

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, 2020 and 2019

WAVERLY UTILITIES

Component Units of the City of Waverly, Iowa

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December 31, 2019 and 2018

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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, 2020 and 2019, 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, 2020 and 2019, 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.

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 to IPERS, and Schedule of Changes in the Utilities' Total OPEB Liability and Related Ratios 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 13, 2021 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.

The image shows a handwritten signature in cursive script that reads "Eric Sully LLP". The signature is written in black ink and is positioned above the typed name and date.

Dubuque, Iowa
April 13, 2021

WAVERLY UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
Unaudited
December 31, 2020, 2019, and 2018

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, 2020, 2019, and 2018. Please read this in conjunction with the accompanying financial statements and the notes to the financial statements.

Overview of the Financial Statements

Management's discussion and analysis (MDA) serves as an introduction to the financial statements, and the MDA represents management's examination and analysis of the Utility's financial condition and performance. The financial statements report information about the Utility using the accrual basis of accounting as utilized by similar entities in the private sector.

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.

The notes to the financial statement provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes provide information about the Utility's accounting policies, significant account balances and activities, material risk, obligations, commitments, contingencies, and subsequent events.

Waverly Utilities Overview

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 GASB. WMEU has a governing body appointed by the Mayor and approved by the City Council.

On July 2, 2013, the WMEU 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 GASB. 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.

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 2020, WMEU installed 24 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 2020, we purchased 95.33% of our required energy and capacity through a full requirements energy contract. The remaining 4.67% was produced locally by the hydro and wind resources.

WAVERLY UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
Unaudited
December 31, 2020, 2019, and 2018

Condensed Statements of Net Position

	WMEU 2020	WCU 2020	WMEU 2019	WCU 2019	WMEU 2018	WCU 2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES						
Current Assets	\$ 6,685,727	\$ 1,657,363	\$ 7,019,802	\$ 1,225,800	\$ 7,545,683	\$ 885,130
Non-Current Assets						
Restricted Assets	1,696,500		1,696,500		1,696,500	
Designated Funds	7,822,177		7,719,329		7,114,821	
Other Assets	226,180		226,180		226,180	
Advance between WMEU & WCU	2,754,775		2,753,831		2,740,178	
Receivable for Wartburg Green Power	700,000		800,000		900,000	
Net Capital Assets	39,293,561	2,910,743	40,108,648	3,566,301	40,802,090	4,344,359
Total Assets	59,178,920	4,568,106	60,324,290	4,792,101	61,025,452	5,229,489
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Outflow for Pension Plan	339,710	89,026	378,647	98,989	547,196	139,626
Deferred Outflow for Wellness Center	240,000	-	360,000	-	480,000	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	579,710	89,026	738,647	98,989	1,027,196	139,626
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 59,758,630	\$ 4,657,132	\$ 61,062,937	\$ 4,891,090	\$ 62,052,648	\$ 5,369,115
LIABILITIES						
Current Liabilities	\$ 2,001,811	\$ 386,074	\$ 2,100,806	\$ 416,134	\$ 2,228,878	\$ 292,658
Current Liabilities Payable from Restricted	1,177,118	519,943	1,159,078	497,429	1,145,761	485,021
Non-Current Liabilities						
Advance between WMEU & WCU		2,754,775		2,753,831		2,740,178
Net Pension Liability	1,782,228	467,059	1,505,356	393,541	1,726,907	440,650
Other Non-Current Liabilities	10,226,277	4,957,680	11,530,926	5,439,686	12,640,656	5,920,261
Wellness Center Payable	240,000		360,000		480,000	
Total Liabilities	15,427,434	9,085,531	16,656,166	9,500,621	18,222,202	9,878,768
DEFERRED INFLOWS OF RESOURCES						
Deferred Inflows for Pension Plan	119,615	31,347	309,055	80,795	120,309	30,699
Deferred Inflows for Rate Stabilization	1,175,294		1,475,294		1,475,294	
Deferred Inflows for Wartburg Green Power	700,000		800,000		900,000	
Total Deferred Inflows of Resources	1,994,909	31,347	2,584,349	80,795	2,495,603	30,699
NET POSITION						
Net Investment in Capital Assets	29,848,344	(2,482,844)	29,716,717	(2,308,657)	30,730,430	(1,994,500)
Restricted for Debt Service and	346,119	56,843	344,509	56,172	343,202	61,240
Unrestricted	12,141,824	(2,033,745)	11,761,196	(2,437,841)	10,261,211	(2,607,092)
Total Net Position	42,336,287	(4,459,746)	41,822,422	(4,690,326)	41,334,843	(4,540,352)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 59,758,630	\$ 4,657,132	\$ 61,062,937	\$ 4,891,090	\$ 62,052,648	\$ 5,369,115

WAVERLY UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
Unaudited
December 31, 2020, 2019, and 2018

Condensed Statements of Revenues, Expenses and Changes in Net Position

	WMEU 2020	WCU 2020	WMEU 2019	WCU 2019	WMEU 2018	WCU 2018
OPERATING REVENUES	\$ 18,001,146	\$ 3,941,409	\$ 19,082,468	\$ 3,501,843	\$ 19,906,689	\$ 3,034,747
OPERATING EXPENSES						
Operating Expenses	14,449,562	2,630,642	15,529,001	2,482,691	16,907,671	2,265,202
Depreciation Expenses	2,265,910	841,140	2,252,812	832,217	2,122,530	850,443
Total Operating Expenses	16,715,472	3,471,782	17,781,813	3,314,908	19,030,201	3,115,645
Operating Income	1,285,674	469,627	1,300,655	186,935	876,488	(80,898)
Investment Income	224,801	-	292,198	-	232,700	-
Interest Expense	(297,696)	(275,302)	(317,486)	(346,402)	(327,482)	(406,563)
Gain (Loss) on Sale of Plant	6,486	3,246	38,141	(14,553)	26,013	(4,257)
Total Non-Operating Revenue (Expenses)	(66,409)	(272,056)	12,853	(360,955)	(68,769)	(410,820)
Income Before Operating Transfers and Contributions	1,219,265	197,571	1,313,508	(174,020)	807,719	(491,718)
Contributions	155,108	33,009	29,720	24,046	(437)	-
Cash Transfers to the City of Waverly	(860,508)	-	(855,648)	-	(864,984)	-
Change in Net Position	513,865	230,580	487,580	(149,974)	(57,702)	(491,718)
NET POSITION, Beginning of Year	41,822,422	(4,690,326)	41,334,842	(4,540,352)	41,392,544	(4,048,634)
NET POSITION, End of Year	\$ 42,336,287	\$ (4,459,746)	\$ 41,822,422	\$ (4,690,326)	\$ 41,334,842	\$ (4,540,352)

WMEU Revenues for 2020 were \$1.1M lower than 2019 due to a decrease in kWh sales as well as a decrease in capacity and energy sales.

WMEU's Net Position increased \$514K in 2020 due to a decrease in expenses including purchased power and generation.

WCU Revenues for 2020 were \$440K higher than 2019 due to an increase in subscriber counts.

WCU's Net Position increased \$231K in 2020 due to revenues being higher than expenses from the increase in subscriber counts.

