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

FINANCIAL STATEMENTS

Including Independent Auditors' Report

Years Ended December 31, 2009 and 2008

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

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December 31, 2009 and 2008

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying Statements of Net Assets of Waverly Light and Power, an enterprise fund of the City of Waverly, Iowa, as of December 31, 2009 and 2008, and the Statements of Revenues, Expenses and Changes in Net Assets, and Statements of Cash Flows for the years then ended. These financial statements are the responsibility of utility management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Waverly Light and Power enterprise fund and are not intended to present fairly the financial position of the City of Waverly, Iowa as of December 31, 2009 and 2008, 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, 2009 and 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued our March 31, 2010 report on our consideration of Waverly Light and Power's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal 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.

To the Board of Trustees
Waverly Light and Power

The Management's Discussion and Analysis on pages 3 through 10 and Schedule of Funding Progress on page 42 is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. Management discussion and analysis does not include a full discussion of changes in financial position between 2007 and 2008. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements. 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. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

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.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 31, 2010

Unaudited
WAVERLY LIGHT AND POWER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2009 and 2008

Waverly Light and Power (WLP) offers this discussion and analysis of our financial performance for the years ending December 31, 2009 and 2008. 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 2009, we purchased 55.3% 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 2009, we installed 86 electric services many of which were due to the 500 year flood that affected Waverly in 2008.

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 $650,000 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

	2009	2008	2007
ASSETS			
Current Assets	$ 5,806,783	$ 6,375,422	$ 6,620,142
Non-Current Assets			
Restricted Assets	957,414	957,414	3,043,500
Designated Funds	6,330,452	6,098,073	3,423,438
Other Assets	4,066,724	5,802,254	5,742,745
Capital Assets	33,136,301	31,418,374	30,524,801
Total Assets	50,297,674	50,651,537	49,354,626
LIABILITIES			
Current Liabilities	2,194,780	1,807,617	1,621,728
Current Liabilities Payable from Restricted Assets	1,072,708	2,802,085	1,017,174
Non-Current Liabilities	8,379,979	9,530,301	10,774,860
Non- Current Liabilities Payable from Restricted Assets	-	-	1,882,500
Total Liabilities	11,647,467	14,140,003	15,296,262
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	27,131,224	26,278,320	25,343,081
Restricted for Debt Service and Improvements	786,690	784,190	1,227,264
Unrestricted	10,732,293	9,449,027	7,488,019
TOTAL NET ASSETS	$ 38,650,207	$ 36,511,537	$ 34,058,364

WLP increased net assets by $2.1 million and $2.4 million in 2009 and 2008, 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

	2009	2008	2007
OPERATING REVENUES	$ 12,491,295	$ 12,005,301	$ 12,197,191
OPERATING EXPENSES			
Depreciation expenses	1,565,196	1,522,050	1,423,386
Other operating expenses	7,799,836	7,407,979	7,948,308
Total Operating Expenses	9,365,032	8,930,029	9,371,694
Operating Income	3,126,263	3,075,272	2,825,497
Investment income	152,628	298,994	377,858
Interest and amortization expense	(242,249)	(271,179)	(254,163)
Gain/(Loss) on sale of plant	952	(3,720)	19,048
Royalties	36,028	39,533	25,724
Total Non-Operating Expenses	(52,641)	63,628	168,467
Income before operating transfers and Contribututions	3,073,622	3,138,900	2,993,964
Contributions	400	199,225	295,237
Operating transfers to the City of Waverly	(935,352)	(884,952)	(761,328)
Change in Net Assets	2,138,670	2,453,173	2,527,873
NET ASSETS, Beginning of Year	36,511,537	34,058,364	31,530,491
NET ASSETS, END OF YEAR	$ 38,650,207	$ 36,511,537	$ 34,058,364

Revenues for 2009 were $526,000 higher than revenues for 2008 due increased transmission costs that were recovered in the energy cost adjustment.

Expenses for 2009 were $481,000 higher than expenses for 2008 due to increases in distribution maintenance and depreciation.

WLP Financial Analysis (cont.)

Table 3
Condensed Statements of Cash Flows

	2009	2008	2007
Cash Flows from Operating Activities			
Received from sales to customers	$ 11,371,429	$ 12,623,340	$ 11,512,135
Paid to suppliers and employees for services	(7,298,080)	(7,551,417)	(7,629,946)
Cash Flows from Operating Activities	4,073,349	5,071,923	3,882,189
Cash Flows from Non-Capital Financing Activities	(960,352)	(909,952)	(786,328)
Cash Flows from Capital and Financing Activities	(4,561,522)	(1,182,219)	(4,946,524)
Cash Flows from Investing Activities	2,398,685	1,298,994	3,927,857
Net Change in Cash and Equivalents	950,160	4,278,746	2,077,194
CASH AND CASH EQUIVALENTS – Beginning of Year	8,499,019	4,220,273	2,143,079
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 9,449,179	$ 8,499,019	$ 4,220,273

In 2008, the utility received principal from CREB bonds in the amount of $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 2009	Budget 2009	Variance Favorable (Unfavorable)
OPERATING REVENUES	$12,491,295	$11,895,485	$595,810
OPERATING EXPENSES			
Depreciation expenses	1,565,196	1,631,859	(66,663)
Other operating expenses	7,799,836	8,753,504	(953,668)
Total Operating Expenses	9,365,032	10,385,363	(1,020,331)
Operating Income	3,126,263	1,510,122	1,616,141
Investment income	152,628	300,000	(147,372)
Interest and amortization expense	(242,249)	(207,031)	(35,218)
Gain on sale of plant	952	-	952
Other income (expense)	36,028	10,000	26,028
Total Non-Operating Expenses	(52,641)	102,969	(155,610)
Income before contributions and operating transfers	3,073,622	1,613,091	1,460,531
Contributions	400	-	400
Operating transfers to the City of Waverly	(935,352)	(960,349)	24,997
Change in Net Assets	2,138,670	652,742	1,485,928
NET ASSETS, Beginning of Year	36,511,537	36,511,537	-
NET ASSETS, END OF YEAR	$38,650,207	$37,164,279	$1,485,928

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 $136,927, $159,771and $89,059 respectively for 2009 2008, and 2007. 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 $2,337,738. In 2008 and 2007 the balance was $2,383,115, and $45,000 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 $650,000 is funded annually at $60,000 a year. The 2008 and 2007 balance was $590,000 and $530,000 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 $220,414, $113,736, and $6,589 for 2009, 2008 and 2007 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 2008 the balances were $1,439,955 and $186,121 respectively for each fund. In 2007 the balances were $1,439,955 and $186,121 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 $763,745, $629,823, and $531,162 for 2009, 2008 and 2007 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 2009, 2008 and 2007.

