

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, 2018 and 2017

WAVERLY UTILITIES

Component Units of the City of Waverly, Iowa

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WAVERLY UTILITIES

Component Unit of the City of Waverly, Iowa

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Independent Auditor's Report

To the Board of Trustees
Waverly Utilities
Waverly, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Waverly Municipal Electric Utility and Waverly Communications Utility (collectively Waverly Utilities), component units of the City of Waverly, Iowa, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Waverly Utilities' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Waverly Municipal Electric Utility and Waverly Communications Utility, as of December 31, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 18 to the financial statements, Waverly Utilities has adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, which has resulted in a restatement of the net position as of January 1, 2018. In accordance with GASB Statement No. 75, the 2017 financial statements have not been restated to reflect this change. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Utilities' Proportionate Share of the Net Pension Liability, Schedule of Utilities Contributions, and Schedule of Changes in the Utilities' Total OPEB Liability and Related Notes be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated April 25, 2019 on our consideration of Waverly Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Waverly Utilities' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Waverly Utilities' internal control over financial reporting and compliance.

Eide Bailly LLP

Dubuque, Iowa
April 25, 2019

WAVERLY UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

Unaudited

December 31, 2018 and 2017

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, 2018 and 2017. Please read this in conjunction with the accompanying financial statements and the notes to the financial statements.

Overview of the Financial Statements

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

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

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

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

Waverly Utilities Overview

Waverly has a diverse business climate including a private college, a large financial institution, manufacturing businesses of varying sectors and many commercial businesses. The residential population has seen a slight increase the past few years. In 2018, WMEU installed 34 new electric services.

WMEU owns a strategic mix of energy production resources including 10.86 MW of base load coal generation, .495 MW of hydro generation, 2.7 MW of wind generation and 36.25 MW of diesel generation which is used in conjunction with a long-term full requirements energy contract and in emergency situations. In 2018, we purchased 95.36% of our required energy and capacity through a full requirements energy contract. The remaining 4.64% was produced locally by the hydro and wind resources.

WAVERLY UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

Unaudited

December 31, 2018 and 2017

Waverly Utilities Overview

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.

The Utilities implemented Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, during fiscal year 2018. The beginning net position for governmental activities was restated by \$194,336 for WMEU and \$33,379 for WCU to retroactively report the increase in the OPEB liability as of January 1, 2018. OPEB expense for fiscal year 2017 and deferred outflows of resources at December 31, 2017 were not restated because the information needed to restate those amounts was not available.

WAVERLY UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

Unaudited

December 31, 2018, 2017 and 2016

Waverly Utilities Financial Analysis

Table 1
Condensed Statements of Net Position

	WMEU 2018	WCU 2018	WMEU 2017 (Not Restated)	WCU 2017 (Not Restated)	WMEU 2016 (Not Restated)	WCU 2016 (Not Restated)
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES						
Current Assets	\$ 7,545,683	\$ 885,130	\$ 8,270,458	\$ 576,166	\$ 7,784,325	\$ 237,314
Non-Current Assets						
Restricted Assets	1,696,500		1,389,375		1,389,375	
Designated Funds	7,114,821		4,290,761		5,954,403	
Other Assets	226,180		845,948		828,833	
Advance between WMEU & WCU	2,740,178		2,775,595		2,099,819	
Receivable for Wartburg Green Power	900,000		1,000,000		1,100,000	
Net Capital Assets	40,802,090	4,344,359	40,248,418	5,475,083	39,968,912	5,263,146
Total Assets	61,025,452	5,229,489	58,820,555	6,051,249	59,125,667	5,500,460
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Outflow for Pension Plan	547,196	139,626	713,596	174,854	893,630	82,446
Deferred Outflow for Wellness Center	480,000		600,000		720,000	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,027,196	139,626	1,313,596	174,854	1,613,630	82,446
TOTAL ASSETS AND DEFERRED INFLOWS OF RESOURCES						
	\$ 62,052,648	\$ 5,369,115	\$ 60,134,151	\$ 6,226,103	\$ 60,739,297	\$ 5,582,906
LIABILITIES						
Current Liabilities	\$ 2,228,878	\$ 292,658	\$ 2,130,352	\$ 292,551	\$ 1,906,336	\$ 269,924
Current Liabilities Payable from Restricted Assets	1,145,761	485,021	904,731	357,206	891,860	
Non-Current Liabilities						
Advance between WMEU & WCU		2,740,178		2,775,595		2,099,819
Net Pension Liability	1,726,907	440,650	1,861,004	456,007	1,929,506	66,365
Other Non-Current Liabilities	12,640,656	5,920,261	10,472,151	6,346,831	11,267,540	5,590,963
Wellness Center Payable	480,000		600,000		720,000	
Total Liabilities	18,222,202	9,878,768	15,968,238	10,228,190	16,715,242	8,027,071
DEFERRED INFLOWS OF RESOURCES						
Deferred Inflows for Pension Plan	120,309	30,699	53,739	13,168	308,692	2,425
Deferred Inflows for Rate Stabilization	1,475,294		1,525,294		1,025,294	
Deferred Inflows for Wartburg Green Power	900,000		1,000,000		1,100,000	
Total Deferred Inflows of Resources	2,495,603	30,699	2,579,033	13,168	2,433,986	2,425
NET POSITION						
Net Investment in Capital Assets	30,730,430	(1,994,500)	30,403,235	(1,197,400)	29,253,218	(323,425)
Restricted for Debt Service and Improvements	343,202	61,240	323,619		321,705	
Unrestricted	10,261,211	(2,607,092)	10,860,026	(2,817,855)	12,015,146	(2,123,165)
Total Net Position	41,334,843	(4,540,352)	41,586,880	(4,015,255)	41,590,069	(2,446,590)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION						
	\$ 62,052,648	\$ 5,369,115	\$ 60,134,151	\$ 6,226,103	\$ 60,739,297	\$ 5,582,906

WAVERLY UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

Unaudited

December 31, 2018, 2017 and 2016

Waverly Utilities Financial Analysis (cont.)

Table 2

Condensed Statements of Revenues, Expenses and Changes in Net Position

	WMEU 2018	WCU 2018	WMEU 2017 (Not Restated)	WCU 2017 (Not Restated)	WMEU 2016 (Not Restated)	WCU 2016 (Not Restated)
OPERATING REVENUES	\$ 19,906,689	\$ 3,034,747	\$ 19,064,884	\$ 2,172,479	\$ 18,502,077	\$ 339,401
OPERATING EXPENSES						
Operating Expenses	16,907,671	2,265,202	16,059,880	2,869,361	15,924,936	1,876,704
Depreciation Expenses	2,122,530	850,443	2,030,899	738,503	2,007,314	173,363
Total Operating Expenses	19,030,201	3,115,645	18,090,779	3,607,864	17,932,250	2,050,067
Operating Income	876,488	(80,898)	974,105	(1,435,385)	569,827	(1,710,666)
Investment Income	232,700		200,780		132,418	
Bond Issue Costs	(65,719)		7,090		(72,114)	
Interest and Amortization Expense	(261,763)	(406,563)	(340,508)	(131,335)	(297,187)	(46,620)
Gain (Loss) on Sale of Plant	26,013	(4,257)	17,770	(1,945)	(5,151)	
Total Non-Operating Revenue (Expenses)	(68,769)	(410,820)	(114,868)	(133,280)	(242,034)	(46,620)
Income Before Operating Transfers and Contributions	807,719	(491,718)	859,237	(1,568,665)	327,793	(1,757,286)
Contributions	(437)		(562)		(1,749)	
Cash Transfers to the City of Waverly	(864,984)	-	(861,864)	-	(855,924)	-
Change in Net Position	(57,702)	(491,718)	(3,189)	(1,568,665)	(529,880)	(1,757,286)
NET POSITION, Beginning of Year, As Restated	41,392,544	(4,048,634)	41,590,069	(2,446,590)	42,119,949	(689,304)
NET POSITION, End of Year	\$ 41,334,842	\$ (4,540,352)	\$ 41,586,880	\$ (4,015,255)	\$ 41,590,069	\$ (2,446,590)

WMEU Revenues for 2018 were \$842K higher than 2017 due to an increase in kWh sales and a refund from MEAN.

WMEU's Net Position decreased \$58K from 2017 to 2018 due to the City of Waverly Cash Transfer of \$864,984.

WCU Revenues for 2018 were \$862K higher than 2017 due to an increase in subscriber counts.

WCU's Net Position decreased \$491K from 2017 to 2018 due to expenses (including interest payments) being higher than revenue received from customers.

WAVERLY UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)
Unaudited
December 31, 2018, 2017 and 2016

Waverly Utilities Financial Analysis (cont.)

Table 3
Condensed Statements of Cash Flows

	WMEU 2018	WCU 2018	WMEU 2017	WCU 2017	WMEU 2016	WCU 2016
Cash Flows from Operating Activities						
Received from sales to customers	\$ 20,237,844	\$ 2,979,990	\$ 18,293,317	\$ 2,072,911	\$ 19,128,324	\$ 248,411
Paid to suppliers and employees for services	(15,171,990)	(2,108,293)	(15,178,669)	(2,575,392)	(15,931,204)	(2,141,869)
Cash Flows from Operating Activities	5,065,854	871,697	3,114,648	(502,481)	3,197,120	(1,893,458)
Cash Flows from Non-Capital Financing Activities	(829,567)	(35,417)	(1,537,640)	675,776	(2,447,423)	1,591,499
Cash Flows from Capital and Financing Activities	(1,161,525)	(485,233)	(3,756,048)	(15,538)	(3,428,814)	299,652
Cash Flows from Investing Activities	232,698	-	1,298,662	-	(969,294)	-
Net Change in Cash and Equivalents	3,307,460	351,047	(880,378)	157,757	(3,648,411)	(2,307)
CASH AND CASH EQUIVALENTS – Beginning of Year	4,902,896	174,898	5,783,274	17,141	9,431,685	19,448
CASH AND CASH EQUIVALENTS – END OF YEAR	\$ 8,210,356	\$ 525,945	\$ 4,902,896	\$ 174,898	\$ 5,783,274	\$ 17,141

WAVERLY UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

Unaudited

December 31, 2018, 2017 and 2016

Waverly Utilities Financial Analysis (cont.)