WAVERLY UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
Unaudited
December 31, 2020, 2019, and 2018

Condensed Statements of Cash Flows

	WMEU 2020	WCU 2020	WMEU 2019	WCU 2019	WMEU 2018	WCU 2018
Cash Flows from Operating Activities						
Received from sales to customers	\$ 18,351,284	\$ 3,929,872	\$ 19,399,908	\$ 3,515,156	\$ 20,237,844	\$ 2,979,990
Paid to suppliers and employees for services	(14,742,410)	(2,560,048)	(15,240,166)	(2,290,557)	(15,171,990)	(2,108,293)
Cash Flows from Operating Activities	3,608,874	1,369,824	4,159,742	1,224,599	5,065,854	871,697
Cash Flows from Non-Capital Financing Activities	(861,452)	944	(869,301)	13,653	(829,567)	(35,417)
Cash Flows from Capital and Financing Activities	(3,113,122)	(934,366)	(3,305,164)	(888,136)	(1,161,525)	(485,233)
Cash Flows from Investing Activities	6,224,801	6,840	(1,701,096)	6,309	232,698	-
Net Change in Cash and Equivalents	5,859,101	443,242	(1,715,819)	356,425	3,307,460	351,047
CASH AND CASH EQUIVALENTS - Beginning of Year	6,494,537	882,370	8,210,356	525,945	4,902,896	174,898
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 12,353,638	\$ 1,325,612	\$ 6,494,537	\$ 882,370	\$ 8,210,356	\$ 525,945

WAVERLY UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
Unaudited
December 31, 2020, 2019, and 2018

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

	WMEU			WCU		
	Actual 2020	Budget 2020	Variance Favorable (Unfavorable)	Actual 2020	Budget 2020	Variance Favorable (Unfavorable)
OPERATING REVENUES	<u>\$ 18,001,146</u>	<u>\$19,068,180</u>	<u>(\$1,067,034)</u>	<u>\$ 3,941,409</u>	<u>\$3,848,640</u>	<u>\$92,769</u>
OPERATING EXPENSES						
Depreciation expenses	2,265,910	2,382,300	116,390	841,140	853,262	12,122
Other operating expenses	14,449,562	15,781,094	1,331,532	2,630,642	2,625,077	(5,565)
Total Operating Expenses	<u>16,715,472</u>	<u>18,163,394</u>	<u>1,447,922</u>	<u>3,471,782</u>	<u>3,478,339</u>	<u>6,557</u>
Operating Income	<u>1,285,674</u>	<u>904,786</u>	<u>380,888</u>	<u>469,627</u>	<u>370,301</u>	<u>99,326</u>
Investment income	224,801	240,000	(15,199)	-	-	-
Interest expense	(297,696)	(300,000)	2,304	(275,302)	(282,720)	7,418
Gain on sale of plant	6,486	-	6,486	3,246	-	3,246
Total Non-Operating Expenses	<u>(66,409)</u>	<u>(60,000)</u>	<u>(6,409)</u>	<u>(272,056)</u>	<u>(282,720)</u>	<u>10,664</u>
Income before contributions and operating transfers	1,219,265	844,786	374,479	197,571	87,581	109,990
Contributions	155,108	-	155,108	33,009	-	33,009
Transfers to City of Waverly	<u>(860,508)</u>	<u>(860,503)</u>	<u>(5)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>513,865</u>	<u>(15,717)</u>	<u>529,582</u>	<u>230,580</u>	<u>87,581</u>	<u>142,999</u>
NET POSITION, Beginning of Year	<u>41,822,422</u>	<u>41,334,843</u>	<u>487,579</u>	<u>(4,690,326)</u>	<u>(4,540,352)</u>	<u>(149,974)</u>
NET POSITION, END OF YEAR	<u>\$ 42,336,287</u>	<u>\$41,319,126</u>	<u>\$ 1,017,161</u>	<u>\$(4,459,746)</u>	<u>\$(4,452,771)</u>	<u>\$ (6,975)</u>

Waverly Utilities' budget is based on its projected long-term financial outlook, current economic conditions and plans for construction, operation and maintenance of the utility. A budget committee, consisting of personnel, 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
Unaudited
December 31, 2020, 2019, and 2018

WMEU Fund Analysis

Designated Funds

The Vehicle Replacement Fund had a balance of \$291,367, \$277,342, and \$487,520, respectively for 2020, 2019, and 2018. It is used for the replacement of vehicles and aerial 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 \$1,285,000 is funded annually at \$60,000 a year. The 2019 and 2018 balances were \$1,225,000 and \$1,165,000 respectively.

The Renewable Energy Fund was established to track donations received the Green Power Choice program. It is designated to supplement renewable energy through purchases. The fund had a balance of \$331,545, \$312,813, and \$320,766, for 2020, 2019, and 2018 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 2020, 2019, and 2018. The Generation Fund had a balance of \$216,562 in 2020, \$116,562 in 2019 and \$100,000 in 2018. The G & A Fund had a balance of \$0 in 2020, 2019, and 2018. They are funded annually based on the budget process.

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 \$5,567,593, \$5,491,930, and \$3,298,186 for 2020, 2019, and 2018 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 \$0 in 2020, \$195,682 in 2019, and \$1,643,349 in 2018.

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 \$1,816,316, \$1,816,666, and \$1,817,040 in 2020, 2019, and 2018, respectively.

Capital Assets

In 2020, WMEU had \$84 million of capital assets with a net position value of \$39.2 million. The total includes \$0.4 million in land, \$4.6 million in buildings, \$56.5 million in improvements, \$5.4 million in machinery and equipment, \$11.5 million in Louisa Generating Plant, \$5.5 million in Walter Scott Jr. 4 Generating Plant, and \$.003 million in construction work in progress.

WMEU's capital improvements for 2020 included installation of new distribution lines, services, meters, transformers, a new roof on the service center, new overhead doors in the service center, Louisa Generating Station improvements, WS4 Generating Station improvements, fiber drops, two new pickup trucks, and a new dump truck.

WAVERLY UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
Unaudited
December 31, 2020, 2019, and 2018

In 2020, WCU had \$6.4 million of capital assets with a net position value of \$2.9 million. The total includes \$1.9 million in leasehold improvements, \$4.5 million in equipment and \$0.0 million in construction work in progress.

WCU's capital improvements for 2020 included additional headend equipment, customer install related equipment and fiber services to Cedar Glynn/12th/20th St in Waverly.

In 2019, WMEU had \$82.5 million of capital assets with a net position value of \$40.1 million. The total includes \$0.4 million in land, \$4.3 million in buildings, \$55.4 million in improvements, \$5.5 million in machinery and equipment, \$11.3 million in Louisa Generating Plant, \$5.5 million in Walter Scott Jr. 4 Generating Plant, and \$.2 million in construction work in progress.

WMEU's capital improvements for 2019 included installation of new distribution lines, services, meters, transformers, switchgear replacement, Louisa Generating Station improvements, WS4 Generating Station improvements, fiber drops, a new aerial truck, and a new bucket truck.

In 2019, WCU had \$6.2 million of capital assets with a net position value of \$3.6 million. The total includes \$1.8 million in leasehold improvements, \$4.4 million in equipment and \$.025 million in construction work in progress.

WCU's capital improvements for 2019 included additional headend equipment as well as customer install related equipment and services.

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.

Debt Activity

WMEU has \$10.8 million of outstanding debt as of December 31, 2020. This includes \$0.4 million of 2007 CREB bonds issued to finance two wind turbines, and \$1.3 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 \$4.2 million outstanding of 2015 bonds that were issued for the fiber buildout, aerial truck, backhoe, and reimbursement resolution. The 2016 bonds were issued to fund the reimbursement resolution, fiber optic cable drops, switchgear, an aerial truck and a Digger Derrick and have a balance of \$2.3 million. The 2018 bonds were issued to fund the reimbursement resolution, distribution lines, fiber optic cable drops, transformers, meters, and a meter truck. These bonds have a balance of \$2.6 million.

WAVERLY UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
Unaudited
December 31, 2020, 2019, and 2018

WMEU maintains a sinking fund, reserve fund and an improvement fund per bond requirements. The balance in these restricted funds for 2020 is \$1,816,316. Debt service for 2020 included \$1,133,421 of principal payments and \$308,631 of interest payments. The 2019 restricted fund balance was \$1,816,666 with debt service of \$1,118,421 of principal payments and \$328,080 of interest payments. The 2018 restricted fund balance was \$1,817,040 with debt service of \$883,421 of principal payments and \$255,724 of interest payments.

WCU has \$8.1 million of outstanding debt as of December 31, 2020. This includes \$5.4 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 the restricted fund for 2020 was \$56,843. Debt service for 2020 included \$511,481 of principal payments and \$282,142 of interest payments. The balance in the restricted fund for 2019 was \$56,172. Debt service for 2019 included \$462,307 of principal payments and \$352,710 of interest payments. The balance in the restricted fund for 2018 was \$61,240. Debt service for 2018 included \$333,624 of principal payments and \$406,364 of interest payments.

At the end of 2019 and 2018 the outstanding debt for WMEU was \$12.0 million and \$13.0 million, respectively.

