

NEWTON MUNICIPAL WATERWORKS
NEWTON, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2015

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 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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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, 2015, 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, 2015, 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, 2015 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.

Emphasis of Matter

As discussed in Note 7 to the financial statements, the Newton Municipal Waterworks adopted new accounting guidance related to Government Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, Budgetary Comparison Information, Schedule on Funding Progress for Retiree Health Plan, the Schedule of the Waterworks Proportionate Share of the Net Pension Liability, and the Schedule of City Contributions on pages 7 through 11 and 28 through 34 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 November 23, 2015 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.

Handwritten signature in cursive script that reads "Nolte, Cornman & Johnson PC".

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

November 23, 2015

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, 2015. We encourage readers to consider this information in conjunction with the Waterworks financial statements, which follows.

2015 FINANCIAL HIGHLIGHTS

- ◆ Newton Municipal Waterworks revenue from operations increased \$231,875 from fiscal year 2014(FY 14), primarily due to the increase in revenue received from metered customers. Non-operating revenues increased \$519,486 from FY 14, primarily due to the increase in FEMA reimbursement revenues.
- ◆ Newton Municipal Waterworks expenses decreased \$114,452 from \$2,743,507 in FY 14 to \$ 2,629,055 in fiscal year 2015(FY 15). This was primarily due to a decrease in maintenance expenses.
- ◆ Newton Municipal Waterworks net position increased \$826,431 from FY 14.

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, 2015 compared to 2014.

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

	Business type Activities		Total Change
	2014		2014-15
	2015	(not restated)	
Current and other assets	\$ 1,103,017	871,090	26.62%
Capital assets	5,185,047	4,692,007	10.51%
Total assets	<u>6,288,064</u>	<u>5,563,097</u>	<u>13.03%</u>
Deferred outflows of resources	104,862	-	100.00%
Long-term liabilities	1,185,346	721,739	64.23%
Other liabilities	153,541	162,942	-5.77%
Total liabilities	<u>1,338,887</u>	<u>884,681</u>	<u>51.34%</u>
Deferred inflows of resources	201,550	-	100.00%
Net position:			
Net investment in capital assets	4,594,501	3,970,268	15.72%
Unrestricted	257,988	708,148	-63.57%
Total net position	<u>\$ 4,852,489</u>	<u>4,678,416</u>	<u>3.72%</u>

The Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 for business type activities was restated by \$652,358 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, July 1, 2014. The financial statement amounts for fiscal year 2014 net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

Changes in net position – Figure A-2 shows the changes in net position for the year ended June 30, 2015 compared to 2014.

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

	Business type Activities		Total Change
	2015	2014 (not restated)	2014-15
Operating revenues:			
Charges for service and sales	\$ 2,779,928	2,550,295	9.00%
Miscellaneous	98,407	96,165	2.33%
Total operating revenues	<u>2,878,335</u>	<u>2,646,460</u>	<u>8.76%</u>
Operating expenses:			
Home and Community Environment Program	2,629,055	2,743,507	-4.17%
Total operating expenses	<u>2,629,055</u>	<u>2,743,507</u>	<u>-4.17%</u>
Net operating income	<u>249,280</u>	<u>(97,047)</u>	<u>356.87%</u>
Non-operating revenue(expenses):			
Interest expense	(19,232)	(23,851)	-19.37%
Net gain(loss) on disposal of assets	(15,120)	6,821	321.67%
Miscellaneous revenue	611,503	85,196	617.76%
Total non-operating revenue(expense)	<u>577,151</u>	<u>68,166</u>	<u>746.68%</u>
Change in net position	<u>826,431</u>	<u>(28,881)</u>	<u>-2961.50%</u>
Beginning net position, as restated	<u>4,026,058</u>	<u>4,707,297</u>	<u>-14.47%</u>
Ending net position	<u>\$ 4,852,489</u>	<u>4,678,416</u>	<u>3.72%</u>

In figure A-2, Newton Municipal Waterworks shows the changes in net position for the year ended June 30, 2015 compared to 2014. These changes were due to an increase in metered customer revenues and an increase in miscellaneous non-operating revenues, including capital recovery charges. The decrease in expenses was due to the decrease in maintenance expenses.

Business-Type Activities

Revenues of the Waterworks activities were \$3,489,838 and expenses of \$2,663,407. 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 \$4,852,489; an increase from last year's restated ending balances of \$4,026,058. The primary reason for the increase in balance in fiscal 2015 is primarily due to the decrease 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 \$931,615 less than the total budgeted revenues, a variance of 24.45%.

Total expenditures were less than budgeted expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the Waterworks had invested \$5,185,051, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers, equipment and transportation equipment. This amount represents a net increase of 10.51% from last year. More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$336,375.

