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

FINANCIAL STATEMENTS

December 31, 2008 and 2007

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

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December 31, 2008 and 2007

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, 2008 and 2007 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, 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, 2008 and 2007, and the changes in its financial position and 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, 2008 and 2007, 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 discussed in Note 11, Waverly Light and Power adopted the provisions of GASB Statement No. 45 - *Accounting and Financial Reporting by Employers for Postemployment benefits other than Pensions (OPEB)* effective January 1, 2008.

To the Board of Trustees
Waverly Light and Power

In accordance with *Government Auditing Standards*, we have also issued our April 13, 2009 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, grant agreements and other matters. 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 considered in assessing the results of our audits.

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 the Governmental Accounting Standards Board. 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.

Our audit, was made for the purpose of forming an opinion on the financial statements taken as a whole. The detailed schedules included as supplemental information, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements of Waverly Light and Power. The 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.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Waverly Light and Power as of December 31, 2007 - 2000 and for the years then ended (none of which is presented herein). In our opinion, the graphic and financial information is fairly stated in all material respects in relation to the financial statements from which it has been derived. Waverly Light and Power's financial statements for the year ended December 31, 1999, which is not presented with the accompanying financial statements, was audited by other auditors whose report expressed an unqualified opinion on the respective financial statements. Their report on the 1999 financial statements stated that, in their opinion, such information was fairly stated in all material respects in relation to the basic financial statements for the year ended December 31, 1999, taken as a whole.

Virchow, Krause & Company, LLP

Madison, Wisconsin
April 13, 2009

Waverly Light and Power (WLP) offers this discussion and analysis of our financial performance for the years ending December 31, 2008 and 2007. 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 2008, we purchased 58.4% 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 2008, we installed 76 electric services many of which were due to the 500 year flood that affected Waverly.

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 $590,000 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

	2008	2007	2006
ASSETS			
Current Assets	$ 6,275,422	$ 6,620,142	$ 3,659,668
Non-Current Assets			
Restricted Assets	957,414	3,043,500	1,161,000
Designated Funds	6,098,073	3,423,438	6,349,939
Other Assets	5,513,668	5,742,745	2,072,736
Capital Assets	31,806,960	30,524,801	27,677,728
Total Assets	50,651,537	49,354,626	40,921,071
LIABILITIES			
Current Liabilities	1,707,617	1,621,728	1,508,159
Current Liabilities Payable from Restricted Assets	2,802,085	1,017,174	795,161
Non-Current Liabilities	9,630,301	10,774,860	7,087,260
Non- Current Liabilities Payable from Restricted Assets	-	1,882,500	-
Total Liabilities	14,140,003	15,296,262	9,390,580
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	26,666,904	25,343,081	21,699,714
Restricted for Debt Service and Improvements	784,190	1,227,264	1,225,673
Unrestricted	9,060,443	7,488,019	8,605,104
TOTAL NET ASSETS	$ 36,511,537	$ 34,058,364	$ 31,530,491

WLP increased net assets by $2.4 million and $2.5 million in 2008 and 2007, respectively, as a result of net income as discussed on page 5.

WLP Financial Analysis (cont.)

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

	2008	2007	2006
OPERATING REVENUES	$ 12,005,301	$ 12,197,191	$ 10,398,484
OPERATING EXPENSES			
Depreciation expenses	1,555,371	1,423,386	1,347,305
Other operating expenses	7,407,979	7,948,308	6,713,324
Total Operating Expenses	8,963,350	9,371,694	8,060,629
Operating Income	3,041,951	2,825,497	2,337,855
Investment income	298,994	377,858	442,988
Interest and amortization expense	(237,858)	(254,163)	(281,910)
Gain/(Loss) on sale of plant	(3,720)	19,048	42,205
Royalties	39,533	25,724	24,774
Total Non-Operating Expenses	96,949	168,467	228,057
Income before operating transfers and Contribututions	3,138,900	2,993,964	2,565,912
Contributions	199,225	295,237	-
Operating transfers to the City of Waverly	(884,952)	(761,328)	(894,220)
Change in Net Assets	2,453,173	2,527,873	1,671,692
NET ASSETS, Beginning of Year	34,058,364	31,530,491	29,858,799
NET ASSETS, END OF YEAR	$ 36,511,537	$ 34,058,364	$ 31,530,491

Revenues for 2008 were lower due to a cooler summer with 22% fewer cooling degree days than in the prior year. Revenues for 2007 were higher when compared to 2006 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 2008 were lower than the prior year due to lower purchased power costs. In 2008, we purchased less Louisa replacement energy. These costs were approximately $.5 million less in 2008 than in 2007. Expenses for 2007 were significantly higher compared to 2006 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 also continued to increase in 2007.

WLP Financial Analysis (cont.)

Table 3
Condensed Statements of Cash Flows

	2008	2007	2006
Cash Flows from Operating Activities			
Received from sales to customers	$ 12,623,340	$ 11,512,135	$ 10,043,085
Paid to suppliers and employees for services	(7,551,417)	(7,629,946)	(6,150,118)
Cash Flows from Operating Activities	5,071,923	3,882,189	3,892,967
Cash Flows from Non-Capital Financing Activities	(909,952)	(786,328)	(919,220)
Cash Flows from Capital and Financing Activities	(1,182,219)	(4,946,524)	(5,087,701)
Cash Flows from Investing Activities	1,298,994	3,927,857	1,142,988
Net Change in Cash and Equivalents	4,278,746	2,077,194	(970,966)
CASH AND CASH EQUIVALENTS – Beginning of Year	4,220,273	2,143,079	3,114,045
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 8,499,019	$ 4,220,273	$ 2,143,079

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

WLP Financial Analysis (cont.)

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

	Actual 2008	Budget 2008	Variance Favorable (Unfavorable)
OPERATING REVENUES	$12,005,301	$11,486,924	$518,377
OPERATING EXPENSES			
Depreciation expenses	1,555,371	1,552,243	3,128
Other operating expenses	7,407,979	7,995,635	(587,656)
Total Operating Expenses	8,963,350	9,547,878	(584,528)
Operating Income	3,041,951	1,939,046	1,102,905
Investment income	298,994	300,000	(1,006)
Interest and amortization expense	(237,858)	(252,358)	14,500
Loss on sale of plant	(3,720)	-	(3,720)
Other income (expense)	39,533	10,000	29,533
Total Non-Operating Expenses	96,949	57,642	39,307
Income before contributions and operating transfers	3,138,900	1,996,688	1,142,212
Contributions	199,225	100,000	99,225
Operating transfers to the City of Waverly	(884,952)	(909,955)	25,003
Change in Net Assets	2,453,173	1,186,733	1,266,440
NET ASSETS, Beginning of Year	34,058,364	34,058,364	-
NET ASSETS, END OF YEAR	$36,511,537	$35,245,097	$1,266,440

WLP's budget is based on its projected long-term financial outlook, current economic conditions and plans for construction, operation and maintenance of the utility. A budget committee, consisting of WLP personnel, reviews items submitted for consideration by all staff and makes recommendations as to what projects are presented in the proposed budget. The proposed budget is then presented to the Board of Trustees for approval.

Fund Analysis

Designated Funds

The Vehicle Replacement fund has a balance of $159,771, $89,059 and $76,099 respectively for 2008, 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 $2,383,115. In 2007 and 2006 the balance was $45,000 and $3 million, respectively. 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 $590,000 is funded annually at $60,000 a year. The 2007 and 2006 balance was $530,000 and $470,000, respectively.

