WAVERLY LIGHT AND POWER

An Enterprise Fund of
The City of Waverly, Iowa

FINANCIAL STATEMENTS

December 31, 2005 and 2004

WAVERLY LIGHT AND POWER

An Enterprise Fund of the City of Waverly, Iowa

TABLE OF CONTENTS
December 31, 2005 and 2004

Independent Auditors' Report	1 – 2
Management's Discussion and Analysis	3 – 9
Statements of Net Assets	10 – 11
Statements of Revenues, Expenses and Changes in Net Assets	12
Statements of Cash Flows	13 – 14
Notes to Financial Statements	15 – 33
Supplemental Information	
Statements of Changes in Bond Sinking, Reserve, and Improvement Funds	34
Officials	35
Combined Operating Expenses	36
Summary of Combined Statement of Revenues, Expenses and Changes in Net Assets	37
Energy Disposition	38
Principal Customers	39
Utility System Revenue Bond Coverage	40
Demographics	41
Electrical Sales Revenue	42
Capital Improvement Additions	43
Schedule of Findings and Questioned Costs	44

Virchow Krause & company

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Waverly Light and Power, an enterprise fund of the City of Waverly, as of December 31, 2005 and 2004, and for the years then ended as listed in the table of contents. These financial statements are the responsibility of utility management. 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, Chapter 11 of the Code of Iowa, and 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Waverly Light and Power enterprise fund and are not intended to present fairly the financial position of the City of Waverly, and the changes in its financial position and its cash flows in conformity with accounting principals generally accepted in the United States of America.

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, 2005 and 2004, 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.

The Management's Discussion and Analysis information on pages 3 through 9 is not a required part of the financial statements but is supplementary information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the Board of Trustees
Waverly Light and Power

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 has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Madison, Wisconsin
February 22, 2006

Virchow, Krause & Company, LLP

WAVERLY LIGHT AND POWER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005 and 2004

Waverly Light and Power (WLP) offers this discussion and analysis of our financial performance for the years ending December 31, 2005 and 2004. 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 an enterprise fund of the City under the guidelines established by Governmental Accounting Standards Board Statement 1. 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 Assets reports year-end assets, liabilities and net asset balances based on the original cost adjusted for any depreciation. The Statement of Revenues, Expenses and Changes in Net Assets presents information on the change in WLP's net assets 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

Our energy production comes from a strategic mix of resources. We own 7.7 MW of base load coal generation, .495 MW of hydro generation, 0.9 MW of wind generation and 32.6 MW of diesel generation which is used in conjunction with a long-term interruptible energy contract and in emergency situations. In 2005, we purchased 61% of our required energy through an interruptible energy contract.

Since 1998 we have installed 12 MW of local diesel generation, and substation breakers to improve system reliability. Prior to that we had finished rebuilding the distribution system while converting from 2,400 to 12,500 volts. WLP is currently investing in a jointly constructed coal generation plant (CB4), which will provide another 3.16 MW's of base load energy and planning for the construction of another wind turbine. In 2005 WLP sold 1.5 MW of wind generation.

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 2005, we installed 87 electric services.

WLP manages property loss, employee dishonesty, errors and omissions through extensive insurance coverage. In addition to coverage of property, equipment, vehicles, wind turbines, Louisa generating station, blanket boiler, workmen's compensation and general liability coverage, we have a $10 million insurance umbrella. We carry a $10,000 deductible to lower insurance costs and have an insurance recovery fund with a balance of $410,000 to cover any deductibles and losses from non-insured events which may occur.

WLP FINANCIAL ANALYSIS (cont.)

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

Table 1
Condensed Statements of Net Assets

	2005	2004	Restated 2003
ASSETS			
Current Assets	$ 4,145,827	$ 4,244,629	$ 3,712,978
Non-Current Assets			
Restricted assets	1,161,000	861,000	936,267
Designated funds	7,277,860	4,273,984	4,701,087
Capital assets	25,138,680	24,689,487	24,312,267
Other assets	205,789	216,835	394,946
Total Assets	37,929,156	34,285,935	34,057,545
LIABILITIES			
Current liabilities	1,221,610	1,144,469	1,099,762
Current liabilities payable from restricted assets	767,109	730,871	703,182
Non-current liabilities	6,081,638	3,856,957	4,465,751
Total Liabilities	8,070,357	5,732,297	6,268,695
NET ASSETS			
Invested in capital assets, net of related debt	18,429,831	20,236,367	19,186,531
Restricted for debt service and improvements	1,223,083	920,584	918,085
Unrestricted	10,205,885	7,396,687	7,684,234
TOTAL NET ASSETS	$ 29,858,799	$ 28,553,638	$ 27,788,850

WLP increased net assets by $1.3 million and $0.76 million in 2005 and 2004, respectively, as a result of investments in capital assets, and reimbursing our cash position. We will continue investing in a new plant in the next few years.

In 2004, an error was discovered in the methodology used to record monies held on behalf of customers in their electric billing that are ultimately refundable to those customers. As a result, current liabilities were increased by $428,000 in 2003.

WLP FINANCIAL ANALYSIS (cont.)

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

	2005	2004	Restated 2003
OPERATING REVENUES	$ 10,641,916	$ 8,982,502	$ 9,366,164
OPERATING EXPENSES			
Depreciation expenses	1,365,706	1,325,524	1,260,547
Other operating expenses	6,825,060	5,969,999	5,597,188
Total Operating Expenses	8,190,766	7,295,523	6,857,735
Operating Income	2,451,150	1,686,979	2,508,429
Investment income	212,424	134,588	124,081
Interest and amortization expense	(207,323)	(228,260)	(257,453)
Loss on sale of plant	(457,059)	-	-
Other income (expense)	25,309	21,424	(21,061)
Total Non-Operating Expenses	(426,649)	(72,248)	(154,443)
Income before operating transfers	2,024,501	1,614,731	2,353,996
Operating transfers to the City of Waverly	(719,340)	(849,943)	(686,847)
Change in Net Assets	1,305,161	764,788	1,667,149
NET ASSETS – Beginning of Year	28,553,638	27,788,850	26,121,701
NET ASSETS – END OF YEAR	$ 29,858,799	$ 28,553,638	$ 27,788,850

In May of 2003, WLP implemented the first phase of a 12% revenue rate increase, which was implemented over a 3-year period. In 2003, the effects of the rate increase and changes in the Energy Cost Adjustment resulted in an increase of $1 million in revenues from energy disposition of 121,542,710 kWhs.

In June of 2004, WLP implemented the second phase of the rate increase. A cool summer significantly decreased the cooling days in 2004, decreasing revenues by $384,000.

In June of 2005, WLP implemented the third and final phase of the rate increase. An exceptionally warm summer increased the revenues by 18.5%.

