WAVERLY LIGHT AND POWER
An Enterprise Fund of
The City of Waverly, Iowa

FINANCIAL STATEMENTS

December 31, 2007 and 2006

WAVERLY LIGHT AND POWER
An Enterprise Fund of the City of Waverly, Iowa

TABLE OF CONTENTS
December 31, 2007 and 2006

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 – 35
Supplemental Information	
Statements of Changes in Bond Sinking, Reserve, and Improvement Funds	36
Officials	37
Combined Operating Expenses	38
Summary of Combined Statement of Revenues, Expenses and Changes in Net Assets	39
Energy Disposition	40
Principal Customers	41
Utility System Revenue Bond Coverage	42
Demographics	43
Electrical Sales Revenue	44
Capital Improvement Additions	45
Independent Auditors' 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*	46 – 47
Schedule of Findings and Questioned Costs	48

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, Iowa, as of December 31, 2007 and 2006 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 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 audits 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 audits provide 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, Iowa as of December 31, 2007 and 2006, and the changes in its financial position and where applicable, its cash flows for the years then ended in conformity with accounting principles 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, 2007 and 2006, 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 as they apply to enterprise funds of governmental entities.

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of Waverly Light and Power's overall internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including those systems applicable to Waverly Light & Power. The purpose of that report is to describe the scope of our testing of internal controls 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* and should be, considering the results of our audits, read in conjunction with this report.

Ten Terrace Court • PO Box 7398 • Madison, WI 53707-7398 • Tel 608.249.6622 • Fax 608.249.8532 • www.virchowkrause.com
Virchow, Krause & Company, LLP
Certified Public Accountants & Consultants • An Independent Member of Baker Tilly International

To the Board of Trustees
Waverly Light and Power

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the financial statements but is supplementary information required by accounting principles 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.

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.

Virchow, Krause & Company, LLP

Madison, Wisconsin
March 24, 2008

WAVERLY LIGHT AND POWER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2007 and 2006

Waverly Light and Power (WLP) offers this discussion and analysis of our financial performance for the years ending December 31, 2007 and 2006. 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 10.86 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 2007, we purchased 66% 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. The distribution system operates at 12,500 volts. WLP is currently investing in the construction of two wind turbines.

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 2007, we installed 34 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 $10,000 deductible and have an insurance recovery fund with a balance of $530,000 to cover 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 Statements 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

	2007	2006	2005
ASSETS			
Current Assets	$ 6,620,142	$ 3,659,668	$ 4,145,827
Non-Current Assets			
Restricted Assets	3,043,500	1,161,000	1,161,000
Designated Funds	3,423,438	6,349,939	7,277,860
Other Assets	5,742,745	2,072,736	205,789
Capital Assets	30,524,801	27,677,728	25,138,680
Total Assets	49,354,626	40,921,071	37,929,156
LIABILITIES			
Current Liabilities	1,621,728	1,508,159	1,221,610
Current Liabilities Payable from Restricted Assets	1,017,174	795,161	767,109
Non-Current Liabilities	10,774,860	7,087,260	6,081,638
Non- Current Liabilities Payable from Restricted Assets	1,882,500	-	-
Total Liabilities	15,296,262	9,390,580	8,070,357
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	25,343,081	21,699,714	18,429,831
Restricted for Debt Service and Improvements	1,227,264	1,225,673	1,223,083
Unrestricted	7,488,019	8,605,104	10,205,885
TOTAL NET ASSETS	$ 34,058,364	$ 31,530,491	$ 29,858,799

WLP increased net assets by $2.5 million and $1.7 million in 2007 and 2006, 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.

WLP Financial Analysis (cont.)

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

	2007	2006	2005
OPERATING REVENUES	$ 12,197,191	$ 10,398,484	$ 10,641,916
OPERATING EXPENSES			
Depreciation expenses	1,423,386	1,347,305	1,365,706
Other operating expenses	7,948,308	6,713,324	6,825,060
Total Operating Expenses	9,371,694	8,060,629	8,190,766
Operating Income	2,825,497	2,337,855	2,451,150
Investment income	377,858	442,988	212,424
Interest and amortization expense	(254,163)	(281,910)	(207,323)
Gain/(Loss) on sale of plant	19,048	42,205	(457,059)
Other income (expense)	320,961	24,774	25,309
Total Non-Operating Expenses	463,704	228,057	(426,649)
Income before operating transfers	3,289,201	2,565,912	2,024,501
Operating transfers to the City of Waverly	(761,328)	(894,220)	(719,340)
Change in Net Assets	2,527,873	1,671,692	1,305,161
NET ASSETS, Beginning of Year	31,530,491	29,858,799	28,553,638
NET ASSETS, END OF YEAR	$ 34,058,364	$ 31,530,491	$ 29,858,799

Revenues for 2007 were higher due to a rate increase effective July 2007, the overall design changed charging customers for the more consumption the higher the rate. Cooling degree days were also higher than in 2006.

Expenses for 2007 were significantly higher due to the purchase of replacement energy for an unexpected outage at Louisa Generating Station and a planned outage to tie the scrubber and baghouse. The price of materials continued to increase in 2007.

WLP Financial Analysis (cont.)

Table 3
Condensed Statements of Cash Flows

	2007	2006	2005
Cash Flows from Operating Activities			
Received from sales to customers	$ 11,512,135	$ 10,043,085	$ 10,581,201
Paid to suppliers and employees for services	(7,629,946)	(6,150,118)	(6,502,553)
Cash Flows from Operating Activities	3,882,189	3,892,967	4,078,648
Cash Flows from Non-Capital Financing Activities	(786,328)	(919,220)	(744,340)
Cash Flows from Investing Activities	3,927,857	1,142,988	(2,787,576)
Cash Flows from Capital and Financing Activities	(4,946,524)	(5,087,701)	(353,752)
Net Change in Cash and Equivalents	2,077,194	(970,966)	192,980
CASH AND CASH EQUIVALENTS – Beginning of Year	2,143,079	3,114,045	2,921,065
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 4,220,273	$ 2,143,079	$ 3,114,045

In 2007, the utility entered into a loan agreement to receive $2.8 million to purchase two wind turbines.