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 $113,736, $6,589 and $29,557 for 2008, 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 2007 the balances were $1,439,955 and $186,121 respectively for each fund. 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 $629,823, $531,162 and $518,067 for 2008, 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 2008, 2007 and 2006.

Restricted Funds

The Sinking, Reserve and Improvement funds were funded per the requirements of the 1998, 2002, 2005 and CREB bond issues. Monies are also restricted per the contract for two new turbines. The total of these restricted funds are $2,931,364, $3,128,517 and $1,245,834 in 2008, 2007 and 2006 respectively.

Capital Assets

WLP has $55 million of capital assets with a net asset value of $31.8 million. The total includes $487,396 in land, $3.5 million in buildings, $27.8 million in improvements, $5.7 million in machinery and equipment, $10.3 million in Louisa Generating Plant, $5.1 million in Walter Scott Jr. 4 Generating Plant, and $2.1 million in construction work in progress.

The 2007 capital assets included $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 2008 included, conservation rebates, installation of new distribution lines, services, meters, and transformers, Louisa Generating Station improvements, transmission improvements, transportation equipment, and miscellaneous tools and equipment. Also included are the foundation and engineering costs for two wind turbines that will be erected in 2009.

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 $7.1 million of outstanding debt at December 31, 2008. This includes $1.5 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 $2.6 million to install two wind turbines.

At the end of 2007 and 2006 the outstanding debt was $8.1 million and $6.0 million respectively.

Debt Activity (cont.)

WLP maintains a sinking fund, reserve fund and an improvement fund per bond requirements. The balance in these restricted funds is $2,931,364. Debt service for 2008 included $998,421 of principal payments and $227,919 of interest payments. Also in the restricted fund is the remaining contract amount for two turbines. The 2007 restricted fund balance was $1,227,264 including $775,000 of principal payments and $241,602 of interest payments. 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.

Statements of Net Assets Follow

WAVERLY LIGHT AND POWER

STATEMENTS OF NET ASSETS
December 31, 2008 and 2007

ASSETS

	2008	2007
CURRENT ASSETS		
Cash and investments	$ 1,969,582	$ 1,168,318
Accounts receivable	1,172,651	1,751,157
CREB debt receivable - unrestricted	-	1,882,500
Inventory	1,061,437	742,582
Prepaid expenses	97,802	46,752
Restricted Assets		
Sinking Funds		
1998 bonds	-	50,025
2002 bonds	33,135	25,584
2005 bonds	41,074	9,408
CREB bonds	17,241	-
CREB debt receivable - restricted	-	943,816
Cannon 1 & 2 held at FNB	1,882,500	-
Total Current Assets	6,275,422	6,620,142
NON-CURRENT ASSETS		
Restricted Assets		
Reserve Funds		
1998 bonds	-	364,625
2002 bonds	159,558	246,375
2005 bonds	299,346	300,000
CREB bonds	248,510	-
Improvement fund	250,000	250,000
Cannon 1 & 2 held at FNB	-	1,882,500
Total Restricted Assets	957,414	3,043,500
Designated Funds		
Vehicle replacement	159,771	89,059
Key accounts	629,823	531,162
Future generation	2,383,115	45,000
Iowa energy tags	113,736	6,589
Generation	1,439,955	1,439,955
G & A	186,121	186,121
Insurance recovery	590,000	530,000
Distribution Fund	595,552	595,552
Total Designated Funds	6,098,073	3,423,438
Other Assets		
Deferred asset	3,562,500	3,682,500
Deferred a/r Wartburg green power choice	1,900,000	2,000,000
Unamortized 1998 bond issue costs	-	363
Unamortized 2002 bond issue costs	4,015	6,050
Unamortized 2005 bond issue costs	15,730	20,164
Unamortized CREB bond issue costs	31,423	33,668
Total Other Assets	5,513,668	5,742,745
Capital Assets		
Land	487,396	487,396
Buildings	3,558,998	3,558,998
Improvements	27,804,102	26,587,606
Machinery and equipment	5,674,787	5,465,232
Louisa plant	15,393,964	15,013,032
Construction work in progress	2,051,712	946,367
Total Capital Assets	54,970,959	52,058,631
Accumulated depreciation	(23,163,999)	(21,533,830)
Net Capital Assets	31,806,960	30,524,801
Total Non-Current Assets	44,376,115	42,734,484
TOTAL ASSETS	$ 50,651,537	$ 49,354,626

See accompanying notes to financial statements.

LIABILITIES

	2008	2007
CURRENT LIABILITIES		
Accounts payable	$ 333,750	$ 505,699
Accrued property taxes	153,364	152,483
Other accrued expenses	1,075,503	818,546
Current portion of note payable	145,000	145,000
Current Liabilities Payable From Restricted Assets		
Current portion of revenue bonds	903,421	998,421
Cannon 1 & 2 payable	1,882,500	-
Accrued interest on revenue bonds	16,164	18,753
Total Current Liabilities	4,509,702	2,638,902
NON-CURRENT LIABILITIES		
Note payable	1,560,000	1,705,000
Deferred credit - Wartburg green power	1,900,000	2,000,000
Revenue bonds	6,179,473	7,082,895
Non-Current Liabilities Payable From Restricted Assets		
Cannon 1 & 2 payable	-	1,882,500
Less: Unamortized discount	(9,172)	(13,035)
Total Non-Current Liabilities	9,630,301	12,657,360
Total Liabilities	14,140,003	15,296,262

NET ASSETS

	2008	2007
NET ASSETS		
Invested in capital assets, net of related debt (note 7)	26,666,904	25,343,081
Restricted for debt service and improvements	784,190	1,227,264
Unrestricted	9,060,443	7,488,019
Total Net Assets	36,511,537	34,058,364
TOTAL LIABILITIES AND NET ASSETS	$ 50,651,540	$ 49,354,626

See accompanying notes to financial statements.

WAVERLY LIGHT AND POWER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years ended December 31, 2008 and 2007

	2008	2007
OPERATING REVENUES		
Sales to customers	$ 11,505,181	$ 11,899,346
Miscellaneous	500,120	297,845
Total Operating Revenues	12,005,301	12,197,191
OPERATING EXPENSES		
Production	4,361,308	4,863,026
Transmission	86,660	98,559
Distribution	1,467,335	1,467,193
Customer accounts	198,280	216,411
Administrative and general	666,475	764,759
Customer information	123,069	110,944
Community development	225,740	195,134
Conservation	185,836	184,190
Water heater	93,276	48,092
Depreciation	1,555,371	1,423,386
Total Operating Expenses	8,963,350	9,371,694
Operating Income	3,041,951	2,825,497
NONOPERATING REVENUE (EXPENSES)		
Loss (gain) on sale of plant	(3,720)	19,048
Royalties	39,533	25,724
Investment income	298,994	377,858
Interest expense	(224,919)	(241,602)
Amortization of debt discount and bond issue costs	(12,939)	(12,561)
Total Nonoperating Revenue (Expenses)	96,949	168,467
INCOME BEFORE OPERATING TRANSFERS	3,138,900	2,993,964
Contributions	199,225	295,237
Transfer to City of Waverly general fund	(884,952)	(761,328)
CHANGE IN NET ASSETS	2,453,173	2,527,873
NET ASSETS - Beginning of Year	34,058,364	31,530,491
NET ASSETS - END OF YEAR	$ 36,511,537	$ 34,058,364

See accompanying notes to financial statements.

