

**WILTON MUNICIPAL LIGHT AND POWER SYSTEM**

**Financial and Compliance Report**

**June 30, 2005 and 2004**

**(With Independent Auditor's  
Report Thereon)**

## WILTON MUNICIPAL LIGHT AND POWER SYSTEM

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**WILTON MUNICIPAL LIGHT AND POWER SYSTEM**

**Officials**

<b><u>Name</u></b>	<b><u>Title</u></b>	<b><u>Term Expires</u></b>
<b>Lorna Jaspersen</b>	<b>Utility Board Trustee</b>	<b>2009</b>
<b>Jim Rose</b>	<b>Utility Board Trustee</b>	<b>2009</b>
<b>Robert Barrett</b>	<b>Utility Board Trustee</b>	<b>2007</b>
<b>Daniel Herr</b>	<b>Utility Board Trustee</b>	<b>2007</b>
<b>Wayne Budding</b>	<b>Utility Board Trustee</b>	<b>2005</b>
<b>Julie Smith</b>	<b>Office Manager, Board Secretary</b>	<b>N/A</b>
<b>Collin Proctor</b>	<b>Plant Superintendent</b>	<b>N/A</b>

## Independent Auditor's Report

To the Board of Trustees  
Wilton Municipal Light and Power System:

We have audited the accompanying balance sheets of Wilton Municipal Light and Power System, a component unit of the City of Wilton, Iowa (the System) as of June 30, 2005 and 2004, and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, 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 and provisions require that we plan and perform the audit 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 opinions.

In our report dated July 26, 2004, we expressed an opinion that, except for the effects of such adjustments relating to the proper segregation of the System's equity between contributed capital and retained earnings, the 2004 financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. As described in note 11 to the financial statements, the 2004 financial statements were restated upon adoption of Governmental Accounting Standards Board Statement No. 34 which utilizes the net asset presentation format rather than the equity presentation format. Accordingly, our present opinion on the 2004 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As described in Note 11 to the financial statements, the System adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, for the year ended June 30, 2005.

In accordance with Government Auditing Standards, we have also issued our report dated August 1, 2005 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 and 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 audit.

Management's Discussion and Analysis and budgetary comparison information on pages 3 through 5 and 15 through 16 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the System's basic financial statements. The supplementary information presented on pages 17 through 20, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

*Anderson, Lower, Whitlow, P.C.*

Bettendorf, Iowa  
August 1, 2005

## WILTON MUNICIPAL LIGHT AND POWER SYSTEM

### Management Discussion and Analysis (Unaudited)

The following section is provided as an analysis of the Wilton Municipal Light and Power System's financial performance during the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with Wilton Municipal Light and Power System's financial statements, which follow.

Because the System is implementing new reporting standards for this fiscal year, with changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the System's financial position and results of operations.

#### Electric utility financial highlights:

In thousands \$	<u>2005</u>	<u>2004</u>
Cash and investments	680	631
Total cash assets	1,415	1,334
Total assets	5,142	5,152
Total current liabilities	256	206
Total liabilities	1,346	1,369
Total net assets	3,796	3,783
Operating revenues	1,904	1,764
Operating expenses	1,852	1,688
Operating income	52	76
Net income	12	28

During 2000, after an engineering study was performed, the System elected to add 4.4 MWH to our generation base. This addition was achieved by adding two Caterpillar 3616 SB's. With these additions, the new capacity enables the System to cover summer peak loads and also enables the System to earn extra generation credits which amount to approximately \$124,000 per year. The purchase of the two new engines increased the total number of generating engines from three Caterpillar engines which were installed in 1991, to a total of five engines available for generation. This enables the System to achieve total generation capacity of 9.2 MWH. The total discounts earned for generation credit was \$338,251.80 in 2004 and \$336,645.25 for 2005.