In 2006, the purchase of plant and equipment increased by $900,000, impacting the cash flow from capital and financing activities. The larger items purchased include: the investment in WS4, a new digger derrick, scrubber/baghouse at Louisa Generating Station.

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

WLP Financial Analysis (cont.)

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

	Actual 2007	Budget 2007	Variance Favorable (Unfavorable)
OPERATING REVENUES	$12,197,191	$11,266,823	$930,368
OPERATING EXPENSES			
Depreciation expenses	1,423,386	1,440,344	(16,958)
Other operating expenses	7,948,308	7,859,107	89,201
Total Operating Expenses	9,371,694	9,299,451	72,243
Operating Income	2,825,497	1,967,372	858,125
Investment income	377,858	360,820	17,038
Interest and amortization expense	(254,163)	(255,385)	1,222
Loss on sale of plant	19,048	-	19,048
Other income (expense)	320,961	10,000	310,961
Total Non-Operating Expenses	463,704	115,435	348,269
Income before special items	3,289,201	2,082,807	1,206,394
Operating transfers to the City of Waverly	(761,328)	(786,332)	25,004
Change in Net Assets	2,527,873	1,296,475	1,231,398
NET ASSETS, Beginning of Year	31,530,491	31,530,491	-
NET ASSETS, END OF YEAR	$34,058,364	$32,826,966	$1,231,398

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 $89,059 and $76,099 respectively for 2007 and 2006. 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 and Transmission fund was set up for the purpose of funding the development of additional future generation and transmission projects. The WS4 generating plant went into operation June 2007 was financed through a combination of the future generation fund and debt. This fund currently has a balance of $45,000 and in 2006 the balance was $3 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 our deductibles on property, health insurance and the loss of uninsured electrical lines. The current balance of $530,000 is funded annually at $60,000 a year. The 2006 balance was $470,000.

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 $6,589 and $29,557 for 2007 and 2006 respectively. In 2007 the fund was cleared once for the down payment of the two new turbines.

The Generation and G & A funds are for funding future replacement of capital items for those departments. The Generation Fund has a balance $1,439,955 and the G & A Fund has a balance of $186,121. They are funded annually based on depreciation and capital investments in each department. In 2006 the balances were $1,439,955 and $157,796 respectively for each fund.

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. The fund has a balance of $531,162 and $518,067 for 2007 and 2006 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 $595,552 in 2007 and 2006.

Restricted Funds

The Sinking, Reserve and Improvement funds were funded per the requirements of the 1998, 2002, and 2005 bond issues. Monies are also restricted per the contract for two new turbines. The total of these restricted funds is $3,128,517 and $1,245,834 in 2007 and 2006 respectively.

Capital Assets

WLP has $52 million of capital assets with a net asset value of $30.5 million. The total includes $487,396 in land, $3.5 million in buildings, $26.5 million in improvements, $5.4 million in machinery and equipment, $9.9 million in Louisa Generating Plant, $5 million in Walter Scott Jr. 4 Generating Plant, and $0.9 in construction work in progress.

The 2006 capital assets included $47.67 million of capital assets with a net asset value of $27.7 million. The total includes $515,870 in land, $3.5 million in buildings, $25.6 million in improvements, $4.9 million in machinery and equipment, $8.7 million in the Louisa Generating Plant and $4.3 million in construction work and progress.

Capital improvements for 2007 included WS4 going into operation, conservation rebates, installation of new distribution lines, services, meters, and transformers, Louisa Generating Station improvements, transmission improvements, transportation equipment, and miscellaneous tools and equipment.

Capital improvements for 2006 included an investment in WS4, land purchase, conservation rebates, installation of new distribution lines, services, meters, and transformers, Louisa Generating Station improvements including a portion of the scrubber/baghouse, power operated equipment, office equipment, and miscellaneous tools and equipment.

Debt Activity

We have $8.1 million of outstanding debt at 12/31/2007. 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 WS4 construction costs. In 2007, a loan agreement was made for CREB bonds for $2.8 million to install two wind turbines.

At the end of 2006 the outstanding debt was $6.03 million.

WLP maintains a sinking fund, reserve fund and an improvement fund per bond requirements. The balance in these restricted funds is $3,128,517. Debt service for 2007 included $810,000 of principal payments and $210,198. Also in the restricted fund is the remaining contract amount for two turbines. The 2006 restricted fund balance was $1,245,834 including $745,000 of principal payments and $267,745 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.

WAVERLY LIGHT AND POWER

STATEMENTS OF NET ASSETS
December 31, 2007 and 2006

ASSETS

	2007	2006
CURRENT ASSETS		
Cash and investments	$ 1,168,318	$ 1,597,306
Accounts receivable	1,751,157	1,180,254
CREB debt receivable - unrestricted	1,882,500	-
Inventory	742,582	752,142
Prepaid expenses	46,752	45,132
Restricted Assets		
Sinking Funds		
1998 bonds	50,025	52,109
2002 bonds	25,584	23,317
2005 bonds	9,408	9,408
CREB debt receivable - restricted	943,816	-
Total Current Assets	6,620,142	3,659,668
NON-CURRENT ASSETS		
Restricted Assets		
Reserve Funds		
1998 bonds	364,625	364,625
2002 bonds	246,375	246,375
2005 bonds	300,000	300,000
Improvement fund	250,000	250,000
Cannon 1 & 2 held at FNB	1,882,500	-
Total Restricted Assets	3,043,500	1,161,000
Designated Funds		
Vehicle replacement	89,059	76,099
Key accounts	531,162	518,067
Future generation	45,000	3,062,913
Iowa energy tags	6,589	29,557
Generation	1,439,955	1,439,955
G & A	186,121	157,796
Insurance recovery	530,000	470,000
Distribution fund	595,552	595,552
Total Designated Funds	3,423,438	6,349,939
Other Assets		
Deferred asset	3,682,500	1,800,000
Deferred accounts receivable Wartburg green power choice	2,000,000	-
Nonutility property-2006 House of Green	-	238,490
Unamortized 1998 bond issue costs	363	1,194
Unamortized 2002 bond issue costs	6,050	8,454
Unamortized 2005 bond issue costs	20,164	24,598
Unamortized CREB bond issue costs	33,668	-
Total Other Assets	5,742,745	2,072,736
Capital Assets		
Land	487,396	515,870
Buildings	3,558,998	3,531,197
Improvements	26,587,606	25,574,360
Machinery and equipment	5,465,232	4,996,861
Louisa plant	15,013,032	8,723,984
Construction work in progress	946,367	4,325,212
Total Capital Assets	52,058,631	47,667,484
Accumulated depreciation	(21,533,830)	(19,989,756)
Net Capital Assets	30,524,801	27,677,728
Total Non-Current Assets	42,734,484	37,261,403
TOTAL ASSETS	$ 49,354,626	$ 40,921,071