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 $1,174,487, $2,931,364, and $3,128,517 in 2009, 2008 and 2007 respectively.

Capital Assets

WLP has $57.4 million of capital assets with a net asset value of $33.1 million. The total includes $.5 million in land, $3.7 million in buildings, $28.2 million in improvements, $5.6 million in machinery and equipment, $10.2 million in Louisa Generating Plant, $5.3 million in Walter Scott Jr. 4 Generating Plant, and $3.9 million in construction work in progress.

The 2008 capital assets included $54.4 million of capital assets with a net asset value of $31.4 million. The total includes $.5 million 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 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.

Capital improvements for 2009 included conservation rebates, installation of new distribution lines, services, meters, and transformers, Louisa Generating Station improvements, WS4 Generating Station improvements, transportation and power operated equipment, and miscellaneous tools and equipment.

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.

Debt Activity

We have $6.2 million of outstanding debt at December 31, 2009. This includes $1.1 million of 10-year bonds for various capital improvements including a 900 kW wind turbine, $2.6 million of 10-year bonds issued to reimburse the utility for various capital improvements including partial WS4 construction costs and $2.5 million of CREB bonds issued to finance two wind turbines.

At the end of 2008 and 2007 the outstanding debt was $7.1 million and $8.1 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 $1,174,487. Debt service for 2009 included $903,421 of principal payments and $193,964 of interest payments. Also in the restricted fund is the remaining contract amount for two turbines. The 2008 restricted fund balance was $2,931,364 including $998,421 of principal payments and $227,919 of interest payments. The 2007 restricted fund balance was the 2007 restricted fund balance was $1,227,264 including $775,000 of principal payments and $241,602 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, 2009 and 2008

ASSETS

	2009	2008
CURRENT ASSETS		
Cash and investments	$ 1,954,400	$ 1,969,582
Accounts receivable	2,395,485	1,172,651
A/R Wartburg green power choice	100,000	100,000
Inventory	1,030,127	1,061,437
Prepaid expenses	109,698	97,802
Restricted Assets		
Sinking Funds		
2002 bonds	33,226	33,135
2005 bonds	41,216	41,074
CREB bonds	17,131	17,241
Cannon 1 & 2 held at FNB	125,500	1,882,500
Total Current Assets	5,806,783	6,375,422
NON-CURRENT ASSETS		
Restricted Assets		
Reserve Funds		
2002 bonds	159,558	159,558
2005 bonds	299,346	299,346
CREB bonds	248,510	248,510
Improvement fund	250,000	250,000
Total Restricted Assets	957,414	957,414
Designated Funds		
Vehicle replacement	136,927	159,771
Key accounts	763,745	629,823
Future generation	2,337,738	2,383,115
Iowa energy tags	220,414	113,736
Generation	1,439,955	1,439,955
G & A	186,121	186,121
Insurance recovery	650,000	590,000
Distribution Fund	595,552	595,552
Total Designated Funds	6,330,452	6,098,073
Other Assets		
Deferred asset	1,685,500	3,562,500
Deferred a/r Wartburg green power choice	1,700,000	1,800,000
Investment in Quad Cities West	33,351	-
Investment in CAPX	15,565	-
Investment in Grimes Granger	176,620	-
Energy rebates net of amortization	412,865	388,586
Unamortized 2002 bond issue costs	2,349	4,015
Unamortized 2005 bond issue costs	11,296	15,730
Unamortized CREB bond issue costs	29,178	31,423
Total Other Assets	4,066,724	5,802,254
Capital Assets		
Land	487,396	487,396
Buildings	3,713,475	3,558,998
Improvements	28,225,324	27,236,165
Machinery and equipment	5,614,047	5,674,787
Louisa & Walter Scott 4 plants	15,499,705	15,393,964
Construction work in progress	3,890,510	2,051,712
Total Capital Assets	57,430,457	54,403,022
Accumulated depreciation	(24,294,156)	(22,984,648)
Net Capital Assets	33,136,301	31,418,374
Total Non-Current Assets	44,490,891	44,276,115
TOTAL ASSETS	$ 50,297,674	$ 50,651,537

See accompanying notes to financial statements.

LIABILITIES

	2009	2008
CURRENT LIABILITIES		
Accounts payable	$ 436,279	$ 333,747
Accrued property taxes	173,677	153,364
Other accrued expenses	1,364,824	1,075,503
Current portion of note payable	120,000	145,000
Current Liabilities Payable From Restricted Assets		
Current portion of revenue bonds	933,421	903,421
Cannon 1 & 2 payable	125,500	1,882,500
Accrued interest on revenue bonds	13,787	16,164
Total Current Liabilities	3,167,488	4,509,699
NON-CURRENT LIABILITIES		
Note payable	1,440,000	1,560,000
Deferred credit - Wartburg green power	1,800,000	1,900,000
Revenue bonds	5,246,053	6,179,473
Non-Current Liabilities Payable From Restricted Assets		
Cannon 1 & 2 payable	-	-
Less: Unamortized discount	(6,074)	(9,172)
Total Non-Current Liabilities	8,479,979	9,630,301
Total Liabilities	11,647,467	14,140,000

NET ASSETS

	2009	2008
NET ASSETS		
Invested in capital assets, net of related debt (note 7)	27,131,224	26,278,320
Restricted for debt service and improvements	786,690	784,190
Unrestricted	10,732,293	9,449,027
Total Net Assets	38,650,207	36,511,537
TOTAL LIABILITIES AND NET ASSETS	$ 50,297,674	$ 50,651,537

