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, 2016 and 2015

WAVERLY UTILITIES
Component Units of the City of Waverly, Iowa

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Component Unit of the City of Waverly, Iowa

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INDEPENDENT AUDITORS' 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, which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Waverly Utilities basic financial statements.

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.

Auditors' Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audits. We conducted our audits 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 auditors' 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 over financial reporting relevant to Waverly Utilities' 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 Waverly Utilities' 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.

To the Board of Trustees
Waverly Utilities

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Waverly Utilities as of December 31, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Waverly Utilities component units and do not purport to, and do not, present fairly the financial position of the City of Waverly, Iowa, as of December 31, 2016 and 2015 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information

Our audits were conducted for the purpose of forming opinions on the basic financial statements as a whole. The supplemental information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

To the Board of Trustees
Waverly Utilities

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Waverly Utilities as of December 31, 2007 - 2014 and for the years then ended (none of which is presented herein). In our opinion, the graphic and financial information is fairly stated in all material respects in relation to the financial statements from which it has been derived.

Other Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The other information on pages 60, 63, 64 and 66 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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 May 26, 2017 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Waverly Utilities' internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
May 26, 2017

WAVERLY UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS
Unaudited
December 31, 2016 and 2015

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, 2016 and 2015. 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 Statement 1. 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 Statement 1. 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 asset 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 2016, WMEU installed 42 electric services.

WMEU owns a strategic mix of energy production resources. 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 2016, we purchased 94.33% of our required energy and capacity through a full requirements energy contract. The remaining 5.67% is produced locally by the hydro and wind resources.

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 12,500 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 Financial Analysis

Table 1
Condensed Statements of Net Position

	WMEU 2016	WCU 2016	WMEU 2015	WCU 2015	(Restated) WMEU 2014	WCU 2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES						
Current Assets	$ 7,784,325	$ 237,314	$ 7,390,421	$ 59,464	$ 6,685,850	$ -
Non-Current Assets						
Restricted Assets	1,389,375		1,200,751		1,073,632	
Designated Funds	5,954,403		8,842,027		9,939,513	
Other Assets	828,833		794,440		813,140	
Advance between WMEU & WCU	2,099,819		508,320			23,540
Capital Assets	39,968,912	5,263,146	37,472,759	2,176,643	35,058,827	
Total Assets	58,025,667	5,500,460	56,208,718	2,236,107	53,570,962	23,540
DEFERRED OUTFLOWS OF RESOURCES						
Note payable and green power credits	1,820,000		2,040,000		2,260,000	
Deferred Outflows for Pension Plan	893,630	82,446	381,371	5,890	133,956	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,713,630	82,446	2,421,371	5,890	2,393,956	-
TOTAL ASSETS AND DEFERRED INFLOWS OF RESOURCES	$ 60,739,297	$ 5,582,906	$ 58,630,089	$ 2,241,997	$ 55,964,918	$ 23,540
LIABILITIES						
Current Liabilities	$ 1,906,336	$ 269,924	$ 2,729,913	$ 424,880	$ 2,902,206	$ -
Current Liabilities Payable from Restricted Assets	891,860		695,847		1,034,837	
Non-Current Liabilities						
Net Pension Liability	1,929,506	66,365	1,294,105	1,227	1,016,054	
Advance between WMEU & WCU		2,099,819		508,320	23,540	
Other Non-Current Liabilities	11,267,540	5,590,963	9,165,374	1,996,874	4,766,485	
Total Liabilities	15,995,242	8,027,071	13,885,239	2,931,301	9,743,122	-
DEFERRED INFLOWS OF RESOURCES						
Unearned revenue	1,820,000		2,040,000		2,260,000	
Deferred Inflows for Pension Plan	308,692	2,425	359,607		463,169	
Deferred Inflows for Rate Stabilization	1,025,294		225,294		637,000	
Total Deferred Inflows of Resources	3,153,986	2,425	2,624,901	-	3,360,169	-
NET POSITION						
Net investment in capital assets	29,253,218	(323,425)	28,820,914	180,869	30,270,091	
Restricted for Debt Service and Improvements	321,705		293,523		335,702	
Unrestricted	12,015,146	(2,123,165)	13,005,512	(870,173)	12,255,834	23,540
Total Net Position	41,590,069	(2,446,590)	42,119,949	(689,304)	42,861,627	23,540
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 60,739,297	$ 5,582,906	$ 58,630,089	$ 2,241,997	$ 55,964,918	$ 23,540

WMEU Net Position decreased $530 and $742K for 2016 and 2015, respectively, as discussed on page 7.

Waverly Utilities Financial Analysis (cont.)

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

	WMEU 2016	WCU 2016	WMEU 2015	WCU 2015	(Restated) WMEU 2014	WCU 2014
OPERATING REVENUES	$ 18,502,077	$ 339,401	$ 17,803,264	$ 21,520	$ 17,384,182	$ 22,057
OPERATING EXPENSES						
Depreciation expenses	2,007,314	173,363	1,945,796	1,993	1,875,607	-
Other operating expenses	15,924,936	1,876,704	15,453,666	516,707	14,975,515	7,284
Total Operating Expenses	17,932,250	2,050,067	17,399,462	518,700	16,851,122	7,284
Operating Income	569,827	(1,710,666)	403,802	(497,180)	533,060	14,773
Investment income	132,418		69,211		69,521	
Bond Issue Costs	(72,114)		(113,117)	(210,906)		
Interest and amortization expense	(297,187)	(46,620)	(167,780)	(4,758)	(143,425)	
Gain/(Loss) on sale of plant	(5,151)		(76,512)		(92,554)	
Total Non-Operating Expenses	(242,034)	(46,620)	(288,198)	(215,664)	(166,458)	-
Income before operating transfers and Contribututions	327,793	(1,757,286)	115,604	(712,844)	366,602	14,773
Contributions	(1,749)		(2,306)		(3,388)	
Operating transfers to the City of Waverly	(855,924)	-	(854,976)	-	(861,444)	-
Change in Net Position	(529,880)	(1,757,286)	(741,678)	(712,844)	(498,230)	14,773
NET POSITION, Beginning of Year	42,119,949	(689,304)	42,861,627	23,540	43,359,857	8,767
NET POSITION, END OF YEAR	$ 41,590,069	$ (2,446,590)	$ 42,119,949	$ (689,304)	$ 42,861,627	$ 23,540

WMEU Revenues for 2016 were $699K higher than 2015 due to an increase in rates, diesel capacity, fiber lease, and a refund from MEAN.

WMEU Expenses for 2016 were $533K higher than expenses for 2015 due to increases in purchased power and transmission costs.

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

WMEU Net Position had decreased $742K from 2014 to 2015 due to a transfer to the City of Waverly of $854,976.

Waverly Utilities Financial Analysis (cont.)

