

WAVERLY LIGHT AND POWER

A Component Unit of
The City of Waverly, Iowa

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2014 and 2013

WAVERLY LIGHT AND POWER
A Component Unit of the City of Waverly, Iowa

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December 31, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Waverly Light and Power
Waverly, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Waverly Light and Power, a component unit of the City of Waverly, Iowa, which comprise the statements of net position as of December 31, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to Waverly Light and Power'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 Waverly Light and Power'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 opinion.

To the Board of Trustees
Waverly Light and Power

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Waverly Light and Power as of December 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Waverly Light and Power component unit and do not purport to, and do not, present fairly the financial position of the City of Waverly, Iowa, as of December 31, 2014 and 2013 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

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

Supplemental Information

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

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Waverly Light and Power as of December 31, 2005 - 2012 and for the years then ended (none of which is presented herein). In our opinion, the graphic and financial information is fairly stated in all material respects in relation to the financial statements from which it has been derived.

To the Board of Trustees
Waverly Light and Power

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated April 10, 2015 on our consideration of Waverly Light and Power's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Waverly Light and Power's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
April 10, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

WAVERLY LIGHT AND POWER
Unaudited
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014, 2013 and 2012

Waverly Light and Power (WLP) offers this discussion and analysis of our financial performance for the years ending December 31, 2014 and 2013. Please read this in conjunction with the accompanying financial statements and the notes to the financial statements.

Overview of the Financial Statements

Waverly Light and Power (WLP) was placed under operational control of a five-member Board of Trustees (Board) by a City of Waverly (City) ordinance dated October 3, 1977. WLP is responsible for providing electric power to the residents and businesses of the City and certain rural areas. WLP is considered a component unit of the City in accordance with criteria set forth by the Governmental Accounting Standards Board. WLP has a governing body appointed by the Mayor and approved by the City Council.

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

The Statement of Net Position reports year-end assets, liabilities 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 WLP's Net Position from utility operations. The Statement of Cash Flows reports the changes in cash due to operations, investments, capital improvements and debt service payments.

WLP Financial Analysis

WLP owns a strategic mix of energy production resources. We own 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 2014, we purchased 91% of our required energy and capacity through a full requirements energy contract. The remaining 9% is produced locally by our hydro and wind resources.

In 2014, we installed an additional 5 MW of local diesel generation and rebuilt our West Substation to improve system reliability. The distribution system operates at 12,500 volts.

Waverly has a diverse business climate including a private college, a large financial institution, manufacturing businesses of varying sectors and many commercial businesses. The residential population has remained constant over the past few years. In 2014, we installed 52 electric services.

WLP manages property loss, employee dishonesty, errors and omissions through extensive insurance coverage. In addition to coverage of property, equipment, vehicles, wind turbine, Louisa generating station, blanket boiler, workmen's compensation and general liability coverage, we have a \$10 million insurance umbrella. We carry a \$25,000 deductible and have an insurance recovery fund with a balance of \$950,000 to cover deductibles and losses from non-insured events which may occur.

WAVERLY LIGHT AND POWER
Unaudited
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)
December 31, 2014, 2013 and 2012

WLP Financial Analysis (cont.)

As an analysis of WLP's financial position, the following condensed statements are presented for review: the Statements of Net Position in Table 1, the Statements of Revenues, Expenses and Changes in Net Position in Table 2, the Statements of Cash Flows in Table 3 and the Statements of Revenues, Expenses and Changes in Net Position, Actual and Budget in Table 4.

Table 1
Condensed Statements of Net
Position

	2014	2013	2012
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current Assets	\$ 6,685,851	\$ 6,753,571	\$ 6,588,881
Non-Current Assets			
Restricted Assets	1,073,632	1,073,632	639,510
Designated Funds	9,939,513	13,033,665	9,723,261
Other Assets	813,140	791,928	759,544
Capital Assets	<u>35,058,826</u>	<u>33,001,512</u>	<u>32,402,834</u>
Total Assets	<u>53,570,962</u>	<u>54,654,308</u>	<u>50,114,030</u>
DEFERRED OUTFLOWS OF RESOURCES			
Note payable and green power credits	2,260,000	2,480,000	2,700,000
TOTAL ASSETS AND DEFERRED INFLOWS OF RESOURCES	<u>\$ 55,830,962</u>	<u>\$ 57,134,308</u>	<u>\$ 52,814,030</u>
LIABILITIES			
Current Liabilities	2,925,746	3,061,166	2,299,164
Current Liabilities Payable from Restricted Assets	1,034,837	1,030,212	660,205
Non-Current Liabilities	<u>4,766,485</u>	<u>5,760,506</u>	<u>2,765,534</u>
Total Liabilities	<u>8,727,068</u>	<u>9,851,884</u>	<u>5,724,903</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue	2,260,000	2,480,000	2,700,000
Regulatory credits - rate stabilization	<u>637,000</u>	<u>-</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>2,897,000</u>	<u>2,480,000</u>	<u>2,700,000</u>
NET POSITION			
Net investment in capital assets	30,270,091	27,189,354	29,540,187
Restricted for Debt Service and Improvements	335,702	335,285	304,869
Unrestricted	<u>13,601,101</u>	<u>17,277,785</u>	<u>14,544,071</u>
Total Net Position	<u>44,206,894</u>	<u>44,802,424</u>	<u>44,389,127</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 55,830,962</u>	<u>\$ 57,134,308</u>	<u>\$ 52,814,030</u>

WLP decreased Net Position by \$596K and increased Net Position \$413K in 2014 and 2013, respectively, as a result of net income as discussed on page 6.

WAVERLY LIGHT AND POWER
Unaudited
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)
December 31, 2014, 2013 and 2012

WLP Financial Analysis (cont.)

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

	2014	2013	2012
OPERATING REVENUES	<u>\$ 17,384,182</u>	<u>\$ 17,546,314</u>	<u>\$ 17,296,715</u>
OPERATING EXPENSES			
Depreciation expenses	1,875,607	1,839,595	1,746,726
Other operating expenses	15,072,815	14,327,830	13,344,587
Total Operating Expenses	<u>16,948,422</u>	<u>16,167,425</u>	<u>15,091,313</u>
Operating Income	<u>435,760</u>	<u>1,378,889</u>	<u>2,205,402</u>
Investment income	69,521	67,839	92,221
Interest and amortization expense	(143,425)	(176,898)	(158,366)
Gain/(Loss) on sale of plant	(92,554)	(28,041)	16,893
Royalties	-	-	25,995
Total Non-Operating Expenses	<u>(166,458)</u>	<u>(137,100)</u>	<u>(23,257)</u>
Income before operating transfers and	269,302	1,241,789	2,182,145
Contributions	(3,388)	(1,176)	150,238
Operating transfers to the City of Waverly	<u>(861,444)</u>	<u>(827,316)</u>	<u>(935,152)</u>
Change in Net Position	(595,530)	413,297	1,397,231
NET POSITION, Beginning of Year	<u>44,802,424</u>	<u>44,389,127</u>	<u>42,991,896</u>
NET POSITION, END OF YEAR	<u>\$ 44,206,894</u>	<u>\$ 44,802,424</u>	<u>\$ 44,389,127</u>

Revenues for 2014 were \$162K lower than revenues for 2013 due to the deferred inflows for rate stabilization.

Expenses for 2014 were \$781K higher than expenses for 2014 due to increases in purchased power and transmission costs.

WAVERLY LIGHT AND POWER
Unaudited
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)
December 31, 2014, 2013 and 2012

WLP Financial Analysis (cont.)

Table 3
Condensed Statements of Cash Flows

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities			
Received from sales to customers	\$ 18,736,185	\$ 17,480,238	\$ 17,620,321
Paid to suppliers and employees for services	<u>(15,235,543)</u>	<u>(13,409,246)</u>	<u>(13,672,078)</u>
Cash Flows from Operating Activities	3,500,642	4,070,992	3,948,243
Cash Flows from Non-Capital Financing Activities	(846,670)	(818,549)	(935,152)
Cash Flows from Capital and Financing Activities	(5,300,970)	627,847	(1,837,268)
Cash Flows from Investing Activities	<u>(13,629)</u>	<u>(59,924)</u>	<u>(276,940)</u>
Net Change in Cash and Equivalents	(2,660,627)	3,820,366	898,883
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>16,941,653</u>	<u>13,121,287</u>	<u>12,222,404</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u><u>\$ 14,281,026</u></u>	<u><u>\$ 16,941,653</u></u>	<u><u>\$ 13,121,287</u></u>

WAVERLY LIGHT AND POWER
Unaudited
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)
December 31, 2014, 2013 and 2012

WLP Financial Analysis (cont.)

