

NEWTON MUNICIPAL WATERWORKS
NEWTON, IOWA
INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2006

NEWTON MUNICIPAL WATERWORKS
NEWTON, IOWA
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NEWTON MUNICIPAL WATERWORKS
NEWTON, IOWA

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Leon Zmolek	Trustee	December 2010
Cathy Carter	Trustee	December 2011
Jim Gran(Chair)	Trustee	December 2007
L.D. Palmer, II	Manager	Indefinite

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants
(a professional corporation)

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INDEPENDENT AUDITOR'S REPORT

Board of Trustee
Newton Municipal Waterworks
Newton, Iowa 50208

We have audited the accompanying financial statements of the business-type activities, listed as exhibits in the table of contents of this report, of the Newton Municipal Waterworks, Newton, Iowa, as of June 30, 2006 and for the year then ended. These financial statements are the responsibility of Newton Municipal Waterworks management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements reflect capital assets and depreciation thereon based upon appraisal costs, which, in our opinion is not in accordance with U.S. generally accepted accounting principles.

In our opinion, except for the possible effects of an adjustment, if any, to capital assets and depreciation, had we been able to examine adequate records regarding their historical cost, the aforementioned financial statements present fairly in all material respects, the financial position of the Newton Municipal Waterworks, Newton, Iowa at June 30, 2006 and the results of its operations for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated November 7, 2006 on our consideration of the Newton Municipal Waterworks' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 4 through 8 is not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the aforementioned financial statements taken as whole. The supplemental information included in Schedules 1 through 2, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The unaudited section tables have not been subject to the auditing procedures applied by us in the audit of the financial statements, and accordingly we express no opinion on them.

Nolte, Cornman & Johnson EC
NOLTE, CORNMAN & JOHNSON, P.C.
Certified Public Accountants

November 7, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Newton Municipal Waterworks provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the Waterworks financial statements, which follows.

2006 FINANCIAL HIGHLIGHTS

- ◆ Newton Municipal Waterworks revenue from operations increased \$96,789 from fiscal year 2005(FY 05). Non-operating revenues increased \$40,533 from FY 05, primarily due to the increase of subdivision reimbursements revenues and increase in interest income.
- ◆ Newton Municipal Waterworks program expenses increased \$267,612 from \$1,986,730 in FY 05 to \$ 2,254,342 in fiscal year 2006(FY 06).
- ◆ Newton Municipal Waterworks net assets decreased \$156,135 from FY 05.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of a series of financial statements as well as other requirements as follows:

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

The Financial Statements consists of a statement of net assets, statement of revenues, expenses and changes in net assets and statement of cash flows. These provide information about the activities of Newton Municipal Waterworks as a whole and presents an overall view of the Waterworks finances.

The remaining statements provide financial information about activities for which Newton Municipal Waterworks acts solely.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS OF THE WATERWORKS AS A WHOLE

Net assets – Figure A-1 below provides a summary of the Waterworks’ net assets for the year ended June 30, 2006 compared to 2005.

Figure A-1
Condensed Statement of Net Assets

	Business-type Activities		Total Change
	2006	2005	2005-06
Current and other assets	\$ 602,230	\$ 725,352	-16.97%
Capital assets	4,906,105	5,025,588	-2.38%
Total assets	<u>5,508,335</u>	<u>5,750,940</u>	<u>-4.22%</u>
Long-term obligations	1,115,999	1,214,898	-8.14%
Other liabilities	106,561	94,132	13.20%
Total liabilities	<u>1,222,560</u>	<u>1,309,030</u>	<u>-6.61%</u>
Net assets:			
Invested in capital assets, net of related debt	3,838,105	3,884,588	-1.20%
Unrestricted	447,670	557,322	-19.67%
Total net assets	<u>\$ 4,285,775</u>	<u>\$ 4,441,910</u>	<u>-3.52%</u>

Changes in net assets – Figure A-2 shows the changes in net assets for the year ended June 30, 2006 compared to 2005.

Figure A-2
Changes of Net Assets

	Business-type Activities		Total Change
	2006	2005	2005-06
Operating revenues:			
Charges for service and sales	\$ 1,969,535	1,887,024	4.37%
Miscellaneous	74,058	59,780	23.88%
Total operating revenues	<u>2,043,593</u>	<u>1,946,804</u>	<u>4.97%</u>
Operating expenses:			
Home and Community Environment Program	2,068,653	1,926,730	7.37%
Total operating expenses	<u>2,068,653</u>	<u>1,926,730</u>	<u>7.37%</u>
Net operating income	<u>(25,060)</u>	<u>20,074</u>	<u>-224.84%</u>
Non-operating revenue(expenses):			
Interest expense	(47,205)	(50,319)	-6.19%
Net loss on disposal of assets	(138,484)	(9,681)	1330.47%
Miscellaneous revenue	54,614	14,081	287.86%
Total non-operating revenue(expense)	<u>(131,075)</u>	<u>(45,919)</u>	<u>185.45%</u>
Change in net assets	<u>(156,135)</u>	<u>(25,845)</u>	<u>504.12%</u>
Beginning net assets	<u>4,441,910</u>	<u>4,467,755</u>	<u>-0.58%</u>
Ending net assets	<u>\$ 4,285,775</u>	<u>4,441,910</u>	<u>-3.52%</u>

In figure A-2, Newton Municipal Waterworks shows the changes in net assets for the year ended June 30, 2006 compared to 2005. These changes were due to additional expenditures due to the increased cost of doing business.

