\$ (9,323,872)

The Statement of Revenues, Expenses and Changes in Net Position reflects a decrease in net position in 2012, an increase in 2011 and a decrease in 2010.

Year ended December 31, 2012:

The change in net position in 2012 was a result of the following: 1) Total operating revenue increased 7.2% over the prior year because of water rate increases. The District's water revenue of \$11,391,993 increased 8.7% over 2011. In January 2012, a water rate increase went into effect for all users. 2) Operating expenses decreased 7.2% from 2011. Decreases in operating expenses were from lower salaries and wages, lower wastewater operation expense and lower fuel, insurance and depreciation expenses. 3) Non-operating revenues decreased 98.4% from 2011. The decrease was a result of 2011 gains from the sale of capital assets and the forgiveness of debt, which did not occur in 2012. 4) Non-operating expenses decreased 6.4% from 2011. Interest expense decreased slightly to \$5,730,435.

Year ended December 31, 2011:

The change in net position in 2011 was a result of the following: 1) Total operating revenue increased 9.1% over the prior year because of water rate increases. The District's water revenue of \$10,480,836 increased 10% over 2010. In May 2011, a water rate increase went into effect for all users. 2) Operating expenses decreased 5.5% from 2010. Decreases in operating expenses were from lower payroll, lower purchased water costs and lower professional fees. 3) Non-operating revenues increased 3,975% over 2010. The increase was a result of gains from the sale of capital assets and the forgiveness of debt. 4) Non-operating expenses decreased 38% from 2010. In 2010, the District recognized impairment losses of \$2,304,905 on water and wastewater capital assets in Worth County because of a construction stoppage and the likely disposal of the assets. A loss of \$576,483 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 was written off as uncollectible. Interest expense increased slightly to \$6,054,795.

#### *Statement of Cash Flows*

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

The following summarize the District's cash flows:

	Year ended December 31,		
	2012	2011	2010
Cash flows provided (used) by:			
Operating activities	\$ 7,173,892	6,372,710	4,657,911
Capital and related financing activities	(7,880,659)	(2,663,709)	(5,138,985)
Investing activities	19,219	26,642	621,187
Net increase in cash	(687,548)	3,735,643	140,113
Cash beginning of year	6,173,050	2,437,407	2,297,294
Cash end of year	\$ 5,485,502	6,173,050	2,437,407

## CAPITAL ASSETS

The following summarizes capital assets:

	December 31,		
	2012	2011	2010
Nondepreciable assets	\$ 1,886,697	2,124,389	3,643,774
Depreciable assets	144,034,164	144,794,350	150,203,865
Intangible assets	4,885,629	4,975,332	4,967,737
Accumulated depreciation/amortization	(26,989,753)	(25,165,221)	(24,780,655)
Total capital assets, net of accumulated depreciation/amortization	\$ 123,816,737	126,728,850	134,034,721

Capital assets, net of accumulated depreciation/amortization, (including water lines, equipment and buildings) of the District were \$123,816,737 and \$126,728,850 at December 31, 2012 and 2011, respectively. This is a net decrease of \$2,912,113 during the year ended December 31, 2012. Total capital assets decreased because of the disposal of equipment, tools and office furniture, along with the write-down of land values.

Construction in progress included in nondepreciable capital assets was \$79,699 and \$8,431 at December 31, 2012 and 2011, respectively. The District has decided to sell portions of land, resulting in a loss on sale of land of \$308,960. 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,		
	2012	2011	2010
Revenue notes	\$ 45,749,245	45,632,446	45,635,253
Revenue bonds	78,822,960	80,136,560	81,400,160
Assured Guaranty Corporation	2,519,867	2,440,580	1,329,936
Project anticipation notes	1,468,168	1,468,168	9,029,817
Asset purchase agreement	76,426	76,426	76,426
Rural community 2000 loan	20,000	20,000	20,000
Total	\$ 128,656,666	129,774,180	137,491,592

The District repaid \$230,514 of principal on previously issued USDA Rural Development water revenue notes, \$2,922 of principal on previously issued USDA Rural Development wastewater revenue notes and \$1,335,000 of principal on previously issued Water Revenue Bonds, Series 2006. For further detail on long-term debt, see Note 7 of the Notes to Financial Statements.

In 2011, the District repaid no principal on previously issued USDA Rural Development water revenue notes. \$1,110,644 of the total principal payment of \$1,285,000 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.

Debt service coverage has been calculated based on the definitions of gross revenues, operating expenses and special charges as defined in the Water Revenue Bonds Series 2006 resolution. Debt service coverage on the scheduled water parity debt payments of the District was 51% at December 31, 2012 and 51% at December 31, 2011. 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.

The Series 2006 cash balance requirement for the restricted reserve is \$5,225,300. At December 31, 2012 and 2011, the balance of the restricted cash, Series 2006 reserve was \$0 and \$0, respectively.

The USDA Rural Development bond resolution requires amounts to be deposited monthly into a reserve account until a balance of one-tenth of one full year's principal and interest payment is on reserve. 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.

In July 2011, CIFG Assurance North America, Inc. (CIFG NA), the bond insurer, and Assured Guaranty Corporation, the reinsurance company, reached a settlement where the Water Revenue Bonds, Series 2006 guarantee has been assumed by Assured Guaranty Corporation under the Quota Share Reinsurance Agreement dated January 21, 2009. Because of this guarantee, the long term and underlying ratings on the District's Water Revenue Bonds, Series 2006 were raised from 'D' to 'AA-'. The District's prior rating of 'D' was the result of the District not paying obligations in accordance with terms of the agreement.

## **ECONOMIC OUTLOOK**

The District believes there is substantial doubt about its ability to continue as a going concern. The District has not produced sufficient net revenues (gross revenues less on-going costs of operation and maintenance) to stay current on debt payments and to replenish its debt reserves. In this regard, the District did not achieve sufficient net revenues from the water system during 2012 or 2011 to meet sinking fund requirements and debt service reserve fund requirements. Although the bond insurer of the Water Revenue Bonds, Series 2006 was not required to cover any payment shortfall in 2012, it covered one payment shortfall in 2011 as described in Note 7 of the Notes to Financial Statements.

On March 28, 2013, the District's Board of Directors and Assured Guaranty Corporation completed a forbearance agreement and, on March 29, 2013, USDA approved refinancing all outstanding Xenia Rural Water District water related notes. Further details on the forbearance agreement and debt restructuring are presented in Note 11 of the Notes to Financial Statements.

