

**WAVERLY UTILITIES**

Component Units of  
The City of Waverly, Iowa

**FINANCIAL STATEMENTS**

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2017 and 2016

**WAVERLY UTILITIES**  
Component Units of the City of Waverly, Iowa

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December 31, 2017 and 2016

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## Independent Auditor's Report

To the Board of Trustees  
Waverly Utilities  
Waverly, Iowa

### Report on the Financial Statements

We have audited the accompanying financial statements of Waverly Municipal Electric Utility and Waverly Communications Utility (collectively Waverly Utilities), component units of the City of Waverly, Iowa, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Waverly Utilities' basic financial statements as 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 accounting principles generally accepted in the United States of America; 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Waverly Municipal Electric Utility and Waverly Communications Utility, as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

### *Change in Accounting Principle*

As discussed in Note 18 to the financial statements, Waverly Municipal Electric Utility has restated deferred outflows of resources and deferred inflows of resources balances. The restatements have no effect on net position balances. Our opinions are not modified with respect to this matter.

## **Other Matters**

The financial statements of Waverly Municipal Electric Utility and Waverly Communications Utility, as of and for the year ended December 31, 2016, were audited by other auditors, whose report dated May 26, 2017, expressed an unmodified opinion on those statements.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Utilities Proportionate Share of the Net Pension Liability, Schedule of Utilities Contributions, and Schedule of Funding Progress for the Other Post-Employment Benefits Plan 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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Waverly Utilities' basic financial statements. The supplemental and other information section is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplemental and other information section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated April 26, 2018 on our consideration of Waverly Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Waverly Utilities' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Waverly Utilities' internal control over financial reporting and compliance.

*Eide Sully LLP*

Dubuque, Iowa  
April 26, 2018

## WAVERLY UTILITIES

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Unaudited

December 31, 2017 and 2016

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Waverly Utilities (Waverly Municipal Electric Utility and Waverly Communications Utility) offers this discussion and analysis of our financial performance for the years ending December 31, 2017 and 2016. Please read this in conjunction with the accompanying financial statements and the notes to the financial statements.

#### Overview of the Financial Statements

Waverly Municipal Electric Utility (WMEU) was placed under operational control of a five-member Board of Trustees (Board) by City of Waverly (City) ordinance dated October 3, 1977. WMEU is responsible for providing electric power to the residents and businesses of the City and certain rural areas. WMEU is considered a component unit of the City under the guidelines established by Governmental Accounting Standards Board. WMEU has a governing body appointed by the Mayor and approved by the City Council.

On July 2, 2013, the Waverly Municipal Electric Utility board passed Resolution#01-13, establishing the Waverly Communications Feasibility and Support Delivery Model Task Force and Waverly Communications Utility (WCU). WCU is a separate and distinct business that leases fiber from WMEU and then sells communications services to its customers. WCU is considered a component unit of the City under the guidelines established by Governmental Accounting Standards Board. WCU has a governing body appointed by the Mayor and approved by the City Council which has the same members as WMEU. Construction began in 2015 with operations starting in July 2016.

This annual report consists of Management's Discussion and Analysis, the financial statements and the notes to the financial statements. The accrual basis of accounting is used by the utilities.

The Statement of Net Position reports year-end assets, deferred outflows, liabilities, deferred inflows and net position balances based on the original cost adjusted for any depreciation. The Statement of Revenues, Expenses and Changes in Net Position presents information on the change in Net Position from utilities operations. The Statement of Cash Flows reports the changes in cash due to operations, investments, capital improvements and debt service payments.

#### Waverly Utilities Overview

Waverly has a diverse business climate including a private college, a large financial institution, manufacturing businesses of varying sectors and many commercial businesses. The residential population has remained constant over the past few years. In 2017, WMEU installed 31 electric services.

WMEU owns a strategic mix of energy production resources including 10.86 MW of base load coal generation, .495 MW of hydro generation, 2.7 MW of wind generation and 36.25 MW of diesel generation which is used in conjunction with a long-term full requirements energy contract and in emergency situations. In 2017, we purchased 96.11% of our required energy and capacity through a full requirements energy contract. The remaining 3.89% was produced locally by the hydro and wind resources.

## WAVERLY UTILITIES

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Unaudited

December 31, 2017 and 2016

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#### **Waverly Utilities Overview**

In 2014, we installed an additional 7.3 MW of local diesel generation and rebuilt the West Substation to improve system reliability. The distribution system operates at 12,470 volts.

As an analysis of Waverly Utilities (WMEU and WCU combined) financial position, the following condensed statements are presented for review: the Statements of Net Position in Table 1, the Statements of Revenues, Expenses and Changes in Net Position in Table 2, the Statements of Cash Flows in Table 3 and the Statements of Revenues, Expenses and Changes in Net Position, Actual and Budget in Table 4.



## WAVERLY UTILITIES

### MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

Unaudited

December 31, 2017, 2016 and 2015

### Waverly Utilities Financial Analysis

**Table 1**  
**Condensed Statements of Net Position**

	WMEU 2017	WCU 2017	WMEU 2016	WCU 2016	WMEU 2015	WCU 2015
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>						
Current Assets	\$ 8,270,458	\$ 576,166	\$ 7,784,325	\$ 237,314	\$ 7,390,421	\$ 59,464
Non-Current Assets						
Restricted Assets	1,389,375		1,389,375		1,200,751	
Designated Funds	4,290,761		5,954,403		8,842,027	
Other Assets	845,948		828,833		794,440	
Advance between WMEU & WCU	2,775,595		2,099,819		508,320	
Receivable for Wartburg Green Power	1,000,000		1,100,000		1,200,000	
Net Capital Assets	40,248,418	5,475,083	39,968,912	5,263,146	37,472,759	2,176,643
Total Assets	<u>58,820,555</u>	<u>6,051,249</u>	<u>59,125,667</u>	<u>5,500,460</u>	<u>57,408,718</u>	<u>2,236,107</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred Outflow for Pension Plan	713,596	174,854	893,630	82,446	381,371	5,890
Deferred Outflow for Wellness Center	600,000		720,000		840,000	
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>1,313,596</u>	<u>174,854</u>	<u>1,613,630</u>	<u>82,446</u>	<u>1,221,371</u>	<u>5,890</u>
<b>TOTAL ASSETS AND DEFERRED INFLOWS OF RESOURCES</b>						
	<u>\$ 60,134,151</u>	<u>\$ 6,226,103</u>	<u>\$ 60,739,297</u>	<u>\$ 5,582,906</u>	<u>\$ 58,630,089</u>	<u>\$ 2,241,997</u>
<b>LIABILITIES</b>						
Current Liabilities	\$ 2,130,352	\$ 396,585	\$ 1,906,336	\$ 269,924	\$ 2,729,913	\$ 424,880
Current Liabilities Payable from Restricted Assets	904,731	357,206	891,860		695,847	
Non-Current Liabilities						
Advance between WMEU & WCU		2,775,595		2,099,819		508,320
Net Pension Liability	1,861,004	456,007	1,929,506	66,365	1,294,105	1,227
Other Non-Current Liabilities	10,472,151	6,242,797	11,267,540	5,590,963	9,165,374	1,996,874
Wellness Center Payable	600,000		720,000		840,000	
Total Liabilities	<u>15,968,238</u>	<u>10,228,190</u>	<u>16,715,242</u>	<u>8,027,071</u>	<u>14,725,239</u>	<u>2,931,301</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred Inflows for Pension Plan	53,739	13,168	308,692	2,425	359,607	
Deferred Inflows for Rate Stabilization	1,525,294		1,025,294		225,294	
Deferred Inflows for Wartburg Green Power	1,000,000		1,100,000		1,200,000	
Total Deferred Inflows of Resources	<u>2,579,033</u>	<u>13,168</u>	<u>2,433,986</u>	<u>2,425</u>	<u>1,784,901</u>	<u>-</u>
<b>NET POSITION</b>						
Net Investment in Capital Assets	30,403,235	(1,197,400)	29,253,218	(323,425)	28,820,914	180,869
Restricted for Debt Service and Improvements	323,619		321,705		293,523	
Unrestricted	10,860,026	(2,817,855)	12,015,146	(2,123,165)	13,005,512	(870,173)
Total Net Position	<u>41,586,880</u>	<u>(4,015,255)</u>	<u>41,590,069</u>	<u>(2,446,590)</u>	<u>42,119,949</u>	<u>(689,304)</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>						
	<u>\$ 60,134,151</u>	<u>\$ 6,226,103</u>	<u>\$ 60,739,297</u>	<u>\$ 5,582,906</u>	<u>\$ 58,630,089</u>	<u>\$ 2,241,997</u>

**WAVERLY UTILITIES**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)  
Unaudited  
December 31, 2017, 2016 and 2015

**Waverly Utilities Financial Analysis (cont.)**

**Table 2**  
**Condensed Statements of Revenues, Expenses and Changes in Net Position**

	WMEU 2017	WCU 2017	WMEU 2016	WCU 2016	WMEU 2015	WCU 2015
<b>OPERATING REVENUES</b>	<b>\$ 19,064,884</b>	<b>\$ 2,172,479</b>	<b>\$ 18,502,077</b>	<b>\$ 339,401</b>	<b>\$ 17,803,264</b>	<b>\$ 21,520</b>
<b>OPERATING EXPENSES</b>						
Operating Expenses	16,059,880	2,869,361	15,924,936	1,876,704	15,453,666	516,707
Depreciation Expenses	2,030,899	738,503	2,007,314	173,363	1,945,796	1,993
Total Operating Expenses	18,090,779	3,607,864	17,932,250	2,050,067	17,399,462	518,700
Operating Income	974,105	(1,435,385)	569,827	(1,710,666)	403,802	(497,180)
Investment Income	200,780		132,418		69,211	
Bond Issue Costs	7,090		(72,114)		(113,117)	(210,906)
Interest and Amortization Expense	(340,508)	(131,335)	(297,187)	(46,620)	(167,780)	(4,758)
Gain (Loss) on Sale of Plant	17,770	(1,945)	(5,151)		(76,512)	
Total Non-Operating Revenue (Expenses)	(114,868)	(133,280)	(242,034)	(46,620)	(288,198)	(215,664)
Income Before Operating Transfers and Contributions	859,237	(1,568,665)	327,793	(1,757,286)	115,604	(712,844)
Contributions	(562)		(1,749)		(2,306)	
Cash Transfers to the City of Waverly	(861,864)	-	(855,924)	-	(854,976)	-
<b>Change in Net Position</b>	<b>(3,189)</b>	<b>(1,568,665)</b>	<b>(529,880)</b>	<b>(1,757,286)</b>	<b>(741,678)</b>	<b>(712,844)</b>
NET POSITION, Beginning of Year	41,590,069	(2,446,590)	42,119,949	(689,304)	42,861,627	23,540
<b>NET POSITION, End of Year</b>	<b>\$ 41,586,880</b>	<b>\$(4,015,255)</b>	<b>\$ 41,590,069</b>	<b>\$(2,446,590)</b>	<b>\$ 42,119,949</b>	<b>\$(689,304)</b>

WMEU Revenues for 2017 were \$563K higher than 2016 due to an increase in rates, fiber lease, and a refund from MEAN.

WMEU Expenses for 2017 were \$159K higher than expenses for 2016 due to increases in purchased power and Louisa generation repair costs.

WMEU's Net Position decreased \$3K from 2016 to 2017 due to the City of Waverly Cash Transfer of \$861,864.

WMEU's Net Position decreased \$530K from 2015 to 2016 due to the City of Waverly Cash Transfer of \$855,924.