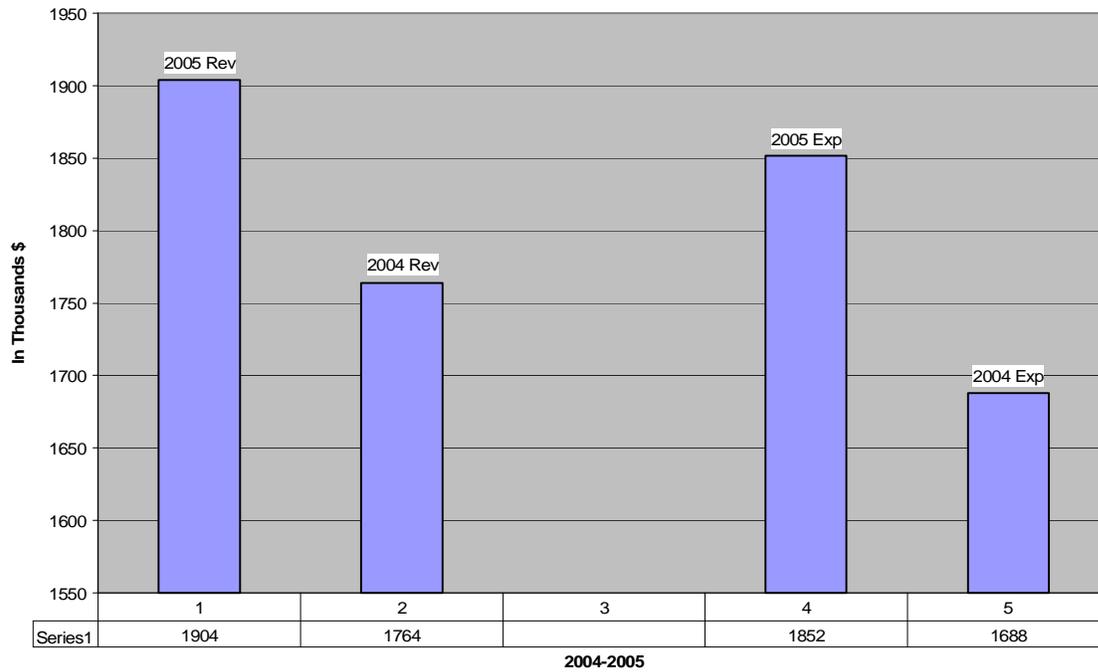
This addition resulted in a \$1,400,000 bond issue which has a maturity date of June 2017. An account known as Electric Revenue Sinking Fund has been set aside from net revenues of the Utility sufficient to pay interest and principal as they become due. A Principal and Interest Reserve Fund has been set aside with a balance of \$140,000 and an Improvement and Extension Fund with a balance of \$150,000 was also set up.

In January 2005, the Municipal became aware of an 8% increase in rates from our wholesale power provider (Eastern Iowa Light & Power). The Board voted and approved a rate study to be performed to see if a need for a rate increase existed. After consultation with the consultants, it was suggested to increase electric rates by 8%.

In May 2005, the Municipal was notified of another increase from our wholesale provider of 2.6 mils or 2% due to failure at one of their generation stations. This and any additional raises will need to be covered by the next rate increase.

