

STOUGHTON UTILITIES

Enterprise Funds of the
City of Stoughton, Wisconsin

FINANCIAL STATEMENTS

December 31, 2010 and 2009

STOUGHTON UTILITIES

Enterprise Funds of the City of Stoughton, Wisconsin

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INDEPENDENT AUDITORS' REPORT

To the Utilities Committee
Stoughton Utilities
Stoughton, Wisconsin

We have audited the accompanying statements of net assets of Stoughton Utilities, enterprise funds of the City of Stoughton, Wisconsin, as of December 31, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the utilities' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. The December 31, 2010 audit was also conducted in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Stoughton Utilities enterprise funds and are not intended to present fairly the financial position of the City of Stoughton, Wisconsin, and the changes in its financial position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stoughton Utilities as of December 31, 2010 and 2009, 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.

As Discussed in Note 12, Stoughton Utilities has revised the allocation of certain expenses among the utilities for the year ended December 31, 2009. As such, certain line items in the 2009 financial statements have been restated to reflect this.

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of the overall City of Stoughton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants, including those systems applicable to Stoughton Utilities. 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* and should be read in conjunction with this report in considering the result of our audits.

To the Utilities Committee
Stoughton Utilities

The Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Management's discussion and analysis does not include a discussion of changes in financial position during 2009 since this was discussed in last year's report. 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 opinions on the financial statements. 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 has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Baker Tully Venable LLP

Madison, Wisconsin
April 11, 2011

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

STOUGHTON UTILITIES

STOUGHTON UTILITIES

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

The management of the Stoughton Utilities (utilities) offers all persons interested in the financial position of the utilities an objective, easy to read overview and analysis of the utilities' financial performance during the years ending December 31, 2010, 2009 and 2008. You are invited to read this narrative in conjunction with the utilities' financial statements.

FINANCIAL HIGHLIGHTS

ELECTRIC:

- > Purchased two plug-in hybrid electric bucket trucks funded in part by a \$200,000 grant from the Wisconsin Clean Transportation Program.
- > The electric division's net assets increased by \$652,922 from the prior year.
- > Revenues increased in 2010 by 12.82%. The increase was due to an increase in sales primarily to large power and industrial customers.
- > Financed \$1.23 million dollars of capital improvements to improve operations and electric system reliability.

WATER:

- > A federal grant of \$613,000 was received through principal forgiveness on a Wisconsin Safe Drinking Water Loan used for construction of a new water tower. The loan closed in January 2010 for \$575,018.
- > Completed construction on a new 600,000 gallon water tower on the City's east side.
- > The water division's net assets increased by \$818,122 from the prior year.
- > Revenues from water sales increased by 18.24% in 2010. A two-phase increase in retail rates was effective on October 1, 2009 and September 1, 2010. Water consumption also increased in 2010.
- > Started planning for water main replacement on East Main Street in 2011.

WASTEWATER:

- > Financed \$185,000 of sewer projects which included slip lining of sewer mains to extend the life of the existing mains.
- > Preparing and budgeting for potential permit requirements for treatment of phosphorus and ammonia.
- > The wastewater division's net assets increased by \$436,938 from the prior year.
- > Operating revenue decreased slightly in 2010 due to an industrial customer's change in production to eliminate metered billing of wastewater service.

See Independent Auditors' Report.

STOUGHTON UTILITIES

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The utilities are self-supporting entities and separate enterprise funds of the City of Stoughton (city). The utilities provide electric, water, and wastewater service to properties within the city and also provide electric service to the following Townships: Dunkirk, Dunn, Pleasant Springs, Porter and Rutland.

The water and electric utilities are managed by a Utility Committee and operate under service rules and rates that are established by the Public Service Commission of Wisconsin (PSCW). The accounting records are maintained in accordance with the Uniform System of Accounts prescribed by the PSCW, and in accordance with the Governmental Accounting Standards Board.

The Utility Committee also manages the wastewater utility. The Utility Committee establishes rates and service rules. Accounting records are maintained in accordance with the Governmental Accounting Standards Board.

This annual report consists of two parts: Management's Discussion and Analysis, and the basic financial statements, including the independent auditor's report.

An analysis of the utilities' financial position begins with a review of the Statement of Net Assets, and the Statement of Revenues, Expenses and Changes in Net Assets. These two statements report the utilities' net assets and changes therein. The utilities' net assets – 'the difference between assets and liabilities' is key to measuring the financial health of the utilities. Over time, increases or decreases in the net asset value are an indicator of whether the financial position is improving or deteriorating. However, it should be noted that the financial position may also be affected by other non-financial factors, including economic conditions, customer growth, climate conditions and new regulations.

UTILITY FINANCIAL ANALYSIS

The Statement of Net Assets includes all of the utilities' assets and liabilities and provides information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the utilities.