The largest change in capital asset activity during the year occurred in the construction in progress category. The construction in progress totaled \$946,058 at June 30, 2015, compared to \$236,599 reported at June 30, 2014. 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
	2015	2014	2014-15
Land	\$ 298,376	\$ 298,376	0.00%
Construction in Progress	946,058	236,599	299.86%
Buildings and system Improvements other than buildings	3,388,560	3,530,298	-4.01%
	5,798	5,953	-2.60%
Machinery and equipment	546,259	620,781	-12.00%
Total	<u>\$ 5,185,051</u>	<u>\$ 4,692,007</u>	<u>10.51%</u>

Long-Term Debt

At June 30, 2015, the Waterworks had \$1,185,346 in long-term debt outstanding. This represents an increase of 64.23% 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 waterworks had a loan of \$215,546 outstanding at June 30, 2015.

Waterworks implemented GASB 45 and has a net OPEB liability of \$77,908 at June 30, 2015.

Waterworks implemented GASB 68 and has a net pension liability of \$516,892 at June 30, 2015.

Waterworks also has total outstanding revenue bonds of \$375,000.

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
- EPA and DNR mandates will affect utility

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, 2015

ASSETS

Current assets:

Cash and cash equivalents	\$ 631,021
Restricted sinking fund	37,551
Receivables (net of allowance for uncollectibles)	266,979
Inventory	167,466
Total current assets	<u>1,103,017</u>

Non-current assets:

Capital assets, net of accumulated depreciation:

Property, plant and equipment	4,238,989
Construction in progress	946,058
Total non-current assets	<u>5,185,047</u>
Total assets	<u>6,288,064</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension related deferred outflows	<u>104,862</u>
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LIABILITIES

Current liabilities:

Customer deposits payable	61,675
Accrued compensated absences payable	91,866
Total current liabilities	<u>153,541</u>

Non-current liabilities:

Due within one year:

Revenue bond payable	69,000
Capital loan note payable	215,546

Due in more than one year

Revenue bond payable	306,000
Net OPEB liability	77,908
Net pension liability	516,892

Total non-current liabilities	<u>1,185,346</u>
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Total liabilities	<u>1,338,887</u>
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DEFERRED INFLOWS OF RESOURCES

Pension related deferred outflows	<u>201,550</u>
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NET POSITION

Net Invested in capital assets	4,594,501
Unrestricted	257,988
Total net position	<u>\$ 4,852,489</u>

SEE NOTES TO THE FINANCIAL STATEMENTS.

NEWTON MUNICIPAL WATERWORKS
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET POSITION
YEAR ENDED JUNE 30, 2015

OPERATING REVENUES	
Charges for service	\$ 2,779,928
Miscellaneous	98,407
Total operating revenues	<u>2,878,335</u>
OPERATING EXPENSES	
Home and Community Environment Program:	
Plant:	
Operations expenses	1,045,088
Maintenance expenses	198,702
Distribution:	
Operations expenses	433,857
Maintenance expenses	38,515
Administrative and general expenses	576,218
Depreciation	336,675
Total operating expenses	<u>2,629,055</u>
Operating income	<u>249,280</u>
NON-OPERATING REVENUES(EXPENSES)	
Interest expense	(19,232)
Net gain on disposal of assets	(15,120)
Miscellaneous non-operating revenue	34,879
Interest income	902
Federal revenues	507,990
State revenues	67,732
Net non-operating revenue(expenses)	<u>577,151</u>
Change in net position	826,431
Net position - beginning of year, as restated	<u>4,026,058</u>
Net position - end of year	<u>\$ 4,852,489</u>

SEE NOTES TO THE FINANCIAL STATEMENTS.

NEWTON MUNICIPAL WATERWORKS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 2,778,438
Payments to suppliers	(1,164,203)
Payments to employees	(1,216,464)
Other receipts	98,407
Net cash provided by operating activities	<u>496,178</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets	(829,715)
Loss from sale of fixed assets	(15,120)
Principal paid on capital debt	(67,000)
Interest paid on capital debt	(19,232)
Federal and state grant reimbursement	635,684
Other receipts	34,879
Net increase in restricted accounts	(4,311)
Net cash used in capital and related financing activities	<u>(264,815)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	902
Net cash provided by investing activities	<u>902</u>

Net increase in cash and cash equivalents 232,265

Cash and cash equivalents beginning of the year 398,756

Cash and cash equivalents end of year \$ 631,021

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

Operating income	\$ 249,280
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	336,675
Decrease in Accounts Receivable	(1,490)
Increase in Inventory	(53,823)
Decrease in Sales Tax Payable	(266)
Increase in Customer Deposits Payable	1,008
Increase in Net OPEB liability	13,715
Decrease in Accrued Compensated Absences Payable	(10,143)
Decrease in net pension liability	(211,625)
Increase in deferred outflows of resources	(28,703)
Increase in deferred inflows of resources	201,550
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 496,178</u>

SUPPLEMENTAL

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

Interest	\$ 19,232
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SEE NOTES TO THE FINANCIAL STATEMENTS.