LIABILITIES	2007	2006
CURRENT LIABILITIES		
Accounts payable	$ 505,699	$ 462,988
Accrued property taxes	152,483	138,583
Other accrued expenses	818,546	881,588
Current portion of note payable	145,000	25,000
Current Liabilities Payable From Restricted Assets		
Current portion of revenue bonds	998,421	775,000
Accrued interest on revenue bonds	18,753	20,161
Total Current Liabilities	2,638,902	2,303,320
NON-CURRENT LIABILITIES		
Note payable	1,705,000	1,850,000
Deferred credit - Wartburg green power	2,000,000	-
Revenue bonds	7,082,895	5,255,000
Non- Current Liabilities Payable From Restricted Assets		
Cannon 1 & 2 payable	1,882,500	-
Less: Unamortized discount	(13,035)	(17,740)
Total Non-Current Liabilities	12,657,360	7,087,260
Total Liabilities	15,296,262	9,390,580
NET ASSETS		
NET ASSETS		
Invested in capital assets, net of related debt (note 7)	25,343,081	21,699,714
Restricted for debt service and improvements	1,227,264	1,225,673
Unrestricted	7,488,019	8,605,104
Total Net Assets	34,058,364	31,530,491
TOTAL LIABILITIES AND NET ASSETS	$ 49,354,626	$ 40,921,071

See accompanying notes to financial statements.

WAVERLY LIGHT AND POWER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
December 31, 2007 and 2006

	2007	2006
OPERATING REVENUES		
Sales to customers	$ 11,899,346	$ 10,171,416
Miscellaneous	297,845	227,068
Total Operating Revenues	12,197,191	10,398,484
OPERATING EXPENSES		
Production	4,863,026	3,868,991
Transmission	98,559	81,898
Distribution	1,467,193	1,338,972
Customer accounts	216,411	202,355
Administrative and general	764,759	593,517
Customer information	110,944	127,887
Community development	195,134	192,423
Conservation	184,190	197,595
Water heater	48,092	109,686
Depreciation	1,423,386	1,347,305
Total Operating Expenses	9,371,694	8,060,629
Operating Income	2,825,497	2,337,855
NONOPERATING REVENUE (EXPENSES)		
Rental income	-	9,104
Gain on sale of plant	19,048	42,205
Royalties	25,724	15,670
Investment income	377,858	442,988
Interest expense	(241,602)	(267,745)
Amortization of debt discount and bond issue costs	(12,561)	(14,165)
Total Nonoperating Revenues	168,467	228,057
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	2,993,964	2,565,912
Contributions	295,237	-
Transfer to City of Waverly general fund	(761,328)	(731,220)
Transfer to City of Waverly (ABIL building)	-	(163,000)
CHANGE IN NET ASSETS	2,527,873	1,671,692
NET ASSETS - Beginning of Year	31,530,491	29,858,799
NET ASSETS - END OF YEAR	$ 34,058,364	$ 31,530,491

See accompanying notes to financial statements.

WAVERLY LIGHT AND POWER

STATEMENTS OF CASH FLOWS
December 31, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from sales to customers	$ 11,512,135	$ 10,043,085
Paid to suppliers for purchased power and transmission	(3,006,460)	(2,199,886)
Paid to suppliers and employees for other services	(4,623,486)	(3,950,232)
Net Cash Flows From Operating Activities	3,882,189	3,892,967
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payment to City of Waverly for credit to hospital	(25,000)	(25,000)
Transfers to City of Waverly	(761,328)	(731,220)
Transfer to City of Waverly ABIL building	-	(163,000)
Net Cash Flows From Noncapital Financing Activities	(786,328)	(919,220)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of plant and equipment	(3,917,067)	(4,104,156)
Salvage received on plant sold	21,000	29,200
Debt issue costs	(33,855)	-
Principal payments on revenue bonds	(775,000)	(745,000)
Interest paid	(241,602)	(267,745)
Net Cash Flows From Capital and Related Financing Activities	(4,946,524)	(5,087,701)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net marketable securities sold for 1998 sinking fund	2,084	1,626
Net marketable securities purchased for 2002 sinking fund	(2,267)	(1,536)
Net marketable securities purchased for 2005 sinking fund	-	(732)
Net marketable securities purchased for Cannon 1 & 2 held at FNB	(1,882,500)	
Net marketable securities purchased/sold for vehicle replacement fund	(12,960)	113,640
Net marketable securities purchased for key accounts fund	(13,095)	(73,418)
Net marketable securities sold for future generation fund	3,017,913	1,730,577
Net marketable securities sold/purchased for Iowa energy tags fund	22,968	(4,412)
Net marketable securities purchased for generation fund	-	(434,884)
Net marketable securities purchased for G & A fund	(28,325)	(47,782)
Net marketable securities purchased for insurance recovery fund	(60,000)	(60,000)
Net marketable securities purchased for distribution fund	-	(295,800)
Net marketable securities purchased for electric revenue fund	(1,043,820)	(927,279)
Marketable securities purchased	(2,500,000)	(4,300,000)
Marketable securities sold	6,050,000	5,000,000
Investment income	377,858	442,988
Net Cash Flows From Investing Activities	3,927,857	1,142,988
Net Change in Cash and Cash Equivalents	2,077,194	(970,966)
CASH AND CASH EQUIVALENTS - Beginning of Year	2,143,079	3,114,045
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 4,220,273	$ 2,143,079
NONCASH FINANCING AND INVESTING ACTIVITIES		
Amortization of debt related costs	$ 12,561	$ 14,165