A summary of the utilities' Statements of Net Assets is presented below in Tables 1 through 3.

STOUGHTON UTILITIES

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

UTILITY FINANCIAL ANALYSIS (cont.)

Table 1
Condensed Statement of Net Assets – Electric Utility

	2010	Restated 2009	2008	2010-2009 Change
Current and Other Assets	\$ 9,143,906	\$ 8,923,948	\$ 9,254,386	\$ 219,958
Capital Assets	15,303,719	15,005,746	14,568,830	297,973
Total Assets	<u>24,447,625</u>	<u>23,929,694</u>	<u>23,823,216</u>	<u>517,931</u>
Long-Term Debt Outstanding	6,280,000	6,630,000	7,160,000	(350,000)
Other Liabilities	2,552,965	2,337,956	2,350,464	215,009
Total Liabilities	<u>8,832,965</u>	<u>8,967,956</u>	<u>9,510,464</u>	<u>(134,991)</u>
Invested in Capital Assets				
Net of Related Debt	8,321,055	7,851,580	6,918,697	469,475
-Restricted	1,336,158	1,264,843	1,240,815	71,315
-Unrestricted	5,957,447	5,845,315	6,153,240	112,132
Total Net Assets	<u>\$15,614,660</u>	<u>\$ 14,961,738</u>	<u>\$ 14,312,752</u>	<u>\$ 652,922</u>

In 2010, the electric utility net assets increased \$652,922, an increase of 4.36%.

STOUGHTON UTILITIES

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

UTILITY FINANCIAL ANALYSIS (cont.)

Table 2
Condensed Statement of Net Assets – Water Utility

	2010	Restated 2009	2008	2010-2009 Change
Current and Other Assets	\$ 1,904,584	\$ 1,677,119	\$ 2,152,463	\$ 227,465
Capital Assets	12,076,405	10,979,317	10,495,702	1,097,088
Total Assets	<u>13,980,989</u>	<u>12,656,436</u>	<u>12,648,165</u>	<u>1,324,553</u>
Long-Term Debt Outstanding	2,441,386	2,035,000	2,150,000	406,386
Other Liabilities	554,055	454,010	426,237	100,045
Total Liabilities	<u>2,995,441</u>	<u>2,489,010</u>	<u>2,576,237</u>	<u>506,431</u>
Invested in Capital Assets				
Net of Related Debt	9,466,387	8,829,317	8,265,702	637,070
-Restricted	469,062	342,153	314,707	126,909
-Unrestricted	1,050,099	995,956	1,491,519	54,143
Total Net Assets	<u>\$10,985,548</u>	<u>\$ 10,167,426</u>	<u>\$ 10,071,928</u>	<u>\$ 818,122</u>

In 2010, the water utility net assets increased \$818,122, an increase of 8.05%. The water utility implemented a rate increase on September 1, 2010. A federal grant for \$613,751 comprised 75% of the increase in net assets. Grant funding was used for construction of the new water tower.

STOUGHTON UTILITIES

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

UTILITY FINANCIAL ANALYSIS (cont.)

Table 3
Condensed Statements of Net Assets – Wastewater Utility

	2010	Restated 2009	2008	2010-2009 Change
Current and Other Assets	\$ 3,536,403	\$ 3,224,003	\$ 3,481,156	\$ 312,400
Capital Assets	14,639,909	15,043,459	14,871,445	(403,550)
Total Assets	<u>18,176,312</u>	<u>18,267,462</u>	<u>18,352,601</u>	<u>(91,150)</u>
Long-Term Debt Outstanding	4,183,666	4,795,455	5,389,112	(611,789)
Other Liabilities	800,076	716,375	712,913	83,701
Total Liabilities	<u>4,983,742</u>	<u>5,511,830</u>	<u>6,102,025</u>	<u>(528,088)</u>
Invested in Capital Assets				
Net of Related Debt	9,844,578	9,654,470	8,906,387	190,108
-Restricted	1,475,695	1,217,299	1,146,596	258,396
-Unrestricted	1,872,297	1,883,863	2,197,593	(11,566)
Total Net Assets	<u>\$13,192,570</u>	<u>\$ 12,755,632</u>	<u>\$ 12,250,576</u>	<u>\$ 436,938</u>

In 2010, wastewater net assets increased \$436,938 or 3.43%.

The restricted portion of net assets includes accounts that are limited by bond covenants. Listed below are restricted assets:

- Redemption – Used for debt service payments.
- Reserve – Used for any deficiencies in the redemption account.
- Depreciation – Used to restore deficiencies in the redemption and reserve accounts, and for funding plant replacements.
- Construction – Bond issue proceeds used only for the restricted construction project(s).
- Replacement – Used for plant replacement.

The specific nature or source of these changes becomes more evident in the Statement of Revenues, Expenses and Changes in Net Assets as shown in Tables 4 through 6.

