

# **STOUGHTON UTILITIES**

Stoughton, Wisconsin

COMMUNICATION TO THOSE CHARGED  
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended December 31, 2014

# STOUGHTON UTILITIES

## TABLE OF CONTENTS

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	<u>Page No.</u>
Communication of Other Control Comments, Recommendations and Informational Points to Management that are not Material Weaknesses or Significant Deficiencies	1 – 4
Other Communications to Those Charged with Governance	
Two Way Communication Regarding Your Audit	5 – 6
Required Communications by the Auditor to Those Charged with Governance	7 – 9
Management Representations	

**COMMUNICATION OF OTHER CONTROL COMMENTS, RECOMMENDATIONS  
AND INFORMATIONAL POINTS TO MANAGEMENT THAT ARE NOT  
MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES**

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## **OPERATIONAL RESULTS**

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### ***ELECTRIC UTILITY OPERATING RESULTS***

The electric utility's operating income decreased in 2014 to \$900,000 compared to \$948,000 in 2013. Electric operating income decreased due to an overall increase in operation and maintenance expense compared to 2013.

### ***WATER UTILITY OPERATING RESULTS***

The water utility's operating income decreased in 2014 to \$436,000 compared to \$567,000 in 2013. The primary reason for the decrease was due to an increase in labor for maintenance costs compared to 2013.

### ***WASTEWATER OPERATING RESULTS***

The wastewater utility's operating income decreased in 2014 to \$379,000 compared to \$478,000 in 2013. Decreased operating income is not due to one driving factor. Overall, there was a general increase in operating and maintenance expenses as well as increased depreciation expense related to an increased asset base after the upgrade to the treatment plant.

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## **CURRENT YEAR COMMENTS**

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### ***PUBLIC SERVICE COMMISSION OF WISCONSIN (PSCW) STAFF AUDIT OF ELECTRIC BILLING PROCESSES***

The PSCW began conducting billing procedure audits of municipal electric utilities in January of 2014. The audits are designed to ensure that proper billing procedures are in place and that customer bills are accurate and consistent with state statutes and the administrative code requirements. The intent of the PSCW is to conduct such audits for all municipal electric utilities over a seven to ten year period.

The PSCW is requesting written documentation of policies and procedures related to:

- > New customer setup
- > Ensuring all customers are billed and billed at the correct rate schedule
- > Estimated bills, late payments, and budget billing
- > Determining responsibility to pay a bill, especially with rental or foreclosed properties
- > Identifying billing errors, applying credits, providing refunds or back-billing
- > Billing for extensions of service
- > Annual notice requirements including the bill of rights and available optional rates
- > Implementation new rates after a rate increase
- > Meter testing programs

Management should consider reviewing existing documentation or creating written documentation of the utility's policies and procedures in these areas. Such written documentation will not only aid management during a future PSCW billing audit, but will also serve as a tool in the day-to-day operations of the utility and in training new or temporary employees.

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## **INTERNAL CONTROL COMMENTS**

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### ***WISCONSIN ACT 274 IMPLEMENTATION***

During 2013 the Wisconsin legislature passed Act 274 which revised the law applicable to residential tenants' delinquent utility charges. This legislature preserved the ability of municipal utilities to use the tax roll for collecting delinquent utility charges; however, there are some new requirements that the utility will need to comply with in order to utilize this collection method for residential tenant accounts. The requirements include additional disclosures and notifications to property owners (landlords). At this time, management should consider if the billing system can be used to enhance the efficiency of these notifications as well as the data required for amounts ultimately transferred to the tax roll. Additional information on this legislation can be found at [http://www.lwm-info.org/vertical/sites/%7B92F7D640-E25A-4317-90AD-4976378F8D%7D/uploads/2013\\_Wisconsin\\_Act\\_274\\_FAQ\\_Packet.pdf](http://www.lwm-info.org/vertical/sites/%7B92F7D640-E25A-4317-90AD-4976378F8D%7D/uploads/2013_Wisconsin_Act_274_FAQ_Packet.pdf).

### ***CYBER RISK***

Information security is a growing concern for many organizations and is no longer considered to be strictly an Information Technology (IT) issue. If your government is the victim of a security breach, the impacts can be financial, operational, and reputational. Cyber risk should be a high priority and evaluated on a regular basis.

