WAVERLY LIGHT AND POWER

An Enterprise Fund of
The City of Waverly, Iowa

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2011 and 2010

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

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December 31, 2011 and 2010

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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, 2011 and 2010, 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, 2010 and 2009, 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, 2011 and 2010 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 26, 2012 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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress as listed in the table of contents be presented to supplement the financial statements. Management discussion and analysis does not include a full discussion of changes in financial position between 2009 and 2010. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economical, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The detailed schedules included as supplemental information, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, 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, 2009 - 2002 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 26, 2012

Unaudited
WAVERLY LIGHT AND POWER

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011, 2010 and 2009

Waverly Light and Power (WLP) offers this discussion and analysis of our financial performance for the years ending December 31, 2011 and 2010. 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, 1.8 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 2011, we purchased 100% of our required energy and capacity through a full requirements 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 has recently commissioned one wind turbine, and is invested in the construction of another wind turbine.

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 2011, we installed 46 electric services.

WLP manages property loss, employee dishonesty, errors and omissions through extensive insurance coverage. In addition to coverage of property, equipment, vehicles, wind turbine, Louisa generating station, blanket boiler, workmen's compensation and general liability coverage, we have a $10 million insurance umbrella. We carry a $10,000 deductible and have an insurance recovery fund with a balance of $770,000 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

	2011	2010	2009
ASSETS			
Current Assets	$ 6,379,592	$ 7,713,783	$ 5,806,783
Non-Current Assets			
Restricted Assets	957,414	957,414	957,414
Designated Funds	8,527,180	6,616,363	6,330,452
Other Assets	3,733,963	3,649,886	4,066,724
Capital Assets	33,123,380	32,734,490	33,136,301
Total Assets	52,721,529	51,671,936	50,297,674
LIABILITIES			
Current Liabilities	2,435,812	2,483,230	2,194,780
Current Liabilities Payable from Restricted Assets	1,011,960	979,673	1,072,708
Non-Current Liabilities	6,281,861	7,313,385	8,379,979
Non- Current Liabilities Payable from Restricted Assets	-	-	-
Total Liabilities	9,729,633	10,776,288	11,647,467
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	29,585,297	28,235,444	27,838,365
Restricted for Debt Service and Improvements	363,619	330,703	357,786
Unrestricted	13,042,980	12,329,501	10,454,056
TOTAL NET ASSETS	$ 42,991,896	$ 40,895,648	$ 38,650,207

WLP increased net assets by $2.1 million and $2.2 million in 2011 and 2010, 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

	2011	2010	2009
OPERATING REVENUES	$ 17,354,345	$ 17,257,351	$ 12,491,295
OPERATING EXPENSES			
Depreciation expenses	1,700,352	1,603,480	1,565,196
Other operating expenses	12,864,085	12,291,512	7,799,836
Total Operating Expenses	14,564,437	13,894,992	9,365,032
Operating Income	2,789,908	3,362,359	3,126,263
Investment income	119,610	104,414	152,628
Interest and amortization expense	(187,052)	(214,742)	(242,249)
Gain/(Loss) on sale of plant	133,301	(81,120)	952
Royalties	36,948	33,107	36,028
Total Non-Operating Expenses	102,807	(158,341)	(52,641)
Income before operating transfers and Contribututions	2,892,715	3,204,018	3,073,622
Contributions	137,449	3,407	400
Operating transfers to the City of Waverly	(933,916)	(961,984)	(935,352)
Change in Net Assets	2,096,248	2,245,441	2,138,670
NET ASSETS, Beginning of Year	40,895,648	38,650,207	36,511,537
NET ASSETS, END OF YEAR	$ 42,991,896	$ 40,895,648	$ 38,650,207

Revenues for 2011 were $97K higher than revenues for 2010 due to the weather and increased revenue from the sale of energy from Louisa Generating Station to the Municipal Energy Agency of Nebraska (MEAN) and capacity revenue from MEAN.

Expenses for 2011 were $669K higher than expenses for 2010 due to increases in purchased power and transmission.

WLP Financial Analysis (cont.)

Table 3
Condensed Statements of Cash Flows

	2011	2010	2009
Cash Flows from Operating Activities			
Received from sales to customers	$ 17,735,272	$ 16,819,201	$ 11,371,429
Paid to suppliers and employees for services	(12,502,440)	(11,712,489)	(7,298,080)
Cash Flows from Operating Activities	5,232,832	5,106,712	4,073,349
Cash Flows from Non-Capital Financing Activities	(933,916)	(961,984)	(960,352)
Cash Flows from Capital and Financing Activities	(3,331,696)	(2,403,270)	(4,561,522)
Cash Flows from Investing Activities	163,995	(99,448)	2,398,685
Net Change in Cash and Equivalents	1,131,215	1,642,010	950,160
CASH AND CASH EQUIVALENTS – Beginning of Year	11,091,189	9,449,179	8,499,019
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 12,222,404	$ 11,091,189	$ 9,449,179

WLP Financial Analysis (cont.)

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

	Actual 2011	Budget 2011	Variance Favorable (Unfavorable)
OPERATING REVENUES	$17,354,345	$16,595,703	$758,642
OPERATING EXPENSES			
Depreciation expenses	1,700,352	1,617,086	83,266
Other operating expenses	12,864,085	13,559,132	(695,047)
Total Operating Expenses	14,564,437	15,176,218	(611,781)
Operating Income	2,789,908	1,419,485	1,370,423
Investment income	119,610	108,324	11,286
Interest and amortization expense	(187,052)	(275,922)	88,870
Gain on sale of plant	133,301	-	133,301
Other income (expense)	36,948	37,610	(662)
Total Non-Operating Expenses	102,807	(129,988)	232,795
Income before contributions and operating transfers	2,892,715	1,289,497	1,603,218
Contributions	137,449	100,000	37,449
Operating transfers to the City of Waverly	(933,916)	(968,421)	34,505
Change in Net Assets	2,096,248	421,076	1,675,172
NET ASSETS, Beginning of Year	40,895,648	40,895,648	-
NET ASSETS, END OF YEAR	$42,991,896	$41,316,724	$1,675,172

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 $350,000, $214,776, and $136,927 respectively for 2011, 2010, and 2009. 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 zero. In 2009 the balance was $2,337,738. This fund has been discontinued and two new funds were established for the funds, the Rate Stabilization Fund and the Specified Project Fund.