Expense increases were driven by purchased power costs. The expenses increased at a rate of 12.3% over 2004 amounts. This was primarily due to a planned extended bi-annual maintenance shutdown of the Louisa Generating Station.

WLP FINANCIAL ANALYSIS (cont.)

Table 3
Condensed Statements of Cash Flows

	2005	2004	2003
Cash Flows From Operating Activities			
Received from sales to customers	$ 10,581,201	$ 9,596,017	$ 9,206,610
Paid to suppliers and employees for services	(6,502,553)	(5,703,289)	(5,726,568)
Cash Flows From Operating Activities	4,078,648	3,892,728	3,480,042
Cash Flows From Non-Capital Financing Activities	(744,340)	(724,943)	(686,847)
Cash Flows From Investing Activities	(2,787,576)	(4,615,411)	124,081
Cash Flows From Capital and Financing Activities	(353,752)	(2,769,070)	(2,444,780)
Net Change in Cash and Cash Equivalents	192,980	(4,216,696)	472,496
CASH AND CASH EQUIVALENTS – Beginning of Year	2,921,065	7,137,761	6,665,265
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 3,114,045	$ 2,921,065	$ 7,137,761

During 2005, we issued $3 million in bonds to reimburse ourselves for capital activities which occurred during 2003-2005.

In 2004, the purchase of plant and equipment increased by $300,000, impacting the cash flow from capital and financing activities. The larger items purchased included, new distribution lines and services, transformers, and an investment in CB4.

In all periods presented, a phased rate increase was implemented increasing revenues from customers.

WLP FINANCIAL ANALYSIS (cont.)

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

	Actual 2005	Budget 2004	Variance Favorable (Unfavorable)
OPERATING REVENUES	$ 10,641,916	$ 9,821,608	$ 820,308
OPERATING EXPENSES			
Depreciation expenses	1,365,706	1,394,984	29,278
Other operating expenses	6,825,060	6,986,137	161,077
Total Operating Expenses	8,190,766	8,381,121	190,355
Operating Income	2,451,150	1,440,487	1,010,663
Investment income	212,424	100,000	112,424
Interest and amortization expense	(207,323)	(268,824)	61,501
Loss on sale of plant	(457,059)	-	(457,059)
Other income (expense)	25,309	21,424	3,885
Total Non-Operating Expenses	(426,649)	(147,400)	(279,249)
Income before special items	2,024,501	1,293,087	731,414
Operating transfers to the City of Waverly	(719,340)	(744,342)	25,002
Change in Net Assets	1,305,161	548,745	756,416
NET ASSETS – Beginning of Year	28,553,638	28,553,638	-
NET ASSETS – END OF YEAR	$ 29,858,799	$ 29,102,383	$ 756,416

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 includes a strategic plan documenting both short-term and long-term goals of WLP to guide operations and business activities. The proposed budget is then presented to the Board of Trustees for approval.

FUND ANALYSIS

Designated Funds

The Vehicle Replacement fund has a balance of $189,739 and $314,190 respectively for 2005 and 2004. 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.

The Future Generation fund was set up for the purpose of funding the development of additional future generation and transmission projects. The CB4 generating plant, currently under construction at an estimated cost of $5 million is being financed through a combination of the future generation fund and debt. This fund currently has a balance of $4.8 million and in 2004 the balance was $2.4 million. It is funded annually based on policy set by the Board of Trustees.

We set up an Insurance Recovery fund to cover the costs of large deductibles on property, health insurance and the loss of uninsured electrical lines. The current balance of $410,000 is funded annually at $60,000 a year. The 2004 balance was $350,000.

The Iowa Energy Tags 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 help fund future renewable energy capital projects. The fund has a balance of $25,145 and $16,969 for 2005 and 2004, respectively.

The Generation and G & A funds are for funding future replacement of capital items for those departments. The Generation Fund has a balance $1,005,071 and the G & A Fund has a balance of $110,014. They are funded annually based on depreciation and capital expenses in each department. In 2004, the balances were $695,198 and $61,998, respectively, for each fund.

The Key Accounts fund is used for the purpose of encouraging 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. The fund has a balance of $444,649 and $398,715 for 2005 and 2004, respectively.

The Distribution fund is funded similarly to the Generation and G&A fund. Reimbursement from the 2005 bonds makes the current balance $299,752. The funds are for funding future capital replacements for the distribution department. The fund had a zero balance in 2004.

Restricted Funds

The Sinking, Reserve and Improvement funds were funded per the requirements of the 1998, 2002, and 2005 bond issues. The total of these restricted funds is $1,245,192 and $936,457 in 2005 and 2004, respectively.

CAPITAL ASSETS

WLP has $43.86 million of capital assets with a net asset value of $25.1 million. The total includes $139,649 in land, $3.5 million in buildings, $27.2 million in improvements, $2.3 million in machinery and equipment, $7.9 million in the Louisa Generating Plant and $2.67 million in construction work in progress. The largest project in process at 12/31/05 was the CB4 workorder at $2,510,853.

The 2004 capital assets included $42.52 million of capital assets with a net asset value of $24.7 million. The total includes $134,514 in land, $3.5 million in buildings, $28.1 million in improvements, $2.3 million in machinery and equipment, $7.6 million in the Louisa Generating Plant and $884,375 in construction work and progress.

Capital improvements for 2005 included an investment in CB4, conservation rebates, installation of new distribution lines, services, meters and transformers, Louisa Generating Station improvements, office equipment, and miscellaneous tools and equipment.

Capital improvements for 2004 included conservation rebates, purchase of a small parcel of land, installation of water and sewer lines at the South Load Plant, installation of new distribution lines, services, meters and transformers, Louisa Generating Station improvements, and investments in CB4, and miscellaneous tools and equipment.

WLP has made commitments for the construction of a jointly owned coal generation plant, Council Bluffs Generating Station Number 4 (CB4) and related transmission. We will own .4% of the plant for 3.16 MW of capacity and the related energy production. We have spent $2,510,853 as of the end of 2005 and $857,048 in 2004 out of an estimated $5 million in construction costs. It is scheduled to be online during 2007.

DEBT ACTIVITY

We have $6.78 million of outstanding debt at 12/31/2005. This includes $3.6 million of 10-year bonds issued in 1998 for the construction of 12 MW of diesel generation and $2.5 million of 10-year bonds issued in 2002 for various capital improvements including a 900 kW wind turbine. In 2005, $3 million of 10-year bonds were issued to reimburse the utility for various capital improvements including partial CB4 construction costs.
At the end of 2004 the outstanding debt was $4.49 million.

WLP maintains a sinking fund, reserve fund and an improvement fund per bond requirements. The balance in these restricted funds is $1,245,192. Debt service for 2005 included $715,000 of principal payments and $190,455 of interest payments. The 2004 restricted fund balance was $936,457 including $685,000 of principal payments and $218,188 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, P.O. Box 329, Waverly, IA 50677 or by phone at 319.352.6251.