Business-Type Activities

Revenues of the Waterworks activities were \$2,098,207 and expenses of \$2,254,342. Revenues of these activities were comprised of charges for service, investment income, and miscellaneous income.

FINANCIAL ANALYSIS OF THE WATERWORKS FUNDS

As previously, noted Waterworks uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As the Waterworks completed the year, it reported net assets of \$4,285,775; a decrease over last year's ending balances of \$4,441,910. However, the primary reason for the decrease in balance in fiscal 2006 is due to the increased cost of doing business and disposal of capital assets.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Waterworks' Board of directors annually adopts a budget following required public notice and hearing. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The budget is prepared on the accrual basis.

Legal Budgetary Highlights

The Waterworks' total actual revenues were \$4,493 more than the total budgeted revenues, a variance of less than 1%.

Total expenditures were more than budgeted due primarily to increase in costs, however with management control of expenditures the excess over budget was limited to \$52,722.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the Waterworks had invested \$4,906,105, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers, equipment and transportation equipment. This amount represents a net decrease of 2.38% from last year. More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$297,645.

The largest change in capital asset activity during the year occurred in the buildings and system category. The buildings and systems totaled \$3,947,637 at June 30, 2006,

compared to \$4,077,266 reported at June 30, 2005. This increase resulted from the net of capital additions and current depreciation during the year.

Figure A-3
Capital Assets, Net of Depreciation

	Business-type Activities		Total Change
	2006	2005	2005-06
Land	\$ 289,677	\$ 289,677	0.00%
Construction in Progress	158,343	141,059	12.25%
Buildings and system	3,947,637	4,077,266	-3.18%
Improvements other than buildings	7,370	7,575	-2.71%
Machinery and equipment	503,078	510,011	-1.36%
Total	<u>\$ 4,906,105</u>	<u>\$ 5,025,588</u>	<u>-2.38%</u>

Long-Term Debt

At June 30, 2006, the Waterworks had \$1,115,998 in long-term debt outstanding. This represents a decrease of 8.14% from last year. More detailed information about the Waterworks' long-term liabilities is available in Note 3 to the financial statements.

In July 2002, the Waterworks authorized the issuance of \$275,000 in capital loan notes to pay for construction of a new maintenance garage. Planning for the project started in fiscal 2002 and the notes were issued in fiscal 2003. Of these capital loan notes, \$175,000 were outstanding at year end.

Waterworks also has total outstanding revenue bonds of \$893,000, as well as \$47,998 in advances for construction projects.

FACTORS BEARING ON THE WATERWORKS' FUTURE

At the time these financial statements were prepared and audited, the Waterworks was aware of existing circumstances that could affect its financial health in the future:

- ◆ The largest manufacturer in Newton has significantly reduced the volume of water consumption. The fiscal year 2006-07 budget has been adjusted downward in response to the volume expected, based on this years decreased usage.

CONTACTING THE WATERWORKS' FINANCIAL MANAGEMENT

This report is designated to provide the citizens, customers, investors and creditors with a general overview of the finances and to demonstrate the Waterworks' accountability for the money it receives. If you have questions about this report or need additional financial information, contact LD Palmer, Manager, Newton Municipal Waterworks, Newton, Iowa, 50208.

BASIC FINANCIAL STATEMENTS

NEWTON MUNICIPAL WATERWORKS
STATEMENT OF NET ASSETS
JUNE 30, 2006

ASSETS

Current assets:

Cash and cash equivalents	\$ 301,847
Restricted sinking fund	9,972
Receivables (net of allowance for uncollectibles)	190,912
Inventory	99,499
Total current assets	<u>602,230</u>

Non-current assets:

Capital assets, net of accumulated depreciation:	
Property, plant and equipment	4,747,762
Construction in progress	158,343
Total non-current assets	<u>4,906,105</u>
Total assets	<u>5,508,335</u>

LIABILITIES

Current liabilities:

Accounts payable and other current liabilities	106,561
Total current liabilities	<u>106,561</u>

Noncurrent liabilities:

Due within one year	74,000
Due in more than one year	994,000
Restricted for:	
Customer advances for construction	47,999
Total noncurrent liabilities	<u>1,115,999</u>
Total liabilities	<u>1,222,560</u>

NET ASSETS

Investment in capital assets, net of related debt	3,838,105
Unreserved	447,670
Total net assets	<u>\$ 4,285,775</u>

SEE NOTES TO THE FINANCIAL STATEMENTS.

NEWTON MUNICIPAL WATERWORKS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

OPERATING REVENUES	
Charges for Service	\$ 1,969,535
Miscellaneous	74,058
Total operating revenues	<u>2,043,593</u>
OPERATING EXPENSES	
Home and Community Environment Program:	
Plant:	
Operations expenses	884,053
Maintenance expenses	88,473
Distribution:	
Operations expenses	316,960
Maintenance expenses	47,174
Administrative and general expenses	434,348
Depreciation	297,645
Total operating expenses	<u>2,068,653</u>
Operating income	<u>(25,060)</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest expense	(47,205)
Net loss on disposal of assets	(138,484)
Miscellaneous revenue	54,614
Total non-operating revenue(expenses)	<u>(131,075)</u>
Change in net assets	(156,135)
Total net assets - beginning	<u>4,441,910</u>
Total net assets - ending	<u>\$ 4,285,775</u>

NEWTON MUNICIPAL WATERWORKS
 COMPARISON OF TOTAL REVENUES, EXPENSES AND CHANGES IN BALANCES
 ACTUAL TO BUDGET
 FOR THE YEAR ENDED JUNE 30, 2006

