

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, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, 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 8, 2020 on our consideration of Waverly Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Waverly Utilities' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Waverly Utilities' internal control over financial reporting and compliance.

Eide Sully LLP

Dubuque, Iowa
April 8, 2020

WAVERLY UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
Unaudited
December 31, 2019, 2018, and 2017

Waverly Utilities (Waverly Municipal Electric Utility and Waverly Communications Utility) offers this discussion and analysis of our financial performance for the years ending December 31, 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 2019, WMEU installed 27 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 2019, we purchased 95.95% of our required energy and capacity through a full requirements energy contract. The remaining 4.05% was produced locally by the hydro and wind resources.

WAVERLY UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
Unaudited
December 31, 2019, 2018, and 2017

Condensed Statements of Net Position

| | WMEU 2019 | WCU 2019 | WMEU 2018 | WCU 2018 | WMEU 2017 (Not Restated) | WCU 2017 (Not Restated) |
|--|----------------------|---------------------|----------------------|---------------------|--------------------------------|-------------------------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | | | | |
| Current Assets | \$ 7,019,802 | \$ 1,225,800 | \$ 7,545,683 | \$ 885,130 | \$ 8,270,458 | \$ 576,166 |
| Non-Current Assets | | | | | | |
| Restricted Assets | 1,696,500 | | 1,696,500 | | 1,389,375 | |
| Designated Funds | 7,719,329 | | 7,114,821 | | 4,290,761 | |
| Other Assets | 226,180 | | 226,180 | | 845,948 | |
| Advance between WMEU & WCU | 2,753,831 | | 2,740,178 | | 2,775,595 | |
| Receivable for Wartburg Green Power | 800,000 | | 900,000 | | 1,000,000 | |
| Net Capital Assets | 40,108,648 | 3,566,301 | 40,802,090 | 4,344,359 | 40,248,418 | 5,475,083 |
| Total Assets | <u>60,324,290</u> | <u>4,792,101</u> | <u>61,025,452</u> | <u>5,229,489</u> | <u>58,820,555</u> | <u>6,051,249</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | |
| Deferred Outflow for Pension Plan | 378,647 | 98,989 | 547,196 | 139,626 | 713,596 | 174,854 |
| Deferred Outflow for Wellness Center | 360,000 | | 480,000 | | 600,000 | |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | <u>738,647</u> | <u>98,989</u> | <u>1,027,196</u> | <u>139,626</u> | <u>1,313,596</u> | <u>174,854</u> |
| TOTAL ASSETS AND DEFERRED INFLOWS OF RESOURCES | <u>\$ 61,062,937</u> | <u>\$ 4,891,090</u> | <u>\$ 62,052,648</u> | <u>\$ 5,369,115</u> | <u>\$ 60,134,151</u> | <u>\$ 6,226,103</u> |
| LIABILITIES | | | | | | |
| Current Liabilities | \$ 2,100,806 | \$ 416,134 | \$ 2,228,878 | \$ 292,658 | \$ 2,130,352 | \$ 292,551 |
| Current Liabilities Payable from Restricted Assets | 1,159,078 | 497,429 | 1,145,761 | 485,021 | 904,731 | 357,206 |
| Non-Current Liabilities | | | | | | |
| Advance between WMEU & WCU | | 2,753,831 | | 2,740,178 | | 2,775,595 |
| Net Pension Liability | 1,505,356 | 393,541 | 1,726,907 | 440,650 | 1,861,004 | 456,007 |
| Other Non-Current Liabilities | 11,530,926 | 5,439,686 | 12,640,656 | 5,920,261 | 10,472,151 | 6,346,831 |
| Wellness Center Payable | 360,000 | | 480,000 | | 600,000 | |
| Total Liabilities | <u>16,656,166</u> | <u>9,500,621</u> | <u>18,222,202</u> | <u>9,878,768</u> | <u>15,968,238</u> | <u>10,228,190</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Deferred Inflows for Pension Plan | 309,055 | 80,795 | 120,309 | 30,699 | 53,739 | 13,168 |
| Deferred Inflows for Rate Stabilization | 1,475,294 | | 1,475,294 | | 1,525,294 | |
| Deferred Inflows for Wartburg Green Power | 800,000 | | 900,000 | | 1,000,000 | |
| Total Deferred Inflows of Resources | <u>2,584,349</u> | <u>80,795</u> | <u>2,495,603</u> | <u>30,699</u> | <u>2,579,033</u> | <u>13,168</u> |
| NET POSITION | | | | | | |
| Net Investment in Capital Assets | 29,716,717 | (2,308,657) | 30,730,430 | (1,994,500) | 30,403,235 | (1,197,400) |
| Restricted for Debt Service and Improvements | 344,509 | 56,172 | 343,202 | 61,240 | 323,619 | |
| Unrestricted | 11,761,196 | (2,437,841) | 10,261,211 | (2,607,092) | 10,860,026 | (2,817,855) |
| Total Net Position | <u>41,822,422</u> | <u>(4,690,326)</u> | <u>41,334,843</u> | <u>(4,540,352)</u> | <u>41,586,880</u> | <u>(4,015,255)</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | <u>\$ 61,062,937</u> | <u>\$ 4,891,090</u> | <u>\$ 62,052,648</u> | <u>\$ 5,369,115</u> | <u>\$ 60,134,151</u> | <u>\$ 6,226,103</u> |

WAVERLY UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
Unaudited
December 31, 2019, 2018, and 2017

Condensed Statements of Revenues, Expenses and Changes in Net Position

| | WMEU 2019 | WCU 2019 | WMEU 2018 | WCU 2018 | WMEU 2017 (Not Restated) | WCU 2017 (Not Restated) |
|---|-----------------------------|------------------------------|-----------------------------|------------------------------|--------------------------------|-------------------------------|
| OPERATING REVENUES | \$ 19,082,468 | \$ 3,501,843 | \$ 19,906,689 | \$ 3,034,747 | \$ 19,064,884 | \$ 2,172,479 |
| OPERATING EXPENSES | | | | | | |
| Operating Expenses | 15,529,001 | 2,482,691 | 16,907,671 | 2,265,202 | 16,059,880 | 2,869,361 |
| Depreciation Expenses | 2,252,812 | 832,217 | 2,122,530 | 850,443 | 2,030,899 | 738,503 |
| Total Operating Expenses | <u>17,781,813</u> | <u>3,314,908</u> | <u>19,030,201</u> | <u>3,115,645</u> | <u>18,090,779</u> | <u>3,607,864</u> |
| Operating Income | <u>1,300,655</u> | <u>186,935</u> | <u>876,488</u> | <u>(80,898)</u> | <u>974,105</u> | <u>(1,435,385)</u> |
| Investment Income | 292,198 | - | 232,700 | - | 200,780 | - |
| Bond Issue Costs | 8,975 | - | (65,719) | - | 7,090 | - |
| Interest and Amortization Expense | (326,461) | (346,402) | (261,763) | (406,563) | (340,508) | (131,335) |
| Gain (Loss) on Sale of Plant | 38,141 | (14,553) | 26,013 | (4,257) | 17,770 | (1,945) |
| Total Non-Operating Revenue (Expenses) | <u>12,853</u> | <u>(360,955)</u> | <u>(68,769)</u> | <u>(410,820)</u> | <u>(114,868)</u> | <u>(133,280)</u> |
| Income Before Operating Transfers and Contributions | 1,313,508 | (174,020) | 807,719 | (491,718) | 859,237 | (1,568,665) |
| Contributions | 29,720 | 24,046 | (437) | - | (562) | - |
| Cash Transfers to the City of Waverly | <u>(855,648)</u> | <u>-</u> | <u>(864,984)</u> | <u>-</u> | <u>(861,864)</u> | <u>-</u> |
| Change in Net Position | 487,580 | (149,974) | (57,702) | (491,718) | (3,189) | (1,568,665) |
| NET POSITION, Beginning of Year, As Restated | <u>41,334,842</u> | <u>(4,540,352)</u> | <u>41,392,544</u> | <u>(4,048,634)</u> | <u>41,590,069</u> | <u>(2,446,590)</u> |
| NET POSITION, End of Year | <u>\$ 41,822,422</u> | <u>\$ (4,690,326)</u> | <u>\$ 41,334,842</u> | <u>\$ (4,540,352)</u> | <u>\$ 41,586,880</u> | <u>\$ (4,015,255)</u> |

WMEU Revenues for 2019 were \$824K lower than 2018 due to a decrease in kWh sales.

WMEU's Net Position increased \$488K from 2018 to 2019 due to a decrease in expenses including purchased power and conservation.

WCU Revenues for 2019 were \$467K higher than 2018 due to an increase in subscriber counts.