Table 3
Condensed Statements of Cash Flows

	WMEU 2016	WCU 2016	WMEU 2015	WCU 2015	WMEU 2014	WCU 2014
Cash Flows from Operating Activities						
Received from sales to customers	$ 19,128,324	$ 248,411	$ 17,512,215	$ 21,520	$ 18,736,185	$ 22,057
Paid to suppliers and employees for services	(15,931,204)	(2,141,869)	(16,765,767)	(487,128)	(15,235,543)	(7,284)
Cash Flows from Operating Activities	3,197,120	(1,893,458)	746,448	(465,608)	3,500,642	14,773
Cash Flows from Non-Capital Financing Activities	(2,447,423)	1,591,499	(1,386,836)	531,860	(846,670)	(14,773)
Cash Flows from Capital and Financing Activities	(3,428,814)	299,652	(232,060)	(46,804)	(5,300,970)	-
Cash Flows from Investing Activities	(969,294)	-	(3,976,893)	-	(13,629)	-
Net Change in Cash and Equivalents	(3,648,411)	(2,307)	(4,849,341)	19,448	(2,660,627)	-
CASH AND CASH EQUIVALENTS – Beginning of Year	9,431,685	19,448	14,281,026	-	16,941,653	-
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 5,783,274	$ 17,141	$ 9,431,685	$ 19,448	$ 14,281,026	$ -

Waverly Utilities Financial Analysis (cont.)

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

	WMEU			WCU		
	Actual 2016	Budget 2016	Variance Favorable (Unfavorable)	Actual 2016	Budget 2016	Variance Favorable (Unfavorable)
OPERATING REVENUES	$ 18,502,077	$19,241,205	($739,128)	$ 339,401	$513,765	($174,364)
OPERATING EXPENSES						
Depreciation expenses	2,007,314	2,217,483	210,169	173,363	396,298	222,935
Other operating expenses	15,924,936	17,228,860	1,303,924	1,876,704	2,191,636	314,932
Total Operating Expenses	17,932,250	19,446,343	1,514,093	2,050,067	2,587,934	537,867
Operating Income	569,827	(205,138)	774,965	(1,710,666)	(2,074,169)	363,503
Investment income	132,418	105,000	27,418	-	-	-
Interest and amortization expense	(297,187)	(297,662)	475	(46,620)	(45,114)	(1,506)
Gain on sale of plant	(5,151)	-	(5,151)	-	-	-
Other income (expense)	(72,114)	(70,420)	(1,694)	-	-	-
Total Non-Operating Expenses	(242,034)	(263,082)	21,048	(46,620)	(45,114)	(1,506)
Income before contributions and operating transfers	327,793	(468,220)	796,013	(1,757,286)	(2,119,283)	361,997
Contributions	(1,749)	-	(1,749)	-	-	-
Operating transfers to the City of Waverly	(855,924)	(855,926)	2	-	-	-
Change in Net Position	(529,880)	(1,324,146)	794,266	(1,757,286)	(2,119,283)	361,997
NET POSITION, Beginning of Year	42,119,949	42,119,949	-	(689,304)	(689,304)	-
NET POSITION, END OF YEAR	$ 41,590,069	$ 40,795,803	$ 794,266	$ (2,446,590)	$ (2,808,587)	$ 361,997

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.

WMEU Fund Analysis

Designated Funds

The Vehicle Replacement fund has a balance of $415,200 $269,165, and $281,234 respectively for 2016, 2015, and 2014. 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 $1,070,000 is funded annually at $60,000 a year. The 2015 and 2014 balance was $1,010,000 and $950,000 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 has a balance of $357,227, $361,487, and $365,373, for 2016, 2015, and 2014 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 2016, $100,000 in 2015, and $0 in 2014. The G & A Fund has a balance of $145,411 in 2016 and $164,878 in 2015 and 2014. They are funded annually based on the budget process.

The Key Accounts fund is 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 has a balance of $238,778, $268,130, and $544,992 for 2016, 2015, and 2014 respectively. This program is set to end on 12/31/16 and funds will no longer be expended for this program

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 has a balance of $100,000 in 2016, $50,000 in 2015, and $0 in 2014.

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 has a balance of $2,295,575, $4,186,755, and $6,306,478 for 2016, 2015, and 2014 respectively.

The Specified Project Fund was established in 2010 to set aside funds for future projects and unspent monies from bond proceeds. The fund has a balance of $1,232,212 in 2016 (unspent bond proceeds), $2,431,612 in 2015 (of which $1,639,932 is unspent bond proceeds), and $1,326,557 in 2014 ($26,557 is unspent bond proceeds).

WMEU Fund Analysis(cont.)

Restricted Funds

The Sinking, Reserve and Improvement funds were funded per the requirements of the Clean Renewable Energy Bonds (CREB), 2012, 2013, 2015, and 2016 bond issues. The total of these restricted funds are $1,489,519, $1,276,700, and $1,165,749 in 2016, 2015, and 2014, respectively.

Capital Assets

WMEU has $75.6 million of capital assets with a net asset 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.

WCU has $5.45 million of capital assets with a net asset 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 asset 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 asset value of $2.177 million. The total includes $87 thousand in equipment and $2.092 million in construction work in progress.

In 2014 WMEU's capital assets included $66.9 million of capital assets with a net asset value of $35 million. The total includes $.4 million in land, $3.9 million in buildings, $37.3 million in improvements, $6.6 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.

WMEU's capital improvements for 2016 included installation of new distribution lines, services, meters, and 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, and transformers, Louisa Generating Station improvements, WS4 Generating Station improvements, fiber system, finishing work on the Cat engines and New West Substation, and transmission improvements.

Capital Assets (cont.)

WMEU's capital improvements for 2014 included installation of new distribution lines, services, meters, and transformers, Louisa Generating Station improvements, WS4 Generating Station improvements, new west substation, raising stacks on all engines, install of Caterpillar generators, new servers and computers.

Debt Activity

WMEU has $11.8 million of outstanding debt at December 31, 2016. This includes $1.1 million of CREB bonds issued to finance two wind turbines, and $2.9 million for the 2013 bonds which were issued to fund the reimbursement resolution, 4 Caterpillar generators purchase and installation, and the West Substation construction. Also $4.9 million of 2015 bonds were issued for the Fiber buildout, Aerial Truck, Backhoe, and reimbursement resolution. In addition in 2016, $2.86 million of bonds were issued to fund the reimbursement resolution, fiber optic cable drops, switchgear, aerial truck and a Digger Derrick.

WCU has $7.686 million of outstanding debt at December 31, 2016. This includes $5.587 million of 2016 bonds issued to fund capital setup of the utility, and $2.1 million of a temporary operational advance from WMEU.

At the end of 2015 and 2014 the outstanding debt for WMEU was $9.6 million and $5.6 million, respectively.

At the end of 2015 and 2014 the outstanding debt for WCU was $2.504 million and $0 respectively.

