

**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

NEWS RELEASE

FOR RELEASE

May 2, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an audit report on the Xenia Rural Water District.

The District had total revenues of \$15,759,393 for the year ended December 31, 2018, a less than 1% increase over the prior year. Revenues included water sales of \$14,306,349 and water connection fees of \$522,180. The overall increase in revenue was due to an increase in water and custom water connection and relocation fees of approximately \$88,000 and an increase in the gain on investments of approximately \$140,000 offset by a decrease in the sale of territory rights of approximately \$183,000.

Expenses totaled \$12,234,352 for the year ended December 31, 2018, a 3.8% increase over the prior year. Expenses included \$3,406,495 of interest, \$2,922,419 of depreciation/amortization and \$1,808,867 for purchased water. The increase in expenses was due primarily to an increase in purchased water costs of approximately \$135,000 and salaries and benefits of approximately \$132,000.

A copy of the audit report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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XENIA RURAL WATER DISTRICT

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

DECEMBER 31, 2018 AND DECEMBER 31, 2017



**OFFICE OF AUDITOR OF STATE
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Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

April 15, 2019

Officials of the Xenia Rural Water District
Bouton, Iowa

Dear Members of Xenia Rural Water District:

I am pleased to submit to you the financial and compliance audit report for Xenia Rural Water District for the year ended June 30, 2018. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa, and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the District throughout the audit. If I or this office can be of any further assistance, please contact me or Marlys Gaston of my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand
Auditor of State

Xenia Rural Water District

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Xenia Rural Water District

Officials

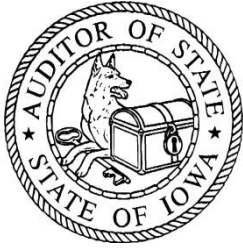
(Before April 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Amy Kahler	Chair	Apr 2018
Troy Wilson	Vice Chair	Apr 2019
Gary Becker	Treasurer	Apr 2019
Mike Schrum	Secretary	Apr 2018
Peter Jensen	Director	Apr 2019
Jerry Carris	Director	Apr 2020
Guy Tenold	Director	Apr 2020
Gary Benjamin	General Manager	Indefinite
Gary Andrews	Controller	Indefinite

(After April 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Amy Kahler	Chair	Apr 2021
Troy Wilson	Vice Chair	Apr 2019
Gary Becker	Treasurer	Apr 2019
Mike Schrum	Secretary	Apr 2021
Peter Jensen	Director	Apr 2019
Jerry Carris	Director	Apr 2020
Guy Tenold	Director	Apr 2020
Gary Benjamin	General Manager	Indefinite
Gary Andrews	Controller	Indefinite

Xenia Rural Water District



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Independent Auditor's Report

To the Members of the Xenia Rural Water District:

Report on the Financial Statements

We have audited the accompanying financial statements of the Xenia Rural Water District as of and for the years ended December 31, 2018 and 2017, and the related Notes to Financial Statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Xenia Rural Water District at December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Schedule of the District's Proportionate Share of the Net Pension Liability and the Schedule of District Contributions on pages 7 through 12 and 39 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 15, 2019 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.


Marlys K. Gaston, CPA
Deputy Auditor of State

April 15, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

FINANCIAL HIGHLIGHTS

- The District's net position increased 26.3%, or \$3,525,041, over the December 31, 2017 balance and increased 41.6%, or \$3,939,555, over the December 31, 2016 balance. The increase was the result of operations, decreased interest expense from refunding bonds in 2016 and other non-operating gains or losses in the respective years.
- Operating revenues increased less than 1%, or \$10,465, in 2018. Operating revenues in 2017 increased \$681,461, or 4.7%, over 2016.
- Operating expenses increased 5.8%, or \$486,067, in 2018 due to several factors, including higher purchased water costs and increased salaries and benefits expenses. Operating expenses in 2017 increased \$552,675, or 7.1%, over 2016 because of increased purchased water costs and repair and maintenance 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, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, changes in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

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

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

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

FINANCIAL ANALYSIS

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. The District's net position at the end of 2018 totaled \$16,936,677. This compares to \$13,411,636 at the end of 2017 and \$9,472,081 at the end of 2016. A summary of the District's net position is presented below.

	Net Position		
	December 31,		
	2018	2017	2016
Current assets	\$ 12,888,280	11,181,809	8,685,799
Capital assets, net of accumulated depreciation/amortization	113,635,333	114,948,588	116,095,462
Other noncurrent assets	6,237,063	5,939,834	5,816,421
Total assets	132,760,676	132,070,231	130,597,682
Deferred outflows of resources	777,879	819,165	916,945
Current liabilities	3,329,522	3,356,587	3,196,834
Noncurrent liabilities	113,194,200	116,070,755	118,716,385
Total liabilities	116,523,722	119,427,342	121,913,219
Deferred inflows of resources	78,156	50,418	29,327
Net position:			
Restricted	5,397,896	5,196,749	5,018,908
Unrestricted	11,538,781	8,214,887	4,453,173
Total net position	\$ 16,936,677	13,411,636	9,472,081

Net position increased \$3,525,041 during the year ended December 31, 2018 and increased \$3,939,555 during the year ended December 31, 2017. The increase in net position in 2018 is primarily the result of increased operating revenues due to increased residential water sales and water connection fees, increased non-operating revenues due to an investment gain and decreased non-operating expenses due to decreased interest expense. The increase in net position in 2017 was primarily due to increased operating revenues due increased residential water sales and industrial sales, decreased non-operating revenues due to the net gain on the forgiveness of the Assured Guaranty Corporation liability in 2016, decreased non-operating expenses due to bond issuance costs related to refunding bonds issued in 2016 and decreased interest expense.

Total liabilities of the District were \$116,523,722 and \$119,427,342 at December 31, 2018 and 2017, respectively. Noncurrent liabilities included in total liabilities were \$113,194,200 and \$116,070,755 at December 31, 2018 and 2017, respectively. Total liabilities decreased \$2,903,620 in 2018 and decreased \$2,485,877 in 2017. The decrease in liabilities at December 31, 2018 was the result of scheduled principal payments made on the water revenue bonds, series 2016, water and wastewater notes payable and project anticipation notes payable. The decrease in liabilities at December 31, 2017 was the result of scheduled principal payments made on the water revenue bonds, series 2006, water and wastewater notes payable and project anticipation notes payable.