WCU's Net Position decreased \$150K in 2019 compared to a decrease of \$492K in 2018. Both decreases were due to expenses being higher than revenue received from customers.

WAVERLY UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
Unaudited
December 31, 2019, 2018, and 2017

Condensed Statements of Cash Flows

| | WMEU 2019 | WCU 2019 | WMEU 2018 | WCU 2018 | WMEU 2017 | WCU 2017 |
|--|---------------------|-------------------|---------------------|-------------------|---------------------|-------------------|
| Cash Flows from Operating Activities | | | | | | |
| Received from sales to customers | \$ 19,399,908 | \$ 3,515,156 | \$ 20,237,844 | \$ 2,979,990 | \$ 18,293,317 | \$ 2,072,911 |
| Paid to suppliers and employees for services | (15,233,459) | (2,290,557) | (15,171,990) | (2,108,293) | (15,178,669) | (2,575,392) |
| Cash Flows from Operating Activities | 4,166,449 | 1,224,599 | 5,065,854 | 871,697 | 3,114,648 | (502,481) |
| Cash Flows from Non-Capital Financing Activities | (869,301) | 13,653 | (829,567) | (35,417) | (1,537,640) | 675,776 |
| Cash Flows from Capital and Financing Activities | (3,305,164) | (888,136) | (1,161,525) | (485,233) | (3,756,048) | (15,538) |
| Cash Flows from Investing Activities | (1,707,802) | 6,309 | 232,698 | - | 1,298,662 | - |
| Net Change in Cash and Equivalents | (1,715,818) | 356,425 | 3,307,460 | 351,047 | (880,378) | 157,757 |
| CASH AND CASH EQUIVALENTS – Beginning of Year | 8,210,356 | 525,945 | 4,902,896 | 174,898 | 5,783,274 | 17,141 |
| CASH AND CASH EQUIVALENTS – END OF YEAR | \$ 6,494,538 | \$ 882,370 | \$ 8,210,356 | \$ 525,945 | \$ 4,902,896 | \$ 174,898 |

WAVERLY UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
Unaudited
December 31, 2019, 2018, and 2017

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

| | WMEU | | | WCU | | |
|---|----------------------|---------------------|--|----------------------|----------------------|--|
| | Actual 2019 | Budget 2019 | Variance Favorable (Unfavorable) | Actual 2019 | Budget 2019 | Variance Favorable (Unfavorable) |
| OPERATING REVENUES | <u>\$ 19,082,468</u> | <u>\$20,317,710</u> | <u>(\$1,235,242)</u> | <u>\$ 3,501,843</u> | <u>\$3,578,060</u> | <u>(\$76,217)</u> |
| OPERATING EXPENSES | | | | | | |
| Depreciation expenses | 2,252,812 | 2,359,584 | 106,772 | 832,217 | 834,732 | 2,515 |
| Other operating expenses | 15,529,001 | 17,109,100 | 1,580,099 | 2,482,691 | 2,658,961 | 176,270 |
| Total Operating Expenses | <u>17,781,813</u> | <u>19,468,684</u> | <u>1,686,871</u> | <u>3,314,908</u> | <u>3,493,693</u> | <u>178,785</u> |
| Operating Income | <u>1,300,655</u> | <u>849,026</u> | <u>451,629</u> | <u>186,935</u> | <u>84,367</u> | <u>102,568</u> |
| Investment income | 292,198 | 198,000 | 94,198 | - | - | - |
| Interest and amortization expense | (326,461) | (327,062) | 601 | (346,402) | (403,800) | 57,398 |
| Gain on sale of plant | 38,141 | - | 38,141 | (14,553) | - | (14,553) |
| Other income (expense) | 8,975 | - | 8,975 | - | - | - |
| Total Non-Operating Expenses | <u>12,853</u> | <u>(129,062)</u> | <u>141,915</u> | <u>(360,955)</u> | <u>(403,800)</u> | <u>42,845</u> |
| Income before contributions and operating transfers | <u>1,313,508</u> | <u>719,964</u> | <u>593,544</u> | <u>(174,020)</u> | <u>(319,433)</u> | <u>145,413</u> |
| Contributions | 29,720 | - | 29,720 | 24,046 | - | 24,046 |
| Transfers to City of Waverly | <u>(855,648)</u> | <u>(855,649)</u> | <u>1</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Change in Net Position | <u>487,580</u> | <u>(135,685)</u> | <u>623,265</u> | <u>(149,974)</u> | <u>(319,433)</u> | <u>169,459</u> |
| NET POSITION, Beginning of Year | <u>41,334,842</u> | <u>41,586,880</u> | <u>(252,038)</u> | <u>(4,540,352)</u> | <u>(4,015,255)</u> | <u>(525,097)</u> |
| NET POSITION, END OF YEAR | <u>\$ 41,822,422</u> | <u>\$41,451,195</u> | <u>\$ 371,227</u> | <u>\$(4,690,326)</u> | <u>\$(4,334,688)</u> | <u>\$ (355,638)</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, 2019, 2018, and 2017

WMEU Fund Analysis

Designated Funds

The Vehicle Replacement Fund had a balance of \$277,342, 487,520, and \$740,200 respectively for 2019, 2018, and 2017. 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 \$1,225,000 is funded annually at \$60,000 a year. The 2018 and 2017 balances were \$1,165,000 and \$1,105,000 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 \$312,813, \$320,766, and \$352,853, for 2019, 2018, and 2017 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 2019, 2018, and 2017. The Generation Fund had a balance of \$116,562 in 2019 and \$100,000 in 2018 and 2017. The G & A Fund had a balance of \$0 in 2019 and 2018 and \$145,411 in 2017. 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 \$5,491,930, \$3,298,186, and \$690,078 for 2019, 2018, and 2017 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 \$195,682 in 2019, \$1,643,349 in 2018, and \$1,057,219 in 2017.

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 \$1,816,666, \$1,817,040, and \$1,484,304 in 2019, 2018, and 2017, respectively.

Capital Assets

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.

WAVERLY UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

Unaudited

December 31, 2019, 2018, and 2017

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.

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

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

Debt Activity

WMEU has \$12.0 million of outstanding debt as of December 31, 2019. This includes \$0.6 million of 2007 CREB bonds issued to finance two wind turbines, and \$1.7 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 \$4.4 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 \$2.4 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 \$2.9 million.

WMEU maintains a sinking fund, reserve fund and an improvement fund per bond requirements. The balance in these restricted funds for 2019 is \$1,816,666. Debt service for 2019 included \$1,118,421 of principal payments and \$328,080 of interest payments. The 2018 restricted fund balance for 2018 was \$1,817,040 with debt service of \$883,421 of principal payments and \$255,724 of interest payments. The 2017 restricted fund balance was \$1,484,304 with debt service of \$883,421 for principal payments and \$275,342 for interest payments.

WAVERLY UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
Unaudited
December 31, 2019, 2018, and 2017

WCU has \$8.6 million of outstanding debt as of December 31, 2019. This includes \$5.9 million of 2016 bonds issued to fund capital setup of the utility and \$2.7 million of a temporary operational advance from WMEU.

WCU maintains a sinking fund per bond requirements. The balance in this restricted fund for 2019 was \$56,172. Debt service for 2019 included \$462,307 of principal payments and \$352,710 of interest payments. The balance in this 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 2018 and 2017 the outstanding debt for WMEU was \$13.0 million and \$10.9 million, respectively.

At the end of 2018 and 2017 the outstanding debt for WCU was \$9.0 million and \$9.1 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, 2019 and 2018

