

NEWTON MUNICIPAL WATERWORKS
NEWTON, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2020

NEWTON MUNICIPAL WATERWORKS
NEWTON, IOWA
TABLE OF CONTENTS

	<u>Page</u>
Officials	3
Independent Auditor's Report	4-6
Management's Discussion and Analysis	7-10
Basic Financial Statements:	<u>Exhibit</u>
Statement of Net Position	A 12
Statement of Revenues, Expenses and Changes in Net Position	B 13
Statement of Cash Flows	C 14
Notes to Financial Statements	15-24
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenses and Changes in Balances - Budget and Actual	26
Notes to Required Supplementary Information - Budgetary Reporting	27
Schedule of the Waterworks' Proportionate Share of the Net Pension Liability	28
Schedule of Waterworks Contributions	29
Notes to Required Supplementary Information - Pension Liability	30
Schedule of Changes in the Total OPEB Liability, Related Ratios and Notes	31
Supplementary Information:	<u>Schedule</u>
Schedule of Waterworks Revenues, Expenses and Change in Net Position	1 34-36
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>	38-39
Schedule of Findings	40

NEWTON MUNICIPAL WATERWORKS
NEWTON, IOWA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brian Buch	Trustee	December 2022
Maureen Lockwood(Chair)	Trustee	December 2023
Bret Doerring	Trustee	December 2025
L.D. Palmer	Manager	Indefinite

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

To the Board of Trustees of
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, 2020, and the related Notes to Financial Statements, which collectively comprise the Waterworks' basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 opinion.

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, 2020, and the changes in its financial position and cash flows of its proprietary fund types in conformity with U.S. generally accepted accounting principles.

Opinion

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, 2020, and the respective changes in its financial position and, where applicable, its cash flows thereof 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, the Budgetary Comparison Information, the Schedule of the Waterworks' Proportionate Share of the Net Pension Liability, the Schedule of Waterworks Contributions and the Schedule of Changes in the Waterwork's Total OPEB Liability, Related Ratios and Notes on pages 7 through 10 and 26 through 31 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 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. The supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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 23, 2020, 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 grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Newton Municipal Waterworks' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Newton Municipal Waterworks' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Nolte, Cornman & Johnson PC". The signature is written in a cursive, flowing style.

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

December 23, 2020
Newton, Iowa

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, 2020. We encourage readers to consider this information in conjunction with the Waterworks financial statements, which follows.

2020 FINANCIAL HIGHLIGHTS

- Newton Municipal Waterworks revenue from operations increased \$208,782, or 6.32%, from \$3,302,669 in fiscal year 2019 to \$3,511,451 in fiscal year 2020. Non-operating revenues increased \$98,577, or 363.43%, from \$27,124 in fiscal year 2019 to \$125,701 in fiscal year 2020 primarily due to insurance proceeds received for two separate instances of damage to the water treatment plant.
- Newton Municipal Waterworks operational expenses increased \$170,266, or 5.53%, from \$3,076,739 in fiscal year 2019 to \$3,247,005 in fiscal year 2020.
- Newton Municipal Waterworks net position increased \$387,915, or 6.38%, from \$6,084,911 at June 30, 2019 to \$6,472,826 at June 30, 2020.

USING THIS ANNUAL REPORT

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

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

The Financial Statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Change in Net Position and a Statement of Cash Flows. These provide information about the activities of Newton Municipal Waterworks as a whole and present an overall view of the Waterworks' finances.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the Waterworks' budget for the year, the Waterworks' proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Changes in the Waterworks' Total OPEB Liability, Related Ratios and Notes.

Supplementary Information provides more detailed information about the revenues and expenses reported in the Waterworks' 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 at June 30, 2020 compared to June 30, 2019.