Additional going concern information is presented in Note 12 of the Notes to Financial Statements.

## **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 38 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 141<sup>st</sup> Street, Bouton, Iowa 50039.

**Xenia Rural Water District**

## **Basic Financial Statements**

**Exhibit A**

Xenia Rural Water District  
Statement of Net Position  
December 31, 2012 and 2011

	December 31,	
	2012	2011
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 5,485,502	6,173,050
Accounts receivable:		
Trade	1,428,401	1,365,652
Other	74,740	51,973
Prepaid expenses	59,527	80,642
Total current assets	<u>7,048,170</u>	<u>7,671,317</u>
Noncurrent assets:		
Inventory	535,767	626,913
Capital assets, net of accumulated depreciation/amortization	123,816,737	126,728,850
Unamortized bond issuance costs	582,224	602,417
USDA Rural Development restricted cash reserve	61,460	61,453
Organizational costs, net of amortization	50,706	55,749
Total noncurrent assets	<u>125,046,894</u>	<u>128,075,382</u>
<b>Total assets</b>	<u>\$ 132,095,064</u>	<u>135,746,699</u>



Xenia Rural Water District  
Statement of Net Position  
December 31, 2012 and 2011

	December 31,	
	2012	2011
<b>Liabilities</b>		
Current liabilities:		
Accounts payable:		
Trade	\$ 1,943,234	1,354,667
Accrued payroll taxes, IPERS contribution and sales tax	41,477	82,737
Accrued payroll	29,893	25,105
Accrued compensated absences	49,941	47,089
Customer deposits	74,462	69,124
Sewer payables	22,350	20,033
Unearned revenue	15,594	-
Accrued interest payable:		
USDA Rural Development revenue notes	635	1,002,787
Water revenue bonds, Series 2006	300,793	305,241
Other bonds and notes	10,743	56,160
Current portion of long-term debt	1,484,407	7,196,716
Total current liabilities	3,973,529	10,159,659
Noncurrent liabilities:		
Revenue notes payable	45,746,264	43,718,890
Revenue bonds payable	77,437,960	78,801,560
Assured Guaranty Corporation payable	2,519,867	-
Project anticipation notes payable	1,468,168	-
Asset purchase agreement payable	-	57,014
Net OPEB liability	12,000	8,000
Total noncurrent liabilities	127,184,259	122,585,464
<b>Total liabilities</b>	131,157,788	132,745,123
<b>Net position</b>		
Restricted for sewer bond debt service	3,819	2,509
Unrestricted	933,457	2,999,067
Total net position	937,276	3,001,576
<b>Total liabilities and net position</b>	\$ 132,095,064	135,746,699

See notes to financial statements.

## Xenia Rural Water District

Statement of Revenues, Expenses and  
Changes in Net Position

Years ended December 31, 2012 and 2011

	December 31,	
	2012	2011
Operating revenues:		
Water sales:		
Residential	\$ 8,027,031	7,112,457
Commercial	678,685	636,233
Industrial	2,430,250	2,500,221
Wholesale	256,027	231,925
Service charges	198,501	282,971
Contracted billing:		
Water	20,425	17,384
Wastewater	19,601	33,190
Water connection fees	383,764	208,494
Wastewater revenue	76,249	260,389
Miscellaneous	1,725	1,132
Total operating revenues	<u>12,092,258</u>	<u>11,284,396</u>
Operating expenses:		
Provision for depreciation/amortization:		
Wastewater systems	24,436	61,349
Other	2,775,818	3,365,641
Salaries and wages	1,294,032	1,479,395
Purchased water	1,222,601	1,077,596
Professional fees	894,163	577,962
Utilities	312,638	328,996
Chemicals	243,927	288,066
Payroll taxes	107,641	116,565
General insurance	139,294	192,413
Employee benefits	263,092	268,295
Repair and maintenance	484,973	468,088
Wastewater operations	39,046	157,106
Fuel	134,895	180,307
Office expense	135,286	106,302
Postage and freight	6,192	31,341
Telephone	35,192	47,167
Vehicle repair and maintenance	35,328	18,302
Testing and lab	29,199	43,934
Amortization of bond costs	25,236	25,236
Licenses, dues and subscriptions	5,049	6,961
Miscellaneous	3,606	11,759
Bank fees and service charges	13,287	14,281

Xenia Rural Water District

Statement of Revenues, Expenses and  
Changes in Net Position

Years ended December 31, 2012 and 2011

	December 31,	
	2012	2011
Operating expenses (continued):		
Continuing education	5,082	3,502
Mileage	4,104	1,886
Advertising and promotion	4,052	3,664
Directors' per diem	2,145	2,391
Meals and lodging	1,873	3,477
Total operating expenses	<u>8,242,187</u>	<u>8,881,982</u>
Operating income	<u>3,850,071</u>	<u>2,402,414</u>
Non-operating revenues (expenses):		
Grant revenue	6,885	2,023
Custom water connection and relocation fees	-	72,520
Interest income	178	2,816
Interest expense	(5,730,435)	(6,054,795)
Rental income	19,048	23,850
Gain on sale of capital assets	41,379	1,187,184
Gain on forgiveness of debt	-	6,669,701
Miscellaneous	53,087	(482)
Loss on land sale	(308,960)	-
Impairment loss	-	(391,532)
Gain (loss) on disposal of inventory	4,447	(2,142)
Net non-operating revenues (expenses)	<u>(5,914,371)</u>	<u>1,509,143</u>
Change in net position	(2,064,300)	3,911,557
Net position (deficit) beginning of year	3,001,576	(909,981)
Net position end of year	<u>\$ 937,276</u>	<u>3,001,576</u>

See notes to financial statements.

