

NEWTON MUNICIPAL WATERWORKS  
NEWTON, IOWA  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2014

NEWTON MUNICIPAL WATERWORKS  
 NEWTON, IOWA  
 TABLE OF CONTENTS

	<u>Page</u>
OFFICIALS	3
INDEPENDENT AUDITOR'S REPORT	4-6
MANAGEMENT'S DISCUSSION AND ANALYSIS	7-11
BASIC FINANCIAL STATEMENTS	<u>Exhibit</u>
Statement of Net Position	A 14
Statement of Revenues, Expenses and Change in Fund Net Position	B 15
Statement of Cash Flows	C 16
Notes to Financial Statements	17-22
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual	24
Notes to Required Supplementary Information - Budgetary Reporting	25
Schedule of Funding Progress for the Retiree Health Plan	26
OTHER SUPPLEMENTARY INFORMATION	<u>Schedule</u>
Schedule of Waterworks Revenues and Expenses - and Changes in Fund Net Position - Enterprise Fund	1 28-30
Schedule of Expenditures of Federal Awards	2 31
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	32-33
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133	34-35
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	36-37
UNAUDITED INFORMATION	
2014 WaterWorks Revenue Sources	40
2014 WaterWorks Expenditures by Area	41
FY2013-2014 Newton WaterWorks Water Treatment and Consumption Data	42
Summer 2010 - Floodwater Approaching Clear Well and Pump Station	43
Summer 2010 - Floodwaters Approaching Front of Water Plant	44
Flood Mitigation Project 2014 - 500 Year Berm Construction	45

NEWTON MUNICIPAL WATERWORKS  
NEWTON, IOWA

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Leon Zmolek	Trustee	December 2016
Maureen Lockwood(Chair)	Trustee	December 2017
Bret Doerring	Trustee	December 2019
L.D. Palmer, II	Manager	Indefinite

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
**(a professional corporation)**  
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Telephone (641) 792-1910  
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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Newton Municipal Waterworks  
Newton, Iowa 50208

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activity of the Newton Municipal Waterworks, (a component unit of the City of Newton, Iowa) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Waterworks' basic financial statements in the table on 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 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 the internal control relevant to the Newton Municipal Waterworks 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 Newton Municipal Waterworks 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 opinions.

As discussed in note 1, the financial statements referred to above present only the Newton Municipal Waterworks, a component unit of the City of Newton and do not intend to present fairly the financial position of the City of Newton, Iowa, as of June 30, 2014, and the changes in its financial position and cash flows of its proprietary fund types in conformity with U.S. generally accepted accounting principles.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Newton Municipal Waterworks, a component unit of the City of Newton, as of June 30, 2014 and the changes in financial position and cash flows where applicable, for the year then ended in accordance with U.S. generally accepted accounting principles.

### Other Matters

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis, Budgetary Comparison Information and Schedule on Funding Progress for Retiree Health Plan on pages 7 through 11 and 24 through 26 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 the 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 required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Newton Waterworks' basic financial statements. Other supplementary 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, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic 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.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated December 1, 2014 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



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

December 1, 2014

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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, 2014. We encourage readers to consider this information in conjunction with the Waterworks financial statements, which follows.

### **2014 FINANCIAL HIGHLIGHTS**

- ◆ Newton Municipal Waterworks revenue from operations increased \$109,621 from fiscal year 2013(FY 13), primarily due to the increase in revenue received from metered customers. Non-operating revenues increased \$15,940 from FY 13, primarily due to the increase in FEMA reimbursement revenues.
- ◆ Newton Municipal Waterworks expenses increased \$151,058 from \$2,592,449 in FY 13 to \$ 2,743,507 in fiscal year 2014(FY 14). This was primarily due to an increase in maintenance expenses.
- ◆ Newton Municipal Waterworks net position decreased \$28,881 from FY 13.

### **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 position, statement of revenues, expenses and changes in net position 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 Basic 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 position** – Figure A-1 below provides a summary of the Waterworks’ net position for the year ended June 30, 2014 compared to 2013.

Figure A-1  
Condensed Statement of Net Position at Year-end

	Business type Activities		Total Change
	2014	2013	2013-14
Current and other assets	\$ 871,090	834,909	4.33%
Capital assets	4,692,007	4,789,150	-2.03%
Total assets	<u>5,563,097</u>	<u>5,624,059</u>	<u>-1.08%</u>
Long-term liabilities	721,739	773,402	-6.68%
Other liabilities	162,942	143,360	13.66%
Total liabilities	<u>884,681</u>	<u>916,762</u>	<u>-3.50%</u>
Net position:			
Invested in capital assets, net of related debt	3,970,268	4,067,604	-2.39%
Unrestricted	708,148	639,693	10.70%
Total net position	<u>\$ 4,678,416</u>	<u>4,707,297</u>	<u>-0.61%</u>

**Changes in net position** – Figure A-2 shows the changes in net position for the year ended June 30, 2014 compared to 2013.