	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Charges for service	\$ 1,969,535	\$ 1,981,600	\$ (12,065)
Miscellaneous	74,058	57,500	16,558
TOTAL REVENUES	<u>2,043,593</u>	<u>2,039,100</u>	<u>4,493</u>
EXPENSES			
BUSINESS-TYPE			
Water department	1,771,008	1,715,931	(55,077)
CAPITAL ASSETS			
Depreciation	297,645	300,000	2,355
TOTAL EXPENSES	<u>2,068,653</u>	<u>2,015,931</u>	<u>(52,722)</u>
OTHER			
Non-operating income	57,189	13,000	44,189
Non-operating expense	(188,264)	(55,642)	(132,622)
TOTAL OTHER	<u>(131,075)</u>	<u>(42,642)</u>	<u>(88,433)</u>
NET	(156,135)	<u>\$ (19,473)</u>	<u>\$ (136,662)</u>
BALANCE BEGINNING OF YEAR	<u>4,441,910</u>		
BALANCE END OF YEAR	<u>\$ 4,285,775</u>		

SEE NOTES TO THE FINANCIAL STATEMENTS.

NEWTON MUNICIPAL WATERWORKS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Receipts from customers	\$ 1,936,313
Payments to suppliers	(877,812)
Payments to employees	(883,911)
Other receipts	74,058
Net cash provided by operating activities	<u>248,648</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Purchase of capital assets	(319,221)
Principal paid on capital debt	(73,000)
Interest paid on capital debt	(47,205)
Other receipts	44,330
Net increase in restricted accounts	(1,005)
Net cash used by capital and related financing activities	<u>(396,101)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Interest on investments	12,859
Net cash provided by investing activities	<u>12,859</u>
Net decrease in cash and cash equivalents	(134,594)
Balance - beginning of the year	<u>436,441</u>
Balance - end of year	<u>\$ 301,847</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ (25,060)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	297,645
Increase in Accounts Receivable	(33,222)
Decrease in Inventory	22,755
Increase in Meter Deposits Payable	1,041
Increase in Accounts Payable	1,464
Increase in Sales Tax Payable	86
Increase in Accrued Compensated Absences Payable	9,838
Decrease in Construction Advances	(25,899)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 248,648</u>

SUPPLEMENTAL

The Waterworks' considers all highly liquid investments with maturity of three months or less to be "cash equivalents".

Interest	\$ 47,205
Taxes	\$ 0

SEE NOTES TO THE FINANCIAL STATEMENTS.

NEWTON MUNICIPAL WATERWORKS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1

Summary of Significant Accounting Policies

The Newton Waterworks is a municipal utility of the City of Newton located in Jasper County. It was first incorporated in 1903 and is operated under Chapter 383 of the code of Iowa and the Newton City Code. The Waterworks operates with a General Manager and Board of Trustee's. The Board is appointed to six year terms on a staggered basis by the mayor and approved by the City Council, however, they are not a component unit of the city. The Waterworks provides full water service to the Cities of Newton and Lambs Grove.

A. Reporting Entity

The financial statements include all the funds of the Newton Municipal Waterworks. Accordingly, the criteria specified by the Governmental Accounting Standards Board have been applied in determining the scope of the reporting entity for financial reporting purposes. Specifically, those agencies, offices, organizations, commissions, and public authorities over which the Waterwork officials exercise oversight responsibility are included in the financial statements. Manifestations of oversight responsibility over an entity include: 1) financial interdependency, 2) selection of governing authority, 3) designation of management, 4) ability to significantly influence operations, and 5) accountability for fiscal matters. The Newton Municipal Waterworks has no component units which meet the Governmental Accounting Standards Board criteria.

B. Fund Accounting

The accounts of the Waterworks are organized on the basis of funds, each of which is considered to be a separate accounting entity. The effects of interfund activity has been removed from these statements. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, equity, revenues and expenditures. The various funds are presented as follows in the financial statements.

Enterprise Funds
Waterworks

The Enterprise Fund is utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

Capital Assets

This fund is utilized to account for all capital assets. These capital assets are included at amounts appraised by an independent engineering firm as of June 30, 1983 plus subsequent additions at cost, less retirements through June 30, 2006.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The financial statements of the Newton Municipal Waterworks are prepared on an accrual basis which includes capital assets, trade receivables, and trade payables. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

D. Assets, Liabilities and Fund Equity

Cash, and Cash Equivalents - Cash balances are invested in savings which yield interest. Investments in certificates of deposits are stated at fair value.

Accounts Receivable - Accounts receivable from customers comprise the major portion of receivables.

Allowance for Doubtful Accounts - Represents a contra account to the recognition of the accounts receivables as revenues.

Inventory - Inventories are valued at cost using the first-in, first-out method. Waterworks maintains a perpetual inventory, however, physical counts are made on an annual basis and adjusted to actual.

Construction in Progress - Capitalizable costs incurred on projects which are not in use or ready for use are held in construction in progress. When the asset is ready for use, costs relating hereto are transferred to an asset. Upon determination that a project will be abandoned, the related costs are charged to expense.

Advances for Construction - Represent amounts which have been collected for construction of assets to serve the customers. The advances are refundable.

Restricted Assets - Certain proceeds of the Waterworks' enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bonds covenants. The "restricted sinking fund" account is used to segregate resources accumulated for debt service payments over the next twelve months.