**WILTON MUNICIPAL LIGHT AND POWER SYSTEM**  
**Management Discussion and Analysis (Unaudited), continued**

**Operational Revenues and Expenses**

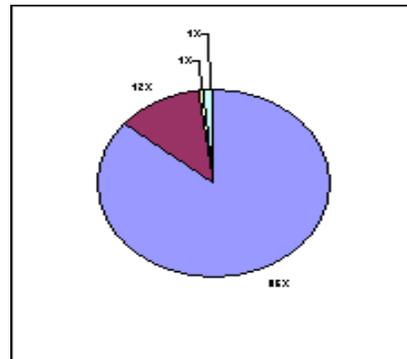


**Customer Information**

**Residential**  
**Commercial**  
**Lg. Commercial**  
**Interdepartmental**  
**Total**

**Wilton Municipal  
Customers**

1,239	86%
176	12%
10	1%
18	1%
<u>1,443</u>	



**WILTON MUNICIPAL LIGHT AND POWER SYSTEM**

**Balance Sheets**

**June 30, 2005 and 2004**

<u>Assets</u>	<u>2005</u>	<u>2004</u>
<b>Current assets:</b>		
Cash and short-term investments (note 2)	\$ 680,186	631,527
Restricted investments (note 3)	312,726	301,473
Receivables:		
Accounts, consumers	184,333	154,692
Estimated unbilled usage	93,810	80,356
Accrued interest	<u>11,071</u>	<u>4,966</u>
	<u>289,214</u>	<u>240,014</u>
Inventories	108,049	137,343
Prepaid expenses	<u>24,777</u>	<u>24,195</u>
<b>Total current assets</b>	<b><u>1,414,952</u></b>	<b><u>1,334,552</u></b>
<b>Non-current assets:</b>		
Capital assets (note 4):		
Utility plant in service	7,081,484	6,957,946
Less accumulated depreciation	<u>3,362,114</u>	<u>3,148,061</u>
Net capital assets	3,719,370	3,809,885
Other assets - bond issue costs, net	<u>7,686</u>	<u>8,327</u>
<b>Total non-current assets</b>	<b><u>3,727,056</u></b>	<b><u>3,818,212</u></b>
<b>Total assets</b>	<b><u>\$5,142,008</u></b>	<b><u>5,152,764</u></b>
<b><u>Liabilities and Net Assets</u></b>		
<b>Current liabilities:</b>		
Accounts payable	128,558	84,283
Accrued expenses	28,419	23,977
Customer deposits	18,830	17,290
Current installments of long-term debt (note 5)	75,000	75,000
Accrued interest payable	<u>4,835</u>	<u>5,050</u>
<b>Total current liabilities</b>	<b><u>255,642</u></b>	<b><u>205,600</u></b>
<b>Non-current liabilities:</b>		
Long term debt, net of current installments (note 5)	1,089,840	1,163,160
Deferred revenue	<u>762</u>	<u>152</u>
<b>Total non-current liabilities</b>	<b><u>1,090,602</u></b>	<b><u>1,163,312</u></b>
<b>Total liabilities</b>	<b><u>1,346,244</u></b>	<b><u>1,368,912</u></b>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	2,554,530	2,571,725
Restricted	307,891	296,423
Unrestricted	<u>933,343</u>	<u>915,704</u>
<b>Total net assets</b>	<b><u>3,795,764</u></b>	<b><u>3,783,852</u></b>
<b>Commitments (note 10)</b>		
<b>Total liabilities and net assets</b>	<b><u>\$5,142,008</u></b>	<b><u>5,152,764</u></b>

See accompanying notes to financial statements.

**WILTON MUNICIPAL LIGHT AND POWER SYSTEM**

**Statements of Revenue, Expenses and  
Changes in Net Assets**

**Years ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>Operating revenues:</b>		
Electric sales	\$1,875,402	1,725,369
Other electric revenue	24,489	34,911
Other	4,517	3,568
	<u>1,904,408</u>	<u>1,763,848</u>
<b>Operating expenses:</b>		
Production – power costs	1,273,265	1,145,131
Transmission and distribution	365,202	344,762
General and administrative	213,852	197,645
	<u>1,852,319</u>	<u>1,687,538</u>
<b>Operating income</b>	<u>52,089</u>	<u>76,310</u>
<b>Non-operating income (expense):</b>		
Interest expense	( 60,619)	( 62,899)
Interest income	20,442	14,812
	<u>( 40,177)</u>	<u>( 48,087)</u>
<b>Net income</b>	11,912	28,223
<b>Net assets at beginning of year</b>	<u>3,783,852</u>	<u>3,755,629</u>
<b>Net assets at end of year</b>	<u>\$3,795,764</u>	<u>3,783,852</u>

See accompanying notes to financial statements.

**WILTON MUNICIPAL LIGHT AND POWER SYSTEM**

**Statements of Cash Flows**

Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>Cash flows from operating activities:</b>		
Cash received from electric sales	\$1,832,307	1,707,939
Cash received from other electric revenues	29,006	38,479
Cash paid for purchased power	(1,119,557)	( 969,220)
Cash paid to suppliers	( 124,712)	( 227,827)
Cash paid for employee payroll, taxes and benefits	( 312,707)	( 299,243)
Other	<u>610</u>	<u>( 3,019)</u>
<b>Net cash provided by operating activities</b>	<b><u>304,947</u></b>	<b><u>247,109</u></b>
<b>Cash flows from noncapital financing activities</b>	<u>-</u>	<u>-</u>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	( 123,538)	( 89,869)
Principal payments on long-term debt	( 75,000)	( 70,000)
Interest paid	<u>( 60,834)</u>	<u>( 63,084)</u>
<b>Net cash used in capital and related financing activities</b>	<b><u>( 259,372)</u></b>	<b><u>( 222,953)</u></b>
<b>Cash flows from investing activities:</b>		
Interest received	<u>14,337</u>	<u>12,501</u>
<b>Increase in cash and cash equivalents</b>	<b>59,912</b>	<b>36,657</b>
<b>Cash and cash equivalents at beginning of year</b>	<u>933,000</u>	<u>896,343</u>
<b>Cash and cash equivalents at end of year</b>	<b><u>\$ 992,912</u></b>	<b><u>933,000</u></b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	52,089	76,310
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	216,374	218,717
Increase in consumer accounts and unbilled usage receivables	( 43,095)	( 17,430)
Decrease (increase) in inventories	29,294	( 31,436)
(Increase) decrease in prepaid expenses	( 582)	6,926
Increase (decrease) in accounts payable, accrued expenses and deferred revenue, other than interest	49,327	( 6,600)
Increase in customer security deposits	<u>1,540</u>	<u>622</u>
<b>Net cash provided by operating activities</b>	<b><u>\$ 304,947</u></b>	<b><u>247,109</u></b>