Statements of Net Assets Follow

WAVERLY LIGHT AND POWER

STATEMENTS OF NET ASSETS
December 31, 2005 and 2004

ASSETS

	2005	2004
CURRENT ASSETS		
Cash and investments	$ 2,340,993	$ 2,460,626
Accounts receivable	1,122,219	1,036,195
Inventory	556,796	568,612
Prepaid expenses	41,627	103,741
Restricted Assets		
Sinking Funds		
1998 bonds	53,735	55,320
2002 bonds	21,781	20,135
2005 bonds	8,676	-
Total Current Assets	4,145,827	4,244,629
NON-CURRENT ASSETS		
Restricted Assets		
Reserve Funds		
1998 bonds	364,625	364,625
2002 bonds	246,375	246,375
2005 bonds	300,000	-
Improvement fund	250,000	250,000
Total Restricted Assets	1,161,000	861,000
Designated Funds		
Vehicle replacement	189,739	314,191
Key accounts	444,649	398,715
Future generation	4,793,490	2,436,913
Iowa energy tags	25,145	16,969
Generation	1,005,071	695,198
G & A	110,014	61,998
Insurance recovery	410,000	350,000
Distribution Fund	299,752	-
Total Designated Funds	7,277,860	4,273,984
Capital Assets		
Land	139,649	134,514
Buildings	3,512,195	3,452,825
Improvements	27,292,569	28,127,589
Machinery and equipment	2,329,662	2,271,518
Louisa plant	7,913,289	7,645,157
Construction work in progress	2,672,833	884,375
Total Capital Assets	43,860,197	42,515,978
Accumulated depreciation	(18,721,517)	(17,826,491)
Net Capital Assets	25,138,680	24,689,487
Other Assets		
Deferred asset	-	34,998
Nonutility property-ABIL	163,000	163,000
Unamortized 1998 bond issue costs	2,506	4,361
Unamortized 2002 bond issue costs	11,251	14,476
Unamortized 2005 bond issue costs	29,032	-
Total Other Assets	205,789	216,835
Total Non-Current Assets	33,783,329	30,041,306
TOTAL ASSETS	$ 37,929,156	$ 34,285,935

LIABILITIES	2005	2004
CURRENT LIABILITIES		
Accounts payable	$ 244,706	$ 194,123
Accrued property taxes	143,258	146,409
Other accrued expenses	808,646	778,937
Current portion of note payable	25,000	25,000
Total Current Liabilities	1,221,610	1,144,469
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Current portion of revenue bonds	745,000	715,000
Accrued interest on revenue bonds	22,109	15,871
Total Current Liabilities Payable From Restricted Assets	767,109	730,871
NON-CURRENT LIABILITIES		
Note payable	75,000	100,000
Revenue bonds	6,030,000	3,775,000
Less: Unamortized discount	(23,362)	(18,043)
Total Non-Current Liabilities	6,081,638	3,856,957
Total Liabilities	8,070,357	5,732,297
NET ASSETS		
NET ASSETS		
Invested in capital assets, net of related debt (note 7)	18,429,831	20,236,367
Restricted for debt service and improvements	1,223,083	920,584
Unrestricted	10,205,885	7,396,687
Total Net Assets	29,858,799	28,553,638
TOTAL LIABILITIES AND NET ASSETS	$ 37,929,156	$ 34,285,935

See accompanying notes to financial statements.

WAVERLY LIGHT AND POWER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
December 31, 2005 and 2004

	2005	2004
OPERATING REVENUES		
Sales to customers	$ 10,243,159	$ 8,634,447
Miscellaneous	398,757	348,055
Total Operating Revenues	10,641,916	8,982,502
OPERATING EXPENSES		
Production	4,116,926	3,265,309
Transmission	95,826	98,460
Distribution	1,266,613	1,137,283
Customer accounts	175,140	218,596
Administrative and general	524,336	628,236
Customer information	137,560	138,243
Community development	189,671	220,591
Conservation	178,305	141,459
Water heater	140,683	121,822
Depreciation	1,365,706	1,325,524
Total Operating Expenses	8,190,766	7,295,523
Operating Income	2,451,150	1,686,979
NONOPERATING REVENUE (EXPENSES)		
Rental income	11,424	11,424
Loss on sale of plant	(457,059)	-
Royalties	13,885	10,000
Investment income	212,424	134,588
Interest expense	(196,692)	(215,876)
Amortization of debt discount and bond issue costs	(10,631)	(12,384)
Total Nonoperating Expenses	(426,649)	(72,248)
INCOME BEFORE OPERATING TRANSFERS	2,024,501	1,614,731
Transfer to City of Waverly general fund	(719,340)	(724,943)
Transfer to City of Waverly for credit to hospital fund	-	(125,000)
Change in Net Assets	1,305,161	764,788
NET ASSETS - Beginning of Year as Restated	28,553,638	27,788,850
NET ASSETS - END OF YEAR	$ 29,858,799	$ 28,553,638

See accompanying notes to financial statements.

Statements of Cash Flows Follow

WAVERLY LIGHT AND POWER

STATEMENTS OF CASH FLOWS
December 31, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from sales to customers	$ 10,581,201	$ 9,596,017
Paid to suppliers for purchased power and transmission	(2,452,388)	(1,622,837)
Paid to suppliers and employees for other services	(4,050,165)	(4,080,452)
Net Cash Flows From Operating Activities	4,078,648	3,892,728
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payment to City of Waverly for credit to hospital	(25,000)	-
Transfers to City of Waverly	(719,340)	(724,943)
Net Cash Flows From Noncapital Financing Activities	(744,340)	(724,943)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net marketable securities sold for 1998 sinking fund	1,585	2,002
Net marketable securities purchased for 2002 sinking fund	(1,646)	(2,190)
Net marketable securities purchased for 2005 sinking fund	(8,676)	-
Net marketable securities purchased for 2005 reserve fund	(300,000)	-
Net marketable securities sold for vehicle replacement fund	124,451	-
Net marketable securities purchased for key accounts fund	(45,934)	(16,126)
Net marketable securities purchased for future generation fund	(2,356,577)	648,000
Net marketable securities purchased for Iowa energy tags fund	(8,176)	(6,091)
Net marketable securities purchased for generation fund	(309,874)	(119,695)
Net marketable securities sold for G & A fund	(48,016)	(18,983)
Net marketable securities purchased for insurance recovery fund	(60,000)	(60,000)
Net marketable securities purchased for distribution fund	(299,752)	-
Net marketable securities sold for electric revenue fund	3,312,615	(426,917)
Marketable securities purchased	(8,250,000)	(4,750,000)
Marketable securities sold	5,250,000	-
Investment income	212,424	134,589
Net Cash Flows From Investing Activities	(2,787,576)	(4,615,411)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of plant and equipment	(3,216,521)	(1,865,882)
Salvage received on plant sold	808,125	-
Proceeds from bonds issued	3,000,000	-
Debt issue costs	(39,901)	-
Principal payments on revenue bonds	(715,000)	(685,000)
Interest paid	(190,455)	(218,188)
Net Cash Flows From Capital and Related Financing Activities	(353,752)	(2,769,070)
Net Change in Cash and Cash Equivalents	192,980	(4,216,696)
CASH AND CASH EQUIVALENTS - Beginning of Year	2,921,065	7,137,761
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 3,114,045	$ 2,921,065

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

No noncash investing capital and financing activities occurred in 2005.