Capital Assets - Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 and useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extends assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	15-20
System infrastructure	10-50
Vehicles	10
Office equipment	5-15
Computer equipment	5

Compensated absences - It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the financial statements.

Note 2

Stewardship, Compliance and Accountability

A. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the Waterworks Board annually adopts a budget on an accrual basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of expenditures, known as functions, not by fund or fund type. Applicable functions of the Waterworks is business-type activities.

NOTE 3

Detailed Notes

A. Deposits and Investments

The Newton Waterworks deposits at June 30, 2006 were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the Waterworks of the Waterworks agent in the Waterworks name, or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Newton Waterworks 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 Newton Waterworks Board and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected

repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts and warrants or improvement certificates of a drainage district.

Newton Waterworks currently invests in a savings account and certificates of deposit that are considered cash in bank due to their short-term maturity values of three months or less as of June 30, 2006.

B. Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assts, not being depreciated:				
Land	\$ 289,677	0	0	289,677
Construction in progress	141,059	158,343	141,059	158,343
Total capital assets, not being depreciated	430,736	158,343	141,059	448,020
Capital assets, being depreciated:				
Buildings and system	9,083,244	65,389	8,637	9,139,996
Improvements other than buildings	12,338	0	0	12,338
Machinery and equipment	2,009,011	95,489	13,565	2,090,935
Total capital assets being depreciated	11,104,593	160,878	22,202	11,243,269
Less accumulated depreciation for:				
Buildings and system	5,005,978	195,018	8,637	5,192,359
Improvements other than buildings	4,763	205	0	4,968
Machinery and equipment	1,499,000	102,422	13,565	1,587,857
Total accumulated depreciation	6,509,741	297,645	22,202	6,785,184
Total capital assets, being depreciated, net	4,594,852	(136,767)	0	4,458,085
Business-type activities capital assets, net	\$ 5,025,588	21,576	141,059	4,906,105

C. Long-term Debt

Revenue Bonds

The Waterworks issued bonds where the government pledges income derived from anticipated revenues. The original amount of revenue bonds issued in prior years was \$1,156,000. Revenue bonds outstanding at year end are as follows:

Year Ending June 30,	Bond Issue of February 2, 2001		
	Principal	Interest	Total
2007	\$ 49,000	34,291	83,291
2008	51,000	32,410	83,410
2009	53,000	30,451	83,451
2010	55,000	28,416	83,416
2011	57,000	26,304	83,304
2012	60,000	24,115	84,115
2013	62,000	21,811	83,811
2014	64,000	19,430	83,430
2015	67,000	16,973	83,973
2016	69,000	14,400	83,400
2017	72,000	11,750	83,750
2018	75,000	8,986	83,986
2019	78,000	6,105	84,105
2020	81,000	3,110	84,110
Total	\$ 893,000	278,552	1,171,552

Capital Loan Notes

The Waterworks issued capital loan notes to construct a new maintenance garage. The principal and interest are payable from the revenue from operations of the Waterworks. The details of the Waterworks' capital loan note indebtedness are as follows:

Year Ending June 30,	Note Issue of July 2, 2002		
	Principal	Interest	Total
2007	\$ 25,000	9,275	34,275
2008	30,000	7,950	37,950
2009	30,000	6,360	36,360
2010	30,000	4,770	34,770
2011	30,000	3,180	33,180
2012	30,000	1,590	31,590
Total	\$ 175,000	33,125	208,125

Changes in Long-term Liabilities

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonds Payable:					
Revenue Bonds	\$ 941,000	0	48,000	893,000	49,000
Capital Loan Notes	200,000	0	25,000	175,000	25,000
Advances for Construction	73,898	0	25,899	47,999	0
Total	\$ 1,214,898	0	98,899	1,115,999	74,000

NOTE 4

Other Information

A. Risk Management

The Newton Municipal Waterworks 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.

B. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the Utility is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The Utility's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$38,845 \$36,230 and \$35,925, respectively, equal to the required contributions for each year.

OTHER FINANCIAL INFORMATION

NEWTON MUNICIPAL WATERWORKS
 SCHEDULE OF WATERWORKS REVENUES AND EXPENSES
 FOR THE YEARS ENDED JUNE 30, 2006
 ENTERPRISE FUND

	ACTUAL
	2006
OPERATIONS REVENUES:	
Charges for Service:	
Sale of Water	\$ 1,864,617
Service Charges	11,280
Jobbing Income	9,365
Sewer Billing Income	84,273
	1,969,535
Other:	
Miscellaneous	74,058
Total Revenues from Operations	2,043,593
OPERATIONS EXPENSES:	
PLANT:	
Operations:	
Salaries	291,728
FICA	22,306
IPERS	16,633
Health Insurance	54,718
Laboratory	4,095
Lime	146,902
Chlorine	49,984
Hydroflousilic Acid	8,286
Soda Ash	20,634
Carbon Dioxide	8,056
Polymer	3,070
Poly-Phosphate	2,610
Supplies and Expenses	7,312
Generator	6,559
Power:	
Primary	176,436
Secondary	51,952
Standby	3,146
Heating:	
Primary	8,250
Secondary	1,376
TOTAL OPERATIONS	884,053
Maintenance:	
Repairs and Maintenance:	
Wells	5,024
Buildings	12,041
Treatment Equipment	7,938
Maintenance of Generator	5,555
Vehicles and Equipment	4,938
Lagoon Maintenance	35,685
Maintenance of Grounds	5,203
Water Tower Maintenance	12,089
TOTAL MAINTENANCE	88,473
TOTAL PLANT	972,526