**Exhibit C**

## Xenia Rural Water District

## Statement of Cash Flows

Years ended December 31, 2012 and 2011

	December 31,	
	2012	2011
Cash flows from operating activities:		
Cash received from customers	\$ 12,011,666	11,381,097
Cash payments to employees for services	(1,697,669)	(1,892,611)
Cash payments to suppliers for goods and services	(3,140,105)	(3,115,776)
Net cash provided by operating activities	<u>7,173,892</u>	<u>6,372,710</u>
Cash flows from capital and related financing activities:		
FEMA public assistance grant received	26,349	15,175
Other grants received	-	2,023
Cash received from custom connection fees	-	72,520
Miscellaneous received	53,087	-
Proceeds from sale of assets	116,806	5,037,621
Proceeds from sale of excess inventory	24,704	325,126
Acquisition and construction of capital assets	(201,638)	(292,595)
Principal paid on bonds and notes	(1,117,514)	(1,054,466)
Interest paid on bonds and notes	(6,782,453)	(6,769,113)
Net cash used by capital and related financing activities	<u>(7,880,659)</u>	<u>(2,663,709)</u>
Cash flows from investing activities:		
Purchase of investments	(7)	(24)
Investment income	19,226	26,666
Net cash provided by investing activities	<u>19,219</u>	<u>26,642</u>
Net increase in cash and cash equivalents	(687,548)	3,735,643
Cash and cash equivalents beginning of year	<u>6,173,050</u>	<u>2,437,407</u>
Cash and cash equivalents end of year	<u>\$ 5,485,502</u>	<u>6,173,050</u>

Xenia Rural Water District

Statement of Cash Flows

Years ended December 31, 2012 and 2011

	December 31,	
	2012	2011
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 3,850,071	2,402,414
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation - wastewater systems	24,436	61,349
Depreciation - other	2,775,818	3,365,641
Amortization	25,236	25,236
Gain on forgiveness of debt	-	6,755
Loss on disposal of inventory	-	(2,888)
Changes in assets and liabilities:		
Accounts receivable	(104,980)	93,135
Prepaid expenses	21,115	(8,114)
Accounts payable	588,567	416,801
Accrued salaries and wages	7,640	(2,341)
Accrued payroll taxes, IPERS and sales tax	(41,260)	17,432
Other postemployment benefits	4,000	4,000
Unearned revenue	15,594	-
Customer deposits	5,738	(3,886)
Sewer payable	2,317	(124)
Membership refund liability	(400)	(2,700)
Total adjustments	3,323,821	3,970,296
Net cash provided by operating activities	\$ 7,173,892	6,372,710
Non-cash capital and related financing activities:		
Loss on land sale	\$ (308,960)	-
Impairment loss	-	(391,532)
Principal forgiven on project anticipation notes	-	6,662,946
Principal paid by debt guarantor	-	1,110,644
Interest rolled into principal balances	429,522	-
Total	\$ 120,562	7,382,058

See notes to financial statements.

Xenia Rural Water District  
Notes to Financial Statements  
December 31, 2012 and 2011

**(1) Summary of Significant Accounting Policies**

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

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

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

A. Reporting Entity

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

B. Basis of Presentation

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

C. Measurement Focus and Basis of Accounting

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

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

D. Assets, Liabilities and Net Position

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

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 the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
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

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, 2012 and 2011.

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

Amortization charged to operations and interest expense for 2012 and 2011 was \$46,635 and \$46,635, respectively.

F. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

G. Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentations.



**(2) Cash and Cash Equivalents**

The District's deposits in banks at December 31, 2012 and 2011 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 Agency Investment Trust which are valued at an amortized cost of \$65,311 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 5.38% of their annual covered salary until July 1, 2012, at which time the contribution rate changed to 5.78% of their annual covered salary. The District was required to contribute 8.07% of annual covered payroll until July 1, 2012, at which time the contribution rate changed to 8.67% of annual covered payroll. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended December 31, 2012, 2011 and 2010 were \$109,584, \$109,246 and \$105,941, respectively, equal to the required contributions for each year.

#### (4) Capital Assets

Capital assets activity for the years ended December 31, 2012 and 2011 was as follows:

	Year ended December 31, 2012			Balance End of Year
	Balance Beginning of Year	Increases	Decreases	
Capital assets not being depreciated/amortized:				
Land	\$ 2,115,958	-	(308,960)	1,806,998
Construction in progress	8,431	233,292	(162,024)	79,699
Total capital assets not being depreciated/amortized	2,124,389	233,292	(470,984)	1,886,697
Capital assets being depreciated/amortized:				
Office building and improvements	3,321,916	-	-	3,321,916
Office furniture and equipment	565,292	6,412	(305,281)	266,423
Plant building	618,339	-	-	618,339
Wells	167,164	-	-	167,164
Wastewater systems	1,434,944	-	-	1,434,944
Water lines	135,626,874	161,972	(108,079)	135,680,767
Intangibles, purchased capacity	4,728,209	-	-	4,728,209
Intangibles, software	247,123	8,250	(97,953)	157,420
Telemetry system	559,558	-	-	559,558
Equipment and tools	2,500,263	24,626	(539,836)	1,985,053
Total capital assets being depreciated/amortized	149,769,682	201,260	(1,051,149)	148,919,793
Less accumulated depreciation/amortization for:				
Office building and improvements	797,279	124,067	-	921,346
Office furniture and equipment	538,186	14,343	(305,281)	247,248
Plant building	445,947	14,728	-	460,675
Wells	45,668	4,179	-	49,847
Wastewater systems	82,428	24,436	-	106,864
Water lines	19,154,493	2,265,372	(35,286)	21,384,579
Intangibles, purchased capacity	1,671,321	121,059	-	1,792,380
Intangibles, software	232,883	9,793	(97,953)	144,723
Telemetry system	198,004	28,357	-	226,361
Equipment and tools	1,999,012	193,920	(537,202)	1,655,730
Total accumulated depreciation/amortization	25,165,221	2,800,254	(975,722)	26,989,753
Total capital assets being depreciated/amortized, net	124,604,461	(2,598,994)	(75,427)	121,930,040
Capital assets, net	\$ 126,728,850	(2,365,702)	(546,411)	123,816,737