| | ASSETS | | | |
|--|----------------------|---------------------|----------------------|---------------------|
| | WMEU 2019 | WCU 2019 | WMEU 2018 | WCU 2018 |
| CURRENT ASSETS | | | | |
| Cash and Investments | \$ 2,958,542 | \$ 826,198 | \$ 3,285,202 | \$ 464,705 |
| Accounts Receivable | 2,398,231 | 232,002 | 2,715,673 | 245,316 |
| Interest Receivable | 36,698 | | 26,489 | |
| Inventory | 1,370,496 | 22,636 | 1,340,074 | 32,588 |
| Prepaid Expenses | 135,669 | 88,792 | 57,705 | 81,281 |
| Restricted Assets | | | | |
| Sinking Fund Accounts | | | | |
| CREB Bonds | 16,031 | | 16,141 | |
| 2013 Bonds | 37,586 | | 37,335 | |
| 2015 Bonds | 25,828 | 56,172 | 25,995 | 61,240 |
| 2016 Bonds | 15,250 | | 15,475 | |
| 2018 Bonds | 25,471 | | 25,594 | |
| Total Current Assets | 7,019,802 | 1,225,800 | 7,545,683 | 885,130 |
| 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 | 1,696,500 | - | 1,696,500 | - |
| Designated Funds | | | | |
| Vehicle Replacement Fund | 277,342 | | 487,520 | |
| Renewable Energy Fund | 312,813 | | 320,766 | |
| Generation Fund | 116,562 | | 100,000 | |
| Rate Stabilization Fund | 5,491,930 | | 3,298,186 | |
| Specified Projects Fund | 195,682 | | 1,643,349 | |
| Insurance Recovery Fund | 1,225,000 | | 1,165,000 | |
| Distribution Fund | 100,000 | | 100,000 | |
| Total Designated Accounts | 7,719,329 | - | 7,114,821 | - |
| 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 | 2,753,831 | | 2,740,178 | |
| Receivable for Wartburg Green Power | 800,000 | | 900,000 | |
| Total Other Assets | 3,780,011 | - | 3,866,358 | - |
| Capital Assets | | | | |
| Land | 351,624 | | 351,624 | |
| Buildings | 4,350,744 | | 4,343,844 | |
| Improvements | 55,385,011 | 1,753,415 | 50,798,495 | 1,748,457 |
| Machinery and Equipment | 5,460,706 | 4,432,545 | 7,716,447 | 4,401,664 |
| Louisa & Walter Scott 4 Plants | 16,777,229 | | 16,578,442 | |
| Construction Work in Progress | 221,101 | 24,046 | 1,072,091 | 4,957 |
| Total Capital Assets | 82,546,415 | 6,210,006 | 80,860,943 | 6,155,078 |
| Accumulated Depreciation | (42,437,767) | (2,643,705) | (40,058,853) | (1,810,719) |
| Net Capital Assets | 40,108,648 | 3,566,301 | 40,802,090 | 4,344,359 |
| Total Non-Current Assets | 53,304,488 | 3,566,301 | 53,479,769 | 4,344,359 |
| TOTAL ASSETS | \$ 60,324,290 | \$ 4,792,101 | \$ 61,025,452 | \$ 5,229,489 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred Outflows for Wellness Center | 360,000 | | 480,000 | |
| Deferred Outflows for Pension Plan | 378,647 | 98,989 | 547,196 | 139,626 |
| DEFERRED OUTFLOWS OF RESOURCES | 738,647 | 98,989 | 1,027,196 | 139,626 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$ 61,062,937 | \$ 4,891,090 | \$ 62,052,648 | \$ 5,369,115 |

See accompanying notes to financial statements.

WAVERLY UTILITIES
STATEMENTS OF NET POSITION
As of December 31, 2019 and 2018

| | <i>LIABILITIES</i> | | | |
|--|----------------------|---------------------|----------------------|---------------------|
| | WMEU 2019 | WCU 2019 | WMEU 2018 | WCU 2018 |
| CURRENT LIABILITIES | | | | |
| Accounts Payable | \$ 1,208,725 | \$ 172,269 | \$ 1,354,067 | \$ 90,181 |
| Accrued Property Taxes | 160,165 | 2,850 | 145,709 | - |
| Unearned Revenue - Customer Billings | - | 134,980 | - | 120,841 |
| Other Accrued Expenses | 731,916 | 106,035 | 729,102 | 81,635 |
| Accrued Interest | - | 16,058 | - | 22,714 |
| Current Liabilities Payable From Restricted Assets | | | | |
| Current Portion of Revenue Bonds | 1,133,421 | 481,371 | 1,118,421 | 462,307 |
| Accrued Interest on Revenue Bonds | 25,657 | - | 27,340 | - |
| Total Current Liabilities | <u>3,259,884</u> | <u>913,563</u> | <u>3,374,639</u> | <u>777,678</u> |
| NON-CURRENT LIABILITIES | | | | |
| Revenue Bonds | 10,806,842 | 5,393,588 | 11,940,263 | 5,876,552 |
| Advance between WMEU and WCU | - | 2,753,831 | - | 2,740,178 |
| Bond Premium | 93,850 | - | 102,825 | - |
| Net Pension Liability | 1,505,356 | 393,541 | 1,726,907 | 440,650 |
| Total OPEB Liability | 630,234 | 46,098 | 597,568 | 43,710 |
| Wellness Center Payable | 360,000 | - | 480,000 | - |
| Total Non-Current Liabilities | <u>13,396,282</u> | <u>8,587,058</u> | <u>14,847,563</u> | <u>9,101,090</u> |
| TOTAL LIABILITIES | <u>16,656,166</u> | <u>9,500,621</u> | <u>18,222,202</u> | <u>9,878,768</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred Inflows for Rate Stabilization | 1,475,294 | - | 1,475,294 | - |
| Deferred Inflows for Pension Plan | 309,055 | 80,795 | 120,309 | 30,699 |
| Deferred Inflows for Wartburg Green Power | 800,000 | - | 900,000 | - |
| DEFERRED INFLOWS OF RESOURCES | <u>2,584,349</u> | <u>80,795</u> | <u>2,495,603</u> | <u>30,699</u> |
| NET POSITION | | | | |
| Net Investment in Capital Assets | 29,716,717 | (2,308,657) | 30,730,430 | (1,994,500) |
| Restricted for Debt Service and Improvements | 344,509 | 56,172 | 343,202 | 61,240 |
| Unrestricted | 11,761,196 | (2,437,841) | 10,261,211 | (2,607,092) |
| Total Net Position | <u>41,822,422</u> | <u>(4,690,326)</u> | <u>41,334,843</u> | <u>(4,540,352)</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | <u>\$ 61,062,937</u> | <u>\$ 4,891,090</u> | <u>\$ 62,052,648</u> | <u>\$ 5,369,115</u> |

WAVERLY UTILITIES

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years ended December 31, 2019 and 2018

| | WMEU 2019 | WCU 2019 | WMEU 2018 | WCU 2018 |
|--|----------------------|-----------------------|----------------------|-----------------------|
| OPERATING REVENUES | | | | |
| Sales to customers | \$ 14,963,731 | \$ 3,448,740 | \$ 15,495,363 | \$ 2,982,804 |
| Rate stabilization | - | - | 50,000 | - |
| Miscellaneous | 4,118,737 | 53,103 | 4,361,326 | 51,943 |
| Total Operating Revenues | <u>19,082,468</u> | <u>3,501,843</u> | <u>19,906,689</u> | <u>3,034,747</u> |
| OPERATING EXPENSES | | | | |
| Production | 12,233,101 | | 13,108,472 | |
| Transmission | 189,703 | | 154,944 | |
| Distribution | 1,659,087 | | 1,510,988 | |
| Customer accounts | 275,458 | | 322,975 | |
| Administrative and general | 839,009 | | 822,524 | |
| Customer information | 99,153 | | 100,114 | |
| Community development | 103,444 | | 116,253 | |
| Conservation | 130,046 | | 771,109 | |
| Water heater | - | | 292 | |
| WCU Operating Expenses | - | 2,482,691 | - | 2,265,202 |
| Depreciation | 2,252,812 | 832,217 | 2,122,530 | 850,443 |
| Total Operating Expenses | <u>17,781,813</u> | <u>3,314,908</u> | <u>19,030,201</u> | <u>3,115,645</u> |
| Operating Income (Loss) | <u>1,300,655</u> | <u>186,935</u> | <u>876,488</u> | <u>(80,898)</u> |
| NONOPERATING REVENUE (EXPENSES) | | | | |
| Gain (Loss) on sale of plant | 38,141 | (14,553) | 26,013 | (4,256) |
| Investment income | 292,198 | | 232,700 | |
| Interest expense | (326,461) | (346,402) | (261,763) | (406,564) |
| Bond Issue Costs and Amortization of Premium | 8,975 | | (65,719) | |
| Amortization of energy rebates | - | | - | |
| Total Nonoperating Revenue (Expenses) | <u>12,853</u> | <u>(360,955)</u> | <u>(68,769)</u> | <u>(410,820)</u> |
| INCOME BEFORE TRANSFERS AND CONTRIBUTIONS | 1,313,508 | (174,020) | 807,719 | (491,718) |
| Contributions | 29,720 | 24,046 | (437) | |
| Transfer to City of Waverly | (855,648) | - | (864,984) | - |
| CHANGE IN NET POSITION | 487,580 | (149,974) | (57,702) | (491,718) |
| NET POSITION - Beginning of Year | <u>41,334,842</u> | <u>(4,540,352)</u> | <u>41,392,544</u> | <u>(4,048,634)</u> |
| NET POSITION - END OF YEAR | <u>\$ 41,822,422</u> | <u>\$ (4,690,326)</u> | <u>\$ 41,334,842</u> | <u>\$ (4,540,352)</u> |

See accompanying notes to financial statements.