Statements of Cash Flows Follow

WAVERLY LIGHT AND POWER

STATEMENTS OF CASH FLOWS

For the Years ended December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from sales to customers	$ 12,623,340	$ 11,512,135
Paid to suppliers for purchased power and transmission	(2,535,556)	(3,006,460)
Paid to suppliers and employees for other services	(5,015,861)	(4,623,486)
Net Cash Flows From Operating Activities	5,071,923	3,882,189
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payment to City of Waverly for credit to hospital	(25,000)	(25,000)
Payment to City of Waverly for credit to Wartburg College	(120,000)	-
Transfers to City of Waverly	(764,952)	(761,328)
Net Cash Flows From Noncapital Financing Activities	(909,952)	(786,328)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of plant and equipment	(3,015,412)	(4,212,304)
Salvage received on plant sold	37,300	21,000
Loss on sale of plant	(3,720)	-
Capital contributions received	199,225	295,237
Debt issue costs	-	(33,855)
Principal received from CREB bonds	2,826,316	-
Principal payments on revenue bonds	(998,421)	(775,000)
Interest paid	(227,507)	(241,602)
Net Cash Flows From Capital and Related Financing Activities	(1,182,219)	(4,946,524)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net marketable securities sold for 1998 sinking fund	50,025	2,084
Net marketable securities purchased for 2002 sinking fund	(7,551)	(2,267)
Net marketable securities purchased for 2005 sinking fund	(31,666)	-
Net marketable securities purchased for CREB bond sinking fund	(17,241)	-
Net marketable securities purchased for Skeets 5&6 held @ FNB	-	(1,882,500)
Net marketable securities purchased/sold for vehicle replacement fund	(70,712)	(12,960)
Net marketable securities purchased for key accounts fund	(98,661)	(13,095)
Net marketable securities sold/purchased for future generation fund	(2,338,115)	3,017,913
Net marketable securities sold/purchased for Iowa energy tags fund	(107,147)	22,968
Net marketable securities purchased for G & A fund	-	(28,325)
Net marketable securities purchased for insurance recovery fund	(60,000)	(60,000)
Net marketable securities sold/purchased for electric revenue fund	2,681,068	(1,043,820)
Marketable securities purchased	(2,500,000)	(2,500,000)
Marketable securities sold	3,500,000	6,050,000
Investment income	298,994	377,858
Net Cash Flows From Investing Activities	1,298,994	3,927,857
Net Change in Cash and Cash Equivalents	4,278,746	2,077,194
CASH AND CASH EQUIVALENTS - Beginning of Year	4,220,273	2,143,079
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 8,499,019	$ 4,220,273
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Amortization of debt related costs	$ 12,939	$ 12,561

See accompanying notes to financial statements.

	2008	2007
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	$ 3,028,820	$ 2,825,497
Non-operating income (expense)	39,533	25,724
Noncash items included in operating income		
Depreciation	1,555,371	1,423,386
Depreciation cleared	140,582	176,976
Changes in assets and liabilities		
Accounts receivable	578,506	(570,903)
Inventory	(318,855)	9,560
Prepaid expenses	(51,050)	(1,620)
Accounts payable	(171,950)	42,711
Accrued property taxes	881	13,900
Other accrued expenses	270,085	(63,042)
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 5,071,923	$ 3,882,189
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEET ACCOUNTS		
Cash and investments	$ 1,969,582	$ 1,168,318
Restricted investments		
Sinking Funds		
1998 bonds	-	50,025
2002 bonds	33,135	25,584
2005 bonds	41,074	9,408
CREB bonds	17,241	-
Reserve Funds		
1998 bonds	-	364,625
2002 bonds	159,558	246,375
2005 bonds	299,346	300,000
CREB bonds	248,510	-
Improvement fund	250,000	250,000
Cannon 1 & 2 held at FNB	1,882,500	1,882,500
Total Cash and Restricted Investments	4,900,946	4,296,835
Designated Investments		
Vehicle replacement	159,771	89,059
Key accounts	629,823	531,162
Future generation	2,383,115	45,000
Iowa energy tags	113,736	6,589
Generation	1,439,955	1,439,955
G & A	186,121	186,121
Insurance recovery	590,000	530,000
Distribution Fund	595,552	595,552
Total Designated Investments	6,098,073	3,423,438
Less: non cash equivalents (note 1)	(2,500,000)	(3,500,000)
TOTAL CASH AND CASH EQUIVALENTS	$ 8,499,019	$ 4,220,273

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 2008. 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, 2008 and 2007 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, 2008 and 2007 include: unbilled revenues totaling $522,232 and $657,237, customer accounts receivable totaling $581,375 and $721,878, other accounts receivable totaling $186,845 and $83,436, accrued interest receivable totaling $31,549 and $5,922, and fuel cost receivable totaling ($149,350) and $282,684, respectively.

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

ASSETS, LIABILITIES AND NET ASSETS (cont.)

Receivables/Payables (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	
	2008	2007
Local Inventories		
Distribution materials	$ 646,571	$ 436,327
Water heaters	3,002	4,857
Operating plant fuel	111,967	101,553
Louisa Inventories		
Coal	195,735	120,340
Oil	1,830	1,892
Materials	41,880	36,016
WS4 Inventories		
Coal	37,321	23,869
Oil	11,631	12,255
Materials	11,500	5,473
Totals	$ 1,061,437	$ 742,582

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, 2008 and 2007, was $1,695,953 and $1,600,362, respectively; of that, $1,555,371 and $1,423,386 was expensed and $140,582 and $176,976 was capitalized in 2008 and 2007.

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. 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, 2008 and 2007 were comprised of the following:

	2008	2007	Risks
Checking	$ 552,944	$ 861,557	Custodial risk
Petty cash	1,550	1,550	Custodial risk
Saving	6,484,173	2,989,163	Custodial risk
Certificates of deposit	2,500,000	3,500,000	Custodial risk
IPAIT	1,460,352	368,003	Credit and Interest rate risk
Total Deposits and Investments	$10,999,019	$7,720,273	

Reconciliation to financial statements

	2008	2007
Unrestricted cash and investments	$1,969,582	$1,168,318
Restricted cash and investments	2,931,364	3,128,517
Designated cash and investments	6,098,073	3,423,438
Total Deposits and Investments	$10,999,019	$7,720,273

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, 2008 and 2007, 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, 2008 and 2007, the utility's investments were as follows:

	2008		2007	
Investment Type	Fair Value	Weighted Average Maturity (Days)	Fair Value	Weighted Average Maturity (Days)
Iowa Public Agency Investment Trust	$ 1,460,352	54.73	$ 368,003	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:

	2008	2007
Restricted Assets		
Sinking funds	$ 91,450	$ 85,017
Reserve fund	707,414	911,000
Improvement fund	250,000	250,000
CREB debt receivable	-	943,816
Cannon 1 & 2 held at FNB	1,882,500	1,882,500
Total Restricted Assets	2,931,364	4,072,333
Less: Restricted Assets Not Funded by Revenues		
Reserve fund	(248,510)	-
CREB debt receivable	-	(943,816)
Cannon 1 & 2 held at FNB	(1,882,500)	(1,882,500)
Total Restricted Assets Not Funded by Revenues	(2,131,010)	(1,246,017)
Current Liabilities Payable From Restricted Assets	(16,164)	(18,753)
Total Restricted Net Assets as Calculated	$ 784,190	$ 1,227,264

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, 2008 and 2007:

		2008		2007	
To	From	Amount	Principal Purpose	Amount	Principal Purpose
Municipality	WLP	$ 764,952	Fund Transfer	$ 761,328	Fund Transfer
Municipality	WLP	120,000	W/W Wellness		

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2008 follows:

	Balance 01/01/08	Additions	Deletions	Balance 12/31/08
Capital assets being depreciated:				
Land [1]	$ 487,396	$ -	$ -	$ 487,396
Buildings	3,558,998	-	-	3,558,998
Improvements	26,973,076	831,026	-	27,804,102
Equipment	5,079,762	641,723	(46,694)	5,674,791
Louisa plant	9,896,002	443,972	(63,044)	10,276,930
WS4 plant	5,117,030	-	-	5,117,030
Construction in progress [1]	946,367	2,640,529	(1,535,184)	2,051,712
Less: Accumulated depreciation	(21,533,830)	(1,695,953)	65,784	(23,163,999)
Net Capital Assets	$ 30,524,801	$ 2,861,297	$ (1,579,138)	$ 31,806,960

NOTE 5 – CHANGES IN CAPITAL ASSETS (cont.)