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

	WMEU			WCU		
	Actual 2018	Budget 2018	Variance Favorable (Unfavorable)	Actual 2018	Budget 2018	Variance Favorable (Unfavorable)
OPERATING REVENUES	\$ 19,906,689	\$19,525,063	\$381,626	\$ 3,034,747	\$3,305,232	(\$270,485)
OPERATING EXPENSES						
Depreciation expenses	2,122,530	2,135,839	13,309	850,443	800,000	(50,443)
Other operating expenses	16,907,671	17,165,674	258,003	2,265,202	2,504,618	239,416
Total Operating Expenses	19,030,201	19,301,513	271,312	3,115,645	3,304,618	188,973
Operating Income	876,488	223,550	652,938	(80,898)	615	(81,513)
Investment income	232,700	187,599	45,101	-	-	-
Interest and amortization expense	(261,763)	(328,119)	66,356	(406,563)	(413,988)	7,425
Gain on sale of plant	26,013	-	26,013	(4,257)	-	(4,257)
Other income (expense)	(65,719)	-	(65,719)	-	-	-
Total Non-Operating Expenses	(68,769)	(140,520)	71,751	(410,820)	(413,988)	3,168
Income before contributions and operating transfers	807,719	83,030	724,689	(491,718)	(413,373)	(78,345)
Contributions	(437)	-	(437)	-	-	-
Operating transfers to the City of Waverly	(864,984)	(864,981)	(3)	-	-	-
Change in Net Position	(57,702)	(781,951)	724,249	(491,718)	(413,373)	(78,345)
NET POSITION, Beginning of Year, As Restated	41,392,544	41,586,880	(194,336)	(4,048,634)	(4,015,255)	(33,379)
NET POSITION, END OF YEAR	\$ 41,334,842	\$ 40,804,929	\$ 529,913	\$ (4,540,352)	\$ (4,428,628)	\$ (111,724)

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, review items submitted for consideration by all staff and makes recommendations as to what projects are presented in the proposed budget. The proposed budget is then presented to the Board of Trustees for approval.

WAVERLY UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

Unaudited

December 31, 2018, 2017 and 2016

WMEU Fund Analysis

Designated Funds

The Vehicle Replacement Fund had a balance of \$487,520, \$740,200, and \$415,200 respectively for 2018, 2017, and 2016. 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 \$1,165,000 is funded annually at \$60,000 a year. The 2017 and 2016 balances were \$1,105,000 and \$1,070,000 respectively.

The Renewable Energy Fund was established to track donations received from the sale of Iowa Energy Tags and the Green Power Choice Energy program. It is designated to supplement renewable energy through purchases. The fund had a balance of \$320,766, \$352,853, and \$357,227, for 2018, 2017, and 2016 respectively.

The Distribution, Generation and G & A Funds are for funding future replacement of capital items for those departments. The Distribution Fund had a balance of \$100,000 in 2018, 2017, and 2016. The Generation Fund had a balance of \$100,000 in 2018, 2017, and 2016. The G & A Fund had a balance of \$0 in 2018 and \$145,411 in 2017 and 2016. They are funded annually based on the budget process.

The Key Accounts Fund was used to encourage customer energy efficiency in operations and electrical usage and to support the Waverly Area Development Group's economic development activities. Prior to 2014, it was funded annually based on 2% of revenues to these customers. This fund is no longer funded. The fund had a balance of \$0 in 2018 and 2017 and a balance of \$238,778 in 2016. This program ended in 2017 with the remainder of the funds going to the Rate Stabilization Fund.

The Rate Stabilization Fund was established in 2010 to set aside funds to mitigate customer price increases due to unforeseen circumstances, volatile wholesale price increases, and/or large construction projects. The fund had a balance of \$3,298,186, \$690,078, and \$2,295,575 for 2018, 2017, and 2016 respectively.

The Specified Project Fund was established in 2010 to set aside funds for future projects and bond proceeds. The fund had a balance of \$1,643,349 in 2018, \$1,057,219 in 2017, and \$1,232,212 in 2016.

WAVERLY UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

Unaudited

December 31, 2018, 2017 and 2016

Restricted Funds

The Sinking, Reserve and Improvement Funds were funded per the requirements of the Clean Renewable Energy Bonds (CREB), 2013, 2015, 2016, and 2018 bond issues. The total of these restricted funds is \$1,817,040, \$1,484,304, and \$1,489,519 in 2018, 2017, and 2016, respectively.

Capital Assets

In 2018, WMEU had \$80.9 million of capital assets with a net position value of \$40.8 million. The total includes \$0.4 million in land, \$4.3 million in buildings, \$50.8 million in improvements, \$7.7 million in machinery and equipment, \$11.1 million in Louisa Generating Plant, \$5.5 million in Walter Scott Jr. 4 Generating Plant, and \$1.1 million in construction work in progress.

WMEU's capital improvements for 2018 included installation of new distribution lines, services, meters, transformers, Louisa Generating Station improvements, WS4 Generating Station improvements, fiber drops, Cogsdale billing system, and a new bucket truck.

In 2018, WCU had \$6.2 million of capital assets with a net position value of \$4.3 million. The total includes \$1.7 million in leasehold improvements, \$4.4 million in equipment and \$.005 million in construction work in progress.

WCU's capital improvements for 2018 included additional equipment for customer installs.

In 2017, WMEU had \$78.1 million of capital assets with a net position value of \$40.2 million. The total includes \$.4 million in land, \$4.2 million in buildings, \$49.9 million in improvements, \$6.7 million in machinery and equipment, \$10.9 million in Louisa Generating Plant, \$5.5 million in Walter Scott Jr. 4 Generating Plant, and \$.7 million in construction work in progress.

In 2017, WCU had \$6.4 million of capital assets with a net position value of \$5.5 million. The total includes \$1.7 million in leasehold improvements, \$4.7 million in equipment and \$.004 million in construction work in progress.

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

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

WAVERLY UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

Unaudited

December 31, 2018, 2017 and 2016

Debt Activity

WMEU has \$13.0 million of outstanding debt as of December 31, 2018. This includes \$0.8 million of 2007 CREB bonds issued to finance two wind turbines, and \$2.1 million for the 2013 bonds outstanding which were issued to fund the reimbursement resolution, 4 Caterpillar generators purchase and installation, and the West Substation construction. Also \$4.6 million outstanding of 2015 bonds that were issued for the fiber buildout, aerial truck, backhoe, and reimbursement resolution. In addition, in 2016 \$2.5 million of bonds were issued to fund the reimbursement resolution, fiber optic cable drops, switchgear, an aerial truck and a Digger Derrick. In 2018, \$3.0 million of bonds were issued to fund the reimbursement resolution, distribution lines, fiber optic cable drops, transformers, meters, and a meter truck.

WMEU maintains a sinking fund, reserve fund and an improvement fund per bond requirements. The balance in these restricted funds for 2018 is \$1,817,040. Debt service for 2018 included \$883,421 of principal payments and \$255,724 of interest payments. The 2017 restricted fund balance was \$1,484,304 with debt service of \$883,421 for principal payments and \$275,342 for interest payments. The 2016 restricted fund balance was \$1,489,519 with debt service of \$663,421 for principal payments and \$233,854 for interest payments.

WCU has \$9.0 million of outstanding debt as of December 31, 2018. This includes \$6.3 million of 2016 bonds issued to fund capital setup of the utility and \$2.7 million of a temporary operational advance from WMEU.

WCU maintains a sinking fund per bond requirements. The balance in this restricted fund for 2018 is \$61,240. Debt service for 2018 included \$333,624 of principal payments and \$406,364 of interest payments.

At the end of 2017 and 2016 the outstanding debt for WMEU was \$10.9 million and \$11.8 million, respectively.

At the end of 2017 and 2016 the outstanding debt for WCU was \$9.1 million and \$7.7 million, respectively.