WMEU maintains a sinking fund, reserve fund and an improvement fund per bond requirements. The balance in these restricted funds is $1,489,519. Debt service for 2016 included $663,421of 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. The 2014 restricted fund balance was $1,165,749 including $1,023,421 of principal payments and $81,851 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, 2016 and 2015

ASSETS	WMEU 2016	WCU 2016	WMEU 2015	WCU 2015
CURRENT ASSETS				
Cash and investments	$ 3,339,351	$ 17,141	$ 3,312,958	$ 19,448
Accounts receivable	2,276,258	90,990	2,104,254	
Interest Receivable	33,235		4,593	
Inventory	1,889,046	70,667	1,699,650	
Prepaid expenses	146,291	58,516	193,017	40,016
Restricted Assets				
Sinking Fund Accounts				
CREB bonds	16,365		16,471	
2013 bonds	36,506		36,339	
2015 bonds	22,620		23,139	
2016 bonds	24,653			
Total Current Assets	7,784,325	237,314	7,390,421	59,464
NON-CURRENT ASSETS				
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		-	
Improvement fund	250,000		250,000	
Total Restricted Assets	1,389,375	-	1,200,751	-
Designated Accounts				
Vehicle replacement	415,200		269,165	
Key accounts	238,778		268,130	
Renewable energy fund	357,227		361,487	
Generation	100,000		100,000	
G & A	145,411		164,878	
Rate stabiization fund	2,295,575		4,186,755	
Specified projects fund	1,232,212		2,431,612	
Insurance recovery	1,070,000		1,010,000	
Distribution Fund	100,000		50,000	
Total Designated Accounts	5,954,403	-	8,842,027	-
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	2,099,819		508,320	
Energy rebates net of amortization	602,653		568,260	
Total Other Assets	2,928,652	-	1,302,760	-
Capital Assets				
Land	351,624		351,624	
Buildings	4,205,586		4,184,003	
Improvements	47,608,077	1,566,044	41,229,218	
Machinery and equipment	6,443,048	2,739,935	6,554,817	86,636
Louisa & Walter Scott 4 plants	15,786,230		15,663,401	
Construction work in progress	1,233,936	1,145,016	3,184,848	2,092,000
Total Capital Assets	75,628,501	5,450,996	71,167,911	2,178,636
Accumulated depreciation	(35,659,589)	(187,850)	(33,695,152)	(1,993)
Net Capital Assets	39,968,912	5,263,146	37,472,759	2,176,643
Total Non-Current Assets	50,241,342	5,263,146	48,818,297	2,176,643
TOTAL ASSETS	$ 58,025,667	$ 5,500,460	$ 56,208,718	$ 2,236,107
DEFERRED OUTLOWS OF RESOURCES				
Note payable - Wellness Center	720,000		840,000	
Deferred Outflows for Pension Plan	893,630	82,446	381,371	5,890
Unearned credit - Wartburg green power	1,100,000		1,200,000	
DEFERRED OUTFLOWS OF RESORUCES	2,713,630	82,446	2,421,371	5,890
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 60,739,297	$ 5,582,906	$ 58,630,089	$ 2,241,997

See accompanying notes to financial statements.

WAVERLY UTILITIES

STATEMENTS OF NET POSITION
As of December 31, 2016 and 2015

	WMEU 2016	WCU 2016	WMEU 2015	WCU 2015
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	$ 1,032,549	$ 124,265	$ 1,604,662	$ 394,958
Accrued property taxes	155,800	-	160,197	-
Unearned revenue-Customer Billings	-	60,595	-	-
Other accrued expenses	717,987	64,811	965,054	24,342
Accrued interest	-	20,253	-	5,580
Current Liabilities Payable From Restricted Assets				
Current portion of revenue bonds	863,421	-	663,421	-
Cannon 1 & 2 payable	-	-	-	-
Accrued interest on revenue bonds	28,439	-	32,426	-
Total Current Liabilities	2,798,196	269,924	3,425,760	424,880
NON-CURRENT LIABILITIES				
Revenue bonds	10,897,105	5,586,571	8,900,526	1,995,774
Advance between WMEU and WCU	-	2,099,819	-	508,320
Bond Premium	94,543	-	38,649	-
Net Pension Liability	1,929,506	66,365	1,294,105	1,227
Other long-term accounts payable	275,892	4,391	226,199	1,100
Total Non-Current Liabilities	13,197,046	7,757,147	10,459,479	2,506,421
TOTAL LIABILITIES	15,995,242	8,027,071	13,885,239	2,931,301
DEFERRED INFLOWS OF RESOURCES				
Unearned revenue - Wellness Center	720,000	-	840,000	-
Deferred Inflows for Rate Stabilization	1,025,294	-	225,294	-
Deferred Inflow for Pension Plan	308,692	2,425	359,607	-
Unearned revenue - Wartburg green power choice	1,100,000	-	1,200,000	-
DEFERRED INFLOWS OF RESOURCES	3,153,986	2,425	2,624,901	-
NET POSITION				
NET POSITION				
Net investment in capital assets	29,253,218	(323,425)	28,820,914	180,869
Restricted for debt service and improvements	321,705	-	293,523	-
Unrestricted	12,015,146	(2,123,165)	13,005,512	(870,173)
Total Net Position	41,590,069	(2,446,590)	42,119,949	(689,304)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 60,739,297	$ 5,582,906	$ 58,630,089	$ 2,241,997

WAVERLY UTILITIES

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years ended December 31, 2016 and 2015

	WMEU 2016	WCU 2016	WMEU 2015	WCU 2015
OPERATING REVENUES				
Sales to customers	$ 14,978,159	$ 339,401	$ 13,652,421	$ 21,520
Rate stabilization	(800,000)	-	412,000	-
Miscellaneous	4,323,918	-	3,738,843	-
Total Operating Revenues	18,502,077	339,401	17,803,264	21,520
OPERATING EXPENSES				
Production	12,705,812		12,357,849	
Transmission	207,337		168,091	
Distribution	1,678,864		1,564,995	
Customer accounts	213,784		241,356	
Administrative and general	766,436		757,483	
Customer information	70,861		74,169	
Community development	110,168		104,374	
WCU Operating Expenses	-	1,876,704	-	516,707
Conservation	169,612		166,162	
Water heater	2,062		19,187	
Depreciation	2,007,314	173,363	1,945,796	1,993
Total Operating Expenses	17,932,250	2,050,067	17,399,462	518,700
Operating Income	569,827	(1,710,666)	403,802	(497,180)
NONOPERATING REVENUE (EXPENSES)				
(Loss) on sale of plant	(5,151)		(76,512)	
Investment income	132,418		69,211	
Interest expense	(229,866)	(46,620)	(102,976)	(4,758)
Bond Issue Costs and Amortization of Premium	(72,114)		(113,117)	(210,906)
Amortization of energy rebates	(67,321)		(64,804)	
Total Nonoperating Revenue (Expenses)	(242,034)	(46,620)	(288,198)	(215,664)
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS	327,793	(1,757,286)	115,604	(712,844)
Contributions	(1,749)		(2,306)	
Transfer to City of Waverly general fund	(855,924)	-	(854,976)	-
CHANGE IN NET POSITION	(529,880)	(1,757,286)	(741,678)	(712,844)
NET POSITION - Beginning of Year	42,119,949	(689,304)	42,861,627	23,540
NET POSITION - END OF YEAR	$ 41,590,069	$ (2,446,590)	$ 42,119,949	$ (689,304)

See accompanying notes to financial statements.

