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, 2012 and 2011

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

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December 31, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Waverly Light and Power, an enterprise fund of the City of Waverly, Iowa, which comprise the statements of net position as of December 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to Waverly Light and Power's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Waverly Light and Power's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Trustees
Waverly Light and Power

Opinion

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, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only Waverly Light and Power and do not purport to, and do not, present fairly the financial position of the City of Waverly, Iowa, as of December 31, 2012 and 2011 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. Our opinion is not modified with respect to this matter.

As discussed in the Note 1, Waverly Light and Power adopted the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, effective January 1, 2012. Our opinion is not modified with respect to this matter.

Other Matter

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress information as listed in the table of contents be presented to supplement the financial statements. 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, economic, 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 conducted for the purpose of forming opinions on the financial statements as a whole. The supplemental information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information 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 certain additional procedures, including comparing and reconciling such information directly to the underlying accounting 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, the information is fairly stated in all material respects in relation to the financial statements as a whole.

To the Board of Trustees
Waverly Light and Power

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, 2010 - 2003 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 25, 2013 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 control 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* in considering Waverly Light and Power's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 25, 2013

Waverly Light and Power (WLP) offers this discussion and analysis of our financial performance for the years ending December 31, 2012 and 2011. 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 Position 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 Position presents information on the change in WLP's net position 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

WLP owns a strategic mix of energy production resources. We own 10.86 MW of base load coal generation, .495 MW of hydro generation, 2.7 MW of wind generation and 32.6 MW of diesel generation which is used in conjunction with a long-term full requirements energy contract and in emergency situations. In 2012, we purchased 97% of our required energy and capacity through a full requirements energy contract. The remaining 3% is produced locally by our hydro and wind resources.

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 two wind turbines.

Waverly has a diverse business climate including a private college, a large financial institution, manufacturing businesses of varying sectors and many commercial businesses. The residential population has remained constant over the past few years. In 2012, we installed 58 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 $25,000 deductible and have an insurance recovery fund with a balance of $830,000 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 Position in Table 1, the Statements of Revenues, Expenses and Changes in Net Position in Table 2, the Statements of Cash Flows in Table 3 and the Statements of Revenues, Expenses and Changes in Net Position, Actual and Budget in Table 4.

Table 1
Condensed Statements of Net Position

	2012	2011	2010
ASSETS			
Current Assets	$ 6,833,881	$ 6,379,592	$ 7,713,783
Non-Current Assets			
Restricted Assets	639,510	957,414	957,414
Designated Funds	9,723,261	8,527,180	6,616,363
Other Assets	3,214,544	3,733,963	3,649,886
Capital Assets	32,402,834	33,123,380	32,734,490
Total Assets	52,814,030	52,721,529	51,671,936
LIABILITIES			
Current Liabilities	2,544,164	2,435,812	2,483,230
Current Liabilities Payable from Restricted Assets	660,205	1,011,960	979,673
Non-Current Liabilities	5,220,534	6,281,861	7,313,385
Non- Current Liabilities Payable from Restricted Assets	-	-	-
Total Liabilities	8,424,903	9,729,633	10,776,288
NET POSITION			
Net investment in capital assets	29,540,187	29,585,297	28,235,444
Restricted for Debt Service and Improvements	304,869	363,619	330,703
Unrestricted	14,544,071	13,042,980	12,329,501
TOTAL NET POSITION	$ 44,389,127	$ 42,991,896	$ 40,895,648

WLP increased net position by $1.4 million and $2.1 million in 2012 and 2011, 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 Position

	2012	2011	2010
OPERATING REVENUES	$ 17,296,715	$ 17,354,345	$ 17,257,351
OPERATING EXPENSES			
Depreciation expenses	1,746,726	1,700,352	1,603,480
Other operating expenses	13,344,587	12,864,085	12,291,512
Total Operating Expenses	15,091,313	14,564,437	13,894,992
Operating Income	2,205,402	2,789,908	3,362,359
Investment income	92,221	119,610	104,414
Interest and amortization expense	(158,366)	(187,052)	(214,742)
Gain/(Loss) on sale of plant	16,893	133,301	(81,120)
Royalties	25,995	36,948	33,107
Total Non-Operating Expenses	(23,257)	102,807	(158,341)
Income before operating transfers and Contribututions	2,182,145	2,892,715	3,204,018
Contributions	150,238	137,449	3,407
Operating transfers to the City of Waverly	(935,152)	(933,916)	(961,984)
Change in Net Position	1,397,231	2,096,248	2,245,441
NET POSITION, Beginning of Year	42,991,896	40,895,648	38,650,207
NET POSITION, END OF YEAR	$ 44,389,127	$ 42,991,896	$ 40,895,648

Revenues for 2012 were $58K lower than revenues for 2011 due to the weather.

Expenses for 2012 were $527K higher than expenses for 2011 due to increases in purchased power and transmission.

WLP Financial Analysis (cont.)