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

	Actual 2014	Budget 2014	Variance Favorable (Unfavorable)
OPERATING REVENUES	<u>\$ 17,384,182</u>	<u>\$17,373,901</u>	<u>\$10,281</u>
OPERATING EXPENSES			
Depreciation expenses	1,875,607	1,886,787	11,180
Other operating expenses	<u>15,072,815</u>	<u>15,287,481</u>	<u>214,666</u>
Total Operating Expenses	<u>16,948,422</u>	<u>17,174,268</u>	<u>225,846</u>
Operating Income	<u>435,760</u>	<u>199,633</u>	<u>236,127</u>
Investment income	69,521	70,000	(479)
Interest and amortization expense	(143,425)	(81,852)	(61,573)
Gain on sale of plant	(92,554)	-	(92,554)
Other income (expense)	-	0	0
Total Non-Operating Expenses	<u>(166,458)</u>	<u>(11,852)</u>	<u>(154,606)</u>
Income before contributions and operating transfers	269,302	187,781	81,521
Contributions	(3,388)	100,000	(103,388)
Operating transfers to the City of Waverly	<u>(861,444)</u>	<u>(861,440)</u>	<u>(4)</u>
Change in Net Position	(595,530)	(573,659)	(21,871)
NET POSITION, Beginning of Year	<u>44,802,424</u>	<u>44,802,424</u>	<u>-</u>
NET POSITION, END OF YEAR	<u>\$ 44,206,894</u>	<u>\$44,228,765</u>	<u>(\$21,871)</u>

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

WAVERLY LIGHT AND POWER
Unaudited
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)
December 31, 2014, 2013 and 2012

Fund Analysis

Designated Funds

The Vehicle Replacement fund has a balance of \$281,234, \$324,426, and \$324,426 respectively for 2014, 2013, and 2012. It is used for the replacement of vehicles and line trucks. It is funded annually based on a vehicle replacement schedule during the budget process.

We set up an Insurance Recovery fund to cover the costs of our deductibles on property, health insurance and the loss of uninsured electrical lines. The current balance of \$950,000 is funded annually at \$60,000 a year. The 2013 and 2012 balance was \$890,000 and \$830,000 respectively.

The Renewable Energy fund was established to track donations received from the sale of Iowa Energy Tags and the Green Power Choice Energy program. It is designated to supplement renewable energy through purchases. The fund has a balance of \$365,373, \$329,177, and \$292,753 for 2014, 2013 and 2012 respectively.

The Generation and G & A funds are for funding future replacement of capital items for those departments. The Generation Fund has a balance \$0 in 2014, \$940,329 in 2013, and \$1,298,319 in 2012. The G & A Fund has a balance of \$164,878 in 2014, \$164,878 in 2013, and \$186,000 in 2012. They are funded annually based on the budget process.

The Key Accounts fund is used to encourage customer energy efficiency in operations and electrical usage and to support the Waverly Area Development Group's economic development activities. It is funded annually based on 2% of revenues to these customers. This fund will no longer be funded starting in 2014. The fund has a balance of \$544,992, \$693,208, and \$765,930 for 2014, 2013, and 2012 respectively.

The Distribution fund is funded similarly to the Generation and G&A fund. The funds are for funding future capital replacements for the distribution department. The fund has a balance of \$0 in 2014, \$166,399 in 2013, and \$556,425 in 2012.

The Rate Stabilization Fund was established in 2010 to set aside funds to mitigate customer price increases due to unforeseen circumstances, volatile wholesale price increases, and/or large construction projects. The fund has a balance of \$6,306,478, \$5,921,733, and \$4,169,408 for 2014, 2013 and 2012 respectively.

The Specified Project Fund was established in 2010 to set aside funds for future projects and unspent monies from bond proceeds. The fund has a balance of \$1,326,557 in 2014, \$3,603,515 in 2013, and \$1,300,000 in 2012.

WAVERLY LIGHT AND POWER
Unaudited
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)
December 31, 2014, 2013 and 2012

Fund Analysis(cont.)

Restricted Funds

The Sinking, Reserve and Improvement funds were funded per the requirements of the CREB, 2012 and 2013 bond issues. The total of these restricted funds are \$1,165,749, \$1,165,708, and \$696,162 in 2014, 2013, and 2012 respectively.

Capital Assets

WLP has \$66.9 million of capital assets with a net asset value of \$35 million. The total includes \$.4 million in land, \$3.9 million in buildings, \$37.3 million in improvements, \$6.6 million in machinery and equipment, \$10.2 million in Louisa Generating Plant, \$5.4 million in Walter Scott Jr. 4 Generating Plant, and \$3.2 million in construction work in progress.

In 2013 capital assets included \$63.4 million of capital assets with a net asset value of \$33 million. The total includes \$.4 million in land, \$3.9 million in buildings, \$36.3 million in improvements, \$6.5 million in machinery and equipment, \$10.1 million in Louisa Generating Plant, \$5.4 million in Walter Scott Jr. 4 Generating Plant, and \$.8 million in construction work in progress.

The 2012 capital assets included \$61.4 million of capital assets with a net asset value of \$32.4 million. The total includes \$.4 million in land, \$3.9 million in buildings, \$35.2 million in improvements, \$6.5 million in machinery and equipment, \$10.1 million in Louisa Generating Plant, \$5.3 million in Walter Scott Jr. 4 Generating Plant, and \$18 thousand in construction work in progress.

Capital improvements for 2014 included installation of new distribution lines, services, meters, and transformers, Louisa Generating Station improvements, WS4 Generating Station improvements, new west substation, raising stacks on all engines, install of new Cat engines, new servers and computers.

Capital improvements for 2013 included installation of new distribution lines, services, meters, and transformers, Louisa Generating Station improvements, WS4 Generating Station improvements, purchase of 4 used Caterpillar generators, board room furniture, computers, transmission improvements, LED street light replacements, and miscellaneous tools and equipment.

Capital improvements for 2012 included installation of new distribution lines, services, meters, and transformers, Louisa Generating Station improvements, WS4 Generating Station improvements, installation of wind turbine, catalyst installation, transmission improvements, LED street light replacements, and miscellaneous tools and equipment.

WAVERLY LIGHT AND POWER
Unaudited
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)
December 31, 2014, 2013 and 2012

Debt Activity

We have \$5.6 million of outstanding debt at December 31, 2014. This includes \$1.5 million of CREB bonds issued to finance two wind turbines and \$.5 million for the 2012 bonds which were issued to refund the 2005 bonds, and \$3.6 million for the 2013 bonds which were issued to fund the reimbursement resolution, 4 Caterpillar generators purchase and installation, and the West Substation construction.

At the end of 2013 and 2012 the outstanding debt was \$6.6 million and \$3.3 million respectively.

WLP maintains a sinking fund, reserve fund and an improvement fund per bond requirements. The balance in these restricted funds is \$1,165,749. Debt service for 2014 included \$1,023,421 of principal payments and \$81,851 of interest payments. The 2013 restricted fund balance was \$1,165,708 including \$658,421 of principal payments and \$21,036 of interest payments. The 2012 restricted fund balance was \$696,162 including \$2,748,421 of principal payments and \$102,468 of interest payments.

Contact Information

This report is designed to provide our customers, creditors and interested parties with an overview of our financial position. Any questions regarding this report or desiring additional information should be addressed to Waverly Light and Power, 1002 Adams Parkway, Waverly, IA 50677 or by phone at 319.352.6251.