	2007	2006
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	$ 2,825,497	$ 2,337,855
Non-operating income	25,724	24,774
Noncash items included in operating income		
Depreciation	1,423,386	1,347,305
Depreciation cleared	176,976	153,370
Changes in assets and liabilities		
Accounts receivable	(570,903)	(58,035)
Inventory	9,560	(195,346)
Prepaid expenses	(1,620)	(3,505)
Accounts payable	42,711	218,282
Accrued property taxes	13,900	(4,675)
Other accrued expenses	(63,042)	72,942
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 3,882,189	$ 3,892,967
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEET ACCOUNTS		
Cash and investments	$ 1,168,318	$ 1,597,306
Restricted investments		
Sinking Funds		
1998 bonds	50,025	52,109
2002 bonds	25,584	23,317
2005 bonds	9,408	9,408
Reserve Funds		
1998 bonds	364,625	364,625
2002 bonds	246,375	246,375
2005 bonds	300,000	300,000
Improvement fund	250,000	250,000
Cannon 1 & 2 held at FNB	1,882,500	-
Total Cash and Restricted Investments	4,296,835	2,843,140
Designated Investments		
Vehicle replacement	89,059	76,099
Key accounts	531,162	518,067
Future generation	45,000	3,062,913
Iowa energy tags	6,589	29,557
Generation	1,439,955	1,439,955
G & A	186,121	157,796
Insurance recovery	530,000	470,000
Distribution Fund	595,552	595,552
Total Designated Investments	3,423,438	6,349,939
Less: non cash equivalents (note 1)	(3,500,000)	(7,050,000)
TOTAL CASH AND CASH EQUIVALENTS	$ 4,220,273	$ 2,143,079

See accompanying notes to financial statements.

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 44,850 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the utility's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Utilities also have the option of following subsequent private-sector guidance subject to this same limitation. The utility has elected not to follow subsequent private-sector guidance.

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, LIABILITIES AND NET ASSETS

Deposits and Investments

The utility has an adopted investment policy which was last approved in May 2006. 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 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, 2007 and 2006 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, 2007 and 2006 include: unbilled revenues totaling $657,237 and $540,681, customer accounts receivable totaling $721,878 and $599,601, other accounts receivable totaling $83,436 and $54,787, accrued interest receivable totaling $5,922 and $89,713, and fuel cost receivable totaling $282,684 and ($104,528), respectively.

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

ASSETS, LIABILITIES AND NET ASSETS (cont.)

Receivables/Payable (cont.)

The Clean Renewable Energy Bond (CREB) debt receivable restricted and unrestricted contains the sale proceeds of CREB bonds, $2,826,316 which closed on January 16, 2008.

The bond proceeds will be used to erect two 900 kW wind turbines within the utility's service territory. The restricted Cannon 1 & 2, $1,882,500 contains an amount agreed to in a purchase agreement with AWE, the wind turbine manufacturer. It will be reduced along with the remaining restricted bond proceeds as construction payments are requested. Completion of the wind turbines and related payments are expected to be completed during 2009.

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	
	2007	2006
Local Inventories		
Distribution materials	$ 436,327	$ 538,746
Water heaters	4,857	11,208
Operating plant fuel	101,553	89,594
Louisa Inventories		
Coal	120,340	64,407
Oil	1,892	2,261
Materials	36,016	34,626
WS4 Inventories		
Coal	23,869	-
Oil	12,255	11,300
Materials	5,473	-
Totals	$ 742,582	$ 752,142

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.

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

ASSETS, LIABILITIES AND NET ASSETS (cont.)

Deferred Assets/ Receivables

The balance of this account consists of commitments made to the utility for future periods. See further details in note 6.

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 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. Maintenance and repairs are expensed as incurred.

Total depreciation expense for the years ended December 31, 2007 and 2006, was $1,560,710 and $1,502,622, respectively; of that, $1,423,386 and $1,347,305 was expensed and $137,324 and $153,370 was capitalized in 2007 and 2006.

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.

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

ASSETS, LIABILITIES AND NET ASSETS (cont.)

Employee Benefits (cont.)

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.

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. The utility accrues revenues for usage by customers beyond billing dates.

Current electric rates were approved in April 2007 and placed into effect in July 2007.

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 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES AND NET ASSETS (cont.)

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 assets.

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, 2007 and 2006 were comprised of the following:

	2007	2006	Risks
Checking	$ 861,557	$ 457,505	Custodial risk
Petty cash	1,550	1,595	Custodial risk
Saving	2,989,163	907,293	Custodial risk
Certificates of deposit	3,500,000	7,050,000	Custodial risk
IPAIT	368,003	776,686	Credit and Interest rate risk
Total Deposits and Investments	$7,720,273	$9,193,079	

Reconciliation to financial statements

	2007	2006
Unrestricted cash and investments	$1,168,318	$1,597,306
Restricted cash and investments	3,128,517	1,245,834
Designated cash and investments	3,423,438	6,349,939
Total Deposits and Investments	$7,720,273	$9,193,079

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.

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

Custodial Credit Risk

Deposits – Custodial credit risk is the risk that in the event of a financial institution failure, the utility's deposits may not be returned to the utility.

The utility 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, the utility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The utility does not have any investments exposed to custodial credit risk.