In 2004, the utility pledged $125,000 to the City of Waverly for the Waverly Health Center. The utility will pay this at $25,000 per year for five years beginning in 2005.

	2005	2004
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	$ 2,451,150	$ 1,686,979
Non-operating income (expense)	25,309	21,424
Noncash items included in operating income		
Depreciation	1,365,706	1,325,524
Depreciation cleared	136,438	163,138
Changes in assets and liabilities		
Accounts receivable	(86,024)	592,091
Inventory	11,816	(6,072)
Prepaid expenses	62,114	(81,996)
Deferred costs	34,998	171,933
Accounts payable	50,583	(28,726)
Accrued property taxes	(3,151)	372
Other accrued expenses	29,709	48,061
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 4,078,648	$ 3,892,728
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEET ACCOUNTS		
Cash and investments	$ 2,340,993	$ 2,460,626
Restricted investments		
Sinking Funds		
1998 bonds	53,735	55,320
2002 bonds	21,781	20,135
2005 bonds	8,676	-
Reserve Funds		
1998 bonds	364,625	364,625
2002 bonds	246,375	246,375
2005 bonds	300,000	-
Improvement fund	250,000	250,000
Total Cash and Restricted Investments	3,586,185	3,397,081
Designated Investments		
Vehicle replacement	189,739	314,191
Key accounts	444,649	398,715
Future generation	4,793,490	2,436,913
Iowa energy tags	25,145	16,969
Generation	1,005,071	695,198
G & A	110,014	61,998
Insurance recovery	410,000	350,000
Distribution Fund	299,752	-
Total Designated Investments	7,277,860	4,273,984
Less: non cash equivalents (note 1)	(7,750,000)	(4,750,000)
TOTAL CASH AND CASH EQUIVALENTS	$ 3,114,045	$ 2,921,065

See accompanying notes to financial statements.

WAVERLY LIGHT AND POWER

NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

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 enterprise funds 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 enterprise fund of the City of Waverly (municipality). 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. Title to all property is in the name of the municipality, although the utility has the power to dispose and acquire property as it deems appropriate without review by the municipality.

The utility is responsible for providing electric power to the residents and businesses within the municipality and certain rural areas. The utility owns 41,690 kilowatts of generating capacity.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The utility is presented as an enterprise fund of the municipality. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred and net income is necessary for management accountability.

The financial statements are reported using 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 reporting its financial activity, the utility applies all applicable GASB pronouncements as well as the following pronouncements issued on or before December 31, 2005, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The utility follows all pronouncements of the Governmental Accounting Standards Board and has elected not to follow Financial Accounting Standards Board pronouncements after November 30, 1989.

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

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

The 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, LIABILITIES AND EQUITY

Deposits and Investments

The utility has an adopted investment policy which was last approved in May 2005. 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.

Receivables/Payables

The receivable balances are amounts due from utility customers, primarily less than 30 days outstanding, and consist of approximately 34% from residential users in and around the municipality and approximately 66% from commercial and industrial users in the municipality.

Accounts receivable balances at December 31, 2005 and 2004 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, 2005 and 2004 include unbilled revenues totaling $495,596 and $461,003, respectively, customer accounts receivable of $641,087 and $482,619, other accounts receivable is $157,590 and $134,550, respectively, accrued interest receivable is $60,805 and $24,929, respectively, and ($232,859) and ($66,906) in fuel cost receivable.

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

ASSETS, LIABILITIES AND EQUITY (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	
	2005	2004
Local Inventories		
Distribution materials	$ 395,593	$ 362,961
Water Heaters	10,331	28,088
Operating plant fuel	73,791	51,416
Louisa Inventories		
Coal	43,480	90,486
Oil	2,289	873
Materials	31,312	34,787
Totals	$ 556,796	$ 568,611

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.

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 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. 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. Maintenance and repairs are expensed as incurred.

Total depreciation expense for the years ended December 31, 2005 and 2004, was $1,502,144 and $1,488,662, respectively; of that, $1,393,837 and $1,324,384 was expensed and $108,307 and $124,278 was capitalized in 2005 and 2004.

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

ASSETS, LIABILITIES AND EQUITY (cont.)

Capital Assets (cont.)

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

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

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.

Severance Pay

Employees accumulate severance 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 based on a 5-year forecast of health insurance costs. 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.

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

ASSETS, LIABILITIES AND EQUITY (cont.)

Deferred Asset

In 2003, the utility received a back bill of $231,274 for Louisa Generating Station replacement energy covering the years 1997 to 2003. Of the total, $206,931 was associated for services received prior to 2003 and were recorded as a deferred asset. The utility billed this amount through the Energy Cost Adjustment in 2004.

Other Asset

In proprietary fund type financial statements, debt issuance costs are deferred and amortized over the term of the debt issue.

Long-Term Obligations

Long-term debt and other obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

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.

Current electric rates were approved in January 2005 and placed into effect in June 2005. These rates are the final step in a three-year rate change to increase utility revenues by an average of 12% between 2003 and 2005.

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.

NOTE 2 – DEPOSITS AND INVESTMENTS

The utility's deposits at year-end were entirely covered by Federal Depository Insurance or by collateral pledged to the State Sinking Fund as required by the Treasurer of State. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit.

The carrying values of the utility's deposits and investments as of December 31, 2005 were comprised of the following:

Checking	$ 518,185
Petty cash	1,580
Saving	2,519,794
IPIAT	74,486
Certificates of deposit	7,750,000
Total Deposits and Investments	$ 10,864,045

Reconciliation to financial statements

Unrestricted cash and investments	$ 2,340,993
Restricted cash and investments	1,245,192
Designated cash and investments	7,277,860
Total Deposits and Investments	$ 10,864,045

Custodial Credit Risk

Deposits – Custodial credit risk is the risk that in the event of a financial institution failure, Waverly Light and Power's deposits may not be returned to the deposited amount.

Waverly Light and Power does not have any deposits exposed to custodial credit risk. Through the State of Iowa deposits are fully collateralized.

Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, Waverly Light and Power will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Waverly Light and Power does not have any investments exposed to custodial credit risk.

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

Credit Risk

Credit Risk – The risk an issuer or other counterparty to an investment will not fulfill its obligation.

As of December 31, 2005, Waverly Light and Power had investments in the following external pools which are not rated:

Iowa Public Agency Investment Trust

WLP's investment policy does not address the issue of credit risk.

Interest Rate Risk

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

As of December 31, 2005, Waverly Light and Power's investments were as follows:

Investment Type	Fair Value	Weighted Average Maturity (Days)
External investment pools	$ 74,486	39.28
Total Fair Value	$ 74,486	
Portfolio weighted average maturity		39.28

Operationally WLP staggers the maturity dates of investments to reduce the risk of interest rate fluctuation; however in WLP's investment policy interest rate risk is not covered.

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

Required Disclosure of Prior Year Data

Utility cash and cash equivalents are stated at cost that approximate market value at December 31:

	2004	
	Bank Balance	Carrying Value
Checking/sweep	$ 506,295	$ 377,149
Petty Cash	1,212	1,655
Savings	2,529,893	2,529,893
IPAIT	12,368	12,368
Investments	4,750,000	4,750,000
Total Cash and Investments	$ 7,799,768	$ 7,671,065

The utility, as an enterprise fund of the city, maintains cash and investments at the same financial institutions. Federal depository insurance applies to all municipal accounts, and the amount of insured funds is not determinable for the utility alone. Please refer to the city report for categorization of credit risk on all accounts.

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 Statement of Net Assets 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.

NOTE 4 – INTERFUND TRANSFERS

The following is a schedule of transfer balances for the years ending December 31, 2005 and 2004:

		2005		2004	
To	From	Amount	Principal Purpose	Amount	Principal Purpose
City	WLP	$ 719,340	Fund Transfer	$ 724,943	Fund Transfer
City	WLP			125,000	Municipal Hospital

In 2004, WLP committed to a five year transfer beginning in 2005 to the City of Waverly for a total of $125,000 to be credited to the Waverly Health Center.

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2005 follows:

	Balance 12/31/04	Additions	Deletions	Balance 12/31/05
Capital assets being depreciated:				
Land [1]	$ 134,514	$ 5,135	$ -	$ 139,649
Buildings	3,452,825	59,370	-	3,512,195
Improvements	28,127,589	797,460	(1,632,480)	27,292,569
Equipment	2,271,518	258,305	(200,161)	2,329,662
Louisa plant	7,645,157	307,793	(39,661)	7,913,289
Construction in progress [1]	884,375	1,788,458	-	2,672,833
Less: Accumulated depreciation	(17,826,491)	(1,502,144)	607,118	(18,721,517)
Net Capital Assets	$ 24,312,267	$ 1,714,377	$(1,265,184)	$ 25,138,680

NOTE 5 – CHANGES IN CAPITAL ASSETS (cont.)

A summary of changes in capital assets for 2004 follows:

	Balance 12/31/03	Additions	Deletions	Balance 12/31/04
Capital assets being depreciated:				
Land [1]	$ 122,514	$ 12,000	$ -	$ 134,514
Buildings	3,443,095	9,730	-	3,452,825
Improvements	27,134,229	993,360	-	28,127,589
Equipment	2,196,979	74,539	-	2,271,518
Louisa plant	7,514,664	149,548	(19,055)	7,645,157
Construction in progress [1]	257,670	626,705	-	884,375
Less: Accumulated depreciation	(16,356,884)	(1,488,662)	19,055	(17,826,491)
Net Capital Assets	$ 24,312,267	$ 377,220	$ -	$ 24,689,487

[1] – Capital assets that are 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
7/29/1998	Finance a diesel generating facility and transmission improvements	12/1/2005	12/1/2008	4.1 – 4.4%	$3,610,000	$1,720,000
5/1/2002	Finance various electric system improvements	12/1/2010	12/1/2012	2.2 – 4.5%	2,500,000	2,055,000
12/15/2005	Finance various electric system improvements	12/1/2012	12/1/2015	3.5 - 4.0%	3,000,000	3,000,000

NOTE 6 – LONG-TERM DEBT (cont.)

REVENUE BONDS (cont.)

Long-term obligation activity for 2005 follows:

Debt Issue	Balance 12/31/04	Additions	Reductions	Balance 12/31/05	Current Portion
1998 Revenue bonds	$ 2,285,000	$ -	$ 565,000	$ 1,720,000	$ 570,000
2002 Revenue bonds	2,205,000	-	150,000	2,055,000	175,000
2005 Revenue bonds	-	3,000,000	-	3,000,000	-
Totals	$ 4,490,000	$ 3,000,000	$ 715,000	$ 6,775,000	$ 745,000

Long-term obligation activity for 2004 follows:

Debt Issue	Balance 12/31/03	Additions	Reductions	Balance 12/31/04	Current Portion
1998 Revenue bonds	$ 2,850,000	$ -	$ 565,000	$ 2,285,000	$ 565,000
2002 Revenue bonds	2,325,000	-	120,000	2,205,000	150,000
Totals	$ 5,175,000	$ -	$ 685,000	$ 4,490,000	$ 715,000

The 1998 revenue bond debt service requirements to maturity follows:

Year	Principal	Interest	Total
2006	$ 570,000	$ 74,822	$ 644,822
2007	575,000	50,313	625,313
2008	575,000	25,300	600,300
Totals	$ 1,720,000	$ 150,435	$ 1,870,435

The 2002 revenue bond debt service requirements to maturity follows:

Year	Principal	Interest	Total
2006	$ 175,000	$ 86,370	$ 261,370
2007	200,000	79,807	279,807
2008	235,000	72,008	307,008
2009	335,000	62,607	397,607
2010	350,000	48,705	398,705
2011	370,000	33,830	403,830
2012	390,000	17,550	407,550
Totals	$ 2,055,000	$ 400,877	$ 2,455,877

NOTE 6 – LONG-TERM DEBT (cont.)

REVENUE BONDS (cont.)

The 2005 revenue bond debt service requirements to maturity follows:

Year	Principal	Interest	Total
2006	$ -	$ 108,500	$ 108,500
2007	-	112,890	112,890
2008	-	112,890	112,890
2009	380,000	112,890	492,890
2010	395,000	99,590	494,590
2011	410,000	85,370	495,370
2012	425,000	70,406	495,406
2013	445,000	54,468	499,468
2014	465,000	37,336	502,336
2015	480,000	19,200	499,200
Totals	$ 3,000,000	$ 813,540	$ 3,813,540

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

NOTE 7 – NET ASSETS

GASB No. 34 requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt – This component of net assets 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 assets component as the unspent proceeds.