Statements of Net Position Follow

WAVERLY LIGHT AND POWER
STATEMENTS OF NET POSITION
December 31, 2014 and 2013

ASSETS		
	2014	2013
CURRENT ASSETS		
Cash and investments	\$ 3,175,765	\$ 2,742,280
Accounts receivable	2,227,217	2,308,608
Inventory	1,053,005	1,390,228
Prepaid expenses	137,746	220,379
Restricted Assets		
Sinking Funds		
CREB bonds	16,581	16,691
2012 bonds	39,429	39,633
2013 bonds	36,107	35,752
Total Current Assets	6,685,850	6,753,571
NON-CURRENT ASSETS		
Restricted Assets		
Reserve Funds		
CREB bonds	282,632	282,632
2012 bonds	141,000	141,000
2013 bonds	400,000	400,000
Improvement fund	250,000	250,000
Total Restricted Assets	1,073,632	1,073,632
Designated Funds		
Vehicle replacement	281,234	324,426
Key accounts	544,992	693,208
Renewable energy fund	365,373	329,177
Generation	-	940,329
G & A	164,878	164,878
Rate stabilization fund	6,306,478	5,921,733
Specified projects fund	1,326,557	3,603,515
Insurance recovery	950,000	890,000
Distribution Fund	-	166,399
Total Designated Funds	9,939,513	13,033,665
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
Energy rebates net of amortization	586,960	565,748
Total Other Assets	813,140	791,928
Capital Assets		
Land	357,124	357,124
Buildings	3,919,171	3,912,053
Improvements	37,287,933	36,328,492
Machinery and equipment	6,616,917	6,524,185
Louisa & Walter Scott 4 plants	15,565,411	15,465,447
Construction work in progress	3,158,974	769,352
Total Capital Assets	66,905,530	63,356,653
Accumulated depreciation	(31,846,703)	(30,355,141)
Net Capital Assets	35,058,827	33,001,512
Total Non-Current Assets	46,885,112	47,900,737
TOTAL ASSETS	\$ 53,570,962	\$ 54,654,308
DEFERRED OUTFLOWS OF RESOURCES		
Note payable - Wellness Center	960,000	1,080,000
Unearned credit - Wartburg green power	1,300,000	1,400,000
DEFERRED OUTFLOWS OF RESOURCES	2,260,000	2,480,000
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 55,830,962	\$ 57,134,308

LIABILITIES		
	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES		
Accounts payable	\$ 925,658	\$ 874,225
Accrued property taxes	167,492	172,994
Other accrued expenses	1,832,595	2,013,947
Current Liabilities Payable From Restricted Assets		
Current portion of revenue bonds	1,028,421	1,023,421
Accrued interest on revenue bonds	<u>6,416</u>	<u>6,791</u>
Total Current Liabilities	<u>3,960,583</u>	<u>4,091,378</u>
NON-CURRENT LIABILITIES		
Revenue bonds	4,583,947	5,612,369
Other long-term accounts payable	<u>182,538</u>	<u>148,137</u>
Total Non-Current Liabilities	<u>4,766,485</u>	<u>5,760,506</u>
 Total Liabilities	 <u>8,727,068</u>	 <u>9,851,884</u>
DEFERRED INFLOWS OF RESOURCES		
Unearned revenue - Wellness Center	960,000	1,080,000
Unearned revenue - Wartburg green power choice	1,300,000	1,400,000
Regulator credits - Rate Stabilization	<u>637,000</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES	<u>2,897,000</u>	<u>2,480,000</u>
NET POSITION		
NET POSITION		
Net investment in capital assets	30,270,091	27,189,354
Restricted for debt service and improvements	335,702	335,285
Unrestricted	<u>13,601,101</u>	<u>17,277,785</u>
Total Net Position	<u>44,206,894</u>	<u>44,802,424</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	 <u>\$ 55,830,962</u>	 <u>\$ 57,134,308</u>

WAVERLY LIGHT AND POWER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years ended December 31, 2014 and 2013

	2014	2013
OPERATING REVENUES		
Sales to customers	\$ 13,726,704	\$ 13,589,742
Miscellaneous	4,294,478	3,956,572
Less - Rate stabilization	(637,000)	-
Total Operating Revenues	17,384,182	17,546,314
OPERATING EXPENSES		
Production	11,981,899	11,135,656
Transmission	167,614	191,784
Distribution	1,554,753	1,577,683
Customer accounts	213,114	199,783
Administrative and general	687,130	717,073
Customer information	63,908	101,174
Community development	225,361	272,645
Conservation	179,488	131,000
Water heater	(452)	1,032
Depreciation	1,875,607	1,839,595
Total Operating Expenses	16,948,422	16,167,425
Operating Income	435,760	1,378,889
NONOPERATING REVENUE (EXPENSES)		
(Loss) on sale of plant	(92,554)	(28,041)
Royalties	-	-
Investment income	69,521	67,839
Interest expense	(81,487)	(26,050)
Amortization of debt discount costs	-	(97,524)
Amortization of energy rebates	(61,938)	(53,324)
Total Nonoperating Revenue (Expenses)	(166,458)	(137,100)
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS	269,302	1,241,789
Contributions	(3,388)	(1,176)
Transfer to City of Waverly general fund	(861,444)	(827,316)
CHANGE IN NET POSITION	(595,530)	413,297
NET POSITION - Beginning of Year	44,802,424	44,389,127
NET POSITION - END OF YEAR	\$ 44,206,894	\$ 44,802,424

Statements of Cash Flows Follow

WAVERLY LIGHT AND POWER

STATEMENTS OF CASH FLOWS

For the Years ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from sales to customers	\$ 13,808,095	\$ 13,524,846
Received from Municipal Energy Agency of Nebraska	4,291,090	3,955,392
Paid to suppliers for purchased power and transmission	(9,471,586)	(8,546,003)
Paid to suppliers and employees for other services	<u>(5,126,957)</u>	<u>(4,863,243)</u>
Net Cash Flows From Operating Activities	<u>3,500,642</u>	<u>4,070,992</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payment to City of Waverly for credit to Waverly Wellness Center	(120,000)	(120,000)
Transfers from Waverly Communications Utility	14,774	8,767
Transfers to City of Waverly	<u>(741,444)</u>	<u>(707,316)</u>
Net Cash Flows From Noncapital Financing Activities	<u>(846,670)</u>	<u>(818,549)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of plant and equipment	(4,240,582)	(2,642,963)
Salvage received on plant sold	44,896	5,745
Debt issue costs	-	(55,471)
Principal received from bonds	-	4,000,000
Principal payments on revenue bonds	(1,023,422)	(658,421)
Interest paid	<u>(81,862)</u>	<u>(21,043)</u>
Net Cash Flows From Capital and Related Financing Activities	<u>(5,300,970)</u>	<u>627,847</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net marketable securities purchased for CREB bond sinking fund	110	110
Net marketable securities purchased for 2012 bond sinking fund	204	219
Net marketable securities purchased for 2013 bond sinking fund	(355)	(35,752)
Net marketable securities purchased for CREB bond reserve fund	-	(34,122)
Net marketable securities purchased for 2013 bond reserve fund	-	(400,000)
Net marketable securities purchased/sold for vehicle replacement fund	43,192	-
Net marketable securities purchased for key accounts fund	148,216	72,722
Net marketable securities sold/purchased for generation fund	940,329	357,990
Net marketable securities sold/purchased for Renewable energy fund	(36,196)	(36,424)
Net marketable securities purchased for insurance recovery fund	(60,000)	(60,000)
Net marketable securities purchased for rate stabilization fund	(384,745)	(1,752,325)
Net marketable securities purchased for special projects fund	2,276,958	(2,303,515)
Net marketable securities purchased for general and administrative fund	-	21,122
Net marketable securities purchased for distribution/transmission fund	166,399	390,026
Net marketable securities sold/purchased for electric revenue fund	(3,094,112)	3,779,948
Purchase of energy rebates	(83,150)	(127,762)
Investment income	<u>69,521</u>	<u>67,839</u>
Net Cash Flows From Investing Activities	<u>(13,629)</u>	<u>(59,924)</u>
Net Change in Cash and Cash Equivalents	(2,660,627)	3,820,366
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>16,941,653</u>	<u>13,121,287</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 14,281,026	\$ 16,941,653
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Amortization of debt related costs	\$ -	\$ 42,053
Amortization of energy rebates	\$ 61,938	\$ 53,324
Loss on sale of plant	\$ 92,554	\$ 28,041