Figure A-2  
Changes of Net Position for the Year ended June 30,

	Business type Activities		Total Change
	2014	2013	2013-14
Operating revenues:			
Charges for service and sales	\$ 2,550,295	2,447,805	4.19%
Miscellaneous	96,165	89,034	8.01%
Total operating revenues	<u>2,646,460</u>	<u>2,536,839</u>	<u>4.32%</u>
Operating expenses:			
Home and Community Environment Program	2,743,507	2,592,449	5.83%
Total operating expenses	<u>2,743,507</u>	<u>2,592,449</u>	<u>5.83%</u>
Net operating income	<u>(97,047)</u>	<u>(55,610)</u>	<u>-74.51%</u>
Non-operating revenue(expenses):			
Interest expense	(23,851)	(19,152)	24.54%
Net gain on disposal of assets	6,821	(999)	782.78%
Miscellaneous revenue	85,196	76,077	11.99%
Total non-operating revenue(expense)	<u>68,166</u>	<u>55,926</u>	<u>21.89%</u>
Change in net position	<u>(28,881)</u>	<u>316</u>	<u>-9239.56%</u>
Beginning net position	<u>4,707,297</u>	<u>4,706,981</u>	<u>0.01%</u>
Ending net position	<u>\$ 4,678,416</u>	<u>4,707,297</u>	<u>-0.61%</u>

In figure A-2, Newton Municipal Waterworks shows the changes in net position for the year ended June 30, 2014 compared to 2013. These changes were due to an increase in metered customer revenues and an increase in miscellaneous non-operating revenues, including capital recovery charges. The increase in expenses was due to the increase in the cost of doing business.

### **Business-Type Activities**

Revenues of the Waterworks activities were \$2,738,477 and expenses of \$2,767,358. 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 position of \$4,678,416; a decrease from last year's ending balances of \$4,707,297. The primary reason for the decrease in balance in fiscal 2014 is primarily due to the increase in operating expenses.

### **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 revenues were \$15,855 less than the total budgeted revenues, a variance of 0.60%.

Total expenditures were more than budgeted expenditures.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

At June 30, 2014, the Waterworks had invested \$4,692,007, 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 2.03% from last year. More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$275,644.

The largest change in capital asset activity during the year occurred in the construction in progress category. The construction in progress totaled \$236,599 at June 30, 2014,

compared to \$147,587 reported at June 30, 2013. This increase resulted from the engineering fees associated with the Waterworks' flood mitigation project.

Figure A-3  
Capital Assets, Net of Depreciation

	Business-type Activities		Total Change
	2014	2013	2013-14
Land	\$ 298,376	\$ 298,376	0.00%
Construction in Progress	236,599	147,587	60.31%
Buildings and system	3,530,298	3,650,621	-3.30%
Improvements other than buildings	5,953	6,108	-2.54%
Machinery and equipment	620,781	686,458	-9.57%
Total	<u>\$ 4,692,007</u>	<u>\$ 4,789,150</u>	<u>-2.03%</u>

### Long-Term Debt

At June 30, 2014, the Waterworks had \$721,739 in long-term debt outstanding. This represents a decrease of 6.68% from last year. More detailed information about the Waterworks' long-term liabilities is available in Note 4 to the financial statements.

In March 2013, the Waterworks authorized the issuance of \$215,546 in capital loan notes to pay for construction of a new aerator at the water plant. The district had a loan of \$215,546 outstanding at June 30, 2014.

Waterworks implemented GASB 45 and has a net OPEB liability of \$64,193 at June 30, 2014.

Waterworks also has total outstanding revenue bonds of \$442,000.

### **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:

- Rates adjusted in June by 33%
- Cash Reserves must be improved
- Board Approved Financial Policy which includes maintaining 25% of Operating Expenses for Operating Reserve
- Rate Calculation includes O&M plus Depreciation plus Return on Investment minus Non Rate Revenue = Total Revenue Requirements
- Lower water sales coupled with higher operating expense will require additional revenue stream
- Large projects include new Radial Collector Well, Major water main construction to sub divisions, ongoing Treatment Plant upgrades
- Completing Treatment Plant Flood Mitigation Project
- Additional Capital Projects for Water System

## **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.

NEWTON MUNICIPAL WATERWORKS

## BASIC FINANCIAL STATEMENTS

NEWTON MUNICIPAL WATERWORKS  
STATEMENT OF NET POSITION  
JUNE 30, 2014

ASSETS

Current assets:

Cash and cash equivalents	\$	398,756
Restricted sinking fund		33,240
Receivables (net of allowance for uncollectibles)		325,451
Inventory		113,643
Total current assets		<u>871,090</u>

Non-current assets:

Capital assets, net of accumulated depreciation:

Property, plant and equipment		4,455,408
Construction in progress		236,599
Total non-current assets		<u>4,692,007</u>
Total assets		<u>5,563,097</u>

LIABILITIES

Current liabilities:

Sales tax payable		266
Customer deposits payable		60,667
Accrued compensated absences payable		102,009
Total current liabilities		<u>162,942</u>

Non-current liabilities:

Due within one year		282,546
Due in more than one year		439,193
Total non-current liabilities		<u>721,739</u>
Total liabilities		<u>884,681</u>

NET POSITION

Net Invested in capital assets		3,970,268
Unrestricted		708,148
Total net position	\$	<u>4,678,416</u>

SEE NOTES TO THE FINANCIAL STATEMENTS.