A significant portion of the District's total assets, 86% and 87%, were invested in capital assets at December 31, 2018 and 2017, respectively.

Statement of Revenues, Expenses and Changes in Net Position

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

	Revenues, Expenses and Changes in Net Position		
	Year Ended December 31,		
	2018	2017	2016
Operating revenues	\$ 15,186,501	15,176,036	14,494,575
Operating expenses	(8,827,857)	(8,341,790)	(7,789,115)
Operating income	6,358,644	6,834,246	6,705,460
Nonoperating revenues	572,892	546,506	2,131,312
Nonoperating expenses	(3,406,495)	(3,441,197)	(6,007,168)
Change in net position	\$ 3,525,041	3,939,555	2,829,604

The Statement of Revenues, Expenses and Changes in Net Position reflects an increase in net position in 2018, 2017 and 2016.

Year ended December 31, 2018:

The change in net position in 2018 was a result of the following: 1) Total operating revenues increased less than 1% over the prior year because of decreased consumption on commercial and industrial water sales. The District's water sales revenue of \$14,306,349 for fiscal year 2018 increased only \$205 over 2017. 2) Non-operating revenues increased 4.8% over 2017. The increase was a result of the gain on investments in fiscal year 2018. 3) Total operating expenses increased due to higher purchased water costs and salaries and benefits expenses. 4) Non-operating expenses decreased due to lower interest expense.

Year ended December 31, 2017:

The change in net position in 2017 was a result of the following: 1) Total operating revenues increased 4.7% over the prior year because of an increase in water customers and sales and increased consumption. The District's water revenue of \$14,306,144 increased 4.6% over 2016. 2) Non-operating revenues decreased 74.4% from 2016. The decrease was a result of the net of a gain on the forgiveness of the Assured Guaranty Corporation liability of \$1,675,483 which occurred in 2016. 3) Total operating expenses increased due to higher purchased water costs and repair and maintenance expense. 4) Non-operating expenses decreased due to bond issuance costs of \$1,143,513 related to the refunding bonds issued in 2016 and decreased interest expense.

Statement of Cash Flows

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

The following summarizes the District's cash flows:

	Year ended December 31,		
	2018	2017	2016
Cash flows provided (used) by:			
Operating activities	\$ 9,432,068	9,837,770	9,026,770
Capital and related financing activities	(7,528,330)	(7,386,008)	(7,880,357)
Investing activities	189,237	49,124	26,103
Net increase in cash and cash equivalents	2,092,975	2,500,886	1,172,516
Cash and cash equivalents beginning of year	14,456,616	11,955,730	10,783,214
Cash and cash equivalents end of year	\$ 16,549,591	14,456,616	11,955,730

CAPITAL ASSETS

The following summarizes the District's capital assets:

	December 31,		
	2018	2017	2016
Nondepreciable/nonamortizable capital asset	\$ 1,195,699	2,369,239	1,878,131
Depreciable/amortizable capital assets	149,143,799	146,840,903	145,841,091
Intangible assets	5,211,098	5,212,348	5,212,348
Accumulated depreciation/amortization	(41,915,263)	(39,473,902)	(36,836,108)
Total capital assets, net of accumulated depreciation/amortization	\$ 113,635,333	114,948,588	116,095,462

Capital assets, net of accumulated depreciation/amortization, (including water lines, equipment and buildings) of the District were \$113,635,333 and \$114,948,588 at December 31, 2018 and 2017, respectively. This is a net decrease of \$1,313,255 during the year ended December 31, 2018. Total capital assets decreased primarily because of current year depreciation/amortization.

Construction in progress included in nondepreciable/nonamortizable capital assets was \$306,546 and \$1,480,086 at December 31, 2018 and 2017, respectively. Further details on capital assets are presented in Note 4 of the Notes to Financial Statements.

LONG TERM DEBT

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

	December 31,		
	2018	2017	2016
Revenue notes	\$ 41,631,959	42,499,518	43,350,899
Revenue bonds	70,928,663	72,832,550	74,001,438
Project anticipation notes	1,338,168	1,363,168	1,388,168
Total	\$113,898,790	116,695,236	118,740,505

In 2018, the District repaid \$863,846 of principal on USDA Rural Development water revenue notes, \$3,713 of principal on USDA Rural Development wastewater revenue notes, \$25,000 of project anticipation notes and \$1,903,887 of principal on the refunding water revenue bonds, series 2016. No additional debt was acquired or retired in 2018.

In 2017, the District repaid \$847,814 of principal on USDA Rural Development water revenue notes, \$3,567 of principal on USDA Rural Development wastewater revenue notes, \$25,000 of

project anticipation notes and \$1,168,888 of principal on the refunding water revenue bonds, series 2016. No additional debt was acquired or retired in 2017.

Debt service coverage has been calculated based on the definitions of gross revenues, operating expenses and special charges as defined in the water revenue bonds, series 2016 resolution. Debt service coverage on the scheduled water parity debt payments of the District was 142% at December 31, 2018 and 149% at December 31, 2017. Covenants of the water revenue bonds, series 2016 state net revenues during each year will be sufficient to pay debt service and deposits into the required funds, but not less than 100% of the debt service payments on the bonds and parity obligations.

The water revenue refunding bonds, series 2016 cash balance requirement for the restricted reserve is \$4,704,000. At December 31, 2018 and December 31, 2017, the balance of the restricted cash water revenue refunding bonds, Series 2016 reserve was \$4,745,117 and \$4,718,602, respectively. Further details on reserves and debt service are presented in Note 5 of the Notes to Financial Statements.

The USDA Rural Development bond resolution requires amounts to be deposited monthly into a reserve account until a balance of one-tenth of one full year's principal and interest payment is on reserve. At December 31, 2018 and 2017, the balance of the restricted cash, USDA water notes reserve was \$639,508 and \$465,072, respectively. On March 29, 2013, USDA approved refinancing all outstanding USDA Rural Development water revenue notes. As part of the refinancing, USDA has allowed the District to replenish the reserve account over a ten-year period beginning in January 2014, with the reserve account to reflect a fully replenished balance of \$1,649,640 by the end of 2023. Further details on reserves and debt service are presented in Note 5 of the Notes to Financial Statements.