Statements of Cash Flows Follow

WAVERLY UTILITIES

STATEMENTS OF CASH FLOWS
For the Years ended December 31, 2019 and 2018

| | WMEU 2019 | WCU 2019 | WMEU 2018 | WCU 2018 |
|---|---------------------|-------------------|---------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Received from sales to customers | \$ 15,281,171 | \$ 3,462,053 | \$ 15,876,955 | \$ 2,928,047 |
| Received from Misc Operating Revenues | 4,118,737 | 53,103 | 4,360,889 | 51,943 |
| Paid to suppliers for purchased power and transmission | (10,123,702) | - | (10,800,987) | - |
| Paid to suppliers and employees for other services | (5,116,464) | (2,290,557) | (4,371,003) | (2,108,293) |
| <i>Net Cash Flows From (Used By) Operating Activities</i> | <u>4,159,742</u> | <u>1,224,599</u> | <u>5,065,854</u> | <u>871,697</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Payment to City of Waverly for credit to Waverly Wellness Center | (120,000) | - | (120,000) | - |
| Advance between WMEU and WCU | (13,653) | 13,653 | 35,417 | (35,417) |
| Transfers to City of Waverly | (735,648) | - | (744,984) | - |
| <i>Net Cash Flows From (Used By) Noncapital Financing Activities</i> | <u>(869,301)</u> | <u>13,653</u> | <u>(829,567)</u> | <u>(35,417)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Purchase of plant and equipment | (1,888,319) | (88,915) | (3,017,023) | 255,820 |
| Capital Contributions | 29,720 | 24,046 | - | - |
| Debt issue costs | 8,975 | - | (65,719) | - |
| Principal received from bonds | - | - | 3,045,000 | - |
| Bond Premium | (8,975) | - | 15,372 | - |
| Principal payments on revenue bonds | (1,118,421) | (463,901) | (883,421) | (333,624) |
| Interest paid | (328,144) | (359,366) | (255,734) | (407,429) |
| <i>Net Cash Flows From (Used By) Capital and Related Financing Activities</i> | <u>(3,305,164)</u> | <u>(888,136)</u> | <u>(1,161,525)</u> | <u>(485,233)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Investment Income | 292,198 | 6,309 | 232,698 | - |
| Purchase of Certificate of Deposit | (1,993,294) | - | - | - |
| <i>Net Cash Flows From (Used By) Investing Activities</i> | <u>(1,701,096)</u> | <u>6,309</u> | <u>232,698</u> | <u>-</u> |
| Net Change in Cash and Cash Equivalents | <u>(1,715,819)</u> | <u>356,425</u> | <u>3,307,460</u> | <u>351,047</u> |
| CASH AND CASH EQUIVALENTS - Beginning of Year | 8,210,356 | 525,945 | 4,902,896 | 174,898 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 6,494,537</u> | <u>\$ 882,370</u> | <u>\$ 8,210,356</u> | <u>\$ 525,945</u> |
| NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES | | | | |
| Gain (loss) on sale of plant | \$ 38,141 | \$ (14,553) | \$ 26,013 | \$ (4,256) |

See accompanying notes to financial statements.

| | WMEU 2019 | WCU 2019 | WMEU 2018 | WCU 2018 |
|--|---------------------|---------------------|---------------------|-------------------|
| RECONCILIATION OF OPERATING INCOME TO NET CASH | | | | |
| FLOWS FROM (USED BY) OPERATING ACTIVITIES | | | | |
| Operating Income (Loss) | \$ 1,300,655 | \$ 186,935 | \$ 876,488 | (\$80,899) |
| Non-Operating Income (Expense) | - | | (437) | |
| Non-cash Items Included in Operating Income | | | | |
| Amortization of Energy Efficiency Rebates | - | | 619,768 | |
| Depreciation | 2,252,781 | 832,217 | 2,122,530 | 850,443 |
| Depreciation Cleared | 367,121 | 20,203 | 366,836 | 20,203 |
| Changes in Assets and Liabilities | | | | |
| Accounts Receivable | 317,440 | 13,313 | 331,592 | (54,757) |
| Interest Receivable | (10,209) | - | 13,644 | |
| Inventory | (30,420) | 9,952 | 494,273 | 21,186 |
| Prepaid Expenses | (77,964) | (7,511) | 68,249 | 75,655 |
| Accounts Payable | (145,342) | 82,088 | 82,959 | (6,005) |
| Accrued Property Taxes | 14,456 | 2,849 | (2,130) | |
| Deferred Outflows for Pension Plan | 168,549 | 40,637 | 166,400 | 35,228 |
| Net Pension Liability | (221,551) | (47,109) | (134,097) | (15,357) |
| Deferred Inflows for Pension Plan | 188,746 | 50,096 | 66,570 | 17,531 |
| Unearned Service Revenue | - | 14,139 | | 16,807 |
| Deferred Inflows for Rate Stabilization | - | - | (50,000) | |
| Other Accrued Expenses | 35,480 | 26,790 | 43,209 | (8,338) |
| | <u>\$ 4,159,742</u> | <u>\$ 1,224,599</u> | <u>\$ 5,065,854</u> | <u>\$ 871,697</u> |
| NET CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES | | | | |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEET ACCOUNTS | | | | |
| Cash and Investments | \$ 2,958,542 | \$ 826,198 | \$ 3,285,202 | \$ 464,705 |
| Restricted Assets | | | | |
| Sinking Fund Accounts | | | | |
| CREB Bonds | 16,031 | | 16,141 | |
| 2013 Bonds | 37,586 | | 37,335 | |
| 2015 Bonds | 25,828 | 56,172 | 25,995 | 61,240 |
| 2016 Bonds | 15,250 | | 15,475 | |
| 2018 Bonds | 25,471 | | 25,594 | |
| Reserve Fund Accounts | | | | |
| CREB Bonds | 282,632 | | 282,632 | |
| 2013 Bonds | 400,000 | | 400,000 | |
| 2015 Bonds | 268,119 | | 268,119 | |
| 2016 Bonds | 188,624 | | 188,624 | |
| 2018 Bonds | 307,125 | | 307,125 | |
| Improvement Fund | 250,000 | | 250,000 | |
| Total Cash and Restricted Assets | <u>4,775,208</u> | <u>882,370</u> | <u>5,102,242</u> | <u>525,945</u> |
| Designated Accounts | | | | |
| Vehicle Replacement Fund | 277,342 | | 487,520 | |
| Key Accounts Fund | - | | - | |
| Renewable Energy Fund | 312,813 | | 320,766 | |
| Generation Fund | 116,562 | | 100,000 | |
| G & A Fund | - | | - | |
| Rate Stabilization Fund | 5,491,930 | | 3,298,186 | |
| Specified Project Fund | 195,682 | | 1,643,349 | |
| Insurance Recovery Fund | 1,225,000 | | 1,165,000 | |
| Distribution Fund | 100,000 | | 100,000 | |
| Total Designated Accounts | <u>7,719,329</u> | <u>-</u> | <u>7,114,821</u> | <u>-</u> |
| Less: Non-cash Equivalents (Note 2) | <u>(6,000,000)</u> | <u>-</u> | <u>(4,006,707)</u> | <u>-</u> |
| TOTAL CASH AND CASH EQUIVALENTS | <u>\$ 6,494,537</u> | <u>\$ 882,370</u> | <u>\$ 8,210,356</u> | <u>\$ 525,945</u> |

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

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, 2019 and 2018

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 38% from residential users in and around the municipality and approximately 62% from commercial and industrial users in the municipality.

Accounts receivable balances at December 31, 2019 and 2018 are considered fully collectible and expected within one year. Any accounts not collectible are expensed to current year operations in the year their status is determined. A reserve for bad debt is not considered material.

WMEU accounts receivable balances at December 31, 2019 and 2018 include: unbilled revenues totaling \$847,415 and \$838,643, customer accounts receivable totaling \$1,208,703 and \$1,341,104, energy cost adjustment (ECA) totaling \$(85,326) and \$(16,267), other accounts receivable totaling \$458,741 and \$575,448, and accrued interest receivable totaling \$36,698 and \$26,489, 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, 2019 and 2018 of \$232,002 and \$245,316 respectively.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

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>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> |
| <u>Local Inventories</u> | | | | |
| Warehouse Materials | \$ 962,640 | \$ 945,932 | \$ 22,636 | \$ 32,588 |
| Generating Plant - Diesel Fuel | 64,717 | 83,604 | | |
| <u>Louisa Inventories</u> | | | | |
| Coal | 196,812 | 183,365 | | |
| Oil | 3,214 | 3,215 | | |
| Materials | 58,655 | 54,231 | | |
| <u>WS4 Inventories</u> | | | | |
| Coal | 47,662 | 33,529 | | |
| Oil | 6,377 | 7,446 | | |
| Materials | 30,419 | 28,752 | | |
| | | | | |
| Totals | \$ 1,370,496 | \$ 1,340,074 | \$ 22,636 | \$ 32,588 |

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, 2019 and 2018

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

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

Other Assets

In 2019 and 2018 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, 2019 and 2018, was \$2,619,902 and \$2,489,365, respectively; of that, \$2,252,812 and \$2,122,530 was expensed and \$367,121 and \$366,836 was capitalized. WCU depreciation expense for the years ended December 31, 2019 and 2018, was \$852,420 and \$870,646, respectively; of that, \$832,217 and \$850,443 was expensed and \$20,203 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, 2019 and 2018

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

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 9 for additional information.