Table 3
Condensed Statements of Cash Flows

	2012	2011	2010
Cash Flows from Operating Activities			
Received from sales to customers	$ 17,620,321	$ 17,735,272	$ 16,819,201
Paid to suppliers and employees for services	(13,672,078)	(12,502,440)	(11,712,489)
Cash Flows from Operating Activities	3,948,243	5,232,832	5,106,712
Cash Flows from Non-Capital Financing Activities	(935,152)	(933,916)	(961,984)
Cash Flows from Capital and Financing Activities	(1,837,268)	(3,331,696)	(2,403,270)
Cash Flows from Investing Activities	(276,940)	163,995	(99,448)
Net Change in Cash and Equivalents	898,883	1,131,215	1,642,010
CASH AND CASH EQUIVALENTS – Beginning of Year	12,222,404	11,091,189	9,449,179
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 13,121,287	$ 12,222,404	$ 11,091,189

See accompanying independent auditors' report.

WLP Financial Analysis (cont.)

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

	Actual 2012	Budget 2012	Variance Favorable (Unfavorable)
OPERATING REVENUES	$17,296,715	$17,343,450	($46,735)
OPERATING EXPENSES			
Depreciation expenses	1,746,726	1,756,443	9,717
Other operating expenses	13,344,587	14,316,618	972,031
Total Operating Expenses	15,091,313	16,073,061	981,748
Operating Income	2,205,402	1,270,389	935,013
Investment income	92,221	150,000	(57,779)
Interest and amortization expense	(158,366)	(154,104)	(4,262)
Gain on sale of plant	16,893	-	16,893
Other income (expense)	25,995	15,000	10,995
Total Non-Operating Expenses	(23,257)	10,896	(34,153)
Income before contributions and operating transfers	2,182,145	1,281,285	900,860
Contributions	150,238	100,000	50,238
Operating transfers to the City of Waverly	(935,152)	(935,148)	(4)
Change in Net Position	1,397,231	446,137	951,094
NET POSITION, Beginning of Year	42,991,896	42,991,896	-
NET POSITION, END OF YEAR	$44,389,127	$43,438,033	$951,094

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 $324,426, $350,000, and $214,776 respectively for 2012, 2011, and 2010. 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.

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 $830,000 is funded annually at $60,000 a year. The 2011 and 2010 balance was $770,000 and $710,000 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 $292,753, $512,339, and $409,599 for 2012, 2011 and 2010 respectively.

The Generation and G & A funds are for funding future replacement of capital items for those departments. The Generation Fund has a balance $1,298,319 in 2012 and $1,439,955 in 2011 and 2010. The G & A Fund has a balance of $186,000 in 2012 and $186,121 in 2011 and 2010. 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 $765,930, $736,951, and $697,622 for 2012, 2011, and 2010 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 $556,425 in 2012 and $595,552 in 2011, and 2010.

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 $4,169,408, $2,573,524 and $1,000,000 for 2012, 2011 and 2010 respectively.

The Specified Project Fund was established in 2010 to set aside funds for future projects. The fund has a balance of $1,300,000 in 2012 and $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, CREB, and 2012 bond issues. The total of these restricted funds are $696,162, $1,049,571, and $1,049,368 in 2012, 2011, and 2010 respectively.

Capital Assets

WLP has $61.4 million of capital assets with a net asset value of $32.4 million. The total includes $.4 million in land, $3.9 million in buildings, $35.2 million in improvements, $6.5 million in machinery and equipment, $10.1 million in Louisa Generating Plant, $5.3 million in Walter Scott Jr. 4 Generating Plant, and $18 thousand in construction work in progress.

The 2011 capital assets included $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 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.

Capital improvements for 2012 included installation of new distribution lines, services, meters, and transformers, Louisa Generating Station improvements, WS4 Generating Station improvements, installation of wind turbine, catalyst installation, transmission improvements, LED street light replacements, and miscellaneous tools and equipment.

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.

Debt Activity

We have $3.3 million of outstanding debt at December 31, 2012. This includes $1.9 million of CREB bonds issued to finance two wind turbines and $1.4 million for the 2012 bonds which were issued to refund the 2005 bonds.

At the end of 2011 and 2010 the outstanding debt was $4.3 million and $5.3 million respectively.

WLP maintains a sinking fund, reserve fund and an improvement fund per bond requirements. The balance in these restricted funds is $696,162. Debt service for 2012 included $2,748,421 of principal payments and $102,468 of interest payments. The 2011 restricted fund balance was $1,049,572, including $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.