Figure A-1 Condensed Statement of Net Position			
	Business Type Activities		Total Change
	2020	2019	2019-20
Current and other assets	\$ 2,078,366	1,896,921	9.57%
Capital assets	5,829,419	5,248,957	11.06%
Total assets	7,907,785	7,145,878	10.66%
Deferred outflows of resources	188,526	210,743	-10.54%
Long-term liabilities	1,216,527	944,403	28.81%
Other liabilities	229,483	212,716	7.88%
Total liabilities	1,446,010	1,157,119	24.97%
Deferred inflows of resources	177,475	114,591	54.88%
Net position:			
Net investment in capital assets	5,404,589	5,167,957	4.58%
Restricted	-	11,270	-100.00%
Unrestricted	1,068,237	905,684	17.95%
Total net position	\$ 6,472,826	6,084,911	6.38%

Changes in net position - Figure A-2 shows the changes in net position for the year ended June 30, 2020 compared to the year ended June 30, 2019.

Figure A-2 Changes in Net Position			
	Business Type Activities		Total Change
	2020	2019	2019-20
Operating revenues:			
Charges for service and sales	\$ 3,434,660	3,208,814	7.04%
Miscellaneous	76,791	93,855	-18.18%
Total operating revenues	3,511,451	3,302,669	6.32%
Operating expenses:			
Home and Community Environment: Program	3,247,005	3,076,739	5.53%
Operating income	264,446	225,930	17.05%
Non-operating revenues(expenses):			
Interest expense	(1,402)	(2,862)	-51.01%
Loss on disposal of assets	(830)	(52)	1496.15%
Miscellaneous revenue	125,701	27,124	363.43%
Total non-operating revenues(expenses)	123,469	24,210	409.99%
Change in net position	387,915	250,140	55.08%
Net position beginning of year	6,084,911	5,834,771	4.29%
Net position end of year	\$ 6,472,826	6,084,911	6.38%

Operating revenues increased due primarily to an increase in metered customer and rural water sales. Operating expenses increased from the prior year due mainly to increased expenses associated with the treatment plant operations.

Business Type Activities

Revenues of the Waterworks activities were \$3,637,152 and expenses were \$3,249,237. Revenues of these activities were mostly comprised of charges for service, investment income, and miscellaneous income.

FINANCIAL ANALYSIS OF THE WATERWORKS

As the Waterworks completed the year, it reported net position of \$6,472,826; a 6.38% increase from \$6,084,911 at June 30, 2019. Revenues from charges for service and sales increased \$225,846 to fund the increase in 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.

During the year ended June 30, 2020, business type activities expenses exceeded the amounts budgeted.

Legal Budgetary Highlights

The Waterworks' total revenues were \$4,749 less than the total budgeted revenues, a variance of 0.14%.

Total expenses exceeded the amounts budgeted by \$77,138, or 2.43% during fiscal year 2020.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2020, the Waterworks had invested \$5,829,419, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers, machinery and transportation equipment. This amount represents a net increase of 11.06% from last year. More detailed information about the Waterworks' capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$309,639.

The largest change in capital asset activity during the year occurred in the buildings and system category. The Waterworks' buildings and system, net of depreciation, totaled \$4,816,984 at June 30, 2020, compared to \$4,244,160 reported at June 30, 2019. This increase resulted primarily from the completion and subsequent capitalization of a portion of the backwash cover project at the treatment plant.

Figure A-3 Capital Assets, Net of Depreciation			
	Business Type Activities		Total Change
	2020	2019	2019-20
Land	\$ 298,376	298,376	0.00%
Construction in progress	-	14,008	-100.00%
Buildings and system	4,816,984	4,244,160	11.89%
Improvements other than buildings	5,023	5,178	-2.99%
Machinery and equipment	709,036	687,235	3.17%
Total	<u>\$ 5,829,419</u>	<u>5,248,957</u>	<u>11.06%</u>

Long-Term Debt

At June 30, 2020, the Waterworks had \$424,830 in long-term debt outstanding. This represents a 424.48% increase from the prior year. Additional information about the Waterworks' long-term liabilities is presented in Note 4 to the financial statements.

Waterworks had total outstanding revenue bonds of \$424,830 at June 30, 2020.

FACTORS BEARING ON THE WATERWORKS' FUTURE

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

- Federal and State environmental demands on the water system including water and air quality issues.
- Future demands on upgrading water mains because of age and adding new to facilitate water supply to new residential and commercial areas.
- Future P&I demands involving projects that will have to be debt financed.
- Continue to provide exceptional drinking water to all customers.
- Continue to update technologies in the drinking water supply area.
- Changing weather patterns effect on supply and demand.
- Ever increasing charges for chemicals and power.