NEWTON MUNICIPAL WATERWORKS  
 STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET POSITION  
 YEAR ENDED JUNE 30, 2014

<b>OPERATING REVENUES</b>	
Charges for service	\$ 2,550,295
Miscellaneous	96,165
Total operating revenues	<u>2,646,460</u>
<b>OPERATING EXPENSES</b>	
Home and Community Environment Program:	
Plant:	
Operations expenses	1,142,892
Maintenance expenses	215,307
Distribution:	
Operations expenses	469,746
Maintenance expenses	71,987
Administrative and general expenses	567,931
Depreciation	275,644
Total operating expenses	<u>2,743,507</u>
Operating loss	<u>(97,047)</u>
<b>NON-OPERATING REVENUES(EXPENSES)</b>	
Interest expense	(23,851)
Net gain on disposal of assets	6,821
Miscellaneous revenue	85,196
Net non-operating revenue(expenses)	<u>68,166</u>
Change in net position	(28,881)
Net position - beginning of year	<u>4,707,297</u>
Net position - end of year	<u>\$ 4,678,416</u>

SEE NOTES TO THE FINANCIAL STATEMENTS.

NEWTON MUNICIPAL WATERWORKS  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2014

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 2,456,077
Payments to suppliers	(1,216,027)
Payments to employees	(1,223,212)
Other receipts	96,165
Net cash provided by operating activities	<u>113,003</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Purchase of capital assets	(178,822)
Proceeds from sale of fixed assets	7,142
Principal paid on capital debt	(64,000)
Interest paid on capital debt	(23,851)
Federal and state grant reimbursement	72,871
Other receipts	11,186
Net increase in restricted accounts	<u>(6,132)</u>
Net cash used in capital and related financing activities	<u>(181,606)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest on investments	<u>1,139</u>
Net cash provided by investing activities	<u>1,139</u>
Net decrease in cash and cash equivalents	(67,464)
Cash and cash equivalents beginning of the year	<u>466,220</u>
Cash and cash equivalents end of year	<u>\$ 398,756</u>

Reconciliation of operating income to net cash provided by operating activities:

Operating loss	\$ (97,047)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	275,644
Increase in Accounts Receivable	(94,218)
Increase in Inventory	(3,295)
Increase in Sales Tax Payable	266
Increase in Customer Deposits Payable	4,603
Increase in Net OPEB liability	12,337
Increase in Accrued Compensated Absences Payable	<u>14,713</u>

**NET CASH PROVIDED BY OPERATING ACTIVITIES** \$ 113,003

**SUPPLEMENTAL**

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

Interest	\$ 23,851
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SEE NOTES TO THE FINANCIAL STATEMENTS.

NEWTON MUNICIPAL WATERWORKS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

**(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, and is 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 Waterworks 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. The Newton Municipal Waterworks is, however, a component unit of the City of Newton, Iowa. The Newton Municipal Waterworks is governed by a three member board appointed by the Mayor. The Newton Municipal Waterworks is includable as a component unit within the City of Newton, Iowa reporting entity.

**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.

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. 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, 2014.

**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.

**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 Waterworks 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 Waterworks, 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 Waterworks' policy to permit employees to accumulate earned but unused vacation and sick pay benefits for up to two years. There is no liability for unpaid accumulated sick leave since the Waterworks does not have a policy to pay any amounts when employees separate from service with the Newton Waterworks. All vacation pay is accrued when incurred in the financial statements.

## **E. 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.

## (2) Deposits and Investments

The Newton Waterworks deposits at June 30, 2014 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, 2014.

## (3) Capital Assets

Capital assets activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 298,376	0	0	298,376
Construction in progress	147,587	89,012	0	236,599
Total capital assets, not being depreciated	445,963	89,012	0	534,975
Capital assets, being depreciated:				
Buildings and system	10,290,509	73,899	25,050	10,339,358
Improvements other than buildings	12,001	0	0	12,001
Machinery and equipment	2,576,113	15,911	7,419	2,584,605
Total capital assets being depreciated	12,878,623	89,810	32,469	12,935,964
Less accumulated depreciation for:				
Buildings and system	6,639,888	194,222	25,050	6,809,060
Improvements other than buildings	5,893	155	0	6,048
Machinery and equipment	1,889,655	81,267	7,098	1,963,824
Total accumulated depreciation	8,535,436	275,644	32,148	8,778,932
Total capital assets, being depreciated, net	4,343,187	(185,834)	321	4,157,032
Business-type activities capital assets, net	\$ 4,789,150	(96,822)	321	4,692,007

**(4) Long-term Debt**

A summary of changes in long-term liabilities for the year ended June 30, 2014 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 506,000	0	64,000	442,000	67,000
Capital Loan Note	215,546	0	0	215,546	215,546
Net OPEB Liability	51,856	12,337	0	64,193	0
Total	\$ 773,402	12,337	64,000	721,739	282,546

**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 June 1, 2011		
	Principal	Interest	Total
2015	\$ 67,000	13,260	80,260
2016	69,000	11,250	80,250
2017	72,000	9,180	81,180
2018	75,000	7,020	82,020
2019	78,000	4,770	82,770
2020	81,000	2,430	83,430
Total	\$ 442,000	47,910	489,910

**Capital Loan Notes**

On May 30, 2012 the Waterworks' entered into an agreement with Great Western Bank for a \$500,000 line of credit for the Waterworks' to use to fund the replacement of two aerators, Water Plant flood protection and other miscellaneous water system equipment. The notes will bear interest at 4.50% and are payable semiannually on December and June 1<sup>st</sup> and will mature on June 1, 2015. As of June 30, 2014 the Waterworks' had borrowed \$215,546 on this line of credit.