A summary of changes in capital assets for 2007 follows:

	Balance 01/01/07	Additions	Deletions	Balance 12/31/2007
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

[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 deisel generating facility and transmission improvements	12/1/05	12/1/08	4.1-4.4%	$ 3,610,000	$ -
5/1/02	Finance various electric system improvements	12/1/10	12/1/12	2.2 – 4.5%	2,500,000	1,445,000
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	2,637,894

The final payment on the 1998 revenue bonds was made in 2008.

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

REVENUE BONDS (cont.)

The 2002 revenue bond debt service requirements to maturity follows:

Year	Principal	Interest	Total
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	$ 1,445,000	$ 162,692	$ 1,607,692

The 2005 revenue bond debt service requirements to maturity follows:

Year	Principal	Interest	Total
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
2014-2015	945,000	56,536	1,001,536
Totals	$ 3,000,000	$ 479,260	$ 3,479,260

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

REVENUE BONDS (cont.)

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

Year	Principal	Interest	Total
2009	$ 188,421	$ 18,466	$ 206,887
2010	188,421	17,146	205,567
2011	188,421	15,828	204,249
2012	188,421	14,508	202,929
2013	188,421	13,190	201,611
2014-2018	942,105	46,162	988,267
2019-2022	753,684	13,189	766,873
Totals	$ 2,637,894	$ 138,489	$ 2,776,383

All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2008 and 2007 were $1,223,340 and $1,016,602, respectively. Total customer net revenues as defined for the same periods were $12,304,295 and $12,575,049. Annual principal and interest payments are expected to require 4.9% of revenues.

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 2008 and 2007. The outstanding amount of the Board approved funding at December 31, 2008 and 2007 was $25,000 and $50,000, 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 was made. The outstanding amount of the Board approved funding at December 31, 2008 and 2007 were $1,680,000 and $1,800,000, respectively. This amount has been offset in the Statements of Net Assets as a "Deferred asset."

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

NOTE PAYABLE (cont.)

Year	Principal	Interest	Total
2009	$ 145,000	$ -	$ 145,000
2010	120,000	-	120,000
2011	120,000	-	120,000
2012	120,000	-	120,000
2013	120,000	-	120,000
2014-2018	600,000	-	600,000
2019-2022	480,000	-	480,000
Totals	$ 1,705,000	$ -	$ 1,705,000

DEFERRED CREDIT – WARTBURG GREEN POWER

This amount relates to payments received by the utility on behalf of Wartburg. Upon receipt, the amounts are remitted directly to the Green Power Choice Energy Program. As such, a deferred receivable and deferred credit in the amount of $1,900,000 and $2,000,000, respectively has been reflected in the Statements of Net Assets for 2008 and 2007.

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

Long-term obligation activity for 2008 and 2007 follows:

Debt Issue	Balance 12/31/2007	Additions	Reductions	Balance 12/31/2008	Current Portion
1998 Revenue bonds	$ 575,000	$ -	$ 575,000	$ -	$ -
2002 Revenue bonds	1,680,000	-	235,000	1,445,000	335,000
2005 Revenue bonds	3,000,000	-	-	3,000,000	380,000
CREB Revenue bonds	2,826,316	-	188,422	2,637,894	188,421
Note Payable	1,850,000	-	145,000	1,705,000	145,000
Deferred Credit	2,000,000	-	100,000	1,900,000	-
Unamortized Debt Discount	(13,035)	-	(3,863)	(9,172)	(3,099)
Totals	$ 11,918,281	$ -	$ 1,239,559	$ 10,678,722	$ 1,045,322

Debt Issue	Balance 12/31/2006	Additions	Reductions	Balance 12/31/2007	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

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 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:

	2008	2007
Plant in service	$ 52,919,247	$ 51,112,264
Accumulated depreciation	(23,163,999)	(21,533,830)
Construction work in progress	2,051,712	946,367
Subtotal	31,806,960	30,524,801
Less: Capital Related Debt		
Current portion of capital related long-term debt	903,421	998,421
Long-term portion of capital related long-term debt	6,179,473	7,082,895
Unamortized bond issue costs	(51,168)	(60,245)
Unamortized discount	(9,172)	(13,035)
Subtotal	7,022,554	8,008,036
Plus: CREB debt receivable restricted	-	943,816
Cannon 1 & 2 held at FNB	1,882,500	1,882,500
Subtotal	1,882,500	2,826,316
Total Net Assets Invested in Capital Assets, Net of Related Debt	$ 26,666,906	$ 25,343,081

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 2008 assets at a cost of $615,916 less accumulated depreciation of $395,461 for a net value of $220,455. Of this, approximately 6% of the system has been leased to customers. Total lease revenue included in the utility's financial statements for 2008 and 2007 was $47,458 and $46,305, respectively.

NOTE 8 – LEASES (cont.)

Lease revenue for the next three years is as follows:

2009	$ 15,300
2010	11,027
2011	8,253
Totals	$ 34,580

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 4.1% of their annual salary and the utility is required to contribute 6.35% of the annual-covered payroll to the plan. Contribution requirements are established by State statute. The utility's contribution to IPERS for 2008, 2007, and 2006 was $108,259, $99,351 and $92,146, respectively. The total utility payroll was $1,844,945 for 2008. The payroll for 2007 and 2006 was $1,851,820 and $1,680,650, respectively.

NOTE 10 – RISK MANAGEMENT

The utility is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of actual cash value commercial insurance and an insurance recovery fund. The balance in this fund at December 31, 2008 and 2007 was $590,000 and $530,000, respectively. The insurance recovery fund was established for the purpose of subsiding claims that were caused by extraordinary circumstances. No such claims have occurred in the past three years including no instances of claims incurred but not reported. Settled claims from risks have not exceeded commercial insurance coverage in the past three years. There were no significant deductions in coverage compared to the prior year.

NOTE 10 – RISK MANAGEMENT (cont.)