STOUGHTON UTILITIES

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

UTILITY FINANCIAL ANALYSIS (cont.)

The Statement of Revenues, Expenses, and Changes in Net Assets provides an indication of the utilities' financial health.

Table 4
Condensed Statement of Revenues,
Expenses and Changes in Net Assets -
Electric Utility

	2010	Restated 2009	2008	2010-2009 Change
Operating Revenues	\$ 14,140,673	\$ 12,547,681	\$ 12,664,800	\$ 1,592,992
Non-Operating Revenues	208,297	369,993	286,012	(161,696)
Total Revenues	<u>14,348,970</u>	<u>12,917,674</u>	<u>12,950,812</u>	<u>1,431,296</u>
Depreciation Expense	865,950	792,269	772,081	73,681
Other Operating Expense	12,476,782	10,888,022	11,006,309	1,588,760
Non-Operating Expenses	298,565	335,160	676,772	(36,595)
Total Expenses	<u>13,641,297</u>	<u>12,015,451</u>	<u>12,455,162</u>	<u>1,625,846</u>
Income Before Capital Contributions and Transfers	707,673	902,223	495,650	(194,550)
Capital Contributions	267,667	38,002	93,363	229,665
Transfers - Tax Equivalent	(291,922)	(258,797)	(237,414)	(33,125)
Transfers	<u>(30,496)</u>	<u>(32,442)</u>	<u>(35,196)</u>	<u>1,946</u>
Changes in Net Assets	652,922	648,986	316,403	3,936
Beginning Net Assets	<u>14,961,738</u>	<u>14,312,752</u>	<u>13,996,349</u>	<u>648,986</u>
Total Net Assets-Ending	<u>\$ 15,614,660</u>	<u>\$ 14,961,738</u>	<u>\$ 14,312,752</u>	<u>\$ 652,922</u>

See Independent Auditors' Report.

STOUGHTON UTILITIES

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

UTILITY FINANCIAL ANALYSIS (cont.)

Table 5
Condensed Statement of Revenues,
Expenses and Changes in Net Assets -
Water Utility

	2010	Restated 2009	2008	2010-2009 Change
Operating Revenues	\$ 1,558,841	\$ 1,320,413	\$ 1,289,936	\$ 238,428
Non-Operating Revenues	68,129	134,766	50,641	(66,637)
Total Revenues	<u>1,626,970</u>	<u>1,455,179</u>	<u>1,340,577</u>	<u>171,791</u>
Depreciation Expense	327,160	321,225	309,071	5,935
Other Operating Expense	725,930	708,094	750,483	17,836
Non-Operating Expenses	102,724	100,013	348,221	2,711
Total Expenses	<u>1,155,814</u>	<u>1,129,332</u>	<u>1,407,775</u>	<u>26,482</u>
Income Before Capital Contributions and Transfers	471,156	325,847	(67,198)	145,309
Capital Contributions	612,176	3,421	148,584	608,755
Transfers - Tax Equivalent	(259,162)	(228,514)	(211,710)	(30,648)
Transfers	<u>(6,048)</u>	<u>(5,256)</u>	<u>(9,010)</u>	<u>(792)</u>
Changes in Net Assets	818,122	95,498	(139,334)	722,624
Beginning Net Assets	<u>10,167,426</u>	<u>10,071,928</u>	<u>10,211,262</u>	<u>95,498</u>
Total Net Assets-Ending	<u>\$ 10,985,548</u>	<u>\$ 10,167,426</u>	<u>\$ 10,071,928</u>	<u>\$ 818,122</u>

See Independent Auditors' Report.

STOUGHTON UTILITIES

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

UTILITY FINANCIAL ANALYSIS (cont.)

Table 6
Condensed Statement of Revenues,
Expenses and Changes in Net Assets -
Wastewater Utility

	2010	Restated 2009	2008	2010-2009 Change
Operating Revenues	\$ 2,070,720	\$ 2,198,566	\$ 2,183,333	\$ (127,846)
Non-Operating Revenues	60,772	23,852	140,081	36,920
Total Revenues	<u>2,131,492</u>	<u>2,222,418</u>	<u>2,323,414</u>	<u>(90,926)</u>
Depreciation Expense	649,400	636,277	562,817	13,123
Other Operating Expense	902,642	920,301	867,565	(17,659)
Non-Operating Expenses	142,512	160,784	176,460	(18,272)
Total Expenses	<u>1,694,554</u>	<u>1,717,362</u>	<u>1,606,842</u>	<u>(22,808)</u>
Income Before Capital Contributions and Transfers	436,938	505,056	716,572	(68,118)
Capital Contributions	-	-	63,644	-
Changes in Net Assets	436,938	505,056	780,216	(68,118)
Beginning Net Assets	<u>12,755,632</u>	<u>12,250,576</u>	<u>11,470,360</u>	<u>505,056</u>
Total Net Assets-Ending	<u>\$ 13,192,570</u>	<u>\$ 12,755,632</u>	<u>\$ 12,250,576</u>	<u>\$ 436,938</u>