	2014	2013
RECONCILIATION OF OPERATING INCOME TO NET CASH		
FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 435,760	\$ 1,378,889
Non-operating income (expense)	(3,388)	(1,175)
Noncash items included in operating income		
Depreciation	1,875,607	1,839,595
Depreciation cleared	170,209	170,905
Changes in assets and liabilities		
Accounts receivable	81,391	(64,903)
Inventory	337,223	104,850
Prepaid expenses	82,633	(128,797)
Accounts payable	36,660	297,318
Accrued property taxes	(5,502)	5,316
Deferred Inflows for Rate Stabilization	637,000	-
Other accrued expenses	(146,951)	468,994
	<u>\$ 3,500,642</u>	<u>\$ 4,070,992</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES		
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION ACCOUNTS		
Cash and investments	\$ 3,175,765	\$ 2,742,280
Restricted investments		
Sinking Funds		
CREB bonds	16,581	16,691
2012 bonds	39,429	39,633
2013 bonds	36,107	35,752
Reserve Funds		
CREB bonds	282,632	282,632
2012 bonds	141,000	141,000
2013 bonds	400,000	400,000
Improvement fund	<u>250,000</u>	<u>250,000</u>
Total Cash and Restricted Investments	<u>4,341,514</u>	<u>3,907,988</u>
Designated Investments		
Vehicle replacement	281,234	324,426
Key accounts	544,992	693,208
Iowa energy tags	365,373	329,177
Generation	-	940,329
G & A	164,878	164,878
Rate stabilization fund	6,306,478	5,921,733
Specified project fund	1,326,557	3,603,515
Insurance recovery	950,000	890,000
Distribution Fund	<u>-</u>	<u>166,399</u>
Total Designated Investments	<u>9,939,512</u>	<u>13,033,665</u>
Less: non cash equivalents (note 1)	<u>-</u>	<u>-</u>
	<u>\$ 14,281,026</u>	<u>\$ 16,941,653</u>
TOTAL CASH AND CASH EQUIVALENTS		

See accompanying notes to financial statements.

WAVERLY LIGHT AND POWER

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Waverly Light and Power (utility) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to component units 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 utility are described below.

REPORTING ENTITY

The utility 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 48,451 kilowatts of generating capacity.

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.

In March 2012, the GASB issued Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The utilities implemented this standard effective January 1, 2013.

WAVERLY LIGHT AND POWER

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

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

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

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

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

Deposits and Investments

The utility has an adopted investment policy which was last approved in 2013. The investment policy states the delegation of authority, instruments eligible for investing, prohibited investments and practices, maturity limitations, diversification, and safekeeping.

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

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

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

Receivables/Payables

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

Accounts receivable balances at December 31, 2014 and 2013 are considered fully collectible and expected within one year. Any accounts not collectible are expensed to current year operations in the year their status is determined. A reserve for bad debts is not considered material.

Accounts receivable balances at December 31, 2014 and 2013 include: unbilled revenues totaling \$612,106 and \$625,681, customer accounts receivable totaling \$1,039,608 and \$1,015,578, other accounts receivable totaling \$575,503 and \$667,348, accrued interest receivable totaling \$0 and \$1, respectively.

WAVERLY LIGHT AND POWER

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

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 inventory is made up as follows:

	December 31	
	<u>2014</u>	<u>2013</u>
Local Inventories		
Distribution materials	\$ 695,317	\$ 618,036
Water heaters	4,356	3,412
Operating plant fuel	122,135	95,867
Louisa Inventories		
Coal	102,487	517,318
Oil	3,245	3,266
Materials	56,459	53,113
WS4 Inventories		
Coal	32,036	65,158
Oil	9,231	7,179
Materials	27,739	26,879
Totals	<u>\$ 1,053,005</u>	<u>\$ 1,390,228</u>

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 LIGHT AND POWER

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

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

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

Other Assets

These balances consist of commitments made to the utility for future periods. See further details in note 6. The balances also consist of investments in other facilities considered non-utility property and energy rebates to customers (net of amortization) whose use of these rebates to purchase efficient appliances will benefit the utility's customers in future periods through reduced energy consumption. These results are amortized over the life of the related appliance.

Capital Assets

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

Capital assets of the utility are recorded at cost, except for distribution plant facilities constructed prior to January 1, 1964, which are stated at appraisal valuations. Additions to the distribution plant subsequent to that date are stated at cost or fair market value at the time of contribution to the utility. At December 31, 1997 all assets remaining in service that were stated at appraised valuations had been fully depreciated. Major renewals and betterments are capitalized at cost. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed, net of interest earnings on tax-exempt debt proceeds. No interest was capitalized in 2014 and 2013. Maintenance and repairs are expensed as incurred.

Total depreciation expense for the years ended December 31, 2014 and 2013, was \$2,045,816 and \$2,010,496, respectively; of that, \$1,875,607 and \$1,839,595 was expensed and \$170,209 and \$170,901 was capitalized in 2014 and 2013.

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

Other Accrued Expenses

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

WAVERLY LIGHT AND POWER

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

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

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

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 accrued expenses. The cost per employee is capped at \$500 per month.

Cafeteria Plan

The utility has 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.

WAVERLY LIGHT AND POWER

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

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

Deferred Inflows of Resources (cont.)

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. WLP'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 2014, \$637,000 was transferred from revenue to the RSF, which will be used in 2015-2017 based upon need.

REVENUES AND EXPENSES

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

Charges and Services

Utility 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 September 2013 and placed into effect in January 2014.

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) and joint adventures with MEAN.

WAVERLY LIGHT AND POWER

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

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

REVENUES AND EXPENSES (cont.)

Taxes

The utility 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

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 67, *Financial Reporting for Pension Plans* – an amendment of GASB Statement No. 25; Statement No. 68, *Accounting and Financial reporting for Pensions* – an amendment of GASB Statement No. 27; Statement No. 69, *Government Combinations and Disposals of Government Operations*; and Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. 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 LIGHT AND POWER

NOTES TO FINANCIAL STATEMENTS December 31, 2014 and 2013

NOTE 2 – DEPOSITS AND INVESTMENTS

The carrying values of the utility's deposits and investments as of December 31, 2014 and 2013 were comprised of the following:

	2014	2013	Risks
Checking	\$ 3,108,675	\$ 3,568,118	Custodial credit risk
Petty cash	973	921	Custodial credit risk
Saving	11,171,378	13,277,282	Custodial credit risk
Certificates of deposit	0	0	Custodial credit risk
IPAIT	0	95,322	Credit and Interest rate risk
Total Deposits and Investments	\$14,281,026	\$16,941,653	

Reconciliation to financial statements

	2014	2013
Unrestricted cash and investments	\$3,175,765	\$2,742,280
Restricted cash and investments	1,165,749	1,165,708
Designated cash and investments	9,939,512	13,033,665
Total Deposits and Investments	\$14,281,026	\$16,941,653

The utility may also maintain separate cash and investment accounts at the same financial institutions utilized by the municipality. Federal depository insurance applies to all municipal accounts, and accordingly, the amount of insured funds is not determinable for the utility alone. Therefore, coverage for the utility may be reduced. Investment income on commingled investments of the entire municipality 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.

WAVERLY LIGHT AND POWER

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

CREDIT RISK

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations.

As of December 31, 2013, the utility's had investments in the following external pools which are not rated:

Iowa Public Agency Investment Trust

WLP's investment policy addresses the issue of credit risk. Investments are limited to certain types of investments and by diversifying the investment portfolio.

INTEREST RATE RISK

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment.

As of December 31, 2014 and 2013, the utility's investments were as follows:

Investment Type	2014		2013	
	Fair Value	Weighted Average Maturity (Days)	Fair Value	Weighted Average Maturity (Days)
Iowa Public Agency Investment Trust	\$ 0		\$ 95,322	37.67

Interest rate risk is addressed in WLP's investment policy. Interest rate risk is minimized by structuring the investment portfolio so securities mature to meet ongoing operations and limiting the average maturity of the portfolio.