Statements of Cash Flows Follow

WAVERLY UTILITIES

STATEMENTS OF CASH FLOWS

For the Years ended December 31, 2016 and 2015

	WMEU 2016	WCU 2016	WMEU 2015	WCU 2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Received from sales to customers	$ 14,806,155	$248,411	$ 13,775,678	$21,520
Received from Municipal Energy Agency of Nebraska	4,322,169		3,736,537	
Paid to suppliers for purchased power and transmission	(10,592,545)		(10,052,404)	
Paid to suppliers and employees for other services	(5,338,659)	(2,141,869)	(6,713,363)	(487,128)
Net Cash Flows From Operating Activities	3,197,120	(1,893,458)	746,448	(465,608)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Payment to City of Waverly for credit to Waverly Wellness Center	(120,000)		(120,000)	
Advance between WMEU and WCU	(1,591,499)	1,591,499	(531,860)	531,860
Transfers to City of Waverly	(735,924)		(734,976)	
Net Cash Flows From Noncapital Financing Activities	(2,447,423)	1,591,499	(1,386,836)	531,860
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of plant and equipment	(5,375,319)	(3,259,200)	(4,055,534)	(1,826,914)
Salvage received on plant sold	-		23,329	
Debt issue costs	(72,114)		(113,117)	(210,906)
Principal received from bonds	2,860,000	3,590,797	4,980,000	1,995,774
Bond Premium	55,894		38,649	
Principal payments on revenue bonds	(663,421)		(1,028,421)	
Interest paid	(233,854)	(31,945)	(76,966)	(4,758)
Net Cash Flows From Capital and Related Financing Activities	(3,428,814)	299,652	(232,060)	(46,804)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of marketable securities	(1,000,000)		(4,000,000)	
Purchase of energy rebates	(101,712)		(46,104)	
Investment income	132,418		69,211	
Net Cash Flows From Investing Activities	(969,294)	-	(3,976,893)	-
Net Change in Cash and Cash Equivalents	(3,648,411)	(2,307)	(4,849,341)	19,448
CASH AND CASH EQUIVALENTS - Beginning of Year	9,431,685	19,448	14,281,026	0
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 5,783,274	$ 17,141	$ 9,431,685	$ 19,448
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Amortization of energy rebates	$ 67,321	$ -	$ 64,804	$ -
Gain (loss) on sale of plant	$ (5,151)	$ -	$ (76,512)	$ -

See accompanying notes to financial statements

	WMEU 2016	WCU 2016	WMEU 2015	WCU 2015
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income	$ 569,827	($1,710,666)	$ 403,802	($497,180)
Non-operating income (expense)	(1,749)		(2,306)	
Noncash items included in operating income				
Depreciation	2,007,314	173,363	1,945,796	1,993
Depreciation cleared	211,471	12,494	157,205	
Changes in assets and liabilities				
Accounts receivable	(172,004)	(90,990)	122,963	
Interest receivable	(28,641)		(4,593)	
Inventory	(189,396)	(70,667)	(646,645)	
Prepaid expenses	46,726	(18,501)	(55,271)	(40,015)
Accounts payable	83,118	(283,853)	141,305	43,236
Accrued property taxes	(4,397)		(7,295)	
Deferred Outflows for Pension Plan	(512,259)	(76,556)	(247,415)	(5,890)
Net Pension Liability	635,401	65,139	278,051	1,227
Deferred Inflows for Pension Plan	(50,915)	2,425	(103,562)	
Unearned Service Revenue		60,595		
Deferred Inflows for Rate Stabilization	800,000		(411,706)	
Other accrued expenses	(197,373)	43,759	(823,881)	31,021
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 3,197,120	$ (1,893,458)	$ 746,448	$ (465,608)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEET ACCOUNTS				
Cash and investments	$ 3,339,351	$ 17,141	$ 3,312,958	$ 19,448
Restricted assets				
Sinking Fund Accounts				
CREB bonds	16,365		16,471	
2013 bonds	36,506		-	
2015 bonds	22,620		36,339	
2016 bonds	24,653		23,139	
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		-	
Improvement fund	250,000		250,000	
Total Cash and Restricted Assets	4,828,870	17,141	4,589,658	19,448
Designated Accounts				
Vehicle replacement	415,200		269,165	
Key accounts	238,778		268,130	
Iowa energy tags	357,227		361,487	
Generation	100,000		100,000	
G & A	145,411		164,878	
Rate stabilization fund	2,295,575		4,186,755	
Specified project fund	1,232,212		2,431,612	
Insurance recovery	1,070,000		1,010,000	
Distribution Fund	100,000		50,000	
Total Designated Accounts	5,954,404	-	8,842,027	-
Less: non cash equivalents (note 1)	(5,000,000)	-	(4,000,000)	-
TOTAL CASH AND CASH EQUIVALENTS	$ 5,783,274	$ 17,141	$ 9,431,685	$ 19,448

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Statement No. 14, The Financial Reporting Entity. 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.

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

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 2015. 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, and 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, 2016 and 2015 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 debts is not considered material.

WMEU accounts receivable balances at December 31, 2016 and 2015 include: unbilled revenues totaling $688,880 and $635,831, customer accounts receivable totaling $1,143,078 and $1,005,997, energy cost adjustment (ECA) totaling ($65,703) and $0, other accounts receivable totaling $510,004 and $462,426, and accrued interest receivable totaling $33,234 and $4,593, 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 at December 31, 2016 and 2015 had receivables of $90,990 and $0 respectively.

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	
	2016	2015	2016	2015
Local Inventories				
Warehouse Materials	$ 880,111	$ 916,365	$ 70,667	$ -
Water heaters	3,420	4,247		
Operating plant fuel	82,752	81,636		
Louisa Inventories				
Coal	725,219	513,889		
Oil	3,238	3,243		
Materials	55,973	56,217		
WS4 Inventories				
Coal	105,453	91,496		
Oil	3,802	3,618		
Materials	29,078	28,939		
Totals	$ 1,889,046	$ 1,699,650	$ 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.

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

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 2016 and 2015 $182,531 and $13,696 of WCU interest was capitalized, respectively. Maintenance and repairs are expensed as incurred.

WMEU's depreciation expense for the years ended December 31, 2016 and 2015, was $2,218,785 and $2,103,001, respectively; of that, $2,007,314 and $1,945,796 was expensed and $211,471 and $157,205 was capitalized in 2016 and 2015. WCU depreciation expense for the years ended December 31, 2016 and 2015 was $173,363 and $1,993.

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

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

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

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, key accounts payable – used to encourage customer energy efficiency in operations and electrical usage and to support the Waverly Area Development Group's economic development activities; and Renewable Energy Payable – a fund used for donations for energy efficiency programs for green power.

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.

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

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 applied 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 2014, $637,000 was transferred from revenue to the RSF, which will be used in 2015-2017 based upon need. In 2015, $412,000 was transferred from RSF to Revenue. In 2016, $800,000 was transferred from revenue to the RSF, which will be used in 2017-2019 giving the fund a balance of $1,025,000 as of December 31, 2016.

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 August 2015 and placed into effect in January 2016. New electric rates were approved in October 2016 that will go into effect in January 2017.

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

REVENUES AND EXPENSES (cont.)