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, 2018 and 2017

	ASSETS			
	WMEU		WCU	
	2018	2018	2017	2017
CURRENT ASSETS				
Cash and Investments	\$ 3,285,202	\$ 464,705	\$ 3,127,831	\$ 174,898
Accounts Receivable	2,715,673	245,316	3,047,263	190,558
Interest Receivable	26,489		40,133	
Inventory	1,340,074	32,588	1,834,347	53,774
Prepaid Expenses	57,705	81,281	125,955	156,936
Restricted Assets				
Sinking Fund Accounts				
CREB Bonds	16,141		16,251	
2013 Bonds	37,335		36,991	
2015 Bonds	25,995	61,240	24,287	-
2016 Bonds	15,475		17,400	
2018 Bonds	25,594		-	
Total Current Assets	<u>7,545,683</u>	<u>885,130</u>	<u>8,270,458</u>	<u>576,166</u>
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		188,624	
2018 Bonds	307,125		-	
Improvement Fund	250,000		250,000	
Total Restricted Assets	<u>1,696,500</u>	<u>-</u>	<u>1,389,375</u>	<u>-</u>
Designated Funds				
Vehicle Replacement Fund	487,520		740,200	
Renewable Energy Fund	320,766		352,853	
Generation Fund	100,000		100,000	
G & A Fund	-		145,411	
Rate Stabilization Fund	3,298,186		690,078	
Specified Projects Fund	1,643,349		1,057,219	
Insurance Recovery Fund	1,165,000		1,105,000	
Distribution Fund	100,000		100,000	
Total Designated Accounts	<u>7,114,821</u>	<u>-</u>	<u>4,290,761</u>	<u>-</u>
Other Assets				
Investment in Quad Cities West	33,351		33,351	
Investment in CAPX	16,209		16,209	
Investment in Grimes Granger	176,620		176,620	
Advance between WMEU and WCU	2,740,178		2,775,595	
Energy Rebates (Net of Amortization)	-		619,768	
Receivable for Wartburg Green Power	900,000		1,000,000	
Total Other Assets	<u>3,866,358</u>	<u>-</u>	<u>4,621,543</u>	<u>-</u>
Capital Assets				
Land	351,624		351,624	
Buildings	4,343,844		4,233,966	
Improvements	50,798,495	1,748,457	49,861,568	1,748,457
Machinery and Equipment	7,716,447	4,401,664	6,665,372	4,666,481
Louisa & Walter Scott 4 Plants	16,578,442		16,353,055	
Construction Work in Progress	1,072,091	4,957	656,469	3,853
Total Capital Assets	<u>80,860,943</u>	<u>6,155,078</u>	<u>78,122,054</u>	<u>6,418,791</u>
Accumulated Depreciation	(40,058,853)	(1,810,719)	(37,873,636)	(943,708)
Net Capital Assets	<u>40,802,090</u>	<u>4,344,359</u>	<u>40,248,418</u>	<u>5,475,083</u>
Total Non-Current Assets	<u>53,479,769</u>	<u>4,344,359</u>	<u>50,550,097</u>	<u>5,475,083</u>
TOTAL ASSETS	<u>\$ 61,025,452</u>	<u>\$ 5,229,489</u>	<u>\$ 58,820,555</u>	<u>\$ 6,051,249</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows for Wellness Center	480,000		600,000	
Deferred Outflows for Pension Plan	547,196	139,626	713,596	174,854
DEFERRED OUTFLOWS OF RESOURCES	<u>1,027,196</u>	<u>139,626</u>	<u>1,313,596</u>	<u>174,854</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 62,052,648</u>	<u>\$ 5,369,115</u>	<u>\$ 60,134,151</u>	<u>\$ 6,226,103</u>

See accompanying notes to financial statements.

WAVERLY UTILITIES
STATEMENTS OF NET POSITION
As of December 31, 2018 and 2017

	<i>LIABILITIES</i>			
	WMEU 2018	WCU 2018	WMEU 2017	WCU 2017
CURRENT LIABILITIES				
Accounts Payable	\$ 1,354,067	\$ 90,181	\$ 1,271,110	\$ 96,186
Accrued Property Taxes	145,709	-	147,839	-
Unearned Revenue - Customer Billings	-	120,841	-	104,034
Other Accrued Expenses	729,102	81,635	711,403	92,330
Accrued Interest	-	22,714	-	23,582
Current Liabilities Payable From Restricted Assets				
Current Portion of Revenue Bonds	1,118,421	462,307	883,421	333,624
Accrued Interest on Revenue Bonds	27,340	-	21,310	-
Total Current Liabilities	<u>3,374,639</u>	<u>777,678</u>	<u>3,035,083</u>	<u>649,756</u>
NON-CURRENT LIABILITIES				
Revenue Bonds	11,940,263	5,876,552	10,013,684	6,338,859
Advance between WMEU and WCU	-	2,740,178	-	2,775,595
Bond Premium	102,825	-	87,453	-
Net Pension Liability	1,726,907	440,650	1,861,004	456,007
Total OPEB Liability	597,568	43,710	371,014	7,973
Wellness Center Payable	480,000	-	600,000	-
Total Non-Current Liabilities	<u>14,847,563</u>	<u>9,101,090</u>	<u>12,933,155</u>	<u>9,578,434</u>
TOTAL LIABILITIES	<u>18,222,202</u>	<u>9,878,768</u>	<u>15,968,238</u>	<u>10,228,190</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows for Rate Stabilization	1,475,294	-	1,525,294	-
Deferred Inflows for Pension Plan	120,309	30,699	53,739	13,168
Deferred Inflows for Wartburg Green Power	900,000	-	1,000,000	-
DEFERRED INFLOWS OF RESOURCES	<u>2,495,603</u>	<u>30,699</u>	<u>2,579,033</u>	<u>13,168</u>
NET POSITION				
Net Investment in Capital Assets	30,730,430	(1,994,500)	30,403,235	(1,197,400)
Restricted for Debt Service and Improvements	343,202	61,240	323,619	-
Unrestricted	10,261,211	(2,607,092)	10,860,026	(2,817,855)
Total Net Position	<u>41,334,843</u>	<u>(4,540,352)</u>	<u>41,586,880</u>	<u>(4,015,255)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 62,052,648</u>	<u>\$ 5,369,115</u>	<u>\$ 60,134,151</u>	<u>\$ 6,226,103</u>

WAVERLY UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years ended December 31, 2018 and 2017

	WMEU 2018	WCU 2018	WMEU 2017	WCU 2017
OPERATING REVENUES				
Sales to customers	\$ 15,495,363	\$ 2,982,804	\$ 15,594,406	\$ 2,141,810
Rate stabilization	50,000	-	(500,000)	-
Miscellaneous	4,361,326	51,943	3,970,478	30,669
Total Operating Revenues	<u>19,906,689</u>	<u>3,034,747</u>	<u>19,064,884</u>	<u>2,172,479</u>
OPERATING EXPENSES				
Production	13,108,472		13,116,063	
Transmission	154,944		155,498	
Distribution	1,510,988		1,546,121	
Customer accounts	322,975		237,018	
Administrative and general	822,524		666,999	
Customer information	100,114		109,523	
Community development	116,253		105,392	
Conservation	771,109		124,969	
Water heater	292		(1,703)	
WCU Operating Expenses	-	2,265,202	-	2,869,361
Depreciation	2,122,530	850,443	2,030,899	738,503
Total Operating Expenses	<u>19,030,201</u>	<u>3,115,645</u>	<u>18,090,779</u>	<u>3,607,864</u>
Operating Income (Loss)	<u>876,488</u>	<u>(80,898)</u>	<u>974,105</u>	<u>(1,435,385)</u>
NONOPERATING REVENUE (EXPENSES)				
Gain (Loss) on sale of plant	26,013	(4,256)	17,770	(1,945)
Investment income	232,700		200,780	
Interest expense	(261,763)	(406,564)	(268,229)	(131,335)
Bond Issue Costs and Amortization of Premium	(65,719)		7,090	
Amortization of energy rebates	-		(72,279)	
Total Nonoperating Revenue (Expenses)	<u>(68,769)</u>	<u>(410,820)</u>	<u>(114,868)</u>	<u>(133,280)</u>
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS	<u>807,719</u>	<u>(491,718)</u>	<u>859,237</u>	<u>(1,568,665)</u>
Contributions	(437)		(562)	
Transfer to City of Waverly General Fund	(864,984)	-	(861,864)	-
CHANGE IN NET POSITION	<u>(57,702)</u>	<u>(491,718)</u>	<u>(3,189)</u>	<u>(1,568,665)</u>
NET POSITION - Beginning of Year, As Restated	<u>41,392,544</u>	<u>(4,048,634)</u>	<u>41,590,069</u>	<u>(2,446,590)</u>
NET POSITION - END OF YEAR	<u>\$ 41,334,842</u>	<u>\$ (4,540,352)</u>	<u>\$ 41,586,880</u>	<u>\$ (4,015,255)</u>

See accompanying notes to financial statements.

Statements of Cash Flows Follow

WAVERLY UTILITIES

STATEMENTS OF CASH FLOWS
For the Years ended December 31, 2018 and 2017

	WMEU 2018	WCU 2018	WMEU 2017	WCU 2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Received from sales to customers	\$ 15,876,955	\$ 2,928,047	\$ 14,323,401	\$ 2,042,242
Received from Municipal Energy Agency of Nebraska	4,360,889	51,943	3,969,916	30,669
Paid to suppliers for purchased power and transmission	(10,800,987)	-	(10,714,500)	-
Paid to suppliers and employees for other services	(4,371,003)	(2,108,293)	(4,464,169)	(2,575,392)
Net Cash Flows From (Used By) Operating Activities	<u>5,065,854</u>	<u>871,697</u>	<u>3,114,648</u>	<u>(502,481)</u>
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	35,417	(35,417)	(675,776)	675,776
Transfers to City of Waverly	(744,984)	-	(741,864)	-
Net Cash Flows From (Used By) Noncapital Financing Activities	<u>(829,567)</u>	<u>(35,417)</u>	<u>(1,537,640)</u>	<u>675,776</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of plant and equipment	(3,017,023)	255,820	(2,617,269)	(973,442)
Debt issue costs	(65,719)	-	7,090	-
Principal received from bonds	3,045,000	-	-	1,085,912
Bond Premium	15,372	-	(7,090)	-
Principal payments on revenue bonds	(883,421)	(333,624)	(863,421)	-
Interest paid	(255,734)	(407,429)	(275,358)	(128,008)
Net Cash Flows From (Used By) Capital and Related Financing Activities	<u>(1,161,525)</u>	<u>(485,233)</u>	<u>(3,756,048)</u>	<u>(15,538)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of marketable securities	-	-	1,000,000	-
Purchase of energy rebates	-	-	97,882	-
Investment income	232,698	-	200,780	-
Net Cash Flows From (Used By) Investing Activities	<u>232,698</u>	<u>-</u>	<u>1,298,662</u>	<u>-</u>
Net Change in Cash and Cash Equivalents	3,307,460	351,047	(880,378)	157,757
CASH AND CASH EQUIVALENTS - Beginning of Year	4,902,896	174,898	5,783,274	17,141
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 8,210,356</u></u>	<u><u>\$ 525,945</u></u>	<u><u>\$ 4,902,896</u></u>	<u><u>\$ 174,898</u></u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Amortization of energy rebates	\$ -	\$ -	\$ 72,279	\$ -
Gain (loss) on sale of plant	<u>\$ 26,013</u>	<u>\$ -</u>	<u>\$ 17,770</u>	<u>\$ (1,945)</u>