## WAVERLY UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

Unaudited

December 31, 2017, 2016 and 2015

### Waverly Utilities Financial Analysis (cont.)

**Table 3**  
**Condensed Statements of Cash Flows**

	WMEU 2017	WCU 2017	WMEU 2016	WCU 2016	WMEU 2015	WCU 2015
Cash Flows from Operating Activities						
Received from sales to customers	\$ 18,293,317	\$ 2,072,911	\$ 19,128,324	\$ 248,411	\$ 17,512,215	\$ 21,520
Paid to suppliers and employees for services	(15,178,669)	(2,575,392)	(15,931,204)	(2,141,869)	(16,765,767)	(487,128)
Cash Flows from Operating Activities	3,114,648	(502,481)	3,197,120	(1,893,458)	746,448	(465,608)
Cash Flows from Non-Capital Financing Activities	(1,537,640)	675,776	(2,447,423)	1,591,499	(1,386,836)	531,860
Cash Flows from Capital and Financing Activities	(3,756,048)	(15,538)	(3,428,814)	299,652	(232,060)	(46,804)
Cash Flows from Investing Activities	1,298,662	-	(969,294)	-	(3,976,893)	-
<b>Net Change in Cash and Equivalents</b>	(880,378)	157,757	(3,648,411)	(2,307)	(4,849,341)	19,448
CASH AND CASH EQUIVALENTS – Beginning of Year	5,783,274	17,141	9,431,685	19,448	14,281,026	-
<b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>	<b>\$ 4,902,896</b>	<b>\$ 174,898</b>	<b>\$ 5,783,274</b>	<b>\$ 17,141</b>	<b>\$ 9,431,685</b>	<b>\$ 19,448</b>

## WAVERLY UTILITIES

### MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

Unaudited

December 31, 2017, 2016 and 2015

#### Waverly Utilities Financial Analysis (cont.)

**Table 4**  
**Comparison of Revenues, Expenses and Changes in Net Position**  
**Actual and Budget**

	WMEU			WCU		
	Actual 2017	Budget 2017	Variance Favorable (Unfavorable)	Actual 2017	Budget 2017	Variance Favorable (Unfavorable)
<b>OPERATING REVENUES</b>	<u>\$ 19,064,884</u>	<u>\$19,364,693</u>	<u>(\$299,809)</u>	<u>\$ 2,172,479</u>	<u>\$3,053,900</u>	<u>(\$881,421)</u>
<b>OPERATING EXPENSES</b>						
Depreciation expenses	2,030,899	2,120,875	89,976	738,503	984,784	246,281
Other operating expenses	16,059,880	17,043,543	983,663	2,869,361	2,757,359	(112,002)
Total Operating Expenses	<u>18,090,779</u>	<u>19,164,418</u>	<u>1,073,639</u>	<u>3,607,864</u>	<u>3,742,143</u>	<u>134,279</u>
Operating Income	<u>974,105</u>	<u>200,275</u>	<u>773,830</u>	<u>(1,435,385)</u>	<u>(688,243)</u>	<u>(747,142)</u>
Investment income	200,780	159,500	41,280	-	-	-
Interest and amortization expense	(340,508)	(340,622)	114	(131,335)	(370,222)	238,887
Gain on sale of plant	17,770	-	17,770	(1,944)	-	(1,944)
Other income (expense)	7,090	-	7,090	-	-	-
Total Non-Operating Expenses	<u>(114,868)</u>	<u>(181,122)</u>	<u>66,254</u>	<u>(133,279)</u>	<u>(370,222)</u>	<u>236,943</u>
Income before contributions and operating transfers	859,237	19,153	840,084	(1,568,664)	(1,058,465)	(510,199)
Contributions	(562)	-	(562)	-	-	-
Operating transfers to the City of Waverly	<u>(861,864)</u>	<u>(861,866)</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Change in Net Position</b>	<u>(3,189)</u>	<u>(842,713)</u>	<u>839,524</u>	<u>(1,568,664)</u>	<u>(1,058,465)</u>	<u>(510,199)</u>
NET POSITION, Beginning of Year	<u>41,590,069</u>	<u>41,590,069</u>	<u>-</u>	<u>(2,446,590)</u>	<u>(2,446,590)</u>	<u>-</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 41,586,880</u>	<u>\$ 40,747,356</u>	<u>\$ 839,524</u>	<u>\$ (4,015,254)</u>	<u>\$ (3,505,055)</u>	<u>\$ (510,199)</u>

Waverly Utilities' budget is based on its projected long-term financial outlook, current economic conditions and plans for construction, operation and maintenance of the utility. A budget committee, consisting of personnel, reviews items submitted for consideration by all staff and makes recommendations as to what projects are presented in the proposed budget. The proposed budget is then presented to the Board of Trustees for approval.

## WAVERLY UTILITIES

### MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

Unaudited

December 31, 2017, 2016 and 2015

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#### WMEU Fund Analysis

##### *Designated Funds*

The Vehicle Replacement Fund had a balance of \$740,200, \$415,200, and \$269,165 respectively for 2017, 2016, and 2015. It is used for the replacement of vehicles and line trucks. It is funded annually based on a vehicle replacement schedule during the budget process.

WMEU set up an Insurance Recovery Fund to cover the costs of deductibles on property, health insurance and the loss of uninsured electrical lines. The current balance of \$1,105,000 is funded annually at \$60,000 a year. The 2016 and 2015 balance was \$1,070,000 and \$1,010,000 respectively.

The Renewable Energy Fund was established to track donations received from the sale of Iowa Energy Tags and the Green Power Choice Energy program. It is designated to supplement renewable energy through purchases. The fund had a balance of \$352,853, \$357,227, and \$361,487, for 2017, 2016, and 2015 respectively.

The Generation and G & A Funds are for funding future replacement of capital items for those departments. The Generation Fund has a balance \$100,000 in 2017, 2016, and 2015. The G & A Fund has a balance of \$145,411 in 2017 and 2016 and \$164,878 in 2015. They are funded annually based on the budget process.

The Key Accounts Fund was used to encourage customer energy efficiency in operations and electrical usage and to support the Waverly Area Development Group's economic development activities. Prior to 2014, it was funded annually based on 2% of revenues to these customers. This fund is no longer funded. The fund had a balance of \$0, \$238,778, and \$268,130 for 2017, 2016, and 2015 respectively. This program ended in 2017 with the remainder of the funds going to the Rate Stabilization Fund.

The Distribution Fund is funded similarly to the Generation and G&A fund. The funds are for funding future capital replacements for the distribution department. The fund had a balance of \$100,000 in 2017 and 2016 and \$50,000 in 2015.

The Rate Stabilization Fund was established in 2010 to set aside funds to mitigate customer price increases due to unforeseen circumstances, volatile wholesale price increases, and/or large construction projects. The fund had a balance of \$690,078, \$2,295,575, and \$4,186,755 for 2017, 2016, and 2015 respectively.

The Specified Project Fund was established in 2010 to set aside funds for future projects and bond proceeds. The fund has a balance of \$1,057,219 in 2017, \$1,232,212 in 2016, and \$2,431,612 in 2015.

## WAVERLY UTILITIES

### MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

Unaudited

December 31, 2017, 2016 and 2015

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#### WMEU Fund Analysis(cont.)

##### *Restricted Funds*

The Sinking, Reserve and Improvement Funds were funded per the requirements of the Clean Renewable Energy Bonds (CREB), 2013, 2015, and 2016 bond issues. The total of these restricted funds are \$1,484,304, \$1,489,519, and \$1,276,700 in 2017, 2016, and 2015, respectively.

#### Capital Assets

WMEU has \$78.1 million of capital assets with a net position value of \$40.2 million. The total includes \$.4 million in land, \$4.2 million in buildings, \$49.9 million in improvements, \$6.7 million in machinery and equipment, \$10.9 million in Louisa Generating Plant, \$5.5 million in Walter Scott Jr. 4 Generating Plant, and \$.7 million in construction work in progress.

WCU has \$6.4 million of capital assets with a net position value of \$5.5 million. The total includes \$1.7 million in leasehold improvements, \$4.7 million in equipment and \$.004 million in construction work in progress.

In 2016, WMEU's capital assets included \$75.6 million of capital assets with a net position value of \$39.6 million. The total includes \$.4 million in land, \$4.2 million in buildings, \$47.6 million in improvements, \$6.4 million in machinery and equipment, \$10.4 million in Louisa Generating Plant, \$5.4 million in Walter Scott Jr. 4 Generating Plant, and \$1.2 million in construction work in progress.

In 2016, WCU's capital assets included \$5.45 million of capital assets with a net position value of \$5.26 million. The total includes \$1.57 million in leasehold improvements, \$2.74 million in equipment and \$1.14 million in construction work in progress.

In 2015, WMEU's capital assets included \$71.2 million of capital assets with a net position value of \$37.5 million. The total includes \$.4 million in land, \$4.2 million in buildings, \$41.2 million in improvements, \$6.5 million in machinery and equipment, \$10.3 million in Louisa Generating Plant, \$5.4 million in Walter Scott Jr. 4 Generating Plant, and \$3.2 million in construction work in progress.

In 2015, WCU's capital assets included \$2.179 million of capital assets with a net position value of \$2.177 million. The total includes \$87 thousand in equipment and \$2.092 million in construction work in progress.

WMEU's capital improvements for 2017 included installation of new distribution lines, services, meters, transformers, Louisa Generating Station improvements, WS4 Generating Station improvements, fiber system, fiber drops, and controls to auto sync engines.

## WAVERLY UTILITIES

### MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

Unaudited

December 31, 2017, 2016 and 2015

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#### **Capital Assets (cont.)**

WMEU's capital improvements for 2016 included installation of new distribution lines, services, meters, transformers, Louisa Generating Station improvements, WS4 Generating Station improvements, fiber system, fiber drops and a new transmission line for the West Substation.

WMEU's capital improvements for 2015 included installation of new distribution lines, services, meters, transformers, Louisa Generating Station improvements, WS4 Generating Station improvements, fiber system, finishing work on the Cat engines and New West Substation, and transmission improvements.

#### **Debt Activity**

WMEU has \$10.9 million of outstanding debt as of December 31, 2017. This includes \$.9 million of 2007 CREB bonds issued to finance two wind turbines, and \$2.5 million for the 2013 bonds outstanding which were issued to fund the reimbursement resolution, 4 Caterpillar generators purchase and installation, and the West Substation construction. Also \$4.8 million of 2015 bonds outstanding were issued for the fiber buildout, aerial truck, backhoe, and reimbursement resolution. In addition, in 2016 \$2.7 million of bonds were issued to fund the reimbursement resolution, fiber optic cable drops, switchgear, aerial truck and a Digger Derrick.

WCU has \$9.1 million of outstanding debt as of December 31, 2017. This includes \$6.3 million of 2016 bonds issued to fund capital setup of the utility and \$2.8 million of a temporary operational advance from WMEU.

At the end of 2016 and 2015 the outstanding debt for WMEU was \$11.8 million and \$9.6 million, respectively.

At the end of 2016 and 2015 the outstanding debt for WCU was \$7.7 million and \$2.5 million, respectively.

WMEU maintains a sinking fund, reserve fund and an improvement fund per bond requirements. The balance in these restricted funds for 2017 is \$1,484,304. Debt service for 2017 included \$863,421 of principal payments and \$275,342 of interest payments. The 2016 restricted fund balance was \$1,489,519 including \$663,421 of principal payments and \$233,854 of interest payments. The 2015 restricted fund balance was \$1,276,700 including \$1,028,421 of principal payments and \$76,988 of interest payments.

#### **Contact Information**

This report is designed to provide our customers, creditors and interested parties with an overview of our financial position. Any questions regarding this report or desiring additional information should be addressed to Waverly Utilities, 1002 Adams Parkway, Waverly, IA 50677 or by phone at 319.559.2000.

Statements of Net Position Follow



**WAVERLY UTILITIES**  
**STATEMENTS OF NET POSITION**  
As of December 31, 2017 and 2016

	<b>ASSETS</b>			
	WMEU		WCU	
	2017	2017	2016	2016
<b>CURRENT ASSETS</b>				
Cash and Investments	\$ 3,127,831	\$ 174,898	\$ 3,339,351	\$ 17,141
Accounts Receivable	3,047,263	190,558	2,276,258	90,990
Interest Receivable	40,133		33,235	
Inventory	1,834,347	53,774	1,889,046	70,667
Prepaid Expenses	125,955	156,936	146,291	58,516
Restricted Assets				
Sinking Fund Accounts				
CREB Bonds	16,251		16,365	
2013 Bonds	36,991		36,506	
2015 Bonds	24,287		22,620	
2016 Bonds	17,400		24,653	
Total Current Assets	<u>8,270,458</u>	<u>576,166</u>	<u>7,784,325</u>	<u>237,314</u>
<b>NON-CURRENT ASSETS</b>				
Restricted Assets				
Reserve Fund Accounts				
CREB Bonds	282,632		282,632	
2013 Bonds	400,000		400,000	
2015 Bonds	268,119		268,119	
2016 Bonds	188,624		188,624	
Improvement Fund	250,000		250,000	
Total Restricted Assets	<u>1,389,375</u>	<u>-</u>	<u>1,389,375</u>	<u>-</u>
Designated Funds				
Vehicle Replacement Fund	740,200		415,200	
Key Accounts	-		238,778	
Renewable Energy Fund	352,853		357,227	
Generation Fund	100,000		100,000	
G & A Fund	145,411		145,411	
Rate Stabilization Fund	690,078		2,295,575	
Specified Projects Fund	1,057,219		1,232,212	
Insurance Recovery Fund	1,105,000		1,070,000	
Distribution Fund	100,000		100,000	
Total Designated Accounts	<u>4,290,761</u>	<u>-</u>	<u>5,954,403</u>	<u>-</u>
Other Assets				
Investment in Quad Cities West	33,351		33,351	
Investment in CAPX	16,209		16,209	
Investment in Grimes Granger	176,620		176,620	
Advance between WMEU and WCU	2,775,595		2,099,819	
Energy Rebates (Net of Amortization)	619,768		602,653	
Receivable for Wartburg Green Power	1,000,000		1,100,000	
Total Other Assets	<u>4,621,543</u>	<u>-</u>	<u>4,028,652</u>	<u>-</u>
Capital Assets				
Land	351,624		351,624	
Buildings	4,233,966		4,205,586	
Improvements	49,861,568	1,748,457	47,608,077	1,566,044
Machinery and Equipment	6,665,372	4,666,481	6,443,048	2,739,935
Louisa & Walter Scott 4 Plants	16,353,055		15,786,230	
Construction Work in Progress	656,469	3,853	1,233,936	1,145,016
Total Capital Assets	<u>78,122,054</u>	<u>6,418,791</u>	<u>75,628,501</u>	<u>5,450,996</u>
Accumulated Depreciation	<u>(37,873,636)</u>	<u>(943,708)</u>	<u>(35,659,589)</u>	<u>(187,850)</u>
Net Capital Assets	<u>40,248,418</u>	<u>5,475,083</u>	<u>39,968,912</u>	<u>5,263,146</u>
Total Non-Current Assets	<u>50,550,097</u>	<u>5,475,083</u>	<u>51,341,342</u>	<u>5,263,146</u>
<b>TOTAL ASSETS</b>	<u>\$ 58,820,555</u>	<u>\$ 6,051,249</u>	<u>\$ 59,125,667</u>	<u>\$ 5,500,460</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred Outflows for Wellness Center	600,000		720,000	
Deferred Outflows for Pension Plan	713,596	174,854	893,630	82,446
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>1,313,596</u>	<u>174,854</u>	<u>1,613,630</u>	<u>82,446</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 60,134,151</u>	<u>\$ 6,226,103</u>	<u>\$ 60,739,297</u>	<u>\$ 5,582,906</u>