Charges and Services

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 GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, Statement No. 80, Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14, Statement No. 81, Irrevocable Split-Interest Agreements, and Statement No. 82, Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73. 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.

NOTE 2 – DEPOSITS AND INVESTMENTS

The utilities' deposits in banks at December 31, 2016 and 2015 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, 2016 and 2015 were comprised of the following:

	WMEU 2016	WCU 2016	WMEU 2015	WCU 2015	Risks
Checking	$1,148,446	$ 16,761	$ 1,604,548	$ 19,448	Custodial credit risk
Petty cash	1,300	380	973		Custodial credit risk
Saving	4,633,527		7,826,164		Custodial credit risk
Certificates of deposit	5,000,000		4,000,000		Custodial credit risk
Total Deposits and Investments	$10,783,273	$ 17,141	$13,431,685	$ 19,448	

Reconciliation to financial statements

	WMEU 2016	WCU 2016	WMEU 2015	WCU 2015
Unrestricted cash and investments	$ 3,339,351	$ 17,141	$ 3,312,958	$ 19,448
Restricted cash and investments	1,489,519		1,276,700	
Designated cash and investments	5,954,403		8,842,027	
Total Deposits and Investments	$10,783,273	$ 17,141	$13,431,685	$ 19,448

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.

NOTE 3 – RESTRICTED ASSETS

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:

	2016	2015
Restricted Assets		
Sinking funds	$ 100,144	$ 75,949
Reserve fund	1,139,375	950,751
Improvement fund	250,000	250,000
Total Restricted Assets	1,489,519	1,276,700
Less: Restricted Assets Not Funded by Revenues		
Reserve fund	(1,139,375)	(950,751)
Total Restricted Assets Not Funded by Revenues	(1,139,375)	(950,751)
Current Liabilities Payable From Restricted Assets	(28,439)	(32,426)
Total Restricted Net Position as Calculated	$ 321,705	$ 293,523

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.

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, 2016 and 2015.

		2016		2015	
To	From	Amount	Principal Purpose	Amount	Principal Purpose
Municipality	WMEU	$ 735,924	Fund Transfer	$ 734,976	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 directors 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, 2016 and 2015:

		2016		2015	
Due To	Due From	Amount	Principal Purpose	Amount	Principal Purpose
WMEU	WCU	$ 2,099,819	Temp Fund Transfer	$ 508,320	Temp Fund Transfer

NOTE 5 – CHANGES IN CAPITAL ASSETS

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

	Balance 01/01/16	Additions	Deletions	Balance 12/31/2016
Capital assets:				
Land [1]	$ 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 [1]	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

[1] – Capital assets not being depreciated.

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

	Balance 01/01/16	Additions	Deletions	Balance 12/31/2015
Capital assets:				
Improvements	$ -	$ 1,566,044	$ -	$ 1,566,044
Equipment	86,636	2,653,299	-	2,739,935
Construction in progress [1]	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

[1] – Capital assets not being depreciated.

NOTE 5 – CHANGES IN CAPITAL ASSETS (cont.)

A summary of changes in WMEU capital assets for 2015 follows:

	Balance 01/01/15	Additions	Deletions	Balance 12/31/2015
Capital assets:				
Land [1]	$ 357,124	$ -	$ (5,500)	$ 351,624
Buildings	3,919,171	264,832	-	4,184,003
Improvements	37,287,933	4,007,098	(65,813)	41,229,218
Equipment	6,616,917	202,382	(264,482)	6,554,817
Louisa plant	10,168,576	108,720	(13,806)	10,263,490
WS4 plant	5,396,835	7,869	(4,793)	5,399,911
Construction in progress [1]	3,158,974	25,874		3,184,848
Less: Accumulated depreciation	(31,846,703)	(2,103,002)	254,553	(33,695,152)
Net Capital Assets	$ 35,058,827	$ 2,513,773	$ (99,841)	$ 37,472,759

[1] – Capital assets not being depreciated.

A summary of changes in WCU capital assets for 2015 follows:

	Balance 01/01/15	Additions	Deletions	Balance 12/31/2015
Capital assets:				
Equipment	$ -	$ 86,636	$ -	$ 86,636
Construction in progress [1]	-	2,092,000		2,092,000
Less: Accumulated depreciation	-	(1,993)	-	(1,993)
Net Capital Assets	$ -	$ 2,176,643	$ -	$ 2,176,643

[1] – Capital assets not being depreciated.

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
WMEU						
12/4/2007	Finance two wind turbines	12/1/2022	12/1/2022	0.70%	$ 2,826,316	$ 1,130,526
12/3/2013	Finance Exp Reimb Resolution, West Sub, 4 Generators	12/1/2021	12/1/2023	0.4-2.75%	4,000,000	2,890,000
10/27/2015	Finance Fiber Buildout, Backhoe, Aerial Truck, Reimburse	12/1/2023	12/1/2030	2.0-4.0%	4,980,000	4,880,000
10/25/2016	Fiber drops, Meters, transformers, switchgear, phone system aerial truck, digger derrick & vehicles, Louisa & WS4 faciliteis	12/1/2024	12/1/2029	2%	2,860,000	2,860,000
WCU						
2/26/2015	Communications Utility Setup Capital Expenditures	12/1/2029	12/1/2029	4.3-9.0%	up to: 7,000,000	5,586,571

The 2008 CREB revenue bond debt service requirements to maturity follows:

	Principal	Interest	Total
2017	$ 188,421	$ 7,914	$ 196,335
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
Totals	$ 1,130,526	$ 27,699	$ 1,158,225

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

REVENUE BONDS (cont.)

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

Year	Principal	Interest	Total
2017	$ 380,000	$ 58,068	$ 438,068
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
2022-2023	890,000	35,899	925,899
Totals	$ 2,890,000	$ 269,769	$ 3,159,769

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

Year	Principal	Interest	Total
2017	$ 125,000	$ 146,441	$ 271,441
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
2022-2026	1,885,000	528,434	2,413,434
2027-2030	2,180,000	177,843	2,357,843
Totals	$ 4,880,000	$ 1,385,582	$ 6,265,582

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

Year	Principal	Interest	Total
2017	$ 170,000	$ 62,920	$ 232,920
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
2022-2026	1,245,000	170,300	1,415,300
2027-2029	885,000	35,600	920,600
Totals	$ 2,860,000	$ 466,620	$ 3,326,620

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

REVENUE BONDS (cont.)

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

Year	Principal*	Interest*		Total*
2017	$ -	$ 301,000	***	$ 301,000
2018	350,000	301,000		651,000
2019	485,000	285,950		770,950
2020	505,000	265,095	**	770,095
2021	530,000	243,380	**	773,380
2022-2029	5,130,000	1,764,720	**	6,894,720
Totals	$ 7,000,000	$ 3,161,145		$ 10,161,145

* Given that the full $7,000,000 is advanced
** Given interest rate stays at 4.3%
*** Interest will be capitalized

According to WCU 2015 bonds, advances are made for project costs, costs of issuance, and capitalized interest beginning on February 26, 2015 through December 1, 2017. If less than $7 million is advanced under the Notes, the above annual principal payments will be prorated to reflect the total. Interest is capitalized during the advance period. 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 2016 and 2015 were $897,275 and $1,105,387, respectively. Total customer gross revenues as defined for the same periods were $18,502,077 and $17,803,264. Annual principal and interest payments are expected to require 5.5% of gross revenues on average. WCU interest capitalized for 2016 was $182,531 and for 2015 was $13,696.