	WMEU 2018	WCU 2018	WMEU 2017	WCU 2017
RECONCILIATION OF OPERATING INCOME TO NET CASH				
FLows FROM (USED BY) OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 876,488	(\$80,899)	\$ 974,105	(\$1,435,385)
Non-Operating Income (Expense)	(437)		(562)	
Non-cash Items Included in Operating Income				
Amortization of Energy Efficiency Rebates	619,768		(187,276)	
Depreciation	2,122,530	850,443	2,030,899	738,503
Depreciation Cleared	366,836	20,203	324,634	21,060
Changes in Assets and Liabilities				
Accounts Receivable	331,592	(54,757)	(771,005)	(99,568)
Interest Receivable	13,644		(6,899)	
Inventory	494,273	21,186	54,699	16,893
Prepaid Expenses	68,249	75,655	20,338	(98,420)
Accounts Payable	82,959	(6,005)	238,560	(28,079)
Accrued Property Taxes	(2,130)		(7,961)	
Deferred Outflows for Pension Plan	166,400	35,228	180,034	(92,408)
Net Pension Liability	(134,097)	(15,357)	(68,502)	389,642
Deferred Inflows for Pension Plan	66,570	17,531	(254,953)	10,742
Unearned Service Revenue		16,807		43,439
Deferred Inflows for Rate Stabilization	(50,000)		500,000	
Other Accrued Expenses	43,209	(8,338)	88,537	31,100
NET CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES	<u>\$ 5,065,854</u>	<u>\$ 871,697</u>	<u>\$ 3,114,648</u>	<u>\$ (502,481)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEET ACCOUNTS				
Cash and Investments	\$ 3,285,202	\$ 464,705	\$ 3,127,831	\$ 174,898
Restricted Assets				
Sinking Fund Accounts				
CREB Bonds	16,141		16,251	
2013 Bonds	37,335		36,991	
2015 Bonds	25,995	61,240	24,287	
2016 Bonds	15,475		17,400	
2018 Bonds	25,594		-	
Reserve Fund Accounts				
CREB Bonds	282,632		282,632	
2013 Bonds	400,000		400,000	
2015 Bonds	268,119		268,119	
2016 Bonds	188,624		188,624	
2018 Bonds	307,125		-	
Improvement Fund	250,000		250,000	
Total Cash and Restricted Assets	<u>5,102,242</u>	<u>525,945</u>	<u>4,612,135</u>	<u>174,898</u>
Designated Accounts				
Vehicle Replacement Fund	487,520		740,200	
Key Accounts Fund	-		-	
Renewable Energy Fund	320,766		352,853	
Generation Fund	100,000		100,000	
G & A Fund	-		145,411	
Rate Stabilization Fund	3,298,186		690,078	
Specified Project Fund	1,643,349		1,057,219	
Insurance Recovery Fund	1,165,000		1,105,000	
Distribution Fund	100,000		100,000	
Total Designated Accounts	<u>7,114,821</u>	<u>-</u>	<u>4,290,761</u>	<u>-</u>
Less: Non-cash Equivalents (Note 2)	<u>(4,006,707)</u>	<u>-</u>	<u>(4,000,000)</u>	<u>-</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 8,210,356</u>	<u>\$ 525,945</u>	<u>\$ 4,902,896</u>	<u>\$ 174,898</u>

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

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. 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 on 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.

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.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

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

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

Deposits and Investments

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

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

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

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

Receivables/Payables

The WMEU receivable balances are amounts due from electric utility customers, primarily less than 30 days outstanding, and consist of approximately 37% from residential users in and around the municipality and approximately 63% from commercial and industrial users in the municipality.

Accounts receivable balances at December 31, 2018 and 2017 are considered fully collectible and expected within one year. Any accounts not collectible are expensed to current year operations in the year their status is determined. A reserve for bad debt is not considered material.

WMEU accounts receivable balances at December 31, 2018 and 2017 include: unbilled revenues totaling \$838,643 and \$891,376, customer accounts receivable totaling \$1,341,104 and \$1,252,110, energy cost adjustment (ECA) totaling \$(16,267) and \$259,285, other accounts receivable totaling \$575,448 and \$644,492, and accrued interest receivable totaling \$26,489 and \$40,133, respectively. The ECA was reinstated in 2016 by resolution #43-15 *Adopt Rate Schedule*, and is calculated monthly to reflect the unanticipated changes in total generation and transmission costs. WCU had receivable balances on December 31, 2018 and 2017 of \$245,316 and \$190,558 respectively.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

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

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

Inventory

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

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

	WMEU December 31		WCU December 31	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Local Inventories				
Warehouse Materials	\$ 945,932	\$ 953,797	\$ 32,588	\$ 53,774
Water heaters	-	4,131		
Operating plant fuel	83,604	78,315		
Louisa Inventories				
Coal	183,365	615,045		
Oil	3,215	3,220		
Materials	54,231	53,638		
WS4 Inventories				
Coal	33,529	91,847		
Oil	7,446	5,766		
Materials	28,752	28,587		
Totals	\$ 1,340,074	\$ 1,834,347	\$ 32,588	\$ 53,774

Deferred Outflow of Resources

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

Restricted Assets

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

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

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

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

Other Assets

In 2017 and 2018 the balances consisted of investments in other facilities considered non-utility property. In 2017 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 were also part of the balance.

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 2018 and 2017 \$0 and \$260,125 of WCU interest was capitalized, respectively. Maintenance and repairs are expensed as incurred.

WMEU's depreciation expense for the years ended December 31, 2018 and 2017, was \$2,489,365 and \$2,355,533, respectively; of that, \$2,122,530 and \$2,030,899 was expensed and \$366,836 and \$324,634 was capitalized. WCU depreciation expense for the years ended December 31, 2018 and 2017, was \$870,646 and \$759,563, respectively; of that, \$850,443 and \$738,503 was expensed and \$20,203 and \$21,060 was capitalized.

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

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

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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.

Total OPEB Liability

For purposes of measuring the total OPEB liability and OPEB expense, information has been determined based on the utility's actuary report using the alternative measurement method, in which all changes to the OPEB liability are recognized in the current period. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

Other Accrued Expenses

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

Employee Benefits

Sick Leave

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

Vacation Leave

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

Longevity Pay

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

Retiree Health Insurance

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

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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

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

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.

LONG-TERM OBLIGATIONS

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

DEFERRED INFLOWS OF RESOURCES

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

Deferred Inflows for Rate Stabilization

In December 2014, the Board approved adoption of GASB 62, Regulated Operations, which requires that the effects of the rate-making process be recorded in the financial statements. Accordingly, certain revenues and credits, normally reflected in Change in Net Position as incurred, are recognized when included in rates and recovered from or refunded to customers. WMEU's regulatory credit relating to rate stabilization is intended to defer the need for future rate increases when costs exceed existing rates. At the direction of the Board, amounts may be either transferred into this fund (which reduces revenues), or amounts are transferred out of this fund (which increases revenues). The Board authorizes Rate Stabilization Fund (RSF) on an event driven basis. Earnings in excess to ratio coverages will be deferred to offset higher costs in the future. In 2016, \$800,000 was transferred from revenue to the RSF. In 2017, \$500,000 was transferred from revenue to the RSF. In 2018, \$50,000 was transferred from RSF to revenue giving the fund a balance of \$1,475,294.

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.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

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

REVENUES AND EXPENSES (cont.)

Charges and Services

WMEU billings are rendered and recorded monthly based on metered usage. Revenues are recorded when energy is provided. The utility accrues revenues for usage by customers beyond billing dates. Current electric rates were approved in October 2016 and placed into effect in January 2017.

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 when applicable.

Miscellaneous

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

Taxes

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

Capital Contributions

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

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved Statement No. 83, Certain Asset Retirement Obligations; Statement No. 84, Fiduciary Activities; Statement No. 87, Leases; Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements; Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period; and Statement No. 90, Majority Equity Interests. When they become effective, application of these standards may restate portions of these financial statements.

COMPARATIVE DATA

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

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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

IMPLEMENTATION OF GASB STATEMENT NO. 75

As of January 1, 2018, the utility adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The implementation of this standard replaces the requirements of GASB Statement No. 45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, and requires governments calculate and report the costs and obligations associated with postemployment benefits other than pensions (OPEB) in their basic financial statements. Employers are required to recognize OPEB amounts for all benefits provided through the plan which include the total OPEB liability and OPEB expense. The effect of the implementation of this standard on beginning net position is disclosed in Note 18 and the additional disclosures required by this standard is included in Note 11.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 2 – DEPOSITS AND INVESTMENTS

The utilities' deposits in banks at December 31, 2018 and 2017 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, 2018 and 2017 were comprised of the following:

	WMEU 2018	WCU 2018	WMEU 2017	WCU 2017	Risks
Checking	\$3,760,385	\$525,945	\$546,141	\$174,518	Custodial credit risk
Petty cash	1,600	0	1,000	380	Custodial credit risk
Saving	4,448,371	0	4,355,755	0	Custodial credit risk
Certificates of deposit	4,006,707	0	4,000,000	0	Custodial credit risk
Total Deposits and Investments	\$12,217,063	\$525,945	\$8,902,896	\$174,898	

Reconciliation to Financial Statements

	WMEU 2018	WCU 2018	WMEU 2017	WCU 2017
Unrestricted cash and investments	\$3,314,352	\$464,705	\$3,127,831	\$174,898
Restricted cash and investments	1,817,040	61,240	1,484,304	0
Designated cash and investments	7,085,671	0	4,290,761	0
Total Deposits and Investments	\$12,217,063	\$525,945	\$8,902,896	\$174,898

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

Custodial Credit Risk - Deposits

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

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

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:

	2018	2017
Restricted Assets		
Sinking funds	\$120,540	\$94,929
Reserve fund	1,446,500	1,139,375
Improvement fund	250,000	250,000
Total Restricted Assets	\$1,817,040	\$1,484,304
Less: Restricted Assets Not Funded by Revenues		
Reserve fund	\$(1,446,500)	\$(1,139,375)
Total Restricted Assets Not Funded by Revenues	(1,446,500)	(1,139,375)
Current Liabilities Payable From Restricted Assets	(27,340)	(21,310)
Total Restricted Net Position as Calculated	\$343,200	\$323,619

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

	2018	2017
Restricted Assets		
Sinking fund	\$61,240	\$0
Total Restricted Assets	\$61,240	\$0

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

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

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, 2018 and 2017.