**WAVERLY UTILITIES**  
**STATEMENTS OF NET POSITION**  
As of December 31, 2017 and 2016

	<i>LIABILITIES</i>			
	WMEU 2017	WCU 2017	WMEU 2016	WCU 2016
<b>CURRENT LIABILITIES</b>				
Accounts Payable	\$ 1,271,110	\$ 96,186	\$ 1,032,549	\$ 124,265
Accrued Property Taxes	147,839	-	155,800	-
Unearned Revenue - Customer Billings	-	104,034	-	60,595
Other Accrued Expenses	711,403	92,330	717,987	64,811
Accrued Interest	-	23,582	-	20,253
Current Liabilities Payable From Restricted Assets				
Current Portion of Revenue Bonds	883,421	333,624	863,421	-
Accrued Interest on Revenue Bonds	21,310	-	28,439	-
Total Current Liabilities	<u>3,035,083</u>	<u>649,756</u>	<u>2,798,196</u>	<u>269,924</u>
<b>NON-CURRENT LIABILITIES</b>				
Revenue Bonds	10,013,684	6,338,859	10,897,105	5,586,571
Advance between WMEU and WCU	-	2,775,595	-	2,099,819
Bond Premium	87,453	-	94,543	-
Net Pension Liability	1,861,004	456,007	1,929,506	66,365
Other Long-Term Accounts Payable	371,014	7,973	275,892	4,391
Wellness Center Payable	600,000	-	720,000	-
Total Non-Current Liabilities	<u>12,933,155</u>	<u>9,578,434</u>	<u>13,917,046</u>	<u>7,757,147</u>
<b>TOTAL LIABILITIES</b>	<u>15,968,238</u>	<u>10,228,190</u>	<u>16,715,242</u>	<u>8,027,071</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred Inflows for Rate Stabilization	1,525,294	-	1,025,294	-
Deferred Inflows for Pension Plan	53,739	13,168	308,692	2,425
Deferred Inflows for Wartburg Green Power	1,000,000	-	1,100,000	-
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>2,579,033</u>	<u>13,168</u>	<u>2,433,986</u>	<u>2,425</u>
<b>NET POSITION</b>				
Net Investment in Capital Assets	30,403,235	(1,197,400)	29,253,218	(323,425)
Restricted for Debt Service and Improvements	323,619	-	321,705	-
Unrestricted	10,860,026	(2,817,855)	12,015,146	(2,123,165)
Total Net Position	<u>41,586,880</u>	<u>(4,015,255)</u>	<u>41,590,069</u>	<u>(2,446,590)</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 60,134,151</u>	<u>\$ 6,226,103</u>	<u>\$ 60,739,297</u>	<u>\$ 5,582,906</u>

## WAVERLY UTILITIES

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years ended December 31, 2017 and 2016

	WMEU 2017	WCU 2017	WMEU 2016	WCU 2016
<b>OPERATING REVENUES</b>				
Sales to customers	\$ 15,594,406	\$ 2,141,810	\$ 14,978,159	\$ 339,401
Rate stabilization	(500,000)	-	(800,000)	-
Miscellaneous	3,970,478	30,669	4,323,918	-
Total Operating Revenues	19,064,884	2,172,479	18,502,077	339,401
<b>OPERATING EXPENSES</b>				
Production	13,116,063		12,705,812	
Transmission	155,498		207,337	
Distribution	1,546,121		1,678,864	
Customer accounts	237,018		213,784	
Administrative and general	666,999		766,436	
Customer information	109,523		70,861	
Community development	105,392		110,168	
Conservation	124,969		169,612	
Water heater	(1,703)		2,062	
WCU Operating Expenses	-	2,869,361	-	1,876,704
Depreciation	2,030,899	738,503	2,007,314	173,363
Total Operating Expenses	18,090,779	3,607,864	17,932,250	2,050,067
Operating Income (Loss)	974,105	(1,435,385)	569,827	(1,710,666)
<b>NONOPERATING REVENUE (EXPENSES)</b>				
Gain (Loss) on sale of plant	17,770	(1,945)	(5,151)	
Investment income	200,780		132,418	
Interest expense	(268,229)	(131,335)	(229,866)	(46,620)
Bond Issue Costs and Amortization of Premium	7,090		(72,114)	
Amortization of energy rebates	(72,279)		(67,321)	
Total Nonoperating Revenue (Expenses)	(114,868)	(133,280)	(242,034)	(46,620)
<b>INCOME BEFORE TRANSFERS AND CONTRIBUTIONS</b>	859,237	(1,568,665)	327,793	(1,757,286)
Contributions	(562)		(1,749)	
Transfer to City of Waverly General Fund	(861,864)	-	(855,924)	-
<b>CHANGE IN NET POSITION</b>	(3,189)	(1,568,665)	(529,880)	(1,757,286)
NET POSITION - Beginning of Year	41,590,069	(2,446,590)	42,119,949	(689,304)
<b>NET POSITION - END OF YEAR</b>	\$ 41,586,880	\$ (4,015,255)	\$ 41,590,069	\$ (2,446,590)

See accompanying notes to financial statements.

Statements of Cash Flows Follow

**WAVERLY UTILITIES**

STATEMENTS OF CASH FLOWS

For the Years ended December 31, 2017 and 2016

	WMEU 2017	WCU 2017	WMEU 2016	WCU 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Received from sales to customers	\$ 14,323,401	\$2,042,242	\$ 14,806,155	\$248,411
Received from Municipal Energy Agency of Nebraska	3,969,916	30,669	4,322,169	
Paid to suppliers for purchased power and transmission	(10,714,500)		(10,592,545)	
Paid to suppliers and employees for other services	(4,464,169)	(2,575,392)	(5,338,659)	(2,141,869)
Net Cash Flows From (Used By) Operating Activities	<u>3,114,648</u>	<u>(502,481)</u>	<u>3,197,120</u>	<u>(1,893,458)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Payment to City of Waverly for credit to Waverly Wellness Center	(120,000)		(120,000)	
Advance between WMEU and WCU	(675,776)	675,776	(1,591,499)	1,591,499
Transfers to City of Waverly	(741,864)		(735,924)	
Net Cash Flows From (Used By) Noncapital Financing Activities	<u>(1,537,640)</u>	<u>675,776</u>	<u>(2,447,423)</u>	<u>1,591,499</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchase of plant and equipment	(2,617,269)	(973,442)	(5,375,319)	(3,259,200)
Debt issue costs	7,090		(72,114)	
Principal received from bonds	-	1,085,912	2,860,000	3,590,797
Bond Premium	(7,090)		55,894	
Principal payments on revenue bonds	(863,421)		(663,421)	
Interest paid	(275,358)	(128,008)	(233,854)	(31,945)
Net Cash Flows From (Used By) Capital and Related Financing Activities	<u>(3,756,048)</u>	<u>(15,538)</u>	<u>(3,428,814)</u>	<u>299,652</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of marketable securities	1,000,000		(1,000,000)	
Purchase of energy rebates	97,882		(101,712)	
Investment income	200,780		132,418	
Net Cash Flows From (Used By) Investing Activities	<u>1,298,662</u>	<u>-</u>	<u>(969,294)</u>	<u>-</u>
<b>Net Change in Cash and Cash Equivalents</b>	<u>(880,378)</u>	<u>157,757</u>	<u>(3,648,411)</u>	<u>(2,307)</u>
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>5,783,274</u>	<u>17,141</u>	<u>9,431,685</u>	<u>19,448</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 4,902,896</u>	<u>\$ 174,898</u>	<u>\$ 5,783,274</u>	<u>\$ 17,141</u>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>				
Amortization of energy rebates	\$ 72,279	\$ -	\$ 67,321	\$ -
Gain (loss) on sale of plant	\$ 17,770	\$ (1,945)	\$ (5,151)	\$ -

	WMEU 2017	WCU 2017	WMEU 2016	WCU 2016
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES</b>				
Operating Income (Loss)	\$ 786,829	(\$1,435,385)	\$ 569,827	(\$1,710,666)
Non-Operating Income (Expense)	(562)		(1,749)	
Non-cash Items Included in Operating Income				
Depreciation	2,030,899	738,503	2,007,314	173,363
Depreciation Cleared	324,634	21,060	211,471	12,494
Changes in Assets and Liabilities				
Accounts Receivable	(771,005)	(99,568)	(172,004)	(90,990)
Interest Receivable	(6,899)		(28,641)	
Inventory	54,699	16,893	(189,396)	(70,667)
Prepaid Expenses	20,338	(98,420)	46,726	(18,501)
Accounts Payable	238,560	(28,079)	83,118	(283,853)
Accrued Property Taxes	(7,961)		(4,397)	
Deferred Outflows for Pension Plan	180,034	(92,408)	(512,259)	(76,556)
Net Pension Liability	(68,502)	389,642	635,401	65,139
Deferred Inflows for Pension Plan	(254,953)	10,742	(50,915)	2,425
Unearned Service Revenue		43,439		60,595
Deferred Inflows for Rate Stabilization	500,000		800,000	
Other Accrued Expenses	88,537	31,100	(197,373)	43,759
<b>NET CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES</b>	<b>\$ 3,114,648</b>	<b>\$ (502,481)</b>	<b>\$ 3,197,120</b>	<b>\$ (1,893,458)</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEET ACCOUNTS</b>				
Cash and Investments	\$ 3,127,831	\$ 174,898	\$ 3,339,351	\$ 17,141
Restricted Assets				
Sinking Fund Accounts				
CREB Bonds	16,251		16,365	
2013 Bonds	36,991		36,506	
2015 Bonds	24,287		22,620	
2016 Bonds	17,400		24,653	
Reserve Fund Accounts				
CREB Bonds	282,632		282,632	
2013 Bonds	400,000		400,000	
2015 Bonds	268,119		268,119	
2016 Bonds	188,624		188,624	
Improvement Fund	250,000		250,000	
Total Cash and Restricted Assets	4,612,135	174,898	4,828,870	17,141
Designated Accounts				
Vehicle Replacement Fund	740,200		415,200	
Key Accounts Fund	-		238,778	
Renewable Energy Fund	352,853		357,227	
Generation Fund	100,000		100,000	
G & A Fund	145,411		145,411	
Rate Stabilization Fund	690,078		2,295,575	
Specified Project Fund	1,057,219		1,232,212	
Insurance Recovery Fund	1,105,000		1,070,000	
Distribution Fund	100,000		100,000	
Total Designated Accounts	4,290,761	-	5,954,404	-
Less: Non-cash Equivalents (Note 2)	(4,000,000)	-	(5,000,000)	-
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>\$ 4,902,896</b>	<b>\$ 174,898</b>	<b>\$ 5,783,274</b>	<b>\$ 17,141</b>

## WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 and 2016

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### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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The financial statements of Waverly Utilities (Waverly Municipal Electric Utility (WMEU) and Waverly Communications Utility (WCU)) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to the component unit of government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the utilities are described below.

#### ***REPORTING ENTITY***

WMEU is a separate and distinct city utility and is chartered under Iowa Code Section 388. The utility is a component unit of the City of Waverly. The utility was placed under operational control of a five-member Board of Trustees (Board) by a municipal ordinance dated October 3, 1977. The utility's governing body is appointed by the Mayor and approved by the City Council. The utility is responsible for providing electric power to the residents and businesses within the municipality and certain rural areas. The utility owns 50,306 kilowatts of generating capacity.

On July 2, 2013, the Waverly Municipal Electric Utility Board passed Resolution#01-13, establishing the Waverly Communications Feasibility and Support Delivery Model Task Force and Waverly Communications Utility (WCU). WCU is a separate and distinct entity that will provide communications services to its customers. WCU is considered a component unit of the City under the guidelines established by Governmental Accounting Standards Board. WCU has a governing body appointed by the Mayor and approved by the City Council which has the same members as WMEU. WCU began providing communications services to its customers July 1, 2016.