NEWTON MUNICIPAL WATERWORKS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

(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, 2015.

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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources 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.

Deferred Outflows of Resources - Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

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

Deferred Inflows of Resources - Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and other receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

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, 2015 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, 2015.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 298,376	-	-	298,376
Construction in progress	236,599	709,459	-	946,058
Total capital assets, not being depreciated	534,975	709,459	-	1,244,434
Capital assets, being depreciated:				
Buildings and system	10,339,358	114,817	26,515	10,427,660
Improvements other than buildings	12,001	-	-	12,001
Machinery and equipment	2,584,605	20,603	19,681	2,585,527
Total capital assets being depreciated	12,935,964	135,420	46,196	13,025,188
Less accumulated depreciation for:				
Buildings and system	6,809,060	241,551	11,511	7,039,100
Improvements other than buildings	6,048	155	-	6,203
Machinery and equipment	1,963,824	94,969	19,525	2,039,268
Total accumulated depreciation	8,778,932	336,675	31,036	9,084,571
Total capital assets, being depreciated, net	4,157,032	(201,255)	15,160	3,940,617
Business-type activities capital assets, net	\$ 4,692,007	508,204	15,160	5,185,051

(4) Long-term Debt

A summary of changes in long-term liabilities for the year ended June 30, 2015 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 442,000	-	67,000	375,000	69,000
Capital Loan Note	215,546	-	-	215,546	215,546
Net Pension Liability	-	516,892	-	516,892	-
Net OPEB Liability	64,193	13,715	-	77,908	-
Total	\$ 721,739	530,607	67,000	1,185,346	284,546

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
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	\$ 375,000	34,650	409,650

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 1st and will mature on June 1, 2018. As of June 30, 2015 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 Waterworks. 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, 2015, the amount actually contributed to the plan and changes in the Waterworks' net OPEB obligation:

Annual required contribution	\$	15,297
Interest on net OPEB obligation		1,605
Adjustment to annual required contribution		(3,187)
Annual OPEB cost		<u>13,715</u>
Contributions made		-
Increase in net OPEB obligation		<u>13,715</u>
Net OPEB obligation beginning of year		64,193
Net OPEB obligation end of year	\$	<u><u>77,908</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, 2015.

The Waterworks' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2015 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 12,907	0.0 %	\$ 51,856
2014	13,968	0.0	64,193
2015	15,297	0.0	77,908

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2015, 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 \$855,901, and the ratio of the UAAL to covered payroll was 15.1%. As of June 30, 2015, 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 Waterworks 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 Plan

Plan Description - IPERS membership is mandatory for employees of the Waterworks, except for those covered by another retirement system. Employees of the Waterworks are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

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

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

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

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

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

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

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Waterworks contributed 8.93 percent for a total rate of 14.88 percent.

The Waterworks contributions to IPERS for the year ended June 30, 2015 were \$76,432.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the Waterworks reported a liability of \$516,892 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Waterworks proportion of the net pension liability was based on the Waterworks share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Waterworks collective proportion was 0.0125066 percent, which was a decrease of 0.0128668 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Waterworks recognized pension expense of \$196,771. At June 30, 2015, the Waterworks reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,618	\$ -
Changes of assumptions	22,812	-
Net difference between projected and actual earnings on pension plan investments	-	197,128
Changes in proportion and differences between District contributions and proportionate share of contributions	-	4,422
District contributions subsequent to the measurement date	76,432	-
Total	\$ 104,862	\$ 201,550

\$76,432 reported as deferred outflows of resources related to pensions resulting from the Waterworks contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Total
2016	\$ (228,217)
2017	(228,217)
2018	(228,217)
2019	(228,217)
2020	8,207
	\$ (904,661)

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

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

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	2	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Waterworks will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Waterworks Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Waterworks proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Waterworks proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentagepoint higher (8.5 percent) than the current rate.