Security breaches can come in a number of forms, which are constantly evolving with advances in and increased use of technology. It is important for governments to assess what types of information they have that would be vulnerable to cyber-attack. Does your organization process, collect, and/or store personal information about employees or customers? Information related to social security numbers, bank accounts, addresses, medical information, birth dates, and credit cards is common for governments. It is important to take inventory of all of the personal information that flows through your systems in order to properly secure your data.

Certain types of personal information are required to be protected in prescribed ways. If you are required to comply with the Health Insurance Portability and Accountability Act (HIPAA) or Payment Card Industry Data Security Standards (PCI DSS), there should be a designated individual within management that should be familiar with and oversee compliance in these areas.

Outsourcing portions of your data processing can remove personal information from your system; however, outsourcing does not remove your responsibility for oversight of this data. If customer or employee data is hacked while with the third-party vendor, your organization can still be responsible. Certain vendors have a Statement on Standards for Attestation Engagements 16 report (SSAE 16 report) that provide you with information about that vendor's internal controls, including data security, and an independent assessment on whether those controls are effective. In addition, any vendors providing PCI DSS services for your organization should be able to provide a certificate of compliance annually upon request. There should be a designated individual within management that is responsible for monitoring information with a third-party service provider at least annually.

Finally, we recommend that you have an incident response plan developed and practiced so that you are prepared in the event of a data breach.

### ***SEC DEBT COMPLIANCE CONSIDERATIONS***

In 2014, the Securities and Exchange Commission (SEC) undertook an initiative known as the Municipalities Continuing Disclosure Cooperation Initiative (MCDC Initiative). This initiative is a result of SEC concerns about "potentially widespread violations of the federal securities laws by municipal issuers and underwriters of municipal securities in connection with certain representations about continuing disclosures in bond offering documents."<sup>(1)</sup> Under the MCDC Initiative, the SEC requested municipal securities issuers and underwriters to self-report material false certifications of compliance in bond offering documents.

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## INTERNAL CONTROL COMMENTS (cont.)

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### **SEC DEBT COMPLIANCE CONSIDERATIONS (cont.)**

While the deadline to self-report has passed, we expect the increased scrutiny on municipal securities to continue. The SEC has indicated that no issuer is too small to be involved in an enforcement action. Fines and penalties for violations uncovered after the deadline for self-reporting may be significant. Because your organization issues public debt, we recommend that you take a close look at your policies and procedures to ensure that you are in compliance with what is required.

In addition to the increased focus on official reporting requirements, issuers should also be aware that the SEC has been reviewing public statements made by government officials during its investigations. Following are selections from investigation report release no. 69516, which explain the SEC's views on this topic:

"Public officials should be mindful that their public statements, whether written or oral, may affect the total mix of information available to investors, and should understand that these public statements, if they are materially misleading or omit material information, can lead to potential liability under the antifraud provisions of the federal securities laws."

"Investors may be more likely to rely upon statements from public officials where written undertakings made pursuant to Rule 15c2-12 have not been fulfilled and required continuing disclosures are not available through the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") system."

"In this Report, the term "public official" means elected officials, appointed officials, and employees, or their functional equivalents, of any State, municipality, political subdivision or any agency of instrumentality thereof."

We recommend that your debt policies and procedures incorporate adequate training to ensure that all public officials understand their specific responsibilities in this area.

<sup>(1)</sup> SEC website, Division of Enforcement

### **GASB 67 AND 68**

The Wisconsin Department of Employee Trust Funds sent an Employer Bulletin ("Bulletin") to all Wisconsin Retirement System Employers related to the new GASB pension reporting requirements. The Bulletin was dated December 1, 2014 (Vol.31, No. 16).

As noted in the Bulletin, GASB 67 affects the Wisconsin Retirement System ("WRS" or "the Plan") for its year ended December 31, 2014. GASB 68 affects the employers participating in the Plan. GASB 68 will affect your organization as of **[June 30, 2015 or December 31, 2015]**.