#### ***MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION***

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

## WAVERLY UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

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#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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##### *MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (cont.)*

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### *ASSETS, DEFERRED OUTFLOWS, LIABILITIES, DEFERRED INFLOWS AND NET POSITION*

###### *Deposits and Investments*

The utilities have an adopted investment policy which was last approved in 2017. The investment policy states the delegation of authority, instruments eligible for investing, prohibited investments and practices, maturity limitations, diversification, and safekeeping.

The utilities are authorized by Board policy and State statute to invest in interest bearing savings, money-market, checking accounts, obligations of the United States government or its agencies, certificates of deposit, joint investment trusts per Chapter 28E as amended by the Code of Iowa, and repurchase agreements.

For purposes of the statement of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year-end.

###### *Receivables/Payables*

The WMEU receivable balances are amounts due from electric utility customers, primarily less than 30 days outstanding, and consist of approximately 36% from residential users in and around the municipality and approximately 64% from commercial and industrial users in the municipality.

Accounts receivable balances at December 31, 2017 and 2016 are considered fully collectible and expected within one year. Any accounts not collectible are expensed to current year operations in the year their status is determined. A reserve for bad debt is not considered material.

WMEU accounts receivable balances at December 31, 2017 and 2016 include: unbilled revenues totaling \$891,376 and \$688,880, customer accounts receivable totaling \$1,252,110 and \$1,143,078, energy cost adjustment (ECA) totaling \$259,285 and (\$65,703), other accounts receivable totaling \$644,492 and \$510,004, and accrued interest receivable totaling \$40,133 and \$33,234, respectively. The ECA was reinstated in 2016 by resolution #43-15 *Adopt Rate Schedule*, and is calculated monthly to reflect the unanticipated changes in total generation and transmission costs. WCU had receivable balances on December 31, 2017 and 2016 of \$190,558 and \$90,990 respectively.



## WAVERLY UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

#### *ASSETS, DEFERRED OUTFLOWS, LIABILITIES, DEFERRED INFLOWS AND NET POSITION (cont.)*

##### *Inventory*

Inventories are generally used for construction, operation and maintenance work, not for resale. Supply inventories are valued at average cost and charged to construction or expense when used. Coal and fuel inventories are valued on a first in – first out basis.

The balance of WMEU and WCU inventory is made up as follows:

	WMEU December 31		WCU December 31	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Local Inventories				
Warehouse Materials	\$ 953,797	\$ 880,111	\$ 53,774	\$ 70,667
Water heaters	4,131	3,420		
Operating plant fuel	78,315	82,752		
Louisa Inventories				
Coal	615,045	725,219		
Oil	3,220	3,238		
Materials	53,638	55,973		
WS4 Inventories				
Coal	91,847	105,453		
Oil	5,766	3,802		
Materials	28,587	29,078		
Totals	\$ 1,834,347	\$ 1,889,046	\$ 53,774	\$ 70,667

##### *Deferred Outflow of Resources*

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that future time.

##### *Restricted Assets*

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified.

## WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 and 2016

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### *ASSETS, DEFERRED OUTFLOWS, LIABILITIES, DEFERRED INFLOWS AND NET POSITION (cont.)*

##### *Other Assets*

The balances consist of investments in other facilities considered non-utility property and energy rebates to customers (net of amortization) whose use of these rebates to purchase efficient appliances will benefit the utility's customers in future periods through reduced energy consumption. These results are amortized over the life of the related appliance.

##### *Capital Assets*

Capital assets are generally defined by the utility as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of one year, except for new electric services, transformers, meters, and customer communication equipment which are capitalized.

Capital assets of the utility are recorded at cost, except for distribution plant facilities constructed prior to January 1, 1964, which are stated at appraisal valuations. Additions to the distribution plant subsequent to that date are stated at cost or fair market value at the time of contribution to the utility. Major renewals and betterments are capitalized at cost. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed, net of interest earnings on tax-exempt debt proceeds. In 2017 and 2016 \$260,125 and \$182,531 of WCU interest was capitalized, respectively. Maintenance and repairs are expensed as incurred.

WMEU's depreciation expense for the years ended December 31, 2017 and 2016, was \$2,355,533 and \$2,218,785, respectively; of that, \$2,030,899 and \$2,007,314 was expensed and \$324,634 and \$211,471 was capitalized in 2017 and 2016. WCU depreciation expense for the years ended December 31, 2017 and 2016, was \$759,563 and \$185,857, respectively; of that, \$738,503 and \$173,363 was expensed and \$21,060 and \$12,494 was capitalized in 2017 and 2016.

Capital assets in service are depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Buildings	40 – 50
Improvements	20 – 33
Machinery/equipment	3 – 15
Louisa plant	25 – 50
Communications equipment	5 – 10

## WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 and 2016

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### *ASSETS, DEFERRED OUTFLOWS, LIABILITIES, DEFERRED INFLOWS AND NET POSITION (cont.)*

##### *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. See Note 9 for additional information.

##### *Other Accrued Expenses*

These balances consist of accrued payroll, accrued OPEB, and Renewable Energy Payable – a fund used for donations for the Green Power Choice Energy Program.

##### *Employee Benefits*

###### *Sick Leave*

Employees accumulate sick leave hours for subsequent use, but these hours are not payable upon termination, retirement or death. The accumulations are not recognized by the utility until paid.

###### *Vacation Leave*

Vacation leave is vested as earned and is included in other accrued expenses.

###### *Longevity Pay*

Employees accumulate longevity pay, receivable upon retirement from the utility at the rate of two days per year of service. The liability for this anticipated obligation is included in other accrued expenses at present value amounts.

###### *Retiree Health Insurance*

Employees may receive this benefit after they retire until they reach the age of 65 if certain conditions are met. The liability for this anticipated obligation is included in other long-term accounts payable. The cost per employee is capped at \$500 per month.

###### *Cafeteria Plan*

The utilities have established a cafeteria plan for the benefit of its employees that qualifies under Section 125 of the Internal Revenue Code. The plan is administered by an outside agency and is funded by the participating employees.

## WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 and 2016

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### *LONG-TERM OBLIGATIONS*

Long-term debt and other obligations are reported as liabilities.

#### *DEFERRED INFLOWS OF RESOURCES*

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

#### *Deferred Inflows for Rate Stabilization*

In December 2014, the Board approved adoption of GASB 62, Regulated Operations, which requires that the effects of the rate-making process be recorded in the financial statements. Accordingly, certain revenues and credits, normally reflected in Change in Net Position as incurred, are recognized when included in rates and recovered from or refunded to customers. WMEU's regulatory credit relating to rate stabilization is intended to defer the need for future rate increases when costs exceed existing rates. At the direction of the Board, amounts may be either transferred into this fund (which reduces revenues), or amounts are transferred out of this fund (which increases revenues). The Board authorizes Rate Stabilization Fund (RSF) on an event driven basis. Earnings in excess to ratio coverages will be deferred to offset higher costs in the future. For WMEU in 2015, \$411,706 was transferred from RSF to Revenue. In 2016, \$800,000 was transferred from revenue to the RSF. In 2017, \$500,000 was transferred from revenue which will be used in 2018-2020 giving the fund a balance of \$1,525,294 as of December 31, 2017.

#### *REVENUES AND EXPENSES*

The utilities distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services, producing and delivering goods in connection with a utility's principal operations. The principal operating revenues of the utility are charges to customers for electric sales and services. Operating expenses include the cost of production, transmission, distribution, sales, services, community development, customer information, general and administrative services and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### *Charges and Services*

WMEU billings are rendered and recorded monthly based on metered usage. Revenues are recorded when energy is provided. The utility accrues revenues for usage by customers beyond billing dates.

Current electric rates were approved in October 2016 and placed into effect in January 2017.

## WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 and 2016

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### *REVENUES AND EXPENSES* (cont.)

##### *Charges and Services* (cont.)

WCU billings are rendered and recorded monthly based upon requested services. These services are pro-rated by number of days, depending on start and stop date. Services are billed one-month in advance and recorded as unearned revenue.

##### *Miscellaneous*

The significant majority of miscellaneous revenue is revenue received under the supplemental agreement regarding participant owned capacity with Municipal Energy Agency of Nebraska (MEAN) as a member of the joint action agency.

##### *Taxes*

WMEU records annual replacement taxes based on the delivery of energy to end-use consumers, generation and the miles of transmission lines owned by the Utility. Municipal utilities are exempt from federal and state income taxes.

##### *Capital Contributions*

Cash and capital assets are contributed to the utility from customers, the municipality or external parties. The value of property contributed to the utility is reported as revenue on the statements of revenues, expenses and changes in net position.

#### *EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS*

GASB has approved Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions; Statement No. 82, Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73; Statement No. 83, Certain Asset Retirement Obligations; Statement No. 84, Fiduciary Activities, Statement No. 85, Omnibus 2017; Statement No. 86, Certain Debt Extinguishment Issues; Statement No. 87, Leases; Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. When they become effective, application of these standards may restate portions of these financial statements.

#### *COMPARATIVE DATA*

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

## WAVERLY UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

#### **NOTE 2 – DEPOSITS AND INVESTMENTS**

The utilities' deposits in banks at December 31, 2017 and 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to insure there will be no loss of public funds.

The carrying values of the utilities' deposits and investments as of December 31, 2017 and 2016 were comprised of the following:

	WMEU 2017	WCU 2017	WMEU 2016	WCU 2016	Risks
Checking	\$546,141	\$174,518	\$1,148,446	\$16,761	Custodial credit risk
Petty cash	1,000	380	1,300	380	Custodial credit risk
Saving	4,355,755		4,633,527		Custodial credit risk
Certificates of deposit	4,000,000		5,000,000		Custodial credit risk
<b>Total Deposits and Investments</b>	<b>\$8,902,896</b>	<b>\$174,898</b>	<b>\$10,783,273</b>	<b>\$17,141</b>	

#### Reconciliation to Financial Statements

	WMEU 2017	WCU 2017	WMEU 2016	WCU 2016
Unrestricted cash and investments	\$3,127,831	\$174,898	\$3,339,351	\$17,141
Restricted cash and investments	1,484,304		1,489,519	
Designated cash and investments	4,290,761		5,954,403	
<b>Total Deposits and Investments</b>	<b>\$8,902,896</b>	<b>\$174,898</b>	<b>\$10,783,273</b>	<b>\$17,141</b>

Investment income on commingled investments of the utilities is allocated based on average investment balances. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit.

#### ***Custodial Credit Risk - Deposits***

Custodial credit risk is the risk that in the event of a financial institution failure, the utilities' deposits may not be returned to the utilities. The utilities do not have any deposits exposed to custodial credit risk. Through the State of Iowa, deposits are fully collateralized.

## WAVERLY UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

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#### NOTE 3 – RESTRICTED ASSETS

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##### *Revenue Bond Accounts*

Certain proceeds of WMEU's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statements of Net Position because their use is limited by applicable bond covenants. The following revenue bond accounts are reported as restricted assets:

- Sinking – Used to segregate resources accumulated for debt service payments over the next twelve months.
- Reserve – Used to report resources set aside to make up potential future deficiencies in the sinking account.
- Improvement – Used to report resources set aside to make up potential future deficiencies in the sinking account or extraordinary operating needs of the utility.

The following calculation supports the amount of WMEU restricted Net Position:

	2017	2016
Restricted Assets		
Sinking funds	\$94,929	\$100,144
Reserve fund	1,139,375	1,139,375
Improvement fund	250,000	250,000
Total Restricted Assets	<u>1,484,304</u>	<u>1,489,519</u>
Less: Restricted Assets Not Funded by Revenues		
Reserve fund	<u>(1,139,375)</u>	<u>(1,139,375)</u>
Total Restricted Assets Not Funded by Revenues	<u>(1,139,375)</u>	<u>(1,139,375)</u>
Current Liabilities Payable From Restricted Assets	<u>(21,310)</u>	<u>(28,439)</u>
Total Restricted Net Position as Calculated	<u><u>\$323,619</u></u>	<u><u>\$321,705</u></u>

Generally accepted accounting principles do not allow negative restricted Net Position. Therefore, no restricted Net Position is reported if the calculation above results in a negative number.

## WAVERLY UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

#### **NOTE 4 – INTERFUND TRANSFERS/ADVANCES**

WMEU has a policy providing for transfers to the City of Waverly. Under that policy, the following amounts were transferred for the years ending December 31, 2017 and 2016.