	1% Decrease 6.5%	Discount Rate 7.5%	1% Increase 8.5%
Waterworks proportionate share of the net pension liability	\$ 956,361	\$ 506,152	\$ 126,130

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(8) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27 was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position for governmental and business type activities were restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	<u>Newton</u>
	<u>Waterworks</u>
Net position June 30, 2014, as previously reported	\$ 4,678,416
Net pension liability at June 30, 2014	<u>(728,517)</u>
Deferred outflows of resources related to the contributions made after the June 30, 2013 measurement date	<u>76,159</u>
Net position July 1, 2014, as restated	<u><u>\$ 4,026,058</u></u>

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, 2015

	ACTUAL	BUDGET	AMENDED BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
Charges for service	\$ 2,779,928	\$ 3,713,525	\$ 3,713,525	\$ (933,597)
Miscellaneous	98,407	96,425	96,425	1,982
TOTAL REVENUES	2,878,335	3,809,950	3,809,950	(931,615)
EXPENDITURES				
BUSINESS-TYPE				
Water department	2,292,380	2,444,000	2,444,000	151,620
CAPITAL ASSETS				
Depreciation	336,675	300,000	300,000	(36,675)
TOTAL EXPENDITURES	2,629,055	2,744,000	2,744,000	114,945
OTHER				
Non-operating income	611,503	13,150	13,150	598,353
Non-operating expense	(34,352)	(18,000)	(18,000)	(16,352)
TOTAL OTHER	577,151	(4,850)	(4,850)	582,001
NET	826,431	\$ 1,061,100	\$ 1,061,100	\$ (234,669)
BALANCE BEGINNING OF YEAR, AS RESTATED	4,026,058			
BALANCE END OF YEAR	\$ 4,852,489			

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NEWTON MUNICIPAL WATERWORKS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2015

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.

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	-	129,454	129,454	0.0	839,288	15.4
2015	-	129,410	129,410	0.0	855,901	15.1

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.

NEWTON MUNICIPAL WATERWORKS

SCHEDULE OF THE WATERWORKS PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST FISCAL YEAR*

REQUIRED SUPPLEMENTARY INFORMATION

	<u>2015</u>
District's proportion of the net pension liability	0.012507%
District's proportionate share of the net pension liability	\$ 506,152
District's covered-employee payroll	\$ 855,901
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	59.14%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amount presented for each fiscal year were determined as of June 30.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NEWTON MUNICIPAL WATERWORKS

SCHEDULE OF WATERWORKS CONTRIBUTIONS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS

REQUIRED SUPPLEMENTARY INFORMATION

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily required contribution	\$ 76,432	76,341	71,782	65,079	54,143	50,389	47,793	43,401	39,093	38,845
Contributions in relation to the statutorily required contribution	\$ (76,432)	(76,341)	(71,782)	(65,079)	(54,143)	(50,389)	(47,793)	(43,401)	(39,093)	(38,845)
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
District's covered-employee payroll	\$ 855,901	854,882	827,935	806,431	779,036	725,022	752,646	717,372	679,878	675,565
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%	6.95%	6.95%	6.35%	6.05%	5.75%	5.75%

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NEWTON MUNICIPAL WATERWORKS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY

YEAR ENDED JUNE 30, 2015

Changes of benefit terms:

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

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

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

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

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

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

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

NEWTON MUNICIPAL WATERWORKS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY

YEAR ENDED JUNE 30, 2015

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

OTHER FINANCIAL INFORMATION

NEWTON MUNICIPAL WATERWORKS
 SCHEDULE OF WATERWORKS REVENUES AND EXPENSES AND CHANGES
 IN FUND NET POSITION
 YEAR ENDED JUNE 30, 2015
 ENTERPRISE FUND

	2015
OPERATIONS REVENUES:	
Charges for Service:	
Sale of Water	\$ 2,654,025
Service Charges	22,973
Jobbing Income	5,529
Sewer Billing Income	97,401
	2,779,928
Other:	
Miscellaneous	98,407
Total Revenues from Operations	2,878,335
OPERATIONS EXPENSES:	
PLANT:	
Operations:	
Salaries	353,436
FICA	22,607
IPERS	15,742
Health Insurance	80,055
Laboratory	6,836
Lime	202,421
Chlorine	47,218
Hydroflousilic Acid	15,304
Carbon Dioxide	12,254
Generator	3,552
Poly-Phosphate	6,438
Supplies and Expenses	7,953
Power:	
Primary	190,506
Secondary	63,161
Standby	4,721
Heating:	
Primary	11,388
Secondary	1,496
TOTAL OPERATIONS	1,045,088
Maintenance:	
Repairs and Maintenance:	
Wells	15,255
Buildings	11,396
Treatment Equipment	5,563
Maintenance of Generator	8,298
Vehicles and Equipment	6,188
Lagoon Maintenance	123,375
Maintenance of Grounds	5,925
Water Tower Maintenance	22,702
TOTAL MAINTENANCE	198,702
TOTAL PLANT	1,243,790