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, 2009 and 2008

	2009	2008
OPERATING REVENUES		
Sales to customers	$ 12,054,610	$ 11,505,181
Miscellaneous	436,685	500,120
Total Operating Revenues	12,491,295	12,005,301
OPERATING EXPENSES		
Production	4,387,125	4,361,308
Transmission	101,271	86,660
Distribution	1,733,936	1,467,335
Customer accounts	203,553	198,280
Administrative and general	677,310	666,475
Customer information	137,730	123,069
Community development	261,599	225,740
Conservation	287,392	185,836
Water heater	9,920	93,276
Depreciation	1,565,196	1,522,050
Total Operating Expenses	9,365,032	8,930,029
Operating Income	3,126,263	3,075,272
NONOPERATING REVENUE (EXPENSES)		
Loss (gain) on sale of plant	952	(3,720)
Royalties	36,028	39,533
Investment income	152,628	298,994
Interest expense	(191,586)	(224,919)
Amortization of debt discount and bond issue costs	(11,443)	(12,939)
Amortization of energy rebates	(39,220)	(33,321)
Total Nonoperating Revenue (Expenses)	(52,641)	63,628
INCOME BEFORE OPERATING TRANSFERS	3,073,622	3,138,900
Contributions	400	199,225
Transfer to City of Waverly general fund	(935,352)	(884,952)
CHANGE IN NET ASSETS	2,138,670	2,453,173
NET ASSETS - Beginning of Year	36,511,537	34,058,364
NET ASSETS - END OF YEAR	$ 38,650,207	$ 36,511,537

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, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from sales to customers	$ 11,371,429	$ 12,623,340
Paid to suppliers for purchased power and transmission	(2,457,840)	(2,535,556)
Paid to suppliers and employees for other services	(4,840,240)	(5,015,861)
Net Cash Flows From Operating Activities	4,073,349	5,071,923
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)	(120,000)
Transfers to City of Waverly	(815,352)	(764,952)
Net Cash Flows From Noncapital Financing Activities	(960,352)	(909,952)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of plant and equipment	(3,579,060)	(2,899,440)
Salvage received on plant sold	113,569	37,300
Gain (Loss) on sale of plant	952	(3,720)
Capital contributions received	400	199,225
Principal received from CREB bonds	-	2,826,316
Principal payments on revenue bonds	(903,420)	(998,421)
Interest paid	(193,963)	(227,507)
Net Cash Flows From Capital and Related Financing Activities	(4,561,522)	(1,066,247)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net marketable securities sold for 1998 sinking fund	-	50,025
Net marketable securities purchased for 2002 sinking fund	(91)	(7,551)
Net marketable securities purchased for 2005 sinking fund	(142)	(31,666)
Net marketable securities purchased for CREB bond sinking fund	110	(17,241)
Net marketable securities purchased/sold for vehicle replacement fund	22,844	(70,712)
Net marketable securities purchased for key accounts fund	(133,922)	(98,661)
Net marketable securities sold/purchased for future generation fund	45,377	(2,338,115)
Net marketable securities sold/purchased for Iowa energy tags fund	(106,678)	(107,147)
Net marketable securities purchased for insurance recovery fund	(60,000)	(60,000)
Net marketable securities sold/purchased for electric revenue fund	232,502	2,681,068
Marketable securities purchased	(10,160)	(2,500,000)
Marketable securities sold	2,500,000	3,500,000
Purchase of investment in grimes granger and capx	(180,284)	-
Purchase of energy rebates	(63,499)	(115,972)
Investment income	152,628	298,994
Net Cash Flows From Investing Activities	2,398,685	1,183,022
Net Change in Cash and Cash Equivalents	950,160	4,278,746
CASH AND CASH EQUIVALENTS - Beginning of Year	8,499,019	4,220,273
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 9,449,179	$ 8,499,019
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Amortization of debt related costs	$ 11,433	$ 12,939
Amortization of energy rebates	$ 39,220	$ 33,321

See accompanying notes to financial statements.

	2009	2008
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	$ 3,126,263	$ 3,075,272
Non-operating income (expense)	36,028	39,533
Noncash items included in operating income		
Depreciation	1,565,196	1,522,050
Depreciation cleared	137,116	127,441
Changes in assets and liabilities		
Accounts receivable	(1,222,834)	578,506
Inventory	31,310	(318,855)
Prepaid expenses	(11,896)	(51,050)
Accounts payable	102,532	(171,950)
Accrued property taxes	20,313	881
Other accrued expenses	289,321	270,085
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 4,073,349	$ 5,071,913
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEET ACCOUNTS		
Cash and investments	$ 1,954,400	$ 1,969,582
Restricted investments		
Sinking Funds		
2002 bonds	33,226	33,135
2005 bonds	41,216	41,074
CREB bonds	17,131	17,241
Reserve Funds		
2002 bonds	159,558	159,558
2005 bonds	299,346	299,346
CREB bonds	248,510	248,510
Improvement fund	250,000	250,000
Cannon 1 & 2 held at FNB	125,500	1,882,500
Total Cash and Restricted Investments	3,128,887	4,900,946
Designated Investments		
Vehicle replacement	136,927	159,771
Key accounts	763,745	629,823
Future generation	2,337,738	2,383,115
Iowa energy tags	220,414	113,736
Generation	1,439,955	1,439,955
G & A	186,121	186,121
Insurance recovery	650,000	590,000
Distribution Fund	595,552	595,552
Total Designated Investments	6,330,452	6,098,073
Less: non cash equivalents (note 1)	(10,160)	(2,500,000)
TOTAL CASH AND CASH EQUIVALENTS	$ 9,449,179	$ 8,499,019

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 2009. 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 35% from residential users in and around the municipality and approximately 65% from commercial and industrial users in the municipality.

Accounts receivable balances at December 31, 2009 and 2008 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, 2009 and 2008 include: unbilled revenues totaling $560,582 and $522,232, customer accounts receivable totaling $921,505 and $581,375 other accounts receivable totaling $384,114 and $186,845, accrued interest receivable totaling $395 and $31,549 and unbilled fuel cost receivable totaling $528,889 and ($149,350), respectively.

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

ASSETS, LIABILITIES AND NET ASSETS (cont.)

Inventory

Inventories are generally used for construction, operation and maintenance work, not for resale. Supply inventories are valued at average cost and charged to construction or expense when used. Coal and fuel inventories are valued on a first in – first out basis.

The balance of inventory is made up as follows:

	December 31	
	2009	2008
Local Inventories		
Distribution materials	$ 631,807	$ 646,571
Water heaters	2,328	3,002
Operating plant fuel	91,930	111,967
Louisa Inventories		
Coal	192,178	195,735
Oil	1,658	1,830
Materials	43,671	41,880
WS4 Inventories		
Coal	39,115	37,321
Oil	10,840	11,631
Materials	16,600	11,500
Totals	$ 1,030,127	$ 1,061,437

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.)