To	From	2017		2016	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	WMEU	\$ 741,864	Fund Transfer	\$ 735,924	Fund Transfer
Municipality	WMEU	120,000	W/W Wellness	120,000	W/W Wellness

Since the creation of a separate entity in 2013, Waverly Communications Utility (WCU) dba Waverly Utilities, there are advances from WMEU to WCU for working capital during its initial startup period and is reflected as an other asset. This temporary advance agreement was approved by Waverly Utilities Board of Trustees and the City of Waverly City Council in August of 2014. This agreement is to fund working capital of WCU for the initial startup period with an interest rate of 4.38% per annum until paid in full. Principal is due December 1, 2025 unless paid sooner. The following is a schedule of interfund advances for the years ending December 31, 2017 and 2016:

Due To	Due From	2017		2016	
		Amount	Principal Purpose	Amount	Principal Purpose
WMEU	WCU	\$ 2,775,595	Temp Fund Transfer	\$ 2,099,819	Temp Fund Transfer



## WAVERLY UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

#### **NOTE 5 – CHANGES IN CAPITAL ASSETS**

A summary of changes in WMEU capital assets for 2017 follows:

	Balance 01/01/17	Additions	Deletions	Balance 12/31/2017
Capital assets:				
Land <sup>(1)</sup>	\$ 351,624	\$ -	\$ -	\$ 351,624
Buildings	4,205,586	28,380	-	4,233,966
Improvements	47,608,077	2,376,048	(122,557)	49,861,568
Equipment	6,443,048	259,396	(37,072)	6,665,372
Louisa plant	10,382,253	511,329	(3,280)	10,890,302
WS4 plant	5,403,977	66,309	(7,533)	5,462,753
Construction in progress <sup>(1)</sup>	1,233,936	580,175	(1,157,642)	656,469
Less: Accumulated depreciation	(35,659,589)	(2,355,533)	141,486	(37,873,636)
Net Capital Assets	\$ 39,968,912	\$ 1,466,104	\$ (1,186,597)	\$ 40,248,418

<sup>(1)</sup> – Capital assets not being depreciated.

A summary of changes in WCU capital assets for 2017 follows:

	Balance 01/01/17	Additions	Deletions	Balance 12/31/2017
Capital assets:				
Buildings	\$ 1,075,589	\$ 150,765		\$ 1,226,354
Improvements	490,455	31,648	-	522,103
Equipment	2,739,935	1,929,518	(2,971)	4,666,482
Construction in progress <sup>(1)</sup>	1,145,016		(1,141,163)	3,853
Less: Accumulated depreciation	(187,850)	(759,562)	3,704	(943,708)
Net Capital Assets	\$ 5,263,145	\$ 1,352,368	\$ (1,140,430)	\$ 5,475,083

<sup>(1)</sup> – Capital assets not being depreciated.

## WAVERLY UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

#### **NOTE 5 – CHANGES IN CAPITAL ASSETS (cont.)**

A summary of changes in WMEU capital assets for 2016 follows:

	Balance 01/01/16	Additions	Deletions	Balance 12/31/2016
Capital assets:				
Land <sup>(1)</sup>	\$ 351,624	\$ -	\$ -	\$ 351,624
Buildings	4,184,003	31,319	(9,736)	4,205,586
Improvements	41,229,218	6,420,428	(41,569)	47,608,077
Equipment	6,554,817	86,410	(198,179)	6,443,048
Louisa plant	10,263,490	126,410	(7,647)	10,382,253
WS4 plant	5,399,911	17,440	(13,374)	5,403,977
Construction in progress <sup>(1)</sup>	3,184,848	-	(1,950,912)	1,233,936
Less: Accumulated depreciation	(33,695,152)	(2,218,785)	254,348	(35,659,589)
 Net Capital Assets	 \$ 37,472,759	 \$ 4,463,222	 \$ (1,967,069)	 \$ 39,968,912

<sup>(1)</sup> – Capital assets not being depreciated.

A summary of changes in WCU capital assets for 2016 follows:

	Balance 01/01/16	Additions	Deletions	Balance 12/31/2016
Capital assets:				
Buildings	\$ -	\$ 1,075,589		1,075,589
Improvements	-	490,455	-	490,455
Equipment	86,636	2,653,299	-	2,739,935
Construction in progress <sup>(1)</sup>	2,092,000		(946,984)	1,145,016
Less: Accumulated depreciation	(1,993)	(185,857)	-	(187,850)
 Net Capital Assets	 \$ 2,176,643	 \$ 4,033,487	 \$ (946,984)	 \$ 5,263,146

<sup>(1)</sup> – Capital assets not being depreciated.

## WAVERLY UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

#### NOTE 6 – LONG-TERM OBLIGATIONS

##### *REVENUE BONDS*

The following revenue bonds have been issued:

Date	Purpose	Call Date	Final Maturity	Interest Rates	Original Issue	Outstanding Amount
<b>WMEU</b>						
12/4/2007	Finance two wind turbines	12/1/2022	12/1/2022	0.70%	\$ 2,826,316	\$ 942,105
12/3/2013	Finance Exp Reimb Resolution, West Sub, 4 Generators	12/1/2021	12/1/2023	0.4-2.75%	4,000,000	2,510,000
10/27/2015	Finance Fiber Buildout, Backhoe, Aerial Truck, Reimburse	12/1/2023	12/1/2030	2.0-4.0%	4,980,000	4,755,000
10/25/2016	Fiber drops, Meters, transformers, switchgear, phone system aerial truck, digger derrick & vehicles, Louisa & WS4 facilities	12/1/2024	12/1/2029	2%	2,860,000	2,690,000
<b>WCU</b>						
2/26/2015	Communications Utility Setup Capital Expenditures	12/1/2029	12/1/2029	4.3-9.0%	7,000,000 up to:	6,672,483

The WMEU 2007 CREB revenue bond debt service requirements to maturity follows:

	Principal	Interest	Total
2018	188,421	6,595	195,016
2019	188,421	5,276	193,697
2020	188,421	3,957	192,378
2021	188,421	2,638	191,059
2022	188,421	1,319	189,740
	<u>188,421</u>	<u>1,319</u>	<u>189,740</u>
Totals	<u>\$ 942,105</u>	<u>\$ 19,785</u>	<u>\$ 961,890</u>

## WAVERLY UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

#### NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

##### *REVENUE BONDS* (cont.)

The WMEU 2013 revenue bond debt service requirements to maturity follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	390,000	53,888	443,888
2019	400,000	48,038	448,038
2020	410,000	41,038	451,038
2021	420,000	32,838	452,838
2022	435,000	23,388	458,388
2023	455,000	12,513	467,513
Totals	<u>\$ 2,510,000</u>	<u>\$ 211,703</u>	<u>\$ 2,721,703</u>

The WMEU 2015 revenue bond debt service requirements to maturity follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	150,000	141,441	291,441
2019	175,000	136,941	311,941
2020	180,000	129,941	309,941
2021	185,000	124,541	309,541
2022	185,000	120,841	305,841
2023-2027	2,215,000	476,713	2,691,713
2028-2030	1,665,000	108,723	1,773,723
Totals	<u>\$ 4,755,000</u>	<u>\$ 1,239,141</u>	<u>\$ 5,994,141</u>

The WMEU 2016 revenue bond debt service requirements to maturity follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	155,000	53,800	208,800
2019	135,000	50,700	185,700
2020	135,000	48,000	183,000
2021	135,000	45,300	180,300
2022	140,000	42,600	182,600
2023-2027	1,395,000	145,400	1,540,400
2028-2029	595,000	17,900	612,900
Totals	<u>\$ 2,690,000</u>	<u>\$ 403,700</u>	<u>\$ 3,093,700</u>

## WAVERLY UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

#### NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

##### *REVENUE BONDS* (cont.)

The WCU 2015 revenue bond debt service requirements to maturity follows:

<u>Year</u>	<u>Principal*</u>	<u>Interest*</u>	<u>Total*</u>
2018	333,634	286,917 *	620,551
2019	462,307	272,571 *	734,878
2020	481,371	252,691 *	734,062
2021	505,201	231,992	737,193
2022	524,266	210,269	734,535
2023-2029	<u>4,365,704</u>	<u>1,412,660</u>	<u>5,778,364</u>
Totals	<u>\$ 6,672,483</u>	<u>\$ 2,667,099</u>	<u>\$ 9,339,582</u>

\* Given interest rate stays at 4.3%

According to WCU 2015 bonds, advances were made for project costs, costs of issuance, and capitalized interest between February 26, 2015 through December 1, 2017. The outstanding principal shall bear interest at the initial rate of 4.3% per annum. On March 1, 2020 and March 1, 2025 this rate will be adjusted to equal the FHLB Rate plus 2.9% with a floor of 4.3% and a ceiling of 9%.

All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. WMEU principal and interest paid for 2017 and 2016 were \$1,138,779 and \$897,275 respectively. Total customer gross revenues as defined for the same periods were \$19,064,884 and \$18,502,077. Annual principal and interest payments are expected to require 5.5% of gross revenues on average. WCU interest capitalized for 2017 was \$260,125 and for 2016 was \$182,531.

## WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 and 2016

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### NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

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#### *WELLNESS CENTER PAYABLE / DEFERRED OUTFLOWS FOR WELLNESS CENTER*

##### *Wartburg-Waverly Sports and Wellness Center*

In December 2006, the Board approved funding of \$120,000 per year for the next 15 years, to the City of Waverly for further credit to the Wartburg-Waverly Sports and Wellness Center. The outstanding amount of the Board approved funding at December 31, 2017 and 2016 were \$600,000 and \$720,000, respectively. This amount has been classified in the Statement of Net Position as both a non-current liability and deferred outflow of resources.

Payable obligations to maturity follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	120,000	-	120,000
2019	120,000	-	120,000
2020	120,000	-	120,000
2021	120,000	-	120,000
2022	120,000	-	120,000
Totals	<u>\$ 600,000</u>	<u>\$ -</u>	<u>\$ 600,000</u>

#### *RECEIVABLE FOR WARTBURG GREEN POWER / DEFERRED INFLOWS FOR WARTBURG GREEN POWER*

This amount relates to payments received by WMEU on behalf of Wartburg. Upon receipt, the amount is remitted directly to the Green Power Choice Energy Program. As such, a deferred inflow and other asset in the amount of \$1,000,000 and \$1,100,000, respectively has been reflected in the Statement of Net Position for 2017 and 2016.

## WAVERLY UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

#### NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

#### *Non-Current Liabilities*

Long-term Obligations for WMEU for 2017 are as follows:

Debt Issue	Balance 12/31/2016	Additions	Reductions	Balance 12/31/2017	Current Portion
2007 CREB Revenue bonds	\$ 1,130,526	\$ -	\$ 188,421	\$ 942,105	\$ 188,421
2013 Revenue Bonds	2,890,000		380,000	2,510,000	390,000
2015 Revenue Bonds	4,880,000		125,000	4,755,000	150,000
2016 Revenue Bonds	2,860,000		170,000	2,690,000	155,000
Bond Premium	94,543		7,090	87,453	
Net Pension Liability	1,929,506		68,502	1,861,004	
Other Long Term					
Other Post Employment Obligation	275,892	95,122	-	371,014	-
Totals	<u>\$ 14,060,467</u>	<u>\$ 95,122</u>	<u>\$ 939,013</u>	<u>\$ 13,216,576</u>	<u>\$ 883,421</u>

Long-term Obligations for WCU for 2017 are as follows:

Debt Issue	Balance 12/31/2016	Additions	Reductions	Balance 12/31/2017	Current Portion
2015 Revenue Bonds	\$ 5,586,571	\$ 1,085,912	-	\$ 6,672,483	\$ 333,624
WCU Temporary Transfer	2,099,819	675,776		2,775,595	
Net Pension Liability	66,365	389,642		456,007	
Other Long Term Accts Payable	4,391	3,582		7,973	
Totals	<u>\$ 7,757,146</u>	<u>\$ 2,154,912</u>	<u>\$ -</u>	<u>\$ 9,912,058</u>	<u>\$ 333,624</u>

## WAVERLY UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

#### **NOTE 6 – LONG-TERM OBLIGATIONS (cont.)**

Long-term Obligations for WMEU for 2016 are as follows:

Debt Issue	Balance 12/31/2015	Additions	Reductions	Balance 12/31/2016	Current Portion
CREB Revenue bonds	\$ 1,318,947	\$ -	\$ 188,421	\$ 1,130,526	\$ 188,421
2013 Revenue Bonds	3,265,000		375,000	2,890,000	380,000
2015 Revenue Bonds	4,980,000		100,000	4,880,000	125,000
2016 Revenue Bonds		2,860,000		2,860,000	170,000
Bond Premium	38,649	59,235	3,341	94,543	
Net Pension Liability	1,294,105	635,401		1,929,506	
Other Long Term Other Post Employment Obligation	226,199	49,693	-	275,892	-
<b>Totals</b>	<b>\$ 11,122,900</b>	<b>\$ 3,604,329</b>	<b>\$ 666,762</b>	<b>\$ 14,060,467</b>	<b>\$ 863,421</b>

Long-term Obligations for WCU for 2016 are as follows:

Debt Issue	Balance 12/31/2015	Additions	Reductions	Balance 12/31/2016	Current Portion
2015 Revenue Bonds	\$ 1,995,774	\$ 3,590,797	\$ -	\$ 5,586,571	\$ -
WCU Temporary Transfer	508,320	1,591,499		2,099,819	
Net Pension Liability	1,227	65,138		66,365	
Other Long Term accounts payable	1,100	3,291		4,391	
<b>Totals</b>	<b>\$ 2,506,421</b>	<b>\$ 5,250,725</b>	<b>\$ -</b>	<b>\$ 7,757,146</b>	<b>\$ -</b>

Substantially all utility revenue is pledged as security until the bonds are defeased.