WRS has represented that it will provide general information necessary for employers to implement GASB 68. There will be a significant impact on your financial statements including:

- > Your organization's proportionate share of the WRS's net pension asset or liability will be reported in your full-accrual funds and the government-wide financial statements for the first time.
- > The net pension asset or liability should be allocated to the full-accrual funds that are expected to make payments toward this liability.
- > The footnote disclosures will have significant changes.

We are available to assist you with the implementation of this new standard.

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## **INTERNAL CONTROL COMMENTS (cont.)**

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### ***COMPLETE SEGREGATION OF DUTIES NOT FEASIBLE***

A properly designed system of internal control includes adequate staffing as well as policies and procedures to properly segregate duties. This includes systems that are designed to limit the access or control of any one individual to your government's assets or accounting records, and to achieve a higher likelihood that errors or irregularities in the utility's accounting processes would be discovered by your staff in a timely manner.

At this time, due to staffing and financial limitations, the utility does not have proper internal controls in place to achieve ideal segregation of duties. As a result, errors or irregularities could occur as part of the financial process that may not be discovered by the utility.

Procedures, designed to improve controls, have been established by management including:

- > Authorization of official depository.
- > Review and acceptance of the audit report and management letter.
- > Authorization of capital expenditures.
- > Approval of annual budgets.
- > Cross training of personnel and rotation of duties entailing custody of certain liquid assets.

These procedures are helpful in assuring that management is knowledgeable of and involved with the day-to-day system operations.

There are also key controls, which are listed below, that are not currently in place at the utility related to significant transaction cycles. These key controls are important in reducing the risk of errors or irregularities in the utility's accounting processes.

- > Review of the reconciliation of open work orders to the construction balance in the ledger.
- > Review of the monthly or yearend financial statements.
- > Complete segregation of billing and receipting for miscellaneous services.

During the current year audit, there was one adjusting journal entry which affected accounts payable and cash. The entry had no effect on operating income or net position. Although we would like to see additional layers of internal review we understand that the size of the organization limits the ability to accomplish this and that management has segregated transactions from reconciliations.

Since these key controls are not currently in place, errors or irregularities could occur as part of the financial process that may not be discovered by the utility. Our review of internal control disclosed a control deficiency in that segregation of duties is not feasible due to the limited number of staff in the office. For example, many reconciliations are prepared by a person who is also involved in the day to day transactions. Although we do not feel this is a material weakness or significant deficiency we do believe it is important that the Committee is aware of this fact.

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

**OTHER COMMUNICATIONS TO THOSE CHARGED WITH GOVERNANCE**



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## **TWO WAY COMMUNICATION REGARDING YOUR AUDIT**

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

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

- a. We address the significant risks of material misstatement, whether due to fraud or error, through our detailed audit procedures.
- b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:
  - > Identify types of potential misstatements.
  - > Consider factors that affect the risks of material misstatement.
  - > Design tests of controls, when applicable, and substantive procedures.

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

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

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

- a. We typically will communicate with your top level of management unless you tell us otherwise.
- b. We understand that the utilities committee has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.
- c. We need to know your views about your organization's objectives and strategies, and the related business risks that may result in material misstatements.
- d. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?
- e. Have you had any significant communications with regulators or grantor agencies?
- f. Are there other matters that you believe are relevant to the audit of the financial statements?

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**TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)**

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

- a. The utilities' internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?
- b. The detection or the possibility of fraud?

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

With regard to the timing of our audit, here is some general information. If necessary, we may do preliminary financial audit work during the months of November or December. Our final financial fieldwork is scheduled during January to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial audit procedures at our office and may issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your staff. This is typically 6-10 weeks after final fieldwork, but may vary depending on a number of factors.

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

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

**REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE**

To Stoughton Utilities Committee  
Stoughton Utilities  
Stoughton, Wisconsin

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor. We have completed our audit of the financial statements of Stoughton Utilities for the year ended December 31, 2014, and have issued our report thereon dated March 26, 2015. This letter presents communications required by our professional standards.

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

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

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

***OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS***

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

***PLANNED SCOPE AND TIMING OF THE AUDIT***

We performed the audits according to the planned scope and timing previously communicated to you in our city wide letter about planning matters.