NEWTON MUNICIPAL WATERWORKS
 SCHEDULE OF WATERWORKS REVENUES AND EXPENSES
 FOR THE YEARS ENDED JUNE 30, 2006
 ENTERPRISE FUND

	ACTUAL
	2006
DISTRIBUTION:	
Operations:	
Salaries	201,883
On Call	5,335
FICA	17,014
IPERS	12,747
Health Insurance	50,553
Vehicle and Equipment	15,658
Maps and Records	1,107
Field Supplies and Expense	12,158
Operator Certification	505
TOTAL OPERATIONS	316,960
Maintenance:	
Mains	30,456
Meters	5,386
Valves and Equipment	5,499
Vehicles and Equipment	5,833
TOTAL MAINTENANCE	47,174
TOTAL DISTRIBUTION	364,134
ADMINISTRATION:	
Customer Accounting and Collecting:	
Salaries	88,665
FICA	6,433
IPERS	5,083
Health Insurance	30,636
Postage	23,989
Payments to Gas Company	63,605
Office Supplies	4,052
Equipment Maintenance	12,143
Building Maintenance	10,395
TOTAL ADMINISTRATION	245,001
General Administrative Costs:	
Management	73,818
Trustees	3,000
FICA	5,822
IPERS	4,382
Health Insurance	4,751
Risk Insurance	45,090
On Call	1,242
Payroll Services	2,268
Publications	1,641
Dues and Subscriptions	3,781
Miscellaneous	1,563
DNR Fee	1,948
Rent and Leases	429
Safety	2,000
Phone Communications	14,345
Travel and Conference	915
Audit Expense	6,175

NEWTON MUNICIPAL WATERWORKS
 SCHEDULE OF WATERWORKS REVENUES AND EXPENSES
 FOR THE YEARS ENDED JUNE 30, 2006
 ENTERPRISE FUND

	ACTUAL
	2006
ADMINISTRATION (CONTINUED):	
General Administrative	
Costs (Continued):	
Uniforms and Shoes	4,035
Offices Supplies	1,851
Car Allowance	6,000
Consumer Confidence Reports	847
Merchandise and Resale Labor	1,568
Public Relations	1,876
TOTAL GENERAL ADMINISTRATION	189,347
TOTAL ADMINISTRATION	434,348
DEPRECIATION	297,645
TOTAL OPERATIONS EXPENSES	2,068,653
DEFICIENCY OF OPERATING REVENUE UNDER OPERATING EXPENSES	(25,060)
Other Revenues:	
Interest on Investments	12,028
SRF Interest	831
Non-Operating Income	41,755
Gain on Disposal of Assets	2,575
TOTAL OTHER REVENUES	57,189
Other Expenses:	
Loss on Disposal of Assets	141,059
Interest Expense	47,205
TOTAL OTHER EXPENSES	188,264
DEFICIENCY OF REVENUES UNDER EXPENSES	(156,135)
NET ASSETS BEGINNING OF YEAR	4,441,910
NET ASSETS END OF YEAR	\$ 4,285,775

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NEWTON MUNICIPAL WATERWORKS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 JUNE 30, 2006

<u>GRANTOR/PROGRAM</u>	<u>CFDA NUMBER</u>	<u>GRANT NUMBER</u>	<u>LOAN BALANCE</u>
DEPARTMENT OF NATURAL RESOURCES:			
IOWA DEPARTMENT OF NATURAL RESOURCES:			
DRINKING WATER STATE REVOLVING			
FUND PROGRAM	66.468	FS-50-99-DWSRF-015	\$ <u>893,000</u>
TOTAL			\$ <u><u>893,000</u></u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Newton Municipal Waterworks and is presented in conformity with the accrual basis of accounting. The information on the schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

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 Board of Trustees
Newton Municipal Waterworks

We have audited the financial statements of Newton Municipal Waterworks as of and for the year ended June 30, 2006, and have issued our report thereon dated November 7, 2006. A qualified opinion was issued on the balance sheet due to the capital assets originally being reported at appraised value. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Newton Municipal Waterworks' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

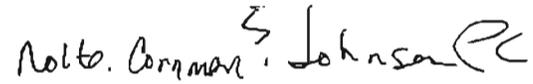
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Newton Municipal Waterworks' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Waterworks. Since our audit was based on tests and samples, not in 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees and users of Newton Municipal Waterworks, and other parties to whom Newton Municipal Waterworks may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Newton Municipal Waterworks 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.

A handwritten signature in black ink that reads "Nolte, Cornman & Johnson" followed by a stylized flourish.

NOLTE, CORNMAN & JOHNSON, P.C.
Certified Public Accountants

November 7, 2006

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Trustees
Newton Municipal Waterworks

Compliance

We have audited the compliance of Newton Municipal Waterworks with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Newton Municipal Waterworks' major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Newton Municipal Waterworks' management. Our responsibility is to express an opinion on Newton Municipal Waterworks compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Newton Municipal Waterworks' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Newton Municipal Waterworks' compliance with those requirements.

In our opinion, Newton Municipal Waterworks complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Newton Municipal Waterworks is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Newton Municipal Waterworks' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Newton Municipal Waterworks and other parties to whom Newton Municipal Waterworks may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.
Certified Public Accountants

November 7, 2006

NEWTON MUNICIPAL WATERWORKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part I: Summary of the Independent Auditor's Results

- (a) A qualified opinion was issued on the financial statements, due to the capital assets reported at appraised value.
- (b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No reportable conditions in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Individual Programs:
 - CFDA Number 66.468 - Drinking Water State Revolving Fund Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Newton Municipal Waterworks did not qualify as a low-risk auditee.