CONTACTING THE WATERWORKS' FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

NEWTON MUNICIPAL WATERWORKS
STATEMENT OF NET POSITION
JUNE 30, 2020

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,525,304
Receivables (net of allowance for uncollectibles)	352,329
Inventory	200,733
Total current assets	<u>2,078,366</u>

Noncurrent assets:

Capital assets not being depreciated:	
Land	298,376
Capital assets being depreciated, net of accumulated depreciation:	
Buildings and system	4,816,984
Improvements other than buildings	5,023
Machinery and equipment	709,036
Total noncurrent assets	<u>5,829,419</u>
TOTAL ASSETS	<u><u>7,907,785</u></u>

DEFERRED OUTFLOWS OF RESOURCES

Pension related deferred outflows	<u>188,526</u>
-----------------------------------	----------------

LIABILITIES

Current liabilities:

Customer deposits payable	101,801
Accrued compensated absences payable	127,682
Total current liabilities	<u>229,483</u>

Noncurrent liabilities:

Due within one year:	
Revenue bond payable	32,000
Due in more than one year:	
Revenue bond payable	392,830
Total OPEB liability	50,211
Net pension liability	741,486
Total noncurrent liabilities	<u>1,216,527</u>
TOTAL LIABILITIES	<u><u>1,446,010</u></u>

DEFERRED INFLOWS OF RESOURCES

Pension related deferred inflows	136,035
OPEB related deferred inflows	41,440
TOTAL DEFERRED INFLOWS OF RESOURCES	<u><u>177,475</u></u>

NET POSITION

Net investment in capital assets	5,404,589
Unrestricted	1,068,237
TOTAL NET POSITION	<u><u>\$ 6,472,826</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

NEWTON MUNICIPAL WATERWORKS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2020

OPERATING REVENUES:

Charges for service	\$ 3,434,660
Miscellaneous	76,791

TOTAL OPERATING REVENUES	<u>3,511,451</u>
---------------------------------	------------------

OPERATING EXPENSES:

Home and Community Environment Program:

Plant:

Operations	1,409,994
Maintenance	276,620

Distribution:

Operations	618,751
Maintenance	18,514

Administrative and general expenses	613,487
-------------------------------------	---------

Depreciation	309,639
--------------	---------

TOTAL OPERATING EXPENSES	<u>3,247,005</u>
---------------------------------	------------------

OPERATING INCOME	<u>264,446</u>
------------------	----------------

NON-OPERATING REVENUES(EXPENSES):

Interest expense	(1,402)
Loss on disposal of assets	(830)
Miscellaneous non-operating revenue	16,159
Insurance proceeds	82,718
Interest income	26,824

TOTAL NON-OPERATING REVENUES(EXPENSES)	<u>123,469</u>
---	----------------

CHANGE IN NET POSITION	387,915
------------------------	---------

NET POSITION BEGINNING OF YEAR	<u>6,084,911</u>
--------------------------------	------------------

NET POSITION END OF YEAR	<u><u>\$ 6,472,826</u></u>
--------------------------	----------------------------

SEE NOTES TO FINANCIAL STATEMENTS.

NEWTON MUNICIPAL WATERWORKS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 3,416,518
Payments to suppliers	(1,514,321)
Payments to employees	(1,384,213)
Other receipts	76,791
Net cash provided by operating activities	<u>594,775</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets	(890,931)
Principal borrowing on long-term debt	424,830
Principal paid on capital debt	(81,000)
Interest paid on capital debt	(1,402)
Other receipts	98,877
Decrease in restricted accounts	11,270
Net cash used in capital and related financing activities	<u>(438,356)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	<u>26,824</u>
Net increase in cash and cash equivalents	183,243
Cash and cash equivalents beginning of the year	<u>1,342,061</u>
Cash and cash equivalents end of year	<u><u>\$ 1,525,304</u></u>

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

Operating income	\$ 264,446
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	309,639
Increase in accounts receivable	(18,142)
Decrease in inventory	8,670
Increase in customer deposits payable	2,506
Increase in accrued compensated absences payable	14,261
Decrease in total OPEB liability	(8,237)
Decrease in net pension liability	(63,469)
Decrease in deferred outflows of resources	22,217
Increase in deferred inflows of resources	62,884
Net cash provided by operating activities	<u><u>\$ 594,775</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

NEWTON MUNICIPAL WATERWORKS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

(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 Trustees. 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 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 included 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, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenses. 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, 1993, plus subsequent additions at cost, less retirements through June 30, 2020.