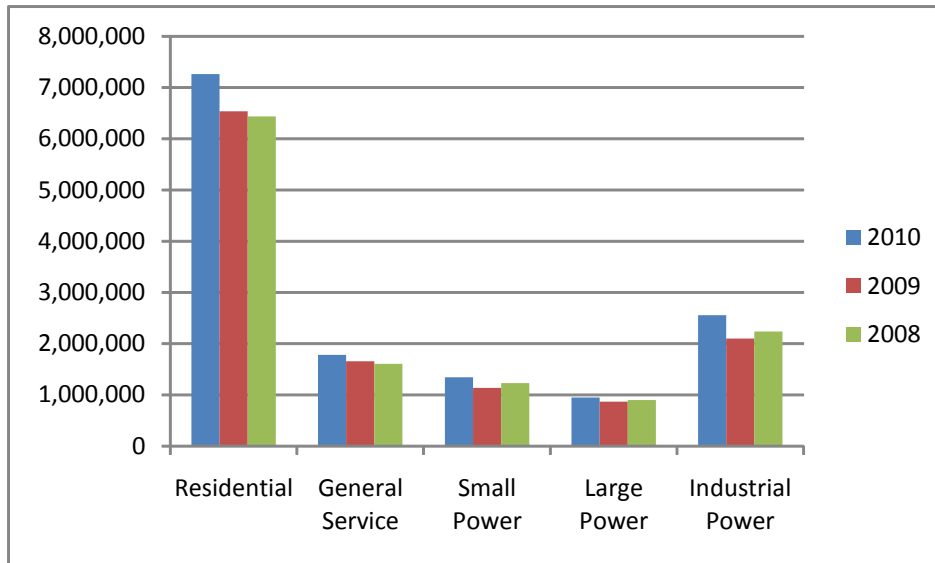
See Independent Auditors' Report.

STOUGHTON UTILITIES

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

UTILITY FINANCIAL ANALYSIS (cont.)

Comparison of Electric Sales



Increasing electric sales to all customer classes and a wholesale power cost adjustment resulted in an increase in total sales of \$1,592,256, or 12.82% in 2010.

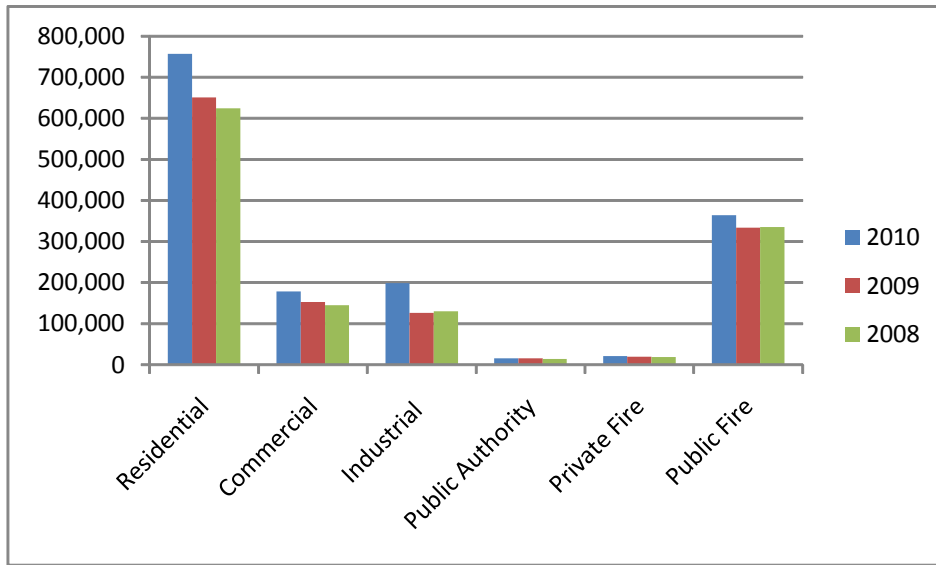
	2010	2009	2008
Residential	\$ 7,262,312	\$ 6,536,235	\$ 6,435,923
General Service	1,779,438	1,652,891	1,606,318
Small Power	1,340,462	1,137,138	1,225,980
Large Power	944,496	864,748	897,857
Industrial Power	2,554,604	2,100,050	2,234,590
Public Lighting	131,157	129,151	119,718
Total Electric Sales	<u>\$ 14,012,469</u>	<u>\$ 12,420,213</u>	<u>\$ 12,520,386</u>

STOUGHTON UTILITIES

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

UTILITY FINANCIAL ANALYSIS (cont.)