See accompanying notes to financial statements.

**WILTON MUNICIPAL LIGHT AND POWER SYSTEM**

**Notes to Financial Statements**

**June 30, 2005 and 2004**

**(1) Organization and Summary of Significant Accounting Policies**

**(a) Nature of Business**

The Wilton Municipal Light and Power System ("System") provides electrical service to all residents and businesses in the City of Wilton, Iowa. The System's rates are set by its governing board.

**(b) Reporting Entity**

The System is a governmental unit, governed by a Board of Trustees, who are appointed by the Mayor of the City of Wilton, subject to the approval of the City Council. The System is a component unit of the City of Wilton. There are no agencies or entities which should be presented with the System as required by Governmental Accounting Standards Board Statement No. 14.

A summary of the System's significant accounting policies follows:

**(c) Measurement Focus and Basis of Accounting**

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

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount 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.

On July 1, 2004, the System adopted the provisions of Governmental Accounting Standards Board Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", Statements No. 37 "Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments – Omnibus", and Statement No. 38 "Certain Financial Statement Note Disclosures".

**(d) Operating Revenues and Expenses**

Revenues and expenses relating to the System's sale of electrical services are classified as operating revenues and expenses in the Statement of Revenue, Expenses and Changes in Net Assets. Operating revenues are based on billing rates authorized by the System's Board of Trustees which are applied to customers' consumption of electricity. The System records estimated unbilled revenue, including amounts to be billed under a retail fuel adjustment clause, at the end of accounting periods. Operating expenses include costs of power, transmission and distribution expenses, and general and administrative expenses (including depreciation on capital related assets). All other revenue and expenses of the System are classified as non-operating revenue and expense.

# WILTON MUNICIPAL LIGHT AND POWER SYSTEM

## Notes to Financial Statements

### (1) Organization and Summary of Significant Accounting Policies, continued

#### (e) Investments

Investments consist of short-term certificates of deposit and are carried at cost, which approximates market. The System considers these investments as cash equivalents for purposes of reporting cash flows.

#### (f) Inventories

Inventories consist of materials and supplies and are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

#### (g) Capital Assets

Utility plant is stated at cost except for \$835,078 of utility plant additions prior to July 1, 1976 which are accounted for on the basis of estimated cost, as determined by an independent appraisal company. Depreciation of utility plant is computed by the straight-line method over the estimated useful lives of the assets.

Replacements and betterments of depreciable units are charged to utility plant. Routine maintenance and repairs are charged to expense as incurred.

#### (h) Bond Discount and Bond Issuance Costs

Bond discount is treated as a reduction of the bonds outstanding and is amortized over the term of the bonds by the straight-line method. Bond issuance costs are amortized over the term of the bonds.

#### (i) Net Assets

GASB 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.

**Restricted** – This component of net assets consists of constraints placed on net assets 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”.

WILTON MUNICIPAL LIGHT AND POWER SYSTEM

Notes to Financial Statements

(1) Organization and Summary of Significant Accounting Policies, continued

(j) Proprietary Fund Accounting and Budget Information

The System is subject to applicable pronouncements issued by the Governmental Accounting Standards Board (GASB) as well as those statements and interpretations issued by the Financial Accounting Standards Board (FASB) unless those pronouncements conflict with or contradict GASB pronouncements.

(k) Reclassification

Certain accounts for 2004 have been reclassified to conform with the presentation for 2005.