	Year ended December 31, 2011				
	Balance Beginning of Year	Reclass- ifications	Increases	Decreases	Balance End of Year
Capital assets not being depreciated/amortized:					
Land	\$ 3,010,535	-	132,555	(1,027,132)	2,115,958
Construction in progress	633,239	-	263,350	(888,158)	8,431
Total capital assets not being depreciated/amortized	3,643,774		395,905	(1,915,290)	2,124,389
Capital assets being depreciated/amortized:					
Office building and improvements	3,275,189	-	46,727	-	3,321,916
Office furniture and equipment	563,330	-	1,962	-	565,292
Plant building	618,339	-	-	-	618,339
Wells	62,982	-	104,182	-	167,164
Wastewater systems	1,988,334	-	-	(553,390)	1,434,944
Water lines	137,353,219	-	202,758	(1,929,103)	135,626,874
Intangibles, purchased capacity	4,728,209	-	-	-	4,728,209
Intangibles, software	239,528	-	7,595	-	247,123
Telemetry system	553,420	-	6,138	-	559,558
Equipment and tools	5,436,054	352,998	94,120	(3,382,909)	2,500,263
Total capital assets being depreciated/amortized	155,171,602	-	463,482	(5,865,402)	149,769,682
Less accumulated depreciation/amortization for:					
Office building and improvements	673,581	-	123,698	-	797,279
Office furniture and equipment	502,160	-	36,026	-	538,186
Plant building	430,410	-	15,537	-	445,947
Wells	44,094	-	1,574	-	45,668
Wastewater systems	137,975	-	61,349	(116,896)	82,428
Water lines	17,155,601	-	2,374,545	(375,653)	19,154,493
Intangibles, purchased capacity	1,550,262	-	121,059	-	1,671,321
Intangibles, software	212,741	-	20,142	-	232,883
Telemetry system	170,363	-	27,641	-	198,004
Equipment and tools	3,622,150	281,318	645,419	(2,549,875)	1,999,012
Total accumulated depreciation/amortization	24,780,655	-	3,426,990	(3,042,424)	25,165,221
Total capital assets being depreciated/amortized, net	130,390,947	-	(2,963,508)	(2,822,978)	124,604,461
Capital assets, net	\$ 134,034,721	-	(2,567,603)	(4,738,268)	126,728,850

Depreciation/amortization charged to wastewater systems for 2012 and 2011 was \$24,436 and \$61,349, respectively. Depreciation/amortization charged to other operations for 2012 and 2011 was \$2,775,818 and \$3,365,641, 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 \$2,430,250 and \$2,492,611 for the years ended December 31, 2012 and 2011, respectively. This represents 20% and 22% of total operating revenue for each year, respectively. The balance due from these customers and included in accounts receivable-trade was \$192,832 and \$203,894 at December 31, 2012 and 2011, respectively.

**(7) Changes in Long Term Liabilities**

A summary of changes in long-term liabilities for the years ended December 31, 2012 and 2011 is as follows:

Obligation	Year ended December 31, 2012				
	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
USDA Rural Development:					
Water revenue notes	\$ 45,377,746	350,235	(230,514)	45,497,467	-
Wastewater revenue notes	254,700	-	(2,922)	251,778	2,981
Water revenue bonds, Series 2006	80,136,560	-	(1,313,600)	78,822,960	1,385,000
Assured Guaranty Corporation	2,440,580	79,287	-	2,519,867	-
Rural Community 2000 loan	20,000	-	-	20,000	20,000
Project anticipation notes	1,468,168	-	-	1,468,168	-
Asset purchase agreement	76,426	-	-	76,426	76,426
Net OPEB liability	8,000	4,000	-	12,000	-
Total	\$ 129,782,180	433,522	(1,547,036)	128,668,666	1,484,407

Obligation	Year ended December 31, 2011				
	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	1,910,690
Wastewater revenue notes	257,507	-	(2,807)	254,700	2,866
Water revenue bonds, Series 2006	81,400,160	-	(1,263,600)	80,136,560	1,335,000
Assured Guaranty Corporation	1,329,936	1,110,644	-	2,440,580	2,440,580
Rural Community 2000 loan	20,000	-	-	20,000	20,000
Project anticipation notes	9,029,817	-	(7,561,649)	1,468,168	1,468,168
Asset purchase agreement	76,426	-	-	76,426	19,412
Net OPEB liability	4,000	4,000	-	8,000	-
Total	\$ 137,495,592	1,114,644	(8,828,056)	129,782,180	7,196,716

USDA Rural Development Water Revenue Notes – The District has issued water revenue notes totaling \$47,281,900 at December 31, 2012. The original water revenue notes, with various issue dates and interest rates ranging from 4.125% to 5.625% per annum, required monthly payments of \$196,946. The District has pledged future water customer receipts, net of specified operating disbursements, to repay the water revenue notes. The original notes were payable solely from water customer net receipts and were payable through 2049. Subsequent to December 31, 2012, the District entered into a loan agreement with the USDA to issue Water Revenue Refunding Capital Loan Notes, Taxable Series 2013. The loan agreement combined the outstanding principal at December 31, 2012 of \$45,147,223 and \$350,235 of accrued interest for a total of \$45,497,467 at December 31, 2012. The notes were issued on January 1, 2013 with an interest rate of 1.875% per annum, a required monthly payment of \$137,407 beginning on February 1, 2014 and are payable through January 1, 2053. An interest only payment of \$853,077 is due January 1, 2014. At December 31, 2012 and 2011, the debt service coverage ratios of the revenues to debt service were 51% and 51%, respectively. At December 31, 2012 and 2011, the note balances totaled \$45,497,467 and \$45,377,746, respectively. See Note 11 of the Notes to Financial Statements.

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

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a water revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) A water reserve account shall be established. Annually, there shall be deposited to the water reserve account an amount equal to 10% of the water reserve account requirement. This account is restricted for the purpose of paying principal and interest when funds in the sinking account are inadequate.
- (d) An improvement account shall be established for the purpose of paying principal and interest when there is insufficient money in the sinking and reserve accounts and extraordinary maintenance and 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 resolution.

USDA Rural Development Wastewater Revenue Note – On January 8, 2010, the District issued a \$260,000 wastewater revenue note, series 2010 for the purpose of paying the construction costs of a community-wide sanitary sewer collection and treatment system to serve the residents of Bouton. The note proceeds paid the outstanding principal of the \$260,000 project anticipation note from F & M Bank. The 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. At December 31, 2012 and 2011, the note balances totaled \$251,778 and \$254,700, respectively.

The District has pledged future wastewater customer receipts, net of specified operating disbursements, to repay the wastewater revenue note. The note is payable solely from wastewater customer net receipts and is payable through 2050. At December 31, 2012 and 2011, the debt service coverage ratios of the revenues to debt service were 192% and 173%, respectively.

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

- (a) The note will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a wastewater revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) A wastewater reserve account shall be established. Monthly payments of \$109 shall be deposited 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.

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 \$79,440,000. At December 31, 2012 and 2011, the debt service coverage ratios of the revenues (excluding connection fees) to debt service were 51% and 51%, 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 and improvement accounts as required.