Other Assets

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

Capital Assets

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

Capital assets of the utility are recorded at cost, except for distribution plant facilities constructed prior to January 1, 1964, which are stated at appraisal valuations. Additions to the distribution plant subsequent to that date are stated at cost or fair market value at the time of contribution to the utility. At December 31, 1997 all assets remaining in service that were stated at appraised valuations had been fully depreciated. Major renewals and betterments are capitalized at cost. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed, net of interest earnings on tax-exempt debt proceeds. Maintenance and repairs are expensed as incurred.

Total depreciation expense for the years ended December 31, 2009 and 2008, was $1,702,312 and $1,662,632, respectively; of that, $1,565,196 and $1,522,050 was expensed and $137,116 and $140,582 was capitalized in 2009 and 2008.

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

Other Accrued Expenses

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

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

ASSETS, LIABILITIES AND NET ASSETS (cont.)

Employee Benefits

Sick Leave

Employees accumulate sick leave hours for subsequent use, but these hours are not payable upon termination, retirement or death. The accumulations are not recognized by the utility until paid.

Vacation Leave

Vacation leave is vested as earned and is included in other accrued expenses.

Severance Pay

Employees accumulate severance pay, receivable upon retirement from the utility at the rate of two days per year of service. The liability for this anticipated obligation is included in other accrued expenses at present value amounts.

Retiree Health Insurance

Employees may receive this benefit after they retire until they reach the age of 65 if certain conditions are met. The liability for this anticipated obligation is included in other accrued expenses. 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.

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

REVENUES AND EXPENSES (cont.)

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 July 2008 and placed into effect in January 2009.

Taxes

The utility records annual replacement taxes based on the delivery of energy to end-use consumers, generation and the miles of transmission lines owned by the Utility. Municipal utilities are exempt from federal and state income taxes.

Capital Contributions

Cash and capital assets are contributed to the utility from customers, the municipality or external parties. The value of property contributed to the utility is reported as revenue on the statements of revenues, expenses and changes in net assets.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The utility has not evaluated the impact of these statements on its financial reporting.

COMPARATIVE DATA

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

NOTE 2 – DEPOSITS AND INVESTMENTS

The carrying values of the utility's deposits and investments as of December 31, 2009 and 2008 were comprised of the following:

	2009	2008	Risks
Checking	$ 1,112,535	$ 552,944	Custodial credit risk
Petty cash	921	1,550	Custodial credit risk
Saving	5,843,336	6,484,173	Custodial credit risk
Certificates of deposit	10,160	2,500,000	Custodial credit risk
IPAIT	2,492,387	1,460,352	Credit and Interest rate risk
Total Deposits and Investments	$ 9,459,339	$10,999,019	

Reconciliation to financial statements

	2009	2008
Unrestricted cash and investments	$1,954,400	$ 1,969,582
Restricted cash and investments	1,174,487	2,931,364
Designated cash and investments	6,330,452	6,098,073
Total Deposits and Investments	$9,459,339	$10,999,019

The utility may also maintain separate cash and investment accounts at the same financial institutions utilized by the municipality. Federal depository insurance applies to all municipal accounts, and accordingly, the amount of insured funds is not determinable for the utility alone. Therefore, coverage for the utility may be reduced. Investment income on commingled investments of the entire municipality is allocated based on average investment balances. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit.

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

Credit Risk

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

As of December 31, 2009 and 2008, 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, 2009 and 2008, the utility's investments were as follows:

	2009		2008	
Investment Type	Fair Value	Weighted Average Maturity (Days)	Fair Value	Weighted Average Maturity (Days)
Iowa Public Agency Investment Trust	$ 2,492,387	59.95	$ 1,460,352	54.73

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:

	2009	2008
Restricted Assets		
Sinking funds	$ 91,573	$ 91,450
Reserve fund	707,414	707,414
Improvement fund	250,000	250,000
Cannon 1 & 2 held at FNB	125,500	1,882,500
Total Restricted Assets	1,174,487	2,931,364
Less: Restricted Assets Not Funded by Revenues		
Reserve fund	(248,510)	(248,510)
Cannon 1 & 2 held at FNB	(125,500)	(1,882,500)
Total Restricted Assets Not Funded by Revenues	(374,010)	(2,131,010)
Current Liabilities Payable From Restricted Assets	(13,787)	(16,164)
Total Restricted Net Assets as Calculated	$ 786,690	$ 784,190

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, 2009 and 2008:

		2009		2008	
To	From	Amount	Principal Purpose	Amount	Principal Purpose
Municipality	WLP	$ 815,352	Fund Transfer	$ 764,952	Fund Transfer
Municipality	WLP	120,000	W/W Wellness	120,000	W/W Wellness

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2009 follows:

	Balance 01/01/09	Additions	Deletions	Balance 12/31/2009
Capital assets:				
Land [1]	$ 487,396	$ -	$ -	$ 487,396
Buildings	3,558,998	179,396	(24,919)	3,713,475
Improvements	27,236,165	1,027,136	(37,977)	28,225,324
Equipment	5,674,791	382,541	(443,285)	5,614,047
Louisa plant	10,151,130	67,585	(192)	10,218,523
WS4 plant	5,242,830	38,352	-	5,281,182
Construction in progress [1]	2,051,712	3,557,289	(1,718,491)	3,890,510
Less: Accumulated depreciation	(22,984,648)	(1,743,632)	434,124	(24,294,156)
Net Capital Assets	$ 31,418,374	$ 3,508,667	$ (1,790,740)	$ 33,136,301

[1] – Capital assets not being depreciated.

NOTE 5 – CHANGES IN CAPITAL ASSETS (cont.)