Credit Risk

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

As of December 31, 2007 and 2006, 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, 2007 and 2006, the utility's investments were as follows:

	2007		2006	
Investment Type	Fair Value	Weighted Average Maturity (Days)	Fair Value	Weighted Average Maturity (Days)
Iowa Public Agency Investment Trust	$ 368,003	39.28	$ 776,686	39.28

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.

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 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.

The following calculation supports the amount of utility restricted net assets:

	2007	2006
Restricted Assets		
Sinking funds	$ 85,017	$ 84,834
Reserve fund	911,000	911,000
Improvement fund	250,000	250,000
CREB debt receivable	943,816	-
Cannon 1 & 2 held at FNB	1,882,500	-
Total Restricted Assets	4,072,333	1,245,834
Less: Restricted Assets Not Funded by Revenues		
CREB debt receivable	943,816	-
Cannon 1 & 2 held at FNB	1,882,500	-
Total Restricted Assets Not Funded by Revenues	1,246,017	1,245,834
Current Liabilities Payable From Restricted Assets	(18,753)	(20,161)
Total Restricted Net Assets as Calculated	$ 1,227,264	$ 1,225,673

Generally accepted accounting principles do not allow negative restricted net assets. Therefore, no restricted net assets are reported if the calculation above results in a negative number.

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, 2007 and 2006:

		2007		2006	
To	From	Amount	Principal Purpose	Amount	Principal Purpose
Municipality	WLP	$ 761,328	Fund Transfer	$ 731,220	Fund Transfer
Municipality	WLP	$ -		$ 163,000	ABIL building

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2007 follows:

	Balance 01/01/07	Additions	Deletions	Balance 12/31/07
Capital assets being depreciated:				
Land [1]	$ 515,870	$ -	$ (28,474)	$ 487,396
Buildings	3,531,197	27,801	-	3,558,998
Improvements	25,574,360	1,398,716	-	26,973,076
Equipment	4,996,861	123,242	(40,341)	5,079,762
Louisa plant	8,723,984	1,217,430	(45,412)	9,896,002
WS4 plant	-	5,117,030	-	5,117,030
Construction in progress [1]	4,325,212	3,126,754	(6,505,599)	946,367
Less: Accumulated depreciation	(19,989,756)	(1,601,325)	57,251	(21,533,830)
Net Capital Assets	$ 27,677,728	$ 9,409,648	$ (6,562,575)	$ 30,524,801

NOTE 5 – CHANGES IN CAPITAL ASSETS (cont.)

A summary of changes in capital assets for 2006 follows:

	Balance 01/01/06	Additions	Deletions	Balance 12/31/06
Capital assets being depreciated:				
Land [1]	$ 139,649	$ 376,221	$ -	$ 515,870
Buildings	3,512,195	19,002	-	3,531,197
Improvements	27,292,569	743,696	-	28,036,265
Equipment	2,329,662	412,848	(207,554)	2,534,956
Louisa plant	7,913,289	824,522	(13,827)	8,723,984
Construction in progress [1]	2,672,833	1,652,379	-	4,325,212
Less: Accumulated depreciation	(18,721,517)	(1,451,908)	183,669	(19,989,756)
Net Capital Assets	$ 25,138,680	$ 2,576,760	$ (37,712)	$ 27,677,728

[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
7/29/98	Finance a diesel generating facility and transmission improvements	12/1/05	12/1/08	4.1 – 4.4%	$ 3,610,000	$ 575,000
5/1/02	Finance various electric system improvements	12/1/10	12/1/12	2.2 – 4.5%	2,500,000	1,680,000
12/15/05	Finance various electric system improvements	12/1/12	12/1/15	3.5 - 4.0%	3,000,000	3,000,000
12/4/07	Finance two wind turbines	12/1/22	12/1/22	0.70%	2,826,316	2,826,316

The 1998 revenue bond debt service requirements to maturity follows:

Year	Principal	Interest	Total
2008	$ 575,000	$ 25,300	$ 600,300
Totals	$ 575,000	$ 25,300	$ 600,300

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

REVENUE BONDS (cont.)

The 2002 revenue bond debt service requirements to maturity follows:

Year	Principal	Interest	Total
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	$ 1,680,000	$ 234,700	$ 1,914,700

The 2005 revenue bond debt service requirements to maturity follows:

Year	Principal	Interest	Total
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	$ 592,150	$ 3,592,150

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

REVENUE BONDS (cont.)

The CREB Revenue bond debt service requirements to maturity follows:

Year	Principal	Interest	Total
2008	$ 188,421	$ 17,311	$ 205,732
2009	188,421	18,465	206,886
2010	188,421	17,146	205,567
2011	188,421	15,827	204,248
2012	188,421	14,508	202,929
2013	188,421	13,189	201,610
2014	188,421	11,871	200,292
2015	188,421	10,552	198,973
2016	188,421	9,233	197,654
2017	188,421	7,914	196,335
2018	188,421	6,595	195,016
2019	188,421	5,276	193,697
2020	188,421	3,957	192,378
2021	188,421	2,638	191,059
2022	188,422	1,319	189,741
Totals	$ 2,826,316	$ 155,801	$ 2,982,117

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

NOTE PAYABLE

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. Transfers were made to the City of Waverly for further credit to the Waverly Health Center during 2007 and 2006. The outstanding amount of the Board approved funding at December 31, 2007 and 2006 was $50,000 and $75,000, respectively.

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. In January 2008 the first transfer will be made. The outstanding amount of the Board approved funding at both December 31, 2007 and 2006 was $1,800,000. This amount has been offset in the Statements of Net Assets as a "Deferred asset."

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

DEFERRED CREDIT – WARTBURG GREEN POWER

This amount relates to payments received by the utility on behalf of Wartburg Green Power (WGP). Upon receipt, the amounts are remitted directly to WGP. As such, a deferred receivable and deferred credit in the amount of $2,000,000 has been reflected in the Statements of Net Assets.