To	From	2018		2017	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	WMEU	\$ 744,984	Fund Transfer	\$ 741,864	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 were advances from WMEU to WCU for working capital during its initial startup period and is reflected as an other asset. This temporary advance agreement was approved by Waverly Utilities Board of Trustees and the City of Waverly City Council in August of 2014. This agreement is to fund working capital of WCU for the initial startup period with an interest rate of 4.38% per annum until paid in full. Principal is due December 1, 2025 unless paid sooner. The following is a schedule of interfund advances for the years ending December 31, 2018 and 2017:

Due To	Due From	2018		2017	
		Amount	Principal Purpose	Amount	Principal Purpose
WMEU	WCU	\$ 2,740,178	Temp Fund Transfer	\$ 2,775,595	Temp Fund Transfer

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in WMEU capital assets for 2018 follows:

	Balance 01/01/18	Additions	Deletions	Balance 12/31/2018
Capital assets:				
Land ⁽¹⁾	\$ 351,624	\$ -	\$ -	\$ 351,624
Buildings	4,233,966	109,878	-	4,343,844
Improvements	49,861,568	993,829	(56,902)	50,798,495
Equipment	6,665,372	1,280,116	(229,041)	7,716,447
Louisa plant	10,890,302	283,604	(46,820)	11,127,086
WS4 plant	5,462,753	13,013	(24,410)	5,451,356
Construction in progress ⁽¹⁾	656,469	763,622	(348,000)	1,072,091
Less: Accumulated depreciation	(37,873,636)	(2,489,365)	304,148	(40,058,853)
Net Capital Assets	\$ 40,248,418	\$ 954,697	\$ (401,025)	\$ 40,802,090

⁽¹⁾ – Capital assets not being depreciated.

A summary of changes in WCU capital assets for 2018 follows:

	Balance 01/01/18	Additions	Deletions	Balance 12/31/2018
Capital assets:				
Buildings	\$ 1,226,354	\$ -	\$ -	\$ 1,226,354
Improvements	522,103	-	-	522,103
Equipment	4,666,482	23,343	(288,161)	4,401,664
Construction in progress ⁽¹⁾	3,853	1,104	-	4,957
Less: Accumulated depreciation	(943,708)	(870,645)	3,634	(1,810,719)
Net Capital Assets	\$ 5,475,084	\$ (846,198)	\$ (284,527)	\$ 4,344,359

⁽¹⁾ – Capital assets not being depreciated.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 5 – CHANGES IN CAPITAL ASSETS (cont.)

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

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

⁽¹⁾ – Capital assets not being depreciated.

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

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

⁽¹⁾ – Capital assets not being depreciated.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

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	\$ 753,684
12/3/2013	Finance Exp Reimb Resolution, West Sub, 4 Generators	12/1/2021	12/1/2023	0.4-2.75%	4,000,000	2,120,000
10/27/2015	Finance Fiber Buildout, Backhoe, Aerial Truck, Reimburse	12/1/2023	12/1/2030	2.0-4.0%	4,980,000	4,605,000
	Fiber drops, Meters, transformers, switchgear, phone system					
10/25/2016	aerial truck, digger derrick & vehicles, Louisa & WS4 facili	12/1/2024	12/1/2029	2%	2,860,000	2,535,000
	Reimbursement Resolution, primary OH/URD lines,					
12/21/2018	transformers, meters, meter truck, & fiber drops	12/1/2025	12/1/2030	3.0-3.2%	3,045,000	3,045,000
WCU						
2/26/2015	Communications Utility Setup Capital Expenditures	12/1/2029	12/1/2029	4.3-9.0%	6,672,483	6,338,859

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

	Principal	Interest	Total
2019	188,421	5,276	193,697
2020	188,421	3,957	192,378
2021	188,421	2,638	191,059
2022	188,421	1,319	189,740
	<u>188,421</u>	<u>1,319</u>	<u>189,740</u>
Totals	<u>\$ 753,684</u>	<u>\$ 13,190</u>	<u>\$ 766,874</u>

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

REVENUE BONDS (cont.)

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	400,000	48,038	448,038
2020	410,000	41,038	451,038
2021	420,000	32,838	452,838
2022	435,000	23,388	458,388
2023	<u>455,000</u>	<u>12,513</u>	<u>467,513</u>
Totals	<u>\$ 2,120,000</u>	<u>\$ 157,815</u>	<u>\$ 2,277,815</u>

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	175,000	136,941	311,941
2020	180,000	129,941	309,941
2021	185,000	124,541	309,541
2022	185,000	120,841	305,841
2023	275,000	116,679	391,679
2024-2028	2,475,000	413,344	2,888,344
2029-2030	<u>1,130,000</u>	<u>55,413</u>	<u>1,185,413</u>
Totals	<u>\$ 4,605,000</u>	<u>\$ 1,097,700</u>	<u>\$ 5,702,700</u>

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	135,000	50,700	185,700
2020	135,000	48,000	183,000
2021	135,000	45,300	180,300
2022	140,000	42,600	182,600
2023	235,000	39,800	274,800
2024-2028	1,455,000	117,500	1,572,500
2029	<u>300,000</u>	<u>6,000</u>	<u>306,000</u>
Totals	<u>\$ 2,535,000</u>	<u>\$ 349,900</u>	<u>\$ 2,884,900</u>

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

REVENUE BONDS (cont.)

The WMEU 2018 revenue bond debt service requirements to maturity follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	220,000	87,125	307,125
2020	220,000	85,650	305,650
2021	225,000	79,050	304,050
2022	235,000	72,300	307,300
2023	240,000	65,250	305,250
2024-2028	1,310,000	214,200	1,524,200
2029-2030	<u>595,000</u>	<u>28,510</u>	<u>623,510</u>
Totals	<u>\$ 3,045,000</u>	<u>\$ 632,085</u>	<u>\$ 3,677,085</u>

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

<u>Year</u>	<u>Principal*</u>	<u>Interest*</u>	<u>Total*</u>
2019	462,307	272,571 *	734,878
2020	481,371	252,691 *	734,062
2021	505,201	231,992	737,193
2022	524,266	210,269	734,535
2023	548,096	187,725	735,821
2024-2028	3,112,232	564,406	3,676,638
2029	<u>705,386</u>	<u>30,331</u>	<u>735,717</u>
Totals	<u>\$ 6,338,859</u>	<u>\$ 1,749,985</u>	<u>\$ 8,088,844</u>

* Given interest rate stays at 4.3%

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

All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. WMEU principal and interest paid for 2018 and 2017 were \$1,139,155 and \$1,138,779 respectively. Total customer gross revenues as defined for the same periods were \$20,106,689 and \$19,064,884. Annual principal and interest payments are expected to require 5.5% of gross revenues on average. WCU principal and interest paid for 2018 and 2017 was \$739,988 and \$0 respectively.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

WELLNESS CENTER PAYABLE / DEFERRED OUTFLOWS FOR WELLNESS CENTER

Wartburg-Waverly Sports and Wellness Center

In December 2006, the Board approved funding of \$120,000 per year for the next 15 years, to the City of Waverly for further credit to the Wartburg-Waverly Sports and Wellness Center. The outstanding amount of the Board approved funding at December 31, 2018 and 2017 were \$480,000 and \$600,000, respectively. This amount has been classified in the Statement of Net Position as both a non-current liability and deferred outflow of resources.

Payable obligations to maturity follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	120,000	-	120,000
2020	120,000	-	120,000
2021	120,000	-	120,000
2022	120,000	-	120,000
Totals	<u>\$ 480,000</u>	<u>\$ -</u>	<u>\$ 480,000</u>

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

This amount relates to payments received by WMEU on behalf of Wartburg. Upon receipt, the amount is remitted directly to the Green Power Choice Energy Program. As such, a deferred inflow and other asset in the amount of \$900,000 and \$1,000,000, respectively has been reflected in the Statement of Net Position for 2018 and 2017.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

Non-Current Liabilities

Long-term Obligations for WMEU for 2018 are as follows:

Debt Issue	Balance 12/31/2017 (As Restated)	Additions	Reductions	Balance 12/31/2018	Current Portion
2007 CREB Revenue bonds	\$ 942,105	\$ -	\$ 188,421	\$ 753,684	\$ 188,421
2013 Revenue Bonds	2,510,000		390,000	2,120,000	400,000
2015 Revenue Bonds	4,755,000		150,000	4,605,000	175,000
2016 Revenue Bonds	2,690,000		155,000	2,535,000	135,000
2018 Revenue Bonds	-	3,045,000		3,045,000	220,000
Bond Premium	87,453	15,372		102,825	
Net Pension Liability	1,861,004		134,097	1,726,907	
Total OPEB Liability	565,350	32,218	-	597,568	-
Totals	\$ 13,410,912	\$3,092,590	\$ 1,017,518	\$ 15,485,984	\$ 1,118,421

Long-term Obligations for WCU for 2018 are as follows:

Debt Issue	Balance 12/31/2017 (As Restated)	Additions	Reductions	Balance 12/31/2018	Current Portion
2015 Revenue Bonds	\$ 6,672,483		\$ 333,624	\$ 6,338,859	\$ 462,307
WCU Temporary Transfer	2,775,595		35,417	2,740,178	
Net Pension Liability	456,007		15,357	440,650	
Total OPEB Liability	41,352	2,358		43,710	
Totals	\$ 9,945,437	\$ 2,358	\$ 384,398	\$ 9,563,397	\$ 462,307

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

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

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

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

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

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

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 7 – NET POSITION

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

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

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

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

The following calculation supports the Net Investment in Capital Assets:

	WMEU 2018	WCU 2018	WMEU 2017	WCU 2017
Plant in service	\$ 79,788,852	\$ 6,150,121	\$ 77,465,585	\$ 6,414,938
Accumulated depreciation	(40,058,853)	(1,810,719)	(37,873,636)	(943,708)
Construction work in progress	1,072,091	4,957	656,469	3,853
Subtotal	40,802,090	4,344,359	40,248,418	5,475,083
Less: Capital Related Debt				
Current portion of capital related long-term debt	1,118,421	462,307	883,421	333,624
Long-term portion of capital related long-term debt	11,940,263	5,876,552	10,013,684	6,338,859
Unamortized Premium	102,825		87,453	
Subtotal	13,161,509	6,338,859	10,984,558	6,672,483
Add: Reserve from borrowing				
	1,446,500		1,139,375	
Unspent Bond Proceeds - Special Projects Fund	1,643,349			
Subtotal	3,089,849	-	1,139,375	-
Total Net Investment in Capital Assets	\$ 30,730,430	\$ (1,994,500)	\$ 30,403,235	\$ (1,197,400)

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

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. Fiber drops are continuing to be installed throughout the community.