Total OPEB Liability

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

Other Accrued Expenses

These balances consist of accrued payroll and Renewable Energy Payable – a fund used for donations for the Green Power Choice 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, 2019 and 2018

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

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

Cafeteria Plan

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

LONG-TERM OBLIGATIONS

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

DEFERRED INFLOWS OF RESOURCES

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

Deferred Inflows for Rate Stabilization

In December 2014, the Board approved adoption of GASB 62, Regulated Operations, which requires that the effects of the rate-making process be recorded in the financial statements. Accordingly, certain revenues and credits, normally reflected in Change in Net Position as incurred, are recognized when included in rates and recovered from or refunded to customers. WMEU's regulatory credit relating to rate stabilization is intended to defer the need for future rate increases when costs exceed existing rates. At the direction of the Board, amounts may be either transferred into this fund (which reduces revenues), or amounts are transferred out of this fund (which increases revenues). The Board authorizes Rate Stabilization Fund (RSF) on an event driven basis. Earnings in excess to ratio coverages will be deferred to offset higher costs in the future. In 2016, \$800,000 was transferred from revenue to the RSF. In 2017, \$500,000 was transferred from revenue to the RSF. In 2018, \$50,000 was transferred from RSF to revenue giving the fund a balance of \$1,475,294. In 2019 \$0 was transferred to (from) the RSF so the balance remained at \$1,475,294.

REVENUES AND EXPENSES

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

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

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.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

GASB has approved Statement No. 87, Leases; Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period; Statement No. 90, Majority Equity Interests; Statement No. 91, Conduit Debt Obligations; and Statement No. 92, Om. When they become effective, application of these standards may restate portions of these financial statements.

COMPARATIVE DATA

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

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

NOTE 2 – DEPOSITS AND INVESTMENTS

The utilities' deposits in banks at December 31, 2019 and 2018 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, 2019 and 2018 were comprised of the following:

| | WMEU 2019 | WCU 2019 | WMEU 2018 | WCU 2018 | Risks |
|---|---------------------|------------------|---------------------|------------------|-----------------------|
| Checking | \$3,262,555 | \$882,370 | \$3,760,385 | \$525,945 | Custodial credit risk |
| Petty cash | 1,600 | 0 | 1,600 | 0 | Custodial credit risk |
| Saving | 3,230,382 | 0 | 4,448,371 | 0 | Custodial credit risk |
| Certificates of deposit | 6,000,000 | 0 | 4,006,707 | 0 | Custodial credit risk |
| Total Deposits and Investments | \$12,494,538 | \$882,370 | \$12,217,063 | \$525,945 | |

Reconciliation to Financial Statements

| | WMEU 2019 | WCU 2019 | WMEU 2018 | WCU 2018 |
|---------------------------------------|---------------------|------------------|---------------------|------------------|
| Unrestricted cash and investments | \$2,958,542 | \$826,198 | \$3,314,352 | \$464,705 |
| Restricted cash and investments | 1,816,666 | 56,172 | 1,817,040 | 61,240 |
| Designated cash and investments | 7,719,329 | 0 | 7,085,671 | 0 |
| Total Deposits and Investments | \$12,494,537 | \$882,370 | \$12,217,063 | \$525,945 |

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, 2019 and 2018

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:

| | 2019 | 2018 |
|---|---------------|---------------|
| Restricted Assets | | |
| Sinking funds | \$120,166 | \$120,540 |
| Reserve fund | 1,446,500 | 1,446,500 |
| Improvement fund | 250,000 | 250,000 |
| Total Restricted Assets | \$1,816,666 | \$1,817,040 |
| Less: Restricted Assets Not Funded by Revenues | | |
| Reserve fund | \$(1,446,500) | \$(1,446,500) |
| Total Restricted Assets Not Funded by Revenues | (1,446,500) | (1,446,500) |
| Current Liabilities Payable From Restricted Assets | (25,657) | (27,340) |
| Total Restricted Net Position as Calculated | \$344,509 | \$343,200 |

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

| | 2019 | 2018 |
|-------------------------|----------|----------|
| Restricted Assets | | |
| Sinking fund | \$56,172 | \$61,240 |
| Total Restricted Assets | \$56,172 | \$61,240 |

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, 2019 and 2018

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, 2019 and 2018.

| <u>To</u> | <u>From</u> | <u>2019</u> | | <u>2018</u> | |
|--------------|-------------|---------------|--------------------------|---------------|--------------------------|
| | | <u>Amount</u> | <u>Principal Purpose</u> | <u>Amount</u> | <u>Principal Purpose</u> |
| Municipality | WMEU | \$ 735,648 | Fund Transfer | \$ 744,984 | Fund Transfer |
| Municipality | WMEU | 120,000 | W/W Wellness | 120,000 | W/W Wellness |

Since the creation of a separate entity in 2013, Waverly Communications Utility (WCU) dba Waverly Utilities, there were advances from WMEU to WCU for working capital during its initial startup period and is reflected as an other asset. This temporary advance agreement was approved by Waverly Utilities Board of Trustees and the City of Waverly City Council in August of 2014. This agreement 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, 2019 and 2018:

| <u>Due To</u> | <u>Due From</u> | <u>2019</u> | | <u>2018</u> | |
|---------------|-----------------|---------------|--------------------------|---------------|--------------------------|
| | | <u>Amount</u> | <u>Principal Purpose</u> | <u>Amount</u> | <u>Principal Purpose</u> |
| WMEU | WCU | \$ 2,753,831 | Temp Fund Transfer | \$ 2,740,178 | Temp Fund Transfer |

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

NOTE 5 – CHANGES IN CAPITAL ASSETS

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

| | Balance 01/01/19 | Additions | Deletions | Transfers | Balance 12/31/2019 |
|---|---------------------|-------------|----------------|-------------|-----------------------|
| 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 | \$ 40,802,090 | \$ 353,071 | \$ (1,046,512) | \$ - | \$ 40,108,648 |

⁽¹⁾ – Capital assets not being depreciated.

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

| | 01/01/19 | Additions | Deletions | 12/31/2019 |
|---|--------------|--------------|-------------|--------------|
| Capital assets: | | | | |
| Buildings | \$ 1,226,354 | \$ 4,957 | \$ - | \$ 1,231,311 |
| Improvements | 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 | \$ 4,344,359 | \$ (740,348) | \$ (37,710) | \$ 3,566,301 |

⁽¹⁾ – Capital assets not being depreciated.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

NOTE 5 – CHANGES IN CAPITAL ASSETS (cont.)

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

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

⁽¹⁾ – Capital assets not being depreciated.

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

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

⁽¹⁾ – Capital assets not being depreciated.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

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 | \$ 565,263 |
| 12/3/2013 | Reimbursement Resolution, West Sub, 4 Generators | 12/1/2021 | 12/1/2023 | 0.4-2.75% | 4,000,000 | 1,720,000 |
| 10/27/2015 | Finance Fiber Buildout, Backhoe, Aerial Truck, Reimburse | 12/1/2023 | 12/1/2030 | 2.0-4.0% | 4,980,000 | 4,430,000 |
| 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 | 2,400,000 |
| 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 | 2,825,000 |
| WCU | | | | | | |
| 2/26/2015 | Communications Utility Setup Capital Expenditures | 12/1/2029 | 12/1/2029 | 4.3-3.28% | 6,672,483 | 5,874,959 |

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

| Year | Principal | Interest | Total |
|--------|-------------------|-----------------|-------------------|
| 2020 | 188,421 | 3,957 | 192,378 |
| 2021 | 188,421 | 2,638 | 191,059 |
| 2022 | 188,421 | 1,319 | 189,740 |
| Totals | <u>\$ 565,263</u> | <u>\$ 7,914</u> | <u>\$ 573,177</u> |

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

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

REVENUE BONDS (cont.)