NEWTON MUNICIPAL WATERWORKS
 SCHEDULE OF WATERWORKS REVENUES AND EXPENSES
 YEAR ENDED JUNE 30, 2015
 ENTERPRISE FUND

	2015
DISTRIBUTION:	
Operations:	
Salaries	272,446
On Call	5,386
FICA	17,612
IPERS	12,517
Health Insurance	90,122
Vehicle and Equipment	12,523
Maps and Records	92
Field Supplies and Expense	22,619
Operator Certification	540
TOTAL OPERATIONS	433,857
Maintenance:	
Mains	13,588
Meters	7,482
Valves and Equipment	1,545
Vehicles and Equipment	15,900
TOTAL MAINTENANCE	38,515
TOTAL DISTRIBUTION	472,372
ADMINISTRATION:	
Customer Accounting and Collecting:	
Salaries	126,781
FICA	7,677
IPERS	5,521
Health Insurance	46,022
Postage	34,918
Payments to Gas Company	73,527
Office Supplies	3,360
Equipment Maintenance	18,048
Building Maintenance	12,422
TOTAL ADMINISTRATION	328,276
General Administrative Costs:	
Management	100,555
FICA	5,568
IPERS	3,874
Health Insurance	15,338
Risk Insurance	62,175
On Call	1,563
Payroll Services	3,381
Board Fees	2,250
Publications	1,072
Legal Services	82
Dues and Subscriptions	2,349
Miscellaneous	2,657
DNR Fee	2,175
Rent and Leases	575
Safety	2,466
Phone Communications	13,974
Travel and Conference	1,667

NEWTON MUNICIPAL WATERWORKS
 SCHEDULE OF WATERWORKS REVENUES AND EXPENSES
 YEAR ENDED JUNE 30, 2015
 ENTERPRISE FUND

	2015
ADMINISTRATION(CONTINUED):	
General Administrative	
Costs(Continued):	
Audit Expense	9,375
Uniforms and Shoes	3,689
Offices Supplies	1,849
Car Allowance	4,800
Consumer Confidence Reports	1,508
Public Relations	5,000
TOTAL GENERAL ADMINISTRATION	247,942
TOTAL ADMINISTRATION	576,218
DEPRECIATION	336,675
TOTAL OPERATIONS EXPENSES	2,629,055
EXCESS OF OPERATING REVENUES OVER OPERATING EXPENDITURES BEFORE OTHER REVENUES AND EXPENSES	249,280
Other Revenues:	
Interest on Investments	835
SRF Interest	67
State Emergency Management Assistance	67,732
Federal Emergency Management Assistance	507,990
Non-Operating Income	34,879
TOTAL OTHER REVENUES	611,503
Other Expenses:	
Loss on Disposal of Assets	15,120
Interest Expense	19,232
TOTAL OTHER EXPENSES	34,352
CHANGE IN NET POSITION	826,431
NET POSITION BEGINNING OF YEAR, AS RESTATED	4,026,058
NET POSITION END OF YEAR	\$ 4,852,489

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NEWTON MUNICIPAL WATERWORKS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 JUNE 30, 2015

<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	\$ 375,000
IOWA HOMELAND SECURITY AND EMERGENCY MANAGEMENT DIVISION:			
FLOOD MITIGATION PROJECT	97.039	HMGP-DR-1930-0004 01	<u>507,990</u>
TOTAL			<u>\$ 882,990</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, 2015, 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 November 23, 2015.

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, 2015 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.

Newton Municipal Waterworks Responses to the Findings

Newton Municipal Waterworks responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Newton Municipal Waterworks responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the 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.



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

November 23, 2015

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, 2015. 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, 2015.

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

November 23, 2015

NEWTON MUNICIPAL WATERWORKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

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
 - CFDA Number 97.039 – Flood Mitigation Project
- (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, 2015

Part IV: Other Findings Related to Statutory Reporting:

IV-A-15 Certified Budget – Waterworks’ expenses for the year ended June 30, 2015, did not exceed the amount budgeted.

IV-B-15 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-15 Travel Expense - No expenses of Waterworks’ money for travel expenses of spouses of Waterworks’ officials or employees were noted.

IV-D-15 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-15 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-15 Board of Trustee Minutes - We noted no transactions that should have been approved in the trustee minutes.