Assured Guaranty Corporation – In July 2011, CIFG Assurance North America, Inc. (CIFG NA), the bond insurer, and Assured Guaranty Corporation, the reinsurance company, reached a settlement where the water revenue bonds, series 2006 guarantee, including principal and interest payments of \$1,329,936 made by CIFG NA in 2010, has been assumed by Assured Guaranty Corporation under the Quota Share Reinsurance Agreement dated January 21, 2009. During 2011, Assured Guaranty Corporation paid the District’s deficiency of \$1,110,644 of principal payments on the water revenue bonds, series 2006. Total principal and interest of \$2,440,580 paid by the reinsurance company continues to accrue interest totaling \$79,287 at December 31, 2012, for a total outstanding balance of \$2,519,867. The outstanding balances at December 31, 2012 and 2011, including unpaid interest, were \$2,519,867 and \$2,489,830, respectively.

On March 28, 2013, the District entered into a forbearance agreement, which addresses the repayment of the outstanding balance owed to Assured Guaranty Corporation. See Note 11 of the Notes to Financial Statements for additional information regarding the forbearance agreement.

Rural Community 2000 Loan – The District obtained a \$200,000 loan in 1993 from the Iowa Department of Economic Development (now the Iowa Economic Development Authority) 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, 2012 and 2011. The outstanding balances at December 31, 2012 and 2011 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 2012 or 2011.

On March 28, 2013, the District entered into a forbearance agreement with Assured Guaranty. As a condition of this agreement, the District has refinanced the project anticipation notes due to the Iowa Finance Authority. The refinanced loan is interest free and is due in full on January 1, 2032. See Note 11 of the Notes to Financial Statements for additional information regarding the forbearance agreement.

Asset Purchase Agreement – The District entered into an asset purchase agreement with Coats Utilities Company on November 5, 2007. As part of the 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. No principal and interest were paid during the year ended December 31, 2012. The balances outstanding at December 31, 2012 and 2011 were \$76,426 and \$76,426, respectively. The District was in default for insufficient payments of the outstanding loan balance at December 31, 2012.

On March 28, 2013, as a condition of the forbearance agreement with Assured Guaranty, the District paid the accrued interest and principal retiring both loans. See Note 11 of the Notes to Financial Statements for additional information regarding the forbearance agreement.



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

USDA Rural Development									
Year Ending December 31,	Water Revenue Notes			Wastewater Revenue Notes			Water Revenue Bonds, Series 2006		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2013	\$ -	853,077	853,077	2,981	10,075	13,056	1,385,000	3,609,488	4,994,488
2014	802,633	846,203	1,648,836	3,100	9,956	13,056	1,440,000	3,554,088	4,994,088
2015	817,812	831,024	1,648,836	3,224	9,832	13,056	1,500,000	3,496,488	4,996,488
2016	833,279	815,557	1,648,836	3,353	9,703	13,056	1,560,000	3,436,487	4,996,487
2017	849,038	799,798	1,648,836	3,487	9,569	13,056	1,620,000	3,374,087	4,994,087
2018-2022	4,492,203	3,751,977	8,244,180	19,640	45,640	65,280	9,285,000	15,689,100	24,974,100
2023-2027	4,933,358	3,310,822	8,244,180	23,897	41,383	65,280	11,530,000	13,445,000	24,975,000
2028-2032	5,417,838	2,826,342	8,244,180	29,075	36,205	65,280	14,350,000	10,625,881	24,975,881
2033-2037	5,949,895	2,294,285	8,244,180	35,373	29,907	65,280	18,350,000	7,006,362	25,356,362
2038-2042	6,534,203	1,709,977	8,244,180	43,038	22,242	65,280	18,420,000	2,207,475	20,627,475
2043-2047	7,175,894	1,068,286	8,244,180	52,360	12,920	65,280	-	-	-
2048-2052	7,691,314	363,660	8,054,974	32,250	2,452	34,702	-	-	-
Total	\$ 45,497,467	19,471,008	64,968,475 #	251,778	239,884	491,662 *	79,440,000	66,444,456	145,884,456

Year Ending December 31,	Rural Community 2000 Loan			Project Anticipation Notes			Asset Purchase Agreement		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 20,000	-	20,000	-	-	-	76,426	12,818 &	89,244
2014	-	-	-	-	-	-	-	-	-
2015	-	-	-	-	-	-	-	-	-
2016	-	-	-	-	-	-	-	-	-
2017	-	-	-	-	-	-	-	-	-
2018-2022	-	-	-	-	-	-	-	-	-
2023-2027	-	-	-	-	-	-	-	-	-
2028-2032	-	-	-	1,468,168	-	1,468,168	-	-	-
2033-2037	-	-	-	-	-	-	-	-	-
2038-2042	-	-	-	-	-	-	-	-	-
2043-2047	-	-	-	-	-	-	-	-	-
2048-2052	-	-	-	-	-	-	-	-	-
Total	\$ 20,000	-	20,000	1,468,168	-	1,468,168	76,426	12,818	89,244

Year Ending December 31,	Assured Guaranty Corporation			Total		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ -	47,248	47,248	1,484,407	4,532,706	6,017,113
2014	-	47,248	47,248	2,245,733	4,457,495	6,703,228
2015	-	47,248	47,248	2,321,036	4,384,592	6,705,628
2016	-	47,248	47,248	2,396,632	4,308,995	6,705,627
2017	-	47,248	47,248	2,472,525	4,230,702	6,703,227
2018-2022	294,744	234,984	529,728	14,091,587	19,721,701	33,813,288
2023-2027	1,559,363	144,331	1,703,694	18,046,618	16,941,536	34,988,154
2028-2032	665,760	15,717	681,477	21,930,841	13,504,145	35,434,986
2033-2037	-	-	-	24,335,268	9,330,554	33,665,822
2038-2042	-	-	-	24,997,241	3,939,694	28,936,935
2043-2047	-	-	-	7,228,254	1,081,206	8,309,460
2048-2052	-	-	-	7,723,564	366,112	8,089,676
Total	\$ 2,519,867	631,272	3,151,139	129,273,706	86,799,438	216,073,144

# - Includes unpaid water revenue note principal of \$1,680,176 and interest of \$350,235 at December 31, 2012.

\* - The unamortized discount at December 31, 2012 and 2011 totaled \$617,040 and \$638,440, respectively.

& - Includes unpaid principal of \$19,412 and interest of \$9,388 at December 31, 2012.

**(8) Leases**

The District leased land to two farm tenants during 2012 and 2011 with rent payments totaling \$9,870 and \$8,750, respectively. For one of the leases, the lease terms were March 2012 through November 2012, at which time the lease automatically terminated.