## WAVERLY UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

#### NOTE 7 – NET POSITION

GASB No. 34 requires the classification of Net Position into three components net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

**Net Investment in Capital Assets** - This component of Net Position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same Net Position component as the unspent proceeds.

**Restricted** – This component of Net Position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

**Unrestricted Net Position** – This component of Net Position consists of Net Position that do not meet the definition of "restricted" or "net investment in capital assets." When both restricted and unrestricted resources are available for use, it is the utility's policy to use restricted resources first, then unrestricted resources as they are needed.

The following calculation supports the Net Investment in Capital Assets:

	WMEU 2017	WCU 2017	WMEU 2016	WCU 2016
Plant in service	\$ 77,465,585	\$ 6,414,938	\$ 74,394,565	\$ 4,305,980
Accumulated depreciation	(37,873,636)	(943,708)	(35,659,589)	(187,850)
Construction work in progress	656,469	3,853	1,233,936	1,145,016
Subtotal	40,248,418	5,475,083	39,968,912	5,263,146
Less: Capital Related Debt				
Current portion of capital related long-term debt	883,421	333,624	863,421	-
Long-term portion of capital related long-term debt	10,013,684	6,338,859	10,897,105	5,586,571
Unamortized Premium	87,453	-	94,543	-
Subtotal	10,984,558	6,672,483	11,855,069	5,586,571
Add: Reserve from borrowing	1,139,375	-	1,139,375	-
Total Net Investment in Capital Assets	\$ 30,403,235	\$ (1,197,400)	\$ 29,253,218	\$ (323,425)

## WAVERLY UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

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#### **NOTE 8 – LEASES**

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WMEU owns a fiber optic system used for Supervisory Control and Data Assess (SCADA). Portions of it have been leased to WCU. Under the lease arrangements, WMEU's responsibility is to own and maintain the fiber optic cable. In 2015, WMEU began construction of building out of the fiber optic system and installing fiber drops for future AMI, SCADA and electrical infrastructure control communications. Fiber drops are continuing to be installed throughout the community.

The entire fiber plant is included in the utility's 2017 assets at a cost of \$7,088,085 less accumulated depreciation of \$711,231 for a net value of \$6,376,854. On March 8, 2016, Resolution #12-16 was approved to lease the fiber optic communications distribution system and buildings from WMEU to WCU for 20 year period commencing April 1, 2016. The lease is at \$200,000 a year, prorated for 2016 at \$151,266. In 2017, lease payments were \$199,832.

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#### **NOTE 9 – PENSION PLAN**

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##### *Plan Description*

IPERS membership is mandatory for employees of the Utilities, except for those covered by another retirement system. Employees of Waverly Utilities 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](http://www.ipers.org).

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

##### *Pension Benefits*

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

- A multiplier (based on years of service).

## WAVERLY UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

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#### NOTE 9 – PENSION PLAN (cont.)

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##### *Pension Benefits* (cont.)

- 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 2017, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Utilities contributed 8.93 percent for a total rate of 14.88 percent.

## WAVERLY UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

#### NOTE 9 – PENSION PLAN (cont.)

##### *Contributions* (cont.)

WMEU's total contribution to IPERS during the IPERS reporting period for the years ended June 30, 2017 and 2016 were \$186,633 and \$184,342, respectively. WCU's total contribution to IPERS during the IPERS reporting period for the years ended June 30, 2017 and 2016 were \$45,227 and \$18,898, respectively. WMEU's total contributions to IPERS during the Utilities' calendar years ended December 31, 2017 and 2016 were \$188,658 and \$185,292, respectively. WCU's contribution was \$46,227 and \$36,249, respectively.

##### *Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At December 31, 2017 and 2016, WMEU reported a liability of \$1,861,004 and \$1,929,506, respectively for its proportionate share of the net pension liability. WCU's proportionate share at December 31, 2017 and 2016 was \$456,007 and \$66,365, respectively. The net pension liability was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utilities' proportion of the net pension liability was based on the Utilities' share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2017, the Utilities collective proportion was .0035097 percent which is an increase of .003093 percent from its proportion measured as of June 30, 2016.

For the years ended December 31, 2017 and 2016, WMEU recognized pension expense of \$(143,420) and \$257,518, respectively. WCU recognized pension expense of \$307,976 and \$27,257, respectively.

At December 31, 2017 and 2016, the Utilities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>2017</b>		<b>2016</b>	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual Experience	\$ 21,272	\$ 20,075	\$ 17,640	\$ 23,820
Changes in Assumptions	402,590	-	30,451	-
Net Difference between projected and actual earnings on IPERS investments	-	24,200	531,332	246,984
Changes in proportion and differences between Utility Contributions and proportionate share of contributions	346,655	22,632	281,763	40,313
Utility Contributions subsequent to the measurement date	117,933	-	114,890	-
<b>Total Balance</b>	<b>888,450</b>	<b>66,907</b>	<b>976,076</b>	<b>311,117</b>
WMEU	713,596	53,739	893,630	308,692
WCU	174,854	13,168	82,446	2,425
<b>Total Balance</b>	<b>\$ 888,450</b>	<b>\$ 66,907</b>	<b>\$ 976,076</b>	<b>\$ 311,117</b>

## WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 and 2016

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### NOTE 9 – PENSION PLAN (cont.)

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#### *Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (cont.)*

IPERS contributions between July 1, 2017 and December 31, 2017 were \$94,161 for WMEU and \$23,772 for WCU. These amounts were reported as deferred outflows of resources related to pensions resulting from the Utilities' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended		
December 31,	WMEU	WCU
2018	110,078	26,836
2019	218,628	53,300
2020	158,181	38,564
2021	49,344	12,030
2022	29,465	7,184
	<u>\$ 565,696</u>	<u>\$ 137,914</u>

There were no non-employer contributing entities at IPERS.

#### *Actuarial Assumptions*

**Actuarial Methods and Assumptions** – The total pension liability (TPL) was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions and the entry age normal actuarial cost method, applied to all periods included in the measurement:

- Assumed investment return: 7.00%
- Projected salary increases: 3.25%–16.25% depending upon years of service
- Mortality tables: RP-2000 Employee and Healthy Annuitant Tables with generational scaling and age adjustments
- Inflation rate 2.60%
- Payroll increase assumption 3.25%

From IPERS Independent Auditor's Report – Schedules of Employer Allocations

## WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 and 2016

### NOTE 9 – PENSION PLAN (cont.)

#### *Actuarial Assumptions* (cont.)

Mortality rates were based on the RP-2000 Employee and Healthy Annuitant Tables, 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>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	24.0%	6.25%
International equity	16.0	6.71
Core-plus fixed income	27.0	2.25
Public credit	3.5	3.46
Public real assets	7.0	3.27
Cash	1.0	(0.31)
Private equity	11.0	11.15
Private real assets	7.5	4.18
Private credit	3.0	4.25
<b>Total</b>	<u>100.0%</u>	

#### *Discount Rate*

The discount rate used to measure the total pension liability was 7.0 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 Utilities 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.

## WAVERLY UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

#### NOTE 9 – PENSION PLAN (cont.)

#### *Sensitivity of the Utilities' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the Utilities' proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, as well as what the Utilities' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current rate.

	Decrease 6.50%	Rate 7.50%	Increase 8.50%
WMEU's Proportionate Share of the Net Pension Liability			
2016	3,121,679	1,929,506	923,296
WCU's Proportionate Share of the Net Pension Liability			
2016	107,370	66,365	31,756
	6.00%	7.00%	8.00%
WMEU's Proportionate Share of the Net Pension Liability			
2017	3,053,999	1,861,004	845,046
WCU's Proportionate Share of the Net Pension Liability			
2017	763,500	456,007	211,261

#### *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](http://www.ipers.org).

#### NOTE 10 – RISK MANAGEMENT

Waverly Utilities is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of actual cash value commercial insurance and WMEU has an insurance recovery fund. The balance in this fund at December 31, 2017 and 2016 was \$1,105,000 and \$1,070,000, respectively. The insurance recovery fund was established for the purpose of subsidizing claims that were caused by extraordinary circumstances. A claim against this fund for \$25,000 was made in 2017 to cover the insurance deductible for the repair of a wind turbine damaged by a lightning strike.

Waverly Utilities also carries a cyber security coverage plan to protect against transfer fraud, theft of funds, and identity theft.

## WAVERLY UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

#### **NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS**

Waverly Utilities administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides health insurance contributions for eligible retirees through the utilities’ group health insurance plan, which covers both active and retired members. Benefit provisions are established through personnel policy guidelines and state that eligible retirees receive healthcare insurance at established contribution rates from retirement until age 65. The Retiree Health Plan does not issue a publicly available financial report.

Contribution requirements are established through personnel policy guidelines and may be amended by action of the governing body. Waverly Utilities makes the same monthly health insurance contribution on behalf of the retiree as it makes on behalf of all other active employees during that year. For fiscal years 2017 and 2016, WMEU contributed \$8,214 and 8,430 to the plan, respectively. WCU contributed \$0 to the plan in 2017 and 2016. Plan members receiving benefits are fully paid for by the utilities up to \$500 a month. No retiree contributions were paid for by the retiree in 2017 or 2016.

The utilities’ annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the utilities’ annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the utilities’ net OPEB obligation to the Retiree Health Plan:

	WMEU	WCU
Annual required contribution	\$ 49,337	\$ 3,478
Interest on net OPEB obligation	1,480	104
Explicit liability	52,520	-
Annual OPEB cost	103,337	3,582
Contributions made	(8,215)	-
Increase in net OPEB obligation	95,122	3,582
Net OPEB Obligation – Beginning of Year	275,892	4,391
Net OPEB Obligation – End of Year	\$ 371,014	\$ 7,973



## WAVERLY UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

#### **NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (cont.)**

The utilities' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for December 31, 2017 and two preceding years is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
WMEU			
2017	\$103,337	-17%	\$371,015
2016	\$58,123	15%	\$275,892
2015	\$51,337	15%	\$226,199
WCU			
2017	\$3,582	0%	\$7,973
2016	\$3,291	0%	\$4,391
2015	\$1,100	0%	\$1,100

The funded status of the plan as of December 31, 2017, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$415,414
Actuarial value of plan assets	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u><u>\$415,414</u></u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$2,786,958
UAAL as a percentage of covered payroll	15%

The Retiree Health Plan is a pay-as-you-go plan, therefore, no asset has been established. Actuarial valuations of an ongoing plan involve estimates for 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 healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The required schedule of funding progress immediately following the notes presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

## WAVERLY UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

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#### **NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (cont.)**

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Projections of benefits for financial reporting purposes are based on the substantive plan (the plan is understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3 percent investment rate of return and an annual healthcare cost trend rate of 6.9 percent initially, reduced by decrements to an ultimate rate of 0 percent after 6 years reaching the \$500 a month cap. Both rates include a 3.3 percent inflation assumption. The actual value of Retiree Health Plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a three-year period. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis.

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#### **NOTE 12 – COMMITMENTS AND CONTINGENCIES**

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##### *COMMITMENTS*

##### *Municipality – Transfers*

WMEU makes cash payments to the municipality in an amount determined annually per policy established by the Board. The amount paid for the years ended December 31, 2017 and 2016 was \$741,864 and \$735,924, respectively.

##### *Trees Forever*

WMEU helps fund the local Trees Forever program with annual contributions to help further its energy conservation programs. Since 1995, annual contributions of \$10,000 have been made to Trees Forever.

##### *Local Wind Generation*

In 2001, a 900 kW wind generator was erected on land leased near Waverly. The lease is a 50-year lease with payments to the landowner of \$3,000 per year. This lease is adjusted for inflation every five years. In 2017, the lease payment was adjusted to \$4,041 per year.

In 2008, land was leased near Waverly on which two 900kW wind turbines were erected in 2009. The two leases are 50-year leases with payments to the landowner of \$3,450 for each lease. These leases can be adjusted for inflation every five years. In 2013, these leases were adjusted 7.09% for inflation to \$3,694.

**WAVERLY UTILITIES**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 and 2016

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**NOTE 12 – COMMITMENTS AND CONTINGENCIES (CONT.)**

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***Municipal Energy Agency of Nebraska***

On August 7, 2007 WMEU entered into an Electrical Resources Policy agreement with Municipal Energy Agency of Nebraska a joint action agency, as its future power supplier. The utility became a full requirements member effective February 1, 2010. Also on August 7, 2007 the utility entered into a Supplemental Agreement regarding participant owned capacity. The utility committed 15 MW of capacity beginning on February 1, 2010. On March 20, 2013 WMEU entered into an Agreement Regarding MISO Generation Agent Arrangement to commit 13.95 MW of local excess generating capacity to MEAN over a five year period. On June 1, 2015 the MWs were increased to 21.25 MW for the remainder of the five year period.

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**NOTE 13 – CLAIMS AND JUDGMENTS**

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From time to time, the Waverly Utilities is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the utilities' legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the utilities' financial position or results of operations.