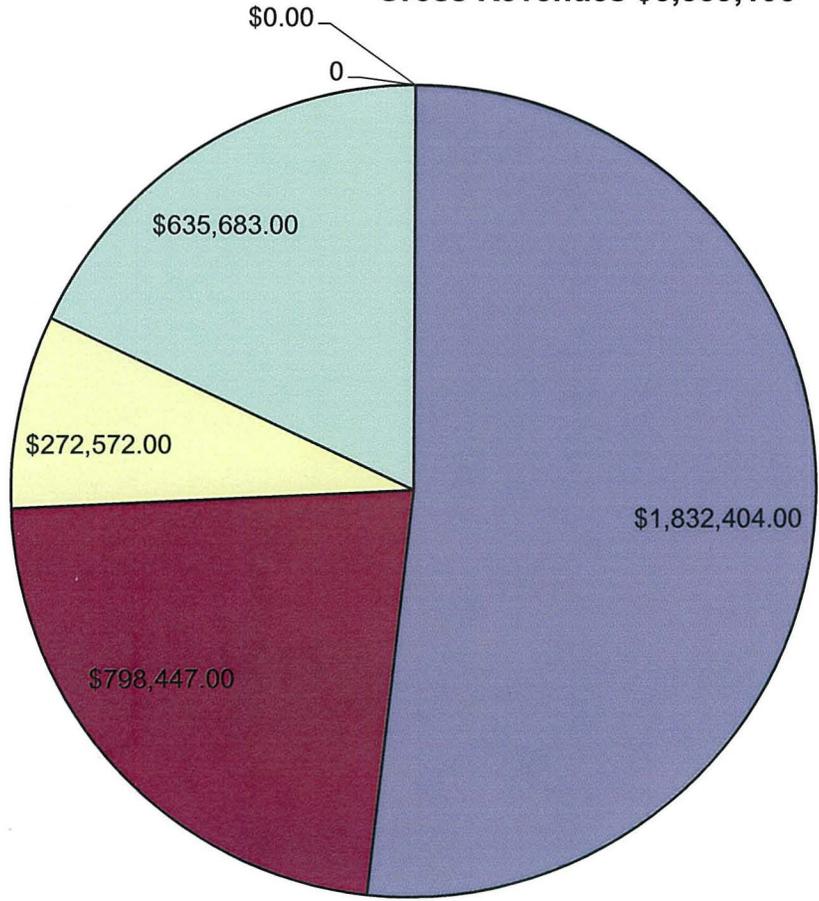
IV-G-15 Revenue Bonds - We noted no instance of noncompliance with revenue bond requirements.

IV-H-15 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

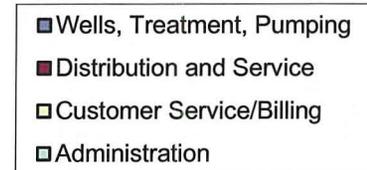
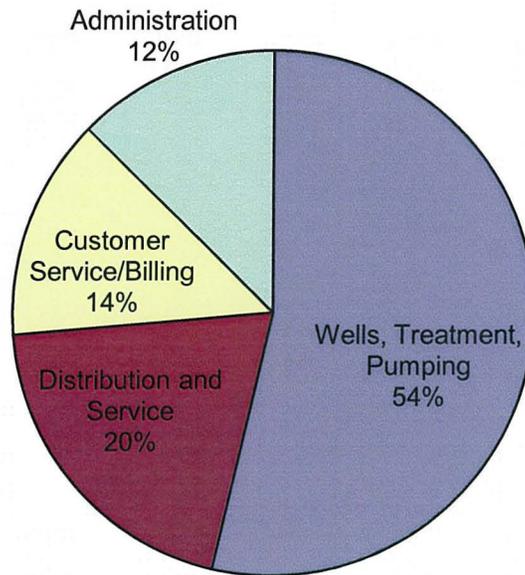
UNAUDITED INFORMATION

**FY2014-15
Actual Revenue Sources
Gross Revenues \$3,539,106**



- RETAIL WATER SALES
- CIWA REVENUE
- MISCELLANEOUS
- FEMA REIMBURSE
-
-

How Customers Money is Spent
\$2,316,543
Operating Expense
FY14-15
***Does not include \$ 300,000 Depreciation**