NEWTON MUNICIPAL WATERWORKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No matters were reported.

NEWTON MUNICIPAL WATERWORKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No matters were reported.

NEWTON MUNICIPAL WATERWORKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part IV: Other Findings Related to Statutory Reporting

IV-A-06 Certified Budget - Waterworks' disbursements for the year ended June 30, 2006 exceeded the amount budgeted in the business-type functional area.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

IV-B-06 Questionable Disbursements - We noted no disbursements for parties, banquets, or any other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined an Attorney General's opinion dated April 25, 1979.

IV-C-06 Travel Expense - No expenditures of Waterworks' money for travel expenses of spouses of Waterworks' officials or employees were noted.

IV-D-06 Business Transactions - No business transactions between the Waterworks and the officials and employees of the Waterworks during the year ended June 30, 2006.

IV-E-06 Bond Coverage - Surety bond coverage of Waterworks' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

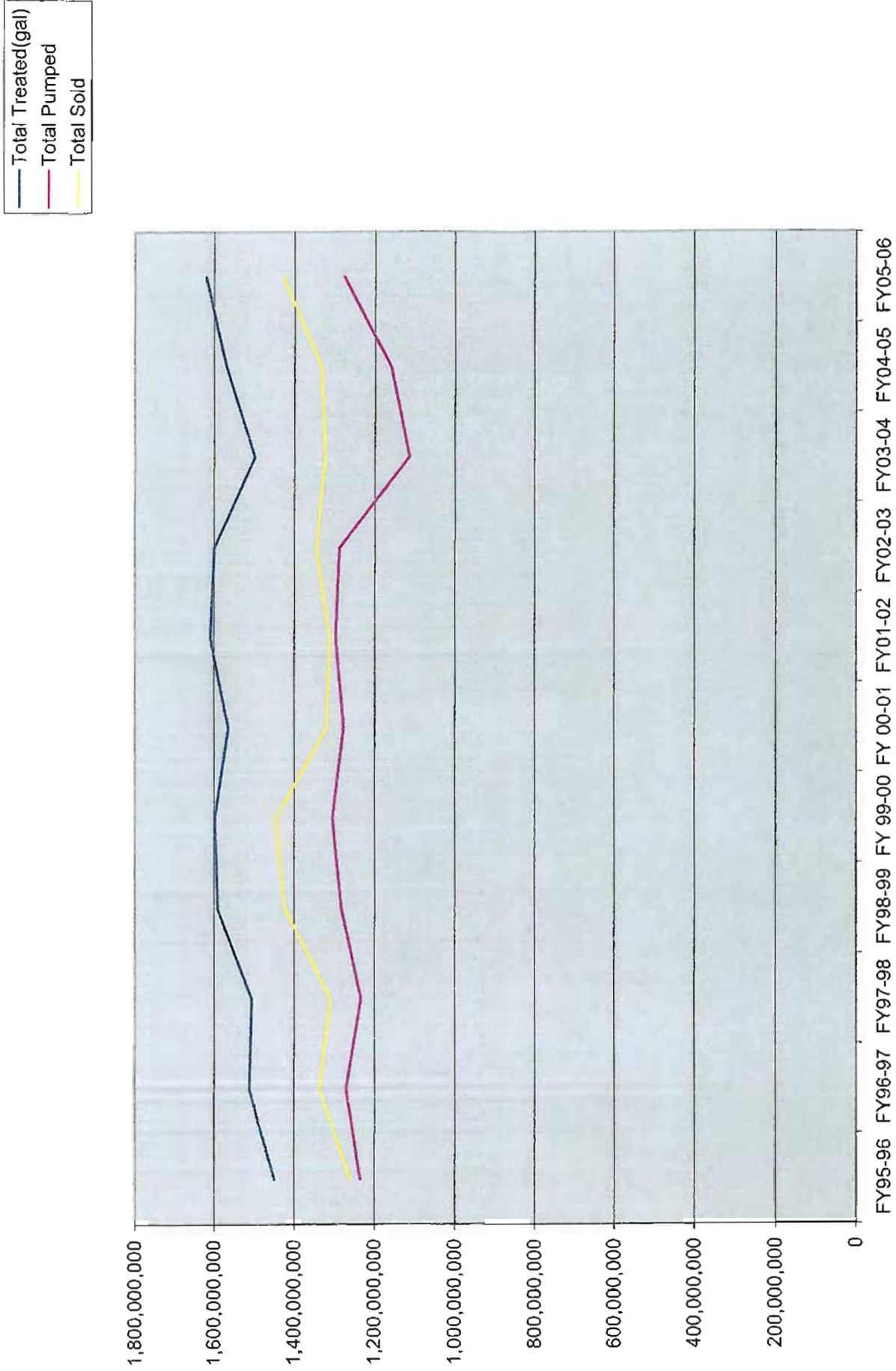
IV-F-06 Board of Trustee Minutes - We noted no transactions that should have been approved in the trustee minutes.

IV-G-06 Revenue Bonds - We noted no instance of noncompliance with revenue bond requirements.