NOTE PAYABLE/ DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

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, 2016 and 2015 were $720,000 and $840,000, respectively. This amount has been classified as a deferred outflow and offset in the Statements of Net Position as a deferred inflow.

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

NOTE PAYABLE/ DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES (cont.)

Note payable obligations to maturity follows:

Year	Principal	Interest	Total
2017	$ 120,000	$ -	$ 120,000
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	$ 720,000	$ -	$ 720,000

UNEARNED CREDIT – WARTBURG GREEN POWER

This amount relates to payments received by the WMEU on behalf of Wartburg. Upon receipt, the amounts are remitted directly to the Green Power Choice Energy Program. As such, a deferred inflow and deferred outflow in the amount of $1,100,000 and $1,200,000, respectively has been reflected in the Statements of Net Position for 2016 and 2015.

Non-Current Liabilities

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	-
Totals	$ 11,122,900	$ 3,604,329	$ 666,762	$ 14,060,467	$ 863,421

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

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	
Totals	$ 2,506,421	$ 5,250,725	$ -	$ 7,757,146	$ -

Long-term Obligations for WMEU for 2015 are as follows:

Debt Issue	Balance 12/31/2014	Additions	Reductions	Balance 12/31/2015	Current Portion
CREB Revenue bonds	$ 1,507,368	$ -	$ 188,421	$ 1,318,947	$ 188,421
2012 Revenue bonds	470,000		470,000	-	
2013 Revenue Bonds	3,635,000		370,000	3,265,000	375,000
2015 Revenue Bonds	-	4,980,000		4,980,000	100,000
Bond Premium	-	39,081	432	38,649	
Advance between WMEU and WCU	23,540		23,540	-	
Net Pension Liability	1,016,054	278,051		1,294,105	
Other Long Term Other Post Employment Obligation	182,538	43,661	-	226,199	-
Totals	$ 6,834,500	$ 5,340,793	$ 1,052,393	$ 11,122,900	$ 663,421

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

Long-term Obligations for WCU for 2015 are as follows:

Debt Issue	Balance 12/31/2014	Additions	Reductions	Balance 12/31/2015	Current Portion
2015 Revenue Bonds	$ -	$ 1,995,774	$ -	$ 1,995,774	$ -
WCU Temporary Transfer		508,320		508,320	
Net Pension Liability	-	1,227		1,227	
Other Long Term accounts payable	-	1,100		1,100	
Totals	$ -	$ 2,506,421	$ -	$ 2,506,421	$ -

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

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 asset 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 Position invested in capital assets, net of related debt:

	WMEU 2016	WCU 2016	WMEU 2015	WCU 2015
Plant in service	$ 74,394,565	$ 4,305,980	$ 67,983,063	$ 86,636
Accumulated depreciation	(35,659,589)	(187,850)	(33,695,152)	(1,993)
Construction work in progress	1,233,936	1,145,016	3,184,848	2,092,000
Subtotal	39,968,912	5,263,146	37,472,759	2,176,643
Less: Capital Related Debt				
Current portion of capital related long-term debt	863,421	-	663,421	-
Long-term portion of capital related long-term debt	10,897,105	5,586,571	8,900,526	1,995,774
Unamortized Premium	94,543	-	38,649	-
Subtotal	11,855,069	5,586,571	9,602,596	1,995,774
Add: Reserve from borrowing	1,139,375	-	950,751	-
Total Net Investement in Capital Assets	$ 29,253,218	$ (323,425)	$ 28,820,914	$ 180,869

NOTE 8 – LEASES

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. As of 12/31/16 the fiber infrastructure was complete with a cost of $5,047,848. Fiber drops are continuing to be installed throughout the community. Currently the fiber drop project had a work-in-process of $1,082,989 due to complete by 2017.

The entire fiber plant is included in the utility's 2016 assets at a cost of $5,444,863 plus fiber drop work in process of $1,082,989 less accumulated depreciation of $407,220 for a net value of $6,120,632. 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. In 2016, lease/rents for 2016 and 2015 was $151,266 and $5,052, respectively.

NOTE 9 – PENSION PLAN

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.

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.

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.)

Pension 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).

NOTE 9 – PENSION PLAN (cont.)

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 2016, 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.

NOTE 9 – PENSION PLAN (cont.)

Contributions (cont.)

WMEU's total contribution to IPERS during the IPERS reporting period for the years ended June 30, 2016 and 2015 were $184,342 and $159,707, respectively. WCU's amount was $18,898 in 2016 and $696 in 2015. WMEU's total contributions to IPERS during the Utilities' calendar years ended December 31, 2016 and 2015 were $185,292 and $173,379, respectively. WCU's contribution was $36,249 in 2016 and $5,553 in 2015.

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

At December 31, 2016 and 2015, WMEU reported a liability of $1,929,506 and $1,294,105, respectively for its proportionate share of the net pension liability. WCU's proportionate share at December 31, 2016 and 2015 was $66,365 and $1,227, respectively. The net pension liability was measured as of June 30, 2016 and 2015, 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, 2016, the Utilities collective proportion was .032004 percent which is an increase of .005879 percent from its proportion measured as of June 30, 2015.

For the years ended December 31, 2016 and 2015, WMEU recognized pension expense of $257,518 and $100,441, respectively. WCU recognized pension expense of $27,257 in 2016 and $890 in 2015.

At December 31, 2016 and 2015, the Utilities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016		2015	
	Deferrred Outflows of Resources	Deferred Inflows of Resources	Deferrred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual Experience	$ 17,640	$ 23,820	$ 19,571	$ -
Changes in Assumptions	30,451	-	35,664	-
Net Difference between projected and actual earnings on pension plan investments	531,332	246,984	193,807	301,613
Changes in proportion and differences between Utilty Contributions and proportionate share of contributions	281,763	40,313	41,631	57,994
Utility Contributions subsequent to the measurement date	114,890	-	96,588	-
Total Balance	976,076	311,117	387,261	359,607
WMEU	893,630	308,692	381,371	359,607
WCU	82,446	2,425	5,890	-
Total Balance	$ 976,076	$ 311,117	$ 387,261	$ 359,607

NOTE 9 – PENSION PLAN (cont.)

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

$92,682 in WMEU and $22,208 in WCU was 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, 2017. 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
2017	$ 79,110	$ 9,291
2018	79,110	9,291
2019	190,290	22,349
2020	128,757	15,122
2021	14,989	1,760
	$ 492,256	$ 57,813

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

NOTE 9 – PENSION PLAN (cont.)

Actuarial Assumptions (cont.)

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

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

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	-0.69
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the 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.