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**NOTE 14 – JOINT VENTURES**

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***LOUISA GENERATING STATION***

WMEU, along with other private and municipal utilities, constructed a coal generating plant in Muscatine, Iowa, which began operation on October 12, 1983. The utility's share of ownership is 1.1% of the total, which entitles it to 7.70 megawatts of the generated power. The utility sells to MEAN through a purchase power agreement, Waverly's share of the output of the Louisa Generating Station effective February 1, 2010.

***Walter Scott Jr. No. 4***

During 2002, WMEU along with other private and municipal utilities entered into agreements to jointly construct a coal generating plant in Council Bluffs, Iowa. Construction was completed in 2007 and placed into operation in June. The utility's share of ownership is 0.4% of the total capacity or about 3.16 MW's. The utility commits to MEAN, Waverly's share of the output of the Walter Scott Jr. No. 4 Generating Station effective June 2007.

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**NOTE 15 – SIGNIFICANT CUSTOMER**

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WMEU sales to a significant customer were 10.04% in 2017 and 10.2% in 2016. The utility periodically enters into electric service agreements with larger customers.

## WAVERLY UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

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#### NOTE 16 – SUBSEQUENT EVENTS

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Subsequent events for the utilities have been evaluated through the date that the financial statements were available to be issued.

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#### NOTE 17 – BOND RESERVE REQUIREMENTS

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##### *WMEU*

##### *2008 Bond Reserve Requirements*

*Sinking Fund Reserve*- Monthly payments are required in an amount sufficient to meet current year principal and interest obligations of the bonds.

*Reserve Fund Reserve*- This amount was funded from original bond proceeds based on an established formula, with a balance of \$282,632 at December 31, 2017 and 2016. The funds are to be used for future year bond obligations if the Sinking Fund Reserve balance is insufficient to pay the principal and interest obligations of the bond.

*Improvement Fund Reserve* – This amount totaling \$250,000 was established by the 1992 bonds. The fund remained intact after the 1992 bonds were retired for the benefit of the 2008, 2012, 2013, 2015 and 2016 bonds. These funds are to be used for future bond obligations if necessary, or for extraordinary operating needs of the utility.

The annual obligations for these reserves are:

	<u>Sinking Fund Reserve</u>	<u>Reserve Fund Reserve</u>	<u>Improvement Fund Reserve</u>
2018	195,016	-	-
2019	193,697	-	-
2020	192,378	-	-
2021	191,059	-	-
2022	189,740	-	-

The Reserve Fund Reserve and Improvement Fund Reserves are fully funded and thus no annual funding requirements exist for these reserves as of December 31, 2017.

## WAVERLY UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

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#### NOTE 17 – BOND RESERVE REQUIREMENTS (cont.)

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*WMEU* (cont.)

##### **2013 BOND RESERVE REQUIREMENTS**

*Sinking Fund Reserve* – Monthly payments are required in an amount sufficient to meet current year principal and interest obligations of the bonds.

*Reserve Fund Reserve* – This amount was funded from original bond proceeds based on an established formula, with a balance of \$400,000 at December 31, 2017 and 2016. The funds are to be used for future year bond obligations if the Sinking Fund Reserve balance is insufficient to pay the principal and interest obligations of the bond.

The annual obligations for these reserves are:

	<u>Sinking Fund Reserve</u>	<u>Reserve Fund Reserve</u>
2018	443,888	-
2019	448,038	-
2020	451,038	-
2021	452,838	-
2022	458,388	-
2023	467,513	-

The Reserve Fund Reserve is fully funded and thus no annual funding requirements exist for these reserves as of December 31, 2017.

##### **2015 BOND RESERVE REQUIREMENTS**

*Sinking Fund Reserve* – Monthly payments are required in an amount sufficient to meet current year principal and interest obligations of the bonds.

*Reserve Fund Reserve* – This amount was funded from original bond proceeds based on an established formula, with a balance of \$268,119 at December 31, 2017 and 2016. The funds are to be used for future year bond obligations if the Sinking Fund Reserve balance is insufficient to pay the principal and interest obligations of the bond.

## WAVERLY UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

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#### NOTE 17 – BOND RESERVE REQUIREMENTS (cont.)

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*WMEU* (cont.)

#### **2015 BOND RESERVE REQUIREMENTS** (cont.)

The annual obligations for these reserves are:

	<u>Sinking Fund Reserve</u>	<u>Reserve Fund Reserve</u>
2018	291,441	-
2019	311,941	-
2020	309,941	-
2021	309,541	-
2022	305,841	-
2023	391,679	-
2024	564,804	-
2025	572,860	-
2026	578,610	-
2027	583,760	-
2028	588,310	-
2029	591,725	-
2030	593,688	-

The Reserve Fund Reserve is fully funded and thus no annual funding requirements exist for these reserves as of December 31, 2017.

#### **2016 BOND RESERVE REQUIREMENTS**

*Sinking Fund Reserve* – Monthly payments are required in an amount sufficient to meet current year principal and interest obligations of the bonds.

*Reserve Fund Reserve* – This amount was funded from original bond proceeds based on an established formula, with a balance of \$188,624 at December 31, 2017 and 2016. The funds are to be used for future year bond obligations if the Sinking Fund Reserve balance is insufficient to pay the principal and interest obligations of the bond.

## WAVERLY UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2017 and 2016

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#### NOTE 17 – BOND RESERVE REQUIREMENTS (cont.)

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*WMEU* (cont.)

#### **2016 BOND RESERVE REQUIREMENTS** (cont.)

The annual obligations for these reserves are:

	<u>Sinking Fund Reserve</u>	<u>Reserve Fund Reserve</u>
2018	208,800	-
2019	185,700	-
2020	183,000	-
2021	180,300	-
2022	182,600	-
2023	274,800	-
2024	325,100	-
2025	319,300	-
2026	313,500	-
2027	307,700	-
2028	306,900	-
2029	306,000	-

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#### NOTE 18 – CHANGE IN ACCOUNTING PRINCIPLE

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The December 31, 2016 deferred outflows of resources and deferred inflows of resources of WMEU need be restated from the previously issued financial statements to improve financial reporting. The receivable balance of \$1,100,000 related to Wartburg Green Power is now reported as a non-current asset. The payable balance of \$720,000 related to the Wartburg-Waverly Sports and Wellness Center is now reported as a non-current liability. The restatements have no effect on net position balances.

REQUIRED SUPPLEMENTAL INFORMATION



## WAVERLY UTILITIES

### SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT BENEFITS PLAN

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2017	12/31/2017	\$ -	\$ 415,414	\$ 415,414	0%	\$ 2,786,958	15%
2016	12/31/2013	\$ -	\$ 324,722	\$ 324,722	0%	\$ 2,473,629	13%
2015	12/31/2013	\$ -	\$ 317,786	\$ 317,786	0%	\$ 1,854,009	17%
2014	12/31/2013	\$ -	\$ 285,678	\$ 285,678	0%	\$ 1,702,562	17%
2013	12/31/2013	\$ -	\$ 377,758	\$ 377,758	0%	\$ 1,621,940	23%
2012	12/31/2011	\$ -	\$ 387,449	\$ 387,449	0%	\$ 1,878,134	13%
2011	12/31/2011	\$ -	\$ 240,072	\$ 240,072	0%	\$ 2,012,883	12%
2010	12/31/2008	\$ -	\$ 353,970	\$ 353,970	0%	\$ 1,984,549	18%
2009	12/31/2008	\$ -	\$ 353,970	\$ 353,970	0%	\$ 1,964,300	18%

## WAVERLY UTILITIES

### Schedule of the Utilities' Proportionate Share of the Net Pension Liability Iowa Public Employees' Retirement System Fiscal Year\*

#### Required Supplementary Information

	2017	2016	2015
Utilities' proportion of the net pension liability (asset)	0.0350970%	0.0320040%	0.0261250%
Utilities' proportionate share of the net pension liability	\$ 2,317,008	\$ 1,995,871	\$ 1,295,332
Utilities' covered payroll	2,596,412	2,275,924	1,796,226
Utilities' proportionate share of the net pension liability as a percentage of its covered employee payroll	89.24%	87.69%	72.11%
Plan Fiduciary net position as a percentage of the total pension liability	82.21%	81.82%	85.19%

\*The amounts presented in each fiscal year were determined as of June 30 and include both WMEU & WCU.

See accompanying independent auditor's report.

**WAVERLY UTILITIES**

Schedule of Utilities Contributions  
Iowa Public Employees' Retirement System  
Last 10 Fiscal Years

	Required Supplementary Information									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Statutorily Required Contribution	\$ 231,859	\$ 203,240	\$ 160,403	\$ 149,706	\$ 150,026	\$ 152,000	\$ 136,311	\$ 125,094	\$ 110,754	\$ 109,223
Contribution in relation to the statutorily required contribution	(231,859)	(203,240)	(160,403)	(149,706)	(150,026)	(152,000)	(136,311)	(125,094)	(110,754)	(109,223)
Contribution deficiency(excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's covered payroll	\$ 2,596,405	\$ 2,275,924	\$ 1,796,226	\$ 1,676,439	\$ 1,680,022	\$ 1,753,173	\$ 1,689,108	\$ 1,799,911	\$ 1,665,473	\$ 1,720,042
Contributions as a percentage of covered payroll	8.93%	8.93%	8.93%	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%	6.35%

Amounts include both WMEU and WCU.

## WAVERLY UTILITIES

Notes to Required Supplementary Information – Pension Liability  
Year Ended December 31, 2017

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*Changes of benefit terms:*

None in 2017

*Changes of assumptions:*

The 2017 valuation, which is used to determine the contribution rates effective July 1, 2018, incorporated the following refinements after an economic assumption study:

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

These schedules are presented to illustrate the requirements to show information for 10 years.

SUPPLEMENTAL INFORMATION

## WAVERLY UTILITIES

### STATEMENTS OF CHANGES IN BOND SINKING, RESERVE, AND IMPROVEMENT FUNDS For the Years Ended December 31, 2017 and 2016

	Sinking Fund CREB	Sinking Fund 2013	Sinking Fund 2015	Sinking Fund 2016	Reserve Fund CREB	Reserve Fund 2013	Reserve Fund 2015	Reserve Fund 2016	Improvement Fund 1992 & 1998
<b>BALANCE, DECEMBER 31, 2015</b>	<u>\$ 16,471</u>	<u>\$ 36,339</u>	<u>\$ 23,139</u>	<u>\$ -</u>	<u>\$ 282,632</u>	<u>\$ 400,000</u>	<u>\$ 268,119</u>	<u>\$ -</u>	<u>\$ 250,000</u>
Receipts:									
Transfers from operating fund	\$ 197,548	\$ 436,235	\$ 263,036	\$ 24,653	\$ -	\$ -	\$ -	\$ 188,624	\$ -
Disbursements:									
Payments of principal and interest on bonds	<u>(197,654)</u>	<u>(436,068)</u>	<u>(263,555)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>BALANCE, DECEMBER 31, 2016</b>	<u>\$ 16,365</u>	<u>\$ 36,506</u>	<u>\$ 22,620</u>	<u>\$ 24,653</u>	<u>\$ 282,632</u>	<u>\$ 400,000</u>	<u>\$ 268,119</u>	<u>\$ 188,624</u>	<u>\$ 250,000</u>
Receipts:									
Transfers from operating fund	\$ 196,236	\$ 409,519	\$ 273,108	\$ 225,667	\$ -	\$ -	\$ -	\$ -	\$ -
Disbursements:									
Payments of principal and interest on bonds	<u>(196,349)</u>	<u>(409,034)</u>	<u>(271,441)</u>	<u>(232,920)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>BALANCE, DECEMBER 31, 2017</b>	<u>\$ 16,251</u>	<u>\$ 36,991</u>	<u>\$ 24,287</u>	<u>\$ 17,400</u>	<u>\$ 282,632</u>	<u>\$ 400,000</u>	<u>\$ 268,119</u>	<u>\$ 188,624</u>	<u>\$ 250,000</u>

## WAVERLY UTILITIES

OFFICIALS  
December 31, 2017

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### Board of Trustees

Aelvin (Ael) Suhr, Chairman  
Waverly, IA 50677

Jere Vyverberg, Vice Chair  
Waverly, IA 50677

Reid Koenig  
Waverly, IA 50677

Anna Seggerman  
Waverly, IA 50677

Emily Neuendorf  
Waverly, IA 50677

CEO  
Darrel Wenzel  
Waverly, IA 50677

Director, Business Operations  
Curt Atkins  
Waverly, IA 50677

Director, Electric Operations  
Tyler Plate  
Waverly, IA 50677

Director, Telecom  
Jeff Magsamen  
Janesville, IA 50647

Director, Finance  
Kasey Lewis  
Plainfield, IA 50666

Director, HR & Admin Services/Board  
Secretary  
Angela Schroeder  
Denver, IA 50622