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 Position Follow

WAVERLY LIGHT AND POWER

STATEMENTS OF NET POSITION
December 31, 2012 and 2011

ASSETS

	2012	2011
CURRENT ASSETS		
Cash and investments	$ 2,701,863	$ 2,645,652
Accounts receivable	2,243,705	2,239,611
A/R Wartburg green power choice	100,000	100,000
Deferred asset current portion	145,000	145,000
Inventory	1,495,078	1,041,977
Prepaid expenses	91,582	115,194
Restricted Assets		
Sinking Funds		
2002 bonds	-	33,963
2005 bonds	-	41,284
CREB bonds	16,801	16,911
2012 bonds	39,852	-
Total Current Assets	6,833,881	6,379,592
NON-CURRENT ASSETS		
Restricted Assets		
Reserve Funds		
2002 bonds	-	159,558
2005 bonds	-	299,346
CREB bonds	248,510	248,510
2012 bonds	141,000	-
Improvement fund	250,000	250,000
Total Restricted Assets	639,510	957,414
Designated Funds		
Vehicle replacement	324,426	350,000
Key accounts	765,930	736,951
Renewable energy fund	292,753	512,339
Generation	1,298,319	1,439,955
G & A	186,000	186,121
Rate stabiization fund	4,169,408	2,573,524
Specified projects fund	1,300,000	1,362,738
Insurance recovery	830,000	770,000
Distribution Fund	556,425	595,552
Total Designated Funds	9,723,261	8,527,180
Other Assets		
Deferred asset	1,055,000	1,200,000
Deferred a/r Wartburg green power choice	1,400,000	1,500,000
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	491,311	492,027
Unamortized 2002 bond issue costs	-	353
Unamortized 2005 bond issue costs	-	5,015
Unamortized CREB bond issue costs	22,446	24,690
Unamortized 2012 bond issue costs	19,608	-
Total Other Assets	3,214,544	3,733,963
Capital Assets		
Land	357,124	357,124
Buildings	3,899,532	3,889,032
Improvements	35,170,976	32,054,743
Machinery and equipment	6,528,659	6,431,770
Louisa & Walter Scott 4 plants	15,393,728	15,346,926
Construction work in progress	18,167	2,271,710
Total Capital Assets	61,368,186	60,351,305
Accumulated depreciation	(28,965,352)	(27,227,925)
Net Capital Assets	32,402,834	33,123,380
Total Non-Current Assets	45,980,149	46,341,937
TOTAL ASSETS	$ 52,814,030	$ 52,721,529

See accompanying notes to financial statements.

LIABILITIES

	2012	2011
CURRENT LIABILITIES		
Accounts payable	$ 438,396	$ 480,299
Accrued property taxes	167,678	171,662
Other accrued expenses	1,693,090	1,538,851
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	658,421	1,003,421
Accrued interest on revenue bonds	1,784	8,539
Total Current Liabilities	3,204,369	3,447,772
NON-CURRENT LIABILITIES		
Note payable	1,055,000	1,200,000
Deferred credit - Wartburg green power	1,400,000	1,500,000
Revenue bonds	2,635,790	3,274,211
Other long-term accounts payable	129,744	309,727
Non-Current Liabilities Payable From Restricted Assets		
Less: Unamortized discount	-	(2,077)
Total Non-Current Liabilities	5,220,534	6,281,861
Total Liabilities	8,424,903	9,729,633

NET POSITION

	2012	2011
NET POSITION		
Net investment in capital assets	29,540,187	29,585,297
Restricted for debt service and improvements	304,869	363,619
Unrestricted	14,544,071	13,042,980
Total Net Position	44,389,127	42,991,896
TOTAL LIABILITIES AND NET POSITION	$ 52,814,030	$ 52,721,529

See accompanying notes to financial statements.

WAVERLY LIGHT AND POWER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years ended December 31, 2012 and 2011

	2012	2011
OPERATING REVENUES		
Sales to customers	$ 13,824,595	$ 14,010,589
Miscellaneous	3,472,120	3,343,756
Total Operating Revenues	17,296,715	17,354,345
OPERATING EXPENSES		
Production	10,226,661	9,638,952
Transmission	192,689	184,657
Distribution	1,522,260	1,498,124
Customer accounts	198,203	220,966
Administrative and general	644,857	699,356
Customer information	114,300	122,504
Community development	249,278	242,714
Conservation	196,223	255,260
Water heater	116	1,552
Depreciation	1,746,726	1,700,352
Total Operating Expenses	15,091,313	14,564,437
Operating Income	2,205,402	2,789,908
NONOPERATING REVENUE (EXPENSES)		
Gain/(loss) on sale of plant	16,893	133,301
Royalties	25,995	36,948
Investment income	92,221	119,610
Interest expense	(95,713)	(132,307)
Amortization of debt discount and bond issue costs	(10,678)	(7,458)
Amortization of energy rebates	(51,975)	(47,287)
Total Nonoperating Revenue (Expenses)	(23,257)	102,807
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS	2,182,145	2,892,715
Contributions	150,238	137,449
Transfer to City of Waverly general fund	(935,152)	(933,916)
CHANGE IN NET POSITION	1,397,231	2,096,248
NET POSITION - Beginning of Year	42,991,896	40,895,648
NET POSITION - END OF YEAR	$ 44,389,127	$ 42,991,896