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 7.5 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 (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	(6.5%)	(7.5%)	(8.5%)
WMEU's proportionate share of the net pension liability			
2015	$ 2,271,817	$ 1,294,105	$ 475,241
2016	3,121,679	1,929,506	923,296
WCU's proportionate share of the net pension liability			
2015	$ 2,154	$ 1,227	$ 451
2016	107,370	66,365	31,756

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.

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, 2016 and 2015 is $1,070,000 and $1,010,000, respectively. The insurance recovery fund was established for the purpose of subsidizing claims that were caused by extraordinary circumstances. No such claims have occurred in the past three years including no instances of claims incurred but not reported. Settled claims from risks have not exceeded commercial insurance coverage in the past three years. There were no significant deductions in coverage compared to the prior year.

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. Waverly Utilities contributes 2.8 percent of the current year premiums for a single plan for eligible retired plan members. For fiscal years 2016 and 2015, WMEU contributed $8,430 and $7,676 to the plan, respectively. WCU contributed $0 to the plan in 2016 and 2015. 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 2016 or 2015.

Administrative costs of the plan are financed through investment earnings. 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	$ 51,337	$ 3,258
Interest on net OPEB obligation	6,786	33
Annual OPEB cost	58,123	3,291
Contributions made	(8,430)	-
Increase in net OPEB obligation	49,693	3,291
Net OPEB Obligation – Beginning of Year	226,199	1,100
Net OPEB Obligation – End of Year	$ 275,892	$ 4,391

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, 2016 and two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
WMEU			
2016	$58,123	15%	$275,892
2015	$51,337	15%	$226,199
WCU			
2016	$3,291	0%	$4,391
2015	$1,100	0%	$1,100

The funded status of the plan as of December 31, 2016, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	$324,722
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	$324,722
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	$2,473,629
UAAL as a percentage of covered payroll	13%

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.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

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. The remaining amortization period at December 31, 2016 was 25 years.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

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, 2016 and 2015 was $735,924 and $734,976, 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 2016, 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.

NOTE 12 – COMMITMENTS AND CONTINGENCIES (CONT.)

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 MW were increased to 21.25 MW for the reminder of the five year period.

NOTE 13 – CLAIMS AND JUDGMENTS

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.

NOTE 14 – JOINT VENTURES

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.

NOTE 15 – SIGNIFICANT CUSTOMER

WMEU sales to a significant customer were 10.2% in 2016 and 10.25% in 2015. The utility periodically enters into electric service agreements with larger customers.

NOTE 16 – SUBSEQUENT EVENTS

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

NOTE 17 – BOND RESERVE REQUIREMENTS

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, 2016 and 2015. 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:

	Sinking Fund Reserve	Reserve Fund Reserve	Improvement Fund Reserve
2017	$ 196,335	$ -	$ -
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, 2016.

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, 2016 and 2015. The funds are

NOTE 17 – BOND RESERVE REQUIREMENTS (cont.)

WMEU (cont.)

2013 BOND RESERVE REQUIREMENTS (cont.)

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:

	Sinking Fund Reserve	Reserve Fund Reserve
2017	$ 438,068	$ -
2018	443,888	-
2019	448,038	-
2020	451,038	-
2021	452,838	-
2022	458,388	-
2023	467,511	-

The Reserve Fund Reserve is fully funded and thus no annual funding requirements exist for these reserves as of December 31, 2016.

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, 2016 and 2015. 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.

NOTE 17 – BOND RESERVE REQUIREMENTS (cont.)

WMEU (cont.)

2015 BOND RESERVE REQUIREMENTS (cont.)

The annual obligations for these reserves are:

	Sinking Fund Reserve	Reserve Fund Reserve
2017	$ 271,441	$ -
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, 2016.

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, 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.

NOTE 17 – BOND RESERVE REQUIREMENTS (cont.)

WMEU (cont.)

2016 BOND RESERVE REQUIREMENTS (cont.)

The annual obligations for these reserves are:

	Sinking Fund Reserve	Reserve Fund Reserve
2017	$ 232,920	$ -
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	-

REQUIRED SUPPLEMENTAL INFORMATION

WAVERLY UTILITIES

SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT BENEFITS PLAN
For the Years Ended December 31, 2016 and 2015

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
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
Last Fiscal Year*

Required Supplementary Information

	2016	2015	2014
Utilities' proportion of the net pension liability (asset)	0.0320040%	0.0261250%	0.0251058%
Utilities' proportionate share of the net pension liability	$ 1,995,871	$ 1,295,332	$ 1,016,054
Utilities' covered-employee payroll	2,275,924	1,796,226	1,676,439
Utilities' proportionate share of the net pension liability as a percentage of its covered employee payroll	87.69%	72.11%	60.61%
Plan Fiduciary net position as a percentage of the total pension liability	81.82%	85.19%	87.61%

*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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Statutorily Required Contribution	$ 221,541	$ 160,403	$ 149,706	$ 150,026	$ 152,000	$ 136,311	$ 125,094	$ 110,754	$ 109,223	$ 96,370
Contribution in relation to the statutorily required contribution	(221,541)	(160,403)	(149,706)	(150,026)	(152,000)	(136,311)	(125,094)	(110,754)	(109,223)	(96,370)
Contribution deficiency(excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Utility's covered-employee payroll	$ 2,480,862	$ 1,796,226	$ 1,676,439	$ 1,680,022	$ 1,753,173	$ 1,689,108	$ 1,799,911	$ 1,665,473	$ 1,720,042	$ 1,592,899
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%	6.35%	6.05%

Amounts include both WMEU and WCU.

Changes of benefit terms:

None in 2016

Changes of assumptions:

None in 2016

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available

SUPPLEMENTAL INFORMATION

WAVERLY UTILITIES

STATEMENTS OF CHANGES IN BOND SINKING, RESERVE, AND IMPROVEMENT FUNDS
For the Years Ended December 31, 2016 and 2015

	Sinking Fund CREB	Sinking Fund 2012	Sinking Fund 2013	Sinking Fund 2015	Sinking Fund 2016	Reserve Fund CREB	Reserve Fund 2012	Reserve Fund 2013	Reserve Fund 2015	Reserve Fund 2016	Improvement Fund 1992 & 1998	Total
BALANCE, DECEMBER 31, 2014	$ 16,581	$ 39,429	$ 36,107	$ -	$ -	$ 282,632	$ 141,000	$ 400,000	$ -	$ -	$ 250,000	$ 1,165,749
Receipts:												
Transfers from operating fund	198,863	433,720	433,520	23,139	-	-	-	-	268,119	-	-	1,357,361
Disbursements:												
Payments of principal and interest on bonds	(198,973)	(473,149)	(433,288)	-	-	-	(141,000)	-	-	-	-	(1,246,410)
BALANCE, DECEMBER 31, 2015	$ 16,471	$ -	$ 36,339	$ 23,139	$ -	$ 282,632	$ -	$ 400,000	$ 268,119	$ -	$ 250,000	$ 1,276,700
Receipts:												
Transfers from operating fund	$ 197,548	$ -	$ 436,235	$ 263,036	$ 24,653	$ -	$ -	$ -	$ -	$ 188,624	$ -	$ 1,110,096
Disbursements:												
Payments of principal and interest on bonds	(197,654)	-	(436,068)	(263,555)	-	-	-	-	-	-	-	(897,277)
BALANCE, DECEMBER 31, 2016	$ 16,365	$ -	$ 36,506	$ 22,620	$ 24,653	$ 282,632	$ -	$ 400,000	$ 268,119	$ 188,624	$ 250,000	$ 1,489,519