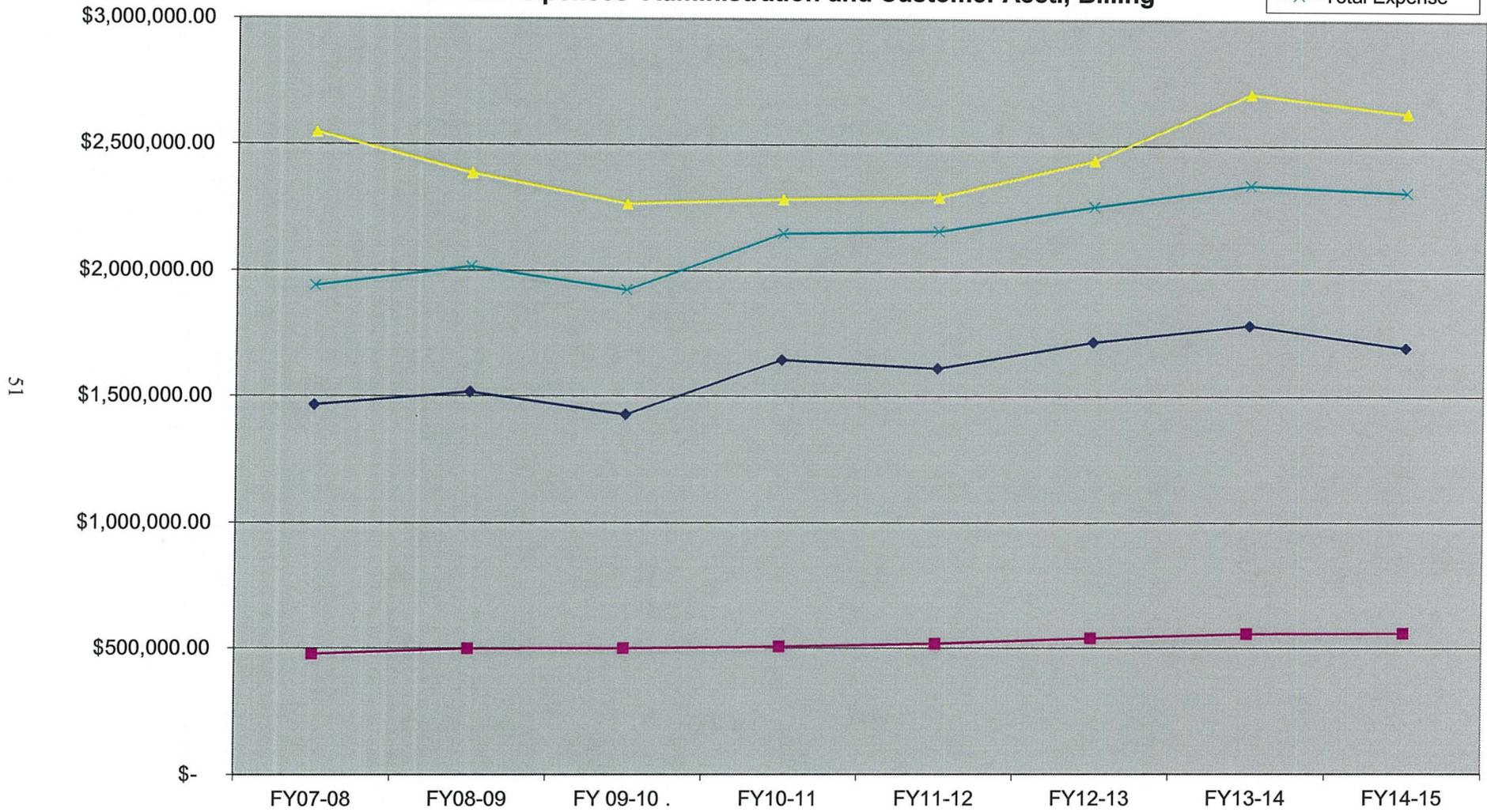
FY 14-15 TREATMENT AND CONSUMPTION DATA

- Total Water Treated 1,547,317,288 gallons
- Total Water Sold 1,252,506,920 gallons
 - Residential 297,089,144 gallons
 - Commercial 121,744,500 gallons
 - CIWA 833,453,400 gallons
- Peak Day Treated JUNE 14TH 5,852,000 gallons
- Average Day Treated 4,239,225 gallons
- Average Day Water Sold 3,431,500 gallons
- Average Daily Newton Use 1,148,100 gallons
- Average Daily CIWA Use 2,283,440 gallons

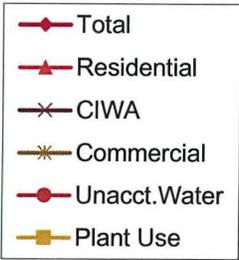
Newton WaterWorks Eight Year Comparison of Direct and Indirect Expenses And Revenues

Direct Expenses=Production,Treatment, Pumping and Distribution
Indirect Expenses=Administration and Customer Acct., Billing