IV-H-06 Deposits and Investments - The Waterworks has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

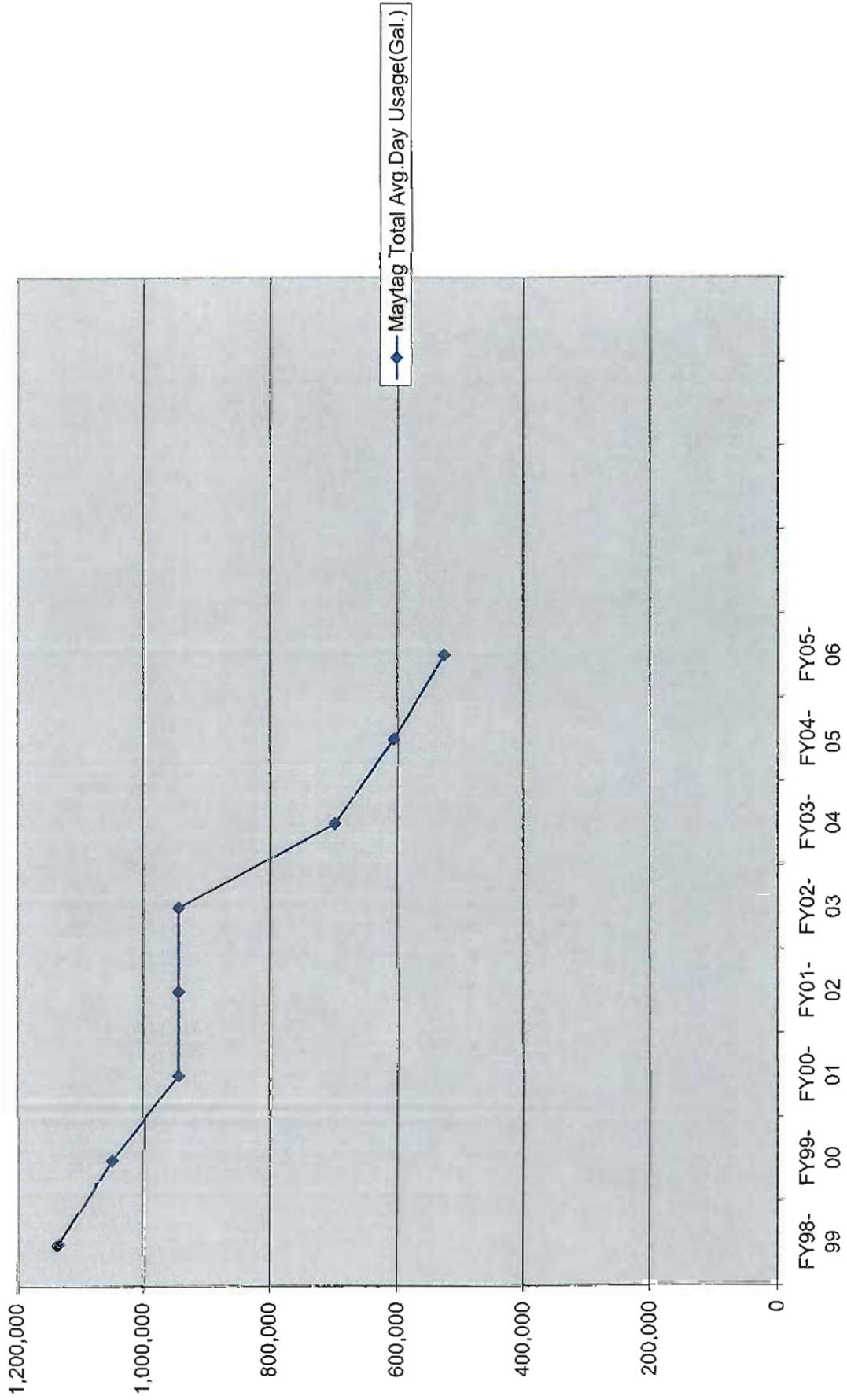
UNAUDITED INFORMATION

Comparison Chart of Water Treated, Pumped, and Sold
for the Newton WaterWorks

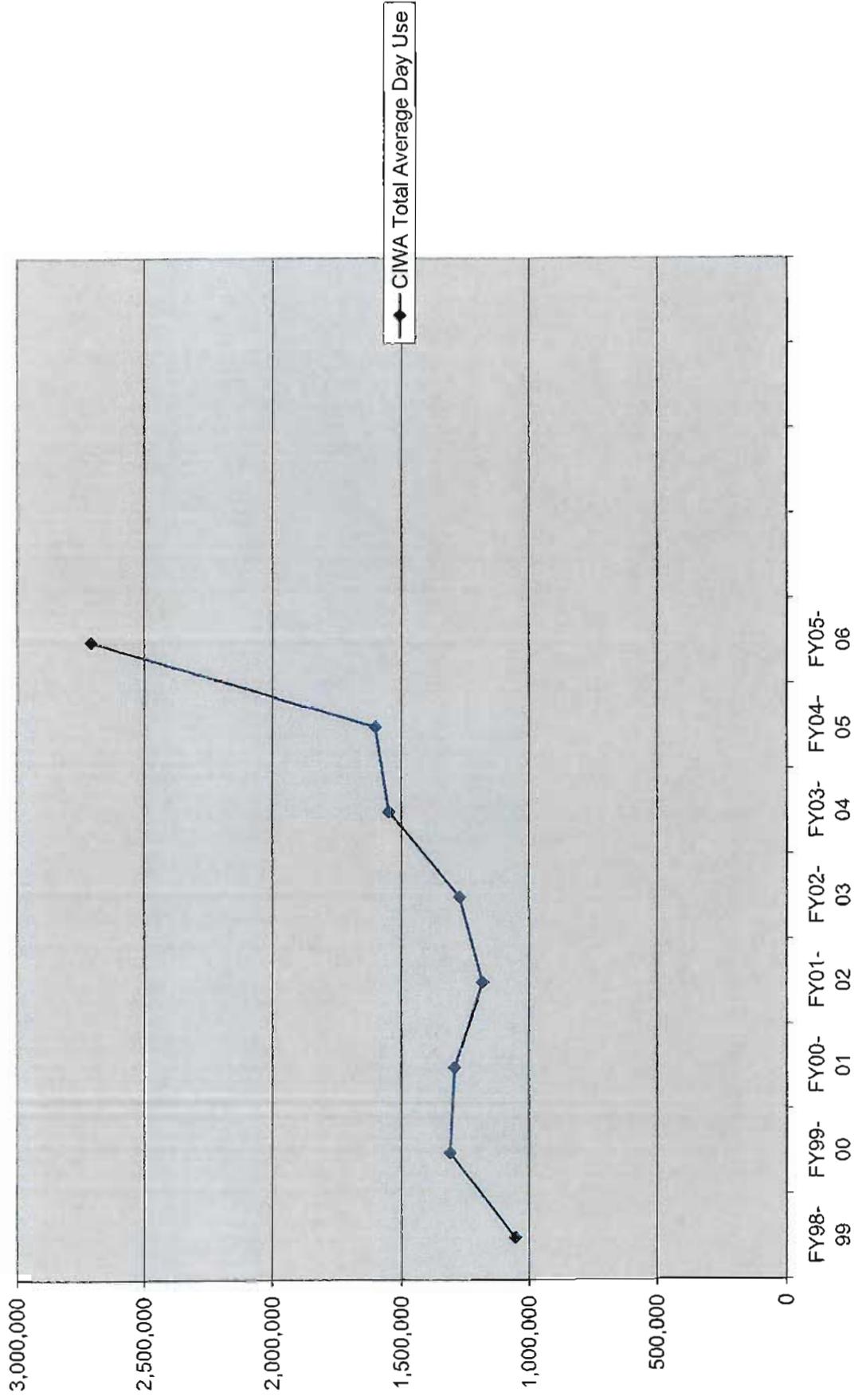


Maytag Average Daily Usage-