ECONOMIC OUTLOOK

The District has been able to stabilize water rates in recent years due in large part to increasing membership and ongoing efforts to reduce costs in relation to the volume of water sold. With continuing population expansion in the western Des Moines metropolitan area and the Ames area, the District continues to see an increase in membership which has offset increasing costs and allowed the District to keep rates for residential and commercial water users unchanged. For fiscal year 2019, the District has approved raising water rates for some industrial and bulk water users in line with costs of providing water service.

Going forward, the District has significant capital investment and reinvestment plans budgeted in order to keep up with demand and to replace infrastructure that is approaching the end of its useful life. These expenses have been carefully budgeted and projections indicate sufficient cash is available both currently and in the future for the District to meet cash flow needs for operating, debt financing and capital obligations while keeping water rates stable.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Xenia Rural Water District

Basic Financial Statements

Exhibit A

Xenia Rural Water District
Statement of Net Position
December 31, 2018 and 2017

	December 31,	
	2018	2017
Assets		
Current assets:		
Cash, cash equivalents and pooled investments	\$ 11,151,695	9,259,867
Accounts receivable	1,678,570	1,871,503
Prepaid expenses	58,015	50,439
Total current assets	<u>12,888,280</u>	<u>11,181,809</u>
Noncurrent assets:		
Note receivable	549,000	549,000
Inventory	290,167	194,085
Capital assets, net of accumulated depreciation/amortization	113,635,333	114,948,588
Restricted cash:		
USDA Rural Development water notes reserve fund	639,508	465,072
USDA Rural Development wastewater notes reserve fund	13,271	13,075
Refunding water revenue bonds, series 2016 reserve fund	<u>4,745,117</u>	<u>4,718,602</u>
Total noncurrent assets	<u>119,872,396</u>	<u>120,888,422</u>
Total assets	<u>132,760,676</u>	<u>132,070,231</u>
Deferred Outflows of Resources		
Deferred outflows related to debt refunding losses	488,638	510,038
Pension related deferred outflows	<u>289,241</u>	<u>309,127</u>
Total deferred outflows of resources	<u>777,879</u>	<u>819,165</u>
Total assets and deferred outflows of resources	<u>\$ 133,538,555</u>	<u>132,889,396</u>

Xenia Rural Water District
Statement of Net Position
December 31, 2018 and 2017

	December 31,	
	2018	2017
Liabilities		
Current liabilities:		
Accounts payable	\$ 312,341	404,532
Accrued payroll taxes, IPERS contribution and sales tax	49,951	50,151
Accrued payroll	61,928	55,515
Accrued compensated absences	78,339	72,023
Unearned revenue	15,792	15,792
Customer deposits	65,854	57,224
Sewer payables	42,503	41,220
Accrued interest payable:		
USDA Rural Development water revenue notes	64,386	65,726
Refunding water revenue bonds, series 2016	249,492	251,950
Current portion of long-term debt	2,388,936	2,342,454
Total current liabilities	3,329,522	3,356,587
Noncurrent liabilities:		
Unearned revenue	434,558	450,352
Revenue notes payable	40,748,023	41,632,064
Revenue bonds payable	69,423,663	71,357,550
Project anticipation notes payable	1,338,168	1,363,168
Net pension liability	1,249,788	1,267,621
Total noncurrent liabilities	113,194,200	116,070,755
Total liabilities	116,523,722	119,427,342
Deferred Inflows of Resources		
Pension related deferred inflows	78,156	50,418
Net position		
Restricted for debt service	5,397,896	5,196,749
Unrestricted	11,538,781	8,214,887
Total net position	16,936,677	13,411,636
Total liabilities, deferred inflows of resources and net position	\$ 133,538,555	132,889,396

See notes to financial statements.

Xenia Rural Water District

Statement of Revenues, Expenses and
Changes in Net Position

Years ended December 31, 2018 and 2017

	December 31,	
	2018	2017
Operating revenues:		
Water sales:		
Residential	\$ 10,293,082	10,247,214
Commercial	796,971	811,346
Industrial	2,747,678	2,781,646
Wholesale	468,618	465,938
Service charges	249,942	258,864
Contracted billing:		
Water	-	34,521
Wastewater	18,279	12,840
Water connection fees	522,180	473,153
Wastewater	85,515	86,490
Miscellaneous	4,236	4,024
Total operating revenues	<u>15,186,501</u>	<u>15,176,036</u>
Operating expenses:		
Provision for depreciation/amortization:		
Wastewater systems	25,434	25,434
Other	2,896,985	2,851,786
Salaries and wages	1,448,873	1,358,752
Purchased water	1,808,867	1,673,589
Professional fees	96,135	46,734
Utilities	352,424	356,068
Chemicals	203,443	183,853
Payroll taxes	110,745	103,104
General insurance	101,289	105,749
Employee benefits	402,732	360,505
Repair and maintenance	749,215	713,866
Wastewater operations	58,673	44,879
Fuel	89,831	74,755
Office expense	208,439	220,468
Postage and freight	13,149	5,150
Telephone	37,542	37,810
Vehicle repair and maintenance	60,073	72,961
Testing and lab	38,107	31,515
Licenses, dues and subscriptions	43,451	30,597
Miscellaneous	38,711	5,099
Bank fees and service charges	36,527	30,830

Xenia Rural Water District

Statement of Revenues, Expenses and
Changes in Net Position

Years ended December 31, 2018 and 2017

	December 31,	
	2018	2017
Operating expenses (continued):		
Continuing education	4,614	3,303
Mileage	1,924	2,875
Advertising and promotion	553	1,732
Meals and lodging	121	376
Total operating expenses	<u>8,827,857</u>	<u>8,341,790</u>
Operating income	<u>6,358,644</u>	<u>6,834,246</u>
Non-operating revenues (expenses):		
Custom water connection and relocation fees	57,584	19,045
Membership and termination fees	164,314	109,365
Investment gain	189,237	49,124
Interest expense	(3,406,495)	(3,437,618)
Rental income	9,600	9,000
Gain on disposal of capital assets	80,782	105,692
Gain (loss) on disposal of inventory	250	(3,579)
Miscellaneous	1,131	908
Sale of territory rights and capital assets	<u>69,994</u>	<u>253,372</u>
Net non-operating revenues (expenses)	<u>(2,833,603)</u>	<u>(2,894,691)</u>
Change in net position	3,525,041	3,939,555
Net position beginning of year	<u>13,411,636</u>	<u>9,472,081</u>
Net position end of year	<u>\$ 16,936,677</u>	<u>13,411,636</u>

See notes to financial statements.