A summary of changes in capital assets for 2008 follows:

	Balance 01/01/08	Additions	Deletions	Balance 12/31/2008
Capital assets:				
Land [(1)]	$ 487,396	$ -	$ -	$ 487,396
Buildings	3,558,998	-	-	3,558,998
Improvements	26,521,111	715,054	-	27,236,165
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	(21,387,800)	(1,662,632)	65,784	(22,984,648)
Net Capital Assets	$ 30,218,866	$ 2,778,646	$ (1,579,138)	$ 31,418,374

[(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
7/29/1998	Finance a deisel generating facility and transmission improvements	12/1/2005	12/1/2008	4.1-4.4%	$ 3,610,000	$ -
5/1/2002	Finance various electric system improvements	12/1/2010	12/1/2012	2.2 – 4.5%	2,500,000	1,110,000
12/15/2005	Finance various electric system improvements	12/1/2012	12/1/2015	3.5 - 4.0%	3,000,000	2,620,000
12/4/2007	Finance two wind turbines	12/1/2022	12/1/2022	0.70%	2,826,316	2,449,474

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
2010	$ 350,000	$ 48,705	$ 398,705
2011	370,000	33,830	403,830
2012	390,000	17,550	407,550
Totals	$ 1,110,000	$ 100,085	$ 1,210,085

The 2005 revenue bond debt service requirements to maturity follows:

Year	Principal	Interest	Total
2010	$ 395,000	$ 99,590	$ 494,590
2011	410,000	85,370	495,370
2012	425,000	70,406	495,406
2013	445,000	54,468	499,468
2014	465,000	37,336	502,336
2015	480,000	19,200	499,200
Totals	$ 2,620,000	$ 366,370	$ 2,986,370

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

REVENUE BONDS (cont.)

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

Year	Principal	Interest	Total
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	188,421	11,870	200,291
2015-2019	942,105	39,568	981,673
2020-2022	565,264	7,913	573,177
Totals	$ 2,449,474	$ 120,023	$ 2,569,497

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 2009 and 2008 were $1,097,385 and $1,223,340, respectively. Total customer gross revenues as defined for the same periods were $12,643,923 and $12,304,295. Annual principal and interest payments are expected to require 4.5% of gross revenues on average.

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 2009 and 2008. The outstanding amount of the Board approved funding at December 31, 2009 and 2008 was $0 and $25,000, 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, 2009 and 2008 were $1,560,000 and $1,680,000, 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.)

Note payable obligations to maturity follows:

Year	Principal	Interest	Total
2010	$ 120,000	$ -	$ 120,000
2011	120,000	-	120,000
2012	120,000	-	120,000
2013	120,000	-	120,000
2014	120,000	-	120,000
2015-2019	600,000		600,000
2020-2022	360,000	-	360,000
Totals	$ 1,560,000	$ -	$ 1,560,000

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 $1,800,000 and $1,900,000, respectively has been reflected in the Statements of Net Assets for 2009 and 2008.

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

Long-term obligation activity for 2009 and 2008 follows:

Debt Issue	Balance 12/31/2008	Additions	Reductions	Balance 12/31/2009	Current Portion
2002 Revenue bonds	$ 1,445,000	$ -	$ 335,000	$ 1,110,000	$ 350,000
2005 Revenue bonds	3,000,000	-	380,000	2,620,000	395,000
CREB Revenue bonds	2,637,894	-	188,420	2,449,474	188,421
Note Payable	1,705,000	-	145,000	1,560,000	120,000
Deferred Credit	1,900,000	-	100,000	1,800,000	100,000
Unamortized Debt Discount	(9,172)	-	(3,098)	(6,074)	(2,330)
Totals	$ 10,678,722	$ -	$ 1,145,322	$ 9,533,400	$ 1,151,091

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	100,000
Unamortized Debt Discount	(13,035)	-	(3,863)	(9,172)	(3,099)
Totals	$ 11,918,281	$ -	$ 1,239,559	$ 10,678,722	$ 1,145,322

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:

	2009	2008
Plant in service	$ 53,539,947	$ 52,351,310
Accumulated depreciation	(24,294,156)	(22,984,648)
Construction work in progress	3,890,510	2,051,712
Subtotal	33,136,301	31,418,374
Less: Capital Related Debt		
Current portion of capital related long-term debt	933,421	903,421
Long-term portion of capital related long-term debt	5,246,053	6,179,473
Unamortized bond issue costs	(42,823)	(51,168)
Unamortized discount	(6,074)	(9,172)
Subtotal	6,130,577	7,022,554
Plus:		
Cannon 1 & 2 held at FNB	125,500	1,882,500
Subtotal	125,500	1,882,500
Total Net Assets Invested in Capital Assets, Net of Related Debt	$ 27,131,224	$ 26,278,320

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 2009 assets at a cost of $644,636 less accumulated depreciation of $433,403 for a net value of $211,233. Of this, approximately 6% of the system has been leased to customers. Total lease revenue included in the utility's financial statements for 2009 and 2008 was $44,772 and $47,458, respectively.

NOTE 8 – LEASES (cont.)

Lease revenue over the remaining contract lease terms is as follows:

2010	$	11,027
2011		8,253
Totals	$	19,280

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 4.3% of their annual salary and the utility is required to contribute 6.65% of the annual-covered payroll to the plan. Contribution requirements are established by State statute. The utility's contribution to IPERS for 2009, 2008, and 2007 was $119,969, $108,259, and $99,351, respectively. The total utility payroll was $1,964,300 for 2009. The payroll for 2008 and 2007 was 1,844,945 and $1,851,820, 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, 2009 and 2008 was $650,000 and $590,000, 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 2009 and 2008 is presented below:

	2009	2008
Claims liability, beginning of year	$ 590,000	$ 530,000
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	$ 650,000	$ 590,000

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 2009 and 2008, the utility contributed $5,574 and $13,128 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 2009 or 2008. Administrative costs of the plan are financed through investment earnings.

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

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

Annual required contribution	$ 39,382
Interest on net OPEB obligation	788
Adjustment to annual required contribution	-
Annual OPEB cost	40,170
Contributions made	(5,574)
Increase in net OPEB obligation (asset)	34,596
Net OPEB Obligation (Asset) – Beginning of Year	26,254
Net OPEB Obligation (Asset) – End of Year	$ 60,850

The utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for December 31, 2009 and two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
2009	$39,382	14%	$60,850
2008	$39,382	33%	$26,254
2007	-0-	-0-	-0-

The funded status of the plan as of December 31, 2009, 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)	$1,964,300
UAAL as a percentage of covered payroll	18%

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.

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan 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, 2009 was 24 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, 2009 and 2008 was $815,352 and $764,952, respectively.

NOTE 12 – COMMITMENTS AND CONTINGENCIES (cont.)

COMMITMENTS (cont.)

Trees Forever

The utility helps fund the local Trees Forever program with annual contributions to help further its energy conservation programs. Since 1995, annual contributions of $10,000 have been made to Trees Forever. In November 2006, the Board approved funding of $10,000 per year for the next 5 years, subject to yearly budget approval.