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. Revenues are recognized when they are earned and expenses are recognized when a liability is incurred regardless of the timing of related cash flows.

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

Cash and Cash Equivalents - Cash balances are invested in savings which yield interest. Investments in certificates of deposits are stated at fair value. The Waterworks considers all highly liquid investments with maturity of three months or less to be "cash equivalents".

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.

Capital Assets - Capital assets, which include property, equipment, vehicles and infrastructure, are reported in the Statement of Net Position. 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 if purchased or constructed. Donated capital assets are recorded at acquisition value. Acquisition value is the price that would have been paid to acquire a capital asset with equivalent service potential. 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>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Building improvements	15-20 years
System infrastructure	10-50 years
Vehicles	10 years
Office equipment	5-15 years
Computer equipment	5 years

Deferred Outflows of Resources - Deferred outflows of resources represent a consumption of net position applicable to a future year(s) which will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense, the unamortized portion of the net difference between projected and actual earnings on pension plan investments and contributions from the employer after the measurement date but before the end of the reporting period.

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.

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.

Total OPEB Liability - For purposes of measuring the total OPEB liability, deferred inflows of resources related to OPEB and OPEB expense, information has been determined based on the Waterwork's actuary report. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

Deferred Inflows of Resources - Deferred inflows of resources represent an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. 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 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 other receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of unrecognized items not yet charged to pension and OPEB expense.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Formal and legal budgetary control is based upon nine major classes of expenses, known as functions, not by fund. Applicable functions of the Waterworks are business type activities. During the year ended June 30, 2020, expenditures exceeded the budgeted amounts.

(2) Deposits and Investments

The Newton Waterworks deposits in banks at June 30, 2020, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure 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; 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 that is considered cash in bank due to their short-term maturity values of three months or less as of June 30, 2020.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2020, 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	14,008	484,830	498,838	-
Total capital assets, not being depreciated	312,384	484,830	498,838	298,376
Capital assets, being depreciated:				
Buildings and system	12,040,650	793,005	18,037	12,815,618
Improvements other than buildings	12,001	-	-	12,001
Machinery and equipment	2,865,777	111,934	6,644	2,971,067
Total capital assets being depreciated	14,918,428	904,939	24,681	15,798,686
Less accumulated depreciation for:				
Buildings and system	7,796,490	219,351	17,207	7,998,634
Improvements other than buildings	6,823	155	-	6,978
Machinery and equipment	2,178,542	90,133	6,644	2,262,031
Total accumulated depreciation	9,981,855	309,639	23,851	10,267,643
Capital assets, being depreciated, net	4,936,573	595,300	830	5,531,043
Business type activities capital assets, net	\$ 5,248,957	1,080,130	499,668	5,829,419

(4) Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2020 are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 81,000	424,830	81,000	424,830	32,000
Net pension liability	804,955	-	63,469	741,486	-
Total OPEB liability	58,448	-	8,237	50,211	-
Total	\$ 944,403	424,830	152,706	1,216,527	32,000

Revenue Bonds

During the fiscal year ending June 30, 2020, the Waterworks entered into a Loan and Disbursement Agreement with the Iowa Finance Authority through Iowa's Drinking Water State Revolving Fund (DWSRF). All uses of DWSRF dollars are restricted to funding specific projects outlined in approved Intended Use Plans. Borrowers submit qualified claims incurred during their project for reimbursement from the DWSRF. The Newton Municipal Waterworks was approved to borrow up to \$780,000 for the backwash cover project at the water treatment plant on February 7, 2020. As of June 30, 2020, the Waterworks has submitted invoices and received reimbursements totaling \$424,830.45. The final amortization schedule will not be available until after the final disbursement and required final documents have been submitted to the Iowa Finance Authority. An estimated amortization schedule indicates the first principal payment of \$32,000 due June 1, 2021; however, this amount will likely decrease since the Waterworks does not anticipate using the full loan amount. The Waterworks has pledged income derived from anticipated revenues to repay the loan.