Xenia Rural Water District
Statement of Cash Flows
Years ended December 31, 2018 and 2017

	December 31,	
	2018	2017
Cash flows from operating activities:		
Cash received from customers	\$ 15,373,553	15,117,225
Cash payments to employees for services	(1,898,630)	(1,753,489)
Cash payments to suppliers for goods and services	(4,042,855)	(3,525,966)
Net cash provided by operating activities	<u>9,432,068</u>	<u>9,837,770</u>
Cash flows from capital and related financing activities:		
Cash received from custom connection fees	57,584	19,045
Miscellaneous revenues	175,045	119,275
Proceeds from sale of territory rights and capital assets	197,281	500,410
Proceeds from sale of excess inventory	250	(3,579)
Acquisition and construction of capital assets	(1,751,751)	(1,817,264)
Principal paid on bonds and notes	(2,796,446)	(2,045,269)
Interest paid on bonds and notes	(3,410,293)	(4,158,626)
Net cash used by capital and related financing activities	<u>(7,528,330)</u>	<u>(7,386,008)</u>
Cash flows from investing activities:		
Investment income	<u>189,237</u>	<u>49,124</u>
Net cash provided by investing activities	<u>189,237</u>	<u>49,124</u>
Net increase in cash and cash equivalents	2,092,975	2,500,886
Cash and cash equivalents beginning of year	<u>14,456,616</u>	<u>11,955,730</u>
Cash and cash equivalents end of year	<u>\$ 16,549,591</u>	<u>14,456,616</u>

Xenia Rural Water District

Statement of Cash Flows

Years ended December 31, 2018 and 2017

	December 31,	
	2018	2017
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 6,358,644	6,834,246
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation/amortization – wastewater systems	25,434	25,434
Depreciation/amortization – other	2,896,985	2,851,786
Decrease (increase) in accounts receivable	192,933	(164,274)
Increase in prepaid expenses	(7,576)	(8,691)
Decrease (increase) in deferred outflows of resources	41,286	(2,220)
Increase (decrease) in accounts payable	(92,191)	124,934
Increase in accrued salaries and wages	6,413	1,269
Increase in accrued compensated absences, payroll taxes, IPERS contribution and sales tax	6,116	4,834
Increase (decrease) in unearned revenues	(15,794)	109,984
Increase (decrease) in net pension liability	(17,833)	43,898
Increase in deferred inflows of resources	27,738	21,091
Increase (decrease) in customer deposits	8,630	(4,716)
Increase in sewer payables	1,283	195
Total adjustments	3,073,424	3,003,524
Net cash provided by operating activities	\$ 9,432,068	9,837,770

See notes to financial statements.

Xenia Rural Water District

Xenia Rural Water District
Notes to Financial Statements
December 31, 2018 and 2017

(1) Summary of Significant Accounting Policies

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

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

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

A. Reporting Entity

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

B. Basis of Presentation

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

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

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

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

Deferred Outflows of Resources – Deferred outflows of resources include unamortized bond refunding losses and pension related amounts. Deferred outflows of resources represent a consumption of net position applicable to a future year(s) which will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense, contributions from the District after the measurement date but before the end of the District’s reporting period and debt refunding losses.

In September 2016, the District issued water revenue refunding bonds to refund previously issued water revenue bonds, series 2006. In a current refunding, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow or inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. The difference between these amounts at the time of the refunding was \$538,274, of which \$6,836 was recognized as a component of interest expense for 2016. The deferred outflow reported at December 31, 2016 was \$531,438, which will be amortized over 25 years. \$21,400 was recognized as a component of interest expense for both fiscal year 2017 and 2018, leaving a reported deferred outflow of resources of \$488,638 at December 31, 2018.

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, 2018 and 2017.

Unearned Revenue – The District enters into contractual agreements with other political subdivisions to sell treatment capacity to those entities. In exchange for purchasing treatment capacity, the political subdivisions will be able to purchase water at a lower wholesale water rate. At the beginning of the agreement, the purchaser makes a cash payment and the District records the amount as unearned revenue and then amortizes the amount into income over a period of 30 years. As of December 31, 2018, the District had \$450,350 of unearned revenue related to contractual agreements and recognized \$15,794 of revenue during 2018. As of December 31, 2017, the District had \$466,144 of unearned revenue related to contractual agreements and recognized \$12,976 of revenue during 2017.

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

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

E. Use of Estimates

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

(2) Cash, Cash Equivalents and Pooled Investments

The District's deposits in banks at December 31, 2018 and 2017 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to ensure there will be no loss of public funds.

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

The District had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,152,605 pursuant to rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals for the IPAIT investments. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

(3) Sale of Territory Rights

The District holds exclusive rights and responsibilities to provide water service to customers within the District's territory. The District has reached various agreements releasing these water service rights to other entities which wish to develop certain areas within the District's territory. Per several of the agreements, when individual lots in the designated areas are sold to third parties, the District will be paid \$2,700 for each lot. During the year ended December 31, 2018 and December 31, 2017, the District received \$70,200 and \$183,600, respectively, pursuant to the agreements.