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, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from sales to customers	$ 14,276,956	$ 14,606,018
Received from Municipal Energy Agency of Nebraska	3,343,365	3,129,254
Paid to suppliers for purchased power and transmission	(7,696,499)	(7,360,518)
Paid to suppliers and employees for other services	(5,975,579)	(5,141,922)
Net Cash Flows From Operating Activities	3,948,243	5,232,832
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	(790,152)	(788,916)
Net Cash Flows From Noncapital Financing Activities	(935,152)	(933,916)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of plant and equipment	(1,279,215)	(2,811,298)
Salvage received on plant sold	80,290	445,594
Capital contributions received	150,238	137,449
Debt issue costs	(20,596)	-
Principal received from 2012 bonds	1,410,000	-
Principal payments on revenue bonds	(2,075,517)	(968,421)
Interest paid	(102,468)	(135,020)
Net Cash Flows From Capital and Related Financing Activities	(1,837,268)	(3,331,696)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net marketable securities sold/purchased for 2002 sinking fund	33,963	(310)
Net marketable securities sold/purchased for 2005 sinking fund	41,284	(3)
Net marketable securities sold for CREB bond sinking fund	110	110
Net marketable securities purchased for 2012 bond sinking fund	(39,852)	-
Net marketable securities purchased/sold for vehicle replacement fund	25,574	(135,224)
Net marketable securities purchased for key accounts fund	(28,979)	(39,329)
Net marketable securities sold for generation fund	141,636	-
Net marketable securities sold/purchased for Renewable energy fund	219,586	(102,740)
Net marketable securities purchased for insurance recovery fund	(60,000)	(60,000)
Net marketable securities purchased for rate stabilization fund	(1,595,884)	(1,573,524)
Net marketable securities sold for special projects fund	62,738	-
Net marketable securities sold for general and administrative fund	121	-
Net marketable securities sold for distribution/transmission fund	39,127	-
Net marketable securities sold for electric revenue fund	842,673	2,036,520
Marketable securities purchased	-	-
Marketable securities sold	-	15,340
Purchase of investment in grimes granger and capx	-	-
Purchase of energy rebates	(51,258)	(96,455)
Investment income	92,221	119,610
Net Cash Flows From Investing Activities	(276,940)	163,995
Net Change in Cash and Cash Equivalents	898,883	1,131,215
CASH AND CASH EQUIVALENTS - Beginning of Year	12,222,404	11,091,189
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 13,121,287	$ 12,222,404
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Amortization of debt related costs	$ 10,678	$ 7,458
Amortization of energy rebates	$ 51,975	$ 47,287
Gain (loss) on sale of plant	$ 16,893	$ 133,301
Waverly Health Center funding	$ 75,000	$ 50,000

See accompanying notes to financial statements.

	2012	2011
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	$ 2,205,402	$ 2,789,908
Non-operating income (expense)	42,889	39,494
Noncash items included in operating income		
Depreciation	1,746,726	1,700,352
Depreciation cleared	172,742	281,719
Changes in assets and liabilities		
Accounts receivable	281,604	341,433
Inventory	(453,101)	(58,775)
Prepaid expenses	23,612	(29,107)
Accounts payable	(221,886)	43,551
Accrued property taxes	(3,984)	2,245
Other accrued expenses	154,239	122,012
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 3,948,243	$ 5,232,832
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEET ACCOUNTS		
Cash and investments	$ 2,701,863	$ 2,645,652
Restricted investments		
Sinking Funds		
2002 bonds	-	33,963
2005 bonds	-	41,284
CREB bonds	16,801	16,911
2012 bonds	39,852	-
Reserve Funds		
2002 bonds	-	159,558
2005 bonds	-	299,346
CREB bonds	248,510	248,510
2012 bonds	141,000	-
Improvement fund	250,000	250,000
Total Cash and Restricted Investments	3,398,026	3,695,224
Designated Investments		
Vehicle replacement	324,426	350,000
Key accounts	765,930	736,951
Iowa energy tags	292,753	512,339
Generation	1,298,319	1,439,955
G & A	186,000	186,121
Rate stabilization fund	4,169,408	2,573,524
Specified project fund	1,300,000	1,362,738
Insurance recovery	830,000	770,000
Distribution Fund	556,425	595,552
Total Designated Investments	9,723,261	8,527,180
Less: non cash equivalents (note 1)	-	-
TOTAL CASH AND CASH EQUIVALENTS	$ 13,121,287	$ 12,222,404

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 46,650 kilowatts of generating capacity.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

The financial statements are reported using economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards did not include guidance for these elements, which are distinct from assets and liabilities. The utility made the decision to implement this standard effective January 1, 2012.