WAVERLY UTILITIES

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December 31, 2016

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Angela Schroeder
Denver, IA 50622

WAVERLY UTILITIES

WMEU Operating Expense
Last Ten Fiscal Years

Type of Expense	2007	2008	2009	2010	2011	2012	2013	2014 (Restated)	2015	2016
Production	$ 4,863,026	$ 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
Transmission	98,559	86,660	101,271	217,590	184,657	192,689	191,784	167,614	168,091	207,337
Distrubution	1,467,193	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
Customer Accounts	216,411	198,280	203,553	211,054	220,966	198,203	199,783	213,114	241,356	213,784
Administrative and General	764,759	666,475	677,310	733,127	699,356	644,857	717,073	666,310	757,483	766,436
Customer Information	110,944	123,069	137,730	121,163	122,504	114,300	101,174	63,246	74,169	70,861
Community development	195,134	225,740	261,599	236,107	242,714	249,278	272,645	225,361	104,374	110,168
Conservation	184,190	185,836	287,392	306,493	255,260	196,223	131,000	177,471	166,162	169,612
Water Heater	48,092	93,276	9,920	(1,747)	1,552	116	1,032	(452)	19,187	2,062
Depreciation	1,423,386	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
Internet	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Total	$ 9,371,694	$ 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

`WAVERLY UTILITIES

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

	2007	2008	2009	2010	2011	2012	2013	2014 (Restated)	2015	2016
Operating Revenues Before Rate Stabilization	$ 12,197,191	$ 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
Rate Stabilization	-	-	-	-	-	-	-	(637,000)	412,000	(800,000)
Total Operating Revenues	12,197,191	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
Operating Expense	9,371,694	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
Operating Income	2,825,497	3,075,272	3,126,263	3,362,359	2,789,908	2,205,402	1,378,889	533,060	(8,198)	1,369,827
Non-Operating Income	463,704	262,853	(52,641)	(158,341)	102,807	(23,257)	(137,100)	(166,458)	(288,198)	(242,033)
Contributions			400	3,407	137,449	150,238	(1,176)	(3,388)	(2,306)	(1,749)
Transfers	(761,328)	(884,952)	(935,352)	(961,984)	(933,916)	(935,152)	(827,316)	(861,444)	(854,976)	(855,924)
Change in Net Position	$ 2,527,873	$ 2,453,173	$ 2,138,670	$ 2,245,441	$ 2,096,248	$ 1,397,231	$ 413,297	$ (498,230)	$ (1,153,678)	$ 270,120

WAVERLY UTILITIES

Energy Disposition
Last Ten Fiscal Years

(In kwh)

Type of Service	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Residential	36,760,600	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
Industrial and Commerical	97,591,436	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
Security Lights	305,176	300,846	290,928	282,604	240,626	128,043	132,147	134,996	134,897	135,076
Municipal	9,148,169	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
Total	143,805,381	144,552,265	139,377,435	147,897,085	148,426,039	147,254,478	145,295,780	145,055,316	142,793,183	141,750,865

WAVERLY UTILITIES

WMEU Principal Customers
2015-2016

Principal Customers	Type of Business Activity	Revenue % Sales to Customers 2016	2015
Nestle USA	Beverage Manufacturer	10.20%	10.25%
Wartburg College	Private Liberal Arts College	7.64%	7.87%
GMT	Machining and Fabrication	6.34%	6.68%
Waverly Health Center	Hospital	2.41%	2.43%
Waverly Shell Rock CSD	School	2.30%	2.43%
Walmart	Retail	1.91%	-
Terex	Manufacturing	-	1.72%

WMEU Utility System Revenue Bond Coverage
Last Ten Fiscal Years

Fiscal Year	Total Operating Revenue	Interest & Investment Income	Total Operating Expense	Depreciation Expense	Total Revenue Available for Debt Service	Bond Interest Expense	Debt Principal Payments	Coverage
2007	$ 12,197,746	$ 377,858	$ 9,371,693	$ 1,423,386	$ 4,627,297	$ 241,602	$ 775,000	4.55
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
								Average Coverage
								3.94

WAVERLY UTILITIES

Demographics
Employee Data

# of Employees	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Administration	3	3	3	3	3	2	2	2	2	6
Business Operations	3	3	4	4	4	4	3	4	5	3
Conservation	1	1	2	2	1	1	1	1	1	1
WCU Administration	0	0	0	0	0	0	0	0	1	4
WCU Operations	0	0	0	0	0	0	0	0	3	4
Line	12	13	12	11	11	10	9	9	9	9
Meter	3	2	2	2	2	2	2	2	2	2
Generation	4	5	5	6	7	5	6	6	5	5
Total full-time	26	27	28	28	28	24	23	24	28	34
Part-time & Interns	3	2	4	2	1	1	2	2	1	2

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
2007	$ 3,900,182	$ 5,555,309	$ 1,533,091	$ 7,088,400	$ 37,878	$ 240,305	$ 632,581	$ -	$ -	$ 11,899,346
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

WAVERLY UTILITIES

Capital Improvement Additions
Last Ten Fiscal Years

Fiscal Year	Deletions to Plant	Additions to Plant	Cash Required for Capital Improvements
2007	$ (85,753)	$ 4,391,146	$ 4,476,899
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

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*

Independent Auditors' Report

To 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 Utilities, a component unit of the City of Waverly, Iowa, as of and for the year ended December 31, 2016, and have issued our report dated May 26, 2017.

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 opinion 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

To the Board of Trustees
Waverly Utilities
Waverly, Iowa

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.*

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 results 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.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
May 26, 2017

WAVERLY UTILITIES

SCHEDULE OF FINDINGS RELATED TO GOVERNMENT AUDITING STANDARDS AND REQUIRED STATUTORY REPORTING
Year Ended December 31, 2016

FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

A-02 Official Depositories – A resolution naming official depositories has been approved by the utility. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2016.

B-02 Certified Budget – Disbursements during the year ended December 31, 2016, did not exceed the amounts budgeted.

C-02 Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

D-02 Travel Expense – No disbursements of utility money for travel expenses of spouses of city officials or employees were noted.

E-02 Business Transactions – No business transactions between the utility and utility officials or employees were noted.

F-02 Bond Coverage – Surety bond coverage of city officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

G-02 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

H-02 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the utility's investment policy were noted.

I-02 Revenue Bonds – The utility has complied with all provisions of the Revenue Electric Bond Covenants. All required payments to the sinking, reserve and improvement funds were made.

J-02 Code of Iowa Communications Legislation Requirements – Nothing came to our attention that the utility was not in compliance with the requirements of the Code of Iowa Section 388.10 *Municipal Utility Providing Telecommunications Services* regarding the subsidization of telecommunications operations by the electric utility.

K-02 The audit did not identify any material weaknesses in controls.