In October 2017, the District entered into an agreement with the City of Webster City, the Hamilton County Board of Supervisors and the Hamilton County Conservation Board. The Hamilton County Conservation Board wished to purchase domestic water in quantities that were able to accommodate their fire suppression needs for Briggs Woods Park, the Briggs Woods Golf Course, the Briggs Woods Recreation Center and a new conference center. In order for the Conservation Board to receive water services from the City and to transition the public water supply services in these areas from the District to the City, the City required undisputed rights. The agreement reached released the District's water service rights related to the property and provided the District with a payment of \$61,387.

In May 1998, the District entered into an agreement with the City of Boone. At that time, the District wished to expand the water system to include an area located within two miles of the limits of the City, which was prohibited by Code of Iowa Chapter 357A, unless the City has approved a new water system plan. The agreement included an option for the City to purchase the territory from the District when the City determines it will begin providing water services to the territory. Until this determination is made, the District

holds these rights. In February 2017, the District began working with the City on purchasing the territory so that it could begin providing water services. The City provided the District with a payment of \$8,385 for the water service rights.

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

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

Year Ending December 31,	Interest Rates	Principal	Interest	Total
2019	2.75%	\$ 85,408	15,098	100,506
2020	2.75	87,757	12,749	100,506
2021	2.75	90,171	10,335	100,506
2022	2.75	92,650	7,856	100,506
2023	2.75	95,198	5,308	100,506
2024	2.75	97,816	2,690	100,506
Total		<u>\$ 549,000</u>	<u>54,036</u>	<u>603,036</u>

(4) Capital Assets

Capital assets activity for the years ended December 31, 2018 and 2017 was as follows:

	Year ended December 31, 2018			
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated/amortized:				
Land	\$ 889,153	-	-	889,153
Construction in progress	1,480,086	2,800,989	(3,974,529)	306,546
Total capital assets not being depreciated/amortized	2,369,239	2,800,989	(3,974,529)	1,195,699
Capital assets being depreciated/amortized:				
Office building and improvements	3,456,135	-	-	3,456,135
Office furniture and equipment	259,504	-	-	259,504
Plant building	606,885	2,247,339	-	2,854,224
Wells	62,982	-	-	62,982
Wastewater systems	1,494,792	-	-	1,494,792
Water lines	138,479,327	258,940	(4,831)	138,733,436
Intangibles, purchased capacity	5,050,834	-	-	5,050,834
Intangibles, software	161,514	-	(1,250)	160,264
Telemetry system	598,012	-	-	598,012
Equipment and tools	1,883,266	322,930	(521,482)	1,684,714
Total capital assets being depreciated/amortized	152,053,251	2,829,209	(527,563)	154,354,897
Less accumulated depreciation/amortization for:				
Office building and improvements	1,541,257	110,762	-	1,652,019
Office furniture and equipment	244,248	7,937	-	252,185
Plant building	522,863	42,820	-	565,683
Wells	55,116	1,575	-	56,691
Wastewater systems	231,509	25,434	-	256,943
Water lines	32,775,531	2,320,939	(4,831)	35,091,639
Intangibles, purchased capacity	2,442,792	135,724	-	2,578,516
Intangibles, software	155,393	2,536	(1,250)	156,679
Telemetry system	361,214	23,240	-	384,454
Equipment and tools	1,143,979	251,452	(474,977)	920,454
Total accumulated depreciation/amortization	39,473,902	2,922,419	(481,058)	41,915,263
Total capital assets being depreciated/amortized, net	112,579,349	(93,210)	(46,505)	112,439,634
Capital assets, net	\$114,948,588	2,707,779	(4,021,034)	113,635,333

	Year ended December 31, 2017			
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated/amortized:				
Land	\$ 889,153	-	-	889,153
Construction in progress	988,978	2,248,043	(1,756,935)	1,480,086
Total capital assets not being depreciated/amortized	1,878,131	2,248,043	(1,756,935)	2,369,239
Capital assets being depreciated/amortized:				
Office building and improvements	3,457,272	-	(1,137)	3,456,135
Office furniture and equipment	267,878	-	(8,374)	259,504
Plant building	606,885	-	-	606,885
Wells	62,982	-	-	62,982
Wastewater systems	1,494,792	-	-	1,494,792
Water lines	137,475,098	1,004,229	-	138,479,327
Intangibles, purchased capacity	5,050,834	-	-	5,050,834
Intangibles, software	161,514	-	-	161,514
Telemetry system	608,416	-	(10,404)	598,012
Equipment and tools	1,867,768	376,352	(360,854)	1,883,266
Total capital assets being depreciated/amortized	151,053,439	1,380,581	(380,769)	152,053,251
Less accumulated depreciation/amortization for:				
Office building and improvements	1,422,057	120,337	(1,137)	1,541,257
Office furniture and equipment	240,005	12,617	(8,374)	244,248
Plant building	508,134	14,729	-	522,863
Wells	53,542	1,574	-	55,116
Wastewater systems	206,075	25,434	-	231,509
Water lines	30,465,101	2,310,430	-	32,775,531
Intangibles, purchased capacity	2,307,068	135,724	-	2,442,792
Intangibles, software	151,223	4,170	-	155,393
Telemetry system	347,188	24,430	(10,404)	361,214
Equipment and tools	1,135,715	227,775	(219,511)	1,143,979
Total accumulated depreciation/amortization	36,836,108	2,877,220	(239,426)	39,473,902
Total capital assets being depreciated/amortized, net	114,217,331	(1,496,639)	(141,343)	112,579,349
Capital assets, net	\$116,095,462	751,404	(1,898,278)	114,948,588

Depreciation/amortization expense charged to wastewater systems for 2018 and 2017 was \$25,434 and \$25,434, respectively. Depreciation/amortization expense charged to other operations for 2018 and 2017 was \$2,896,985 and \$2,851,786, respectively.