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 $770,000 is funded annually at $60,000 a year. The 2010 and 2009 balance was $710,000 and $650,000 respectively.

The Renewable Energy fund was established to track donations received from the sale of Iowa Energy Tags and the Green Power Choice Energy program. It is designated to supplement renewable local energy through purchases. The fund has a balance of $512,339, $409,599, and $220,414 for 2011, 2010 and 2009 respectively.

The Generation and G & A funds are for funding future replacement of capital items for those departments. The Generation Fund has a balance $1,439,955 and the G & A Fund has a balance of $186,121 in 2011, 2010 and 2009. They are funded annually based on the budget process.

The Key Accounts fund is used to encourage customer energy efficiency in operations and electrical usage and to support the Waverly Area Development Group's economic development activities. It is funded annually based on 2% of revenues to these customers. The fund has a balance of $736,951, $697,622, and $763,745 for 2011, 2010, and 2009 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 2011, 2010, and 2009.

The Rate Stabilization Fund was established in 2010 to set aside funds to mitigate customer price increases due to unforeseen circumstances, volatile wholesale price increases, and/or large construction projects. The fund has a balance of $2,573,524 and $1,000,000 for 2011 and 2010.

The Specified Project Fund was established in 2010 to set aside funds for future projects. The fund has a balance of $1,362,738 in 2011 and 2010.

Fund Analysis(cont.)

Restricted Funds

The Sinking, Reserve and Improvement funds were funded per the requirements of the 1998, 2002, 2005 and CREB bond issues. Monies were also restricted per the contract for two new turbines in 2009. The total of these restricted funds are $1,049,571, $1,049,368, and $1,174,487 in 2011, 2010 and 2009 respectively.

Capital Assets

WLP has $60.4 million of capital assets with a net asset value of $33.1 million. The total includes $.4 million in land, $3.9 million in buildings, $32.1 million in improvements, $6.4 million in machinery and equipment, $10 million in Louisa Generating Plant, $5.3 million in Walter Scott Jr. 4 Generating Plant, and $2.3 million in construction work in progress.

The 2010 capital assets included $58.5 million of capital assets with a net asset value of $32.7 million. The total includes $.5 million in land, $3.8 million in buildings, $31.1 million in improvements, $6.2 million in machinery and equipment, $9.9 million in Louisa Generating Plant, $5.3 million in Walter Scott Jr. 4 Generating Plant, and $1.7 in construction work in progress.

The 2009 capital assets included $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 in construction work in progress.

Capital improvements for 2011 included installation of new distribution lines, services, meters, and transformers, Louisa Generating Station improvements, WS4 Generating Station improvements, catalyst installation, South Plant switchgear improvements, LED street light replacements, West Substation property, and miscellaneous tools and equipment.

Capital improvements for 2010 included 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 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.

Debt Activity

We have $4.3 million of outstanding debt at December 31, 2011. This includes $.4 million of 10-year bonds for various capital improvements including a 900 kW wind turbine, $1.8 million of 10-year bonds issued to reimburse the utility for various capital improvements including partial WS4 construction costs and $2.1 million of CREB bonds issued to finance two wind turbines.

At the end of 2010 and 2009 the outstanding debt was $5.3 million and $6.2 million respectively.

WLP maintains a sinking fund, reserve fund and an improvement fund per bond requirements. The balance in these restricted funds is $1,049,572. Debt service for 2011 included $968,421 of principal payments and $135,027 of interest payments. The 2010 restricted fund balance was $1,049,368 including $933,421 of principal payments and $165,427 of interest payments. Also in the restricted fund is the remaining contract amount for two turbines. The 2009 restricted fund balance was $1,174,487 including $903,421 of principal payments and $193,964 of interest payments.

Contact Information

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

Statements of Net Assets Follow

WAVERLY LIGHT AND POWER

STATEMENTS OF NET ASSETS
December 31, 2011 and 2010

ASSETS

	2011	2010
CURRENT ASSETS		
Cash and investments	$ 2,645,652	$ 3,440,797
Accounts receivable	2,239,611	2,866,742
A/R Wartburg green power choice	100,000	100,000
Deferred asset current portion	145,000	145,000
Inventory	1,041,977	983,202
Prepaid expenses	115,194	86,087
Restricted Assets		
Sinking Funds		
2002 bonds	33,963	33,653
2005 bonds	41,284	41,281
CREB bonds	16,911	17,021
Total Current Assets	6,379,592	7,713,783
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	350,000	214,776
Key accounts	736,951	697,622
Renewable energy fund	512,339	409,599
Generation	1,439,955	1,439,955
G & A	186,121	186,121
Rate stabiization fund	2,573,524	1,000,000
Specified projects fund	1,362,738	1,362,738
Insurance recovery	770,000	710,000
Distribution Fund	595,552	595,552
Total Designated Funds	8,527,180	6,616,363
Other Assets		
Deferred asset	1,200,000	1,345,000
Deferred a/r Wartburg green power choice	1,500,000	1,600,000
Investment in Quad Cities West	33,351	33,351
Investment in CAPX	16,209	16,209
Investment in Grimes Granger	176,620	176,620
Other long-term accounts receivable	285,698	-
Energy rebates net of amortization	492,027	442,857
Unamortized 2002 bond issue costs	353	1,140
Unamortized 2005 bond issue costs	5,015	7,775
Unamortized CREB bond issue costs	24,690	26,934
Total Other Assets	3,733,963	3,649,886
Capital Assets		
Land	357,124	487,396
Buildings	3,889,032	3,818,770
Improvements	32,054,743	31,113,154
Machinery and equipment	6,431,770	6,168,489
Louisa & Walter Scott 4 plants	15,346,926	15,257,486
Construction work in progress	2,271,710	1,655,995
Total Capital Assets	60,351,305	58,501,290
Accumulated depreciation	(27,227,925)	(25,766,800)
Net Capital Assets	33,123,380	32,734,490
Total Non-Current Assets	46,341,937	43,958,153
TOTAL ASSETS	$ 52,721,529	$ 51,671,936

See accompanying notes to financial statements.