Comparison of Water Sales



Sales increased \$236,809 or 18.24% in 2010. A retail rate increase was implemented in two phases on October 1, 2009 and September 1, 2010.

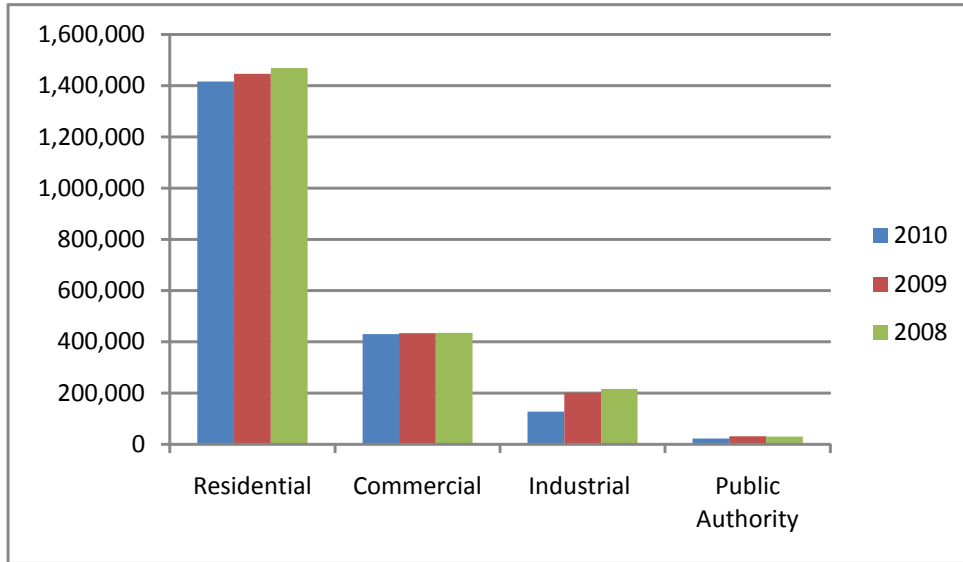
	2010	2009	2008
Residential	\$ 756,725	\$ 650,463	\$ 623,952
Commercial	178,491	152,687	144,915
Industrial	199,210	126,679	130,601
Public Authority	15,828	15,857	14,312
Private Fire	20,999	19,394	18,630
Public Fire	<u>364,006</u>	<u>333,370</u>	<u>335,256</u>
Total Water Sales	<u>\$ 1,535,259</u>	<u>\$ 1,298,450</u>	<u>\$ 1,267,666</u>

STOUGHTON UTILITIES

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

UTILITY FINANCIAL ANALYSIS (cont.)

Comparison of Wastewater Sales



The utility experienced a decline in revenues of \$115,823 or 5.49% in 2010. Overall, consumption was slightly lower in 2010 and a large industrial customer is no longer billed wastewater charges due to a change in production.

	2010	2009	2008
Residential	\$ 1,415,649	\$ 1,446,074	\$ 1,468,172
Commercial	429,388	432,652	434,356
Industrial	127,345	201,249	215,670
Public Authority	22,287	30,517	29,677
Total Wastewater Sales	\$ 1,994,669	\$ 2,110,492	\$ 2,147,875

STOUGHTON UTILITIES

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

UTILITY FINANCIAL ANALYSIS (cont.)

The Statement of Cash Flows reports the cash provided and used by operating activities, as well as other cash sources such as investment income and cash payments for repayment of bonds and capital additions.

Table 7
Condensed Statements of Cash Flows
Electric Utility

	2010	Restated 2009	2008	2010-2009 Change
Cash Flows From:				
Operating activities	\$ 1,682,662	\$ 1,606,464	\$ 1,870,692	\$ 76,198
Non-capital financing activities	(289,293)	(269,856)	(256,896)	(19,437)
Capital and related financing activities	(1,589,614)	(2,065,190)	(2,951,964)	475,576
Investing activities	1,377,387	649,492	(150,297)	727,895
Net Change in Cash and Cash Equivalents	1,181,142	(79,090)	(1,488,465)	1,260,232
Cash and Cash Equivalents Beginning of Year	2,218,907	2,297,997	3,786,462	(79,090)
Cash and Cash Equivalents End of Year	\$ 3,400,049	\$ 2,218,907	\$ 2,297,997	\$ 1,181,142

During 2010, several long term investments matured and the funds were not reinvested by the date of this report. This is the primary reason for the increase in cash and cash equivalents of \$1,181,142.

STOUGHTON UTILITIES

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

UTILITY FINANCIAL ANALYSIS (cont.)