Changes in the utility's total claims liability during 2008 and 2007 is presented below:

	2008	2007
Claims liability, beginning of year	$ 530,000	$ 470,000
Add: provision for claims, current year	60,000	60,000
Increase/(Decrease) in provision for claims in prior years	-	-
Less: payments on claims attributable to current & prior years	-	-
Claims Liability, End of Year	$ 590,000	$ 530,000

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS

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

Contribution requirements are established through personnel policy guidelines and may be amended by action of the governing body. The utility makes the same monthly health insurance contribution on behalf of the retiree as it makes on behalf of all other active employees during that year. The utility contributes 8.5 percent of the current year premiums for a single plan for eligible retired plan members. For fiscal years 2008 and 2007, the utility contributed $13,128 and $7,905 of the plan, respectively. Plan members receiving benefits are fully paid for by the utility up to $500 a month. No retiree contributions were paid for by the retiree in 2008 or 2007. Administrative costs of the plan are financed through investment earnings.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

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

Annual required contribution	$ 39,382
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
	39,382
Annual OPEB cost	39,382
Contributions made	(13,128)
Increase in net OPEB obligation (asset)	26,254
Net OPEB Obligation (Asset) – Beginning of Year	-
Net OPEB Obligation (Asset) – End of Year	$ 26,254

The utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for December 31, 2008 and two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
2007	-0-	-0-	-0-
2006	-0-	-0-	-0-

The funded status of the plan as of December 31, 2008, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	$ 353,970
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	$ 353,970
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	$ 1,546,552
UAAL as a percentage of covered payroll	23%

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

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

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

In the actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3 percent investment rate of return and an annual healthcare cost trend rate of 7.3 percent initially, reduced by decrements to an ultimate rate of 0 percent after 6 years reaching the 500 a month cap. Both rates include a 3.3 percent inflation assumption. The actual value of Retiree Health Plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a three-year period. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2008, was 25 years.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

COMMITMENTS

Municipality – Transfers

The utility makes annual cash payments to the municipality in an amount determined per policy established by the Board. The amount paid for the years ended December 31, 2008 and 2007 was $764,952 and $761,328, 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.

NOTE 12 – COMMITMENTS AND CONTINGENCIES (cont.)

COMMITMENTS (cont.)

Local Wind Generation

In 2001, a 900 kW wind generator was erected on land leased near Waverly. The lease is a 50-year lease with payments to the landowner of $3,000 per year.

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

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.

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.

NOTE 12 – COMMITMENTS AND CONTINGENCIES (cont.)

COMMITMENTS (cont.)

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 assign its interest in WS4 to MEAN.

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. AWE assigned this contract to EWT International. The turbines were delivered in February 2009 and are in the process of being erected.

NOTE 13 – 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 14 – SIGNIFICANT CUSTOMER

Sales to a significant customer were 11.24% in 2008 and 11.26% in 2007. The utility periodically enters into electric service agreements with larger customers.

NOTE 15 – 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 16 – BOND RESERVE REQUIREMENTS

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 $159,559 at December 31, 2008 and $246,375 at December 31, 2007. 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
2009	$ 397,607	$ -	$ -
2010	398,705	-	-
2011	403,830	-	-
2012	407,550	-	-

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, 2008.

NOTE 16 – 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 $299,346 at December 31, 2008 and $300,000 at December 31, 2007. 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
2009	$ 492,890	$ -	$ -
2010	494,590	-	-
2011	495,370	-	-
2012	495,406	-	-
2013	499,468	-	-
2014	502,336	-	-
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, 2008.

NOTE 16 – BOND RESERVE REQUIREMENTS (cont.)

2008 Bond Reserve Requirements

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

Reserve Fund Reserve- This amount was funded from original bond proceeds based on an established formula, with a maximum of $248,510 at December 31, 2008, a reserve was not required in 2007. 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
2009	$ 206,886	$ -	$ -
2010	205,567	-	-
2011	204,248	-	-
2012	202,929	-	-
2013	201,611	-	-
2014	200,292	-	-
2015	198,973	-	-
2016	197,654	-	-
2017	196,335	-	-
2018	195,016	-	-
2019	193,697	-	-
2020	192,378	-	-
2021	191,059	-	-
2022	189,740	-	-

The Reserve Fund Reserve and Improvement Fund Reserves are fully funded and thus no annual funding requirements exist for these reserves as of December 31, 2008.

NOTE 17 – SUBSEQUENT EVENT

The Board of Trustee's approved a rate increase of 3% effective January 1, 2009.

REQUIRED SUPPLEMENTAL INFORMATION

WAVERLY LIGHT AND POWER

SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT BENEFITS PLAN
For the Year Ended December 31, 2008

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2008	$ -	$ 353,970	$353,970	0%	$ 1,546,552	23%

SUPPLEMENTAL INFORMATION

WAVERLY LIGHT AND POWER

STATEMENTS OF CHANGES IN BOND SINKING, RESERVE, AND IMPROVEMENT FUNDS
For the Years Ended December 31, 2008 and 2007

	Sinking Fund 1998	Sinking Fund 2002	Sinking Fund 2005	Sinking Fund CREB	Reserve Fund 1998	Reserve Fund 2002	Reserve Fund 2005	Reserve Fund CREB	Improvement Fund 1992 & 1998	Total
BALANCE, JANUARY 1, 2007	$ 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	$ 50,025	$ 25,584	$ 9,408	$ -	$ 364,625	$ 246,375	$ 300,000	$ -	$ 250,000	$ 1,246,017
Receipts:										
Transfers from operating fund	550,275	314,558	144,556	222,973	-	-	-	248,510	-	1,480,872
Disbursements:										
Payments of principal and interest on bonds	(600,300)	(307,007)	(112,890)	(205,732)	(364,625)	(86,817)	(654)	-	-	(1,678,025)
BALANCE, DECEMBER 31, 2008	$ -	$ 33,135	$ 41,074	$ 17,241	$ -	$ 159,558	$ 299,346	$ 248,510	$ 250,000	$ 1,048,864

WAVERLY LIGHT AND POWER

OFFICIALS
December 31, 2008

Board of Trustees

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

Dariece Graening-Knights, Vice Chair
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Waverly, IA 50677

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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
Diane C. Johnson
500 10th Ave NW
Waverly, IA 50677

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

Finance Manager
Eric J. Sommermeyer, CPA CIA
1275 Larrabee Avenue
Tripoli, IA 50676

Office Mgr./Board Secretary
Angela Schroeder
551 Prestien Dr
Denver, IA 50677

Combined Operating Expenses

Last Ten Fiscal Years

Type of Expense	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Production	$ 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	$4,361,308
Transmission	79,054	90,751	95,369	116,239	138,632	98,460	95,826	81,898	98,559	86,660
Distribution	1,130,989	1,055,209	898,840	988,362	881,759	1,137,283	1,266,613	1,338,972	1,467,193	1,467,335
Customer Accounts	184,460	157,800	151,328	164,401	174,615	218,596	175,140	202,355	216,411	198,280
Administrative and General	485,458	480,862	520,933	507,830	549,847	628,236	524,336	593,517	764,759	666,475
Customer Information	138,876	164,029	195,040	144,622	99,226	138,243	137,560	127,887	110,944	123,069
Community Development	NA	NA	NA	81,259	77,098	220,591	189,671	192,423	195,134	225,740
Conservation	126,949	140,116	151,213	153,166	193,930	141,459	178,305	197,595	184,190	185,836
Water Heater	NA	NA	NA	NA	55,509	121,822	140,683	109,686	48,092	93,276
Depreciation	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	1,555,371
Internet	89,239	122,730	187,584	124,638	89,060	NA	NA	NA	NA	NA
Total	$ 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	$8,963,350

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

Last Ten Fiscal Years

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Operating Revenues	$ 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	$ 12,005,301
Operating Expenses	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	8,963,350
Operating Income	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	3,041,951
Non-Operating Income	174,644	38,184	(52,142)	(44,531)	(154,433)	(72,248)	(426,649)	228,057	463,704	296,174
Transfers	(519,764)	(552,799)	(537,567)	(565,407)	(686,847)	(849,943)	(719,340)	(894,220)	(761,328)	(884,952)
Net Assets	$ 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	$ 2,453,173