To Stoughton Utilities Committee  
Stoughton Utilities

## ***QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES***

### ***Accounting Policies***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the utilities are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the Stoughton Utilities during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### ***Accounting Estimates***

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements were the accrual of compensated absences and fair value of the ATC investment. We have reviewed managements' assumptions and methodologies for these estimates.

### ***Financial Statement Disclosures***

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

### ***DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT***

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

### ***CORRECTED AND UNCORRECTED MISSTATEMENTS***

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

In addition, the one misstatement was detected as a result of audit procedures and was corrected by management. This was a classification correction between cash and accounts payable based on the timing of a payment. The adjustment did not have an effect on operating income or net position.

### ***DISAGREEMENTS WITH MANAGEMENT***

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

### ***CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS***

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

To Stoughton Utilities Committee  
Stoughton Utilities

***MANAGEMENT REPRESENTATIONS***

We have requested certain representations from management that are included in the management representation letter. These representations follow this required communication.

***INDEPENDENCE***

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

Relating to our audit of the financial statements of Stoughton Utilities for the year ended December 31, 2014, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the Stoughton Utilities in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to the Stoughton Utilities other than audit services provided in connection with the audit of the current year's financial statements and the proposed adjustment previously noted.

***OTHER AUDIT FINDINGS OR ISSUES***

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

***OTHER MATTERS***

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

***RESTRICTIONS ON USE***

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

We welcome the opportunity to discuss the information included in this letter and any other matters. Thank you for allowing us to serve you.



Madison, Wisconsin  
March 26, 2015

## **MANAGEMENT REPRESENTATIONS**



**Stoughton Utilities**

600 South Fourth Street  
P.O. Box 383  
Stoughton, WI 53589-0383

*Serving Electric, Water & Wastewater Needs Since 1886*

March 26, 2015

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

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the Stoughton Utilities as of December 31, 2014 and 2013 and for the years then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the financial position of the Stoughton Utilities results of operations, and cash flows of its proprietary funds in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

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

*Financial Statements*

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the utility required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates are reasonable.
6. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

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7. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
8. All known audit and bookkeeping adjustments have been included in our financial statements, and we are in agreement with those adjustments.
9. There are no known or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with accounting principles generally accepted in the United States of America.
10. Guarantees, whether written or oral, under which the utility is contingently liable, if any, have been properly recorded or disclosed.

*Information Provided*

11. We have provided you with:
  - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters.
  - b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d. Minutes of the meetings of the Stoughton Utilities Committee or summaries of actions of recent meetings for which minutes have not yet been prepared.
12. We have disclosed to you results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
13. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - a. Management,
  - b. Employees who have significant roles in internal control, or
  - c. Others where the fraud could have a material effect on the financial statements.
14. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
15. We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
16. There are no known related parties or related party relationships and transactions of which we are aware.

*Other*

17. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
18. We have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse that you have reported to us.
19. We have a process to track the status of audit findings and recommendations.

20. We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
21. The utility has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
22. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
23. There are no:
  - a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.
  - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.
  - c. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
  - d. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.
24. In regards to the nonattest services performed by you listed below, we have 1) accepted all management responsibility; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.
  - a. Adjusting journal entries  
  
None of these nonattest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.
25. The Stoughton Utilities has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
26. The Stoughton Utilities has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
27. The financial statements properly classify all funds and activities.
28. Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
29. The Stoughton Utilities has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
30. Provisions for uncollectible receivables have been properly identified and recorded.
31. Deposits and investment securities are properly classified as to risk, and investments are properly valued. Collateralization agreements with financial institutions, if any, have been properly disclosed.

32. Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.
33. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.
34. Tax-exempt bonds issued have retained their tax-exempt status.
35. We have appropriately disclosed the Stoughton Utilities policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy.
36. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
37. With respect to the supplementary information, (SI):
- a. We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
  - a. If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
38. With regards to the Commitment to Community program, we do not participate in the state program, however our local program reporting requirements are being met through joint reporting by WPPI Energy. As such no report needs to be prepared or filed by the utility.

Sincerely,

Stoughton Utilities

Signed: Robert P. Handberg

Signed: Kim M. [Signature]

Signed: \_\_\_\_\_