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

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|---------------------|-------------------|---------------------|
| 2020 | 410,000 | 41,038 | 451,038 |
| 2021 | 420,000 | 32,838 | 452,838 |
| 2022 | 435,000 | 23,388 | 458,388 |
| 2023 | <u>455,000</u> | <u>12,513</u> | <u>467,513</u> |
| Totals | <u>\$ 1,720,000</u> | <u>\$ 109,777</u> | <u>\$ 1,829,777</u> |

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

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

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|---------------------|-------------------|---------------------|
| 2020 | 180,000 | 129,941 | 309,941 |
| 2021 | 185,000 | 124,541 | 309,541 |
| 2022 | 185,000 | 120,841 | 305,841 |
| 2023 | 275,000 | 116,679 | 391,679 |
| 2024 | 455,000 | 109,804 | 564,804 |
| 2025-2029 | 2,575,000 | 340,265 | 2,915,265 |
| 2030 | <u>575,000</u> | <u>18,688</u> | <u>593,688</u> |
| Totals | <u>\$ 4,430,000</u> | <u>\$ 960,759</u> | <u>\$ 5,390,759</u> |

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

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

REVENUE BONDS (cont.)

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

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|---------------------|-------------------|---------------------|
| 2020 | 135,000 | 48,000 | 183,000 |
| 2021 | 135,000 | 45,300 | 180,300 |
| 2022 | 140,000 | 42,600 | 182,600 |
| 2023 | 235,000 | 39,800 | 274,800 |
| 2024 | 290,000 | 35,100 | 325,100 |
| 2025-2029 | <u>1,465,000</u> | <u>88,400</u> | <u>1,553,400</u> |
| Totals | <u>\$ 2,400,000</u> | <u>\$ 299,200</u> | <u>\$ 2,699,200</u> |

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

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

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|---------------------|-------------------|---------------------|
| 2020 | 220,000 | 85,650 | 305,650 |
| 2021 | 225,000 | 79,050 | 304,050 |
| 2022 | 235,000 | 72,300 | 307,300 |
| 2023 | 240,000 | 65,250 | 305,250 |
| 2024 | 245,000 | 58,050 | 303,050 |
| 2025-2029 | 1,355,000 | 174,900 | 1,529,900 |
| 2030 | <u>305,000</u> | <u>9,760</u> | <u>314,760</u> |
| Totals | <u>\$ 2,825,000</u> | <u>\$ 544,960</u> | <u>\$ 3,369,960</u> |

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

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

REVENUE BONDS (cont.)

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

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|---------------------|---------------------|---------------------|
| 2020 | 481,371 | 192,699 | 674,070 |
| 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 |
| 2025-2029 | <u>3,244,098</u> | <u>328,182</u> | <u>3,572,281</u> |
| Totals | <u>\$ 5,874,958</u> | <u>\$ 1,126,439</u> | <u>\$ 7,001,397</u> |

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

All utility revenues net of specified operating expenses are 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 2019 and 2018 were \$1,446,501 and \$1,139,155 respectively. Total customer gross revenues as defined for the same periods were \$19,282,468 and \$20,106,689. Annual principal and interest payments are expected to require 5.5% of gross revenues on average. WCU principal and interest paid for 2019 and 2018 was \$815,017 and \$739,988 respectively.

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, 2019 and 2018 were \$360,000 and \$480,000, respectively. This amount has been classified in the Statement of Net Position as both a non-current liability and deferred outflow of resources.

Payable obligations to maturity follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|-------------------|-----------------|-------------------|
| 2020 | 120,000 | - | 120,000 |
| 2021 | 120,000 | - | 120,000 |
| 2022 | <u>120,000</u> | <u>-</u> | <u>120,000</u> |
| Totals | <u>\$ 360,000</u> | <u>\$ -</u> | <u>\$ 360,000</u> |

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

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 \$800,000 and \$900,000, respectively has been reflected in the Statement of Net Position for 2019 and 2018.

NON-CURRENT LIABILITIES

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> |

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

| Debt Issue | Balance 12/31/2017 | Additions | Reductions | Balance 12/31/2018 | Current Portion |
|-------------------------|-----------------------|--------------------|-------------------|-----------------------|---------------------|
| 2007 CREB Revenue bonds | \$ 942,105 | \$ - | \$ 188,421 | \$ 753,684 | \$ 188,421 |
| 2013 Revenue Bonds | 2,510,000 | | 390,000 | 2,120,000 | 400,000 |
| 2015 Revenue Bonds | 4,755,000 | | 150,000 | 4,605,000 | 175,000 |
| 2016 Revenue Bonds | 2,690,000 | | 155,000 | 2,535,000 | 135,000 |
| 2018 Revenue Bonds | - | 3,045,000 | | 3,045,000 | 220,000 |
| Bond Premium | 87,453 | 15,372 | | 102,825 | |
| Totals | <u>\$ 10,984,558</u> | <u>\$3,060,372</u> | <u>\$ 883,421</u> | <u>\$ 13,161,509</u> | <u>\$ 1,118,421</u> |

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

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

| Debt Issue | Balance 12/31/2017 | Additions | Reductions | Balance 12/31/2018 | Current Portion |
|------------------------|-----------------------|-------------|-------------------|-----------------------|--------------------|
| 2015 Revenue Bonds | \$ 6,672,483 | | \$ 333,624 | \$ 6,338,859 | \$ 462,307 |
| WCU Temporary Transfer | 2,775,595 | | 35,417 | 2,740,178 | |
| Totals | <u>\$ 9,448,078</u> | <u>\$ -</u> | <u>\$ 369,041</u> | <u>\$ 9,079,037</u> | <u>\$ 462,307</u> |

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

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

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 2019 | WCU 2019 | WMEU 2018 | WCU 2018 |
|---|---------------|----------------|---------------|----------------|
| Plant in service | \$ 82,325,314 | \$ 6,185,960 | \$ 79,788,852 | \$ 6,150,121 |
| Accumulated depreciation | (42,437,767) | (2,643,705) | (40,058,853) | (1,810,719) |
| Construction work in progress | 221,101 | 24,046 | 1,072,091 | 4,957 |
| Subtotal | 40,108,648 | 3,566,301 | 40,802,090 | 4,344,359 |
| Less: Capital Related Debt | | | | |
| Current portion of capital related long-term debt | 1,133,421 | 481,371 | 1,118,421 | 462,307 |
| Long-term portion of capital related long-term debt | 10,806,842 | 5,393,587 | 11,940,263 | 5,876,552 |
| Unamortized Premium | 93,850 | | 102,825 | |
| Subtotal | 12,034,113 | 5,874,958 | 13,161,509 | 6,338,859 |
| Add: Reserve from borrowing | 1,446,500 | | 1,446,500 | |
| Unspent Bond Proceeds - Special Projects Fund | 195,682 | | 1,643,349 | |
| Subtotal | 1,642,182 | - | 3,089,849 | - |
| Total Net Investment in Capital Assets | \$ 29,716,717 | \$ (2,308,657) | \$ 30,730,430 | \$ (1,994,500) |

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

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 2019 assets at a cost of \$7,967,354 less accumulated depreciation of \$291,250 for a net value of \$7,676,104. 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 \$200,004 for 2019 and 2018.

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, 2019 and 2018

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 Jul 1, 2018 to Dec 31, 2019. From Jan 1, 2018 to Jun 30, 2018 regular members contributed 5.95% of pay and the Utility contributed 8.93% for a total rate of 14.88%.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

NOTE 9 – PENSION PLAN (cont.)

Contributions (cont.)

WMEU's total contribution to IPERS during the IPERS reporting period for the years ended June 30, 2019 and 2018 were \$187,050 and \$183,674, respectively. WCU's total contribution to IPERS during the IPERS reporting period for the years ended June 30, 2019 and 2018 were \$48,508 and \$46,217, respectively. WMEU's total contributions to IPERS during the Utilities' calendar years ended December 31, 2019 and 2018 were \$188,077 and \$182,816, respectively. WCU's contribution was \$49,168 and \$46,649, respectively.

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

At December 31, 2019 and 2018, WMEU reported a liability of \$1,505,356 and \$1,726,907, respectively for its proportionate share of the net pension liability. WCU's proportionate share at December 31, 2019 and 2018 was \$393,541 and \$440,650, respectively. The net pension liability was measured as of June 30, 2019 and 2018, 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, 2019, the Utilities collective proportion was 0.032574 percent which is a decrease of 0.001689 percent from its proportion measured as of June 30, 2018.

For the years ended December 31, 2019 and 2018, WMEU recognized pension expense of \$323,821 and \$281,689 respectively. WCU recognized pension expense of \$92,792 and \$84,051, respectively.