At the end of 2019 and 2018 the outstanding debt for WCU was \$8.6 million and \$9.0 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, 2020 and 2019

	ASSETS			
	WMEU 2020	WCU 2020	WMEU 2019	WCU 2019
CURRENT ASSETS				
Cash and Investments	\$ 2,715,145	\$ 1,268,769	\$ 2,958,542	\$ 826,198
Accounts Receivable	2,052,227	243,538	2,398,231	232,002
Interest Receivable	-	-	36,698	-
Inventory	1,714,863	23,655	1,370,496	22,636
Prepaid Expenses	83,676	64,558	135,669	88,792
Restricted Assets				
Sinking Fund Accounts				
CREB Bonds	15,922	-	16,031	-
2013 Bonds	37,736	-	37,586	-
2015 Bonds	25,795	56,843	25,828	56,172
2016 Bonds	15,025	-	15,250	-
2018 Bonds	25,338	-	25,471	-
Total Current Assets	<u>6,685,727</u>	<u>1,657,363</u>	<u>7,019,802</u>	<u>1,225,800</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		307,125	
Improvement Fund	250,000		250,000	
Total Restricted Assets	<u>1,696,500</u>	<u>-</u>	<u>1,696,500</u>	<u>-</u>
Designated Funds				
Vehicle Replacement Fund	291,367		277,342	
Renewable Energy Fund	331,545		312,813	
Generation Fund	216,562		116,562	
Rate Stabilization Fund	5,567,593		5,491,930	
Specified Projects Fund	-		195,682	
Insurance Recovery Fund	1,285,000		1,225,000	
Distribution Fund	100,000		100,000	
Decommission Fund	30,110		-	
Total Designated Accounts	<u>7,822,177</u>	<u>-</u>	<u>7,719,329</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	2,754,775		2,753,831	
Receivable for Wartburg Green Power	700,000		800,000	
Total Other Assets	<u>3,680,955</u>	<u>-</u>	<u>3,780,011</u>	<u>-</u>
Capital Assets				
Land	351,624	-	351,624	
Buildings	4,618,182	-	4,350,744	
Improvements	56,540,320	1,866,521	55,385,011	1,753,415
Machinery and Equipment	5,415,379	4,495,948	5,460,706	4,432,545
Louisa & Walter Scott 4 Plants	17,018,842	-	16,777,229	
Construction Work in Progress	36,290	-	221,101	24,046
Total Capital Assets	<u>83,980,637</u>	<u>6,362,469</u>	<u>82,546,415</u>	<u>6,210,006</u>
Accumulated Depreciation	(44,687,076)	(3,451,726)	(42,437,767)	(2,643,705)
Net Capital Assets	<u>39,293,561</u>	<u>2,910,743</u>	<u>40,108,648</u>	<u>3,566,301</u>
Total Non-Current Assets	<u>52,493,193</u>	<u>2,910,743</u>	<u>53,304,488</u>	<u>3,566,301</u>
TOTAL ASSETS	<u>\$ 59,178,920</u>	<u>\$ 4,568,106</u>	<u>\$ 60,324,290</u>	<u>\$ 4,792,101</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows for Wellness Center	240,000	-	360,000	-
Deferred Outflows for Pension Plan	339,710	89,026	378,647	98,989
DEFERRED OUTFLOWS OF RESOURCES	<u>579,710</u>	<u>89,026</u>	<u>738,647</u>	<u>98,989</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 59,758,630</u>	<u>\$ 4,657,132</u>	<u>\$ 61,062,937</u>	<u>\$ 4,891,090</u>

WAVERLY UTILITIES
STATEMENTS OF NET POSITION
As of December 31, 2020 and 2019

	<i>LIABILITIES</i>			
	WMEU 2020	WCU 2020	WMEU 2019	WCU 2019
CURRENT LIABILITIES				
Accounts Payable	\$ 1,090,283	\$ 111,819	\$ 1,208,725	\$ 172,269
Accrued Property Taxes	148,022	7,038	160,165	2,850
Unearned Revenue - Customer Billings	-	155,435	-	134,980
Other Accrued Expenses	763,506	111,782	731,916	106,035
Accrued Interest	-	14,742	-	16,058
Current Liabilities Payable From Restricted Assets				
Current Portion of Revenue Bonds	1,153,421	505,201	1,133,421	481,371
Accrued Interest on Revenue Bonds	23,697	-	25,657	-
Total Current Liabilities	<u>3,178,929</u>	<u>906,017</u>	<u>3,259,884</u>	<u>913,563</u>
NON-CURRENT LIABILITIES				
Revenue Bonds	9,653,421	4,888,386	10,806,842	5,393,588
Advance between WMEU and WCU	-	2,754,775	-	2,753,831
Bond Premium	84,875	-	93,850	-
Net Pension Liability	1,782,228	467,059	1,505,356	393,541
Total OPEB Liability	487,981	69,294	630,234	46,098
Wellness Center Payable	240,000	-	360,000	-
Total Non-Current Liabilities	<u>12,248,505</u>	<u>8,179,514</u>	<u>13,396,282</u>	<u>8,587,058</u>
TOTAL LIABILITIES	<u>15,427,434</u>	<u>9,085,531</u>	<u>16,656,166</u>	<u>9,500,621</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows for Rate Stabilization	1,175,294	-	1,475,294	-
Deferred Inflows for Pension Plan	119,615	31,347	309,055	80,795
Deferred Inflows for Wartburg Green Power	700,000	-	800,000	-
DEFERRED INFLOWS OF RESOURCES	<u>1,994,909</u>	<u>31,347</u>	<u>2,584,349</u>	<u>80,795</u>
NET POSITION				
Net Investment in Capital Assets	29,848,344	(2,482,844)	29,716,717	(2,308,657)
Restricted for Debt Service and Improvements	346,119	56,843	344,509	56,172
Unrestricted	12,141,824	(2,033,745)	11,761,196	(2,437,841)
Total Net Position	<u>42,336,287</u>	<u>(4,459,746)</u>	<u>41,822,422</u>	<u>(4,690,326)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 59,758,630</u>	<u>\$ 4,657,132</u>	<u>\$ 61,062,937</u>	<u>\$ 4,891,090</u>

WAVERLY UTILITIES

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years ended December 31, 2020 and 2019

	WMEU 2020	WCU 2020	WMEU 2019	WCU 2019
OPERATING REVENUES				
Sales to customers	\$ 14,623,300	\$ 3,832,396	\$ 14,963,731	\$ 3,448,740
Rate stabilization	300,000	-	-	-
Miscellaneous	3,077,846	109,013	4,118,737	53,103
Total Operating Revenues	18,001,146	3,941,409	19,082,468	3,501,843
OPERATING EXPENSES				
Production	11,403,028		12,233,101	
Transmission	169,392		189,703	
Distribution	1,502,718		1,659,087	
Customer accounts	262,760		275,458	
Administrative and general	687,157		839,009	
Customer information	94,685		99,153	
Community development	237,295		103,444	
Conservation	92,527		130,046	
WCU Operating Expenses	-	2,630,642	-	2,482,691
Depreciation	2,265,910	841,140	2,252,812	832,217
Total Operating Expenses	16,715,472	3,471,782	17,781,813	3,314,908
Operating Income (Loss)	1,285,674	469,627	1,300,655	186,935
NONOPERATING REVENUE (EXPENSES)				
Gain (Loss) on sale of plant	6,486	3,246	38,141	(14,553)
Investment income	224,801		292,198	
Interest expense	(297,696)	(275,302)	(317,486)	(346,402)
Total Nonoperating Revenue (Expenses)	(66,409)	(272,056)	12,853	(360,955)
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS				
	1,219,265	197,571	1,313,508	(174,020)
Contributions	155,108	33,009	29,720	24,046
Transfer to City of Waverly	(860,508)	-	(855,648)	-
CHANGE IN NET POSITION	513,865	230,580	487,580	(149,974)
NET POSITION - Beginning of Year	41,822,422	(4,690,326)	41,334,842	(4,540,352)
NET POSITION - END OF YEAR	\$ 42,336,287	\$ (4,459,746)	\$ 41,822,422	\$ (4,690,326)

See accompanying notes to financial statements.