WAVERLY LIGHT AND POWER

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 3 – RESTRICTED ASSETS

REVENUE BOND ACCOUNTS

Certain proceeds of the utility'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 utility restricted Net Position:

	<u>2014</u>	<u>2013</u>
Restricted Assets		
Sinking funds	\$ 92,117	\$ 92,076
Reserve fund	823,632	823,632
Improvement fund	250,000	250,000
Total Restricted Assets	<u>1,165,749</u>	<u>1,165,708</u>
Less: Restricted Assets Not Funded by Revenues		
Reserve fund	<u>(823,632)</u>	<u>(823,632)</u>
Total Restricted Assets Not Funded by Revenues	<u>(823,632)</u>	<u>(823,632)</u>
Current Liabilities Payable From Restricted Assets	<u>(6,416)</u>	<u>(6,791)</u>
Total Restricted Net Position as Calculated	<u>\$ 335,701</u>	<u>\$ 335,285</u>

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

WAVERLY LIGHT AND POWER

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 4 – INTERFUND TRANSFERS

WLP 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, 2014 and 2013. In addition, since the creation of a separate entity in 2013, Waverly Communications Utility (WCU) dba Waverly Light and Power, there are transfers back and forth for Leasing Fiber from WLP and a portion of WLP's operating expenses designated to WCU. This is the form of a receivable/payable and each utility bears its own revenues and expenses. This receivable/payable will be paid quarterly.

To	From	2014		2013	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	WLP	\$ 741,444	Fund Transfer	\$ 707,316	Fund Transfer
Municipality	WLP	120,000	W/W Wellness	120,000	W/W Wellness
WLP	WCU	23,540	Fund A/R A/P	8,767	Fund A/R A/P

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2014 follows:

	Balance 01/01/14	Additions	Deletions	Balance 12/31/2014
Capital assets:				
Land ⁽¹⁾	\$ 357,124	\$ -	\$ -	\$ 357,124
Buildings	3,912,053	7,118	-	3,919,171
Improvements	36,328,492	1,579,587	(620,146)	37,287,933
Equipment	6,524,185	131,787	(39,055)	6,616,917
Louisa plant	10,119,460	55,580	(6,464)	10,168,576
WS4 plant	5,345,987	76,888	(26,040)	5,396,835
Construction in progress ⁽¹⁾	769,352	2,389,622	-	3,158,974
Less: Accumulated depreciation	(30,355,141)	(2,045,964)	554,402	(31,846,703)
Net Capital Assets	<u>\$ 33,001,511</u>	<u>\$ 2,194,618</u>	<u>\$ (137,303)</u>	<u>\$ 35,058,827</u>

⁽¹⁾ – Capital assets not being depreciated.

WAVERLY LIGHT AND POWER

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 5 – CHANGES IN CAPITAL ASSETS (cont.)

A summary of changes in capital assets for 2013 follows:

	Balance 01/01/13	Additions	Deletions	Balance 12/31/2013
Capital assets:				
Land ⁽¹⁾	\$ 357,124	\$ -	\$ -	\$ 357,124
Buildings	3,899,532	12,521	-	3,912,053
Improvements	35,170,976	1,713,289	(555,773)	36,328,492
Equipment	6,528,659	60,025	(64,499)	6,524,185
Louisa plant	10,084,768	68,250	(33,558)	10,119,460
WS4 plant	5,308,960	37,694	(667)	5,345,987
Construction in progress ⁽¹⁾	18,167	2,466,036	(1,714,851)	769,352
Less: Accumulated depreciation	(28,965,352)	(2,010,500)	620,711	(30,355,141)
Net Capital Assets	\$ 32,402,834	\$ 2,347,315	\$ (1,748,637)	\$ 33,001,512

⁽¹⁾ – Capital assets not being depreciated.

NOTE 6 – LONG-TERM OBLIGATIONS

REVENUE BONDS

The following revenue bonds have been issued:

Date	Purpose	Call Date	Final Maturity	Interest Rates	Original Issue	Outstanding Amount
12/4/2007	Finance two wind turbines	12/1/2022	12/1/2022	0.70%	2,826,316	1,507,368
11/13/2012	Refinance the 2005 bonds	12/1/2015	12/1/2015	0.4-.67%	1,410,000	470,000
12/3/2013	Finance Exp Reimb Resolution, West Sub, 4 Generators	12/1/2015	12/1/2023	0.4-.67%	4,000,000	3,635,000

WAVERLY LIGHT AND POWER

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

REVENUE BONDS (cont.)

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	188,421	10,552	198,973
2016	188,421	9,232	197,653
2017	188,421	7,914	196,335
2018	188,421	6,595	195,016
2019	188,421	5,276	193,697
2020-2022	<u>565,263</u>	<u>7,913</u>	<u>573,176</u>
Totals	<u>\$ 1,507,368</u>	<u>\$ 47,482</u>	<u>\$ 1,554,850</u>

The 2012 revenue bond debt service requirements to maturity follow:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	<u>470,000</u>	<u>3,149</u>	<u>473,149</u>
Totals	<u>\$ 470,000</u>	<u>\$ 3,149</u>	<u>\$ 473,149</u>

The 2013 revenue bond debt service requirements to maturity follow:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	370,000	63,288	433,288
2016	375,000	61,068	436,068
2017	380,000	58,068	438,068
2018	390,000	53,888	443,888
2019	400,000	48,038	448,038
2020-2023	<u>1,720,000</u>	<u>109,775</u>	<u>1,829,775</u>
Totals	<u>\$ 3,635,000</u>	<u>\$ 394,123</u>	<u>\$ 4,029,123</u>

WAVERLY LIGHT AND POWER

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

REVENUE BONDS (cont.)

All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2014 and 2013 were \$1,105,272 and \$679,458, respectively. Total customer gross revenues as defined for the same periods were \$17,453,703 and \$17,614,153. Annual principal and interest payments are expected to require 2.37% of gross revenues on average.

NOTE PAYABLE/ DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

Wartburg-Waverly Sports and Wellness Center

In December 2006, the Board approved funding of \$120,000 per year for the next 15 years, to the City of Waverly for further credit to the Wartburg-Waverly Sports and Wellness Center. The outstanding amount of the Board approved funding at December 31, 2014 and 2013 were \$960,000 and \$1,080,000, respectively. This amount has been classified as a deferred outflow and offset in the Statements of Net Position as a deferred inflow.

Note payable obligations to maturity follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	120,000	-	120,000
2016	120,000	-	120,000
2017	120,000	-	120,000
2018	120,000	-	120,000
2019	120,000	-	120,000
2020-2022	<u>360,000</u>	<u>-</u>	<u>360,000</u>
Totals	<u>\$ 960,000</u>	<u>\$ -</u>	<u>\$ 960,000</u>

WAVERLY LIGHT AND POWER

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

UNEARNED CREDIT – WARTBURG GREEN POWER

This amount relates to payments received by the utility on behalf of Wartburg. Upon receipt, the amounts are remitted directly to the Green Power Choice Energy Program. As such, a deferred inflow and deferred outflow in the amount of \$1,300,000 and \$1,400,000 respectively has been reflected in the Statements of Net Position for 2014 and 2013.

NON-CURRENT LIABILITIES

Long-term Obligations for 2014 and 2013 are as follows:

Debt Issue	Balance 12/31/2013	Additions	Reductions	Balance 12/31/2014	Current Portion
CREB Revenue bonds	\$ 1,695,790	\$ -	\$ 188,422	\$ 1,507,368	\$ 188,421
2012 Revenue bonds	940,000		470,000	470,000	470,000
2013 Revenue Bonds	4,000,000		365,000	3,635,000	370,000
Other Long Term				-	
Other Post Employment Obligation	148,137	34,401	-	182,538	-
Totals	<u>\$ 6,783,927</u>	<u>\$ 34,401</u>	<u>\$ 1,023,422</u>	<u>\$ 5,794,906</u>	<u>\$ 1,028,421</u>

WAVERLY LIGHT AND POWER

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

Debt Issue	Balance 12/31/2012	Additions	Reductions	Balance 12/31/2013	Current Portion
CREB Revenue bonds	1,884,211	-	188,421	1,695,790	188,421
2012 Revenue bonds	1,410,000	-	470,000	940,000	470,000
2013 Revenue bonds	-	4,000,000		4,000,000	365,000
Other Long Term				-	
Other Post Employment Obligation	129,744	18,393	-	148,137	
Totals	\$ 3,423,955	\$ 4,018,393	\$ 658,421	\$ 6,783,927	\$ 1,023,421

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

NOTE 7 – NET POSITION

GASB No. 34 requires the classification of Net Position into three components net investment in capital assets, net of related debt; 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 invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same Net Position component as the unspent proceeds.