(2) Cash and Short-Term Investments

The System is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Cash and short-term investments at June 30, 2005 and 2004 consist of cash held in checking accounts and certificates of deposit with maturities of less than one year as follows:

	<u>2005</u>	<u>2004</u>
Cash-checking accounts	\$220,161	171,502
Certificates of deposit	460,000	460,000
Petty cash	25	25
	<u>\$680,186</u>	<u>631,527</u>

The System maintains these accounts in one bank which were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

(3) Restricted Assets

Restricted investments consist of cash and certificates of deposit with maturities of less than fifteen months. These investments have been set aside under the terms of the bond resolution and have been segregated into various funds as follows:

	<u>2005</u>	<u>2004</u>
Bond sinking fund	\$ 22,726	11,473
Bond reserve fund	140,000	140,000
Improvement and extension fund	150,000	150,000
	<u>\$312,726</u>	<u>301,473</u>

**WILTON MUNICIPAL LIGHT AND POWER SYSTEM**

**Notes to Financial Statements**

**(4) Capital Assets**

A summary of changes in utility capital assets for 2005 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Ending Balance</u>
Land and land rights	\$ 9,300	-	-	-	9,300
Production plant	3,712,735	-	-	-	3,712,735
Transmission plant	684,896	-	-	-	684,896
Distribution plant	1,853,956	121,248	-	-	1,975,204
General plant	<u>697,059</u>	<u>2,290</u>	-	-	<u>699,349</u>
<b>Total utility plant in service</b>	<b><u>6,957,946</u></b>	<b><u>123,538</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>7,081,484</u></b>
Less accumulated depreciation:					
Production plant	1,203,172	107,757	-	-	1,310,929
Transmission plant	505,444	21,764	-	-	527,208
Distribution plant	1,050,895	54,566	-	-	1,105,461
General plant	<u>388,550</u>	<u>29,966</u>	-	-	<u>481,516</u>
<b>Total accumulated depreciation</b>	<b><u>3,148,061</u></b>	<b><u>214,053</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>3,362,114</u></b>
<b>Net utility plant capital assets</b>	<b><u>\$3,809,885</u></b>				<b><u>3,719,370</u></b>

A summary of changes in utility capital assets for 2004 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Ending Balance</u>
Land and land rights	\$ 9,300	-	-	-	9,300
Production plant	3,712,735	-	-	-	3,712,735
Transmission plant	684,896	-	-	-	684,896
Distribution plant	1,782,508	71,448	-	-	1,853,956
General plant	<u>672,838</u>	<u>24,221</u>	-	-	<u>697,059</u>
	6,862,277	95,669	-	-	6,957,946
Construction work in process	<u>5,800</u>	-	-	<u>( 5,800)</u>	<u>-</u>
<b>Total utility plant in service</b>	<b><u>6,868,077</u></b>	<b><u>95,669</u></b>	<b><u>-</u></b>	<b><u>( 5,800)</u></b>	<b><u>6,957,946</u></b>
Less accumulated depreciation:					
Production plant	1,095,415	107,757	-	-	1,203,172
Transmission plant	483,680	21,764	-	-	505,444
Distribution plant	993,977	56,918	-	-	1,050,895
General plant	<u>358,593</u>	<u>29,957</u>	-	-	<u>388,550</u>
<b>Total accumulated depreciation</b>	<b><u>2,931,665</u></b>	<b><u>216,396</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>3,148,061</u></b>
<b>Net utility plant capital assets</b>	<b><u>\$3,936,412</u></b>				<b><u>3,809,885</u></b>

**WILTON MUNICIPAL LIGHT AND POWER SYSTEM**

**Notes to Financial Statements**

**(5) Long-Term Debt**

A summary of long-term debt and related activity for the year ended June 30, 2005 and 2004 follows:

	Balance July 1, <u>2003</u>	Payments/ Amortization	Balance June 30, <u>2004</u>	Payments/ Amortization	Balance June 30, <u>2005</u>
Series 2002 revenue bonds	\$1,330,000	(70,000)	1,260,000	(75,000)	1,185,000
Less unamortized discount	<u>23,520</u>	<u>1,680</u>	<u>21,840</u>	<u>1,680</u>	<u>20,160</u>
Total long-term debt, net	1,306,480	<u>(68,320)</u>	1,238,160	<u>(73,320)</u>	1,164,840
Less current installments	<u>70,000</u>		<u>75,000</u>		<u>75,000</u>
Total long-term debt, net excluding current installments	<u>\$1,236,480</u>		<u>1,163,160</u>		<u>1,089,840</u>