(5) Changes in Long Term Debt

A summary of changes in long-term debt for the years ended December 31, 2018 and 2017 is as follows:

Obligation	Year ended December 31, 2018				
	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
USDA Rural Development:					
Water revenue notes	\$ 42,264,232	-	(863,846)	41,400,386	880,165
Wastewater revenue note	235,286	-	(3,713)	231,573	3,771
Refunding water revenue bonds, series 2013	72,832,550	-	(1,903,887)	70,928,663	1,505,000
Project anticipation notes	1,363,168	-	(25,000)	1,338,168	-
Total	<u>\$ 116,695,236</u>	<u>-</u>	<u>(2,796,446)</u>	<u>113,898,790</u>	<u>2,388,936</u>

Obligation	Year ended December 31, 2017				
	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
USDA Rural Development:					
Water revenue notes	\$ 43,112,046	-	(847,814)	42,264,232	863,828
Wastewater revenue note	238,853	-	(3,567)	235,286	3,626
Refunding water revenue bonds, series 2013	74,001,438	-	(1,168,888)	72,832,550	1,475,000
Project anticipation notes	1,388,168	-	(25,000)	1,363,168	-
Total	<u>\$ 118,740,505</u>	<u>-</u>	<u>(2,045,269)</u>	<u>116,695,236</u>	<u>2,342,454</u>

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

USDA Rural Development Water Revenue Notes – Prior to March 2013, the District had issued water revenue notes totaling \$47,281,900 at December 31, 2012. These water revenue notes, with various issue dates and interest rates ranging from 4.125% to 5.625% per annum, required monthly payments of \$196,946. The District has pledged future water customer receipts, net of specified operating disbursements, to repay the water revenue notes. The original notes were payable solely from water customer net receipts and were payable through 2049.

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

At December 31, 2018 and 2017, the debt service coverage ratios of the revenues to debt service were 142% and 149%, respectively. At December 31, 2018 and 2017, the note balances totaled \$41,440,386 and \$42,264,232, respectively.

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

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

USDA Rural Development Wastewater Revenue Note – On January 8, 2010, the District issued a \$260,000 wastewater revenue note, series 2010 for the purpose of paying the construction costs of a community-wide sanitary sewer collection and treatment system to serve the residents of Bouton. The note proceeds paid the outstanding principal of the \$260,000 project anticipation note from F & M Bank. The note bears interest at 4.00% per annum with monthly principal and interest payments of \$1,088. The note matures on January 8, 2050. At December 31, 2018 and 2017, the note balance totaled \$231,573 and \$235,286, 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, 2018 and 2017, the debt service coverage ratios of net receipts to debt service were 662% and 114%, respectively.

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

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

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

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

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

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

The resolution providing for the issuance of the water revenue refunding bonds, Series 2016, includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holder holds a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a water revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (c) A water reserve account shall be established. This account is restricted for the purpose of paying principal and interest when funds in the sinking account are inadequate.
- (d) An improvement account shall be established for the purpose of paying principal and interest when there is insufficient money in the sinking and reserve accounts and extraordinary maintenance and repair, as needed.
- (e) User rates or charges to consumers shall be sufficient in each year for the payment of the proper and reasonable expenses of operation and maintenance of the system, for the payment of principal and interest on the bonds and for the establishment of adequate reserves.

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

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

As a condition of the forbearance agreement, the District refinanced the project anticipation notes due to the Iowa Finance Authority. The refinanced project anticipation notes are interest free and are due in full on January 1, 2032. The District made principal payments of \$25,000 during the years ended December 31, 2018 and 2017, reducing the outstanding principal balance to \$1,338,168 at December 31, 2018.

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

USDA Rural Development									
Year Ending December 31,	Water Revenue Refunding Capital Loan Notes			Wastewater Revenue Notes			Refunding Water Revenue Bonds, Series 2016		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 880,165	768,719	1,648,884	3,771	9,285	13,056	1,505,000	2,993,900	4,498,900
2020	896,811	752,073	1,648,884	3,922	9,134	13,056	1,550,000	2,948,750	4,498,750
2021	913,771	735,113	1,648,884	4,079	8,977	13,056	1,595,000	2,902,250	4,497,250
2022	931,052	717,832	1,648,884	4,242	8,814	13,056	1,675,000	2,822,500	4,497,500
2023	948,660	700,224	1,648,884	4,412	8,644	13,056	1,760,000	2,738,750	4,498,750
2024-2028	5,019,301	3,225,119	8,244,420	24,853	40,427	65,280	10,205,000	12,283,250	22,488,250
2029-2033	5,512,220	2,732,200	8,244,420	30,238	35,042	65,280	13,020,000	9,464,000	22,484,000
2034-2038	6,053,547	2,190,873	8,244,420	36,788	28,492	65,280	17,110,000	5,827,250	22,937,250
2039-2043	6,648,034	1,596,386	8,244,420	44,759	20,518	65,277	12,680,000	1,292,250	13,972,250
2044-2048	7,300,903	943,517	8,244,420	54,455	10,825	65,280	-	-	-
2049-2053	6,295,922	241,870	6,537,792	20,054	1,158	21,212	-	-	-
Total	\$ 41,400,386	14,603,926	56,004,312	231,573	181,316	412,889	* 61,100,000	43,272,900	104,372,900

Year Ending December 31,	Project Anticipation Notes			Total		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ -	-	-	2,388,936	3,771,904	6,160,840
2020	-	-	-	2,450,733	3,709,957	6,160,690
2021	-	-	-	2,512,850	3,646,340	6,159,190
2022	-	-	-	2,610,294	3,549,146	6,159,440
2023	-	-	-	2,713,072	3,447,618	6,160,690
2024-2028	-	-	-	15,249,154	15,548,796	30,797,950
2029-2033	1,338,168	-	1,338,168	19,900,626	12,231,242	32,131,868
2034-2038	-	-	-	23,200,335	8,046,615	31,246,950
2039-2043	-	-	-	19,372,793	2,909,154	22,281,947
2044-2048	-	-	-	7,355,358	954,342	8,309,700
2049-2053	-	-	-	6,315,976	243,028	6,559,004
Total	\$ 1,338,168	-	1,338,168	104,070,127	58,058,142	162,128,269

* The unamortized premium on the water revenue refunding bonds, series 2016 at December 31, 2018 and 2017 totaled \$9,828,663 and \$10,257,550, respectively.

(6) Pension Plan

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

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

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

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

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

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

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

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

Pursuant to the required rates, Regular members contributed 5.95% of covered payroll and the District contributed 8.93% of covered payroll for a total rate of 14.88% in fiscal year 2017 and the first half of fiscal year 2018. On July 1, 2018, the contribution rates changed to 6.29% for Regular members and 9.44% for the District for a total rate of 15.73%.