Long-term obligation activity for 2007 follows:

Debt Issue	Balance 01/01/07	Additions	Reductions	Balance 12/31/07	Current Portion
1998 Revenue bonds	$ 1,150,000	$ -	$ 575,000	$ 575,000	$ 575,000
2002 Revenue bonds	1,880,000	-	200,000	1,680,000	235,000
2005 Revenue bonds	3,000,000	-	-	3,000,000	-
CREB Revenue bonds	-	2,826,316	-	2,826,316	188,421
Note payable	1,875,000	-	25,000	1,850,000	145,000
Deferred credit	-	2,000,000	-	2,000,000	-
Unamortized debt discount	(17,740)	-	(4,705)	(13,035)	(3,810)
Totals	$ 7,887,260	$ 4,826,316	$ 795,295	$ 11,918,281	$ 1,139,611

Long-term obligation activity for 2006 follows:

Debt Issue	Balance 01/01/06	Additions	Reductions	Balance 12/31/06	Current Portion
1998 Revenue bonds	$ 1,720,000	$ -	$ 570,000	$ 1,150,000	$ 575,000
2002 Revenue bonds	2,055,000	-	175,000	1,880,000	200,000
2005 Revenue bonds	3,000,000	-	-	3,000,000	-
Note payable	100,000	1,800,000	25,000	1,875,000	25,000
Unamortized debt discount	(23,362)	-	(5,622)	(17,740)	(4,705)
Totals	$ 6,851,638	$ 1,800,000	$ 764,378	$ 7,887,260	$ 795,295

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 assets consists 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:

	2007	2006
Plant in service	$ 51,112,264	$ 43,342,272
Accumulated depreciation	(21,533,830)	(19,989,756)
Construction work in progress	946,367	4,325,212
Subtotal	30,524,801	27,677,728
Less: Capital Related Debt		
Current portion of capital related long-term debt	998,421	775,000
Long-term portion of capital related long-term debt	7,082,895	5,255,000
Unamortized bond issue costs	(60,245)	(34,246)
Unamortized discount	(13,035)	(17,740)
Subtotal	8,008,036	5,978,014
Plus: CREB debt receivable restricted	943,816	-
Cannon 1 & 2 held at FNB	1,882,500	-
Subtotal	2,826,316	-
Total Net Assets Invested in Capital Assets, Net of Related Debt	$ 25,343,081	$ 21,699,714

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 2007 assets at a cost of $595,067 less accumulated depreciation of $352,069 for a net value of $242,998. Of this, approximately 6% of the system has been leased to customers. Total lease revenue included in the utility's financial statements for 2007 and 2006 was $46,305 and $47,445, respectively.

NOTE 8 – LEASES (cont.)

Lease revenue for the next four years is as follows:

2008	$ 32,534
2009	15,300
2010	11,027
2011	8,253
Totals	$ 67,114

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 3.90% of their annual salary and the utility is required to contribute 6.05% of the annual-covered payroll to the plan. Contribution requirements are established by State statute. The utility's contribution to IPERS for 2007, 2006, and 2005 was $99,351, $92,146 and $88,732, respectively. The total utility payroll was $1,851,820 for 2007. The payroll for 2006 and 2005 was $1,680,650 and $1,640,980, respectively.

NOTE10 – 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, 2007 and 2006 was $530,000 and $470,000, respectively. 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 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, 2007 and 2006 was $761,328 and $731,223, 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 November 2006, the Board approved funding of $10,000 per year for the next 5 years, subject to yearly budget approval.

Local Wind Generation

In 2006, a five-year lease was signed for $1,000 per year for wind speed studies at a rural Waverly site.

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.

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.)

ABIL Building

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 2006 totaled $9,104. In September 2006, the Board transferred ownership to the City of Waverly.

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.

Municipal Energy Agency of Nebraska

On January 3, 2006 the utility entered into an agreement with Municipal Energy Agency of Nebraska (MEAN). The terms of this agreement allow the utility to retain ownership of its share of Walter Scott Jr. No.4 as described above. When the plant was put into commercial operation June 2007, MEAN took delivery and reimbursed the utility for the energy. This agreement expires January 31, 2010 at which time the utility expects to utilize the WS4 capacity and energy to serve its native load customers.

On August 7, 2007 the utility entered into a contract with Municipal Energy Agency of Nebraska a joint action agency, as its future power supplier. The utility is a full requirements member starting February 1, 2010 when the old purchase power contract expires.

Iowa Stored Energy Plant Agency

The utility entered a 28E agreement with other municipal utilities on August 2, 2005. Under this agreement, research and possible future development and construction of the Iowa Stored Energy Park is being investigated. The utility made payments toward the research of ISEP of $50,000 during 2006. On February 29, 2008 this agreement was terminated.

Americas Wind Energy

The utility entered into an agreement with Americas Wind Energy on July 16, 2007. This agreement is for the delivery of two AWE 54-900 wind turbines. Delivery is expected 13 months from the date of the agreement.

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 11.26% in 2007 and 11.56% in 2006. The utility periodically enters into electric service agreements with larger customers.

NOTE 14 – 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.

NOTE 15 – 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.

NOTE 15 – BOND RESERVE REQUIREMENTS (cont.)

1998 BOND RESERVE REQUIREMENTS (cont.)

The annual obligations for these reserves are:

	Sinking Fund Reserve	Reserve Fund Reserve	Improvement Fund Reserve
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, 2007.

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
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, 2007.

NOTE 15 – 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
2008	$ 144,557	$ -	$ -
2009	493,032	-	-
2010	494,655	-	-
2011	495,373	-	-
2012	495,744	-	-
2013	499,707	-	-
2014	502,075	-	-
2015	499,200	-	-

The Reserve Fund Reserve and Improvement Fund Reserves are fully funded and thus not annual funding requirements exist for these reserves as of December 31, 2007.

NOTE 16 – SUBSEQUENT EVENT

In December 2007, the utility entered into a loan agreement in the sum of $2,826,316 for Clean Renewable Energy Bonds (CREB), which closed on January 16, 2008. The CREB debt receivable restricted and unrestricted contains the sale proceeds of the CREB bonds at year end.