All Newton Facilities

Maytag Total Avg.Day Usage(Gal.)



CIWA Total Average Day Use

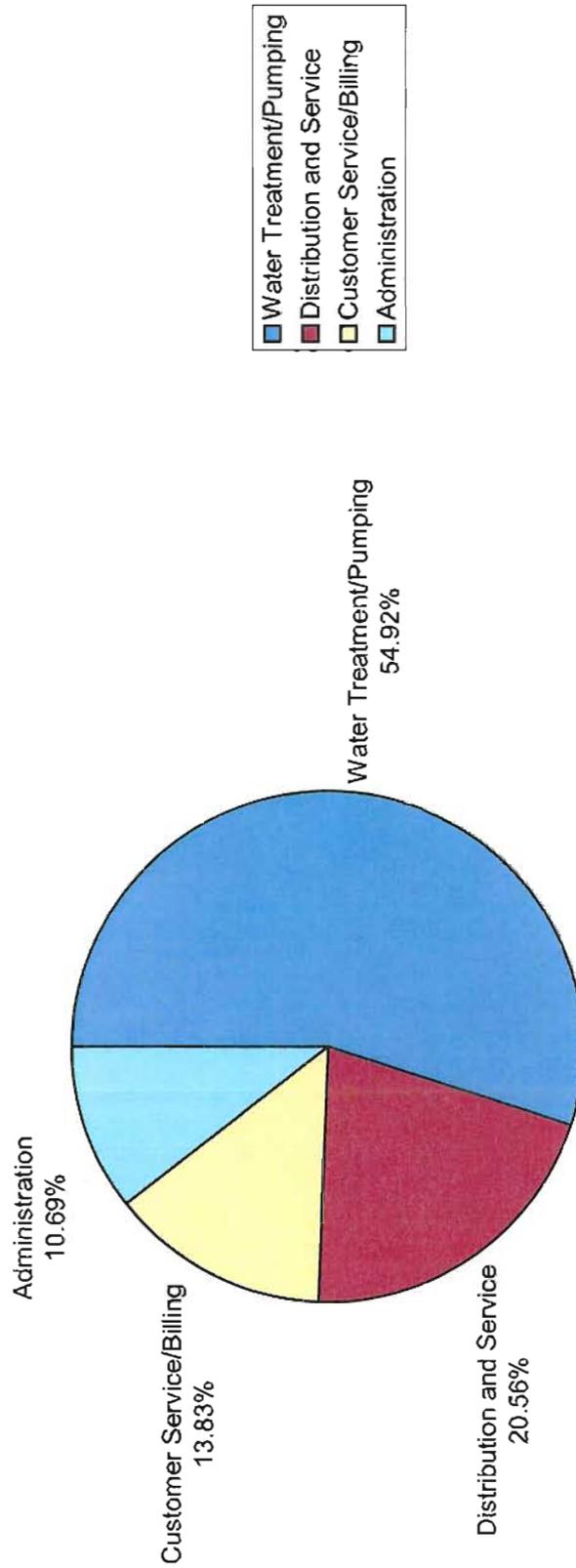


How Customers Money is Spent

\$1,771,008

FY05-06

*Does not include \$ 297,645 Depreciation



**Newton WaterWorks Ten Year Comparison of Direct and Indirect Expenses
And Ten Year Revenues**