Local Wind Generation

In 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 and 2010. 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.

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 (AWE) on July 16, 2007. This agreement was for the delivery of two AWE 54-900 wind turbines. AWE assigned this contract to EWT International. These turbines were delivered to the utility in February 2009. During assembly, one of the turbines was destroyed in a construction accident. The project contractor is working with its insurance company to replace the turbine that was destroyed. WLP is confident that it will fully recover with respect to the accident and expects that a new turbine will be delivered and installed in 2010. The other turbine was installed in 2009 and is expected to be commissioned in 2010.

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. The utility will fully assign its interest in Louisa Generating Station to MEAN effective February 1, 2010.

NOTE 14 – SIGNIFICANT CUSTOMER

Sales to a significant customer were 10% in 2009 and 11% in 2008. 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, 2009 and 2008. 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
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, 2009.

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, 2009 and 2008. 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
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, 2009.

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, 2009 and 2008. 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
2010	$ 205,567	$ -	$ -
2011	204,248	-	-
2012	202,929	-	-
2013	201,611	-	-
2014	200,291	-	-
2015	198,973	-	-
2016	197,654	-	-
2017	196,335	-	-
2018	195,016	-	-
2019	193,697	-	-
2020	192,378	-	-
2021	191,059	-	-
2022	189,738	-	-

The Reserve Fund Reserve and Improvement Fund Reserves are fully funded and thus no annual funding requirements exist for these reserves as of December 31, 2009.

NOTE 17 – SUBSEQUENT EVENT

The Board of Trustee's approved a rate increase of 4.5% effective February 1, 2010.

REQUIRED SUPPLEMENTAL INFORMATION

Unaudited
WAVERLY LIGHT AND POWER

SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT BENEFITS PLAN
For the Year Ended December 31, 2009 and 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
12/31/2009	$ -	$ 353,970	$ 353,970	0%	$ 1,964,300	18%
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, 2009 and 2008

	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, 2008	$ 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
Receipts:										
Transfers from operating fund	-	397,699	493,032	206,776	-	-	-		-	1,097,507
Disbursements:										
Payments of principal and interest on bonds	-	(397,608)	(492,890)	(206,886)	-	-	-	-	-	(1,097,384)
BALANCE, DECEMBER 31, 2009	$ -	$ 33,226	$ 41,216	$ 17,131	$ -	$ 159,558	$ 299,346	$ 248,510	$ 250,000	$ 1,048,987

WAVERLY LIGHT AND POWER

OFFICIALS
December 31, 2009

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Waverly, IA 50677

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

Combined Operating Expense
Last Ten Fiscal Years

Type of Expense	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Production	$ 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	$ 4,387,125
Transmission	90,751	95,369	116,239	138,632	98,460	95,826	81,898	98,559	86,660	101,271
Distrubution	1,055,209	898,840	988,362	881,759	1,137,283	1,266,613	1,338,972	1,467,193	1,467,335	1,733,936
Customer Accounts	157,800	151,328	164,401	174,615	218,596	175,140	202,355	216,411	198,280	203,553
Administrative and General	480,862	520,933	507,830	549,847	628,236	524,336	593,517	764,759	666,475	677,310
Customer Information	164,029	195,040	144,622	99,226	138,243	137,560	127,887	110,944	123,069	137,730
Community development	NA	NA	81,259	77,098	220,591	189,671	192,423	195,134	225,740	261,599
Conservation	140,116	151,213	153,166	193,930	141,459	178,305	197,595	184,190	185,836	287,392
Water Heater	NA	NA	NA	55,509	121,822	140,683	109,686	48,092	93,276	9,920
Depreciation	990,562	1,213,274	1,276,135	1,260,547	1,325,524	1,365,706	1,347,305	1,423,386	1,522,050	1,565,196
Internet	122,730	187,584	124,638	89,060	NA	NA	NA	NA	NA	NA
Total	$ 5,751,019	$ 6,259,352	$ 6,559,929	$ 6,857,735	$ 7,295,523	$ 8,190,766	$ 8,060,629	$ 9,371,694	$ 8,930,029	$ 9,365,032

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

Last Ten Fiscal Years

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Operating Revenues	$ 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	$ 12,491,295
Operating Expense	5,751,019	6,259,352	6,559,929	6,857,735	7,295,523	8,190,766	8,060,629	9,371,694	8,930,029	9,365,032
Operating Income	2,095,174	1,605,973	1,745,946	2,508,429	1,686,979	2,451,150	2,337,855	2,825,497	3,075,272	3,126,263
Non-Operating Income	38,184	(52,142)	(44,531)	(154,433)	(72,248)	(426,649)	228,057	463,704	262,853	(52,641)
Transfers	(552,799)	(537,567)	(565,407)	(686,847)	(849,943)	(719,340)	(894,220)	(761,328)	(884,952)	(935,352)
Net Assets	$ 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	$ 2,138,270

Energy Disposition

Last Ten Fiscal Years

Type of Service	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Residential	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	36,189,657
Industrial and Commerical	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	93,810,441
Security Lights	294,501	306,987	308,652	313,690	315,024	311,778	301,803	305,176	300,846	290,928
Municipal	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	9,086,409
Total	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	139,377,435

Principal Customers

2009-2008

Principal Customers	Type of Business Activity	Revenue % Sales to Customers 2009	2008
Nestle USA	Beverage Manufacturer	9.75%	11.24%
Wartburg College	Private Liberal Arts College	7.09%	8.76%
GMT	Machining and Fabrication	4.64%	5.89%
CUNA Mutal Life Insurance	Insurance Company	2.45%	3.57%
Waverly Health Center	Hospital	2.22%	2.69%
Terex Cranes	Manufacturing	1.69%	2.91%