**(5) Other Postemployment Benefits**

Plan Description - The Waterworks operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 15 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

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

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

The following table shows the components of the Waterworks' annual OPEB cost for the year ended June 30, 2014, the amount actually contributed to the plan and changes in the Waterworks' net OPEB obligation:

Annual required contribution	\$ 13,968
Interest on net OPEB obligation	1,296
Adjustment to annual required contribution	<u>(2,927)</u>
Annual OPEB cost	12,337
Contributions made	<u>-</u>
Increase in net OPEB obligation	12,337
Net OPEB obligation beginning of year	51,856
Net OPEB obligation end of year	<u><u>\$ 64,193</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2012. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014.

The Waterworks' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2014 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 18,432	21.1 %	\$ 40,682
2013	12,907	0.0	51,856
2014	13,968	0.0	64,193

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$129,410, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$129,410. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$839,288, and the ratio of the UAAL to covered payroll was 15.4%. As of June 30, 2014, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Basic Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2012 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy. The health cost trend rate is 6% a year.

Mortality rates are from the GRP 2000 Annuity Mortality Table.

Projected claim costs of the medical plan range from \$428.19 for single to \$1,314.12 for family under Plan \$350/\$750 deductible, \$405.14 for single to \$1,243.37 for family under Plan \$500/\$1,000 deductible, \$384.13 for single to \$1,179.89 for family under Plan \$750/\$1,500 deductible and \$250.73 for single to \$769.49 for family under Plan \$2,500/\$5,000 deductible. Upon retirement, the retired participant is assumed to pay 100% of the required premium. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**(6) 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.

**(7) 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, 50307-9117.

Plan members are required to contribute 5.95% of their annual salary and the Utility is required to contribute 8.93% of annual payroll. Contribution requirements are established by State statute. The Utility's contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$76,341, \$71,782, and \$65,079, respectively, equal to the required contributions for each year.

REQUIRED SUPPLEMENTARY INFORMATION

**NEWTON MUNICIPAL WATERWORKS**  
**BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**BALANCES - BUDGET AND ACTUAL**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**YEAR ENDED JUNE 30, 2014**

	ACTUAL	BUDGET	AMENDED BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
Charges for service	\$ 2,550,295	\$ 2,608,482	\$ 2,575,890	\$ (25,595)
Miscellaneous	96,165	86,425	86,425	9,740
TOTAL REVENUES	<u>2,646,460</u>	<u>2,694,907</u>	<u>2,662,315</u>	<u>(15,855)</u>
EXPENDITURES				
BUSINESS-TYPE				
Water department	2,467,863	2,346,763	2,420,300	(47,563)
CAPITAL ASSETS				
Depreciation	275,644	300,000	300,000	24,356
TOTAL EXPENDITURES	<u>2,743,507</u>	<u>2,646,763</u>	<u>2,720,300</u>	<u>(23,207)</u>
OTHER				
Non-operating income	92,017	11,850	11,850	80,167
Non-operating expense	(23,851)	(12,308)	(12,308)	(11,543)
TOTAL OTHER	<u>68,166</u>	<u>(458)</u>	<u>(458)</u>	<u>68,624</u>
NET	(28,881)	<u>\$ 47,686</u>	<u>\$ (58,443)</u>	<u>\$ 29,562</u>
BALANCE BEGINNING OF YEAR	<u>4,707,297</u>			
BALANCE END OF YEAR	<u>\$ 4,678,416</u>			

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NEWTON MUNICIPAL WATERWORKS  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2014

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the 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.

The Waterworks' budget is submitted with the City of Newton's budget. Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the District adopted one budget amendment, decreasing budgeted revenues by \$32,592 and increasing budgeted expenditures by \$73,537.

NEWTON MUNICIPAL WATERWORKS

SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN  
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-c)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	\$ -	\$ 180,644	\$ 180,644	0.0 %	\$ 769,715	23.5 %
2011	-	180,644	180,644	0.0	797,506	22.7
2012	-	180,644	180,644	0.0	802,104	22.5
2013	-	129,667	129,667	0.0	828,849	15.6
2014	-	129,410	129,410	0.0	839,288	15.4

See Note 5 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

## OTHER FINANCIAL INFORMATION

NEWTON MUNICIPAL WATERWORKS  
 SCHEDULE OF WATERWORKS REVENUES AND EXPENSES AND CHANGES  
 IN FUND NET POSITION  
 YEAR ENDED JUNE 30, 2014  
 ENTERPRISE FUND