(5) 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 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, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

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

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

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

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

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires 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 2020, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the Waterworks contributed 9.44% of covered payroll, for a total rate of 15.73%.

The Waterworks contributions to IPERS for the year ended June 30, 2020 totaled \$92,377.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2020, the Waterworks reported a liability of \$741,486 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 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 IPERS relative to the contributions of all IPERS participating employers. At June 30, 2019, the Waterworks' proportion was 0.012805%, which was an increase of 0.000085% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Waterworks recognized pension expense of \$110,949. At June 30, 2020, 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	\$ 2,056	26,660
Changes of assumptions	79,424	-
Net difference between projected and actual earnings on IPERS' investments	-	83,556
Changes in proportion and differences between entity contributions and the entity's proportionate share of contributions	14,669	25,819
Entity contributions subsequent to the measurement date	92,377	-
Total	<u>\$ 188,526</u>	<u>136,035</u>

\$92,377 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 ending June 30, 2021. 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,	Amount
2021	\$ 10,894
2022	(23,759)
2023	(15,488)
2024	(11,587)
2025	(46)
Total	<u>\$ (39,986)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

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

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2019 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

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

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.0%	5.60%
International equity	15.0	6.08
Global smart beta equity	3.0	5.82
Core plus fixed income	27.0	1.71
Public credit	3.5	3.32
Public real assets	7.0	2.81
Cash	1.0	(0.21)
Private equity	11.0	10.13
Private real assets	7.5	4.76
Private credit	3.0	3.01
Total	100.0%	

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

Sensitivity of the 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 7.00%, as well as what the Waterworks' proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Waterwork's proportionate share of the net pension liability	\$ 1,316,639	741,486	259,053

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

Payables to IPERS - At June 30, 2020, Waterworks reported no payables to IPERS for legally required employer contributions or legally required employee contributions.

(6) Other Postemployment Benefits (OPEB)

Plan Description - The Waterworks administers a single-employer benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits - Individuals who are employed by Newton Municipal Waterworks and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical and prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Retired participants must be age 55 or older at retirement. At June 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	0
Active employees	<u>15</u>
Total	<u><u>15</u></u>

Total OPEB Liability - The Waterwork's total OPEB liability of \$50,211 was measured as of June 30, 2020, and was determined by an actuarial valuation dated July 1, 2019.

Actuarial Assumptions - The total OPEB liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions and the entry age normal actuarial cost method, applied to all periods included in the measurement.

Rate of inflation (effective July 1, 2019)	3.00% per annum.
Rates of salary increase (effective July 1, 2019)	3.00% per annum, including inflation.
Discount rate (effective July 1, 2019)	3.50% compounded annually, including inflation.
Healthcare cost trend rate (effective June 30, 2018)	7.00% initial rate decreasing to an ultimate rate of 5.00%.

Discount Rate - The discount rate used to measure the total OPEB liability was 3.50% which reflects the index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher as of the valuation date.

Mortality rates are from the RP 2014 annuitant distinct mortality table adjusted to 2006 with MP-2019 generational projection of future mortality improvement. Annual retirement probabilities are based on varying rates by age and turnover probabilities mirror those used by IPERS.

The actuarial assumptions used in the July 1, 2019 valuation were based on the results of an actuarial experience studies with dates corresponding to those listed above.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Total OPEB liability beginning of year	\$ 58,448
Changes for the year:	
Service cost	1,656
Interest	1,706
Differences between expected and actual experiences	(6,814)
Changes in assumptions	(4,287)
Benefit payments	(498)
Net changes	<u>(8,237)</u>
Total OPEB liability end of year	<u>\$ 50,211</u>

Sensitivity of the Waterworks' Total OPEB Liability to Changes in the Discount Rate - The following presents the total OPEB liability of the Waterworks, as well as what the Waterworks' total OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.50%) or 1% higher (4.50%) than the current discount rate.