LIABILITIES

	2011	2010
CURRENT LIABILITIES		
Accounts payable	$ 480,299	$ 651,974
Accrued property taxes	171,662	169,417
Other accrued expenses	1,538,851	1,416,839
Current portion of note payable	145,000	145,000
Current portion deferred credit - Wartburg Green Power	100,000	100,000
Current Liabilities Payable From Restricted Assets		
Current portion of revenue bonds	1,003,421	968,421
Accrued interest on revenue bonds	8,539	11,252
Total Current Liabilities	3,447,772	3,462,903
NON-CURRENT LIABILITIES		
Note payable	1,200,000	1,345,000
Deferred credit - Wartburg green power	1,500,000	1,600,000
Revenue bonds	3,274,211	4,277,632
Other long-term accounts payable	309,727	94,497
Non-Current Liabilities Payable From Restricted Assets		
Less: Unamortized discount	(2,077)	(3,744)
Total Non-Current Liabilities	6,281,861	7,313,385
Total Liabilities	9,729,633	10,776,288

NET ASSETS

	2011	2010
NET ASSETS		
Invested in capital assets, net of related debt (note 7)	29,585,297	28,235,444
Restricted for debt service and improvements	363,619	330,703
Unrestricted	13,042,980	12,329,501
Total Net Assets	42,991,896	40,895,648
TOTAL LIABILITIES AND NET ASSETS	$ 52,721,529	$ 51,671,936

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, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Sales to customers	$ 14,010,589	$ 14,059,544
Miscellaneous	3,343,756	3,197,807
Total Operating Revenues	17,354,345	17,257,351
OPERATING EXPENSES		
Production	9,638,952	8,716,578
Transmission	184,657	217,590
Distribution	1,498,124	1,751,147
Customer accounts	220,966	211,054
Administrative and general	699,356	733,127
Customer information	122,504	121,163
Community development	242,714	236,107
Conservation	255,260	306,493
Water heater	1,552	(1,747)
Depreciation	1,700,352	1,603,480
Total Operating Expenses	14,564,437	13,894,992
Operating Income	2,789,908	3,362,359
NONOPERATING REVENUE (EXPENSES)		
Loss (gain) on sale of plant	133,301	(81,120)
Royalties	36,948	33,107
Investment income	119,610	104,414
Interest expense	(132,307)	(162,892)
Amortization of debt discount and bond issue costs	(7,458)	(9,305)
Amortization of energy rebates	(47,287)	(42,545)
Total Nonoperating Revenue (Expenses)	102,807	(158,341)
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS	2,892,715	3,204,018
Contributions	137,449	3,407
Transfer to City of Waverly general fund	(933,916)	(961,984)
CHANGE IN NET ASSETS	2,096,248	2,245,441
NET ASSETS - Beginning of Year	40,895,648	38,650,207
NET ASSETS - END OF YEAR	$ 42,991,896	$ 40,895,648

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, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from sales to customers	$ 14,606,018	$ 14,171,025
Received from Municipal Energy Agency of Nebraska	3,129,254	2,648,176
Paid to suppliers for purchased power and transmission	(7,360,518)	(6,228,010)
Paid to suppliers and employees for other services	(5,141,922)	(5,484,479)
Net Cash Flows From Operating Activities	5,232,832	5,106,712
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payment to City of Waverly for credit to Waverly Health Center	(25,000)	(25,000)
Payment to City of Waverly for credit to Waverly Wellness Center	(120,000)	(120,000)
Transfers to City of Waverly	(788,916)	(816,984)
Net Cash Flows From Noncapital Financing Activities	(933,916)	(961,984)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of plant and equipment	(2,811,298)	(1,411,862)
Salvage received on plant sold	445,594	107,440
Capital contributions received	137,449	-
Principal payments on revenue bonds	(968,421)	(933,421)
Interest paid	(135,020)	(165,427)
Net Cash Flows From Capital and Related Financing Activities	(3,331,696)	(2,403,270)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net marketable securities purchased for 2002 sinking fund	(310)	(427)
Net marketable securities purchased for 2005 sinking fund	(3)	(65)
Net marketable securities purchased for CREB bond sinking fund	110	110
Net marketable securities purchased/sold for vehicle replacement fund	(135,224)	(77,849)
Net marketable securities purchased for key accounts fund	(39,329)	66,123
Net marketable securities sold/purchased for generation fund	-	2,337,738
Net marketable securities sold/purchased for Renewable energy fund	(102,740)	(189,185)
Net marketable securities purchased for insurance recovery fund	(60,000)	(60,000)
Net marketable securities purchased for rate stabilization fund	(1,573,524)	(1,000,000)
Net marketable securities purchased for special projects fund	-	(1,362,738)
Net marketable securities sold/purchased for electric revenue fund	2,036,520	160,793
Marketable securities purchased	-	(5,180)
Marketable securities sold	15,340	-
Purchase of investment in grimes granger and capx	-	(644)
Purchase of energy rebates	(96,455)	(72,538)
Investment income	119,610	104,414
Net Cash Flows From Investing Activities	163,995	(99,448)
Net Change in Cash and Cash Equivalents	1,131,215	1,642,010
CASH AND CASH EQUIVALENTS - Beginning of Year	11,091,189	9,449,179
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 12,222,404	$ 11,091,189
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Amortization of debt related costs	$ 7,458	$ 9,305
Amortization of energy rebates	$ 47,287	$ 42,545
Gain (loss) on sale of plant	$ 133,301	$ (81,120)
Waverly Health Center funding	$ 50,000	$ 50,000

See accompanying notes to financial statements.