Statements of Cash Flows Follow

WAVERLY UTILITIES

STATEMENTS OF CASH FLOWS
For the Years ended December 31, 2020 and 2019

	WMEU 2020	WCU 2020	WMEU 2019	WCU 2019
CASH FLOWS FROM OPERATING ACTIVITIES				
Received from sales to customers	\$ 15,273,438	\$ 3,820,859	\$ 15,281,171	\$ 3,462,053
Received from Misc Operating Revenues	3,077,846	109,013	4,118,737	53,103
Paid to suppliers for purchased power and transmission	(9,832,171)	-	(10,123,702)	-
Paid to suppliers and employees for other services	(4,910,239)	(2,560,048)	(5,116,464)	(2,290,557)
<i>Net Cash Flows From Operating Activities</i>	3,608,874	1,369,824	4,159,742	1,224,599
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	(944)	944	(13,653)	13,653
Transfers to City of Waverly	(740,508)	-	(735,648)	-
<i>Net Cash Flows From (Used By) Noncapital Financing Activities</i>	(861,452)	944	(869,301)	13,653
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of plant and equipment	(1,826,178)	(202,546)	(1,888,319)	(88,915)
Capital Contributions	155,108	33,009	29,720	24,046
Principal payments on revenue bonds	(1,133,421)	(481,371)	(1,118,421)	(463,901)
Interest paid	(308,631)	(283,458)	(328,144)	(359,366)
<i>Net Cash Flows From (Used By) Capital and Related Financing Activities</i>	(3,113,122)	(934,366)	(3,305,164)	(888,136)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Income	224,801	6,840	292,198	6,309
Maturity (Purchase) of Certificate of Deposit	6,000,000	-	(1,993,294)	-
<i>Net Cash Flows From (Used By) Investing Activities</i>	6,224,801	6,840	(1,701,096)	6,309
Net Change in Cash and Cash Equivalents	5,859,101	443,242	(1,715,819)	356,425
CASH AND CASH EQUIVALENTS - Beginning of Year	6,494,537	882,370	8,210,356	525,945
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 12,353,638</u>	<u>\$ 1,325,612</u>	<u>\$ 6,494,537</u>	<u>\$ 882,370</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Gain (loss) on sale of plant	<u>\$ 6,486</u>	<u>\$ 3,246</u>	<u>\$ 38,141</u>	<u>\$ (14,553)</u>

See accompanying notes to financial statements.

**RECONCILIATION OF OPERATING INCOME TO NET CASH
FLOWS FROM (USED BY) OPERATING ACTIVITIES**

Operating Income (Loss)	\$ 1,285,674	\$469,627	\$ 1,300,655	\$186,935
Non-Operating Income (Expense)	-		-	
Non-cash Items Included in Operating Income				
Amortization of Energy Efficiency Rebates	-		-	
Depreciation	2,265,910	841,140	2,252,781	832,217
Depreciation Cleared	381,841	20,210	367,121	20,203
Changes in Assets and Liabilities				
Accounts Receivable	346,004	(11,538)	317,440	13,313
Interest Receivable	36,698	-	(10,209)	-
Inventory	(344,369)	(1,019)	(30,420)	9,952
Prepaid Expenses	51,993	24,234	(77,964)	(7,511)
Accounts Payable	(118,443)	(60,450)	(145,342)	82,088
Accrued Property Taxes	(12,140)	4,189	14,456	2,849
Deferred Outflows for Pension Plan	38,937	9,963	168,549	40,637
Net Pension Liability	276,872	73,518	(221,551)	(47,109)
Deferred Inflows for Pension Plan	(189,440)	(49,448)	188,746	50,096
Unearned Service Revenue	-	20,455	-	14,139
Deferred Inflows for Rate Stabilization	(300,000)	-	-	-
Other Accrued Expenses	(110,663)	28,943	35,480	26,790
NET CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES	\$ 3,608,874	\$ 1,369,824	\$ 4,159,742	\$ 1,224,599

**RECONCILIATION OF CASH AND CASH EQUIVALENTS TO
BALANCE SHEET ACCOUNTS**

Cash and Investments	\$ 2,715,145	\$ 1,268,769	\$ 2,958,542	\$ 826,198
Restricted Assets				
Sinking Fund Accounts				
CREB Bonds	15,922		16,031	
2013 Bonds	37,736		37,586	
2015 Bonds	25,795	56,843	25,828	56,172
2016 Bonds	15,025		15,250	
2018 Bonds	25,338		25,471	
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		307,125	
Improvement Fund	250,000		250,000	
Total Cash and Restricted Assets	4,531,461	1,325,612	4,775,208	882,370
Designated Accounts				
Vehicle Replacement Fund	291,367		277,342	
Renewable Energy Fund	331,545		312,813	
Generation Fund	216,562		116,562	
Rate Stabilization Fund	5,567,593		5,491,930	
Specified Project Fund	-		195,682	
Insurance Recovery Fund	1,285,000		1,225,000	
Decommission Fund	30,110		-	
Distribution Fund	100,000		100,000	
Total Designated Accounts	7,822,177	-	7,719,329	-
Less: Non-cash Equivalents (Note 2)	-	-	(6,000,000)	-
TOTAL CASH AND CASH EQUIVALENTS	\$ 12,353,638	\$ 1,325,612	\$ 6,494,537	\$ 882,370

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2020 and 2019

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 WMEU Board passed Resolution #01-13, establishing the Waverly Communications Feasibility and Support Delivery Model Task Force and WCU. WCU is a separate and distinct entity that provides communications services to its customers. WCU is considered a component unit of the City of Waverly under the guidelines established by GASB. 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, 2020 and 2019

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 40% from residential users in and around the municipality and approximately 60% from commercial and industrial users in the municipality.

Accounts receivable balances at December 31, 2020 and 2019 are considered fully collectible and expected within one year. Any accounts not collectible is 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, 2020 and 2019 include: unbilled revenues totaling \$838,640 and \$847,415, customer accounts receivable totaling \$1,233,406 and \$1,208,703, energy cost adjustment (ECA) totaling \$(164,053) and \$(85,326), other accounts receivable totaling \$197,390 and \$458,741, and accrued interest receivable totaling \$0 and \$36,698, 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, 2020 and 2019 of \$243,538 and \$232,002, respectively.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2020 and 2019

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		WCU	
	December 31		December 31	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
<u>Local Inventories</u>				
Warehouse Materials	\$ 885,957	\$ 962,640	\$ 23,655	\$ 22,636
Generating Plant - Diesel Fuel	61,854	64,717		
<u>Louisa Inventories</u>				
Coal	590,464	196,812		
Oil	3,205	3,214		
Materials	57,801	58,655		
<u>WS4 Inventories</u>				
Coal	83,000	47,662		
Oil	2,266	6,377		
Materials	30,316	30,419		
Totals	\$ 1,714,863	\$ 1,370,496	\$ 23,655	\$ 22,636

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, 2020 and 2019

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

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

Other Assets

In 2020 and 2019 the balances consisted of investments in other facilities considered non-utility property.

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 always 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. Maintenance and repairs are expensed as incurred.

WMEU's depreciation expense for the years ended December 31, 2020 and 2019, was \$2,647,751 and \$2,619,902, respectively; of that, \$2,265,910 and \$2,252,812 was expensed and \$381,841 and \$367,121 was capitalized. WCU depreciation expense for the years ended December 31, 2020 and 2019, was \$861,350 and \$852,420, respectively; of that, \$841,140 and \$832,217 was expensed and \$20,210 and \$20,203 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, 2020 and 2019

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 benefits and Renewable Energy Payable – a fund used for donations for the Green Power Choice 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, 2020 and 2019

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 2019, \$0 was transferred to (from) revenue to the RSF. In 2020, \$300,000 was transferred from the RSF which left an ending balance of \$1,175,294.

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 and communication 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, 2020 and 2019

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 2018 and placed into effect in January 2019.

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.