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

Unrestricted Net Position – This component of Net Position consists of Net Position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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.

WAVERLY LIGHT AND POWER

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 7 – NET POSITION (cont.)

The following calculation supports the Net Position invested in capital assets, net of related debt:

	<u>2014</u>	<u>2013</u>
Plant in service	\$ 63,746,556	\$ 62,587,301
Accumulated depreciation	(31,846,703)	(30,355,141)
Construction work in progress	3,158,974	769,352
Subtotal	<u>35,058,827</u>	<u>33,001,512</u>
Less: Capital Related Debt		
Current portion of capital related long-term debt	1,028,421	1,023,421
Long-term portion of capital related long-term debt	<u>4,583,947</u>	<u>5,612,369</u>
Subtotal	<u>5,612,368</u>	<u>6,635,790</u>
Add: Reserve from borrowing	823,632	823,632
Total Net Investment in Capital Assets	<u>\$ 30,270,091</u>	<u>\$ 27,189,354</u>

NOTE 8 – LEASES

The utility owns a fiber optic system used for Supervisory Control and Data Assess (SCADA). Portions of it have been leased to customers for varying periods. Under the lease arrangements, the utility's responsibility is to own and maintain the fiber optic cable. The leases have terms of two to seven years and include renewal as well as termination options.

The entire fiber plant is included in the utility's 2014 assets at a cost of \$354,863 less accumulated depreciation of \$341,011 for a net value of \$13,852. Of this, approximately 3.66% of the system has been leased to customers. Total lease revenue included in the utility's financial statements for 2014 and 2013 was \$5,052 and \$16,659, respectively. Lease revenue expected for the next year is not material to the financial statements.

WAVERLY LIGHT AND POWER

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 9 – EMPLOYEES RETIREMENT SYSTEM

The utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits that are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Plan members are required to contribute 5.95% of their annual salary and the utility is required to contribute 8.93% of the annual-covered payroll to the plan. Contribution requirements are established by State statute. The utility's contribution to IPERS for 2014, 2013, and 2012 was \$155,668, \$147,092, and \$140,345, respectively. The total utility payroll was \$1,743,196, for 2014. The payroll for 2013 and 2012 was \$1,673,940 and \$1,878,134, respectively.

NOTE 10 – RISK MANAGEMENT

The utility 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 an insurance recovery fund. The balance in this fund at December 31, 2014 and 2013 is \$950,000 and \$890,000, respectively. The insurance recovery fund was established for the purpose of subsidizing claims that were caused by extraordinary circumstances. No such claims have occurred in the past three years including no instances of claims incurred but not reported. Settled claims from risks have not exceeded commercial insurance coverage in the past three years. There were no significant deductions in coverage compared to the prior year.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS

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

Contribution requirements are established through personnel policy guidelines and may be amended by action of the governing body. The utility makes the same monthly health insurance contribution on behalf of the retiree as it makes on behalf of all other active employees during that year. The utility contributes 5.5 percent of the current year premiums for a single plan for eligible retired plan members. For fiscal years 2014 and 2013, the utility contributed \$14,295 and \$22,939 of the plan, respectively. Plan members receiving benefits are fully paid for by the utility up to \$500 a month. No retiree contributions were paid for by the retiree in 2014 or 2013. Administrative costs of the plan are financed through investment earnings.

WAVERLY LIGHT AND POWER

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

The utility's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the utility's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the utility's net OPEB obligation to the Retiree Health Plan:

Annual required contribution		\$	41,332
Interest on net OPEB obligation			<u>4,529</u>
Annual OPEB cost			45,861
Contributions made			<u>(14,295)</u>
Increase in net OPEB obligation			31,566
Net OPEB Obligation – Beginning of Year			<u>150,973</u>
Net OPEB Obligation – End of Year		\$	<u><u>182,538</u></u>

The utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for December 31, 2014 and two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$41,332	25%	\$182,538
2013	\$37,354	27%	\$150,973
2012	\$33,815	28%	\$132,579

WAVERLY LIGHT AND POWER

NOTES TO FINANCIAL STATEMENTS December 31, 2014 and 2013

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

The funded status of the plan as of December 31, 2014, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 285,678
Actuarial value of plan assets	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>285,678</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	1,702,562
UAAL as a percentage of covered payroll	17%

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

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

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

In the actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3 percent investment rate of return and an annual healthcare cost trend rate of 6.9 percent initially, reduced by decrements to an ultimate rate of 0 percent after 6 years reaching the \$500 a month cap. Both rates include a 3.3 percent inflation assumption. The actual value of Retiree Health Plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a three-year period. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2014 was 19 years.

WAVERLY LIGHT AND POWER

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 12 – COMMITMENTS AND CONTINGENCIES

COMMITMENTS

Municipality – Transfers

The utility makes annual cash payments to the municipality in an amount determined per policy established by the Board. The amount paid for the years ended December 31, 2014 and 2013 was \$741,444 and \$707,316, respectively.

Trees Forever

The utility 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. In May 2011, the Board approved funding of \$10,000 per year for the next 5 years, subject to yearly budget approval.

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 2011, the lease payment was adjusted to \$3,862 per year.

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

MUNICIPAL ENERGY AGENCY OF NEBRASKA

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

NOTE 13 – CLAIMS AND JUDGMENTS

From time to time, the utility 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 utility's legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the utility's financial position or results of operations

WAVERLY LIGHT AND POWER

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 14 – JOINT VENTURES

LOUISA GENERATING STATION

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

WALTER SCOTT JR. NO. 4

During 2002, the utility 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

Sales to a significant customer were 10.3% in 2014 and 10.4% in 2013. The utility periodically enters into electric service agreements with larger customers.

NOTE 16 – SUBSEQUENT EVENTS

Subsequent events for the utility have been evaluated through April 10, 2015, which is the date that the financial statements were available to be issued.

The utility's board of trustees voted to approve development of a high-speed fiber-optic network broadband telecommunications system for Waverly. On February 26, 2015, \$7,000,000 communications utility capital loan notes were issued at an interest rate of 4.3% to fund the build-out of the network.

In March 2015, Waverly Light and Power changed its name to Waverly Utilities to reflect a diversified portfolio of services.

NOTE 17 – BOND RESERVE REQUIREMENTS

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.

WAVERLY LIGHT AND POWER

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 17 – BOND RESERVE REQUIREMENTS (cont.)

2008 BOND RESERVE REQUIREMENTS (CONT.)

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, 2014 and \$282,632 in 2013. 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 and 2013 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>
2015	\$ 198,973	-	-
2016	197,654	-	-
2017	196,335	-	-
2018	195,016	-	-
2019	193,697	-	-
2020	192,378	-	-
2021	191,059	-	-
2022	189,738	-	-

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, 2014.

2012 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 \$141,000 at December 31, 2014. 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 and 2013 bonds. These funds are to be used for future bond obligations if necessary, or for extraordinary operating needs of the utility.

WAVERLY LIGHT AND POWER

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 17 – BOND RESERVE REQUIREMENTS (cont.)

2012 BOND RESERVE REQUIREMENTS (cont.)

The annual obligations for these reserves are:

	Sinking Fund Reserve	Reserve Fund Reserve	Improvement Fund Reserve
2015	\$ 473,149	-	-

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, 2014.

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, 2014. 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 and 2013 bonds. These funds are to be used for future bond obligations if necessary, or for extraordinary operating needs of the utility.

The annual obligations for these reserves are:

	Sinking Fund Reserve	Reserve Fund Reserve	Improvement Fund Reserve
2015	\$433,288	-	-
2016	436,068		
2017	438,068		
2018	443,888		
2019	448,037		
2020	451,037		
2021	452,837		
2022	458,387		
2023	467,511		

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, 2014.