The District's contributions to IPERS for the year ended December 31, 2018 and 2017 were \$140,309 and \$128,023, respectively.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At December 31, 2018 and 2017, the District reported a liability of \$1,249,788 and \$1,267,621, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and June 30, 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The District’s proportion of the net pension liability was based on the District’s share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2018, the District’s proportion was 0.019749%, which was an increase of 0.000719% from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018 and 2017, the District recognized pension expense of \$178,552 and \$170,448, respectively. The District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018	2018	2017	2017
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 6,852	28,247	11,638	10,983
Changes of assumptions	178,290	-	220,254	-
Net difference between projected and actual earnings on IPERS' investments	-	34,340	-	13,240
Changes in proportion and differences between District contributions and its proportionate share of contributions	32,221	15,569	13,113	26,195
District contributions subsequent to the measurement date	71,878	-	64,122	-
Total	<u>\$ 289,241</u>	<u>78,156</u>	<u>309,127</u>	<u>50,418</u>

Deferred outflows of resources related to pensions of \$71,878 and \$64,122 represent the amount the District contributed subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ending December 31, 2019 and year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Year Ending June 30,	2018 Amount	Year Ending June 30,	2017 Amount
2019	\$	91,154	2018	\$ 25,717
2020		48,056	2019	97,263
2021		(6,198)	2020	55,317
2022		5,246	2021	2,542
2023		949	2022	13,748
Total	\$	<u>139,207</u>	Total	<u>\$ 194,587</u>

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement as follows:

Rate of inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of a demographic assumption study dated June 28, 2018.

Mortality rates were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

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

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equiy	22.0%	6.01%
International equity	15.0	6.48
Global smart beta equity	3.0	6.23
Core-pluse fixed income	27.0	1.97
Public credit	3.5	3.93
Public real assets	7.0	2.91
Cash	1.0	(0.25)
Private equity	11.0	10.81
Private real assets	7.5	4.14
Private credit	3.0	3.11
Total	100.0%	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
December 31, 2018	\$2,121,142	1,249,788	518,852
	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
December 31, 2017	\$2,088,531	1,267,621	577,899

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

Payables to IPERS – At December 31, 2018 and 2017, the District reported payables to IPERS of \$11,104 and \$9,990, respectively, for legally required District contributions and \$7,398 and \$6,656, respectively, for legally required District contributions which had been withheld from employee wages but not yet remitted to IPERS.

(7) Risk Management

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

(8) Major Customers

Water sales revenue to three ethanol plants were \$2,747,678 and \$2,781,646 for the years ended December 31, 2018 and 2017, respectively. This represents 18.1% and 18.3% of total operating revenues for each year, respectively. The balances due from these customers and included in accounts receivable were \$205,062 and \$211,938 at December 31, 2018 and 2017, respectively.

(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, 2018 and 2017 were \$78,339 and \$72,023, respectively. This liability has been computed based on rates of pay in effect at December 31, 2018 and December 31, 2017, respectively.

Xenia Rural Water District

Required Supplementary Information

Xenia Rural Water District

Xenia Rural Water District

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

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

Required Supplementary Information

	2018	2017	2016	2015
District's proportion of the net pension liability	0.019749%	0.019030%	0.019445%	0.019684%
District's proportionate share of the net pension liability	\$ 1,250	1,268	1,224	972
District's covered payroll	\$ 1,465	1,427	1,379	1,391
District's proportionate share of the net pension liability as a percentage of its covered payroll	85.32%	88.86%	88.76%	69.88%
IPERS' fiduciary net position as a percentage of the total pension liability	83.62%	82.21%	81.82%	85.19%

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

See accompanying independent auditor's report.

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

Required Supplementary Information

	2018	2017	2016	2015
Statutorily required contribution	\$ 140	128	126	122
Contributions in relation to the statutorily required contribution	(140)	(128)	(126)	(122)
Contribution deficiency (excess)	\$ -	-	-	-
District's covered payroll	\$ 1,544	1,465	1,427	1,379
Contributions as a percentage of covered payroll	9.07%	8.74%	8.83%	8.85%

See accompanying independent auditor's report.

2014	2013	2012	2011	2010	2009
121	106	110	109	106	182
(121)	(106)	(110)	(109)	(106)	(182)
-	-	-	-	-	-
1,391	1,247	1,341	1,494	1,692	2,950
8.70%	8.50%	8.20%	7.30%	6.26%	6.17%

Xenia Rural Water District

Notes to Required Supplementary Information – Pension Liability

Year ended December 31, 2018

Changes of benefit terms:

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

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

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

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

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

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



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

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

To the Members of the Xenia Rural Water District:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the Xenia Rural Water District as of and for the years ended December 31, 2018 and 2017, and the related Notes to Financial Statements, and have issued our report thereon dated April 15, 2019.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Xenia Rural Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters which are required to be reported under Government Auditing Standards. However, we 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, 2018 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Xenia Rural Water District's Responses to the Findings

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

Purpose of this Report

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

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


Marlys K. Gaston, CPA
Deputy Auditor of State

April 15, 2019

Xenia Rural Water District
Schedule of Findings
Year ended December 31, 2018

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

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

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

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

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

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

Response – The District has limited staff available for billing, collections and accounting responsibilities which limits the District’s ability to implement ideal internal control measures. However, measures are taken to reduce the internal control risks inherent to a limited staff. A physical receipt is provided to customers that pay at the office, which is reconciled to the cash drawer, limiting the opportunity for theft of cash. The employee tasked with reconciling does not have access to cash and journal entries made by this employee are reviewed by management.

The District will continue to review and monitor its internal control policies in an effort to maximize internal control effectiveness with its limited staff.

Conclusion – Response accepted.

Xenia Rural Water District
Schedule of Findings
Year ended December 31, 2018

(B) Inventory

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

Condition – The inventory is easily accessible to all employees and the inventory duties are not properly segregated. The individuals who are responsible for the District's inventory also perform the annual inventory counts. Inventory tracking sheets are to be completed daily, but are not always accurate and there is no evidence of review by those responsible for the inventory documented on the sheets.