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 POSITION

Deposits and Investments

The utility has an adopted investment policy which was last approved in 2012. 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, 2012 and 2011 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, 2012 and 2011 include: unbilled revenues totaling $574,533 and $584,239, customer accounts receivable totaling $1,060,740 and $987,667, other accounts receivable totaling $608,430 and $650,331, accrued interest receivable totaling $1 and $1, and unbilled fuel cost receivable totaling $2 and $17,373, respectively.

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

ASSETS, LIABILITIES AND NET POSITION (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	
	2012	2011
Local Inventories		
Distribution materials	$ 664,203	$ 496,252
Water heaters	4,112	1,858
Operating plant fuel	95,306	91,758
Louisa Inventories		
Coal	573,618	309,437
Oil	3,286	1,345
Materials	51,527	48,249
WS4 Inventories		
Coal	70,684	61,473
Oil	7,443	8,989
Materials	24,899	22,616
Totals	$ 1,495,078	$ 1,041,977

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 POSITION (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, 2012 and 2011, was $1,919,468 and $1,982,071, respectively; of that, $1,746,726 and $1,700,352 was expensed and $172,742 and $281,719 was capitalized in 2012 and 2011.

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 POSITION (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.

Miscellaneous

The significant majority of miscellaneous revenue is revenue received under the supplemental agreement regarding participant owned capacity with Municipal Energy Agency of Nebraska (MEAN) and joint ventures with MEAN.

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 Position.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 65, Items Previously Reported as Assets and Liabilities; Statement No. 66, Technical Corrections - 2012 an amendment of GASB Statements No. 10 and No. 62; Statement No. 67, Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25; and Statement No. 68, Accounting and Financial reporting for Pensions - an amendment of GASB Statement No. 27. 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, 2012 and 2011 were comprised of the following:

	2012	2011	Risks
Checking	$ 2,772,708	$ 2,322,110	Custodial credit risk
Petty cash	921	921	Custodial credit risk
Saving	10,252,336	9,804,061	Custodial credit risk
Certificates of deposit	0	0	Custodial credit risk
IPAIT	95,322	95,312	Credit and Interest rate risk
Total Deposits and Investments	$13,121,287	$12,222,404	

Reconciliation to financial statements

	2012	2011
Unrestricted cash and investments	$2,701,863	$2,645,652
Restricted cash and investments	696,163	1,049,572
Designated cash and investments	9,723,261	8,527,180
Total Deposits and Investments	$13,121,287	$12,222,404

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, 2012 and 2011, 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, 2012 and 2011, the utility's investments were as follows:

	2012		2011	
Investment Type	Fair Value	Weighted Average Maturity (Days)	Fair Value	Weighted Average Maturity (Days)
Iowa Public Agency Investment Trust	$ 95,322	49.86	$ 95,312	42.54

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 Position 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 Position:

	2012	2011
Restricted Assets		
Sinking funds	$ 56,653	$ 92,158
Reserve fund	389,510	707,414
Improvement fund	250,000	250,000
Total Restricted Assets	696,163	1,049,572
Less: Restricted Assets Not Funded by Revenues		
Reserve fund	(389,510)	(707,414)
Total Restricted Assets Not Funded by Revenues	(389,510)	(707,414)
Current Liabilities Payable From Restricted Assets	(1,784)	(8,539)
Total Restricted Net Position as Calculated	$ 304,869	$ 333,619

Generally accepted accounting principles do not allow negative restricted net position. Therefore, no restricted net position 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, 2012 and 2011:

		2012		2011	
To	From	Amount	Principal Purpose	Amount	Principal Purpose
Municipality	WLP	$ 790,152	Fund Transfer	$ 788,916	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 2012 follows:

	Balance 01/01/12	Additions	Deletions	Balance 12/31/2012
Capital assets:				
Land (1)	$ 357,124	$ -	$ -	$ 357,124
Buildings	3,889,032	21,713	(11,214)	3,899,532
Improvements	32,054,743	3,294,992	(178,759)	35,170,976
Equipment	6,431,770	143,222	(46,333)	6,528,659
Louisa plant	10,038,950	71,844	(26,026)	10,084,768
WS4 plant	5,307,976	984	-	5,308,960
Construction in progress (1)	2,271,710	2,762,769	(5,016,312)	18,167
Less: Accumulated depreciation	(27,227,925)	(1,919,499)	182,072	(28,965,352)
Net Capital Assets	$ 33,123,380	$ 4,376,025	$ (5,096,571)	$ 32,402,834

(1) – Capital assets not being depreciated.

NOTE 5 – CHANGES IN CAPITAL ASSETS (cont.)

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 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	-
12/15/2005	Finance various electric system improvements	12/1/2012	12/1/2015	3.5 - 4.0%	3,000,000	-
12/4/2007	Finance two wind turbines	12/1/2022	12/1/2022	0.70%	2,826,316	1,884,211
11/13/2012	Refinance the 2005 bonds	12/1/2015	12/1/2015	0.4-.67%	1,410,000	1,410,000

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

REVENUE BONDS (cont.)