	2011	2010
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	$ 2,789,908	$ 3,362,359
Non-operating income (expense)	39,494	33,107
Noncash items included in operating income		
Depreciation	1,700,352	1,603,480
Depreciation cleared	281,719	150,540
Changes in assets and liabilities		
Accounts receivable	341,433	(471,257)
Inventory	(58,775)	46,925
Prepaid expenses	(29,107)	23,611
Accounts payable	43,551	310,192
Accrued property taxes	2,245	(4,260)
Other accrued expenses	122,012	52,015
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 5,232,832	$ 5,106,712
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEET ACCOUNTS		
Cash and investments	$ 2,645,652	$ 3,440,797
Restricted investments		
Sinking Funds		
2002 bonds	33,963	33,653
2005 bonds	41,284	41,281
CREB bonds	16,911	17,021
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 Cash and Restricted Investments	3,695,224	4,490,166
Designated Investments		
Vehicle replacement	350,000	214,776
Key accounts	736,951	697,622
Iowa energy tags	512,339	409,599
Generation	1,439,955	1,439,955
G & A	186,121	186,121
Rate stabilization fund	2,573,524	1,000,000
Specified project fund	1,362,738	1,362,738
Insurance recovery	770,000	710,000
Distribution Fund	595,552	595,552
Total Designated Investments	8,527,180	6,616,363
Less: non cash equivalents (note 1)	-	(15,340)
TOTAL CASH AND CASH EQUIVALENTS	$ 12,222,404	$ 11,091,189

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 45,755 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 2011. 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, 2011 and 2010 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, 2011 and 2010 include: unbilled revenues totaling $584,239 and $696,077, customer accounts receivable totaling $987,667 and $1,134,382 other accounts receivable totaling $650,331 and $892,840 accrued interest receivable totaling $1 and $133 and unbilled fuel cost receivable totaling $17,373 and $143,309, 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	
	2011	2010
Local Inventories		
Distribution materials	$ 496,252	$ 632,460
Water heaters	1,858	3,437
Operating plant fuel	91,758	103,009
Louisa Inventories		
Coal	309,437	120,513
Oil	1,345	1,644
Materials	48,249	44,195
WS4 Inventories		
Coal	61,473	51,991
Oil	8,989	5,548
Materials	22,616	20,405
Totals	$ 1,041,977	$ 983,202

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, transformers and meters which are capitalized.

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

Total depreciation expense for the years ended December 31, 2011 and 2010, was $1,982,071 and $1,754,020, respectively; of that, $1,700,352 and $1,603,480 was expensed and $281,719 and $150,540 was capitalized in 2011 and 2010.

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 Renewable Energy 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.

Longevity Pay

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

Retiree Health Insurance

Employees may receive this benefit after they retire until they reach the age of 65 if certain conditions are met. The liability for this anticipated obligation is included in other accrued expenses. The cost per employee is capped at $500 per month.

Cafeteria Plan

The utility has established a cafeteria plan for the benefit of its employees that qualifies under Section 125 of the Internal Revenue Code. The plan is administered by an outside agency and is funded by the participating employees.

Long-Term Obligations

Long-term debt and other obligations are reported as liabilities. 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 October 2010 and placed into effect in January 2011.

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. 60, Accounting and Financial Reporting for Service Concession Arrangements, Statement No. 61, The Financial Reporting Entity: Omnibus, Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and Statement No. 64 Derivative Instruments: Applications of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53. Application of these standards may restate portions of these financial statements.

COMPARATIVE DATA

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

NOTE 2 – DEPOSITS AND INVESTMENTS

The carrying values of the utility's deposits and investments as of December 31, 2011 and 2010 were comprised of the following:

	2011	2010	Risks
Checking	$ 2,322,110	$ 2,888,544	Custodial credit risk
Petty cash	921	921	Custodial credit risk
Saving	9,804,061	5,707,023	Custodial credit risk
Certificates of deposit	0	15,341	Custodial credit risk
IPAIT	95,312	2,494,700	Credit and Interest rate risk
Total Deposits and Investments	$12,222,404	$11,106,529	

Reconciliation to financial statements

	2011	2010
Unrestricted cash and investments	$2,645,652	$3,440,797
Restricted cash and investments	1,049,572	1,049,369
Designated cash and investments	8,527,180	6,616,363
Total Deposits and Investments	$12,222,404	$11,106,529

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, 2011 and 2010, 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, 2011 and 2010, the utility's investments were as follows:

	2011		2010	
Investment Type	Fair Value	Weighted Average Maturity (Days)	Fair Value	Weighted Average Maturity (Days)
Iowa Public Agency Investment Trust	$ 95,312	42.54	$ 2,494,700	48.99

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:

	2011	2010
Restricted Assets		
Sinking funds	$ 92,158	$ 91,955
Reserve fund	707,414	707,414
Improvement fund	250,000	250,000
Total Restricted Assets	1,049,572	1,049,369
Less: Restricted Assets Not Funded by Revenues		
Reserve fund	(707,414)	(707,414)
Total Restricted Assets Not Funded by Revenues	(707,414)	(707,414)
Current Liabilities Payable From Restricted Assets	(8,539)	(11,252)
Total Restricted Net Assets as Calculated	$ 363,619	$ 330,703

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, 2011 and 2010:

		2011		2010	
To	From	Amount	Principal Purpose	Amount	Principal Purpose
Municipality	WLP	$ 788,916	Fund Transfer	$ 816,984	Fund Transfer
Municipality	WLP	120,000	W/W Wellness	120,000	W/W Wellness
Municipality	WLP	25,000	Waverly Health Center	25,000	Waverly Health Center

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2011 follows:

	Balance 01/01/11	Additions	Deletions	Balance 12/31/2011
Capital assets:				
Land [1]	$ 487,396	$ 213,030	$ (343,302)	$ 357,124
Buildings	3,818,770	70,262	-	3,889,032
Improvements	31,113,154	1,416,779	(475,190)	32,054,743
Equipment	6,168,489	376,118	(112,837)	6,431,770
Louisa plant	9,957,687	116,079	(34,816)	10,038,950
WS4 plant	5,299,799	8,177	-	5,307,976
Construction in progress [1]	1,655,995	2,372,679	(1,756,964)	2,271,710
Less: Accumulated depreciation	(25,766,800)	(2,001,612)	540,487	(27,227,925)
Net Capital Assets	$ 32,734,490	$ 2,571,512	$ (2,182,622)	$ 33,123,380

[1] – Capital assets not being depreciated.