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

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

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

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

Efforts have been made to reduce inventory to include only parts used regularly in ordinary operations. Focusing on parts used on a regular basis has resulted in fewer parts to manage and safeguard.

Each inventoried part is counted on a monthly, quarterly or annual basis determined based on the frequency the part is purchased/used. Multiple employees knowledgeable of the parts are involved in the physical inventory count which mitigates the risk of staff covering up theft by requiring collusion amongst all staff involved in the physical count. Office staff also support field staff in counting the more valuable inventory items, with the purpose of minimizing opportunities for misappropriation.

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

Conclusion – Response accepted.

Xenia Rural Water District
Schedule of Findings
Year ended December 31, 2018

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

- (1) Questionable Disbursements – No expenditures of District money tested were deemed questionable.
- (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. However, Chapter 357A.8 of the Code of Iowa requires public notice of the District’s annual meeting to be published not less than 10 or more than 30 days prior to the meeting. The public notice for the 2018 meeting was published 7 days before the meeting occurred.

Recommendation – The District should ensure the public notice of the annual meeting is published during the required time period.

Response – The District will strive to provide timely notice of the annual meeting. Staff members who have proven to be punctual and dependable will be relied on in the future to make sure the notice is filed within the guidelines of the Iowa Code.

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

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

Response – In 2018, the District’s revenues from the Bouton wastewater system exceeded the expenses from the Bouton wastewater system. However, the margin was less than required under the loan covenant. Historically, operating costs for the Bouton wastewater system have seen significant variances from year to year, which has result in debt service coverage ratio requirements not being met every year. The cumulative net cash flows from the Bouton wastewater system since its inception are still a net positive and the debt service coverage ratio calculated on a cumulative basis exceeds the margin required under the loan covenant. Management anticipates positive net cash flows from the Bouton wastewater system in the future, but will continue to monitor financial performance and determine if rates need to be modified in order to meet the debt service coverage ratio requirements.

Conclusion – Response accepted.

Xenia Rural Water District
Schedule of Findings
Year ended December 31, 2018

(6) Other Information Required by the Bond Resolution –

Insurance – The following insurance policies were in force at December 31, 2018:

Insurer	Description	Amount	Expiration Date
Allied Public Risk, LLC	Property:		
	Blanket: Buildings and personal property	\$ 33,420,071	1/1/2019
	Coverage Extension Blanket	2,000,000	1/1/2019
	Contractors equipment	607,236	1/1/2019
	Leased contractors equipment	250,000	1/1/2019
	Miscellaneous property - radios	25,000	1/1/2019
	Off-site tools and equipment:		
	Property at other locations	250,000	1/1/2019
	Property in transit	100,000	1/1/2019
	Deductible each claim:	1,000	1/1/2019
Allied Public Risk, LLC	General liability coverage:		
	General aggregate	3,000,000	1/1/2019
	Products general liability	3,000,000	1/1/2019
	Personal and/or advertising	1,000,000	1/1/2019
	Each occurrence	1,000,000	1/1/2019
	Damage to premises	1,000,000	1/1/2019
Allied Public Risk, LLC	Medical expense	10,000	1/1/2019
	Automobile coverage:		
	Liability	1,000,000	1/1/2019
	Medical payments	5,000	1/1/2019
	Uninsured motorists	1,000,000	1/1/2019
IMWCA	Underinsured motorists	INCL	1/1/2019
	Workers' compensation:		
Allied Public Risk, LLC	Employee liability limit	1,000,000	1/1/2019
	Commercial umbrella:		
Allied Public Risk, LLC	Policy aggregate	5,000,000	1/1/2019
	Public officials errors and omissions:		
	Liability aggregate limit	3,000,000	1/1/2019
Travelers Insurance	Deductible each claim:	5,000	1/1/2019
	Fidelity coverage:		
	Per loss - Employee dishonesty	7,600,000	12/31/2018
	Per loss deductible	50,000	12/31/2018
	Computer crime:		
	Computer fraud	50,000	12/31/2018
	Computer program and electronic data restoration	50,000	12/31/2018

Xenia Rural Water District
 Schedule of Findings
 Year ended December 31, 2018

Water Rates – The following water rates were in effect at December 31, 2018:

<u>RESIDENTIAL/COMMERCIAL</u>	<u>Gallons</u>	<u>Rate</u>
Rural 5/8" meter (non-franchise users):		
Minimum	0-1,000	\$65.20
Steps	per 1,000 after minimum	\$13.00 to \$5.50
Franchise 5/8" to 2" meter		
Minimum	0-1,000	\$48.90 to \$391.20
Steps	per 1,000 after minimum	\$9.80
City of Boone contracted rate:		
Minimum	0-1,000	\$8.49
Steps	per 1,000 after minimum	\$4.45 to \$7.25
3/4" meter:		
Minimum	0-1,000	\$130.50
Steps	per 1,000 after minimum	\$13.00 to \$5.50
1" meter:		
Minimum	0-1,000	\$195.70
Steps	per 1,000 after minimum	\$13.00 to \$5.50
1 1/2" meter:		
Minimum	0-1,000	\$326.10
Steps	per 1,000 after minimum	\$5.50
2" meter or 6" meter:		
Minimum	0-1,000	\$521.80
Steps	per 1,000 after minimum	\$5.50
<u>INDUSTRIAL</u>	fixed cost	\$14,631.00 to \$67,228.00
	per 1,000 after minimum	\$3.20 to \$1.77
<u>WHOLESALE</u>	no minimum/per 1,000 charge	\$8.50 to \$1.80

Statistical Information

Description	Number
Residential	9,864
Commercial	367
Industrial	4
Wholesale	12
Total	<u>10,247</u>

Xenia Rural Water District

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy Auditor of State
Tammy A. Hollingsworth, CIA, Manager
Sarah J. Swisher, Senior Auditor
Luke M. Bormann, CPA, Staff Auditor
Jason J. Miller, Staff Auditor
Nick J. Rustin, Staff Auditor
Amanda M. Anderson, Assistant Auditor