Table 8
Condensed Statements of Cash Flows -
Water Utility

	2010	Restated 2009	2008	2010-2009 Change
Cash Flows From:				
Operating activities	\$ 853,199	\$ 597,831	\$ 552,615	\$ 255,368
Non-Capital financing activities	(234,562)	(216,966)	(206,040)	(17,596)
Capital and related financing activities	(476,129)	(1,008,698)	(1,532,522)	532,569
Investing activities	197,668	568,304	(722,534)	(370,636)
Net Change in Cash and Cash Equivalents	340,176	(59,529)	(1,908,481)	399,705
Cash and Cash Equivalents Beginning of Year	17,382	76,911	1,985,392	(59,529)
Cash and Cash Equivalents End of Year	\$ 357,558	\$ 17,382	\$ 76,911	\$ 340,176

The water utility experienced an increase in cash and cash equivalents of \$340,176 in 2010. The increase was due to the 2010 net income and the maturity of long term Certificates of Deposit.

STOUGHTON UTILITIES

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

UTILITY FINANCIAL ANALYSIS (cont.)

Table 9
Condensed Statements of Cash Flows -
Wastewater Utility

	2010	Restated 2009	2008	2010-2009 Change
Cash Flows From:				
Operating activities	\$ 1,235,599	\$ 1,282,933	\$ 1,302,723	\$ (47,334)
Capital and related financing activities	(953,733)	(1,547,719)	(1,341,679)	593,986
Investing activities	293,327	(346,598)	(188,987)	639,925
Net Change in Cash and Cash Equivalents	575,193	(611,384)	(227,943)	1,186,577
Cash and Cash Equivalents Beginning of Year	1,808,045	2,419,429	2,647,372	(611,384)
Cash and Cash Equivalents End of Year	\$ 2,383,238	\$ 1,808,045	\$ 2,419,429	\$ 575,193

The utility experienced an increase in cash and cash equivalents of \$575,193 in 2010. Net income and the sale of a long term investment contributed to the increase.

STOUGHTON UTILITIES

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

UTILITY FINANCIAL ANALYSIS (cont.)

Table 10
Capital Assets – Electric Utility

	2010	2009	2008	2010-2009 Change
Capital Assets				
Transmission and distribution	\$ 20,274,337	\$ 19,735,559	\$ 19,186,513	\$ 538,778
General	4,258,484	3,816,851	2,861,436	441,633
Total Capital Assets	<u>24,532,821</u>	<u>23,552,410</u>	<u>22,047,949</u>	<u>980,411</u>
Less: Accumulated depreciation	(9,255,784)	(8,597,069)	(7,826,300)	(658,715)
Construction in progress	<u>26,682</u>	<u>50,405</u>	<u>347,181</u>	<u>(23,723)</u>
Net Capital Assets	<u>\$ 15,303,719</u>	<u>\$ 15,005,746</u>	<u>\$ 14,568,830</u>	<u>\$ 297,973</u>

Table 11
Capital Assets – Water Utility

	2010	2009	2008	2010-2009 Change
Capital Assets				
Source of supply	\$ 575,629	\$ 575,629	\$ 563,795	\$ -
Pumping	1,526,063	1,506,362	1,482,498	19,701
Water treatment	90,763	90,763	90,763	-
Transmission and distribution	13,426,711	11,828,361	11,485,289	1,598,350
General	<u>913,082</u>	<u>907,307</u>	<u>688,670</u>	<u>5,775</u>
Total Capital Assets	<u>16,532,248</u>	<u>14,908,422</u>	<u>14,311,015</u>	<u>1,623,826</u>
Less: Accumulated depreciation	(4,501,174)	(4,169,917)	(3,824,456)	(331,257)
Construction in progress	<u>45,331</u>	<u>240,812</u>	<u>9,143</u>	<u>(195,481)</u>
Net Capital Assets	<u>\$ 12,076,405</u>	<u>\$ 10,979,317</u>	<u>\$ 10,495,702</u>	<u>\$ 1,097,088</u>

See Independent Auditors' Report.

STOUGHTON UTILITIES

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

UTILITY FINANCIAL ANALYSIS (cont.)

Table 12
Capital Assets – Wastewater Utility

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2010-2009 Change</u>
Capital Assets				
Collection system	\$ 7,822,109	\$ 7,684,151	\$ 7,264,526	\$ 137,958
Collection system pumping	397,412	389,554	387,063	7,858
Treatment and disposal	12,757,388	12,735,749	12,582,116	21,639
General	846,036	836,829	559,216	9,207
Total Capital Assets	<u>21,822,945</u>	<u>21,646,283</u>	<u>20,792,921</u>	<u>176,662</u>
Less: Accumulated depreciation	(7,246,797)	(6,605,232)	(5,970,625)	(641,565)
Construction in progress	<u>63,761</u>	<u>2,408</u>	<u>49,149</u>	<u>61,353</u>
Net Capital Assets	<u>\$ 14,639,909</u>	<u>\$ 15,043,459</u>	<u>\$ 14,871,445</u>	<u>\$ (403,550)</u>

LONG-TERM DEBT

As of December 31, 2010, the electric utility had total mortgage revenue bond debt outstanding of \$6,630,000 payable from and secured by a pledge of income and revenue to be derived from the operation of the electric utility. These issues were issued for electric system improvements, the construction of new substation, an east substation transformer, and costs associated with the implementation of automated meter reading (AMR).