NOTE 5 – CHANGES IN CAPITAL ASSETS (cont.)

A summary of changes in capital assets for 2010 follows:

	Balance 01/01/10	Additions	Deletions	Balance 12/31/2010
Capital assets:				
Land [1]	$ 487,396	$ -	$ -	$ 487,396
Buildings	3,713,475	127,225	(21,930)	3,818,770
Improvements	28,225,324	3,186,859	(299,029)	31,113,154
Equipment	5,614,047	719,967	(165,525)	6,168,489
Louisa plant	10,218,523	43,915	(304,751)	9,957,687
WS4 plant	5,281,182	18,617	-	5,299,799
Construction in progress [1]	3,890,510	1,430,094	(3,664,609)	1,655,995
Less: Accumulated depreciation	(24,294,156)	(1,893,194)	420,550	(25,766,800)
Net Capital Assets	$ 33,136,301	$ 3,633,483	$ (4,035,294)	$ 32,734,490

[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
5/1/2002	Finance various electric system improvements	12/1/2010	12/1/2012	2.2 – 4.5%	2,500,000	390,000
12/15/2005	Finance various electric system improvements	12/1/2012	12/1/2015	3.5 - 4.0%	3,000,000	1,815,000
12/4/2007	Finance two wind turbines	12/1/2022	12/1/2022	0.70%	2,826,316	2,072,632

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

REVENUE BONDS (cont.)

The 2002 revenue bond debt service requirements to maturity follows:

Year	Principal	Interest	Total
2012	$ 390,000	$ 17,550	$ 407,550
Totals	$ 390,000	$ 17,550	$ 407,550

The 2005 revenue bond debt service requirements to maturity follows:

Year	Principal	Interest	Total
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	$ 1,815,000	$ 181,410	$ 1,996,410

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

REVENUE BONDS (cont.)

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

Year	Principal	Interest	Total
2012	$ 188,421	$ 14,508	$ 202,929
2013	188,421	13,190	201,611
2014	188,421	11,870	200,291
2015	188,421	10,552	198,973
2016	188,421	9,232	197,653
2017-2021	942,105	26,378	968,483
2022	188,422	1,319	189,741
Totals	$ 2,072,632	$ 87,049	$ 2,159,681

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 2011 and 2010 were $1,103,448 and $1,098,848, respectively. Total customer gross revenues as defined for the same periods were $17,473,955 and $17,361,765. Annual principal and interest payments are expected to require 2.37% of gross revenues on average.

NOTE PAYABLE

Waverly Health Center

In April 2010, the Board approved funding of $25,000 per year for the next 3 years, to the Waverly Health Center for the Digital Imaging Campaign subject to yearly budget approval. Transfers were made to the City of Waverly for further credit to the Waverly Health Center during 2011 and 2010. The outstanding amount of the Board approved funding at December 31, 2011 and 2010 was $25,000 and $50,000, respectively.

Wartburg-Waverly Sports and Wellness Center

In December 2006, the Board approved funding of $120,000 per year for the next 15 years, to the City of Waverly for further credit to the Wartburg-Waverly Sports and Wellness Center. The outstanding amount of the Board approved funding at December 31, 2011 and 2010 were $1,320,000 and $1,440,000, 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
2012	$ 145,000	-	$ 145,000
2013	120,000	-	120,000
2014	120,000	-	120,000
2015	120,000	-	120,000
2016	120,000	-	120,000
2017-2021	600,000	-	600,000
2022	120,000	-	120,000
Totals	$ 1,345,000	$ -	$ 1,345,000

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 $1,600,000 and $1,700,000, respectively has been reflected in the Statements of Net Assets for 2011 and 2010.

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

Long-term obligation activity for 2011 and 2010 follows:

Debt Issue	Balance 12/31/2010	Additions	Reductions	Balance 12/31/2011	Current Portion
2002 Revenue bonds	$ 760,000	$ -	$ 370,000	$ 390,000	$ 390,000
2005 Revenue bonds	2,225,000	-	410,000	1,815,000	425,000
CREB Revenue bonds	2,261,053	-	188,421	2,072,632	188,421
Note Payable	1,490,000	-	145,000	1,345,000	145,000
Deferred Credit	1,700,000	-	100,000	1,600,000	100,000
Other Long Term Accounts Payable	94,497	215,230	-	309,727	-
Unamortized Debt Discount	(3,744)	-	(1,667)	(2,077)	-
Totals	$ 8,526,806	$ 215,230	$ 1,211,754	$ 7,530,282	$ 1,248,421

Debt Issue	Balance 12/31/2009	Additions	Reductions	Balance 12/31/2010	Current Portion
2002 Revenue bonds	1,110,000	-	350,000	760,000	370,000
2005 Revenue bonds	2,620,000	-	395,000	2,225,000	410,000
CREB Revenue bonds	2,449,474	-	188,421	2,261,053	188,421
Note Payable	1,560,000	75,000	145,000	1,490,000	145,000
Deferred Credit	1,800,000	-	100,000	1,700,000	100,000
Accounts Payable	60,850	33,647	-	94,497	-
Unamortized Debt Discount	(6,074)	-	(2,330)	(3,744)	-
Totals	$ 9,594,250	$ 108,647	$ 1,176,091	$ 8,526,806	$ 1,213,421