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

Year	Principal	Interest	Total
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	188,421	7,914	196,335
2018-2022	942,106	18,464	960,570
Totals	$ 1,884,211	$ 71,222	$ 1,955,433

The 2012 revenue bond debt service requirements to maturity follows:

Year	Principal	Interest	Total
2013	470,000	7,847	477,847
2014	470,000	5,593	475,593
2015	470,000	3,149	473,149
Totals	$ 1,410,000	$ 16,589	$ 1,426,589

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 2012 and 2011 were $2,495,885 and $1,103,448, respectively. Total customer gross revenues as defined for the same periods were $17,388,936 and $17,473,955. 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 2012 and 2011. The outstanding amount of the Board approved funding at December 31, 2012 and 2011 was zero and $25,000, respectively.

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

NOTE PAYABLE (cont.)

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, 2012 and 2011 were $1,200,000 and $1,320,000, respectively. This amount has been offset in the Statements of Net Position as a "Deferred asset."

Note payable obligations to maturity follows:

Year	Principal	Interest	Total
2013	120,000	-	120,000
2014	120,000	-	120,000
2015	120,000	-	120,000
2016	120,000	-	120,000
2017	120,000	-	120,000
2018-2022	600,000	-	600,000
Totals	$ 1,200,000	$ -	$ 1,200,000

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 $1,500,000 and $1,600,000, respectively has been reflected in the Statements of Net Position for 2012 and 2011.

NOTE 6 – LONG-TERM OBLIGATIONS (cont.)

Long-term obligation activity for 2012 and 2011 follows:

Debt Issue	Balance 12/31/2011	Additions	Reductions	Balance 12/31/2012	Current Portion
2002 Revenue bonds	$ 390,000	$ -	$ 390,000	$ -	$ -
2005 Revenue bonds	1,815,000	-	1,815,000	-	-
CREB Revenue bonds	2,072,632	-	188,421	1,884,211	188,421
2012 Revenue bonds	-	1,410,000	-	1,410,000	470,000
Note Payable	1,345,000	-	145,000	1,200,000	145,000
Deferred Credit	1,600,000	-	100,000	1,500,000	100,000
Other Long Term Accounts Payable	194,595	-	(194,595)	-	-
Unamortized Debt Discount	(2,077)	-	(2,077)	-	-
Totals	$ 7,415,150	$ 1,410,000	$ 2,441,749	$ 5,994,211	$ 903,421

Debt Issue	Balance 12/31/2010	Additions	Reductions	Balance 12/31/2011	Current Portion
1998 Revenue bonds	$ -	$ -	$ -	$ -	$ -
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	-	194,595	-	194,595	-
Unamortized Debt Discount	(3,744)	-	(1,667)	(2,077)	-
Totals	$ 8,432,309	$ 194,595	$ 1,211,754	$ 7,415,150	$ 1,248,421

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

NOTE 7 – NET POSITION

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

Net investment in capital assets – This component of Net Position 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 position component as the unspent proceeds.

Restricted – This component of net position 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 Position – This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

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 POSITION (cont.)

The following calculation supports the net position net investment in capital assets:

	2012	2011
Plant in service	$ 61,350,020	$ 58,079,595
Accumulated depreciation	(28,965,352)	(27,227,925)
Construction work in progress	18,167	2,271,710
Subtotal	32,402,835	33,123,380
Less: Capital Related Debt		
Current portion of capital related long-term debt	658,421	1,003,421
Long-term portion of capital related long-term debt	2,635,790	3,274,211
Unamortized bond issue costs	(42,053)	(30,058)
Unamortized discount	-	(2,077)
Subtotal	3,252,158	4,245,497
Add: Reserve from borrowing	389,510	707,414
Total Net Investement in Capital Assets	$ 29,540,187	$ 29,585,297

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 2012 assets at a cost of $353,491 less accumulated depreciation of $305,350 for a net value of $48,141. Of this, approximately 3.66% of the system has been leased to customers. Total lease revenue included in the utility’s financial statements for 2012 and 2011 was $39,784 and $42,957, respectively.

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 5.78% of their annual salary and the utility is required to contribute 8.67% of the annual-covered payroll to the plan. Contribution requirements are established by State statute. The utility's contribution to IPERS for 2012, 2011, and 2010 was $140,345, $142,604, and $129,063, respectively. The total utility payroll was $1,878,134 for 2012. The payroll for 2011 and 2010 was $2,012,883 and $1,984,549, 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, 2012 and 2011 was $830,000 and $770,000, 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 9.3 percent of the current year premiums for a single plan for eligible retired plan members. For fiscal years 2012 and 2011, the utility contributed $22,742 and $10,345 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 2012 or 2011. 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	$	33,815
Interest on net OPEB obligation		3,539
Adjustment to annual required contribution		
Annual OPEB cost		37,354
Contributions made		(22,742)
Increase in net OPEB obligation (asset)		14,612
Net OPEB Obligation (Asset) – Beginning of Year		117,967
Net OPEB Obligation (Asset) – End of Year	$	132,579

The utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for December 31, 2012 and two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
2012	$33,815	28%	$132,579
2011	$41,995	31%	$117,967
2010	$40,170	20%	$94,497

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

The funded status of the plan as of December 31, 2012, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	$387,449
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	$387,449
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	$1,878,134
UAAL as a percentage of covered payroll	13%

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, 2012 was 21 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, 2012 and 2011 was $790,152 and $788,916, 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.