Utility System Revenue Bond Coverage

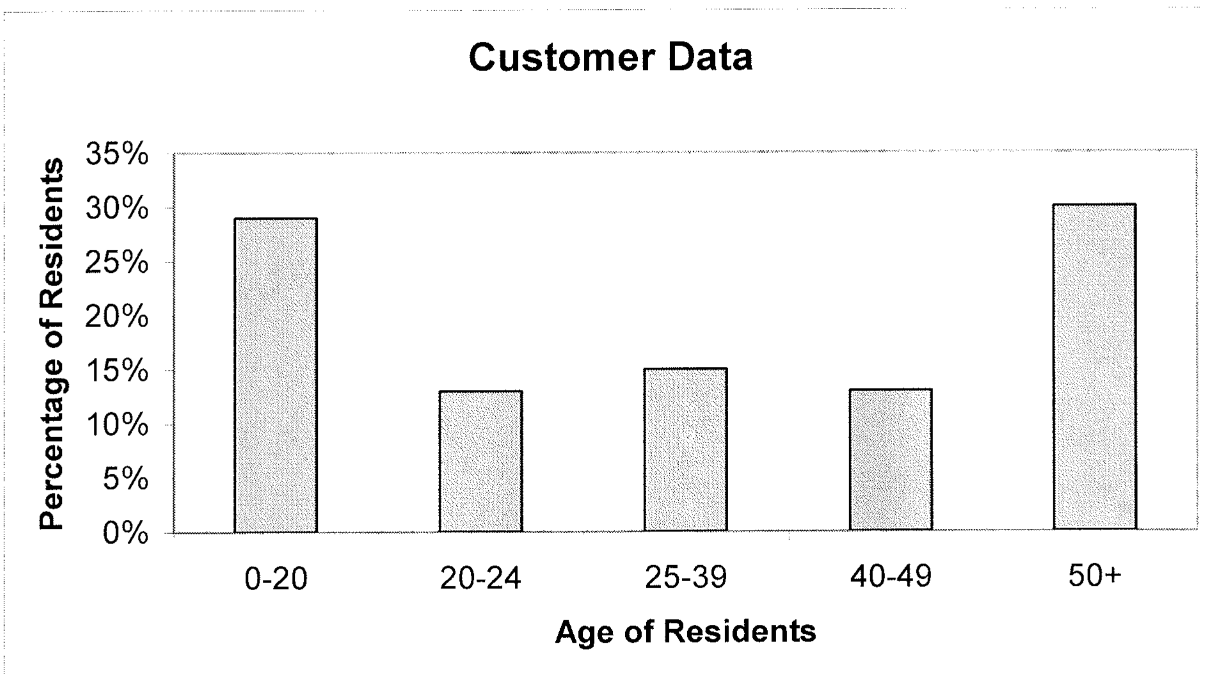
Last Ten Fiscal Years

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
2000	7,846,193	253,758	5,751,019	1,009,565	3,358,497	216,323	600,000	4.11
2001	7,865,325	227,747	6,259,352	1,213,274	3,046,994	210,897	650,000	3.54
2002	8,305,875	120,584	6,559,929	1,276,135	3,142,665	238,346	750,000	3.18
2003	9,366,164	124,081	6,857,735	1,260,547	3,893,057	242,267	660,000	4.31
2004	8,982,502	134,588	7,295,523	1,325,524	3,147,091	215,876	685,000	3.49
2005	10,641,916	212,424	8,190,766	1,365,706	4,029,280	196,692	715,000	4.42
2006	10,398,484	442,988	8,060,629	1,347,305	4,128,148	267,745	745,000	4.08
2007	12,197,746	377,858	9,371,693	1,423,386	4,627,297	241,602	775,000	4.55
2008	12,005,301	298,994	8,930,029	1,522,050	4,896,316	224,919	998,421	4.00
2009	12,531,820	152,628	9,365,032	1,565,196	4,884,612	191,586	903,421	4.46

Employee Data

	2001	2002	2003	2004	2005	2006	2007	2008	2009
# of Employees									
Administration	3	3	3	3	3	3	3	3	3
Business Operations	4	4	4	4	4	4	3	3	4
Conservation	1	1	1	1	1	1	1	1	2
Line	13	13	13	14	13	13	12	13	12
Meter	3	3	2	3	3	3	3	2	2
Generation	3	3	2	3	5	4	4	5	5
Total full-time	27	27	25	28	29	28	26	27	28
Part-time & Interns	7	8	4	3	3	3	3	2	4

(Unaudited)



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
2000	2,492,832	3,281,258	1,143,126	4,424,384	31,495	89,228	306,259	7,344,198
2001	2,553,729	3,348,076	1,117,960	4,466,036	31,868	86,337	349,300	7,487,270
2002	2,683,487	3,602,204	1,163,156	4,765,360	32,105	87,979	327,247	7,896,178
2003	2,946,561	4,294,407	1,163,978	5,458,385	32,841	142,385	366,434	8,946,606
2004	2,834,365	4,043,868	1,154,202	5,198,070	32,312	172,834	396,866	8,634,447
2005	3,431,366	4,716,256	1,296,763	6,013,019	36,079	210,563	552,132	10,243,159
2006	3,341,283	4,728,129	1,270,538	5,998,667	35,710	228,838	566,918	10,171,416
2007	3,900,182	5,555,309	1,533,091	7,088,400	37,878	240,305	632,581	11,899,346
2008	3,529,748	5,724,174	1,322,258	7,046,432	39,117	253,031	636,853	11,505,181
2009	3,909,513	1,394,746	5,758,177	7,152,923	43,060	274,910	674,204	12,054,610

Capital Improvement Additions

Last Ten Fiscal Years

Fiscal Year	Deletions to Plant	Additions to Plant	Cash Required for Capital Improvements
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)	1,800,749	1,691,011
2009	(506,373)	1,695,010	1,188,637

BAKER TILLY

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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, 2009, and have issued our report thereon dated March 31, 2010. 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; and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control such that there is a reasonable probability that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees
Waverly Light and Power

We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses and other deficiencies that we consider to be significant deficiencies. These material weaknesses are items 11-A-09 and 11-B-09.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. These items are item 11-C-09.

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 March 31, 2010.

Waverly Light and Power's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. 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.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 31, 2010

FINDINGS AND RESPONSES

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

The audit identified the following material weaknesses:

II-A-09 Financial Reporting – During the audit, we identified material amounts of receivables 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-09 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.

The audit identified the following significant deficiencies:

II-C-09 Significant Deficiencies – During the audit, we identified the following areas that are classified as significant deficiencies:

Controls Over Job Costing

1. There should be appropriate authorization for establishing work orders.
2. Variances in project costs between budget and actual should be explained and approved.

Controls Over Accounts Payable

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

WAVERLY LIGHT AND POWER

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2009

FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:

09-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, 2009 and 2008.

09-II-B Certified Budget – Disbursements during the years ended December 31, 2009 and 2008, did not exceed the amounts budgeted.

09-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.

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

09-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.

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

09-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.