For the other lease, the lease terms are April 2012 through September 2019. This land is enrolled in the United States Department of Agriculture Farm Service Agency Conservation Reserve Program (CRP). The District has an agreement in place with the farm tenant to receive 50% of the tenants CRP payment, which amounts to \$6,654 annually. The District's investment in property subject to the operating lease was \$568,986 at December 31, 2012 and 2011.

The following is a schedule by year of minimum future rentals on non-cancelable operating leases as of December 31, 2012:

Year Ending December 31,	Total Estimated Rental Receipts
2013	\$ 6,654
2014	6,654
2015	6,654
2016	6,654
2017	6,654
2018 - 2019	13,308
Total	\$ 46,578

**(9) 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, 2012 and 2011 was \$49,941 and \$47,089, respectively. This liability has been computed based on rates of pay in effect at December 31, 2012 and December 31, 2011, respectively.

**(10) Other Postemployment Benefits (OPEB)**

Plan Description – The District operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 31 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, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 4,000
Interest on net OPEB obligation	-
Contribution made	-
Increase in net OPEB obligation	<u>4,000</u>
Net OPEB obligation beginning of year	<u>8,000</u>
Net OPEB obligation end of year	<u>\$ 12,000</u>

For the year ended December 31, 2012, 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 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
2011	4,000	0	8,000
2012	4,000	0	12,000

Funded Status and Funding Progress – As of December 31, 2012, 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 \$1,341,000 and the ratio of the UAAL to covered payroll was 1.12%. As of December 31, 2012, there were no trust fund assets.

The projection of future benefit payments for an 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 for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents 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.

Projected claim costs of the medical plan are range from \$407 to \$1,248 per month for retirees less than age 65. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

#### **(11) Subsequent Events**

##### *Sale of Surplus Land*

On January 22, 2013, the District agreed to sell real estate totaling approximately 45 acres located in Boone County for \$158,200. The District recognized a nonoperating loss of \$133,538 in these financial statements to write the land value down to fair market value at December 31, 2012.

On February 4, 2013, the District agreed to sell real estate totaling approximately 224 acres located in Dallas County for \$596,375. The District recognized a nonoperating loss of \$175,422 in these financial statements to write the land value down to fair market value at December 31, 2012.

##### *Forbearance Agreement and Debt Restructuring*

On March 28, 2013, the District completed a forbearance agreement with Assured Guaranty. The forbearance agreement is intended to provide structure to the District's repayment schedule for outstanding debt obligations and replenishment of the reserve requirements for the Water Revenue Bonds, Series 2006 and the USDA Rural Development water revenue notes. The following are conditions of the forbearance agreement:

The District has agreed to repay Assured Guaranty for deficiency payments related to the Water Revenue Bonds, Series 2006, along with accrued interest, for a total of \$2,519,867. The deficiency payments will be paid to Assured Guaranty over seventeen years ending in 2029. The first nine years are interest only payments with interest and principal payments the remaining eight years.

The District refinanced outstanding Iowa Finance Authority debt. Under the new loan agreement, the District will repay Iowa Finance Authority a lump sum payment of \$1,468,168 on January 1, 2032. The new loan is interest free.

The District retired all debts assumed as part of the asset purchase agreement with Coats Utilities Company. These loans were paid in full on March 28, 2013.

On March 29, 2013, the District refinanced all outstanding USDA Rural Development water revenue notes retroactively to January 1, 2013. The newly issued Water Revenue Refunding Capital Loan Notes, Taxable Series 2013 have a stated interest rate of 1.875% per annum and require an interest only payment on January 1, 2014 and interest and principal payments each month thereafter with a maturity date of January 1, 2053.

The District has agreed to future water rate increases necessary to meet debt service coverage ratio requirements.

**(12) Going Concern**

The District has been delinquent on monthly USDA Rural Development water revenue note principal and interest payments. Assured Guaranty, the insurer of the District's Series 2006 Bonds, has covered bond payments and is owed \$2,519,867 of accrued interest and principal on these payments. The District has also been in default on all subordinated loans.

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 during the year. Without sufficient net water revenues, the District cannot pay principal and interest coming due on the bonds from the sinking account and related debt reserve accounts are depleted.

On March 28, 2013, the District completed a forbearance agreement and the key elements are described in Note 11 of the Notes to Financial Statements.

**Xenia Rural Water District**

**Required Supplementary Information**

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Xenia Rural Water District

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

Required Supplementary Information

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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%
2011	January 1, 2010	-	15	15	0.00	1,494	1.00
2012	January 1, 2010	-	15	15	0.00	1,341	1.12

See Note 10 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.





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

To the Members of the  
Xenia Rural Water District:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Xenia Rural Water District as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, and have issued our report thereon dated June 6, 2013. Our report expressed a qualified opinion because adjustments may be required to the recorded asset amounts and the classification of liabilities if the District is unable to satisfy its creditors.

Internal Control Over Financial Reporting

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

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

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 (D) through (I) 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 instances of non-compliance required to be reported under Government Auditing Standards, which are described in item (J) in the accompanying Schedule of Findings. We also noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended December 31, 2012 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.


## Xenia Rural Water District's Responses to Findings

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

## Purpose of this Report

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

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

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

June 6, 2013

Xenia Rural Water District  
Schedule of Findings  
Year ended December 31, 2012

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

- (A) Adjusting Journal Entries – Standard and nonstandard journal entries are entered into the accounting system during the year by District personnel and the Controller. The Controller reviews journal entries entered by the accounting staff and the Board Treasurer/Finance Committee reviews journal entries entered by the Controller. However, these independent reviews of journal entries entered by the District personnel and Controller are not documented, initialed or dated by the reviewer.

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

Response – As part of the Finance Committee meeting, the Board's Treasurer reviews all entries made by the Controller. This procedure will be formally documented going forward and the Treasurer will initial all entries made by the Controller to document their review.

Conclusion – Response accepted.

- (B) Financial Reporting – During the audit, we identified material amounts of receivables, payables, prepaid expenses, unearned revenues and capital asset additions not recorded in the District's financial statements. Adjustments were subsequently made by the District to properly include these amounts in the financial statements.

Recommendation – The District should implement procedures to ensure all receivables, payables, prepaid expenses, unearned revenues and capital asset additions are identified and included in the District's financial statements.

Response – The District will implement procedures to ensure all receivables, payables, prepaid expenses, unearned revenues and capital assets are reported in the proper year.

Conclusion – Response accepted.