Director, Marketing  
Jen Bloker  
Denver, IA 50622

## WAVERLY UTILITIES

### WMEU Operating Expense Last Ten Fiscal Years

Type of Expense	2008	2009	2010	2011	2012	2013	2014 (Restated)	2015	2016	2017
Production	\$ 4,361,308	\$ 4,387,125	\$ 8,716,578	\$ 9,638,952	\$ 10,226,661	\$ 11,135,656	\$ 11,964,098	\$ 12,357,849	\$ 12,705,812	\$ 13,116,063
Transmission	86,660	101,271	217,590	184,657	192,689	191,784	167,614	168,091	207,337	155,498
Distrubution	1,467,335	1,733,936	1,751,147	1,498,124	1,522,260	1,577,683	1,498,753	1,564,995	1,678,864	1,546,121
Customer Accounts	198,280	203,553	211,054	220,966	198,203	199,783	213,114	241,356	213,784	237,018
Administrative and General	666,475	677,310	733,127	699,356	644,857	717,073	666,310	757,483	766,436	666,999
Customer Information	123,069	137,730	121,163	122,504	114,300	101,174	63,246	74,169	70,861	109,523
Community development	225,740	261,599	236,107	242,714	249,278	272,645	225,361	104,374	110,168	105,392
Conservation	185,836	287,392	306,493	255,260	196,223	131,000	177,471	166,162	169,612	124,969
Water Heater	93,276	9,920	(1,747)	1,552	116	1,032	(452)	19,187	2,062	(1,703)
Depreciation	1,522,050	1,565,196	1,603,480	1,700,352	1,746,726	1,839,595	1,875,607	1,945,796	2,007,314	2,030,899
Internet	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
<b>Total</b>	<b>\$ 8,930,029</b>	<b>\$ 9,365,032</b>	<b>\$ 13,894,992</b>	<b>\$ 14,564,437</b>	<b>\$ 15,091,313</b>	<b>\$ 16,167,425</b>	<b>\$ 16,851,122</b>	<b>\$ 17,399,462</b>	<b>\$ 17,932,250</b>	<b>\$ 18,090,779</b>



## WAWERLY UTILITIES

### WMEU Summary of Statement of Revenues, Expenses and Changes in Net Position Last Ten Fiscal Years

	2008	2009	2010	2011	2012	2013	2014 (Restated)	2015	2016	2017
Operating Revenues										
Before Rate Stabilization	\$ 12,005,301	\$ 12,491,295	\$ 17,257,351	\$ 17,354,345	\$ 17,296,715	\$ 17,546,314	\$ 18,021,182	\$ 17,391,264	\$ 19,302,077	\$ 19,564,884
Rate Stabilization	-	-	-	-	-	-	(637,000)	412,000	(800,000)	(500,000)
Total Operating Revenue:	12,005,301	12,491,295	17,257,351	17,354,345	17,296,715	17,546,314	17,384,182	17,803,264	18,502,077	19,064,884
Operating Expense	8,930,029	9,365,032	13,894,992	14,564,437	15,091,313	16,167,425	16,851,122	17,399,462	17,932,250	18,090,779
Operating Income	3,075,272	3,126,263	3,362,359	2,789,908	2,205,402	1,378,889	533,060	403,802	569,827	974,105
Non-Operating Income	262,853	(52,641)	(158,341)	102,807	(23,257)	(137,100)	(166,458)	(288,198)	(242,033)	(114,868)
Contributions		400	3,407	137,449	150,238	(1,176)	(3,388)	(2,306)	(1,749)	(562)
Transfers	(884,952)	(935,352)	(961,984)	(933,916)	(935,152)	(827,316)	(861,444)	(854,976)	(855,924)	(861,864)
Change in Net Position	\$ 2,453,173	\$ 2,138,670	\$ 2,245,441	\$ 2,096,248	\$ 1,397,231	\$ 413,297	\$ (498,230)	\$ (741,678)	\$ (529,880)	\$ (3,189)

## WAVERLY UTILITIES

### Energy Disposition Last Ten Fiscal Years

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**(In kwh)**

<u>Type of Service</u>	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Residential	36,227,815	36,189,657	39,048,597	38,166,169	37,361,286	38,833,604	39,757,491	38,228,909	38,347,355	37,761,943
Industrial and Commerical	98,398,596	93,810,441	99,048,511	100,621,586	100,691,677	97,425,068	96,837,492	96,179,997	94,775,377	91,954,742
Security Lights	300,846	290,928	282,604	240,626	128,043	132,147	134,996	134,897	135,076	136,157
Municipal	9,625,008	9,086,409	9,517,373	9,397,658	9,073,472	8,904,961	8,325,337	8,249,380	8,493,057	8,189,725
Total	<u>144,552,265</u>	<u>139,377,435</u>	<u>147,897,085</u>	<u>148,426,039</u>	<u>147,254,478</u>	<u>145,295,780</u>	<u>145,055,316</u>	<u>142,793,183</u>	<u>141,750,865</u>	<u>138,042,567</u>

## WAVERLY UTILITIES

WMEU Principal Customers  
2017-2016

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Principal Customers	Type of Business Activity	Revenue % Sales to Customers	
		2017	2016
Nestle USA	Beverage Manufacturer	10.04%	10.20%
Wartburg College	Private Liberal Arts College	7.92%	7.64%
GMT	Machining and Fabrication	6.55%	6.34%
Waverly Health Center	Hospital	2.45%	2.41%
Waverly Shell Rock CSD	School	2.26%	2.30%

## WAVERLY UTILITIES

### WMEU Utility System Revenue Bond Coverage Last Ten Fiscal Years

Fiscal Year	Operating Revenue	Investment Income	Operating Expense	Depreciation Expense	Available for Debt Service	Interest Expense	Principal Payments	Coverage
2008	12,005,301	298,994	8,930,029	1,522,050	4,896,316	224,919	998,421	4.00
2009	12,531,820	152,628	9,365,032	1,565,196	4,884,612	191,586	903,421	4.46
2010	17,257,351	104,414	13,894,992	1,603,480	5,070,253	162,892	933,421	4.62
2011	17,354,345	119,610	14,564,437	1,700,352	4,609,870	132,307	968,421	4.19
2012	17,296,715	92,221	15,091,314	1,746,726	4,044,348	95,713	665,517	5.31
2013	17,546,314	67,839	16,167,425	1,839,595	3,286,323	26,050	658,421	4.80
2014	17,384,182	69,521	16,851,122	1,875,607	2,478,188	81,487	1,023,422	2.24
2015	17,803,264	69,211	17,399,462	1,945,796	2,418,809	76,989	1,028,421	2.19
2016	18,502,077	132,418	17,932,250	2,007,314	2,709,559	233,854	663,421	3.02
2017	19,064,884	200,780	18,278,055	2,030,899	3,018,508	275,358	863,421	2.65
							<b>Average Coverage</b>	<b>3.82</b>

**WAVERLY UTILITIES**

Demographics  
Employee Data

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	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
# of Employees										
Administration	3	3	3	3	2	2	2	2	6	5
Business Operations	3	4	4	4	4	3	4	5	3	4
Conservation	1	2	2	1	1	1	1	1	1	1
Line	13	12	11	11	10	9	9	9	9	9
Meter	2	2	2	2	2	2	2	2	2	2
Generation	5	5	6	7	5	6	6	5	5	3
WCU Administration	0	0	0	0	0	0	0	1	4	4
WCU Operations	0	0	0	0	0	0	0	3	4	5
Total full-time	27	28	28	28	24	23	24	28	34	33
Part-time & Interns	2	4	2	1	1	2	2	1	2	1

## WAVERLY UTILITIES

### Electrical Sales Revenue Last Ten Fiscal Years

Fiscal Year	Residential	Industrial	Commerical	Industrial and Commercial	Security Lights	Street Lights	Municipal	ECA	Provision for Rate Stabilization	Total
2008	3,529,748	5,724,174	1,322,258	7,046,432	39,117	253,031	636,853			11,505,181
2009	3,909,513	5,758,177	1,394,746	7,152,923	43,060	274,910	674,204			12,054,610
2010	4,644,257	6,751,014	1,585,392	8,336,406	43,172	277,028	758,681			14,059,544
2011	4,623,271	6,866,051	1,463,022	8,329,073	41,430	275,626	741,189			14,010,589
2012	4,628,144	6,753,474	1,435,083	8,188,557	43,817	251,321	712,756			13,824,595
2013	4,702,996	6,420,537	1,462,954	7,883,491	43,766	252,654	706,835			13,589,742
2014	4,735,758	6,583,502	1,445,928	8,029,430	44,502	252,302	664,712		(637,000)	13,089,704
2015	4,673,309	6,543,329	1,450,954	7,994,283	43,996	265,655	675,472		411,706	14,064,421
2016	5,273,597	7,118,714	1,576,783	8,695,497	44,809	272,164	757,796	(65,703)	(800,000)	14,178,159
2017	5,341,918	7,230,994	1,605,618	8,836,612	45,690	274,138	771,060	324,988	(500,000)	15,094,406

## WAVERLY UTILITIES

### Capital Improvement Additions Last Ten Fiscal Years

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<u>Fiscal Year</u>	<u>Deletions to Plant</u>	<u>Additions to Plant</u>	<u>Cash Required for Capital Improvements</u>
2008	(109,738)	1,800,749	1,691,011
2009	(506,373)	1,695,010	1,188,637
2010	(791,236)	4,096,583	3,305,347
2011	(966,145)	2,200,445	1,234,300
2012	(262,330)	3,532,755	3,270,425
2013	(654,497)	1,891,779	1,237,282
2014	(691,704)	1,850,960	1,159,256
2015 WMEU	(354,393)	4,590,901	4,236,508
2015 WCU		86,636	86,636
2016 WMEU	(270,505)	4,731,095	4,460,590
2016 WCU		3,272,359	3,272,359
2017 WMEU	(170,442)	2,663,995	2,493,553
2017 WCU	(2,971)	970,768	967,797



**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***

The Board of Trustees  
Waverly Utilities  
Waverly, Iowa

We have audited, in accordance with auditing standards generally accepted in the United States of America 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 Waverly Municipal Electric Utility and Waverly Communications Utility (collectively Waverly Utilities), component units of the City of Waverly, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Waverly Utilities’ basic financial statements, and have issued our report thereon dated April 26, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Waverly Utilities' internal control over financial reporting (internal control) to determine the audit procedures that are 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 Waverly Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of Waverly Utilities' internal control.

*A deficiency in internal control* exists when the design or operation of a 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 that a material misstatement of the entity’s 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 that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that 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 Waverly Utilities' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of non-compliance or other matters which are described in Part III of the accompanying schedule of findings and responses.

Comments involving statutory and other legal matters about Waverly Utilities' operations for the year ended December 31, 2017, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Waverly Utilities and are reported in Part III of the accompanying schedule of findings and responses. Since our audit was based on tests and samples, not all transactions that 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.

### **Waverly Utilities' Response to the Finding**

Waverly Utilities' response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Waverly Utilities' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dubuque, Iowa  
April 26, 2018

**Part I: Findings Related to the Financial Statements:**

There were no findings to report.

**Part II: Findings and Questioned Costs for Federal Awards:**

Single audit did not apply for fiscal year 2017.

**Part III: Other Findings Related to Required Statutory Reporting:**

- 2017-IA-A     **Certified Budget** – Disbursements during the year ended December 31, 2017, did not exceed the amount budgeted.
- 2017-IA-B     **Questionable Expenditures** – We noted no expenditures that we believe may fail to meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- 2017-IA-C     **Travel Expense** – No expenditures of Waverly Utilities’ money for travel expenses of spouses of Utility officials or employees were noted.
- 2017-IA-D     **Business Transactions** – Business transactions between Waverly Utilities and Waverly Utilities’ officials or employees are noted as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Ael Suhr, Board of Trustees, Owner of Ael Suhr Enterprises, Inc.	Radio Advertising	\$       13,605

According to Chapter 362.5 of the Code of Iowa, an officer or employee of an entity shall not have an interest, direct or indirect, in a contract with that entity. The provision does not apply to transactions that do not exceed a cumulative total purchase price of \$1,500 in a fiscal year or to contracts made by an entity upon competitive bid. The transactions involving Ael Suhr were not entered into through competitive bidding.

- 2017-IA-E     **Bond Coverage** – Surety bond coverage of Waverly Utilities’ officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
  - 2017-IA-F     **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not. However, we noted the minutes for one meeting, including the schedule of bills allowed, were not published as required by Chapter 28E.6(3) of the Code of Iowa.
- Recommendation** – Waverly Utilities should ensure the minutes, including the schedule of bills allowed, are published as required.

**Part III: Other Findings Related to Required Statutory Reporting: (continued)**

**Response** – Waverly Utilities publishes the monthly board minutes on our website and in the local newspaper. The August 2017 board minutes were posted to our website but were missed being sent to the Waverly Newspaper for publication. We have implemented an additional control to ensure that all minutes to the monthly board meetings are published in a timely fashion going forward.

2017-IA-G     **Deposits and Investments** – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and Waverly Utilities’ investment policy were noted.

2017-IA-H     **Revenue Bonds** – No instances of noncompliance with the provisions of Waverly Utilities’ revenue bond resolutions were noted.

2017-IA-I     **Telecommunications Services** – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.