On July 29, 2002, the System approved the issuance of \$1,400,000 of Series 2002 Electric Revenue Notes to refinance a portion of the revenue bonds maturing September 1, 2002. The Series 2002 bonds are secured by net revenues of the System and mature and bear interest as follows:

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
Serial Bonds: June 1,		
2006	\$ 75,000	3.80
2007	80,000	4.10
2008	85,000	4.30
2009	85,000	4.50
2010	90,000	4.70
2011	95,000	4.90
2012	100,000	5.00
2013	105,000	5.10
2014	110,000	5.20
2015	115,000	5.30
2016	120,000	5.40
2017	<u>125,000</u>	5.50
	<u>\$1,185,000</u>	

The bond indenture relating to the Series 2002 bonds requires the System to establish and maintain various funds as described in note 3.

**(6) Pension Plan**

The System 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 which 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, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Contributions to IPERS were paid as required for each of the past three years as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Employer contribution percentage	5.75%	5.75%	5.75%
Employee contribution percentage	3.70%	3.70%	3.70%
Employer expense	\$12,857	12,578	12,147

# WILTON MUNICIPAL LIGHT AND POWER SYSTEM

## Notes to Financial Statements

(7) **Significant Customers**

Electric sales to a major customer amounted to \$253,057 and \$220,204 for the years ended June 30, 2005 and 2004, respectively, and consumer accounts receivable include \$26,326 and \$22,121 due from that major customer as of June 30, 2005 and 2004, respectively. Although the System's customers are primarily residential users, approximately 40% of the System's electric sales for the year ended June 30, 2005 were billed to commercial customers.

(8) **Risk Management**

The System is exposed to various risk of loss related to tort, theft, damage to or the destruction of assets, errors and omissions, injuries to employees and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) **Income Tax Status**

The System is exempt from federal and state income taxes under the applicable tax codes.

(10) **Commitments**

The System purchases power under a purchase power agreement with Eastern Iowa Light and Power Cooperative which expires in 2011. Total power purchased under the agreement amounted to \$1,153,198 in 2005 and \$958,481 in 2004.

(11) **Accounting Change**

Governmental Accounting Standards Board Statement No. 34, **Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments**; Statement No. 37, **Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government: Omnibus**; Statement No. 38, **Certain Financial Statement Note Disclosures**; and Statement No. 41, **Budgetary Comparison Schedule – Perspective Differences**, were adopted July 1, 2004. The financial statements as of and for the year ended June 30, 2004 have been reclassified to conform with the presentation for 2005.

**WILTON MUNICIPAL LIGHT AND POWER SYSTEM**

**Budgetary Comparison Schedule of  
Receipts, Disbursements and Changes in Balances  
Budget and Actual (Cash Basis)**

**Required Supplementary Information**

**Year ended June 30, 2005**

	<u>Actual</u>	<u>Budget Amount</u>	<u>Variance</u>
<b>Receipts:</b>			
Charges for service	\$1,832,307	1,820,200	12,107
Use of money and property	14,337	20,000	( 5,663)
Miscellaneous	<u>29,616</u>	<u>46,100</u>	<u>(16,484)</u>
<b>Total receipts</b>	<u>1,876,260</u>	<u>1,886,300</u>	<u>(10,040)</u>
<b>Disbursements:</b>			
Business type activities	1,741,348	1,811,300	(69,952)
Debt service	<u>75,000</u>	<u>75,000</u>	<u>-</u>
<b>Total disbursements</b>	<u>1,816,348</u>	<u>1,886,300</u>	<u>(69,952)</u>
<b>Excess of receipts over disbursements</b>	59,912	-	59,912
<b>Balances, beginning of year</b>	<u>933,000</u>	<u>932,975</u>	<u>25</u>
<b>Balances, end of year</b>	<u>\$ 992,912</u>	<u>932,975</u>	<u>59,937</u>