REQUIRED SUPPLEMENTAL INFORMATION

WAVERLY LIGHT AND POWER
Unaudited

SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT BENEFITS PLAN
For the Year Ended December 31, 2014 and 2013

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2014	12/31/2014	\$ -	\$ 285,678	\$ 285,678	0%	\$ 1,702,562	17%
2013	12/31/2013	\$ -	\$ 377,758	\$ 377,758	0%	\$ 1,621,940	23%
2012	12/31/2011	\$ -	\$ 387,449	\$ 387,449	0%	\$ 1,878,134	21%
2011	12/31/2011	\$ -	\$ 240,072	\$ 240,072	0%	\$ 2,012,883	12%
2010	12/31/2008	\$ -	\$ 353,970	\$ 353,970	0%	\$ 1,984,549	18%

SUPPLEMENTAL INFORMATION

WAVERLY LIGHT AND POWER

STATEMENTS OF CHANGES IN BOND SINKING, RESERVE, AND IMPROVEMENT FUNDS For the Years Ended December 31, 2014 and 2013

	Sinking Fund CREB	Sinking Fund 2012	Sinking Fund 2013	Reserve Fund CREB	Reserve Fund 2012	Reserve Fund 2013	Improvement Fund 1992 & 1998	Total
BALANCE, JANUARY 1, 2012	\$ 16,801	\$ 39,852	\$ -	\$ 248,510	\$ 141,000	\$ -	\$ 250,000	\$ 696,163
Receipts:								
Transfers from operating fund	201,508	477,628	35,752	34,122	141,000	400,000	-	1,290,010
Disbursements:								
Payments of principal and interest on bonds	(201,618)	(477,847)	-	-	(141,000)	-	-	(820,465)
BALANCE, DECEMBER 31, 2013	\$ 16,691	\$ 39,633	\$ 35,752	\$ 282,632	\$ 141,000	\$ 400,000	\$ 250,000	\$ 1,165,708
Receipts:								
Transfers from operating fund	200,193	475,389	429,743			-	-	1,105,325
Disbursements:								
Payments of principal and interest on bonds	(200,303)	(475,593)	(429,388)	-		-	-	(1,105,284)
BALANCE, DECEMBER 31, 2014	\$ 16,581	\$ 39,429	\$ 36,107	\$ 282,632	\$ 141,000	\$ 400,000	\$ 250,000	\$ 1,165,749

WAVERLY LIGHT AND POWER

OFFICIALS
December 31, 2014

Board of Trustees

Aelvin (Ael) Suhr, Chairman
1002 Gateway Blvd
Waverly, IA 50677

Dariece Graening-Knights, Vice Chair
2403 W Bremer Ave.
Waverly, IA 50677

Reid Koenig
1611 12th St NW
Waverly, IA 50677

Anna Seggerman
1201 Country Meadows Drive
Waverly, IA 50677

Jere Vyverberg
1102 Kenyon Drive NW
Waverly, IA 50677

General Manager
Darrel Wenzel
112 Augusta Circle
Waverly, IA 50677

Assistant General Manager
Mike Litterer
209 Carson Circle
Waverly, IA 50677

Finance & Rates Manager
Vicki Hall
2404 1ST Avenue NW
Waverly, IA 50677

Office Mgr./Board Secretary
Angela Schroeder
551 Prestien Dr
Denver, IA 50622

WAVERLY LIGHT AND POWER

COMBINED OPERATING EXPENSE Last Ten Fiscal Years

Type of Expense	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Production	\$ 4,116,926	\$ 3,868,991	\$ 4,863,026	\$ 4,361,308	\$ 4,387,125	\$ 8,716,578	\$ 9,638,952	\$ 10,226,661	\$ 11,135,656	\$ 11,981,899
Transmission	95,826	81,898	98,559	86,660	101,271	217,590	184,657	192,689	191,784	167,614
Distribution	1,266,613	1,338,972	1,467,193	1,467,335	1,733,936	1,751,147	1,498,124	1,522,260	1,577,683	1,554,753
Customer Accounts	175,140	202,355	216,411	198,280	203,553	211,054	220,966	198,203	199,783	213,114
Administrative and General	524,336	593,517	764,759	666,475	677,310	733,127	699,356	644,857	717,073	687,130
Customer Information	137,560	127,887	110,944	123,069	137,730	121,163	122,504	114,300	101,174	63,908
Community development	189,671	192,423	195,134	225,740	261,599	236,107	242,714	249,278	272,645	225,361
Conservation	178,305	197,595	184,190	185,836	287,392	306,493	255,260	196,223	131,000	179,488
Water Heater	140,683	109,686	48,092	93,276	9,920	(1,747)	1,552	116	1,032	(452)
Depreciation	1,365,706	1,347,305	1,423,386	1,522,050	1,565,196	1,603,480	1,700,352	1,746,726	1,839,595	1,875,607
Internet	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Total	\$ 8,190,766	\$ 8,060,629	\$ 9,371,694	\$ 8,930,029	\$ 9,365,032	\$ 13,894,992	\$ 14,564,437	\$ 15,091,313	\$ 16,167,425	\$ 16,948,422

WAVERLY LIGHT AND POWER

SUMMARY OF COMBINED STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION Last Ten Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Operating Revenues	\$ 10,641,916	\$ 10,398,484	\$ 12,197,191	\$ 12,005,301	\$ 12,491,295	\$ 17,257,351	\$ 17,354,345	\$ 17,296,715	\$ 17,546,314	\$ 17,384,182
Operating Expense	8,190,766	8,060,629	9,371,694	8,930,029	9,365,032	13,894,992	14,564,437	15,091,313	16,167,425	16,948,422
Operating Income	2,451,150	2,337,855	2,825,497	3,075,272	3,126,263	3,362,359	2,789,908	2,205,402	1,378,889	435,760
Non-Operating Income	(426,649)	228,057	463,704	262,853	(52,641)	(158,341)	102,807	(23,257)	(137,100)	(166,458)
Contributions					400	3,407	137,449	150,238	(1,176)	(3,388)
Transfers	(719,340)	(894,220)	(761,328)	(884,952)	(935,352)	(961,984)	(933,916)	(935,152)	(827,316)	(861,444)
Change in Net Position	<u>\$ 1,305,161</u>	<u>\$ 1,671,692</u>	<u>\$ 2,527,873</u>	<u>\$ 2,453,173</u>	<u>\$ 2,138,670</u>	<u>\$ 2,245,441</u>	<u>\$ 2,096,248</u>	<u>\$ 1,397,231</u>	<u>\$ 413,297</u>	<u>\$ (595,530)</u>

WAVERLY LIGHT AND POWER

ENERGY DISPOSITION
Last Ten Fiscal Years

(In KWh's)

<u>Type of Service</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Residential	35,229,031	35,464,275	36,760,600	36,227,815	36,189,657	39,048,597	38,166,169	37,361,286	38,833,604	39,757,491
Industrial and Commerical	88,555,718	90,568,318	97,591,436	98,398,596	93,810,441	99,048,511	100,621,586	100,691,677	97,425,068	96,837,492
Security Lights	311,778	301,803	305,176	300,846	290,928	282,604	240,626	128,043	132,147	134,996
Municipal	<u>8,350,412</u>	<u>8,664,320</u>	<u>9,148,169</u>	<u>9,625,008</u>	<u>9,086,409</u>	<u>9,517,373</u>	<u>9,397,658</u>	<u>9,073,472</u>	<u>8,904,961</u>	<u>8,325,337</u>
Total	<u><u>132,446,939</u></u>	<u><u>134,998,716</u></u>	<u><u>143,805,381</u></u>	<u><u>144,552,265</u></u>	<u><u>139,377,435</u></u>	<u><u>147,897,085</u></u>	<u><u>148,426,039</u></u>	<u><u>147,254,478</u></u>	<u><u>145,295,780</u></u>	<u><u>145,055,316</u></u>

WAVERLY LIGHT AND POWER

PRINCIPAL CUSTOMERS 2014 - 2013

Principal Customers	Type of Business Activity	Revenue % Sales to Customers	
		2014	2013
Nestle USA	Beverage Manufacturer	10.29%	10.40%
Wartburg College	Private Liberal Arts College	7.55%	7.20%
GMT	Machining and Fabrication	6.79%	6.04%
Waverly Health Center	Hospital	2.33%	2.42%
Waverly Shell Rock CSD	School	2.36%	2.33%