The entire fiber plant is included in the utility's 2018 assets at a cost of \$7,521,115 less accumulated depreciation of \$274,491 for a net value of \$7,246,624. 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. In 2017, lease payments were \$199,832. In 2018, lease payments were \$200,004.

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.

Pension Benefits

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

- A multiplier (based on years of service).

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

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.

Pursuant to the required rate, regular members contributed 5.95% of pay and the Utility contributed 8.93% for a total rate of 14.88% from Jan 1, 2018 to Jun 30, 2018. Regular members contributed 6.29% of pay and the Utility contributed 9.44% for a total rate of 15.73% from Jul 1, 2018 to Dec 31, 2018.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 9 – PENSION PLAN (cont.)

Contributions (cont.)

WMEU's total contribution to IPERS during the IPERS reporting period for the years ended June 30, 2018 and 2017 were \$183,674 and \$186,633, respectively. WCU's total contribution to IPERS during the IPERS reporting period for the years ended June 30, 2018 and 2017 were \$46,217 and \$45,227, respectively. WMEU's total contributions to IPERS during the Utilities' calendar years ended December 31, 2018 and 2017 were \$182,816 and \$188,658, respectively. WCU's contribution was \$46,649 and \$46,227, respectively.

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

At December 31, 2018 and 2017, WMEU reported a liability of \$1,726,907 and \$1,861,004, respectively for its proportionate share of the net pension liability. WCU's proportionate share at December 31, 2018 and 2017 was \$440,650 and \$456,007, respectively. The net pension liability was measured as of June 30, 2018 and 2017, 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, 2018, the Utilities collective proportion was 0.034263 percent which is a decrease of 0.000834 percent from its proportion measured as of June 30, 2017.

For the years ended December 31, 2018 and 2017, WMEU recognized pension expense of \$98,872 and \$(143,420), respectively. WCU recognized pension expense of \$37,402 and \$307,976, respectively.

At December 31, 2018 and 2017, the Utilities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual Experience	\$ 11,884	\$ 48,990	\$ 21,272	\$ 20,075
Changes in Assumptions	309,215	-	402,590	-
Net Difference between projected and actual earnings on IPERS investments	-	59,558	-	24,200
Changes in proportion and differences between Utility Contributions and proportionate share of contributions	248,217	42,460	346,655	22,632
Utility Contributions subsequent to the measurement date	117,506	-	117,933	-
Total Balance	686,822	151,008	888,450	66,907
WMEU	547,196	120,309	713,596	53,739
WCU	139,626	30,699	174,854	13,168
Total Balance	\$ 686,822	\$ 151,008	\$ 888,450	\$ 66,907

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 9 – PENSION PLAN (cont.)

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

IPERS contributions between July 1, 2018 and December 31, 2018 were \$93,302 for WMEU and \$24,204 for WCU. These amounts were reported as deferred outflows of resources related to pensions resulting from the Utilities' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. 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
2019	186,732	46,683
2020	127,971	31,993
2021	21,453	5,363
2022	1,381	345
2023	(3,953)	339
	<u>\$ 333,585</u>	<u>\$ 84,723</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions

Actuarial Methods and Assumptions – The total pension liability (TPL) was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions and the entry age normal actuarial cost method, applied to all periods included in the measurement:

- Assumed investment return: 7.00%
- Projected salary increases: 3.25%–16.25% depending upon years of service
- Mortality tables: RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments
- Inflation rate: 2.60%
- Payroll increase assumption: 3.25%

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

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 9 – PENSION PLAN (cont.)

Actuarial Assumptions (cont.)

Mortality rates were based on the RP-2014 Employee and Healthy Annuitant Tables, as appropriate, with MP-2017 generational adjustments.

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	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.0%	6.01%
International equity	15.0%	6.48%
Global smart beta equity	3.0%	6.23%
Core-plus fixed income	27.0%	1.97%
Public credit	3.5%	3.93%
Public real assets	7.0%	2.91%
Cash	1.0%	-0.25%
Private equity	11.0%	10.81%
Private real assets	7.4%	4.14%
Private credit	3.0%	3.11%
Total	100.0%	

Discount Rate

The discount rate used to measure the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Utilities will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 9 – PENSION PLAN (cont.)

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

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

	Decrease 6.00%	Rate 7.00%	Increase 8.00%
WMEU's Proportionate Share of the Net Pension Liability			
2017	3,053,999	1,861,004	845,046
WCU's Proportionate Share of the Net Pension Liability			
2017	763,500	456,007	211,261
	6.00%	7.00%	8.00%
WMEU's Proportionate Share of the Net Pension Liability			
2018	2,943,023	1,726,907	719,893
WCU's Proportionate Share of the Net Pension Liability			
2018	735,756	440,650	179,973

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, 2018 and 2017 was \$1,165,000 and \$1,105,000, respectively. The insurance recovery fund was established for the purpose of subsidizing claims that were caused by extraordinary circumstances. There were no claims made against this fund in 2018. A claim against this fund for \$25,000 was made in 2017 to cover the insurance deductible for the repair of a wind turbine damaged by a lightning strike. Waverly Utilities also carries a cyber security coverage plan to protect against transfer fraud, theft of funds, and identity theft.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS

Waverly Utilities administers a single-employer benefit plan which provides medical and prescription drug benefits for employees, retirees, and their spouses. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

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.

As of December 31, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits -	2
Active employees -	<u>33</u>
Total	35

The Utilities total OPEB liability of \$641,278 was measured as of December 31, 2018, and was determined by an actuarial valuation as of January 1, 2018.

The total OPEB liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions and the entry age normal actuarial cost method, applied to all periods included in the measurement.

Rate of Inflation:	3% per year
Rates of Salary Increases:	2.75% per year
Discount Rate:	3.44% per year
Healthcare Cost Trend Rate:	Duration 1 – 6.50%
	Duration 2 – 6.25%
	Duration 3 – 6.00%
	Duration 4 – 5.75%
	Duration 5 – 5.50%
	Duration 6 – 5.25%
	Duration 7+ - 5.00%

As an unfunded plan, the discount rate reflects the index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher as of the measurement date. The index rate used to measure the total pension liability was 3.44% as of January 1, 2018.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

Schedule of Changes in Total OPEB Liability:

Total OPEB Liability - January 1, 2018	\$606,702
Service Cost	41,220
Interest	21,800
Benefits Payments	(28,445)
Net Change in Total OPEB Liability	34,575
 Total OPEB Liability - December 31, 2018	 \$641,277

The Alternative Measurement Method valuation was used in accordance with GASB Statement No. 75.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate:

The following presents the total OPEB liability, calculated using the current discount rate of 3.44%, as well as the total OPEB liability calculated using a discount rate that is 1-percentage point lower (2.44%) or 1-percentage point higher (4.44%) than the current rate:

	1% Decrease 2.44%		Current Discount Rate 3.44%		1% Increase 4.44%
Total OPEB Liability	\$ 685,799	\$	641,277	\$	597,470

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate:

The following presents the total OPEB liability, calculated using the current healthcare cost trend rate of 6.5% decreasing to 5.0%, as well as the total OPEB liability calculated using a healthcare cost trend rate that is 1-percentage point lower (5.5% to 4.0%) or 1-percentage point higher (7.5% to 6.0%) than the current rate:

	1% Decrease 5.5% Decreasing to 4.0%		Current Healthcare Cost Trend Rate 6.5% Decreasing to 5.0%		1% Increase 7.5% decreasing to 6.0%
Total OPEB Liability	\$594,956	\$41,277	\$41,277	\$	\$695,348

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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, 2018 and 2017 was \$744,984 and \$741,864, respectively.

Trees Forever

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

Local Wind Generation

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

In 2008, land was leased near Waverly on which two 900kW wind turbines were erected in 2009. The two leases are 50-year leases with payments to the landowner of \$3,450 for each lease. These leases can be adjusted for inflation every five years. In 2018, these leases were adjusted 5.1% for inflation to \$3,885.70.

Municipal Energy Agency of Nebraska

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

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.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

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 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 9.46% in 2018 and 10.04% in 2017. 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.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

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, 2018 and 2017. 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, 2016 and 2018 bonds. These funds are to be used for future bond obligations if necessary, or for extraordinary operating needs of the utility.

The annual obligations for these reserves are:

	<u>Sinking Fund Reserve</u>	<u>Reserve Fund Reserve</u>	<u>Improvement Fund Reserve</u>
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, 2018.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 17 – BOND RESERVE REQUIREMENTS (cont.)

WMEU (cont.)