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:

	2011	2010
Plant in service	$ 58,079,595	$ 56,845,295
Accumulated depreciation	(27,227,925)	(25,766,800)
Construction work in progress	2,271,710	1,655,995
Subtotal	33,123,380	32,734,490
Less: Capital Related Debt		
Current portion of capital related long-term debt	1,003,421	968,421
Long-term portion of capital related long-term debt	3,274,211	4,277,632
Unamortized bond issue costs	(30,058)	(35,849)
Unamortized discount	(2,077)	(3,744)
Subtotal	4,245,497	5,206,460
Add: Reserve from borrowing	707,414	707,414
Total Net Assets Invested in Capital Assets, Net of Related Debt	$ 29,585,297	$ 28,235,444

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 2011 assets at a cost of $353,491 less accumulated depreciation of $286,292 for a net value of $67,199. Of this, approximately 3.8% of the system has been leased to customers. Total lease revenue included in the utility's financial statements for 2011 and 2010 was $42,957 and $44,015, respectively.

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

2012	$9,237
Totals	$ 9,237

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 5.38% of their annual salary and the utility is required to contribute 8.07% of the annual-covered payroll to the plan. Contribution requirements are established by State statute. The utility's contribution to IPERS for 2011, 2010, and 2009 was $142,604, $129,063, and $119,969, respectively. The total utility payroll was $2,012,883 for 2011. The payroll for 2010 and 2009 was $1,984,549 and $1,964,300, 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, 2011 and 2010 was $770,000 and $710,000, 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 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 4.4 percent of the current year premiums for a single plan for eligible retired plan members. For fiscal years 2011 and 2010, the utility contributed $10,345 and $8,348 and $5,574 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 2011 or 2010. Administrative costs of the plan are financed through investment earnings.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

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

Annual required contribution	$ 41,995
Interest on net OPEB obligation	2,835
Adjustment to annual required contribution	(11,015)
Annual OPEB cost	33,815
Contributions made	(10,345)
Increase in net OPEB obligation (asset)	23,470
Net OPEB Obligation (Asset) – Beginning of Year	94,497
Net OPEB Obligation (Asset) – End of Year	$ 117,967

The utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for December 31, 2011 and two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
2011	$41,995	31%	$117,967
2010	$40,170	20%	$94,497
2009	$39,382	14%	$60,850

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

The funded status of the plan as of December 31, 2011, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	$240,072
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	$240,072
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	$2,012,883
UAAL as a percentage of covered payroll	12%

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, 2011 was 22 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, 2011 and 2010 was $788,916 and $816,984, respectively.

Trees Forever

The utility helps fund the local Trees Forever program with annual contributions to help further its energy conservation programs. Since 1995, annual contributions of $10,000 have been made to Trees Forever. In May 2011, the Board approved funding of $10,000 per year for the next 5 years, subject to yearly budget approval.

Local Wind Generation

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

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

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. This contract has expired.

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. This contract has expired.

NOTE 12 – COMMITMENTS AND CONTINGENCIES (cont.)

COMMITMENTS (cont.)

Walter Scott Jr. No. 4

During 2002, the utility along with other private and municipal utilities entered into agreements to jointly construct a coal generating plant in Council Bluffs, Iowa. Construction was completed in 2007 and placed into operation in June. The utility's share of ownership is 0.4% of the total capacity or about 3.16 MW's.

Municipal Energy Agency of Nebraska

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

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 became a full requirements member effective February 1, 2010 when the old purchase power contract expired.

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 2012. The other turbine was installed in 2009 and was 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 commit to MEAN, Waverly's share of the output of the Louisa Generating Station effective February 1, 2010.

NOTE 14 – SIGNIFICANT CUSTOMER

Sales to a significant customer were 11% in 2011 and 2010. 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, 2011 and 2010. 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
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, 2011.

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, 2011 and 2010. 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
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, 2011.

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, 2011 and 2010. 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
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, 2011.

REQUIRED SUPPLEMENTAL INFORMATION

Unaudited
WAVERLY LIGHT AND POWER

SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT BENEFITS PLAN
For the Year Ended December 31, 2011 and 2010

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2011	12/31/2011	$ -	$ 240,072	$ 240,072	0%	$ 2,012,883	12%
2010	12/31/2008	$ -	$ 353,970	$ 353,970	0%	$ 1,984,549	18%
2009	12/31/2008	$ -	$ 353,970	$ 353,970	0%	$ 1,964,300	18%

SUPPLEMENTAL INFORMATION

WAVERLY LIGHT AND POWER

STATEMENTS OF CHANGES IN BOND SINKING, RESERVE, AND IMPROVEMENT FUNDS
For the Years Ended December 31, 2011 and 2010

	Sinking Fund 2002	Sinking Fund 2005	Sinking Fund CREB	Reserve Fund 2002	Reserve Fund 2005	Reserve Fund CREB	Improvement Fund 1992 & 1998	Total
BALANCE, JANUARY 1, 2010	$ 33,226	$ 41,216	$ 17,131	$ 159,558	$ 299,346	$ 248,510	$ 250,000	$ 1,048,987
Receipts:								
Transfers from operating fund	399,133	494,655	205,553	-	-	-	-	1,099,341
Disbursements:								
Payments of principal and interest on bonds	(398,706)	(494,590)	(205,663)	-	-	-	-	(1,098,959)
BALANCE, DECEMBER 31, 2010	$ 33,653	$ 41,281	$ 17,021	$ 159,558	$ 299,346	$ 248,510	$ 250,000	$ 1,049,369
Receipts:								
Transfers from operating fund	404,140	495,373	204,139	-	-		-	1,103,652
Disbursements:								
Payments of principal and interest on bonds	(403,830)	(495,370)	(204,249)	-	-	-	-	(1,103,449)
BALANCE, DECEMBER 31, 2011	$ 33,963	$ 41,284	$ 16,911	$ 159,558	$ 299,346	$ 248,510	$ 250,000	$ 1,049,572