WAVERLY LIGHT AND POWER

UTILITY SYSTEM REVENUE BOND COVERAGE Last Ten Fiscal Years

Fiscal Year	Total Operating Revenue	Interest & Investment Income	Total Operating Expense	Depreciation Expense	Total Revenue Available for Debt Service	Bond Interest Expense	Debt Principal Payments	Coverage
2005	10,641,916	212,424	8,190,766	1,365,706	4,029,280	196,692	715,000	4.42
2006	10,398,484	442,988	8,060,629	1,347,305	4,128,148	267,745	745,000	4.08
2007	12,197,746	377,858	9,371,693	1,423,386	4,627,297	241,602	775,000	4.55
2008	12,005,301	298,994	8,930,029	1,522,050	4,896,316	224,919	998,421	4.00
2009	12,531,820	152,628	9,365,032	1,565,196	4,884,612	191,586	903,421	4.46
2010	17,257,351	104,414	13,894,992	1,603,480	5,070,253	162,892	933,421	4.62
2011	17,354,345	119,610	14,564,437	1,700,352	4,609,870	132,307	968,421	4.19
2012	17,296,715	92,221	15,091,314	1,746,726	4,044,348	95,713	665,517	5.31
2013	17,546,314	67,839	16,167,425	1,839,595	3,286,323	26,050	658,421	4.80
2014	17,384,182	69,521	16,948,422	1,875,607	2,380,888	81,487	1,023,422	2.15

WAVERLY LIGHT AND POWER

DEMOGRAPHICS EMPLOYEE DATA

<u># of Employees</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Administration	3	3	3	3	3	3	3	2	2	2
Business Operations	4	4	3	3	4	4	4	4	3	4
Conservation	1	1	1	1	2	2	1	1	1	1
Line	13	13	12	13	12	11	11	10	9	9
Meter	3	3	3	2	2	2	2	2	2	2
Generation	<u>5</u>	<u>4</u>	<u>4</u>	<u>5</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>5</u>	<u>6</u>	<u>6</u>
Total full-time	29	28	26	27	28	28	28	24	23	24
Part-time & Interns	3	3	3	2	4	2	1	1	2	2

WAVERLY LIGHT AND POWER

ELECTRICAL SALES REVENUE Last Ten Fiscal Years

Fiscal Year	Residential	Industrial	Commerical	Industrial and Commercial	Security Lights	Street Lights	Municipal	Provision for Rate Stabilization	Total
2005	\$ 3,431,366	\$ 4,716,256	\$ 1,296,763	\$ 6,013,019	\$ 36,079	\$ 210,563	\$ 552,132		\$ 10,243,159
2006	3,341,283	4,728,129	1,270,538	5,998,667	35,710	228,838	566,918		10,171,416
2007	3,900,182	5,555,309	1,533,091	7,088,400	37,878	240,305	632,581		11,899,346
2008	3,529,748	5,724,174	1,322,258	7,046,432	39,117	253,031	636,853		11,505,181
2009	3,909,513	5,758,177	1,394,746	7,152,923	43,060	274,910	674,204		12,054,610
2010	4,644,257	6,751,014	1,585,392	8,336,406	43,172	277,028	758,681		14,059,544
2011	4,623,271	6,866,051	1,463,022	8,329,073	41,430	275,626	741,189		14,010,589
2012	4,628,144	6,753,474	1,435,083	8,188,557	43,817	251,321	712,756		13,824,595
2013	4,702,996	6,420,537	1,462,954	7,883,491	43,766	252,654	706,835		13,589,742
2014	4,735,759	6,583,502	1,445,928	8,029,430	44,502	252,302	664,712	(637,000)	13,089,705

WAVERLY LIGHT AND POWER

CAPITAL IMPROVEMENT ADDITIONS

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Deletions to Plant</u>	<u>Additions to Plant in Service</u>	<u>Net Increase in Capital Improvements</u>
2005	\$ (1,265,184)	\$ 162,879	\$ 1,428,063
2006	(37,712)	2,117,196	2,154,908
2007	(85,753)	4,391,146	4,476,899
2008	(109,738)	1,800,749	1,691,011
2009	(506,373)	1,695,010	1,188,637
2010	(791,236)	4,096,583	3,305,347
2011	(966,145)	2,200,445	1,234,300
2012	(262,330)	3,532,755	3,270,425
2013	(654,497)	1,891,779	1,237,282
2014	(691,704)	1,850,960	1,159,256

WAVERLY LIGHT AND POWER

INCOME STATEMENT For the Year Ended December 31, 2014 and 2013

WAVERLY COMMUNICATION UTILITY DBA WAVERLY LIGHT & POWER

On July 2, 2013, the Waverly Light and Power board passed Resolution #01-13 establishing the Waverly Municipal Communications Feasibility and Support Delivery Model Task Force and Waverly Communications Utility dba Waverly Light and Power. Waverly Communication Utility is a separate distinct business that leases fiber from Waverly Light and Power and then leases this access to its customers. The Waverly Communication Utility board has the same members as Waverly Light and Power. The activity of this utility is limited until construction begins in 2015.

Waverly Communication Utility dba Waverly Light & Power Income Statement For the Years Ending December 31, 2014 and 2013

	2014	2013
TOTAL SALES REVENUE	22,057	12,448
TOTAL COMMUNICATIONS	5,052	2,526
TOTAL CUSTOMER ACCOUNTS	344	235
TOTAL CUSTOMER SERVICE AND INFORMATION	125	80
TOTAL COMMUNITY DEVELOPMENT	451	220
TOTAL GENERAL AND ADMINISTRATIVE	1,312	619
TOTAL OPERATING EXPENSES	7,284	3,681
TOTAL OPERATING INCOME	14,773	8,767
TOTAL NON-OPERATING INCOME	-	-
NET INCOME	14,773	8,767
CASH GENERATED INCREASE(DECREASE)	14,773	8,767
BEGINNING FUND BALANCE	8,767	-
Grant/Loan Funds from WLP		-
ENDING FUND BALANCE	23,540	8,767

Balance Sheet December 31, 2014

	2014	2013
WLP Interfund Receivable	23,540	8,767
TOTAL ASSETS	23,540	8,767
YTD Net Income	14,773	8,767
Communications Fund	8,767	
TOTAL EQUITY	23,540	8,767

REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditors' Report

To the Board of Trustees
Waverly Light and Power
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 Light and Power, a component unit of the City of Waverly, Iowa, as of and for the year ended December 31, 2014, and have issued our report dated April 10, 2015.

Internal Control Over Financial Reporting

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

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

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

To the Board of Trustees
Waverly Light and Power
Waverly, Iowa

Compliance and Other Matters

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

Purpose of this Report

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
April 10, 2015

WAVERLY LIGHT AND POWER

SCHEDULE OF FINDINGS RELATED TO GOVERNMENT AUDITING STANDARDS AND REQUIRED STATUTORY REPORTING Year Ended December 31, 2014

FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

- A-02 Official Depositories – A resolution naming official depositories has been approved by the utility. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2014.
- B-02 Certified Budget – Disbursements during the year ended December 31, 2014, did not exceed the amounts budgeted.
- C-02 Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- D-02 Travel Expense – No disbursements of utility money for travel expenses of spouses of city officials or employees were noted.
- E-02 Business Transactions – No business transactions between the utility and utility officials or employees were noted.
- F-02 Bond Coverage – Surety bond coverage of city officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- G-02 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- H-02 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the utility's investment policy were noted.
- I-02 Revenue Bonds – The utility has complied with all provisions of the Revenue Electric Bond Covenants. All required payments to the sinking, reserve and improvement funds were made.
- J-02 Code of Iowa Communications Legislation Requirements – Nothing came to our attention that the utility was not in compliance with the requirements of the Code of Iowa Section 388.10 *Municipal Utility Providing Telecommunications Services* regarding the subsidization of telecommunications operations by the electric and water utilities.
- K-02 The audit did not identify any material weaknesses in controls.