Restricted – This component of net assets 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 assets – This component of net asset consist of net assets 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.

NOTE 7 – NET ASSETS (cont.)

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

	2005	2004
Plant in service	$ 41,187,364	$ 41,631,603
Accumulated depreciation	(18,721,517)	(17,826,491)
Construction work in progress	2,672,833	884,375
Subtotal	25,138,680	24,689,487
Less: Capital Related Debt		
Current portion of capital related long-term debt	745,000	715,000
Long-term portion of capital related long-term debt	6,030,000	3,775,000
Unamortized bond issue costs	(42,789)	(18,837)
Unamortized discount	(23,362)	(18,043)
Subtotal	6,708,849	4,453,120
Total Net Assets Invested in Capital Assets, Net of Related Debt	$ 18,429,831	$ 20,236,367

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 2005 assets at a cost of $595,067 less accumulated depreciation of $272,092 for a net value of $322,975. Of this, approximately 6% of the system has been leased to customers. Total lease revenue included in the utility's financial statements for 2005 and 2004 was $56,481 and $58,136, respectively.

Lease revenue for the next four years is as follows:

2006	$ 20,783
2007	10,515
2008	7,018
2009	5,877
Totals	$ 44,193

Actual revenues will differ from expected contract revenues listed above because some customers are on a month to month basis.

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 3.70% of their annual salary and the utility is required to contribute 5.75% of the annual-covered payroll to the plan. Contribution requirements are established by State statute. The utility's contribution to IPERS for 2005, and 2004 was $88,732 and $81,985, respectively. The total utility payroll was $1,640,980 for 2005. The payroll for 2004 and 2003 was $1,507,835 and $1,356,369.

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, 2005 and 2004 was $410,000 and $350,000, respectively. Settled claims from risks have not exceeded commercial insurance coverage in the past two years.

NOTE 11 – 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, 2005 and 2004 was $719,340 and $724,943, respectively.

Waverly Health Center

In October 2004, the Board approved funding of $25,000 per year for the next 5 years, to the Waverly Health Center for the Healing Capital Campaign subject to yearly budget approval. In July 2005 the first transfer was made to the City of Waverly for further credit to the Waverly Health Center.

NOTE 11 – COMMITMENTS AND CONTINGENCIES (cont.)

COMMITMENTS (cont.)

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 August 2001, the Board approved funding of $10,000 per year for the next 5 years, subject to yearly budget approval.

Local Wind Generation

In 2002, a two-year lease was signed for $500 per year for wind speed studies at a rural Waverly site.

In 2001, the original 80 kW wind turbine was retired and replaced with a 900 kW wind generator. The original lease was cancelled and a 50-year lease was signed at $3,000 per year.

Northwest Wind Generation

On April 6, 1999 the utility entered into two leases for land use located in Buena Vista County. Each lease is for a term of 50 years and is payable in the amount of $ .80 per mWh of wind generation per year with a $750.00 minimum. During 2005 and 2004 the yearly cost per lease was $2,349 and $3,441, respectively. On July 26, 2005 the two wind turbines were sold.

Power Supply, Sales and Transmission Agreements

The utility entered into a contract in 1997 with MidAmerican Energy Company to purchase interruptible energy. This contract terminated the existing Power Sale Agreement. On February 10, 1999, the First Amendment to the contract was executed extending the contract to January 31, 2010.

On February 10, 1999, the utility entered into a contract with MidAmerican Energy Company to sell firm power and associated energy, term energy, and excess energy exclusively to MidAmerican Energy Company. Under this contract, the utility is permitted to sell peaking capacity and associated energy to any municipal utility in the state of Iowa or any end-use load customer. The term of this contract runs concurrently with the Power Sales Agreement in the preceding paragraph.

The utility entered into a contract with the City of Denver, Iowa on June 1, 1998 for the sale of generating capacity for the period November 1999 through April 2007.

On February 1, 1997 the utility entered into a contract with MidAmerican Energy Company for the purchase of Network Integration Transmission Service under MidAmerican's Open Access Transmission Tariff. On March 12, 1999 the First Amendment to the contract was executed extending the contract to January 31, 2010.

NOTE 11 – COMMITMENTS AND CONTINGENCIES (cont.)

COMMITMENTS (cont.)

Power Supply, Sales and Transmission Agreements (cont.)

The utility entered into an agreement in 1992 with the City and the Waverly Area Development Group Fund. The utility invested $163,000 in the ABIL building and receives a return on the investment. The returns for 2005 and 2004 totaled $11,424 for each year.

Council Bluff 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. The process of obtaining necessary approvals and construction is expected to last until 2007. The utility's share of ownership is 0.4% of the total capacity or about 3.16 MW's.

NOTE 12 – 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.

NOTE 13 – SIGNIFICANT CUSTOMER

Sales to a significant customer were 12.98% in 2005 and 12.92% in 2004. The utility periodically enters into electric service agreements with larger customers.

NOTE 14 – BOND RESERVE REQUIREMENTS

1998 BOND RESERVE REQUIREMENTS

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

Reserve Fund Reserve – This amount was funded from original bond proceeds based on an established formula, with a maximum of $364,625. 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 1998, 2002, and 2005 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
2006	643,196	-	-
2007	623,228	-	-
2008	550,275	-	-

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, 2005.

NOTE 14 – BOND RESERVE REQUIREMENTS (cont.)

2002 BOND RESERVE REQUIREMENTS

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

Reserve Fund Reserve – This amount was funded from original bond proceeds based on an established formula, with a maximum of $246,375. 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 1998, 2002, and 2005 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
2006	262,906	-	-
2007	282,075	-	-
2008	314,558	-	-
2009	397,699	-	-
2010	399,133	-	-
2011	404,140	-	-
2012	373,587	-	-

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, 2005.

NOTE 14 – BOND RESERVE REQUIREMENTS (cont.)