WAVERLY LIGHT AND POWER

OFFICIALS
December 31, 2011

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Eugene Drape, Chairman
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Waverly, IA 50677

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

Combined Operating Expense
Last Ten Fiscal Years

Type of Expense	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Production	$ 3,003,277	$ 3,337,512	$ 3,265,309	$ 4,116,926	$ 3,868,991	$ 4,863,026	$ 4,361,308	$ 4,387,125	$ 8,716,578	$ 9,638,952
Transmission	116,239	138,632	98,460	95,826	81,898	98,559	86,660	101,271	217,590	184,657
Distrubution	988,362	881,759	1,137,283	1,266,613	1,338,972	1,467,193	1,467,335	1,733,936	1,751,147	1,498,124
Customer Accounts	164,401	174,615	218,596	175,140	202,355	216,411	198,280	203,553	211,054	220,966
Administrative and General	507,830	549,847	628,236	524,336	593,517	764,759	666,475	677,310	733,127	699,356
Customer Information	144,622	99,226	138,243	137,560	127,887	110,944	123,069	137,730	121,163	122,504
Community development	81,259	77,098	220,591	189,671	192,423	195,134	225,740	261,599	236,107	242,714
Conservation	153,166	193,930	141,459	178,305	197,595	184,190	185,836	287,392	306,493	255,260
Water Heater	NA	55,509	121,822	140,683	109,686	48,092	93,276	9,920	(1,747)	1,552
Depreciation	1,276,135	1,260,547	1,325,524	1,365,706	1,347,305	1,423,386	1,522,050	1,565,196	1,603,480	1,700,352
Internet	124,638	89,060	NA	NA	NA	NA	NA	NA	NA	NA
Total	$ 6,559,929	$ 6,857,735	$ 7,295,523	$ 8,190,766	$ 8,060,629	$ 9,371,694	$ 8,930,029	$ 9,365,032	$ 13,894,992	$ 14,564,437

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

Last Ten Fiscal Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Operating Revenues	$ 8,305,875	$ 9,366,164	$ 8,982,502	$ 10,641,916	$ 10,398,484	$ 12,197,191	$ 12,005,301	$ 12,491,295	$ 17,257,351	$ 17,354,345
Operating Expense	6,559,929	6,857,735	7,295,523	8,190,766	8,060,629	9,371,694	8,930,029	9,365,032	13,894,992	14,564,437
Operating Income	1,745,946	2,508,429	1,686,979	2,451,150	2,337,855	2,825,497	3,075,272	3,126,263	3,362,359	2,789,908
Non-Operating Income	(44,531)	(154,433)	(72,248)	(426,649)	228,057	463,704	262,853	(52,641)	(158,341)	102,807
Transfers	(565,407)	(686,847)	(849,943)	(719,340)	(894,220)	(761,328)	(884,952)	(935,352)	(961,984)	(933,916)
Net Assets	$ 1,136,008	$ 1,667,149	$ 764,788	$ 1,305,161	$ 1,671,692	$ 2,527,873	$ 2,453,173	$ 2,138,270	$ 2,242,034	$ 1,958,799

Energy Disposition

Last Ten Fiscal Years

(In kwh)

Type of Service	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Residential	32,438,895	32,625,844	32,040,382	35,229,031	35,464,275	36,760,600	36,227,815	36,189,657	39,048,597	38,166,169
Industrial and Commerical	83,165,300	82,045,345	84,555,400	88,555,718	90,568,318	97,591,436	98,398,596	93,810,441	99,048,511	100,621,586
Security Lights	308,652	313,690	315,024	311,778	301,803	305,176	300,846	290,928	282,604	240,626
Municipal	6,331,922	6,557,831	6,643,664	8,350,412	8,664,320	9,148,169	9,625,008	9,086,409	9,517,373	9,397,658
Total	122,244,769	121,542,710	123,554,470	132,446,939	134,998,716	143,805,381	144,552,265	139,377,435	147,897,085	148,426,039

Principal Customers

2011-2010

Principal Customers	Type of Business Activity	Revenue % Sales to Customers 2011	2010
Nestle USA	Beverage Manufacturer	11.05%	11.41%
Wartburg College	Private Liberal Arts College	8.25%	8.31%
GMT	Machining and Fabrication	5.99%	5.81%
Waverly Health Center	Hospital	2.61%	2.61%
CUNA Mutal Life Insurance	Insurance Company	2.31%	2.46%
Terex Cranes	Manufacturing	2.16%	2.16%

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
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
2010	17,257,351	104,414	13,894,992	1,603,480	5,070,253	162,892	933,421	4.62
2011	17,354,345	119,610	14,564,437	1,700,352	4,609,870	132,307	968,421	4.19

Average Coverage
4.13

Employee Data

	2003	2004	2005	2006	2007	2008	2009	2010	2011
# of Employees									
Administration	3	3	3	3	3	3	3	3	3
Business Operations	4	4	4	4	3	3	4	4	4
Conservation	1	1	1	1	1	1	2	2	1
Line	13	14	13	13	12	13	12	11	11
Meter	2	3	3	3	3	2	2	2	2
Generation	2	3	5	4	4	5	5	6	7
Total full-time	25	28	29	28	26	27	28	28	28
Part-time & Interns	4	3	3	3	3	2	4	2	1

Electrical Sales Revenue

Last Ten Fiscal Years

Fiscal Year	Residential	Industrial	Commerical	Industrial and Commercial	Security Lights	Street Lights	Municipal	Total
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	5,758,177	1,394,746	7,152,923	43,060	274,910	674,204	12,054,610
2010	4,644,257	6,751,014	1,585,392	8,336,406	43,172	277,028	758,681	14,059,544
2011	4,623,271	6,866,051	1,463,022	8,329,073	41,430	275,626	741,189	14,010,589

Last Ten Fiscal Years

Fiscal Year	Deletions to Plant	Additions to Plant	Cash Required for Capital Improvements
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
2010	(791,236)	4,096,583	3,305,347
2011	(966,145)	2,200,445	1,234,300

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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, 2011, and have issued our report thereon dated March 26, 2012. 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

Management of Waverly Light and Power is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Waverly Light and Power's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an 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 was not designed to identify all deficiencies in internal control over financial reporting 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 discussed below, we identified certain deficiencies in internal control that we consider to be a material weakness.