Energy Disposition

Last Ten Fiscal Years

Type of Service	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Residential	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	36,227,815
Industrial and Commerical	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	98,398,596
Security Lights	282,414	287,034	294,501	306,987	308,652	313,690	315,024	311,778	301,803	305,176	300,846
Municipal	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	9,625,008
Total	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	144,552,265

Principal Customers

2008-2007

Principal Customers	Type of Business Activity	Revenue % Sales to Customers	
		2008	2007
Nestle USA	Beverage Manufacturer	11.24%	11.26%
Wartburg College	Private Liberal Arts College	8.76%	6.80%
GMT	Machining and Fabrication	5.89%	5.01%
CUNA Mutal Life Insurance	Insurance Company	3.57%	3.23%
Waverly Health Center	Hospital	2.69%	3.17%
Terex Cranes	Manufacturing	2.91%	2.58%

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
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	12,197,191	377,858	9,371,694	1,423,386	4,626,741	241,602	775,000	4.55
2008	12,005,301	298,994	8,976,481	1,555,371	4,883,185	224,919	998,421	3.99

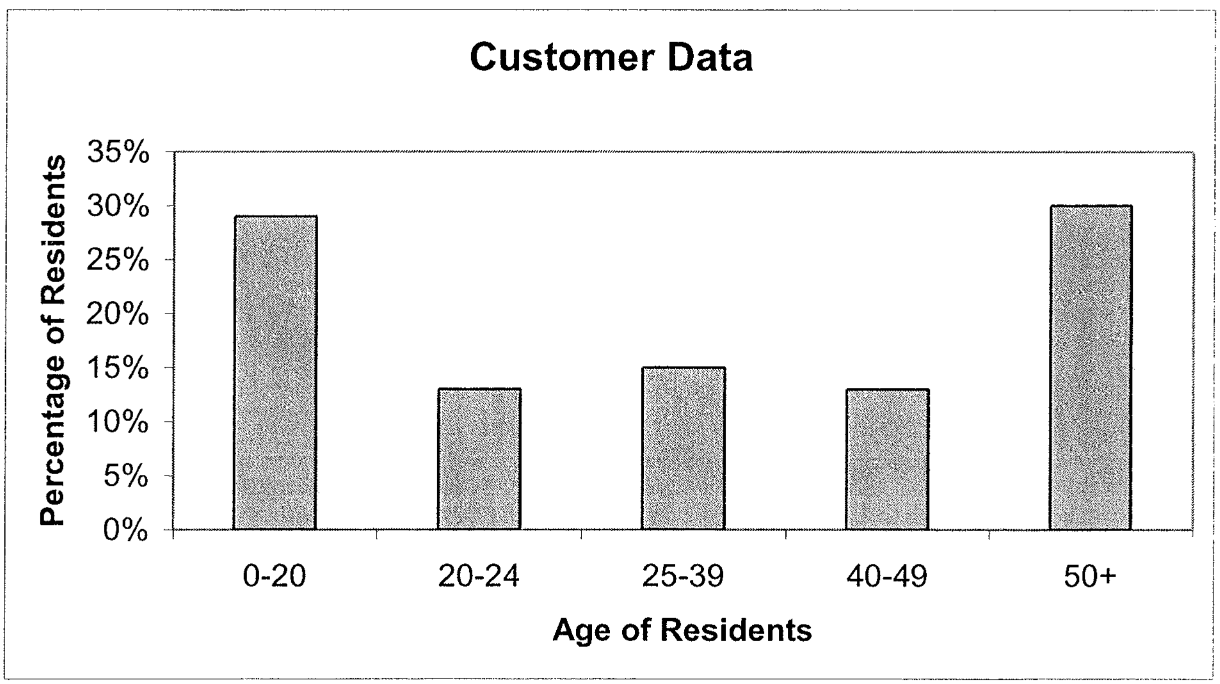
Average Coverage
3.93

(Unaudited)

Demographics

Employee Data

	2001	2002	2003	2004	2005	2006	2007	2008
# of Employees								
Administration	3	3	3	3	3	3	3	3
Business Operations	4	4	4	4	4	4	3	3
Conservation	1	1	1	1	1	1	1	1
Line	13	13	13	14	13	13	12	13
Meter	3	3	2	3	3	3	3	2
Generation	3	3	2	3	5	4	4	5
Total full-time	27	27	25	28	29	28	26	27
Part-time & Interns	7	8	4	3	3	3	3	2



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
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	5555309	1533091	7,088,400	37878	240305	632581	11,899,346
2008	3,529,748	5,724,174	1,322,258	7,046,432	39,117	253,031	636,853	11,505,181

Capital Improvement Additions

Last Ten Fiscal Years

Fiscal Year	Deletions to Plant	Additions to Plant	Cash Required for Capital Improvements
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
2008	(109,738)	1,916,721	1,806,983

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 Waverly Light and Power, an enterprise fund of the city of Waverly, Iowa, as of and for the year ended December 31, 2008, and have issued our report thereon dated April 13, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Waverly Light and Power's internal control over financial reporting as basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Waverly Light and Power's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Waverly Light and Power's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

Virchow, Krause & Company, LLP
Certified Public Accountants & Consultants • An Independent Member of Baker Tilly International

To the Board of Trustees
Waverly Light and Power

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Waverly Light and Power's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Waverly Light and Power's financial statements that is more than inconsequential will not be prevented or detected by Waverly Light and Power's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting and segregation of duties.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Waverly Light and Power's internal controls.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider there to be material weaknesses in internal control over financial reporting and segregation of duties.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of Waverly Light and Power 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 on non compliance or other matters that are required to be reported under Governmental Auditing Standards.

We noted certain matters that we reported to management of Waverly Light and Power in a separate letter dated April 13, 2009.

Waverly Light and Power's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Waverly Light and Power's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of Waverly Light and Power's management, others within the entity, federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Virchow, Krause & Company, LLP

Madison, Wisconsin
April 13, 2009

WAVERLY LIGHT AND POWER

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2008

Findings and Questioned Costs

There were no questioned costs noted as part of the audit.

The audit identified the following material weaknesses:

II-A-08 Financial Reporting – During the audit, we identified material amounts of receivables, capital asset additions and adjustments to net assets not recorded in the utility's financial statements. Adjustments were subsequently made by the utility to properly include these amounts in the financial statements.

Recommendation – The City and Waverly Light and Power should implement procedures to ensure all such adjustments are identified and included in the utility's financial statements.

Management's Response – We will revise our current procedures to ensure the proper amounts
are recorded in the financial statements in the future.

II-B-08 Segregation of Duties – During the audit, we identified that proper segregation of duties was not in place.

Recommendation – The utility should increase the amount of management's involvement in the day-to-day operation of the system and explore.

Management's Response – Management will become more involved in day-to-day operations and continue to be aware of this condition realizing that responsibilities in a limited number of individuals is not desirable from a control point of view.

Findings Related to Required Statutory Reporting:

08-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, 2008 and 2007.

08-II-B Certified Budget – Disbursements during the years ended December 31, 2008 and 2007, did not exceed the amounts budgeted.

08-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.

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

08-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.

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

08-II-G Revenue Bonds – The utility has complied with all provisions of the 2002, 2005, and 2007 Bond Covenants. All required payments to the sinking, reserve and improvement funds were made.

08-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.