Municipal Energy Agency of Nebraska

On August 7, 2007 the utility entered into an Electrical Resources Policy agreement 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. Also on August 7, 2007 the utility entered into a Supplemental Agreement regarding participant owned capacity. The utility committed 15 MW of capacity beginning on February 1, 2010.

NOTE 12 – COMMITMENTS AND CONTINGENCIES (cont.)

COMMITMENTS (cont.)

Emergya Wind Technologies

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. One turbine was installed in 2009 and was commissioned in 2010. In 2012 the second turbine was installed and commissioned. The lawsuit was settled through mediation in 2012.

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 sells to MEAN through a purchase power agreement, Waverly's share of the output of the Louisa Generating Station effective February 1, 2010.

Walter Scott Jr. No. 4

During 2002, the utility along with other private and municipal utilities entered into agreements to jointly construct a coal generating plant in Council Bluffs, Iowa. Construction was completed in 2007 and placed into operation in June. The utility's share of ownership is 0.4% of the total capacity or about 3.16 MW's. The utility commits to MEAN, Waverly's share of the output of the Walter Scott Jr. No. 4 Generating Station effective June 2007.

NOTE 14 – SIGNIFICANT CUSTOMER

Sales to a significant customer were 10.6% in 2012 and 11% in 2011. 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

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, 2012 and 2011. The funds are to be used for future year bond obligations if the Sinking Fund Reserve balance is insufficient to pay the principal and interest obligations of the bond.

Improvement Fund Reserve – This amount totaling $250,000 was established by the 1992 bonds. The fund remained intact after the 1992 bonds were retired for the benefit of the 1998, 2002, and 2005 bonds. These funds are to be used for future bond obligations if necessary, or for extraordinary operating needs of the utility.

NOTE 16 – BOND RESERVE REQUIREMENTS (cont.)

2008 Bond Reserve Requirements (cont.)

The annual obligations for these reserves are:

	Sinking Fund Reserve	Reserve Fund Reserve	Improvement Fund Reserve
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, 2012.

2012 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 $141,000 at December 31, 2012. 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
2013	477,847	-	-
2014	475,593	-	-
2015	473,149	-	-

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, 2012.

REQUIRED SUPPLEMENTAL INFORMATION

Unaudited
WAVERLY LIGHT AND POWER

SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT BENEFITS PLAN
For the Year Ended December 31, 2012 and 2011

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
2012	12/31/2011	$ -	$ 387,449	$ 387,449	0%	$ 1,878,134	13%
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%

See accompanying independent auditors' report.

SUPPLEMENTAL INFORMATION

WAVERLY LIGHT AND POWER

STATEMENTS OF CHANGES IN BOND SINKING, RESERVE, AND IMPROVEMENT FUNDS
For the Years Ended December 31, 2012 and 2011

	Sinking Fund 2002	Sinking Fund 2005	Sinking Fund CREB	Sinking Fund 2012	Reserve Fund 2002	Reserve Fund 2005	Reserve Fund CREB	Reserve Fund 2012	Improvement Fund 1992 & 1998	Total
BALANCE, JANUARY 1, 2011	$ 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
Receipts:										
Transfers from operating fund	373,588	1,844,122	202,823	39,852	-	-		141,000	-	2,601,385
Disbursements:										
Payments of principal and interest on bonds	(407,551)	(1,885,406)	(202,933)	-	(159,558)	(299,346)	-	-	-	(2,954,794)
BALANCE, DECEMBER 31, 2012	$ -	$ -	$ 16,801	$ 39,852	$ -	$ -	$ 248,510	$ 141,000	$ 250,000	$ 696,163

WAVERLY LIGHT AND POWER

OFFICIALS
December 31, 2012

Board of Trustees

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

Dariece Graening-Knights, Vice Chair
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Waverly, IA 50677

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Diane C. Johnson
1400 Cedar Lane
Waverly, IA 50677

Assistant General Manager/
Operations Manager
Mike Litterer
209 Carson Circle
Waverly, IA 50677