At December 31, 2019 and 2018, the Utilities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | 2019 | | 2018 | |
|--|---|--|---|--|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between Expected and Actual Experience | \$ 5,264 | \$ 68,274 | \$ 11,884 | \$ 48,990 |
| Changes in Assumptions | 203,399 | - | 309,215 | - |
| Net Difference between projected and actual earnings on IPERS investments | - | 213,983 | - | 59,558 |
| Changes in proportion and differences between Utility Contributions and proportionate share of contributions | 149,779 | 107,593 | 248,217 | 42,460 |
| Utility Contributions subsequent to the measurement date | 119,194 | - | 117,506 | - |
| Total Balance | 477,636 | 389,850 | 686,822 | 151,008 |
| WMEU | 378,647 | 309,055 | 547,196 | 120,309 |
| WCU | 98,989 | 80,795 | 139,626 | 30,699 |
| Total Balance | \$ 477,636 | \$ 389,850 | \$ 686,822 | \$ 151,008 |

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

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, 2019 and December 31, 2019 were \$94,329 for WMEU and \$24,865 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, 2020. 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 | 83,756 | 22,264 |
| 2022 | (17,876) | (4,752) |
| 2023 | (38,281) | (10,176) |
| 2024 | (42,402) | (11,272) |
| 2025 | (9,934) | (2,735) |
| | <u>\$ (24,737)</u> | <u>\$ (6,671)</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, 2019, 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 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, 2019 and 2018

NOTE 9 – PENSION PLAN (cont.)

Actuarial Assumptions (cont.)

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

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|--------------------------|------------------------------|---|
| Domestic equity | 22.0% | 5.60% |
| International equity | 15.0% | 6.08% |
| Global smart beta equity | 3.0% | 5.82% |
| Core-plus fixed income | 27.0% | 1.71% |
| Public credit | 3.5% | 3.32% |
| Public real assets | 7.0% | 2.81% |
| Cash | 1.0% | -0.21% |
| Private equity | 11.0% | 10.13% |
| Private real assets | 7.5% | 4.76% |
| Private credit | 3.0% | 3.01% |
| Total | <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, 2019 and 2018

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 6.00% | Discount Rate 7.00% | 1% Increase 8.00% |
|---|-------------------------|---------------------------|-------------------------|
| WMEU's Proportionate Share of the Net Pension Liability | | | |
| 2018 | 2,943,023 | 1,726,907 | 719,893 |
| WCU's Proportionate Share of the Net Pension Liability | | | |
| 2018 | 735,756 | 440,650 | 179,973 |
| <hr/> | | | |
| 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 |

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, 2019 and 2018 was \$1,225,000 and \$1,165,000, 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 2019 or 2018. 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, 2019 and 2018

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, 2018, the following employees were covered by the benefit terms:

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

Waverly Utilities' OPEB liability was measured as of December 31, 2019, and was determined by an actuarial valuation as of January 1, 2018.

At December 31, 2019 and 2018, the Utility reported a liability of \$676,332 and \$641,278, respectively for total OPEB liability.

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

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

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

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

Schedule of Changes in Total OPEB Liability:

| | 2019 | 2018 |
|--|------------|------------|
| Total OPEB Liability - Beginning of Year | \$ 641,277 | \$ 606,702 |
| Service Cost | 42,354 | 41,220 |
| Interest | 22,995 | 21,800 |
| Benefits Payments | (30,294) | (28,445) |
| Net Change in Total OPEB Liability | 35,055 | 34,575 |
| Total OPEB Liability - End of Year | \$ 676,332 | \$ 641,277 |

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

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

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

| | 1% Decrease 2.44% | Current Discount Rate 3.44% | 1% Increase 4.44% |
|----------------------|-------------------------|-----------------------------------|-------------------------|
| Total OPEB Liability | \$ 723,288 | \$ 676,332 | \$ 630,130 |

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

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

| | 1% Decrease 5.5% decreasing to 4.0% | Current Healthcare Cost Trend Rate 6.5% decreasing to 5.0% | 1% Increase 7.5% decreasing to 6.0% |
|----------------------|---|---|---|
| Total OPEB Liability | \$ 627,478 | \$ 676,332 | \$ 733,359 |

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

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, 2019 and 2018 was \$735,648 and 744,984, 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, 2019 to May 31, 2020, 12.5 MWs were committed to MEAN with an additional 7.5 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, 2019 and 2018

NOTE 14 – JOINT VENTURES

LOUISA GENERATING STATION

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

Walter Scott Jr. No. 4

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

NOTE 15 – SIGNIFICANT CUSTOMER

WMEU sales to a significant customer were 8.91% in 2019 and 9.46% in 2018. 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, 2019 and 2018

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, 2019 and 2018. The funds are to be used for future year bond obligations if the Sinking Fund Reserve balance is insufficient to pay the principal and interest obligations of the bond.

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> |
|------|---------------------------------|---------------------------------|-------------------------------------|
| 2020 | 192,378 | - | - |
| 2021 | 191,059 | - | - |
| 2022 | 189,740 | - | - |

The Reserve Fund Reserve and Improvement Fund Reserves are fully funded and thus no annual funding requirements exist for these reserves as of December 31, 2019.

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, 2019 and 2018. The funds are to be used for future year bond obligations if the Sinking Fund Reserve balance is insufficient to pay the principal and interest obligations of the bond.

The annual obligations for these reserves are:

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

The Reserve Fund Reserve is fully funded and thus no annual funding requirements exist for these reserves as of December 31, 2019.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

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, 2019 and 2018. The funds are to be used for future year bond obligations if the Sinking Fund Reserve balance is insufficient to pay the principal and interest obligations of the bond.

The annual obligations for these reserves are:

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

The Reserve Fund Reserve is fully funded and thus no annual funding requirements exist for these reserves as of December 31, 2019.

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, 2019 and 2018. The funds are to be used for future year bond obligations if the Sinking Fund Reserve balance is insufficient to pay the principal and interest obligations of the bond.

WAVERLY UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2019 and 2018

NOTE 17 – BOND RESERVE REQUIREMENTS (cont.)

2016 BOND RESERVE REQUIREMENTS (cont.)

The annual obligations for these reserves are:

| | Sinking Fund Reserve | Reserve Fund Reserve | |
|------|-------------------------|-------------------------|---|
| 2020 | 183,000 | | - |
| 2021 | 180,300 | | - |
| 2022 | 182,600 | | - |
| 2023 | 274,800 | | - |
| 2024 | 325,100 | | - |
| 2025 | 319,300 | | - |
| 2026 | 313,500 | | - |
| 2027 | 307,700 | | - |
| 2028 | 306,900 | | - |
| 2029 | 306,000 | | - |

The Reserve Fund Reserve is fully funded and thus no annual funding requirements exist for these reserves as of December 31, 2019.

2018 BOND RESERVE REQUIREMENTS

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

Reserve Fund Reserve – This amount was funded from original bond proceeds based on an established formula, with a balance of \$307,125 at December 31, 2018. The funds are to be used for future year bond obligations if the Sinking Fund Reserve balance is insufficient to pay the principal and interest obligations of the bond.

The annual obligations for these reserves are:

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

The Reserve Fund Reserve is fully funded and thus no annual funding requirements exist for these reserves as of December 31, 2019.

REQUIRED SUPPLEMENTAL INFORMATION

WAVERLY UTILITIES

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

Required Supplementary Information

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| Utilities' proportion of the net pension liability (asset) | 0.0325740% | 0.0342630% | 0.0350970% | 0.0320040% | 0.0261250% | 0.0251058% |
| Utilities' proportionate share of the net pension liability | \$ 1,898,897 | \$ 2,167,557 | \$ 2,317,008 | \$ 1,995,871 | \$ 1,295,332 | \$ 1,016,054 |
| Utilities' covered payroll | \$ 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 | 76.09% | 84.20% | 89.24% | 87.69% | 72.11% | 60.61% |
| Plan Fiduciary net position as a percentage of the total pension liability | 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*

| | Required Supplementary Information | | | | | | | | | |
|---|------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
| Statutorily required contribution | \$ 235,558 | \$ 229,891 | \$ 231,859 | \$ 203,240 | \$ 160,403 | \$ 149,706 | \$ 150,026 | \$ 152,000 | \$ 136,311 | \$ 125,094 |
| Contribution in relation to the statutorily required contribution | (235,558) | (229,891) | (231,859) | (203,240) | (160,403) | (149,706) | (150,026) | (152,000) | (136,311) | (125,094) |
| Contribution deficiency(excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Utility's covered payroll | \$ 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 | \$ 1,799,911 |
| Contributions as a percentage of covered payroll | 9.44% | 8.93% | 8.93% | 8.93% | 8.93% | 8.93% | 8.93% | 8.67% | 8.07% | 6.95% |

*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, 2019

Changes of benefit terms:

None in 2019

Changes of assumptions:

None in 2019

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 Two Fiscal Years

| | 2019 | 2018 |
|---|-------------|-------------|
| Total OPEB Liability - Beginning of Year | \$ 641,277 | \$ 606,702 |
| Service Cost | 42,354 | 41,220 |
| Interest | 22,995 | 21,800 |
| Benefits Payments | (30,294) | (28,445) |
| Net Change in Total OPEB Liability | 35,055 | 34,575 |
| Total OPEB Liability - End of Year | \$ 676,332 | \$ 641,277 |
| Covered Employee Payroll | \$2,511,424 | \$2,444,208 |
| Total OPEB Liability as a Percentage of the Covered-Employee Payroll | 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, 2019

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

Ann Seggerman
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

| | 2010 | 2011 | 2012 | 2013 | 2014 (Restated) | 2015 | 2016 | 2017 | 2018 | 2019 |
|---------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Operating Revenues | | | | | | | | | | |
| Residential | 4,644,257 | 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 |
| Industrial | 6,751,014 | 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 |
| Commercial | 1,585,392 | 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 |
| Security Lights | 43,172 | 41,430 | 43,817 | 43,766 | 44,502 | 43,996 | 44,809 | 45,690 | 44,869 | 43,439 |
| Street Lights | 277,028 | 275,626 | 251,321 | 252,654 | 252,302 | 265,655 | 272,164 | 274,138 | 262,798 | 258,754 |
| Municipal | 758,681 | 741,189 | 712,756 | 706,835 | 664,712 | 675,472 | 757,796 | 771,060 | 796,499 | 759,079 |
| ECA | - | - | - | - | - | - | (65,703) | 324,988 | (275,552) | (69,059) |
| Rate Stabilization | - | - | - | - | (637,000) | 411,706 | (800,000) | (500,000) | 50,000 | - |
| Miscellaneous | 3,197,807 | 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 |
| Total Operating Revenues | \$ 17,257,351 | \$ 17,354,345 | \$ 17,296,715 | \$ 17,546,314 | \$ 17,384,182 | \$ 17,803,264 | \$ 18,502,077 | \$ 19,064,884 | \$ 19,906,689 | \$ 19,082,468 |
| Operating Expenses | | | | | | | | | | |
| Production | 8,716,578 | 9,638,952 | 10,226,661 | 11,135,656 | 11,964,098 | 12,357,849 | 12,705,812 | 13,116,063 | 13,108,472 | 12,233,101 |
| Transmission | 217,590 | 184,657 | 192,689 | 191,784 | 167,614 | 168,091 | 207,337 | 155,498 | 154,944 | 189,703 |
| Distribution | 1,751,147 | 1,498,124 | 1,522,260 | 1,577,683 | 1,498,753 | 1,564,995 | 1,678,864 | 1,546,121 | 1,510,988 | 1,659,087 |
| Customer Accounts | 211,054 | 220,966 | 198,203 | 199,783 | 213,114 | 241,356 | 213,784 | 237,018 | 322,975 | 275,458 |
| Administrative & General | 733,127 | 699,356 | 644,857 | 717,073 | 666,310 | 757,483 | 766,436 | 666,999 | 822,524 | 839,009 |
| Customer Information | 121,163 | 122,504 | 114,300 | 101,174 | 63,246 | 74,169 | 70,861 | 109,523 | 100,114 | 99,153 |
| Community Development | 236,107 | 242,714 | 249,278 | 272,645 | 225,361 | 104,374 | 110,168 | 105,392 | 116,253 | 103,444 |
| Conservation | 306,493 | 255,260 | 196,223 | 131,000 | 177,471 | 166,162 | 169,612 | 124,969 | 771,109 | 130,046 |
| Water Heater | (1,747) | 1,552 | 116 | 1,032 | (452) | 19,187 | 2,062 | (1,703) | 292 | - |
| Depreciation | 1,603,480 | 1,700,352 | 1,746,726 | 1,839,595 | 1,875,607 | 1,945,796 | 2,007,314 | 2,030,899 | 2,122,530 | 2,252,812 |
| Total Operating Expenses | \$ 13,894,992 | \$ 14,564,437 | \$ 15,091,313 | \$ 16,167,425 | \$ 16,851,122 | \$ 17,399,462 | \$ 17,932,250 | \$ 18,090,779 | \$ 19,030,201 | \$ 17,781,813 |
| Operating Income | \$ 3,362,359 | \$ 2,789,908 | \$ 2,205,402 | \$ 1,378,889 | \$ 533,060 | \$ 403,802 | \$ 569,827 | \$ 974,105 | \$ 876,488 | \$ 1,300,655 |
| Non-Operating Income | (158,341) | 102,807 | (23,257) | (137,100) | (166,458) | (288,198) | (242,033) | (114,868) | (68,769) | 12,853 |
| Contributions | 3,407 | 137,449 | 150,238 | (1,176) | (3,388) | (2,306) | (1,749) | (562) | (437) | 29,720 |
| Transfers | (961,984) | (933,916) | (935,152) | (827,316) | (861,444) | (854,976) | (855,924) | (861,864) | (864,984) | (855,648) |
| Change in Net Position | \$ 2,245,441 | \$ 2,096,248 | \$ 1,397,231 | \$ 413,297 | \$ (498,230) | \$ (741,678) | \$ (529,880) | \$ (3,189) | \$ (57,702) | \$ 487,580 |

WAVERLY UTILITIES
WMEU - Principal Customers

| Principal Customers | Type of Business Activity | Revenue % Sales to Customers | |
|------------------------|------------------------------|------------------------------|-------|
| | | 2019 | 2018 |
| Nestle USA | Beverage Manufacturer | 8.91% | 9.46% |
| Wartburg College | Private Liberal Arts College | 7.74% | 7.60% |
| GMT | Machining and Fabrication | 6.03% | 6.52% |
| Waverly Health Center | Hospital | 2.61% | 2.35% |
| Waverly Shell Rock CSD | School | 2.57% | 2.44% |

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 |
|-------------|-------------------------|------------------------------|-------------------------|--------------|--|-----------------------|-------------------------|-------------|
| 2010 | 17,257,351 | 104,414 | 13,894,992 | 1,603,480 | 5,070,253 | 162,892 | 933,421 | 4.62 |
| 2011 | 17,354,345 | 119,610 | 14,564,437 | 1,700,352 | 4,609,870 | 132,307 | 968,421 | 4.19 |
| 2012 | 17,296,715 | 92,221 | 15,091,314 | 1,746,726 | 4,044,348 | 95,713 | 665,517 | 5.31 |
| 2013 | 17,546,314 | 67,839 | 16,167,425 | 1,839,595 | 3,286,323 | 26,050 | 658,421 | 4.80 |
| 2014 | 17,384,182 | 69,521 | 16,851,122 | 1,875,607 | 2,478,188 | 81,487 | 1,023,422 | 2.24 |
| 2015 | 17,803,264 | 69,211 | 17,399,462 | 1,945,796 | 2,418,809 | 76,989 | 1,028,421 | 2.19 |
| 2016 | 18,502,077 | 132,418 | 17,932,250 | 2,007,314 | 2,709,559 | 233,854 | 663,421 | 3.02 |
| 2017 | 19,064,884 | 200,780 | 18,090,779 | 2,030,899 | 3,205,784 | 275,358 | 863,421 | 2.82 |
| 2018 | 19,906,689 | 232,700 | 19,030,201 | 2,122,530 | 3,231,718 | 255,734 | 883,421 | 2.84 |
| 2019 | 19,082,468 | 292,198 | 17,781,813 | 2,252,812 | 3,845,665 | 328,080 | 1,118,421 | 2.66 |
| | | | | | | | Average Coverage | 3.47 |



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, 2019, and the related notes to the financial statements, which collectively comprise Waverly Utilities' basic financial statements, and have issued our report thereon dated April 8, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Comments involving statutory and other legal matters about Waverly Utilities' operations for the year ended December 31, 2019, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Waverly Utilities and are reported in Part III of the accompanying schedule of findings and responses. Since our audit was based on tests and samples, not all transactions that have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Purpose of this Report

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



Dubuque, Iowa
April 8, 2020

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 2019.

Part III: Other Findings Related to Required Statutory Reporting:

- 2019-IA-A **Certified Budget** – Disbursements during the year ended December 31, 2019, did not exceed the amount budgeted.
- 2019-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.
- 2019-IA-C **Travel Expense** – No expenditures of Waverly Utilities’ money for travel expenses of spouses of Utility officials or employees were noted.
- 2019-IA-D **Business Transactions** – No business transactions between Waverly Utilities and Waverly Utilities’ officials or employees were noted.
- 2019-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.
- 2019-IA-F **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- 2019-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.
- 2019-IA-H **Revenue Bonds** – No instances of noncompliance with the provisions of Waverly Utilities’ revenue bond resolutions were noted.
- 2019-IA-I **Telecommunications Services** – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.