	ACTUAL
	2014
<b>OPERATIONS REVENUES:</b>	
Charges for Service:	
Sale of Water	\$ 2,423,775
Service Charges	24,035
Jobbing Income	4,804
Sewer Billing Income	97,681
	2,550,295
Other:	
Miscellaneous	96,165
Total Revenues from Operations	2,646,460
<b>OPERATIONS EXPENSES:</b>	
PLANT:	
Operations:	
Salaries	371,736
FICA	28,357
IPERS	32,070
Health Insurance	88,650
Laboratory	10,532
Lime	208,490
Chlorine	61,837
Hydroflousilic Acid	13,432
Carbon Dioxide	11,350
Generator	6,327
Poly-Phosphate	7,000
Supplies and Expenses	5,769
Power:	
Primary	217,272
Secondary	57,356
Standby	5,807
Heating:	
Primary	15,615
Secondary	1,292
TOTAL OPERATIONS	1,142,892
Maintenance:	
Repairs and Maintenance:	
Pumping Equipment	1,168
Wells	38,523
Buildings	15,016
Treatment Equipment	4,137
Maintenance of Generator	7,629
Vehicles and Equipment	8,735
Lagoon Maintenance	108,951
Maintenance of Grounds	5,980
Reservoir Maintenance	5,284
Water Tower Maintenance	19,884
TOTAL MAINTENANCE	215,307
<b>TOTAL PLANT</b>	<b>1,358,199</b>

NEWTON MUNICIPAL WATERWORKS  
 SCHEDULE OF WATERWORKS REVENUES AND EXPENSES  
 YEAR ENDED JUNE 30, 2014  
 ENTERPRISE FUND

	ACTUAL
	2014
<b>DISTRIBUTION:</b>	
Operations:	
Salaries	289,364
On Call	5,190
FICA	22,480
IPERS	25,529
Health Insurance	87,079
Vehicle and Equipment	15,756
Maps and Records	749
Field Supplies and Expense	23,407
Operator Certification	192
<b>TOTAL OPERATIONS</b>	<b>469,746</b>
Maintenance:	
Mains	58,942
Meters	3,791
Valves and Equipment	1,564
Vehicles and Equipment	7,690
<b>TOTAL MAINTENANCE</b>	<b>71,987</b>
<b>TOTAL DISTRIBUTION</b>	<b>541,733</b>
<b>ADMINISTRATION:</b>	
Customer Accounting and Collecting:	
Salaries	122,927
FICA	9,294
IPERS	11,015
Health Insurance	44,519
Postage	32,925
Payments to Gas Company	73,393
Office Supplies	3,204
Equipment Maintenance	24,892
Building Maintenance	13,514
<b>TOTAL ADMINISTRATION</b>	<b>335,683</b>
General Administrative Costs:	
Management	83,025
FICA	6,496
IPERS	7,727
Health Insurance	14,803
Risk Insurance	62,601
On Call	1,396
Payroll Services	3,381
Publications	1,589
Legal Services	1,395
Dues and Subscriptions	2,514
Miscellaneous	1,081
DNR Fee	1,965
Rent and Leases	575
Safety	2,290
Phone Communications	13,587
Travel and Conference	1,553

NEWTON MUNICIPAL WATERWORKS  
 SCHEDULE OF WATERWORKS REVENUES AND EXPENSES  
 YEAR ENDED JUNE 30, 2014  
 ENTERPRISE FUND

	ACTUAL
	2014
ADMINISTRATION(CONTINUED):	
General Administrative	
Costs(Continued):	
Audit Expense	9,575
Uniforms and Shoes	3,603
Offices Supplies	1,267
Car Allowance	4,800
Consumer Confidence Reports	1,025
Public Relations	6,000
TOTAL GENERAL ADMINISTRATION	232,248
<b>TOTAL ADMINISTRATION</b>	<b>567,931</b>
DEPRECIATION	275,644
TOTAL OPERATIONS EXPENSES	2,743,507
DEFICIENCY OF OPERATING REVENUES UNDER OPERATING EXPENDITURES	(97,047)
Other Revenues:	
Interest on Investments	1,099
SRF Interest	40
State Emergency Management Assistance	8,573
Federal Emergency Management Assistance	64,298
Non-Operating Income	18,007
TOTAL OTHER REVENUES	92,017
Other Expenses:	
Interest Expense	23,851
TOTAL OTHER EXPENSES	23,851
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(28,881)
NET POSITION BEGINNING OF YEAR	4,707,297
NET POSITION END OF YEAR	\$ 4,678,416

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NEWTON MUNICIPAL WATERWORKS  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 JUNE 30, 2014

<u>GRANTOR/PROGRAM</u>	<u>CFDA NUMBER</u>	<u>GRANT NUMBER</u>	<u>EXPENDITURES/ 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	\$ 442,000
IOWA HOMELAND SECURITY AND EMERGENCY MANAGEMENT DIVISION:			
FLOOD MITIGATION PROJECT	97.039	HMGP-DR-1930-0004 01	<u>63,843</u>
TOTAL			<u>\$ 505,843</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 in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business type activities of Newton Municipal Waterworks as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Newton Municipal Waterworks basic financial statements, and have issued our report thereon dated December 1, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Newton Municipal Waterworks internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Newton Municipal Waterworks internal control. Accordingly, we do not express an opinion on the effectiveness of Newton Municipal Waterworks 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. We identified no deficiencies in internal control over financial reporting that we consider to be significant deficiencies or 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 Newton Municipal Waterworks' operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Newton Municipal 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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Newton Municipal Waterworks internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Newton Municipal Waterworks 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 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.