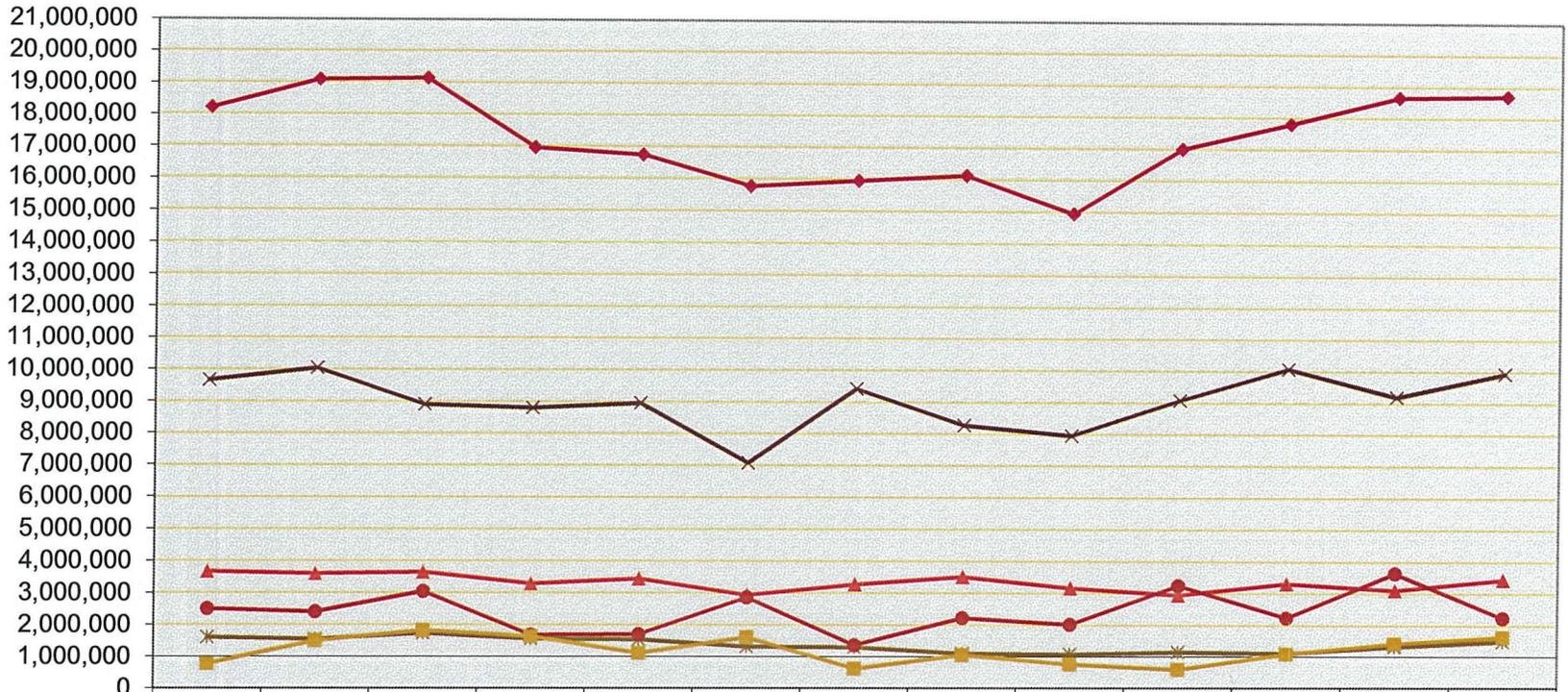
- ◆ Direct Expense
- Indirect Expense
- ▲ Revenues
- × Total Expense



Treated Water & Sales and Usage- FY14-15 In Cu.Ft.



Cu Ft. - Total Water Treated



	June	July	August	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June
◆ Total	18,204,	19,090,	19,141,	16,954,	16,743,	15,774,	15,957,	16,136,	14,946,	16,995,	17,801,	18,657,	18,706,
▲ Residential	3,670,8	3,603,0	3,646,5	3,295,5	3,443,4	2,937,6	3,276,6	3,512,8	3,162,1	2,948,5	3,310,8	3,109,2	3,438,8
× CIWA	9,650,5	10,030,	8,892,3	8,783,5	8,941,8	7,055,1	9,406,5	8,247,3	7,926,4	9,057,6	10,056,	9,166,7	9,918,4
* Commercial	1,600,4	1,550,2	1,728,4	1,557,3	1,538,1	1,316,2	1,298,8	1,100,9	1,076,3	1,148,5	1,105,9	1,318,5	1,485,1
● Unacct. Water	2,511,2	2,408,0	3,051,9	1,680,8	1,706,1	2,864,6	1,363,9	2,221,9	2,020,7	3,245,8	2,237,2	3,638,8	2,232,9
■ Plant Use	771,900	1,499,0	1,822,5	1,636,8	1,114,0	1,601,2	611,200	1,054,0	761,400	595,200	1,091,3	1,423,9	1,630,7

Month