As of December 31, 2010, the water utility had total mortgage revenue bond debt outstanding of \$2,610,018 payable from and secured by a pledge of income and revenue to be derived from the operation of the water utility. These issues were primarily for additions and improvements to the water system, street improvement projects, and AMR implementation.

The wastewater utility had \$4,795,444 of clean water fund loans outstanding as of December 31, 2010. These bonds were issued for a series of wastewater treatment plant upgrade and expansion projects.

Tables of separate bond issues are included in note 6 of this audit report.

STOUGHTON UTILITIES

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

CONTACTING UTILITY MANAGEMENT

This financial report is designed to provide our customers, investors and creditors with a general overview of the utilities' finances. If you have questions about this report, or need additional financial information, contact the Finance and Administrative Manager, Stoughton Utilities, 600 South Fourth Street, P.O. Box 383, Stoughton, WI 53589.

General information relating to the Stoughton Utilities can be found at the utilities' web site at www.stoughtonutilities.com.

ELECTRIC UTILITY

STOUGHTON ELECTRIC UTILITY

STATEMENTS OF NET ASSETS December 31, 2010 and 2009

ASSETS	2010	Restated 2009
CURRENT ASSETS		
Cash and investments	\$ 5,318,499	\$ 5,355,995
Interest receivable	22,889	29,103
Restricted Assets		
Redemption account	339,705	481,077
Customer accounts receivable	1,611,101	1,488,877
Other accounts receivable	114,436	37,998
Due from municipality	32,918	31,808
Materials and supplies	124,597	131,388
Prepayments	27,043	27,465
Total Current Assets	7,591,188	7,583,711
NON-CURRENT ASSETS		
Restricted Assets		
Reserve account	1,046,094	838,094
Depreciation account	25,000	25,000
Other Assets		
Electric plant and maintenance reserve account	103,717	103,498
Sick leave reserve account	97,000	97,000
Unamortized debt issuance costs	-	5,834
Investment in ATC	244,654	230,898
Non-utility property (net)	36,253	39,913
Capital Assets		
Plant in service	24,180,157	23,199,746
Accumulated depreciation	(9,255,784)	(8,597,069)
Property held for future use	352,664	352,664
Construction work in progress	26,682	50,405
Total Non-Current Assets	16,856,437	16,345,983
Total Assets	24,447,625	23,929,694

LIABILITIES	<u>2010</u>	<u>Restated 2009</u>
CURRENT LIABILITIES		
Accounts payable	\$ 1,298,931	\$ 1,071,807
Due to municipality	291,922	258,797
Customer deposits	118,128	29,031
Accrued wages	15,083	32,996
Accrued interest	4,314	5,803
Accrued liabilities	104,199	59,246
Commitment to community	129,683	106,450
Current Liabilities Payable from Restricted Assets		
Current portion of revenue bonds	350,000	530,000
Accrued interest	74,641	79,328
Total Current Liabilities	<u>2,386,901</u>	<u>2,173,458</u>
NON-CURRENT LIABILITIES		
Revenue bonds	6,280,000	6,630,000
Accrued sick leave	163,637	158,539
Customer advances for construction	2,427	5,959
Total Non-Current Liabilities	<u>6,446,064</u>	<u>6,794,498</u>
 Total Liabilities	 <u>8,832,965</u>	 <u>8,967,956</u>
 NET ASSETS		
Net assets invested in capital assets, net of related debt	8,321,055	7,851,580
Restricted	1,336,158	1,264,843
Unrestricted	<u>5,957,447</u>	<u>5,845,315</u>
 TOTAL NET ASSETS	 <u>\$ 15,614,660</u>	 <u>\$ 14,961,738</u>

STOUGHTON ELECTRIC UTILITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS Years Ended December 31, 2010 and 2009