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, 2020 and 2019

NOTE 2 – DEPOSITS AND INVESTMENTS

The utilities' deposits in banks at December 31, 2020 and 2019 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, 2020 and 2019 were comprised of the following:

	WMEU 2020	WCU 2020	WMEU 2019	WCU 2019	Risks
Checking	\$8,267,397	\$1,325,612	\$3,262,555	\$882,370	Custodial credit risk
Petty cash	1,600	0	1,600	0	Custodial credit risk
Saving	4,084,641	0	3,230,382	0	Custodial credit risk
Certificates of deposit	0	0	6,000,000	0	Custodial credit risk
Total Deposits and Investments	\$12,353,638	\$1,325,612	\$12,494,538	\$882,370	

Reconciliation to Financial Statements

	WMEU 2020	WCU 2020	WMEU 2019	WCU 2019
Unrestricted cash and investments	\$2,715,145	\$1,268,769	\$2,958,542	\$826,198
Restricted cash and investments	1,816,316	56,843	1,816,666	56,172
Designated cash and investments	7,822,177	0	7,719,329	0
Total Deposits and Investments	\$12,353,638	\$1,325,612	\$12,494,537	\$882,370

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, 2020 and 2019

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:

	2020	2019
Restricted Assets		
Sinking funds	\$119,816	\$120,166
Reserve fund	1,446,500	1,446,500
Improvement fund	250,000	250,000
Total Restricted Assets	<u>\$1,816,316</u>	<u>\$1,816,666</u>
Less: Restricted Assets Not Funded by Revenues		
Reserve fund	\$(1,446,500)	\$(1,446,500)
Total Restricted Assets Not Funded by Revenues	<u>(1,446,500)</u>	<u>(1,446,500)</u>
Current Liabilities Payable From Restricted Assets	<u>(23,697)</u>	<u>(25,657)</u>
Total Restricted Net Position as Calculated	<u>\$346,119</u>	<u>\$344,509</u>

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

	2020	2019
Restricted Assets		
Sinking fund	\$56,843	\$56,172
Total Restricted Assets	<u>\$56,843</u>	<u>\$56,172</u>

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

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2020 and 2019

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, 2020 and 2019.

To	From	2020		2019	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	WMEU	\$ 740,508	Fund Transfer	\$ 735,648	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 another 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 was to fund working capital of WCU for the initial startup period with an interest rate of 4.38% per annum through August 2019. In August 2019 the Board of Trustees approved lowering the interest rate to 3.28% per annum for the remainder of the agreement with all principal due by December 1, 2033, unless paid sooner. The following is a schedule of interfund advances for the years ending December 31, 2020 and 2019:

Due To	Due From	2020		2019	
		Amount	Principal Purpose	Amount	Principal Purpose
WMEU	WCU	\$ 2,710,068	Temp Transfer	\$ 2,740,178	Temp Transfer
WMEU	WCU	\$ 44,707	Net Monthly Transfer	\$ 13,653	Net Monthly Transfer
WMEU	WCU	\$ 2,754,775	Interfund Total	\$ 2,753,831	Interfund Total

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2020 and 2019

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in WMEU capital assets for 2020 follows:

	Balance 01/01/20	Additions	Deletions	Transfers	Balance 12/31/20
Capital assets:					
Land ⁽¹⁾	\$ 351,624	\$ -	\$ -	\$ -	\$ 351,624
Buildings	4,350,744	278,970	(11,532)	-	4,618,182
Improvements	55,385,011	1,340,165	(184,856)	-	56,540,320
Equipment	5,460,706	181,668	(226,995)	-	5,415,379
Louisa plant	11,314,509	229,077	(15,998)	-	11,527,588
WS4 plant	5,462,720	32,429	(3,894)	-	5,491,255
Construction in progress ⁽¹⁾	221,101	17,185	(201,996)	-	36,290
Less: Accum. depreciation	(42,437,767)	(2,647,751)	398,442	-	(44,687,076)
Net Capital Assets	<u>\$ 40,108,648</u>	<u>\$ (568,258)</u>	<u>\$ (246,829)</u>	<u>\$ -</u>	<u>\$ 39,293,561</u>

⁽¹⁾- Capital assets not being depreciated.

A summary of changes in WCU capital assets for 2020 follows:

	Balance 01/01/20	Additions	Deletions	Balance 12/31/20
Capital assets:				
Buildings	\$ 1,231,311	\$ -	\$ -	\$ 1,231,311
OH & URD Fiber Lines & Devices	522,103	113,107	-	635,210
Equipment	4,432,546	155,492	(92,091)	4,495,948
Construction in progress ⁽¹⁾	24,046	-	(24,046)	-
Less: Accumulated depreciation	(2,643,705)	(861,351)	53,329	(3,451,726)
Net Capital Assets	<u>\$ 3,566,301</u>	<u>\$ (592,751)</u>	<u>\$ (62,807)</u>	<u>\$ 2,910,743</u>

⁽¹⁾ – Capital assets not being depreciated.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2020 and 2019

NOTE 5 – CHANGES IN CAPITAL ASSETS (CONT.)

A summary of changes in WMEU capital assets for 2019 follows:

	Balance 01/01/19	Additions	Deletions	Transfers	Balance 12/31/19
Capital assets:					
Land ⁽¹⁾	\$ 351,624	\$ -	\$ -	\$ -	\$ 351,624
Buildings	4,343,844	6,900	-	-	4,350,744
Improvements	50,798,495	2,332,898	(68,440)	2,322,059	55,385,011
Equipment	7,716,447	218,219	(151,902)	(2,322,059)	5,460,706
Louisa plant	11,127,086	213,399	(25,976)	-	11,314,509
WS4 plant	5,451,356	12,068	(704)	-	5,462,720
Construction in progress ⁽¹⁾	1,072,091	189,489	(1,040,479)	-	221,101
Less: Accum. depreciation	(40,058,853)	(2,619,902)	240,989	-	(42,437,767)
Net Capital Assets	<u>\$ 40,802,090</u>	<u>\$ 353,071</u>	<u>\$ (1,046,512)</u>	<u>\$ -</u>	<u>\$ 40,108,648</u>

⁽¹⁾ – Capital assets not being depreciated.

A summary of changes in WCU capital assets for 2019 follows:

	Balance 01/01/19	Additions	Deletions	Balance 12/31/19
Capital assets:				
Buildings	\$ 1,226,354	\$ 4,957	\$ -	\$ 1,231,311
OH & URD Fiber Lines & Devices	522,103	-	-	522,103
Equipment	4,401,664	83,070	(52,187)	4,432,546
Construction in progress ⁽¹⁾	4,957	24,046	(4,957)	24,046
Less: Accumulated depreciation	(1,810,719)	(852,420)	19,434	(2,643,705)
Net Capital Assets	<u>\$ 4,344,359</u>	<u>\$ (740,348)</u>	<u>\$ (37,710)</u>	<u>\$ 3,566,301</u>

⁽¹⁾ – Capital assets not being depreciated.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2020 and 2019

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	\$ 376,842
12/3/2013	Reimbursement Resolution, West Sub, 4 Generators	12/1/2021	12/1/2023	0.4-2.75%	4,000,000	1,310,000
10/27/2015	Finance Fiber Buildout, Backhoe, Aerial Truck, Reimburse	12/1/2023	12/1/2030	2.0-4.0%	4,980,000	4,250,000
10/25/2016	Fiber drops, meters, transformers, switchgear, phone system aerial truck, digger derrick & vehicles, Louisa & WS4 facilities	12/1/2024	12/1/2029	2%	2,860,000	2,265,000
12/21/2018	Reimbursement Resolution, primary OH/URD lines, transformers, meters, meter truck, & fiber drops	12/1/2025	12/1/2030	3.0-3.2%	3,045,000	2,605,000
WCU						
2/26/2015	Communications Utility Setup Capital Expenditures	12/1/2029	12/1/2029	4.3-3.28%	6,672,483	5,393,587

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

Year	Principal	Interest	Total
2021	188,421	2,638	191,059
2022	188,421	1,319	189,740
Totals	<u>\$ 376,842</u>	<u>\$ 3,957</u>	<u>\$ 380,799</u>

This debt is owned by JP Morgan which therefore constitutes a direct borrowing.

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

Year	Principal	Interest	Total
2021	420,000	32,838	452,838
2022	435,000	23,388	458,388
2023	455,000	12,513	467,513
Totals	<u>\$ 1,310,000</u>	<u>\$ 68,739</u>	<u>\$ 1,378,739</u>

This debt is owned by Bankers' Bank which therefore constitutes a direct borrowing.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2020 and 2019

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

REVENUE BONDS (cont.)

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	185,000	124,541	309,541
2022	185,000	120,841	305,841
2023	275,000	116,679	391,679
2024	455,000	109,804	564,804
2025	475,000	97,860	572,860
2026-2030	<u>2,675,000</u>	<u>261,093</u>	<u>2,936,093</u>
Totals	<u>\$ 4,250,000</u>	<u>\$ 830,818</u>	<u>\$ 5,080,818</u>

This debt is owned by Hutchinson, Shockey, Erley & Co which therefore constitutes a direct borrowing.