**WILTON MUNICIPAL LIGHT AND POWER SYSTEM**

**Budgetary Comparison Schedule - Budget to GAAP Reconciliation**

**Required Supplementary Information**

**Year ended June 30, 2005**

	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
Revenues, including interest income	\$1,876,260	48,590	1,924,850
Expenses, including interest expense	<u>1,816,348</u>	<u>96,590</u>	<u>1,912,938</u>
Net	59,912	( 48,000)	11,912
Beginning net assets	<u>933,000</u>	<u>2,850,852</u>	<u>3,783,852</u>
Ending net assets	<u>\$ 992,912</u>	<u>2,802,852</u>	<u>3,795,764</u>

**WILTON MUNICIPAL LIGHT AND POWER SYSTEM**

**Schedule of Operating Expenses**

**Years Ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>Production:</b>		
Purchased Power	\$1,153,198	958,481
Depreciation	107,757	107,757
Fuel and supplies	<u>12,310</u>	<u>78,893</u>
	<u>1,273,265</u>	<u>1,145,131</u>
<b>Transmission and Distribution:</b>		
<b>Labor:</b>		
Line and Station	188,565	173,714
Meter Reading	8,326	16,252
Pension (IPERS)	10,980	10,763
Payroll Taxes	13,812	13,511
Line and Station Supplies	18,335	6,484
Customer Installation	1,075	705
Maintenance	46,680	44,092
Depreciation	76,330	78,681
Other	<u>1,099</u>	<u>560</u>
	<u>365,202</u>	<u>344,762</u>
<b>General and Administrative:</b>		
Salaries	50,441	47,437
Office Supplies	6,690	4,273
Professional Fees	15,267	8,898
Insurance, Property and Liability	30,719	30,851
Pension (IPERS)	1,877	1,815
Group Health Insurance	41,533	34,480
Payroll Taxes	2,418	2,346
Utilities	585	971
Transportation	5,545	6,294
Rent	375	375
Telephone	5,202	3,090
Uncollectable Accounts	2,748	2,277
Depreciation	29,966	29,958
Amortization	2,321	2,321
Other	<u>18,165</u>	<u>22,259</u>
	<u>213,852</u>	<u>197,645</u>
	<u>\$1,852,319</u>	<u>1,687,538</u>

**WILTON MUNICIPAL LIGHT AND POWER SYSTEM**

**Unaudited Schedule of Insurance Coverage**

**June 30, 2005**

<b><u>Name of Insurer</u></b>	<b><u>Type of Coverage</u></b>	<b><u>Property Insured</u></b>
Employers Mutual Casualty	Errors and omissions	Officers and directors
Employers Mutual Casualty	Liability	--
Employers Mutual Casualty	Commercial auto	Vehicles
Employers Mutual Casualty	Fire and extended coverage	General plant, substation contents and associated equipment, 220 Third Street; poles and floating inventory Office and contents, 102 E. 4 <sup>th</sup> Street Building and business property, 318 S. Locust Building and contents, 108 E. Division Substation, Sugar Creek TWP, Cedar County, IA
Employers Mutual Casualty	Umbrella liability	--
Employers Mutual Casualty	Workmen's compensation	--
Employers Mutual Casualty	Comprehensive crime coverage	Employee theft, forgery inside, forgery outside
Employers Mutual Casualty	Inland marine supplement	Miscellaneous personal property

<u>Amount</u>	<u>Expiration Date</u>
\$1,000,000	4-1-06
1,000,000/ 2,000,000	4-1-06
1,000,000	4-1-06
6,787,082	4-1-06
16,463	4-1-06
24,212	4-1-06
244,033	4-1-06
185,000	4-1-06
3,000,000	4-1-06
500,000	4-1-06
25,000	4-1-06
57,395	4-1-06

**WILTON MUNICIPAL LIGHT AND POWER SYSTEM**

**Unaudited Operating Statistics**

**Years Ended June 30, 2005 and 2004**

	<u><b>2005</b></u>	<u><b>2004</b></u>
<b>Number of customers served:</b>		
Residential	1,234	1,189
Commercial	173	170
Commercial, large	11	11
Interdepartmental	22	22
Security lights	87	64
	<u>1,527</u>	<u>1,456</u>
<b>Kilowatt hours:</b>		
Number of kilowatt hours produced and purchased	<u>26,077,854</u>	<u>25,715,801</u>
Number of kilowatt hours sold to customers	22,862,994	23,320,909
Number of kilowatt hours used by the City of Wilton at no charge	<u>825,367</u>	<u>815,881</u>
	<u>23,688,361</u>	<u>24,136,790</u>
% of kilowatt hours used to total produced and purchased	<u>90.84%</u>	<u>93.86%</u>