2013 BOND RESERVE REQUIREMENTS

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

Reserve Fund Reserve – This amount was funded from original bond proceeds based on an established formula, with a balance of \$400,000 at December 31, 2018 and 2017. The funds are to be used for future year bond obligations if the Sinking Fund Reserve balance is insufficient to pay the principal and interest obligations of the bond.

The annual obligations for these reserves are:

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

The Reserve Fund Reserve is fully funded and thus no annual funding requirements exist for these reserves as of December 31, 2018.

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, 2018 and 2017. The funds are to be used for future year bond obligations if the Sinking Fund Reserve balance is insufficient to pay the principal and interest obligations of the bond.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 17 – BOND RESERVE REQUIREMENTS (cont.)

WMEU (cont.)

2015 BOND RESERVE REQUIREMENTS (cont.)

The annual obligations for these reserves are:

	<u>Sinking Fund Reserve</u>	<u>Reserve Fund Reserve</u>
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, 2018.

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, 2018 and 2017. The funds are to be used for future year bond obligations if the Sinking Fund Reserve balance is insufficient to pay the principal and interest obligations of the bond.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 17 – BOND RESERVE REQUIREMENTS (cont.)

WMEU (cont.)

2016 BOND RESERVE REQUIREMENTS (cont.)

The annual obligations for these reserves are:

	<u>Sinking Fund Reserve</u>	<u>Reserve Fund Reserve</u>
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	-

The Reserve Fund Reserve is fully funded and thus no annual funding requirements exist for these reserves as of December 31, 2018.

2018 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 \$307,125 at December 31, 2018. The funds are to be used for future year bond obligations if the Sinking Fund Reserve balance is insufficient to pay the principal and interest obligations of the bond.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 17 – BOND RESERVE REQUIREMENTS (cont.)

WMEU (cont.)

2018 BOND RESERVE REQUIREMENTS (cont.)

The annual obligations for these reserves are:

	<u>Sinking Fund Reserve</u>	<u>Reserve Fund Reserve</u>
2019	307,125	-
2020	305,650	-
2021	304,050	-
2022	307,300	-
2023	305,250	-
2024	303,050	-
2025	305,700	-
2026	303,050	-
2027	305,250	-
2028	307,150	-
2029	308,750	-
2030	314,760	-

The Reserve Fund Reserve is fully funded and thus no annual funding requirements exist for these reserves as of December 31, 2018.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2018 and 2017

NOTE 18 – Accounting Change / Restatement

Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB), was implemented during the year ended December 31, 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with OPEB benefits, including additional note disclosure and required supplementary information. In addition, GASB Statement No. 75 requires a state or local government employer to use the entry age normal actuarial cost method. Beginning net position was restated to retroactively report the change in valuation of the beginning total OPEB liability, as follows:

	WMEU	WCU	Total
Net position December 31, 2017, as previous reported	\$41,586,880	\$(4,015,255)	\$37,571,625
OPEB obligation (asset) measured under previous standards	371,014	7,973	378,987
Total OPEB liability at December 31, 2017	<u>(565,350)</u>	<u>(41,352)</u>	<u>(606,702)</u>
Net position January 1, 2018, as restated	\$41,392,544	\$(4,048,634)	\$37,343,910

Disclosures in Note 11 relating to OPEB have been updated to reflect the changes under GASB 75. Previous disclosures related to the OPEB liability reported in 2017 were not included.

REQUIRED SUPPLEMENTAL INFORMATION

WAVERLY UTILITIES

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

Required Supplementary Information

	2018	2017	2016	2015
Utilities' proportion of the net pension liability (asset)	0.0342630%	0.0350970%	0.0320040%	0.0261250%
Utilities' proportionate share of the net pension liability	\$ 2,167,557	\$ 2,317,008	\$ 1,995,871	\$ 1,295,332
Utilities' covered payroll	2,574,363	2,596,405	2,275,924	1,796,226
Utilities' proportionate share of the net pension liability as a percentage of its covered employee payroll	84.20%	89.24%	87.69%	72.11%
Plan Fiduciary net position as a percentage of the total pension liability	83.62%	82.21%	81.82%	85.19%

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

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full ten-year trend is compiled the Utilities will present information for those years for which information is available.

WAVERLY UTILITIES

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

	Required Supplementary Information									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Statutorily Required Contribution	\$ 229,891	\$ 231,859	\$ 203,240	\$ 160,403	\$ 149,706	\$ 150,026	\$ 152,000	\$ 136,311	\$ 125,094	\$ 110,754
Contribution in relation to the statutorily required contribution	(229,891)	(231,859)	(203,240)	(160,403)	(149,706)	(150,026)	(152,000)	(136,311)	(125,094)	(110,754)
Contribution deficiency(excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's covered payroll	\$ 2,574,363	\$ 2,596,405	\$ 2,275,924	\$ 1,796,226	\$ 1,676,439	\$ 1,680,022	\$ 1,753,173	\$ 1,689,108	\$ 1,799,911	\$ 1,665,473
Contributions as a percentage of covered payroll	8.93%	8.93%	8.93%	8.93%	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%

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

WAVERLY UTILITIES

Notes to Required Supplementary Information – Pension Liability
Year Ended December 31, 2018

Changes of benefit terms:

None in 2018

Changes of assumptions:

The 2018 valuation, which is used to determine the contribution rates effective July 1, 2019, incorporated the following refinements after a demographic assumption study:

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

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

WAVERLY UTILITIES

Schedule of Changes in the Utilities' Total OPEB Liability and Related Ratios

Total OPEB Liability - January 1, 2018	\$ 606,702
Service Cost	41,220
Interest	21,800
Benefits Payments	(28,445)
Net Change in Total OPEB Liability	34,575
Total OPEB Liability - December 31, 2018	\$ 641,277
Covered Employee Payroll	\$2,444,208

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Note: GASB Statement No. 75 requires ten years of information to be presented in this table. However, until a full ten-year trend is compiled the Utilities will present information 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, 2018 and 2017

	Sinking Fund CREB	Sinking Fund 2013	Sinking Fund 2015	Sinking Fund 2016	Sinking Fund 2018	Reserve Fund CREB	Reserve Fund 2013	Reserve Fund 2015	Reserve Fund 2016	Reserve Fund 2018	Improvement Fund 1992 & 1998	Total
BALANCE, DECEMBER 31, 2016	<u>\$ 16,365</u>	<u>\$ 36,506</u>	<u>\$ 22,620</u>	<u>\$ 24,653</u>	<u>\$ -</u>	<u>\$ 282,632</u>	<u>\$ 400,000</u>	<u>\$ 268,119</u>	<u>\$ 188,624</u>	<u>\$ -</u>	<u>\$ 250,000</u>	<u>\$ 1,489,519</u>
Receipts:												
Transfers from operating fund	\$ 196,236	\$ 409,519	\$ 273,108	\$ 225,667	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,104,530
Disbursements:												
Payments of principal and interest on bonds	(196,349)	(409,034)	(271,441)	(232,920)	-	-	-	-	-	-	-	(1,109,744)
BALANCE, DECEMBER 31, 2017	<u>\$ 16,251</u>	<u>\$ 36,991</u>	<u>\$ 24,287</u>	<u>\$ 17,400</u>	<u>\$ -</u>	<u>\$ 282,632</u>	<u>\$ 400,000</u>	<u>\$ 268,119</u>	<u>\$ 188,624</u>	<u>\$ -</u>	<u>\$ 250,000</u>	<u>\$ 1,484,304</u>
Receipts:												
Transfers from operating fund	\$ 194,914	\$ 444,232	\$ 293,149	\$ 206,875	\$ 25,594	\$ -	\$ -	\$ -	\$ -	\$ 307,125	\$ -	\$ 1,471,889
Disbursements:												
Payments of principal and interest on bonds	(195,024)	(443,888)	(291,441)	(208,800)	-	-	-	-	-	-	-	(1,139,153)
BALANCE, DECEMBER 31, 2018	<u>\$ 16,141</u>	<u>\$ 37,335</u>	<u>\$ 25,995</u>	<u>\$ 15,475</u>	<u>\$ 25,594</u>	<u>\$ 282,632</u>	<u>\$ 400,000</u>	<u>\$ 268,119</u>	<u>\$ 188,624</u>	<u>\$ 307,125</u>	<u>\$ 250,000</u>	<u>\$ 1,817,040</u>

WAVERLY UTILITIES

OFFICIALS
December 31, 2018

Board of Trustees

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Waverly, IA 50677

Emily Neuendorf, Vice Chair
Waverly, IA 50677

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Plainfield, IA 50666

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

Director, Marketing
Jen Bloker
Denver, IA 50622

WAVERLY UTILITIES

WMEU Operating Expense Last Ten Fiscal Years

Type of Expense	2009	2010	2011	2012	2013	2014 (Restated)	2015	2016	2017	2018
Production	\$ 4,387,125	\$ 8,716,578	\$ 9,638,952	\$ 10,226,661	\$ 11,135,656	\$ 11,964,098	\$ 12,357,849	\$ 12,705,812	\$ 13,116,063	\$ 13,108,472
Transmission	101,271	217,590	184,657	192,689	191,784	167,614	168,091	207,337	155,498	154,944
Distribution	1,733,936	1,751,147	1,498,124	1,522,260	1,577,683	1,498,753	1,564,995	1,678,864	1,546,121	1,510,988
Customer Accounts	203,553	211,054	220,966	198,203	199,783	213,114	241,356	213,784	237,018	322,975
Administrative and General	677,310	733,127	699,356	644,857	717,073	666,310	757,483	766,436	666,999	822,524
Customer Information	137,730	121,163	122,504	114,300	101,174	63,246	74,169	70,861	109,523	100,114
Community development	261,599	236,107	242,714	249,278	272,645	225,361	104,374	110,168	105,392	116,253
Conservation	287,392	306,493	255,260	196,223	131,000	177,471	166,162	169,612	124,969	771,109
Water Heater	9,920	(1,747)	1,552	116	1,032	(452)	19,187	2,062	(1,703)	292
Depreciation	1,565,196	1,603,480	1,700,352	1,746,726	1,839,595	1,875,607	1,945,796	2,007,314	2,030,899	2,122,530
Total	\$ 9,365,032	\$ 13,894,992	\$ 14,564,437	\$ 15,091,313	\$ 16,167,425	\$ 16,851,122	\$ 17,399,462	\$ 17,932,250	\$ 18,090,779	\$ 19,030,201