The bond proceeds will be used to erect two 900 kW wind turbines within the utility's service territory. The restricted Cannon 1 & 2, $1,882,500 contains the amount agreed to in a purchase agreement with AWE, the wind turbine manufacturer. It will be reduced along with the remaining bond proceeds as construction payments are requested. Completion of the wind turbines and related payments are expected to be completed during 2009.

SUPPLEMENTAL INFORMATION

WAVERLY LIGHT AND POWER

STATEMENTS OF CHANGES IN BOND SINKING, RESERVE, AND IMPROVEMENT FUNDS
For the Years Ended December 31, 2007 and 2006

	Sinking Fund 1998	Sinking Fund 2002	Sinking Fund 2005	Reserve Fund 1998	Reserve Fund 2002	Reserve Fund 2005	Improvement Fund 1992 & 1998	Total
BALANCE, JANUARY 1, 2006	$ 53,735	$ 21,781	$ 8,676	$ 364,625	$ 246,375	$ 300,000	$ 250,000	$ 1,245,192
Receipts:								
Transfers from operating fund	643,198	262,906	109,232	-	-	-	-	1,015,336
Disbursements:								
Payments of principal and interest on bonds	(644,824)	(261,370)	(108,500)	-	-	-	-	(1,014,694)
BALANCE, DECEMBER 31, 2006	$ 52,109	$ 23,317	$ 9,408	$ 364,625	$ 246,375	$ 300,000	$ 250,000	$ 1,245,834
Receipts:								
Transfers from operating fund	623,229	282,075	112,890	-	-	-	-	1,018,194
Disbursements:								
Payments of principal and interest on bonds	(625,313)	(279,808)	(112,890)	-	-	-	-	(1,018,011)
BALANCE, DECEMBER 31, 2007	$ 50,026	$ 25,584	$ 9,408	$ 364,625	$ 246,375	$ 300,000	$ 250,000	$ 1,246,017

WAVERLY LIGHT AND POWER

OFFICIALS
December 31, 2007

Board of Trustees

Eugene Drape, Chairman
2713 12th St NW
Waverly, IA 50677

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

Linda Moeller
1312 Hillcrest Dr
Waverly, IA 50677

John Wuertz
1508 Hickory Heights Drive
Waverly, IA 50677

Reid Koenig
1611 12th St NW
Waverly, IA 50677

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

Mgr. of Business Operations & Development
Sheila Boeckman
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	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Production	$ 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	$3,868,991	$4,863,026
Transmission	76,746	83,919	79,054	90,751	95,369	116,239	138,632	98,460	95,826	81,898	98,559
Distribution	855,847	1,029,322	1,130,989	1,055,209	898,840	988,362	881,759	1,137,283	1,266,613	1,338,972	1,467,193
Customer Accounts	140,447	181,184	184,460	157,800	151,328	164,401	174,615	218,596	175,140	202,355	216,411
Administrative and General	435,412	511,222	485,458	480,862	520,933	507,830	549,847	628,236	524,336	593,517	764,759
Customer Information	NA	17,164	138,876	164,029	195,040	144,622	99,226	138,243	137,560	127,887	110,944
Community Development	NA	NA	NA	NA	NA	81,259	77,098	220,591	189,671	192,423	195,134
Conservation	114,164	100,822	126,949	140,116	151,213	153,166	193,930	141,459	178,305	197,595	184,190
Water Heater	NA	NA	NA	NA	NA	NA	55,509	121,822	140,683	109,686	48,092
Depreciation	896,428	884,001	930,612	990,562	1,213,274	1,276,135	1,260,547	1,325,524	1,365,706	1,347,305	1,423,386
Internet	NA	15,913	89,239	122,730	187,584	124,638	89,060	NA	NA	NA	NA
Total	$ 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	$ 8,060,629	$ 9,371,694

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

Last Ten Fiscal Years

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Operating Revenues	$ 6,815,476	$ 7,362,029	$ 7,253,179	$ 7,846,193	$ 7,865,325	$ 8,305,875	$ 9,366,164	$ 8,982,502	$ 10,641,916	$ 10,398,484	$ 12,197,191
Operating Expenses	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	8,060,629	9,371,694
Operating Income	1,677,562	1,644,475	1,444,830	2,095,174	1,605,973	1,745,946	2,508,429	1,686,979	2,451,150	2,337,855	2,825,497
Non-Operating Income	110,926	180,627	174,644	38,184	(52,142)	(44,531)	(154,433)	(72,248)	(426,649)	228,057	463,704
Transfers	(473,395)	(601,736)	(519,764)	(552,799)	(537,567)	(565,407)	(686,847)	(849,943)	(719,340)	(894,220)	(761,328)
Net Assets	$ 1,315,093	$ 1,223,366	$ 1,099,710	$ 1,580,559	$ 1,016,264	$ 1,136,008	$ 1,667,149	$ 764,788	$ 1,305,161	$ 1,671,692	$ 2,527,873

Energy Disposition

Last Ten Fiscal Years

Type of Service	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Residential	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	35,464,275	36,760,600
Industrial and Commerical	74,072,005	76,961,245	73,786,962	76,948,563	78,503,305	83,165,300	82,045,345	84,555,400	88,555,718	90,568,318	97,591,436
Security Lights	274,686	282,414	287,034	294,501	306,987	308,652	313,690	315,024	311,778	301,803	305,176
Municipal	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	8,664,320	9,148,169
Total	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	134,998,716	143,805,381

T

Principal Customers

2007-2006

Principal Customers	Type of Business Activity	Revenue % Sales to Customers 2007	2006
Nestle USA	Beverage Manufacturer	11.26%	11.56%
Wartburg College	Private Liberal Arts College	6.80%	7.17%
GMT	Machining and Fabrication	5.01%	5.00%
CUNA Mutal Life Insurance	Insurance Company	3.23%	3.31%
Terex Cranes	Manufacturing	2.58%	2.68%