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

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

Xenia Rural Water District

Schedule of Findings

Year ended December 31, 2012

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

Response – The District has a limited staff available for billing, collections and accounting responsibilities which limits the District’s ability to implement ideal control measures. The District will continue to review and monitor its internal control policies in effort to maximize internal control effectiveness.

Conclusion – Response accepted.

- (D) Timesheets – Timesheets are not submitted by certain salaried employees for review and approval.

Recommendation – Timesheets should be prepared by all employees and submitted for approval. The timesheets should be signed by the employee and reviewed and signed by the employee’s immediate supervisor. The timesheet should support all hours worked and leave taken. All timesheets should be provided to the accounting department.

Response – The District, under current management, has implemented a policy requiring salaried employees to maintain timesheets supporting all hours worked. These timesheets are signed by the employee and their immediate supervisor and maintained by the accounting department. This policy was implemented and put in service January 2013. All employees are required to submit time off request forms signed by their supervisor to support all leave taken, whether sick, vacation or unpaid.

Conclusion – Response accepted.

- (E) Payroll and Tax Reports – The District did not file the employer’s quarterly federal tax return, Iowa quarterly employer’s contribution and payroll reports for workers compensation and Iowa sales tax reports in a timely manner.

Recommendation – The District should ensure required reports are filed timely.

Response – The finance department has established a system of notification reminding the employee responsible for filing and remitting payment for payroll and sales tax reports to ensure future reports and payments are filed and paid in a timely manner.

Conclusion – Response accepted.

- (F) Cost Benefit Analysis – The District requires the completion of a cost benefit analysis for all projects with an anticipated cost exceeding \$5,000. The cost benefit analysis is to be reviewed by the Finance Committee. The District did not complete required cost benefit analyses during the year.

Recommendation - The District should complete required cost benefit analyses as required or seek to have the provisions changed or repealed. At a minimum, further clarification of the definition of “project” and the required elements of a cost benefit analysis should be completed.

Xenia Rural Water District

Schedule of Findings

Year ended December 31, 2012

Response – The District’s Board of Directors will refine the language in the District’s policy to further clarify responsibilities and determine when a cost benefit analysis is warranted.

Conclusion – Response accepted.

- (G) Payroll – Annual gross salaries were not approved or documented in the District’s Board minutes.

Recommendation – Annual gross salaries for all employees should be approved by the District’s Board and documented in the minutes record.

Response – The District’s Board of Directors will approve gross salaries for all employees and this approval will be documented in the Board minutes.

Conclusion – Response accepted.

- (H) Capital Assets – The District’s capital asset policy does not adequately address procedures to add assets to the capital asset record. Several assets with inadequate descriptions to identify the specific asset were identified and certain assets were made up of several items with different descriptions and useful lives. Additionally, several assets below the capitalization threshold of \$1,000 were added to the capital asset record.

Also, the District deleted numerous fully depreciated assets during the fiscal year in an effort to remove assets below the capitalization threshold and assets which could not be located. There was no documentation of approval of the deletions nor was a deletion form completed for the noted assets.

Recommendation – The District should revise the written capital asset policy to include procedures for recording assets in the capital asset record, assigning descriptions and useful lives and appropriate depreciation methods. Capital asset deletions should be properly approved.

Response – The District has made an effort to remove from the capital asset record assets which cannot be identified due to inadequate description, assets which cannot be located, assets which have been disposed of, assets which are obsolete (expired software rights) and assets which do not meet the capitalization threshold. The District has made an effort to avoid grouping multiple assets as one single asset and only capitalize assets above the \$1,000 threshold. Going forward, the District will document all assets removed from the capital asset record and indicate the reason for its removal. The District will also establish a formal policy for capitalization of assets, depreciation and disposal procedures.

Conclusion – Response accepted.

- (I) Petty Cash – The District established a petty cash fund during the fiscal year, which was not authorized by the Board. The petty cash fund is not maintained on an imprest basis, including the use of signed request vouchers and the replenishment of the fund made by a check payable to petty cash.

Xenia Rural Water District

Schedule of Findings

Year ended December 31, 2012

Recommendation – The petty cash fund should be formally authorized by the Board and should be maintained on an imprest basis to provide additional control over the funds. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits.

Response – The petty cash fund was established at the insistence of former management. Due to the limited use of the petty cash fund and the compliance measures required to maintain the fund, the petty cash fund has been liquidated and terminated.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

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

The District is in default on approximately \$45 million of USDA water revenue notes at December 31, 2012. 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 of coverage does not meet the note and bond resolution requirements.

Also, the District is in default on other outstanding loans and notes, including those held by Coats Utilities Company and the Iowa Economic Development Authority and the Iowa Finance Authority.

Recommendation – The District should review the note and bond provisions and comply with the requirements. Also, 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 District signed a Forbearance Agreement with Assured Guaranty on March 28, 2013 and refinanced all water services notes held by USDA. The Forbearance Agreement sets a timeline for repaying bond shortfall payments covered by the insurer (Assured Guaranty) and replenishing the Series 2006 Bond Reserve Fund. The agreement with the USDA allows the District to refinance all outstanding water service notes and also establishes a timeline for replenishing the USDA Reserve Fund. As a requirement of the Forbearance Agreement, the Coats Utilities Company water and wastewater notes were paid in full and the loans outstanding with the Iowa Finance Authority were refinanced. Under the Forbearance Agreement, the District provided a plan for payment of all operating expenses, outstanding debts and reserve fund replenishment under an agreed upon timeline

Xenia Rural Water District

Schedule of Findings

Year ended December 31, 2012

and financed with revenues generated from sufficient water rates/sales. The District has approached the market in an effort to maintain the surety bond coverage requirements, but such coverage has proven unobtainable. The District maintains surety bond coverage to the extent available in the market.

Conclusion – Response acknowledged.

**Other Findings Related to Required Statutory Reporting:**

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

Paid to	Purpose	
Universal Premium Fleet Card	Finance charges and late fees	\$ 2,949
Iowa Department of Revenue	Penalty and interest	1,785
Internal Revenue Service	Penalty	970
Wellmark	Late fees	230
Various employees	Staff food/refreshments	577
Various vendors	Late fees and interest charges	2,826

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The District should ensure all disbursements are paid timely and all reports are filed timely to avoid late charges, penalties and interest. The District should also determine and document the public purpose served by these expenditures before authorizing any further payments. If this practice is continued, the Board should establish written policies and procedures, including requirements for proper documentation.