WAVERLY UTILITIES

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

	2008	2009	2010	2011	2012	2013	2014 (Restated)	2015	2016	2017	2018
Operating Revenues											
(Before Rate Stabilization)	\$ 12,005,301	\$ 12,491,295	\$ 17,257,351	\$ 17,354,345	\$ 17,296,715	\$ 17,546,314	\$ 18,021,182	\$ 17,391,264	\$ 19,302,077	\$ 19,564,884	\$ 19,856,689
Rate Stabilization	-	-	-	-	-	-	(637,000)	412,000	(800,000)	(500,000)	50,000
Total Operating Revenues	12,005,301	12,491,295	17,257,351	17,354,345	17,296,715	17,546,314	17,384,182	17,803,264	18,502,077	19,064,884	19,906,689
Operating Expense	8,930,029	9,365,032	13,894,992	14,564,437	15,091,313	16,167,425	16,851,122	17,399,462	17,932,250	18,090,779	19,030,201
Operating Income	3,075,272	3,126,263	3,362,359	2,789,908	2,205,402	1,378,889	533,060	403,802	569,827	974,105	876,488
Non-Operating Income	262,853	(52,641)	(158,341)	102,807	(23,257)	(137,100)	(166,458)	(288,198)	(242,033)	(114,868)	(68,769)
Contributions		400	3,407	137,449	150,238	(1,176)	(3,388)	(2,306)	(1,749)	(562)	(437)
Transfers	(884,952)	(935,352)	(961,984)	(933,916)	(935,152)	(827,316)	(861,444)	(854,976)	(855,924)	(861,864)	(864,984)
Change in Net Position	\$ 2,453,173	\$ 2,138,670	\$ 2,245,441	\$ 2,096,248	\$ 1,397,231	\$ 413,297	\$ (498,230)	\$ (741,678)	\$ (529,880)	\$ (3,189)	\$ (57,702)

WAVERLY UTILITIES

Energy Disposition Last Ten Fiscal Years

(In kwh)

Type of Service	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Residential	36,227,815	36,189,657	39,048,597	38,166,169	37,361,286	38,833,604	39,757,491	38,228,909	38,347,355	37,761,943	41,331,281
Industrial and Commerical	98,398,596	93,810,441	99,048,511	100,621,586	100,691,677	97,425,068	96,837,492	96,179,997	94,775,377	91,954,742	92,922,961
Security Lights	300,846	290,928	282,604	240,626	128,043	132,147	134,996	134,897	135,076	136,157	129,747
Municipal	9,625,008	9,086,409	9,517,373	9,397,658	9,073,472	8,904,961	8,325,337	8,249,380	8,493,057	8,189,725	8,547,328
Total	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	138,042,567	142,931,317

WAVERLY UTILITIES

WMEU Principal Customers
2018-2017

Principal Customers	Type of Business Activity	Revenue % Sales to Customers	
		2018	2017
Nestle USA	Beverage Manufacturer	9.46%	10.04%
Wartburg College	Private Liberal Arts College	7.60%	7.92%
GMT	Machining and Fabrication	6.52%	6.55%
Waverly Shell Rock CSD	School	2.44%	2.26%
Waverly Health Center	Hospital	2.35%	2.45%

WAVERLY UTILITIES

WMEU Utility System Revenue Bond Coverage Last Ten Fiscal Years

Fiscal Year	Operating Revenue	Investment Income	Operating Expense	Depreciation Expense	Available for Debt Service	Interest Expense	Principal Payments	Coverage
2009	12,531,820	152,628	9,365,032	1,565,196	4,884,612	191,586	903,421	4.46
2010	17,257,351	104,414	13,894,992	1,603,480	5,070,253	162,892	933,421	4.62
2011	17,354,345	119,610	14,564,437	1,700,352	4,609,870	132,307	968,421	4.19
2012	17,296,715	92,221	15,091,314	1,746,726	4,044,348	95,713	665,517	5.31
2013	17,546,314	67,839	16,167,425	1,839,595	3,286,323	26,050	658,421	4.80
2014	17,384,182	69,521	16,851,122	1,875,607	2,478,188	81,487	1,023,422	2.24
2015	17,803,264	69,211	17,399,462	1,945,796	2,418,809	76,989	1,028,421	2.19
2016	18,502,077	132,418	17,932,250	2,007,314	2,709,559	233,854	663,421	3.02
2017	19,064,884	200,780	18,090,779	2,030,899	3,205,784	275,358	863,421	2.82
2018	19,906,689	232,700	19,030,201	2,122,530	3,231,718	255,734	883,421	2.84
Average Coverage								3.65

WAVERLY UTILITIES

Demographics Employee Data

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
# of Employees										
Administration	3	3	3	2	2	2	2	6	5	5
Business Operations	4	4	4	4	3	4	5	3	4	7
Conservation	2	2	1	1	1	1	1	1	1	0
Line	12	11	11	10	9	9	9	9	9	8
Meter	2	2	2	2	2	2	2	2	2	2
Generation	5	6	7	5	6	6	5	5	3	3
WCU Administration	0	0	0	0	0	0	1	1	1	1
WCU Operations	0	0	0	0	0	0	3	7	8	6
Total full-time	28	28	28	24	23	24	28	34	33	32
Part-time & Interns	4	2	1	1	2	2	1	2	1	1

WAVERLY UTILITIES

Electrical Sales Revenue Last Ten Fiscal Years

Fiscal Year	Residential	Industrial	Commerical	Industrial and Commercial	Security Lights	Street Lights	Municipal	ECA	Provision for Rate Stabilization	Total
2009	3,909,513	5,758,177	1,394,746	7,152,923	43,060	274,910	674,204			12,054,610
2010	4,644,257	6,751,014	1,585,392	8,336,406	43,172	277,028	758,681			14,059,544
2011	4,623,271	6,866,051	1,463,022	8,329,073	41,430	275,626	741,189			14,010,589
2012	4,628,144	6,753,474	1,435,083	8,188,557	43,817	251,321	712,756			13,824,595
2013	4,702,996	6,420,537	1,462,954	7,883,491	43,766	252,654	706,835			13,589,742
2014	4,735,758	6,583,502	1,445,928	8,029,430	44,502	252,302	664,712		(637,000)	13,089,704
2015	4,673,309	6,543,329	1,450,954	7,994,283	43,996	265,655	675,472		411,706	14,064,421
2016	5,273,597	7,118,714	1,576,783	8,695,497	44,809	272,164	757,796	(65,703)	(800,000)	14,178,159
2017	5,341,918	7,230,994	1,605,618	8,836,612	45,690	274,138	771,060	324,988	(500,000)	15,094,406
2018	5,813,166	7,184,731	1,668,851	8,853,582	44,869	262,798	796,499	(275,552)	50,000	15,545,363

WAVERLY UTILITIES

Capital Improvement Additions Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Deletions to Plant</u>	<u>Additions to Plant</u>	<u>Cash Required for Capital Improvements</u>
2009	(506,373)	1,695,010	1,188,637
2010	(791,236)	4,096,583	3,305,347
2011	(966,145)	2,200,445	1,234,300
2012	(262,330)	3,532,755	3,270,425
2013	(654,497)	1,891,779	1,237,282
2014	(691,704)	1,850,960	1,159,256
2015 WMEU	(354,393)	4,590,901	4,236,508
2015 WCU		86,636	86,636
2016 WMEU	(270,505)	4,731,095	4,460,590
2016 WCU		3,272,359	3,272,359
2017 WMEU	(170,442)	2,663,995	2,493,553
2017 WCU	(2,971)	970,768	967,797
2018 WMEU	(357,173)	3,096,062	2,738,889
2018 WCU	(288,161)	24,449	(263,712)



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Waverly Utilities
Waverly, Iowa

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Waverly Municipal Electric Utility and Waverly Communications Utility (collectively Waverly Utilities), component units of the City of Waverly, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Waverly Utilities' basic financial statements, and have issued our report thereon dated April 25, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Waverly Utilities' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about Waverly Utilities' operations for the year ended December 31, 2018, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Waverly Utilities and are reported in Part III of the accompanying schedule of findings and responses. Since our audit was based on tests and samples, not all transactions that have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dubuque, Iowa
April 25, 2019

Part I: Findings Related to the Financial Statements:

There were no findings to report.

Part II: Findings and Questioned Costs for Federal Awards:

Single audit did not apply for fiscal year 2018.

Part III: Other Findings Related to Required Statutory Reporting:

- 2018-IA-A **Certified Budget** – Disbursements during the year ended December 31, 2018, did not exceed the amount budgeted.

- 2018-IA-B **Questionable Expenditures** – We noted no expenditures that we believe may fail to meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

- 2018-IA-C **Travel Expense** – No expenditures of Waverly Utilities’ money for travel expenses of spouses of Utility officials or employees were noted.

- 2018-IA-D **Business Transactions** – No business transactions between Waverly Utilities and Waverly Utilities’ officials or employees were noted.

- 2018-IA-E **Bond Coverage** – Surety bond coverage of Waverly Utilities’ officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

- 2018-IA-F **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.

- 2018-IA-G **Deposits and Investments** – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and Waverly Utilities’ investment policy were noted.

- 2018-IA-H **Revenue Bonds** – No instances of noncompliance with the provisions of Waverly Utilities’ revenue bond resolutions were noted.

- 2018-IA-I **Telecommunications Services** – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.