Accounting Manager
Cara Jensen
1331 120th St
Plainfield, IA 50666

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

Combined Operating Expense
Last Ten Fiscal Years

Type of Expense	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Production	$ 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	$ 10,226,661
Transmission	138,632	98,460	95,826	81,898	98,559	86,660	101,271	217,590	184,657	192,689
Distrubution	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	1,522,260
Customer Accounts	174,615	218,596	175,140	202,355	216,411	198,280	203,553	211,054	220,966	198,203
Administrative and General	549,847	628,236	524,336	593,517	764,759	666,475	677,310	733,127	699,356	644,857
Customer Information	99,226	138,243	137,560	127,887	110,944	123,069	137,730	121,163	122,504	114,300
Community development	77,098	220,591	189,671	192,423	195,134	225,740	261,599	236,107	242,714	249,278
Conservation	193,930	141,459	178,305	197,595	184,190	185,836	287,392	306,493	255,260	196,223
Water Heater	55,509	121,822	140,683	109,686	48,092	93,276	9,920	(1,747)	1,552	116
Depreciation	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	1,746,726
Internet	89,060	NA	NA	NA	NA	NA	NA	NA	NA	NA
Total	$ 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	$ 15,091,313

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

Last Ten Fiscal Years

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Operating Revenues	$ 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	$ 17,296,715
Operating Expense	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	15,091,313
Operating Income	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	2,205,402
Non-Operating Income	(154,433)	(72,248)	(426,649)	228,057	463,704	262,853	(52,641)	(158,341)	102,807	(23,257)
Transfers	(686,847)	(849,943)	(719,340)	(894,220)	(761,328)	(884,952)	(935,352)	(961,984)	(933,916)	(935,152)
Net Position	$ 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	$ 1,246,993

Energy Disposition

Last Ten Fiscal Years

(In kwh)

Type of Service	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Residential	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	37,361,286
Industrial and Commerical	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	100,691,677
Security Lights	313,690	315,024	311,778	301,803	305,176	300,846	290,928	282,604	240,626	128,043
Municipal	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	9,073,472
Total	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	147,254,478

Principal Customers

2012-2011

Principal Customers	Type of Business Activity	Revenue % Sales to Customers 2012	2011
Nestle USA	Beverage Manufacturer	10.59%	11.05%
Wartburg College	Private Liberal Arts College	7.63%	8.25%
GMT	Machining and Fabrication	6.78%	5.99%
Waverly Health Center	Hospital	2.54%	2.61%
Waverly Shell Rock CSD	School	2.53%	1.87%
Terex Cranes	Manufacturing	2.36%	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
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
2012	17,296,715	92,221	15,091,313	1,746,726	4,044,349	95,713	665,517	5.31
								Average Coverage
								4.34

Employee Data

	2004	2005	2006	2007	2008	2009	2010	2011	2012
# of Employees									
Administration	3	3	3	3	3	3	3	3	2
Business Operations	4	4	4	3	3	4	4	4	4
Conservation	1	1	1	1	1	2	2	1	1
Line	14	13	13	12	13	12	11	11	10
Meter	3	3	3	3	2	2	2	2	2
Generation	3	5	4	4	5	5	6	7	5
Total full-time	28	29	28	26	27	28	28	28	24
Part-time & Interns	3	3	3	3	2	4	2	1	1

Electrical Sales Revenue

Last Ten Fiscal Years

Fiscal Year	Residential	Industrial	Commerical	Industrial and Commercial	Security Lights	Street Lights	Municipal	Total
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
2012	4,628,144	6,753,474	1,435,083	8,188,557	43,817	251,321	712,756	13,824,595

Last Ten Fiscal Years

Fiscal Year	Deletions to Plant	Additions to Plant	Cash Required for Capital Improvements
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
2012	(262,330)	3,532,755	3,270,425

BAKER TILLY

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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*

Independent Auditors' Report

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

We have audited, 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, the accompanying financial statements of Waverly Light and Power, an enterprise fund of the City of Waverly, Iowa, which comprise the statements of net position as of December 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Waverly Light and Power's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Waverly Light and Power's internal control. Accordingly, we do not express an opinion on the effectiveness of Waverly Light and Power's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

To the Board of Trustees
Waverly Light and Power

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. This material weakness is item 12-A-11.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Waverly Light and Power's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Waverly Light and Power's Response to Findings

Waverly Light and Power's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Waverly Light and Power's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 25, 2013

WAVERLY LIGHT AND POWER

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2012

FINDINGS AND RESPONSES

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

Finding 12-A-11: Segregation of Duties

Criteria:

Proper segregation of duties is needed to maintain strong internal controls.

Condition:

Proper segregation of duties is not maintained between the accounts receivable receipting and customer account receivable posting functions.

Effect:

This could lead to a situation where a customer pays their bill and their account is not correctly posted.

Cause:

There is a limited number of individuals available for these duties.

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 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, 2012

FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:

12-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, 2012 and 2011.

12-II-B Certified Budget – Disbursements during the years ended December 31, 2012 and 2011, did not exceed the amounts budgeted.

12-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.

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

12-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.

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

12-II-G Revenue Bonds – The utility has complied with all provisions of the 2002, 2005, 2007, and 2012 Bond Covenants. All required payments to the sinking, reserve and improvement funds were made.

12-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.