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	135,000	45,300	180,300
2022	140,000	42,600	182,600
2023	235,000	39,800	274,800
2024	290,000	35,100	325,100
2025	290,000	29,300	319,300
2026-2029	<u>1,175,000</u>	<u>59,100</u>	<u>1,234,100</u>
Totals	<u>\$ 2,265,000</u>	<u>\$ 251,200</u>	<u>\$ 2,516,200</u>

This debt is owned by Northland Securities, Inc. which therefore constitutes a direct borrowing.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2020 and 2019

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>
2021	225,000	79,050	304,050
2022	235,000	72,300	307,300
2023	240,000	65,250	305,250
2024	245,000	58,050	303,050
2025	255,000	50,700	305,700
2026-2030	<u>1,405,000</u>	<u>133,960</u>	<u>1,538,960</u>
Totals	<u>\$ 2,605,000</u>	<u>\$ 459,310</u>	<u>\$ 3,064,310</u>

This debt is owned by Bernardi Securities, Inc. which therefore constitutes a direct borrowing.

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	505,201	176,910	682,111
2022	524,266	160,339	684,605
2023	548,096	143,143	691,239
2024	571,926	125,166	697,092
2025	595,756	106,406	702,162
2026-2029	<u>2,648,342</u>	<u>221,776</u>	<u>2,870,118</u>
Totals	<u>\$ 5,393,587</u>	<u>\$ 933,740</u>	<u>\$ 6,327,327</u>

This debt is owned by Dubuque Bank & Trust which therefore constitutes a direct borrowing.

All utility revenues net of specified operating expenses is pledged as security of the above revenue bonds until the bonds are defeased. WMEU revenues are pledged for WMEU bonds and WCU revenues are pledged for WCU bonds.

WMEU principal and interest paid for 2020 and 2019 were \$1,442,007 and \$1,446,501 respectively. Total customer gross revenues for WMEU as defined for the same periods were \$14,923,300 and \$14,963,731. Annual principal and interest payments are expected to require 5.5% of gross revenues on average.

WCU principal and interest paid for 2020 and 2019 was \$674,112 and \$815,017 respectively. Total customer gross revenues for WCU as defined for the same periods were \$3,832,396 and \$3,448,740.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2020 and 2019

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, 2020 and 2019 were \$240,000 and \$360,000, 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:

Year	Principal	Interest	Total
2021	120,000	-	120,000
2022	120,000	-	120,000
Totals	\$ 240,000	\$ -	\$ 240,000

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 Renewable Energy Fund. As such, a deferred inflow and other asset in the amount of \$700,000 and \$800,000, respectively has been reflected in the Statement of Net Position for 2020 and 2019.

NON-CURRENT LIABILITIES

Long-term Obligations for WMEU for 2020 are as follows:

Debt Issue	Balance 12/31/2019	Additions	Reductions	Balance 12/31/2020	Current Portion
2007 CREB Revenue Bonds	\$ 565,263	\$ -	\$ 188,421	\$ 376,842	\$ 188,421
2013 Revenue Bonds	1,720,000	-	410,000	1,310,000	420,000
2015 Revenue Bonds	4,430,000	-	180,000	4,250,000	185,000
2016 Revenue Bonds	2,400,000	-	135,000	2,265,000	135,000
2018 Revenue Bonds	2,825,000	-	220,000	2,605,000	225,000
Bond Premium	93,850	-	8,975	84,875	
Totals	\$ 12,034,113	\$ -	\$ 1,142,396	\$ 10,891,717	\$ 1,153,421

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2020 and 2019

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

NON-CURRENT LIABILITIES (CONT.)

Long-term Obligations for WCU for 2020 are as follows:

Debt Issue	Balance 12/31/2019	Additions	Reductions	Balance 12/31/2020	Current Portion
2015 Revenue Bonds	\$ 5,874,959	\$ -	\$ 481,372	\$ 5,393,587	\$ 505,201
WCU Temporary Transfer	2,753,831	944	-	2,754,775	
Totals	<u>\$ 8,628,790</u>	<u>\$ 944</u>	<u>\$ 481,372</u>	<u>\$ 8,148,362</u>	<u>\$ 505,201</u>

Long-term Obligations for WMEU for 2019 are as follows:

Debt Issue	Balance 12/31/2018	Additions	Reductions	Balance 12/31/2019	Current Portion
2007 CREB Revenue bonds	\$ 753,684	\$ -	\$ 188,421	\$ 565,263	\$ 188,421
2013 Revenue Bonds	2,120,000	-	400,000	1,720,000	410,000
2015 Revenue Bonds	4,605,000	-	175,000	4,430,000	180,000
2016 Revenue Bonds	2,535,000	-	135,000	2,400,000	135,000
2018 Revenue Bonds	3,045,000	-	220,000	2,825,000	220,000
Bond Premium	102,825	-	8,975	93,850	
Totals	<u>\$ 13,161,509</u>	<u>\$ -</u>	<u>\$ 1,127,396</u>	<u>\$ 12,034,113</u>	<u>\$ 1,133,421</u>

Long-term Obligations for WCU for 2019 are as follows:

Debt Issue	Balance 12/31/2018	Additions	Reductions	Balance 12/31/2019	Current Portion
2015 Revenue Bonds	\$ 6,338,859	\$ -	\$ 463,900	\$ 5,874,959	\$ 481,371
WCU Temporary Transfer	2,740,178	13,653	-	2,753,831	
Totals	<u>\$ 9,079,037</u>	<u>\$ 13,653</u>	<u>\$ 463,900</u>	<u>\$ 8,628,790</u>	<u>\$ 481,371</u>

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

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2020 and 2019

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 2020	WCU 2020	WMEU 2019	WCU 2019
Plant in service	\$ 83,944,347	\$ 6,362,469	\$ 82,325,314	\$ 6,185,960
Accumulated depreciation	(44,687,076)	(3,451,726)	(42,437,767)	(2,643,705)
Construction work in progress	36,290	-	221,101	24,046
Subtotal	<u>39,293,561</u>	<u>2,910,743</u>	<u>40,108,648</u>	<u>3,566,301</u>
Less: Capital Related Debt				
Current portion of capital related long-term debt	1,153,421	505,201	1,133,421	481,371
Long-term portion of capital related long-term debt	9,653,421	4,888,386	10,806,842	5,393,587
Unamortized Premium	84,875	-	93,850	-
Subtotal	<u>10,891,717</u>	<u>5,393,587</u>	<u>12,034,113</u>	<u>5,874,958</u>
Add: Reserve from borrowing	1,446,500	-	1,446,500	-
Unspent Bond Proceeds - Special Projects Fund	-	-	195,682	-
Subtotal	<u>1,446,500</u>	<u>-</u>	<u>1,642,182</u>	<u>-</u>
Total Net Investment in Capital Assets	<u>\$ 29,848,344</u>	<u>\$ (2,482,844)</u>	<u>\$ 29,716,717</u>	<u>\$ (2,308,657)</u>

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2020 and 2019

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 2020 assets at a cost of \$8,367,998 less accumulated depreciation of \$315,177 for a net value of \$8,052,821. 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 for \$200,000 a year. Lease payments were \$200,000 for 2020 and \$200,004 for 2019.

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).
- 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.)

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2020 and 2019

NOTE 9 – PENSION PLAN (cont.)

Pension Benefits (cont.)

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 6.29% of pay and the Utility contributed 9.44% for a total rate of 15.73% from Jan 1, 2019 to Dec 31, 2020.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2020 and 2019

NOTE 9 – PENSION PLAN (cont.)

Contributions (cont.)

WMEU's total contribution to IPERS during the IPERS reporting period for the years ended June 30, 2020 and 2019 were \$189,693 and \$187,050, respectively. WCU's total contribution to IPERS during the IPERS reporting period for the years ended June 30, 2020 and 2019 were \$50,190 and \$48,508, respectively. WMEU's total contributions to IPERS during the Utilities' calendar years ended December 31, 2020 and 2019 were \$195,287 and \$188,077, respectively. WCU's contribution was \$51,178 and \$49,168, respectively.

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

At December 31, 2020 and 2019, WMEU reported a liability of \$1,782,228 and \$1,505,356, respectively for its proportionate share of the net pension liability. WCU's proportionate share at December 31, 2020 and 2019 was \$467,059 and \$393,541, respectively. The net pension liability was measured as of June 30, 2020 and 2019, 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, 2020, the Utilities collective proportion was 0.032244 percent which is a decrease of 0.00033 percent from its proportion measured as of June 30, 2019.