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
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	8,982,502	134,588	7,295,523	1,325,524	3,147,091	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
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
								Average Coverage
								4.01

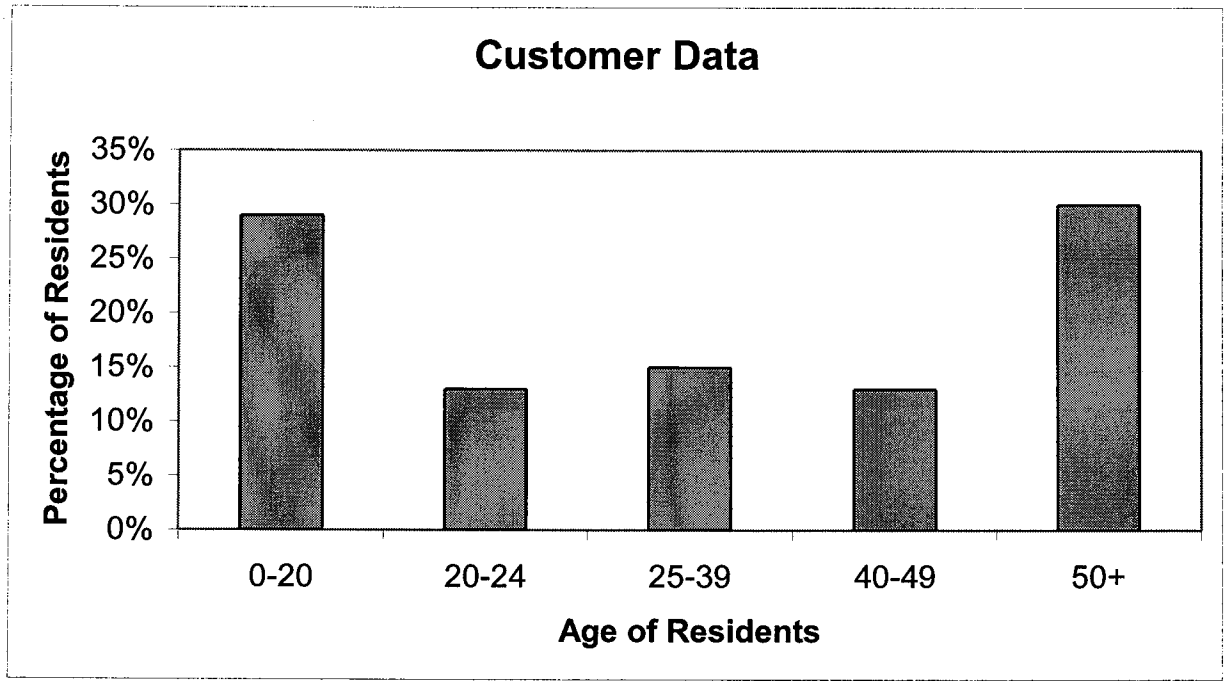
Demographics

Employee Data

	2001	2002	2003	2004	2005	2006	2007
# of Employees							
Administration	3	3	3	3	3	3	3
Business Operations	4	4	4	4	4	4	3
Conservation	1	1	1	1	1	1	1
Line	13	13	13	14	13	13	12
Meter	3	3	2	3	3	3	3
Generation	3	3	2	3	5	4	4
Total full-time	27	27	25	28	29	28	26
Part-time & Interns	7	8	4	3	3	3	3

At the end of 2007, the Communications Director position was still vacant. A lineman had also just left the utility.

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	Commerical	Industrial and Commercial	Security Lights	Street Lights	Municipal	Total
1997	2,227,028	3,066,198	1,033,333	4,099,531	26,988	107,952	226,198	6,687,697
1998	2,403,224	3,377,933	1,072,298	4,450,231	30,313	87,131	279,110	7,250,009
1999	2,387,304	3,055,524	1,069,393	4,124,917	30,623	87,214	280,027	6,910,085
2000	2,492,832	3,281,258	1,143,126	4,424,384	31,495	89,228	306,259	7,344,198
2001	2,553,729	3,348,076	1,117,960	4,466,036	31,868	86,337	349,300	7,487,270
2002	2,683,487	3,602,204	1,163,156	4,765,360	32,105	87,979	327,247	7,896,178
2003	2,946,561	4,294,407	1,163,978	5,458,385	32,841	142,385	366,434	8,946,606
2004	2,834,365	4,043,868	1,154,202	5,198,070	32,312	172,834	396,866	8,634,447
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

Capital Improvement Additions

Last Ten Fiscal Years

Fiscal Year	Deletions to Plant	Additions to Plant	Cash Required for Capital Improvements
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
2006	(37,712)	2,117,196	2,154,908
2007	(85,753)	4,391,146	4,476,899

Virchow Krause & company

INDEPENDENT AUDITORS' 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*

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Waverly Light and Power, Waverly, Iowa, as of and for the year ended December 31, 2007, which collectively comprise Waverly Light and Power's basic financial statements and have issued our report thereon dated March 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Waverly Light and Power's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Board of Trustees
Waverly Light and Power

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Waverly Light and Power's basic financial statements are free of 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*. However, we noted certain immaterial instances of noncompliance that are described in the accompanying Schedule of Findings Related to Government Auditing Standards and Required Statutory Reporting.

Comments involving statutory and other legal matters about the utility's operations for the year ended December 31, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

We noted certain matters that we reported to management of Waverly Light and Power in a separate letter dated March 24, 2008.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Waverly Light and Power and other parties to whom Waverly Light and Power may report. This report is not intended to be and should not be used by anyone other than those specified parties.

Virchow, Krause & Company, LLP

Madison, Wisconsin
March 24, 2008

WAVERLY LIGHT AND POWER

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2007 and 2006

FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

07-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, 2007 and 2006.

07-II-B Certified Budget – Disbursements during the years ended December 31, 2007 and 2006, did not exceed the amounts budgeted.

07-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.

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

07-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.

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

07-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.

07-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.