2005 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 maximum of $300,000. 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 1998, 2002, and 2005 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
2006	109,232	-	-
2007	112,890	-	-
2008	144,557	-	-
2009	493,032	-	-
2010	494,655	-	-
2011	495,373	-	-
2012	495,744	-	-
2013	499,707	-	-
2014	502,075	-	-
2015	499,200	-	-

SUPPLEMENTAL INFORMATION

WAVERLY LIGHT AND POWER

STATEMENTS OF CHANGES IN BOND SINKING, RESERVE, AND IMPROVEMENT FUNDS
For the Years Ended December 31, 2005 and 2004

	Sinking Fund 1998	Sinking Fund 2002	Sinking Fund 2005	Reserve Fund 1998	Reserve Fund 2002	Reserve Fund 2005	Improvement Fund 1992 & 1998	Total
BALANCE, DECEMBER 31, 2003	$ 57,322	$ 17,946	$ -	$ 364,625	$ 246,375	$ -	$ 250,000	$ 936,268
Receipts:								
Transfers from operating fund	685,846	217,529	-	-	-	-	-	903,375
Disbursements:								
Payments of principal and interest on bonds	(687,848)	(215,340)	-	-	-	-	-	(903,188)
BALANCE, DECEMBER 31, 2004	55,320	20,135	-	364,625	246,375	-	250,000	936,455
Receipts:								
Transfers from operating fund	662,251	243,266	8,676	-	-	300,000	-	1,214,193
Disbursements:								
Payments of principal and interest on bonds	(663,836)	(241,620)	-	-	-	-	-	(905,456)
BALANCE, DECEMBER 31, 2005	$ 53,735	$ 21,781	$ 8,676	$ 364,625	$ 246,375	$ 300,000	$ 250,000	$ 1,245,192

WAVERLY LIGHT AND POWER

OFFICIALS
December 31, 2005

Board of Trustees

Chris Schmidt, Chairman
1004 Kenyon Drive
Waverly, IA 50677

Mark Hanawalt, Vice Chairman
411 3rd Avenue NE
Waverly, IA 50677

Jeff Plagge
1509 Knoll Ridge Drive
Waverly, IA 50677

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

John Wuertz
1508 Hickory Heights Drive
Waverly, IA 50677

General Manager
Glenn Cannon
1012 7th Avenue NW
Waverly, IA 50677

Mgr. of Business Operations & Development
Sheila Bishop
PO Box 23
Waverly, IA 50677

Assistant General Manager/
Operations Manager
Mike Litterer
1778 Dakota Avenue
Waverly, IA 50677

Office Mgr./Board Secretary
Geralynn Legel
1602 Hickory Heights Drive
Waverly, IA 50677

Combined Operating Expenses

Last Ten Fiscal Years

Type of Expense	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Production	$ 2,802,129	$ 2,769,238	$ 2,618,870	$ 2,894,007	$ 2,642,712	$ 2,548,960	$ 2,845,771	$ 3,003,277	$ 3,337,512	$ 3,265,309	$ 4,116,926
Transmission	21,947	63,240	76,746	83,919	79,054	90,751	95,369	116,239	138,632	98,460	95,826
Distribution	787,310	943,229	855,847	1,029,322	1,130,989	1,055,209	898,840	988,362	881,759	1,137,283	1,266,613
Customer Accounts	146,990	154,456	140,447	181,184	184,460	157,800	151,328	164,401	174,615	218,596	175,140
Administrative and General	785,024	446,911	435,412	511,222	485,458	480,862	520,933	507,830	549,847	628,236	524,336
Customer Information	NA	NA	NA	17,164	138,876	164,029	195,040	144,622	99,226	138,243	137,560
Community Development	NA	NA	NA	NA	NA	NA	NA	81,259	77,098	220,591	189,671
Conservation	149,089	113,784	114,164	100,822	126,949	140,116	151,213	153,166	193,930	141,459	178,305
Water Heater	NA	NA	NA	NA	NA	NA	NA	NA	55,509	121,822	140,683
Depreciation	917,483	954,495	896,428	884,001	930,612	990,562	1,213,274	1,276,135	1,260,547	1,325,524	1,365,706
Internet	NA	NA	NA	15,913	89,239	122,730	187,584	124,638	89,060	NA	NA
Total	$ 5,609,972	$ 5,445,353	$ 5,137,914	$ 5,717,554	$ 5,808,349	$ 5,751,019	$ 6,259,352	$ 6,559,929	$ 6,857,735	$ 7,295,523	$ 8,190,766

Summary of Combined Statement of Revenue, Expenses and Changes in Net Assets

Last Ten Fiscal Years

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Operating Revenues	$ 7,036,201	$ 7,054,283	$ 6,815,476	$ 7,362,029	$ 7,253,179	$ 7,846,193	$ 7,865,325	$ 8,305,875	$ 9,366,164	$ 8,982,504	$ 10,641,916
Operating Expenses	5,609,972	5,445,353	5,137,914	5,717,554	5,808,349	5,751,019	6,259,352	6,559,929	6,857,735	7,295,523	8,190,766
Operating Income	142,229	1,608,930	1,677,562	1,644,475	1,444,830	2,095,174	1,605,973	1,745,946	2,508,429	1,686,981	2,451,150
Non-Operating Income	(6,909)	47,134	110,926	180,627	174,644	38,184	(52,142)	(44,531)	(154,433)	(72,248)	(426,649)
Transfers	(314,334)	(317,249)	(473,395)	(601,736)	(519,764)	(552,799)	(537,567)	(565,407)	(686,847)	(849,943)	(719,340)
Net Assets	$ 12,467,159	$ 1,338,815	$ 1,315,093	$ 1,223,366	$ 1,099,710	$ 1,580,559	$ 1,016,264	$ 1,136,008	$ 1,667,149	$ 764,790	$ 1,305,161

Energy Disposition

Last Ten Fiscal Years

Type of Service	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Residential	28,811,727	27,649,119	28,049,715	29,536,174	29,763,591	30,040,485	31,174,648	32,438,895	32,625,844	32,040,382	35,229,031
Commercial	13,393,324	13,473,662	13,925,084	14,463,792	14,597,191	15,719,465	15,246,417	15,409,855	14,601,225	13,862,175	14,715,397
Industrial	54,190,890	58,829,379	60,146,921	62,497,453	59,189,771	61,229,098	63,256,888	67,755,445	67,444,120	70,693,225	73,840,321
Security Lights	281,844	270,348	274,686	282,414	287,034	294,501	306,987	308,652	313,690	315,024	311,778
Municipal	3,577,042	4,969,271	5,023,323	5,343,903	5,640,282	6,049,345	6,718,624	6,331,922	6,557,831	6,643,664	8,350,412
Total	100,254,827	105,191,779	107,419,729	112,123,736	109,477,869	113,332,894	116,703,564	122,244,769	121,542,710	123,554,470	132,446,939

Principal Customers

2005-2004

Principal Customers	Type of Business Activity	Revenue % Sales to Customers 2005	2004
Nestle USA	Beverage Manufacturer	12.98%	12.92%
Wartburg College	Private Liberal Arts College	7.95%	7.29%
GMT	Machining and Fabrication	5.33%	5.46%
CUNA Mutal Life Insurance	Insurance Company	3.60%	3.55%
Terex Cranes	Manufacturing	2.54%	2.28%