	1% Decrease (2.50%)	Discount Rate (3.50%)	1% Increase (4.50%)
Total OPEB liability	\$ 53,842	50,211	46,711

Sensitivity of the Waterworks' Total OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the total OPEB liability of the Waterworks as what the Waterworks' total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (6.00%) or 1% higher (8.00%) than the current healthcare cost trend rates.

	1% Decrease (6.00%)	Healthcare Cost Trend Rate (7.00%)	1% Increase (8.00%)
Total OPEB liability	\$ 45,778	50,211	55,193

OPEB Expense and Deferred Inflows of Resources Related to OPEB - For the year ended June 30, 2020, the components that make up the Waterworks' OPEB expense totaled negative \$4,679. At June 30, 2020, the Waterworks reported deferred inflows of resources related to OPEB from the following resources:

	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 23,615
Changes in assumptions	17,825
Total	<u>\$ 41,440</u>

The amount reported as deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2021	\$ (8,041)
2022	(8,041)
2023	(8,041)
2024	(8,041)
2025	(6,719)
Thereafter	<u>(2,557)</u>
Total	<u>\$ (41,440)</u>

(7) 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. The Waterworks assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Budget Overexpenditure

Newton Municipal Waterworks expenses exceeded the certified budget amounts during the fiscal year ended June 30, 2020.

REQUIRED SUPPLEMENTARY INFORMATION

NEWTON MUNICIPAL WATERWORKS
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES
 AND CHANGES IN BALANCES - BUDGET AND ACTUAL
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2020

	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES:			
Charges for service	\$ 3,434,660	3,422,400	12,260
Miscellaneous	76,791	93,800	(17,009)
TOTAL REVENUES	<u>3,511,451</u>	<u>3,516,200</u>	<u>(4,749)</u>
EXPENSES:			
BUSINESS TYPE:			
Water department	2,937,366	2,869,867	(67,499)
CAPITAL ASSETS:			
Depreciation	309,639	300,000	(9,639)
TOTAL EXPENSES	<u>3,247,005</u>	<u>3,169,867</u>	<u>(77,138)</u>
EXCESS OF OPERATING REVENUES OVER OPERATING EXPENSES	264,446	346,333	(81,887)
OTHER:			
Non-operating revenues	125,701	142,968	(17,267)
Non-operating expenses	(2,232)	(11,000)	8,768
TOTAL OTHER	<u>123,469</u>	<u>131,968</u>	<u>(8,499)</u>
NET	387,915	<u>478,301</u>	<u>(90,386)</u>
NET POSITION BEGINNING OF YEAR	<u>6,084,911</u>		
NET POSITION END OF YEAR	<u>\$ 6,472,826</u>		

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NEWTON MUNICIPAL WATERWORKS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2020

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 ended June 30, 2020, Waterworks expenditures exceeded the amounts budgeted.

NEWTON MUNICIPAL WATERWORKS
 SCHEDULE OF THE WATERWORKS' PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
 FOR THE LAST SIX YEARS*
 REQUIRED SUPPLEMENTARY INFORMATION

	2020	2019	2018	2017	2016	2015
Entity's proportion of the net pension liability	0.012805%	0.012720%	0.013647%	0.012211%	0.012577%	0.018001%
Entity's proportionate share of the net pension liability	\$ 741,486	804,955	909,070	793,438	632,054	506,152
Entity's covered payroll	\$ 943,281	930,715	1,037,032	891,867	855,901	854,882
Entity's proportionate share of the net pension liability as a percentage of its covered payroll	78.61%	86.49%	87.66%	88.96%	73.85%	59.21%
IPERS' net position as a percentage of the total pension liability	85.45%	83.62%	82.21%	81.82%	85.19%	87.61%

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NEWTON MUNICIPAL WATERWORKS
 SCHEDULE OF WATERWORKS CONTRIBUTIONS
 IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
 FOR THE LAST TEN YEARS
 REQUIRED SUPPLEMENTARY INFORMATION