WAVERLY LIGHT & POWER

REPORT ON INTERNAL CONTROL

(Including Memorandum on Accounting Procedures,
Internal Controls, and Other Matters)

December 31, 2008

WAVERLY LIGHT & POWER

INDEX

Virchow Krause & company

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

In planning and performing our audit of the financial statements of Waverly Light and Power (WLP) as of and for the years ended December 31, 2008 and 2007, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion(s) on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

Our consideration of the WLP's internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

- Segregation of Duties
- Financial Reporting
- Other Internal Controls

WLP's written response to the material weaknesses identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board and management and is not intended to be, and should not be, used by anyone other than the specified parties.

Virchow, Krause & Company, LLP

Madison, Wisconsin
April 13, 2009

CURRENT YEAR COMMENTS

Accounts Receivable

During the audit, we became aware of issues relating to customer accounts receivable that should be addressed to maintain strong internal controls in this area. Billings are prepared by the City of Waverly and collections are also recorded by the city. The utility also records this activity on its books, however the records between the city and the utility do not match and should be reconciled regularly.

To improve accounts receivable control and monitoring, we recommend the following:

- An aged list of unpaid accounts receivable should be produced by the city and reviewed by the utility on a timely basis.
- Customer deposit balances should be reconciled to detailed lists on a monthly basis.
- Accounts receivable general ledger balances should be reconciled to detailed lists on a monthly basis.
- Amounts not paid on a timely basis should be turned over to the City's attorney or a collection agency for collection.
- The utility should adopt and implement an accounts receivable collection policy.

Implementation of the above procedures will prevent the occurrence of future discrepancies between the city and the utility accounts receivable balances.

Economic Conditions And Your Community

At the present time, economic conditions for the nation as a whole have declined. Your utility may or may not be impacted by the current economic conditions to a large extent, however, there are certain issues that utilities now face that have not been present in recent years.

Tightening Credit Market

A utility's ability to secure long-term financing is becoming more difficult as lenders have tightened the credit market.

Most revenue bonds contain debt covenants that require a certain level of operating income or cash that is set aside for future debt payments. Noncompliance with debt covenants may result in the inability to secure additional financing or may trigger bondholders to demand payment. In the case of WLP, the utility has been meeting its bond coverage requirements. You should continue to be diligent in meeting coverage requirements, as not doing so can impact the ability to issue revenue bonds should the need arise for long-term financing for infrastructure projects.

Increase in Delinquencies

Utilities may experience a higher rate of delinquencies on utility bills as a result of increasing unemployment. As we recommended earlier in this letter, adopting a standard collection policy will help the utility apply a standardize process in this area.

CURRENT YEAR COMMENTS (cont.)

FINANCIAL MANAGEMENT

It is critical that organizations continue to practice sound financial management strategies to help weather the current economic conditions, such as:

- Preparing annual budgets that are realistic and accurate and monitoring the annual budget based on financial records that are accurate and understandable
- Forecasting cash flows as a result of changing economic conditions and developing a plan to address significant issues
- Forecasting capital needs and anticipated financing available
- Monitoring your utility's debt needs

WLP has been proactive in preparing budgets and monitoring financial performance in the past. It is imperative that focus continued to be placed in these areas to maintain the ability to address issues in advance.

MATERIAL WEAKNESSES

FINANCIAL REPORTING

As we reported to you last year, we are required to communicate to you about your internal controls. In theory, a properly designed system of internal control staffed with enough people with sufficient training would provide your organization with the ability to not only process and record monthly transactions but also to prepare a complete set of annual financial statements including the implementation of new standards and all related disclosures.

The definition of a material weakness in internal control includes consideration of the year end financial reporting process. To avoid the auditor reporting a material weakness in internal control, your system of controls would need to be able to accomplish the following:

1. Present the books and records to the auditor in such a condition that the auditor is not able to identify <u>any</u> material journal entries as a result of our audit procedures.
2. Be capable of preparing a complete set of year end financial statements with a very high level of accuracy. The new standard requires that the level of accuracy be such that there is only a remote likelihood that the auditor will discover a material change to the statements or footnotes. Thus, if the auditor discovers a material change, by definition, the system of internal control over financial reporting must have a material weakness.

As we provided material assistance in preparing the financial statements of WLP, we must, under current accounting standards inform you that there is a material weakness in internal control over the financial reporting process.

We will be working with the WLP finance director this year to provide tools that can be used to prepare the complete set of financial statements of WLP in the future to eliminate this material weakness if possible in future years.

MATERIAL WEAKNESSES (cont.)

SEGREGATION OF DUTIES

Our review of internal control disclosed a material weakness in that segregation of duties is not feasible due to the limited number of staff in the office. For example, the same person is involved in handling cash and bookkeeping.

This situation necessitates an increased amount of management involvement in the day-to-day operation of the system. This is not unusual in utilities of your size, but management should continue to be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view.

OTHER INTERNAL CONTROLS

As a result of our audit procedures, we are able to provide to you the following information about where your controls over transactions either do not exist, or could be improved.

Below is a list of potential controls that should be in place to achieve a higher level of reliability that errors or irregularities in your processes would be discovered by your staff. Our procedures identified that these controls do not currently exist for the entity of Waverly Light & Power. Keep in mind that some of these controls may not be practical due to your staff size or other reasons. However, we are required to communicate these to you. In addition, as you make changes within your organization, and we continue to rotate audit procedures, more controls of this kind will likely be communicated to you.

Controls Over Billing and Receipting

1. There should be an appropriate review of new account setup.
2. There should be an appropriate review of system billing rates to ensure authorized rates are applied.

Controls Over Job Costing

1. There should be appropriate authorization for work order establishment and budgets.
2. Variances in project costs between budget and actual for work orders should be explained and approved.
3. There is not proper segregation of duties between inventory receipting and receiving functions.

Controls Over Accounts Payable/Disbursements

1. There should be an appropriate system for review and approval of vendors.

OTHER INTERNAL CONTROLS (cont.)

Information Technology (IT) General Controls

The Waverly Light & Power present software system lacks certain security features that, if operated improperly, would not allow for the identification of changes made to financial data after the original entry of such data. This is a situation that exists in many database software packages, including Microsoft Office Access, which is the basis for your software. Many of the system users may not possess the technical knowledge to operate the system in a manner that would impair the system's control integrity. However, it is possible that some users may possess the knowledge to circumvent the system's controls. Therefore, it is our judgment that there is more than remote possibility that an error could occur in amounts that are more than insignificant, and your controls would not detect them. Accordingly, we are required to communicate this fact to you.

From our review we have identified the following areas where controls should be reviewed and strengthened.

Information Technology System Development Life Cycle

Information technology enables organizations to achieve and manage programs and services. Information technology is a critical asset by which organizations like WLP function. IT governance and IT practices often affect stakeholders, Boards, and senior managers.

Based upon interviews and system observations, Virchow Krause found that WLP does not have a written system development life cycle methodology. This methodology includes the design, acquisition/building and deployment of systems that support the achievement of business objectives. This process includes major changes to existing systems. This is where controls are designed and implemented to support initiating, recording, processing and reporting financial information and disclosure. Deficiencies in this area may have a significant impact on financial reporting and disclosure. For instance, without sufficient controls over application interfaces, financial information may not be complete or accurate.

Because Information Technology governance and management is directly related to an organization's ability to accomplish business objectives, it is recommended that a formal software acquisition policy be developed that outlines the process and requirements for acquiring any new software or to facilitate any internal software development projects.