Handwritten signature in black ink, appearing to read "Nolte, Cornman & Johnson PC".

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

December 1, 2014

**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  
for Each Major Federal Program and on Internal Control over Compliance  
Required by OMB Circular A-133

To the Board of Trustees  
Newton Municipal Waterworks

Report on Compliance for Each Major Federal Program

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 could have a direct and material effect on the Waterworks major federal program for the year ended June 30, 2014. Newton Municipal Waterworks' major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Newton Municipal Waterworks major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, 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 OMB Circular A-133 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 on compliance for the major federal program. However, our audit does not provide a legal determination on Newton Municipal Waterworks' compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Newton Municipal Waterworks complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

The management of Newton Municipal Waterworks is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Newton Municipal Waterworks' internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Newton Municipal Waterworks' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

December 1, 2014

NEWTON MUNICIPAL WATERWORKS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2014

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) No significant deficiencies or material weaknesses 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 material weaknesses 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 are 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 qualified as a low-risk auditee.

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No matters were noted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No matters were noted.

NEWTON MUNICIPAL WATERWORKS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2014

Part IV: Other Findings Related to Statutory Reporting:

IV-A-14 Certified Budget - Disbursements during the year ended June 30, 2014 exceeded the amount budgeted.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The Budget was amended in July for year end in June 2014. There were major expenses in maintenance of mains that were not foreseen in May. We will estimate any overage next year at an earlier month.

Conclusion - Response accepted.

IV-B-14 Questionable Expenses - No expenses that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-14 Travel Expense - No expenses of Waterworks' money for travel expenses of spouses of Waterworks' officials or employees were noted.

IV-D-14 Business Transactions - No business transactions between the Waterworks and the officials and employees of the Waterworks during the year ended June 30, 2014 were noted.

IV-E-14 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-14 Board of Trustee Minutes - We noted no transactions that should have been approved in the trustee minutes.

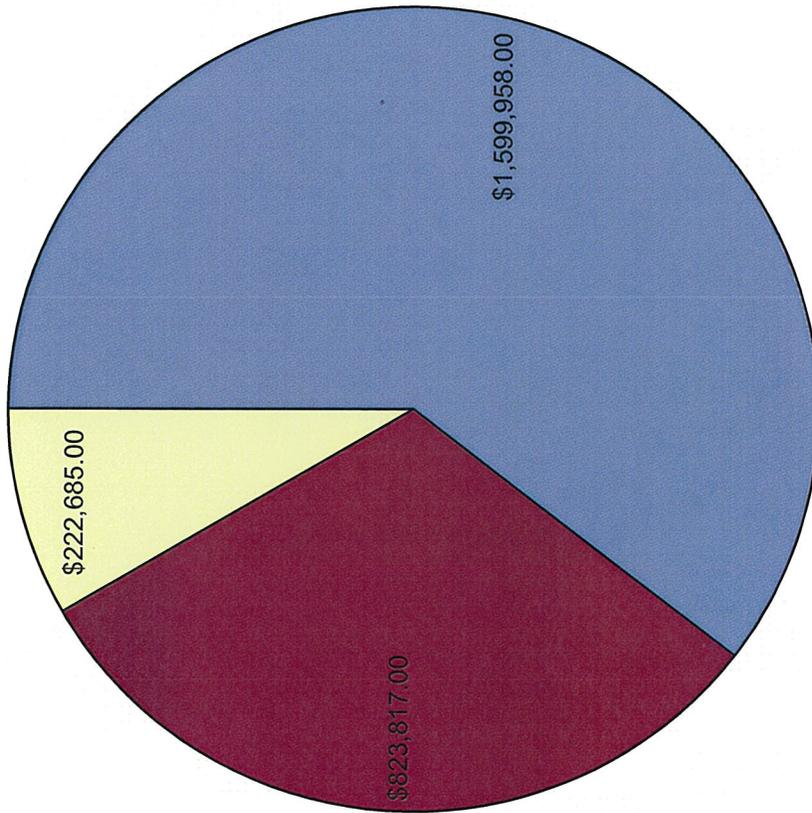
IV-G-14 Revenue Bonds - We noted no instance of noncompliance with revenue bond requirements.