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Statutorily required contribution	\$ 92,377	89,063	83,132	92,607	79,569	76,432	76,341	71,782	65,079	54,143
Contributions in relation to the statutorily required contribution	\$ (92,377)	(89,063)	(83,132)	(92,607)	(79,569)	(76,432)	(76,341)	(71,782)	(65,079)	(54,143)
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
Entity's covered payroll	\$ 978,608	943,281	930,715	1,037,032	891,867	855,901	854,882	827,935	806,431	779,036
Contributions as a percentage of covered payroll	9.44%	9.44%	8.93%	8.93%	8.93%	8.93%	8.93%	8.67%	8.07%	6.95%

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NEWTON MUNICIPAL WATERWORKS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2020

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

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

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

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

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

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

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

NEWTON MUNICIPAL WATERWORKS
 SCHEDULE OF CHANGES IN THE
 TOTAL OPEB LIABILITY, RELATED RATIOS AND NOTES
 FOR THE LAST THREE YEARS
 REQUIRED SUPPLEMENTARY INFORMATION

	2020	2019	2018
Service cost	\$ 1,656	1,991	1,933
Interest cost	1,706	2,046	1,940
Differences between expected and actual experiences	(6,814)	-	(28,721)
Changes in assumptions	(4,287)	-	(22,893)
Benefit payments	(498)	(1,508)	(438)
Net change in total OPEB liability	(8,237)	2,529	(48,179)
Total OPEB liability beginning of year	58,448	55,919	104,098
Total OPEB liability end of year	<u>\$ 50,211</u>	<u>58,448</u>	<u>55,919</u>
Covered-employee payroll	\$ 946,194	913,223	886,624
Total OPEB liability as a percentage of covered-employee payroll	5.31%	6.40%	6.31%

Notes to Schedule of Changes in the Waterworks' Total OPEB Liability and Related Ratios

Changes in benefit terms:

There were no significant changes in benefit terms.

Changes in assumptions:

Changes in assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period.

Year ended June 30, 2020	3.50%
Year ended June 30, 2019	3.58%
Year ended June 30, 2018	3.58%
Year ended June 30, 2017	2.50%

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NEWTON MUNICIPAL WATERWORKS

SUPPLEMENTARY INFORMATION

NEWTON MUNICIPAL WATERWORKS
 SCHEDULE OF WATERWORKS REVENUES, EXPENSES AND
 CHANGE IN NET POSITION
 YEAR ENDED JUNE 30, 2020

	<u>2020</u>
OPERATING REVENUES:	
Charges for Service:	
Sale of Water	\$ 3,274,107
Service Charges	17,398
Jobbing Income	12,778
Sewer Billing Income	130,377
	<u>3,434,660</u>
Other:	
Miscellaneous	76,791
TOTAL OPERATING REVENUES	<u>3,511,451</u>
OPERATING EXPENSES:	
PLANT:	
Operations:	
Salaries	423,419
FICA	31,994
IPERS	47,183
Health Insurance	99,651
Laboratory	8,427
Lime	251,476
Chlorine	66,624
Hydrofluosilic Acid	10,476
Carbon Dioxide	25,545
Generator	2,087
Poly-Phosphate	7,280
Supplies and Expenses	14,339
Power:	
Primary	313,370
Secondary	94,798
Standby	4,702
Heating:	
Primary	7,738
Secondary	885
	<u>1,409,994</u>
Maintenance:	
Pumping Equipment	3,131
Wells	17,962
Buildings	13,924
Treatment Equipment	15,420
Maintenance of Generator	21,368
Vehicles and Equipment	5,968
Lagoon Maintenance	170,685
Maintenance of Grounds	8,577
Reservoir Maintenance	6,515
Central Tower Maintenance	1,005
Water Tower Maintenance	12,065
	<u>276,620</u>
TOTAL PLANT	<u>1,686,614</u>

NEWTON MUNICIPAL WATERWORKS
 SCHEDULE OF WATERWORKS REVENUES, EXPENSES AND
 CHANGE IN NET POSITION
 YEAR ENDED JUNE 30, 2020