Response – The finance department has established a system of notification reminding the employee responsible for filing and remitting payment for payroll and sales tax reports to ensure future reports and payments are filed and paid in a timely manner. Responsibility for Fleet Card payments has been moved to an employee who remits payment upon receiving notification of the invoice. Late fees to various vendors were the result of a former check signer taking checks home and not bringing them back until they were past due and an invoice being lost in a manager’s office after his resignation. Better controls are being utilized to make sure invoices are provided to the finance department in a timely manner and checks are mailed before invoices become past due. The staff food/refreshments fall into the following categories: a) provided to staff, Board Members and members of the public who attend Board meetings, b) provided to staff unable to take lunch due to emergencies during work hours, c) as a farewell to employees leaving the District and d) occasional staff meetings. The District will discontinue this practice, with the exception of providing food to employees unable to take lunch due to emergencies during work hours.

Conclusion – Response accepted.

Xenia Rural Water District

Schedule of Findings

Year ended December 31, 2012

- (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.

The Board of Directors went into closed session numerous times during the year ended December 31, 2012. However, for five of these closed sessions, the minutes did not reference a specific code exemption as required by Chapter 21.5 of the Code of Iowa and/or the sessions were not properly exited.

Certain minutes of the meetings of the Board of Directors were not signed.

Recommendation - Closed sessions should be held in compliance with Chapter 21.5 of the Code of Iowa, with the minutes including reference to a specific code exemption and the session being properly exited as required. The District should ensure minutes are properly signed.

Response – Going forward, the Board of Directors will comply with Chapter 21.5 of the Code of Iowa and this will be referenced in the minutes.

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) Wastewater and Water Revenue Notes and Water Revenue Bonds – Instances of non-compliance with the wastewater and water revenue note and water revenue bond resolutions are detailed in item (J).



Xenia Rural Water District

Schedule of Findings

Year ended December 31, 2012

(6) Other Information Required by the Bond Resolution

Insurance – The following insurance policies were in force at December 31, 2012:

Insurer	Description	Amount	Expiration Date
EMC Insurance Companies	Property:		
	Blanket: Buildings and personal property	\$ 31,730,691	5/1/13
	Extra expense	75,000	5/1/13
	Contractors equipment	540,236	5/1/13
	Leased contractors equipment	300,000	5/1/13
	Miscellaneous property - Radios and GPS	78,850	5/1/13
	Data processing - equipment and software	132,500	5/1/13
	Off-site tools and equipment:		
	Per installation site	150,000	5/1/13
	Property temporarily off premises	20,000	5/1/13
Property in transit	40,000	5/1/13	
EMC Insurance Companies	General liability coverage:		
	General aggregate	2,000,000	5/1/13
	Products general liability	2,000,000	5/1/13
	Personal and/or advertising	1,000,000	5/1/13
	Each occurrence	1,000,000	5/1/13
	Fire damage	100,000	5/1/13
EMC Insurance Companies	Medical expense	5,000	5/1/13
	Automobile coverage:		
	Liability	1,000,000	5/1/13
	Medical payments	1,000	5/1/13
Liberty Mutual Workers Comp Group	Uninsured motorists	100,000	5/1/13
	Underinsured motorists	100,000	5/1/13
EMC Insurance Companies	Workers' compensation:		
	Employee liability limit	1,000,000	5/1/13
EMC Insurance Companies	Commercial umbrella:		
	Policy aggregate	5,000,000	5/1/13
EMC Insurance Companies	Public officials errors and omissions:		
	Liability aggregate limit	5,000,000	5/1/13
	Additional Side A limit	1,000,000	5/1/13
	EPL aggregate limit	1,000,000	5/1/13
EMC Insurance Companies	Maximum aggregate	6,000,000	5/1/13
	Fidelity coverage:		
	Per loss - Employee dishonesty	1,000,000	5/1/13
EMC Insurance Companies	Per loss deductible	10,000	5/1/13
	Employee benefit liability:		
EMC Insurance Companies	Each loss from administrative errors	1,000,000	5/1/13
	Aggregate	2,000,000	5/1/13

Xenia Rural Water District  
 Schedule of Findings  
 Year ended December 31, 2012

Water Rates – The following water rates were in effect at December 31, 2012:

	<u>Gallons</u>	<u>Rate</u>
<u>RESIDENTIAL/COMMERCIAL</u>		
Rural 5/8" meter (non-franchise users):		
Minimum	0-1,000	\$52.67
Steps	per 1,000 after minimum	\$10.45 to \$4.37
Franchise 5/8" meter:		
Minimum	0-1,000	\$26.00 to \$46.30
Steps	per 1,000 after minimum	\$10.50 to \$4.40
City of Boone contracted rate:		
Minimum	0-1,000	\$8.49
Steps	per 1,000 after minimum	\$4.45 to \$7.25
3/4" meter:		
Minimum	0-1,000	\$105.34
Steps	per 1,000 after minimum	\$10.45 to \$4.37
1" meter:		
Minimum	0-1,000	\$90.00 to \$158.00
Steps	per 1,000 after minimum	\$10.45 to \$4.37
1 1/2" meter:		
Minimum	0-1,000	\$188.00 to \$263.34
Steps	per 1,000 after minimum	\$6.00
2" meter:		
Minimum	0-1,000	\$204.00 to \$421.34
Steps	per 1,000 after minimum	\$6.10
6" meter:		
Minimum	0-16,000	\$421.31
Steps	per 1,000 after minimum	\$4.37
<u>INDUSTRIAL</u>		
	fixed cost	\$14,631.00 to \$67,228.00
	per 1,000 after minimum	\$2.86 to \$1.65
<u>WHOLESALE</u>		
	no minimum/per 1,000 charge	\$6.53 to \$1.80

Statistical Information

Water Customers served at December 31, 2012:

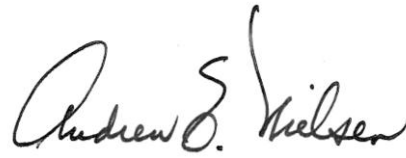
Description	Number
Residential	9,222
Commercial	265
Industrial	4
Wholesale	4
Total	9,495

Xenia Rural Water District

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Manager  
Tammy A. Hollingsworth, Senior Auditor II  
Brett M. Zeller, Senior Auditor II  
David C. McQuarry, CPA, Staff Auditor  
Philip A. Rethwisch, Staff Auditor  
Jamie T. Reuter, Staff Auditor  
Brandon J. Vogel, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA  
Deputy Auditor of State