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 controls such that there is a reasonable possibility that a material misstatement of Waverly Light and Power'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 deficiency described in the accompanying schedule of findings and responses to be a material weakness. This material weakness is item 11-A-11.

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 26, 2012.

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 26, 2012

FINDINGS AND RESPONSES

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

The audit identified the following material weakness:

II-A-11 Segregation of Duties – During the audit, we identified that proper segregation of duties was not in place.

Recommendation – Although we understand complete segregation of duties is not feasible at all times with the level of staff WLP currently has. In an effort to control this exposure we recommend that WLP management continue to carefully oversee day-to day operations.

Management's Response – Management is aware of this condition realizing that responsibilities in a limited number of individuals is not desirable from a control point of view.

WAVERLY LIGHT AND POWER

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2011

FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:

11-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, 2011 and 2010.

11-II-B Certified Budget – Disbursements during the years ended December 31, 2011 and 2010, did not exceed the amounts budgeted.

11-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.

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

11-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.

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

11-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.

11-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, 2011

WAVERLY LIGHT & POWER

INDEX
December 31, 2011

BAKER TILLY

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

Management of Waverly Light and Power is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Waverly Light and Power's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an 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 was not designed to identify all deficiencies in internal control over financial reporting 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 discussed below, we identified certain deficiencies in internal control that we consider to be a material weakness.

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 controls such that there is a reasonable possibility that a material misstatement of Waverly Light and Power's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below to be a material weakness.

> Segregation of Duties

WLP's written responses to the material weakness identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them. These matters are discussed more fully in this report on internal control.

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 26, 2012

CURRENT YEAR COMMENTS

Energy Cost Adjustment

During our audit we reviewed the energy cost adjustment and noted that during 2011 a change was made to the methodology of the calculation. This revision now incorporates an offset to the utility's purchase power expense for the capacity revenue received from the joint owned facilities. Although we are in agreement that this change in methodology is reasonable to the calculation of the energy cost adjustment we recommend that any changes made to this calculation in the future be supported by board approval and incorporated into the current rate schedules. It is our understanding that the board along with utility management has elected to postpone the application of the energy cost adjustment in 2012 and 2013 in an effort to hold down the costs passed on to customers, however prior to reinstatement of this charge we recommend the rate schedule be revised to disclose the offset of the capacity revenue into the rate formula.

Two Way Communication Regarding the Audit

As part of the audit of the WLP financial statements, we provide communications throughout the audit process. Auditing requirements require this two-way communication and are important in assisting the auditor and the governing body (Board of Trustees) with information relevant to the audit.

Previous audits were used to plan for this and subsequent year audits of WLP. This information is discussed below:

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

We 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 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.

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.

Audit fieldwork is generally scheduled in February with issuance of the audit report within 6-10 weeks after fieldwork.

We seek input from any Board member on areas of audit concern which might warrant additional audit procedures, communication with regulatory agencies, the Board's view on internal controls, the detection or possibility of fraud, or other matters you feel are relevant to the audit.

CURRENT YEAR COMMENTS (cont)

TWO WAY COMMUNICATION REGARDING THE AUDIT (cont.)

We also need to know if the Board has 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.

This communication may assist with planning the scope and timing of the audit, but 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.

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.

Status 12/31/11

We understand that WLP staff has been working with the city on resolving these discrepancies and have been performing reconciliations on a monthly basis. As a result of timing differences between collection, adjustments and reporting these reconciliations remain to have small variances between the WLP general ledger and the city created reports. We commend management at both WLP and the city for the effort they have placed on performing the reconciliations however to ensure accuracy is maintained we continue to recommend that WLP work with the city in an attempt to further reduce or eliminate these unreconciled amounts.

MATERIAL WEAKNESSES IN INTERNAL CONTROL

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 making entries into the financial records. Additional areas that constitute a material weakness over internal controls include:

Controls Over Utility Billing and Receipting

> There should be 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, constant segregation is not always feasible.

Management should 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.

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 the Board of Trustees 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

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to the Board in our Report on Internal Controls as part of the 2010 financial audit we performed for WLP.

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 2011. 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, depreciation, and other post employment benefits.

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.

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.

AUDIT ADJUSTMENTS/PASSED 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. No material journal entries were detected during the course of the 2011 audit.

Passed audit adjustments refer to adjustments to the financial statements that are identified by the auditor during the audit that would be considered to *not* materially misstate the financial statements if not recorded. All passed adjustments are required by auditing standards to be disclosed to the governing body. There were also no passed immaterial adjustments to the financial statements during the 2011 audit.

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, 2011, 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

None of these nonaudit services constitute an audit under generally accepted auditing standards including Government Auditing Standards.

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, IA 50677 | MAIN 319.352.6251

Waverly
Light and Power
PLANNING FOR TOMORROW
WHILE PROVIDING FOR TODAY™

March 26, 2012

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

Dear Auditors:

We are providing this letter in connection with your audit of the financial statements of the Waverly Light and Power as of December 31, 2011 and 2010 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. 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.

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

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

27. 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.

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

Baker Tilly Virchow Krause, LLP

March 26, 2012
Page 4

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 ______________________

Title/Date General Manager 3/26/12

Signed ______________________

Title/Date Accounting Manager, 3/26/12