IV-H-14 Deposits and Investments - The Waterworks has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

NEWTON MUNICIPAL WATERWORKS

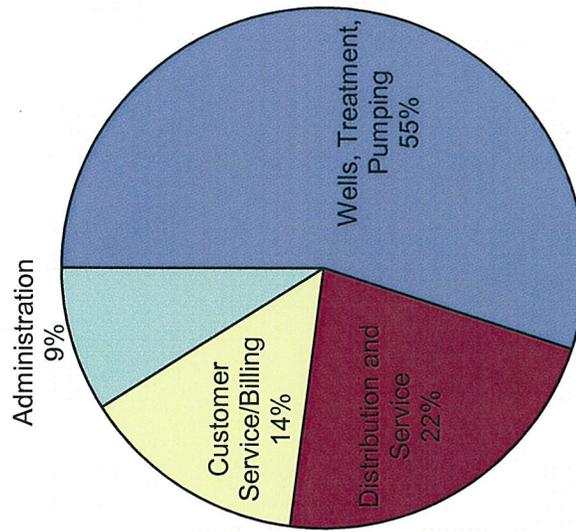
UNAUDITED INFORMATION

**FY2013-2014  
Revenue Sources  
Gross Revenues \$2,646,460**



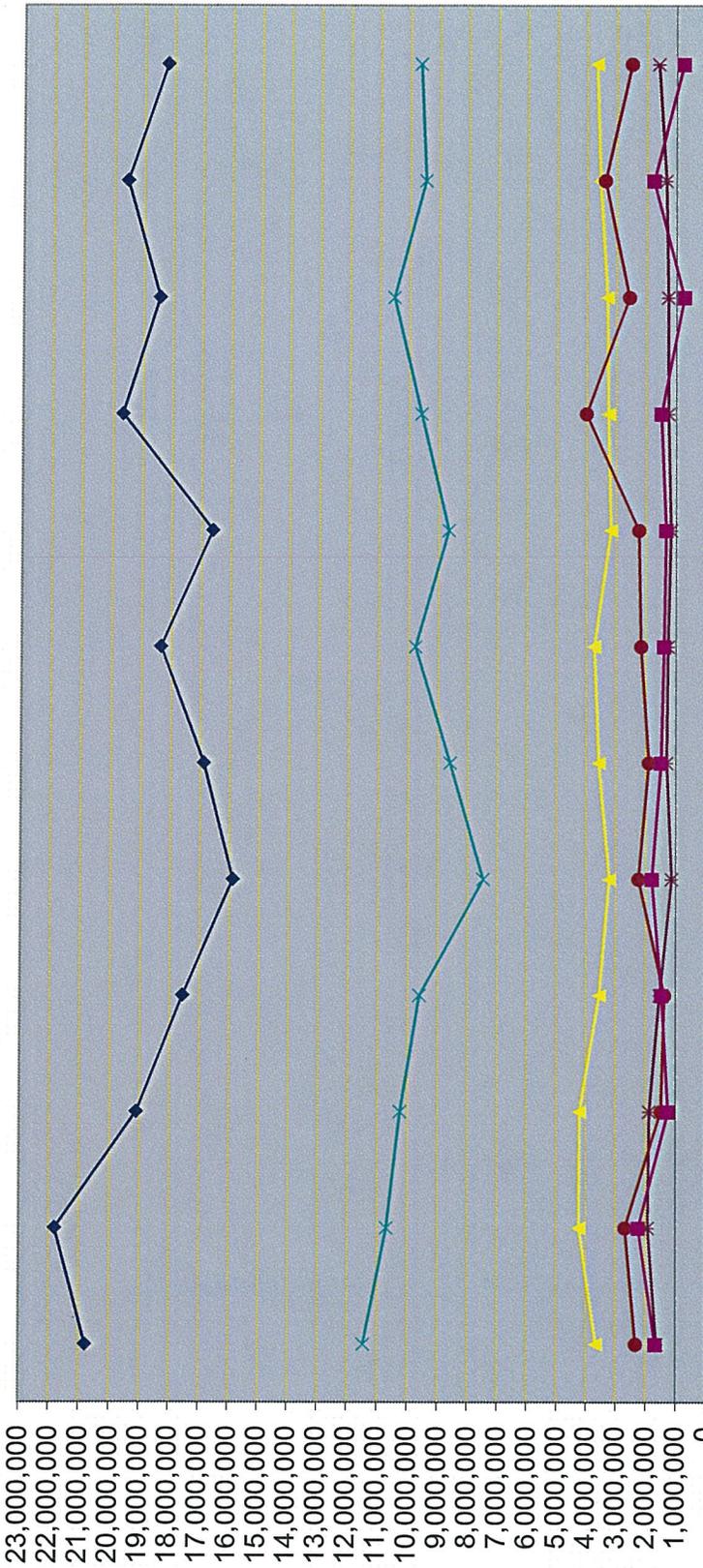
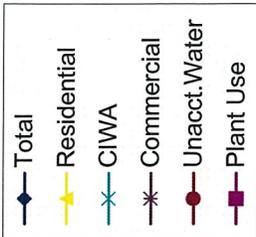
- RETAIL WATER SALES
- CIWA REVENUE
- MISCELLANEOUS

**How Customers Money is Spent**  
**\$2,467,863**  
**Operating Expense**  
**FY13-14**  
**\*Does not include \$ 275,644 Depreciation**