For the years ended December 31, 2020 and 2019, WMEU recognized pension expense of \$126,369 and \$323,821, respectively. WCU recognized pension expense of \$34,032 and \$92,792, respectively.

At December 31, 2020 and 2019, the Utilities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 2,485	\$ 53,314	\$ 5,264	\$ 68,274
Changes in Assumptions	115,455	-	203,399	-
Net Difference between projected and actual earnings on IPERS investments	126,446	-	-	213,983
Changes in proportion and differences between Utility Contributions and proportionate share of contributions	58,575	97,648	149,779	107,593
Utility Contributions subsequent to the measurement date	125,775	-	119,194	-
Total Balance	428,736	150,962	477,636	389,850
WMEU	339,710	119,615	378,647	309,055
WCU	89,026	31,347	98,989	80,795
Total Balance	\$ 428,736	\$ 150,962	\$ 477,636	\$ 389,850

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2020 and 2019

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, 2020 and December 31, 2020 were \$99,923 for WMEU and \$25,853 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	WMEU	WCU
2021	39,919	10,611
2022	19,400	5,157
2023	15,298	4,066
2024	47,456	12,615
2025	(1,990)	(529)
	<u>120,082</u>	<u>31,919</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, 2020, 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%
- Projected salary increases: 3.25%–16.25% depending upon years of service
- Mortality tables: RP-2014 Employee and Healthy Annuitant Tables adjusted to 2006 and 2017 with MP-2017 generational adjustments
- Inflation rate: 2.6%
- Payroll increase assumption: 3.25%

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

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2020 and 2019

NOTE 9 – PENSION PLAN (cont.)

Actuarial Assumptions (cont.)

Mortality rates were based on the RP-2014 Employee and Healthy Annuitant Tables adjusted to 2006 and 2017 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	Long-Term
	Allocation	Expected Real Rate of Return
Domestic equity	22.0%	4.43%
International equity	17.5	5.15
Global smart beta equity	6.0	4.87
Core-plus fixed income	28.0	(0.29)
Public credit	4.0	2.29
Cash	1.0	(0.78)
Private equity	11.0	6.54
Private real assets	7.5	4.48
Private credit	3.0	3.11
Total	<u>100.0%</u>	

Discount Rate

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

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2020 and 2019

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.

	1% Decrease	Discount Rate	1% Increase
	6.00%	7.00%	8.00%
WMEU's Proportionate Share of the Net Pension Liability			
2019	2,697,463	1,505,356	530,735
WCU's Proportionate Share of the Net Pension Liability			
2019	674,366	393,541	132,684
	6.00%	7.00%	8.00%
WMEU's Proportionate Share of the Net Pension Liability			
2020	3,000,397	1,782,228	792,437
WCU's Proportionate Share of the Net Pension Liability			
2020	750,099	467,059	198,109

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, 2020 and 2019 was \$1,285,000 and \$1,225,000, 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 2020 or 2019. 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, 2020 and 2019

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS

Waverly Utilities administers a single-employer benefit plan which provides medical, prescription drug, and dental 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 stating that eligible retirees must be 55 years of age, have 10 years of continuous service with Waverly Utilities, and have unpaid sick/vacation leave totaling 960 hours. This allows qualified retirees to receive healthcare insurance paid by Waverly Utilities from retirement until age 65.

As of January 1, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits -	1
Active employees -	<u>31</u>
Total	32

Waverly Utilities' OPEB liability was measured as of December 31, 2020, and was determined by an actuarial valuation as of January 1, 2020.

At December 31, 2020 and 2019, the Utility reported a liability of \$557,275 and \$676,332 respectively for total OPEB liability.

Waverly Utilities' total OPEB liability in the January 1, 2020 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:	2.74% per year
Healthcare Cost Trend Rate:	Duration 1 – 6.00%
	Duration 2 – 5.75%
	Duration 3 – 5.50%
	Duration 4 – 5.25%
	Duration 5+ – 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 2.74% as of January 1, 2020.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2020 and 2019

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

Schedule of Changes in Total OPEB Liability:

	2020	2019
Total OPEB Liability - Beginning of Year	\$676,332	\$641,277
Service Cost	36,193	42,354
Interest	14,862	22,995
Difference between Expected/Actual Experience	(181,348)	-
Changes of Assumptions	25,694	-
Benefits Payments	(14,458)	(30,294)
Net Change in Total OPEB Liability	(119,057)	35,055
Total OPEB Liability - End of Year	\$557,275	\$676,332

Alternative Measurement Method valuation was used in accordance with GASB Statement No. 75. Therefore, no deferred outflows of resources or deferred inflows of resources were reported.

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 2.74%, as well as the total OPEB liability calculated using a discount rate that is 1-percentage point lower (1.74%) or 1-percentage point higher (3.74%) than the current rate:

	1% Decrease 1.74%	Current Discount Rate 2.74%	1% Increase 3.74%
Total OPEB Liability	\$ 590,954	\$ 557,275	\$ 522,343

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 6.0% decreasing to 5.0%, as well as the total OPEB liability calculated using a healthcare cost trend rate that is 1-percentage point lower (5.0% to 4.0%) or 1-percentage point higher (7.0% to 6.0%) than the current rate:

	1% Decrease 5.0% decreasing to 4.0%	Current Healthcare Cost Trend Rate '6.0% decreasing to 5.0%	1% Increase 7.0% decreasing to 6.0%
Total OPEB Liability	\$ 519,060	\$ 557,275	\$ 601,462

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2020 and 2019

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, 2020 and 2019 was \$740,508 and \$735,648, 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.

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. At the same time 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 local excess generating capacity to MEAN. From June 1, 2020 to May 31, 2021, 15 MWs were committed to MEAN with an additional 5.0 MWs committed for MEAN to put in to the market.

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, 2020 and 2019

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 8.20 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 8.90% in 2020 and 8.91% in 2019. 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, 2020 and 2019

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, 2020 and 2019. 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>
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, 2020.

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, 2020 and 2019. 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>
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, 2020.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2020 and 2019

NOTE 17 – BOND RESERVE REQUIREMENTS (cont.)

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, 2020 and 2019. 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>
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, 2020.

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, 2020 and 2019. 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, 2020 and 2019

NOTE 17 – BOND RESERVE REQUIREMENTS (cont.)

2016 BOND RESERVE REQUIREMENTS (cont.)

The annual obligations for these reserves are:

	Sinking Fund Reserve	Reserve Fund Reserve
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, 2020.

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, 2020 and 2019. 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:

	Sinking Fund Reserve	Reserve Fund Reserve
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, 2020.

REQUIRED SUPPLEMENTAL INFORMATION

WAVERLY UTILITIES

Schedule of the Utilities' Proportionate Share of the Net Pension Liability Iowa Public Employees' Retirement System For the Last Seven Fiscal Years*

Required Supplementary Information

	2020	2019	2018	2017	2016	2015	2014
Utilities' proportion of the net pension liability (asset)	0.0322440%	0.0325740%	0.0342630%	0.0350970%	0.0320040%	0.0261250%	0.0251058%
Utilities' proportionate share of the net pension liability	\$ 2,249,287	\$ 1,898,897	\$ 2,167,557	\$ 2,317,008	\$ 1,995,871	\$ 1,295,332	\$ 1,016,054
Utilities' covered payroll	\$ 2,541,134	\$ 2,495,630	\$ 2,574,363	\$ 2,596,405	\$ 2,275,924	\$ 1,796,226	\$ 1,676,439
Utilities' proportionate share of the net pension liability as a percentage of its covered employee payroll	88.52%	76.09%	84.20%	89.24%	87.69%	72.11%	60.61%
Plan Fiduciary net position as a percentage of the total pension liability	82.90%	85.45%	83.62%	82.21%	81.82%	85.19%	87.61%

*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 For the Last 10 Fiscal Years*

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Required Supplementary Information										
Statutorily required contribution	\$ 239,883	\$ 235,558	\$ 229,891	\$ 231,859	\$ 203,240	\$ 160,403	\$ 149,706	\$ 150,026	\$ 152,000	\$ 136,311
Contribution in relation to the statutorily required contribution	(239,883)	(235,558)	(229,891)	(231,859)	(203,240)	(160,403)	(149,706)	(150,026)	(152,000)	(136,311)
Contribution deficiency(excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's covered payroll	\$ 2,541,134	\$ 2,495,630	\$ 2,574,363	\$ 2,596,405	\$ 2,275,924	\$ 1,796,226	\$ 1,676,439	\$ 1,680,022	\$ 1,753,173	\$ 1,689,108
Contributions as a percentage of covered payroll	9.44%	9.44%	8.93%	8.93%	8.93%	8.93%	8.93%	8.93%	8.67%	8.07%