Information Technology Change Management Process

Managing changes addresses how an organization modifies system functionality to help the business meet its financial reporting objectives. Deficiencies in this area could significantly impact financial reporting. For instance, changes to the programs that allocate financial data to accounts require appropriate approvals and testing prior to the change so that proper classification and reporting integrity is maintained.

Based upon interviews and system observations, Virchow Krause found that changes in the system require notification and approval by the data owner. However, the change is not required to be tested before it is implemented into the production environment.

MATERIAL WEAKNESSES (cont.)

OTHER INTERNAL CONTROLS (cont.)

Information Technology Change Management Process (cont.)

We recommend that a formal change management procedure should be in place for all program changes, system changes, and maintenance. Allowing only a few specific IT personnel to have access to move programs into production. That list should be reviewed periodically. Additionally, segregation of duties should be maintained - developers should not also have rights to move into production.

Logical and Physical Access Security

WLP is highly reliant on critical systems and the security that governs them. While logical restrictions are in place, such as requiring a unique ID and password to access the system, best practices indicate that other steps are necessary to ensure the integrity of data. We recommend the following:

- Enforce length and character restrictions for passwords. Length and character restrictions provide an additional level of security to help protect data and systems. Best Practices suggest passwords should be changed every 45 days, require a minimum of 6 characters, require strong passwords (combination of alphanumeric, numeric and special characters), and passwords should be remembered so user's can't reuse recent passwords.

- Enforce consistent use of a form (paper or electronic) to facilitate adding new employees, modifying existing employee access, and removing access for terminated employees. Approval must be granted by an authorized individual before any changes occur.

- Develop a process to periodically review list of user access rights to the network and significant applications for appropriateness. This is typically done on an annual basis and eliminates the possibility that user privileges are inappropriate for user responsibilities.

- Develop a process to monitor security events both internal and external. Active review of these security logs help IT correlate individual events into patterns and will help them better understand the security risk architecture.

COMMUNICATION TO THE BOARD OF TRUSTEES

This portion of the letter is to inform the board about significant matters related to the annual audit so that it can appropriately discharge its oversight responsibility of the financial reporting process.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or (those charged with governance) of their responsibilities.

As part of the audit we obtained an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. The audit was not designed to provide assurance on internal control or to identify deficiencies in internal control.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements related to debt issues.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated January 11, 2009.

QUALITATIVE ASPECT OF ACCOUNTING POLICIES

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by WLP are described in Note 1 to the financial statements. In 2008 WLP implemented the provisions of GASB 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The impact of GASB 45 is detailed in the notes to the financial statements. We noted no transactions entered into by WLP during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were those related to unbilled revenues and other post employment benefits. Other estimates include the recording of deprecation expense on utility infrastructure.

Financial Statement Disclosures

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatement identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the WLP's financial reporting process. Matters underlying adjustments proposed by the auditor could potentially cause future financial statements to be materially misstated. All audit adjustments we prepared were included in your financial statements. The following is a summary of the entries made:

Removal of old deposits from the current accounts receivable balance	$	30,406
Record developer contribution for the Walgreens construction project	$	45,548
Classifying a current year capital project	$	32,383
Record adjustment to contribution revenue to reflect current year activity	$	102,857
Record adjustment for the current year transfer to the City of Waverly	$	102,000
Record adjustment to retained earnings for current year sinking fund transfers	$	17,144
Record adjustment to GASB 45 Other Post Employment Benefits	$	73,890

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

CONSULTATIONS WITH OTHER ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to WLP's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter. This letter is attached.

INDEPENDENCE

We are not aware of any relationships between Virchow, Krause & Company, LLP and the Company that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of for the year ended December 31, 2008, Virchow, Krause & Company, LLP hereby confirms in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants, that we are, in our professional judgment, independent with respect to the WLP and provided no services to the WLP other than audit services provided in connection with the audit of the current year's financial statements and the following:

- Preparation of Adjusting Journal Entries
- Financial Statement Assistance

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the WLP's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We appreciate the courtesy and assistance extended to us by your personnel during the audit. If you have any questions on our comments, or if we can offer our services in any other way during the year, please don't hesitate to contact us. Thank you for allowing us to serve you.

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Waverly Light and Power
PLANNING FOR TOMORROW, PROVIDING FOR TODAY

April 2, 2009

Updated in email with General Manager and Finance Manager on 4.13.09.

Virchow, Krause & Company, LLP
Ten Terrace Court
P.O. Box 7398
Madison, WI 53707

Dear Auditors:

We are providing this letter in connection with your audit of the financial statements of the Waverly Light and Power as of December 31, 2008 and 2007 and for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position, results of operations, and cash flows of Waverly Light and Power in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the financial statements of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility.

2. We have made available to you all –

   a. Financial records and related data.

   b. Minutes of the meetings of our governing body and summaries of actions of recent meetings for which minutes have not yet been prepared.

3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

5. All known audit and bookkeeping adjustments have been included in our financial statements, and we are in agreement with those adjustments.

6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

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7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:

   a. Management,

   b. Employees who have significant roles in internal control, or

   c. Others where the fraud could have a material effect on the financial statements.

8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

9. We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities or fund equity.

10. The following, if any, have been properly recorded or disclosed in the financial statements:

    a. Related party transactions, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

    b. Guarantees, whether written or oral, under which the utility is contingently liable.

    c. All accounting estimates (including fair value measurements), that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.

11. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including debt contracts and debt covenants; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.

12. There are no –

    a. Violations or possible violations of budget ordinances, provisions of contracts and grant agreements, laws or regulations including those pertaining to adopting and amending budgets, tax, or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance.

    b. Unasserted claims, assessments or pending lawsuits that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*.

    c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.

    d. Reservations or designation of fund equity that were not properly authorized and approved.

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13. We have satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

14. We have complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.

15. The financial statements properly classify all funds and activities.

16. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable approved.

17. Provisions for uncollectible receivables have been properly identified and recorded.

18. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

19. Interfund activity and balances have been appropriately classified and reported.

20. Special and extraordinary items are appropriately classified and reported.

21. Deposits and investment securities are properly classified in category of custodial credit risk.

22. Capital assets are properly capitalized, reported, and, if applicable, depreciated.

23. Required supplementary information (RSI) is measured and presented within prescribed guidelines.

24. With regards to the Commitment to Community report on which you have performed agreed upon procedures:

    a. We are responsible for the preparation of the report including its accuracy, completeness and timely filing with the PSCW. We believe this report to be complete and accurate.

    b. We have provided to you all records and reports which support this report for your procedures.

    c. We agree to the sufficiency of the agreed upon procedures as outlined in our engagement letter and your report.

25. We understand that, as a part of your audit, you prepared adjusting journal entries and acknowledge that we have reviewed and approved those entries and understand the impact on the financial statements.

26. We assume understand that you prepared the trial balance for use during the audit and that your preparation of the trial balance was limited to formatting the information in our general ledger into a working trial balance.

27. We have a process to track the status or audit findings and recommendations.

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Waverly Light and Power
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Virchow, Krause & Company, LLP

28. We have identified to you any previous audits, attestation engagements, performance audits, or other studies related to the objectives of this audit being undertaken and the corrective actions taken to address significant findings and recommendations.

29. We have not aware of any violations of NERC standards other than those already disclosed to the auditors.

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in, the aforementioned financial statements.

Sincerely,

Waverly Light and Power

Signed Diane Johnson

Title/Date General Manager, April 2, 2009

Signed Eric J. Sommermeyer

Title/Date Finance Manger, April 2, 2009