Utility System Revenue Bond Coverage

Last Ten Fiscal Years

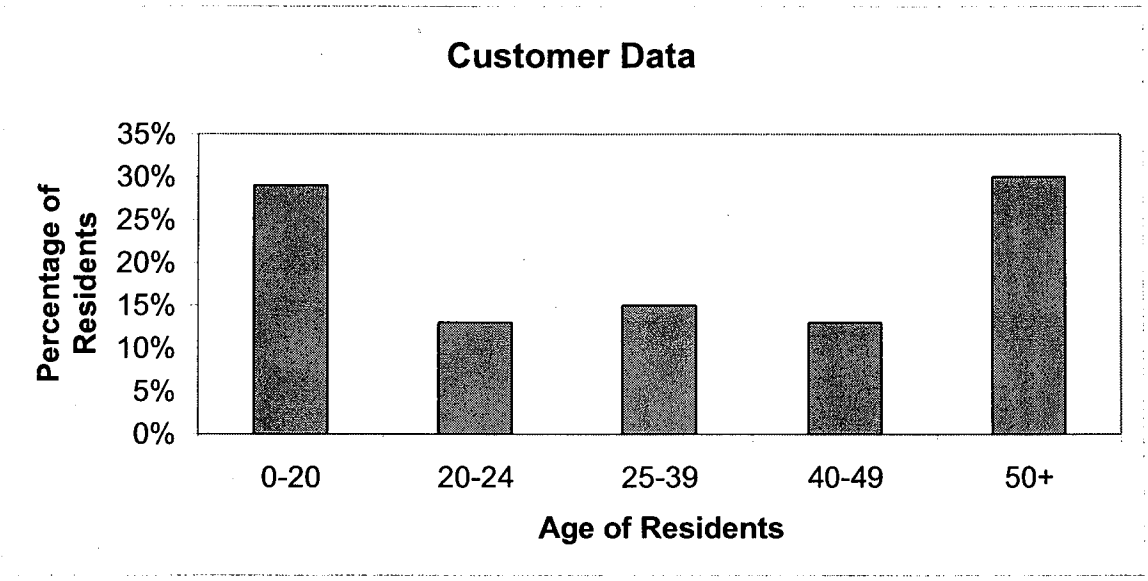
Fiscal Year	Total Operating Revenue	Interest & Investment Income	Total Operating Expense	Depreciation Expense	Total Revenue Available for Debt Service	Bond Interest Expense	Debt Principal Payments	Coverage
1995	7,036,201	200,044	5,609,972	917,483	2,543,756	196,180	450,000	3.94
1996	7,054,283	233,878	5,445,353	954,495	2,797,303	178,134	475,000	4.28
1997	6,815,476	276,204	5,137,914	896,428	2,850,194	158,476	475,000	4.50
1998	7,362,029	368,719	5,717,554	884,001	2,897,195	185,808	500,000	4.22
1999	7,253,179	342,712	5,808,349	930,612	2,718,154	167,126	575,000	3.66
2000	7,846,193	253,758	5,751,019	1,009,565	3,358,497	216,323	600,000	4.11
2001	7,865,325	227,747	6,259,352	1,213,274	3,046,994	210,897	650,000	3.54
2002	8,305,875	120,584	6,559,929	1,276,135	3,142,665	238,346	750,000	3.18
2003	9,366,164	124,081	6,857,735	1,260,547	3,893,057	242,267	660,000	4.31
2004	8,982,504	134,588	7,295,523	1,325,524	3,147,093	215,876	685,000	3.49
2005	10,641,916	212,424	8,190,766	1,365,706	4,029,280	196,692	715,000	4.42
							Average Coverage	**3.97**

Demographics

Employee Data

	2000	2001	2002	2003	2004	2005
# of Employees						
Administration	6	6	6	6	6	6
Customer information	1	1	1	1	1	1
Conservation	1	1	1	1	1	1
Line	13	13	13	13	14	13
Meter	3	3	3	2	3	3
Generation	3	3	3	2	3	5
Total full-time	27	27	27	25	28	29
Part-time & Interns	7	7	8	4	3	3

There was a decrease in full-time employment in 2003, due to the absence of two employees as they served in the war in Iraq.



The customer data is according to the 2000 Waverly Census of 8,698 residents.

Electrical Sales Revenue

Last Ten Fiscal Years

Fiscal Year	Residential	Industrial	Commercial	Security Lights	Street Lights	Municipal	Total
1995	2,331,501	3,056,774	1,053,281	30,988	101,314	175,970	6,749,828
1996	2,256,116	3,114,202	1,041,302	29,751	100,645	224,839	6,766,855
1997	2,227,028	3,066,198	1,033,333	26,988	107,952	226,198	6,687,697
1998	2,403,224	3,377,933	1,072,298	30,313	87,131	279,110	7,250,009
1999	2,387,304	3,055,524	1,069,393	30,623	87,214	280,027	6,910,085
2000	2,492,832	3,281,258	1,143,126	31,495	89,228	306,259	7,344,198
2001	2,553,729	3,348,076	1,117,960	31,868	86,337	349,300	7,487,270
2002	2,683,487	3,602,204	1,163,156	32,105	87,979	327,247	7,896,178
2003	2,946,561	4,294,407	1,163,978	32,841	142,385	366,434	8,946,606
2004	2,834,365	4,043,868	1,154,202	32,312	172,834	396,866	8,634,447
2005	3,431,366	4,716,256	1,296,763	36,079	210,563	552,132	10,243,159

Capital Improvement Additions

Last Ten Fiscal Years

Fiscal Year	Deletions to Plant	Additions to Plant	Cash Required for Capital Improvements
1995	(150,626)	1,005,272	1,155,898
1996	(122,080)	626,390	748,470
1997	(1,999,486)	(810,843)	1,188,643
1998	(149,706)	1,101,099	1,250,805
1999	(230,957)	2,349,824	2,580,781
2000	(986,378)	4,218,080	5,204,458
2001	(519,940)	1,803,488	2,323,428
2002	(273,282)	1,581,584	1,854,866
2003	(322,576)	1,052,036	1,374,612
2004	(19,055)	1,220,142	1,239,197
2005	(1,265,184)	162,879	1,428,063

WAVERLY LIGHT AND POWER

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Years Ended December 31, 2005 and 2004

PART I – FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Instances of Non-Compliance:

No matters were noted.

Reportable Conditions:

None.

PART II – OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

04-II-A 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 years ended December 31, 2005 and 2004.

04-II-B Certified Budget – Disbursements during the years ended December 31, 2005 and 2004, did not exceed the amounts budgeted.

04-II-C Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

04-II-D Business Transactions – We noted no business transactions between the utility and utility officials or employees.

04-II-E Bond Coverage – Surety bond coverage of utility officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure the coverage is adequate for current operations.

04-II-F Board Minutes – No transactions were found that we believe should have been approved in the board minutes but were not.

04-II-G Revenue Bonds – The utility has complied with all provisions of the 1998, 2002, and 2005 Bond Covenants. All required payments to the sinking, reserve and improvement funds were made.

04-II-H Deposits and Investments – We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the utilities' investment policy.