(Continued)	2020
DISTRIBUTION:	
Operations:	
Salaries	319,799
On Call	5,245
FICA	25,161
IPERS	36,917
Health Insurance	92,259
Vehicle and Equipment	13,871
Maps and Records	132
Field Supplies and Expense	124,667
Operator Certification	700
	618,751
Maintenance:	
Mains	2,205
Meters	3,875
Clear Well Maintenance	6,515
Vehicles and Equipment	5,919
	18,514
TOTAL DISTRIBUTION	637,265
ADMINISTRATION:	
Customer Accounting and Collecting:	
Salaries	148,484
FICA	11,327
IPERS	15,923
Health Insurance	13,879
Postage	30,091
Contract Meter Read	75,483
Office Supplies	3,832
Equipment Maintenance	16,212
Building Maintenance	14,044
	329,275
General Administrative Costs:	
Salaries	100,562
FICA	7,768
IPERS	10,930
Health Insurance	21,368
Risk Insurance	68,909
One Call	1,865
Payroll Services	3,381
Board Fees	3,000
Publications	1,236
Dues and Subscriptions	2,964
Miscellaneous	12,360
DNR Fee	1,955

NEWTON MUNICIPAL WATERWORKS
SCHEDULE OF WATERWORKS REVENUES, EXPENSES AND
CHANGE IN NET POSITION
YEAR ENDED JUNE 30, 2020

(Continued)	<u>2020</u>
ADMINISTRATION (CONTINUED):	
General Administrative Costs (Continued):	
Safety	1,438
Phone Communications	15,027
Travel and Conference	1,745
Audit Expense	15,350
Uniforms and Shoes	2,391
Office Supplies	2,438
Car Allowance	4,800
Consumer Confidence Reports	1,225
Public Relations	3,500
	<u>284,212</u>
TOTAL ADMINISTRATION	<u>613,487</u>
 DEPRECIATION	 <u>309,639</u>
 TOTAL OPERATING EXPENSES	 <u>3,247,005</u>
 EXCESS OF OPERATING REVENUES OVER OPERATING EXPENSES	 264,446
 NON-OPERATING REVENUES(EXPENSES):	
Interest Expense	(1,402)
Loss on Disposal of Assets	(830)
Miscellaneous Non-Operating Revenue	16,159
Insurance Proceeds	82,718
Interest Income	26,487
SRF Interest Income	337
TOTAL NON-OPERATING REVENUES(EXPENSES)	<u>123,469</u>
 CHANGE IN NET POSITION	 387,915
 NET POSITION BEGINNING OF YEAR	 <u>6,084,911</u>
 NET POSITION END OF YEAR	 <u><u>\$ 6,472,826</u></u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NEWTON MUNICIPAL WATERWORKS

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 of Newton Municipal Waterworks:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the business type activities of Newton Municipal Waterworks as of and for the year ended June 30, 2020, and the related Notes to Financial Statements, which collectively comprise the Newton Municipal Waterworks' basic financial statements, and have issued our report thereon dated December 23, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Newton Municipal Waterworks' financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Waterworks. Since our audit was based on tests and samples, not 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.

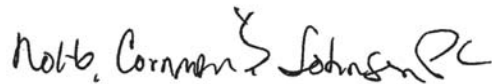
Waterworks' Responses to Findings

The Newton Municipal Waterworks' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. 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

December 23, 2020
Newton, Iowa

NEWTON MUNICIPAL WATERWORKS
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2020

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No matters were noted.

Part II: Other Findings Related to Statutory Reporting:

II-A-20 Certified Budget - Waterworks' expenses for the year ended June 30, 2020 exceeded the amounts budgeted.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa.

Response - In the future, we will amend the budget as necessary.

Conclusion - Response accepted.

II-B-20 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.

II-C-20 Travel Expense - No expenses of Waterworks' money for travel expenses of spouses of Waterworks' officials or employees were noted.

II-D-20 Business Transactions - No business transactions between the Waterworks and the officials and employees of the Waterworks during the year ended June 30, 2020 were noted.

II-E-20 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 ensure that the coverage is adequate for current operations.

II-F-20 Board of Trustee Minutes - We noted no transactions requiring Board approval that had not been approved in the trustee minutes.

II-G-20 Revenue Bonds - We noted no instance of noncompliance with revenue bond requirements.

II-H-20 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Waterworks' investment policy were noted.