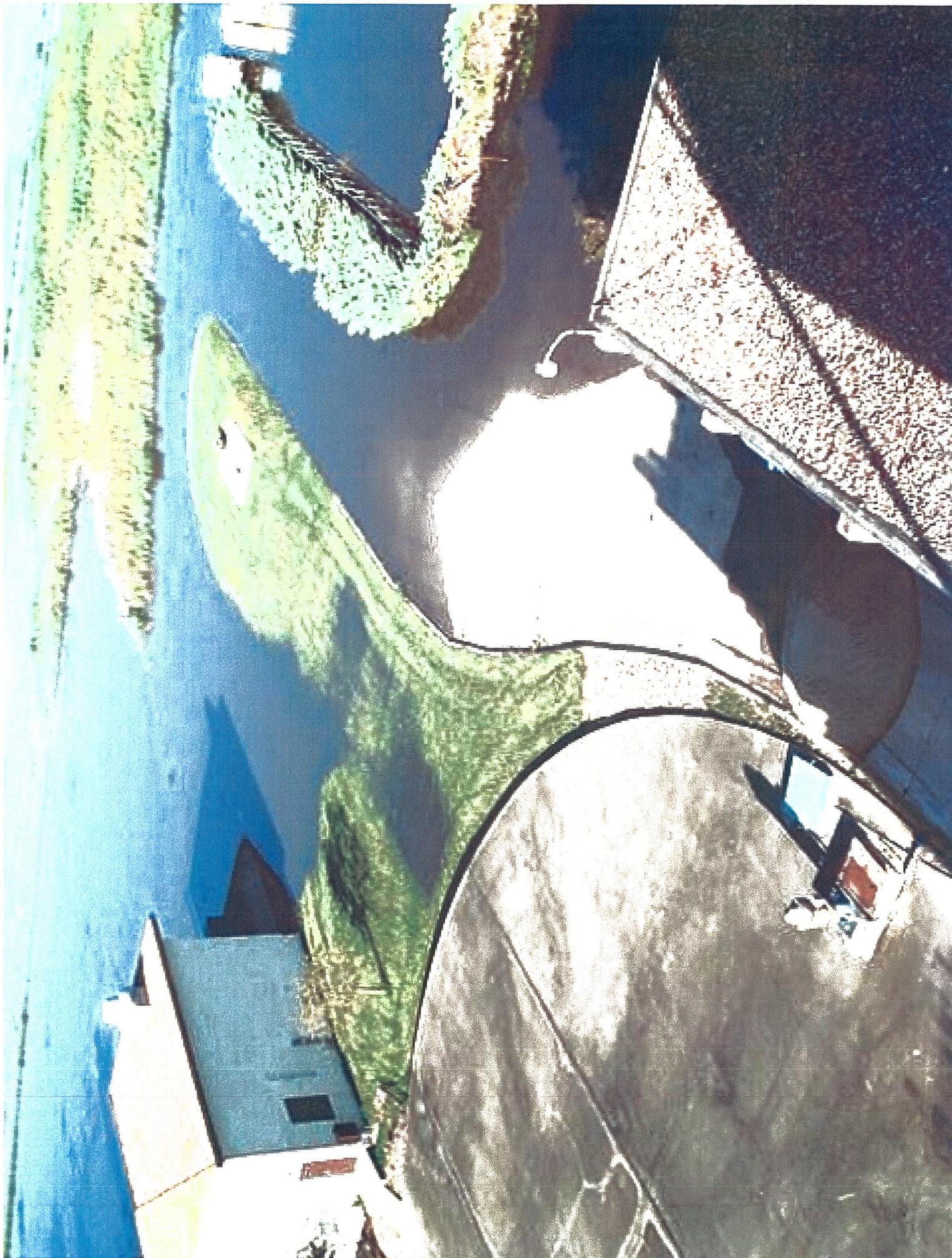


- Wells, Treatment, Pumping
- Distribution and Service
- Customer Service/Billing
- Administration

### Treated Water & Sales and Usage- FY13-14



	July	August	September	October	November	December	January	February	March	April	May	June
<b>Total</b>	20,789	21,807	19,104	17,564	15,877	16,877	18,343	16,601	19,657	18,436	19,539	18,204
<b>Residential</b>	3,660,1	4,233,2	4,212,4	3,550,8	3,214,1	3,566,8	3,729,0	3,173,6	3,270,0	3,308,3	3,552,4	3,670,8
<b>CIWA</b>	11,461,	10,701,	10,255,	9,614,6	7,472,6	8,595,6	9,773,5	8,662,2	9,599,9	10,527,	9,472,9	9,650,5
<b>Commercial</b>	1,644,7	1,931,7	1,879,0	1,538,3	1,138,6	1,315,0	1,267,5	1,175,2	1,267,8	1,282,2	1,349,3	1,600,4
<b>Unacct. Water</b>	2,343,3	2,690,9	1,495,0	1,382,2	2,252,2	1,903,4	2,169,4	2,250,9	4,012,4	2,579,5	3,394,5	2,511,2
<b>Plant Use</b>	1,680,7	2,250,4	1,263,2	1,478,5	1,800,4	1,496,9	1,403,9	1,339,8	1,507,8	739,300	1,770,0	771,900



SUMMER 2010 Floodwater Approaching Clear Well and Pump Station



SUMMER 2010 FLOODWATERS APPROACHING FRONT OF WATER PLANT



Flood Mitigation Project: 2014 500 yr. Berm Construction