*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, 2020

Changes of benefit terms:

None in 2020

Changes of assumptions:

None in 2020

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 For the Last Three Fiscal Years

	2020	2019	2018
Total OPEB Liability - Beginning of Year	\$ 676,332	\$ 641,277	\$ 606,702
Service Cost	36,193	42,354	41,220
Interest	14,862	22,995	21,800
Difference between Expected/Actual Exp	(181,348)	-	-
Changes of Assumptions	25,694	-	-
Benefits Payments	(14,458)	(30,294)	(28,445)
Net Change in Total OPEB Liability	(119,057)	35,055	34,575
Total OPEB Liability - End of Year	\$ 557,275	\$ 676,332	\$ 641,277
Covered Employee Payroll	\$ 2,404,075	\$ 2,511,424	\$ 2,444,208
Total OPEB Liability as a Percentage of the Covered-Employee Payroll	23.18%	26.93%	26.24%

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

OFFICIALS
December 31, 2020

Board of Trustees

Bob Buckingham, Chairman
Waverly, IA 50677

Emily Neuendorf, Vice Chair
Waverly, IA 50677

Bob Brunkhorst
Waverly, IA 50677

Gaylan Brunssen
Waverly, IA 50677

Jess Kettleon
Waverly, IA 50677

CEO
Darrel Wenzel
Waverly, IA 50677

Director, Operations
Curt Atkins
Waverly, IA 50677

Director, Telecom
Jeff Magsamen
Janesville, IA 50647

Director, Finance & Customer Services
Kasey Lewis
Plainfield, IA 50666

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

Director, Marketing
Jen Bloker
Denver, IA 50622

WAVERLY UTILITIES

WMEU - Summary of Statements of Revenues, Expenses and Changes in Net Position

	2011	2012	2013	2014 (Restated)	2015	2016	2017	2018	2019	2020
<u>Operating Revenues</u>										
Residential	4,623,271	4,628,144	4,702,996	4,735,758	4,673,309	5,273,596	5,341,918	5,813,167	5,656,612	5,868,713
Industrial	6,866,051	6,753,474	6,420,537	6,583,502	6,543,329	7,118,714	7,230,994	7,184,731	6,702,499	6,284,127
Commercial	1,463,022	1,435,083	1,462,954	1,445,928	1,450,954	1,576,783	1,605,618	1,668,851	1,612,407	1,505,148
Security Lights	41,430	43,817	43,766	44,502	43,996	44,809	45,690	44,869	43,439	42,053
Street Lights	275,626	251,321	252,654	252,302	265,655	272,164	274,138	262,798	258,754	262,034
Municipal	741,189	712,756	706,835	664,712	675,472	757,796	771,060	796,499	759,079	739,952
ECA	-	-	-	-	-	(65,703)	324,988	(275,552)	(69,059)	(78,727)
Rate Stabilization	-	-	-	(637,000)	411,706	(800,000)	(500,000)	50,000	-	300,000
Miscellaneous	3,343,756	3,472,120	3,956,572	4,294,478	3,738,843	4,323,918	3,970,478	4,361,326	4,118,737	3,077,846
Total Operating Revenues	\$ 17,354,345	\$ 17,296,715	\$ 17,546,314	\$ 17,384,182	\$ 17,803,264	\$ 18,502,077	\$ 19,064,884	\$ 19,906,689	\$ 19,082,468	\$ 18,001,146
<u>Operating Expenses</u>										
Production	9,638,952	10,226,661	11,135,656	11,964,098	12,357,849	12,705,812	13,116,063	13,108,472	12,233,101	11,403,028
Transmission	184,657	192,689	191,784	167,614	168,091	207,337	155,498	154,944	189,703	169,392
Distribution	1,498,124	1,522,260	1,577,683	1,498,753	1,564,995	1,678,864	1,546,121	1,510,988	1,659,087	1,502,718
Customer Accounts	220,966	198,203	199,783	213,114	241,356	213,784	237,018	322,975	275,458	262,760
Administrative & General	699,356	644,857	717,073	666,310	757,483	766,436	666,999	822,524	839,009	687,157
Customer Information	122,504	114,300	101,174	63,246	74,169	70,861	109,523	100,114	99,153	94,685
Community Development	242,714	249,278	272,645	225,361	104,374	110,168	105,392	116,253	103,444	237,295
Conservation	255,260	196,223	131,000	177,471	166,162	169,612	124,969	771,109	130,046	92,527
Water Heater	1,552	116	1,032	(452)	19,187	2,062	(1,703)	292	-	-
Depreciation	1,700,352	1,746,726	1,839,595	1,875,607	1,945,796	2,007,314	2,030,899	2,122,530	2,252,812	2,265,910
Total Operating Expenses	\$ 14,564,437	\$ 15,091,313	\$ 16,167,425	\$ 16,851,122	\$ 17,399,462	\$ 17,932,250	\$ 18,090,779	\$ 19,030,201	\$ 17,781,813	\$ 16,715,472
<u>Operating Income</u>	\$ 2,789,908	\$ 2,205,402	\$ 1,378,889	\$ 533,060	\$ 403,802	\$ 569,827	\$ 974,105	\$ 876,488	\$ 1,300,655	\$ 1,285,674
Non-Operating Income	102,807	(23,257)	(137,100)	(166,458)	(288,198)	(242,033)	(114,868)	(68,769)	12,853	(66,409)
Contributions	137,449	150,238	(1,176)	(3,388)	(2,306)	(1,749)	(562)	(437)	29,720	155,108
Transfers	(933,916)	(935,152)	(827,316)	(861,444)	(854,976)	(855,924)	(861,864)	(864,984)	(855,648)	(860,508)
Change in Net Position	\$ 2,096,248	\$ 1,397,231	\$ 413,297	\$ (498,230)	\$ (741,678)	\$ (529,880)	\$ (3,189)	\$ (57,702)	\$ 487,580	\$ 513,865

WAVERLY UTILITIES
WMEU - Principal Customers

Type of Business	Revenue % Sales to Customers	
	2020	2019
Beverage Manufacturer	8.90%	8.91%
Private Liberal Arts College	7.23%	7.74%
Machining and Fabrication	5.60%	6.03%
Hospital	2.66%	2.61%
School	2.32%	2.57%

WAVERLY UTILITIES

WMEU - Revenue Bond Coverage

Fiscal Year	Total Operating Revenue	Interest & Investment Income	Total Operating Expense	Depr Expense	Total Revenue Available for Debt Service	Bond Interest Expense	Debt Principal Payments	Coverage
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
2019	19,082,468	292,198	17,781,813	2,252,812	3,845,665	328,080	1,118,421	2.66
2020	18,001,146	224,801	16,715,472	2,265,910	3,776,385	308,586	1,133,421	2.62
							Average Coverage	3.27



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, 2020, and the related notes to the financial statements, which collectively comprise Waverly Utilities’ basic financial statements, and have issued our report thereon dated April 13, 2021.

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) as a basis for designing 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 financial statements. 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, 2020, 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.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, professional style.

Dubuque, Iowa
April 13, 2021

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 2020.

Part III: Other Findings Related to Required Statutory Reporting:

- 2020-IA-A **Certified Budget** – Disbursements during the year ended December 31, 2020, did not exceed the amount budgeted.
- 2020-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.
- 2020-IA-C **Travel Expense** – No expenditures of Waverly Utilities’ money for travel expenses of spouses of Utility officials or employees were noted.
- 2020-IA-D **Business Transactions** – No business transactions between Waverly Utilities and Waverly Utilities’ officials or employees were noted.
- 2020-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.
- 2020-IA-F **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- 2020-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.
- 2020-IA-H **Revenue Bonds** – No instances of noncompliance with the provisions of Waverly Utilities’ revenue bond resolutions were noted.
- 2020-IA-I **Telecommunications Services** – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.
- 2020-IA-J **Restricted Donor Activity** – No transactions were noted between the Utility and Utility officials, Utility employees, and restricted donors in compliance with Chapter 68B of the Code of Iowa.