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees  
Wilton Municipal Light and Power System  
Wilton, Iowa:

We have audited the financial statements of Wilton Municipal Light and Power System (the "System") as of and for the year ended June 30, 2005, and have issued our report thereon, dated August 1, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and Chapter 11 of the Code of Iowa.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the System's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as Item 05-II-A.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of the System's compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the System's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the System. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

**This report, a public record by law, is intended for the information of the Board of Trustees, management of the System, the Office of the Auditor of State, State of Iowa and other parties to whom the System may report and is not intended to be and should not be used by anyone other than those specified parties.**

**Bettendorf, Iowa  
August 1, 2005**

**WILTON MUNICIPAL LIGHT AND POWER SYSTEM**

**Schedule of Findings**

**Year Ended June 30, 2005**

**Part I: Summary of the Independent Auditor's Results**

- (a) An unqualified opinion was issued on the financial statements.
- (b) The audit did not disclose any material weaknesses in internal control over financial reporting.
- (c) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (d) The audit did not disclose any noncompliance which is material to the financial statements.
- (e) The System was not required to have an audit in accordance with Office of Management and Budget Circular A-133.

**Part II: Financial Statement Findings:**

**Reportable Conditions**

**05-II-A: Segregation of Duties**

**Findings:** The System has a limited number of personnel who have direct responsibilities for the recording and reconciling functions in the primary transaction cycles. As a result, the System's internal control structure does not result in adequate segregation of duties to prevent losses from employee error or dishonesty. However, from a practical standpoint, strong segregation of duties is not practical due to a limited budget and limited number of office personnel.

**Recommendation:** With a limited number of personnel and funds, segregation of duties is difficult. The System should continue to review its operating procedures to attempt to obtain the maximum internal control within the limited available resources. The Board and Treasurer should continue to closely monitor and perform periodic oversight of the System's daily and monthly financial activities.

**Response and Corrective Action Planned:** The System will continue efforts to address the limited number of personnel involved in fiscal responsibilities. The System will continue to have consistent involvement and oversight provided by the Treasurer and Board and will continue to work with its independent accounting firm to further increase our capacity and knowledge in reporting and managing its fiduciary responsibilities.

**Part III: Other Findings Related to Required Statutory Reporting**

**05-III-A: Official Depositories**

A resolution naming official depositories has been approved by the System. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

**05-III-B: Certified Budget**

Disbursements for the year ended June 30, 2005 did not exceed the approved budget amounts.

**WILTON MUNICIPAL LIGHT AND POWER SYSTEM**

**Schedule of Findings**

**Year Ended June 30, 2005**

**Part III: Other Findings Related to Required Statutory Reporting, continued**

**05-III-C: Questionable Disbursements**

We noted no expenditures for employees that we believe constitute an unlawful expenditure from public funds as this is defined in the Attorney General's opinion dated April 25, 1979.

**05-III-D: Travel Expense**

We noted no expenditures of System money for travel expenses for spouses of System officials and/or employees.

**05-III-E: Business Transactions**

We noted no business transactions between the System and System officials and/or employees other than the usage of utility services under normal customer practices.

**05-III-F: Surety Bond Coverage**

Surety bond coverage of System officials and employees is in accordance with statutory provisions, all being covered under a blanket policy including the Board of Trustees. The amount of coverage should be reviewed annually to insure that coverage is adequate.

**05-III-G: Board Minutes**

We noted no material transactions that we believe should have been approved in the Board minutes but were not.

**05-III-H: Revenue Bonds**

The System has established and maintained the various funds required by the Series 2002 bond resolution.

**05-III-I: Temporary Investments**

The System invests excess cash in temporary investments as approved by the Board of Trustees. During the year ended June 30, 2005, the System earned \$20,442 in interest on investments in certificates of deposit. No instances of noncompliance with the investment provisions of Chapter 12B and 12C of the Code of Iowa were noted.

**Part IV: Summary of Prior Findings**

**Item 04-II-A: Segregation of Duties (Reportable Condition)**

Comment still valid. See current year findings 05-II-A.

**Item 04-III-A: Depository Bank Resolution**

Official resolution approved and in place. Comment no longer valid.

**Item 04-III-H: Revenue Bonds**

The System established a surplus fund required by the series 2002 bond resolution in June, 2005.