09-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, 2009

WAVERLY LIGHT & POWER

INDEX

BAKER TILLY

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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, 2009 and 2008, 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 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 and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and others that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in the Waverly Light and Power's internal control to be material weaknesses:

> Financial Reporting
> Segregation of Duties

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in WLP's internal control to be significant deficiencies:

> Other internal controls

WLP's written responses to the material weaknesses and significant deficiencies 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 them.

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.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 31, 2010

CURRENT YEAR COMMENTS

GASB STATEMENT NO. 51: ACCOUNTING AND FINANCIAL REPORTING FOR INTANGIBLE ASSETS

In June 2007 the Governmental Accounting Standards Board issued Statement No. 51 Accounting and Financial Reporting for Intangible Assets. The purpose of this standard was to establish accounting and reporting standards for intangible assets and reduce the inconsistencies, particularly in the areas of recognition, measurement, and amortization, which have resulted since the inclusion of intangible assets in the description of capital assets in Statement No. 34.

Statement No. 51 provides guidance to define and identify intangible assets. The following items are some examples of intangible assets (not all inclusive) that are commonly found in utilities:

Easements
Computer software
Natural resource rights
Air rights or pollution permits
Plant capacity (in facilities which are not owned by the entity)

The standard outlines that assets meeting the above definition must be recorded at historical cost or the estimated fair value at the time of acquisition, classified as capital assets in the statement of net assets and included in the capital assets footnote, segregated as a separate class of asset if significant and amortized over the contractual period or useful life. The standard provides additional guidance related to internally generated assets and internally generated computer software.

The provisions of this standard are required to be implemented retroactively with the exception of existing assets with an indefinite life and existing internally generated assets.

This standard is effective for periods beginning after June 15, 2009. We are available to discuss with management the specific steps needed to ensure you are ready for implementation.

TWO WAY COMMUNICATION REGARDING YOUR AUDIT

As part of our audit of your financial statements, we are providing communications to you throughout the audit process. Auditing requirements provide for two-way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year's audit. It is important that you understand the following points about the scope and timing of our next audit:

a) We address the significant risks of material misstatement, whether due to fraud or error, through our detailed audit procedures.

b) We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:

   > Identify types of potential misstatements.
   > Consider factors that affect the risks of material misstatement.
   > Design tests of controls, when applicable, and substantive procedures.

   We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs.

Two Way Communication Regarding Your Audit (cont.)

c) The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.

We are very interested in your views regarding certain matters. Those matters are listed here:

a) We typically will communicate with your top level of management unless you tell us otherwise.

b) We understand that the utility commission has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.

c) We need to know your views about your organization's objectives and strategies, and the related business risks that may result in material misstatements.

d) Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?

e) Have you had any significant communications with regulators?

f) Are there other matters that you believe are relevant to the audit of the financial statements?

Also, is there anything that we need to know about the attitudes, awareness, and actions of the utility concerning:

a) The utility's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?

b) The detection or the possibility of fraud?

We also need to know if you have taken actions in response to developments in financial reporting, laws, accounting standards, governance practices, or other related matters, or in response to previous communications with us.

With regard to the timing of our audit, here is some general information. Our final fieldwork is scheduled during February to coincide with your readiness and report deadlines. After fieldwork, we wrap up our audit procedures at our office and issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your staff. This is typically 6-12 weeks after final fieldwork, but may vary depending on a number of factors.

Keep in mind that while this communication may assist us with planning the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.

We realize that you may have questions on what this all means, or wish to provide other feedback. We welcome the opportunity to hear from you.

PRIOR YEAR COMMENTS

Accounts Receivable

During the 2008 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 had recommended 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.

Status 12/31/09

We understand that WLP staff has been working with the city on resolving these discrepancies. We commend management for this but we continue to recommend that a collection policy be updated and reconciliations between the general ledger and detailed lists, including the aging report, be performed and reviewed on a monthly basis.

MATERIAL WEAKNESSES IN INTERNAL CONTROL

Financial Reporting

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:

> Present the books and records to the auditor in such a condition that the auditor is not able to identify any material journal entries as a result of our audit procedures.

> Be capable of preparing a complete set of year end financial statements in such a condition that there is only a remote likelihood that the auditor will discover a material change to the statements or footnotes.

As we provided 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 continue to work with WLP finance director to provide tools that can be used to prepare the complete set of financial statements of WLP to assist in eliminating this material weakness in future years.

MATERIAL WEAKNESSES IN INTERNAL CONTROL (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.

Controls Over Utility Billing and Receipting

> There should be consistent segregation between receipting and receivables function. The utility has implemented segregation of duties during normal day to day operation; however with the limited number of staff consistency is not always feasible.

Controls Over Financial Reporting

> Adjusting journal entries and supporting documentation need proper, independent review and approval.

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.

SIGNIFICANT DEFICIENCIES

OTHER INTERNAL CONTROLS

As a result of our audit procedures, we are able to provide the following information about where 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 processes would be discovered by WLP staff. Our procedures identified that these controls do not currently exist for the entity of Waverly Light & Power. Some of these controls may not be practical due to staff size or other economic reasons.

Controls Over Job Costing

> There should be appropriate authorization for work order establishment and budgets.

> Variances in project costs between budget and actual for work orders should be explained and approved.

Controls Over Accounts Payable/Disbursements

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

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.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you.

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. No new accounting policies were adopted and the application of existing policies was not changed during 2009. 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 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:

Accrual of cycle 3 billings to accounts receivable	$ 254,874

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, professional auditing standards require the consulting accountant to discuss this with the auditor 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 Baker Tilly Virchow Krause, LLP 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, 2009, Baker Tilly Virchow Krause, 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 WLP and provided no services to 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 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, don't hesitate to contact us. Thank you for allowing us to serve WLP.

1002 ADAMS PARKWAY | PO BOX 329 | WAVERLY, IOWA 50677 | T. 319.352.6251 | F. 319.352.6254

Waverly Light and Power

PLANNING FOR TOMORROW, PROVIDING FOR TODAY

March 08, 2010

Baker Tilly Virchow Krause, LLP
Ten Terrace Court
P.O. Box 7398
Madison, WI 53707

Updated in e-mail with General Manager and Finance Director on 3.31.10.

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, 2009 and 2008 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.

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.

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 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.

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 3-8-2010

Signed Eric Sommermeyer

Title/Date Finance Manager 3-8-2010