	2010	Restated 2009
OPERATING REVENUES		
Sales of electricity	\$ 14,012,469	\$ 12,420,213
Other	128,204	127,468
Total Operating Revenues	14,140,673	12,547,681
OPERATING EXPENSES		
Operation and maintenance	12,476,782	10,888,022
Depreciation	865,950	792,269
Total Operating Expenses	13,342,732	11,680,291
OPERATING INCOME	797,941	867,390
NON-OPERATING REVENUES (EXPENSES)		
Investment income	208,297	369,993
Interest expense	(303,054)	(325,283)
Amortization of debt issuance costs	(5,834)	(4,033)
Miscellaneous revenues (expenses)	10,323	(5,844)
Total Non-Operating Revenues (Expenses)	(90,268)	34,833
Income Before Contributions and Transfers	707,673	902,223
CAPITAL CONTRIBUTIONS	267,667	38,002
TRANSFER IN (OUT)	(30,496)	(32,442)
TRANSFERS - TAX EQUIVALENT	(291,922)	(258,797)
CHANGE IN NET ASSETS	652,922	648,986
NET ASSETS - Beginning of Year	14,961,738	14,312,752
NET ASSETS - END OF YEAR	\$ 15,614,660	\$ 14,961,738

STOUGHTON ELECTRIC UTILITY

STATEMENTS OF CASH FLOWS Years Ended December 31, 2010 and 2009

	2010	Restated 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 13,914,342	\$ 12,394,609
Received for street lighting	131,157	129,151
Paid to suppliers for goods and services	(11,506,180)	(10,114,074)
Paid to employees for operating payroll	(846,254)	(807,264)
Customer deposit	89,097	4,042
Net Cash Flows From Operating Activities	1,782,162	1,606,464
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Paid to municipality for tax equivalent	(258,797)	(237,414)
Transfers to other funds	(30,496)	(32,442)
Net Cash Flows From Noncapital Financing Activities	(289,293)	(269,856)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(1,039,935)	(1,281,384)
Received from the sale of capital assets	23,753	12,820
Capital contributions received	164,635	28,998
Debt retired	(530,000)	(500,000)
Interest paid	(307,567)	(325,624)
Net Cash Flows From Capital and Related Financing Activities	(1,689,114)	(2,065,190)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments purchased	(642,000)	(2,733,928)
Investments sold and matured	1,821,212	3,139,050
Dividends/(Investment) in ATC	15,087	(21,532)
Investment income	183,088	265,902
Net Cash Flows From Investing Activities	1,377,387	649,492
Net Change in Cash and Cash Equivalents	1,181,142	(79,090)
CASH AND CASH EQUIVALENTS - Beginning of Year	2,218,907	2,297,997
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,400,049	\$ 2,218,907
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Unrealized gain (loss) on investments	\$ 25,209	\$ 104,198
Capital grant accrued	\$ 99,500	\$ -

	2010	Restated 2009
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 797,941	\$ 867,390
Nonoperating revenue (expense)	10,323	(5,844)
Noncash items in operating income		
Depreciation	865,950	792,269
Depreciation charged to clearing and other utilities	39,600	63,600
Changes in assets and liabilities		
Customer accounts receivable	(122,224)	(21,214)
Other account receivable	23,062	17,338
Due from municipality	(1,110)	(17,830)
Materials and supplies	6,791	8,379
Prepayments	422	(25,177)
Accounts payable	16,939	(8,551)
Customer deposits	89,097	4,042
Accrued sick leave	5,098	(2,215)
Other current liabilities	27,040	(71,038)
Commitment to community	23,233	5,315
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 1,782,162	\$ 1,606,464
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS ACCOUNTS		
Cash and investments	\$ 5,318,499	\$ 5,355,995
Redemption account	339,705	481,077
Reserve account	1,046,094	838,094
Depreciation account	25,000	25,000
Electric plant and maintenance reserve account	103,717	103,498
Sick leave reserve account	97,000	97,000
Total Cash and Investments	6,930,015	6,900,664
Less: Noncash equivalents	(3,529,966)	(4,681,757)
CASH AND CASH EQUIVALENTS	\$ 3,400,049	\$ 2,218,907

WATER UTILITY

STOUGHTON WATER UTILITY

STATEMENTS OF NET ASSETS December 31, 2010 and 2009

ASSETS	2010	Restated 2009
CURRENT ASSETS		
Cash and investments	\$ 675,467	\$ 593,894
Interest receivable	5,178	4,968
Restricted Assets		
Redemption account	111,922	97,287
Customer accounts receivable	193,105	165,728
Other accounts receivable	4,413	4,455
Materials and supplies	27,101	33,175
Prepayments	9,470	9,623
Total Current Assets	1,026,656	909,130
NON-CURRENT ASSETS		
Restricted Assets		
Reserve account	349,660	235,660
Depreciation account	25,000	25,000
Other Assets		
Water plant and maintenance reserve account	367,089	366,870
Sick leave reserve account	79,861	79,861
Non-utility property (net)	56,318	60,598
Capital Assets		
Plant in service	16,532,248	14,908,422
Accumulated depreciation	(4,501,174)	(4,169,917)
Construction work in progress	45,331	240,812
Total Non-Current Assets	12,954,333	11,747,306
Total Assets	13,980,989	12,656,436

	LIABILITIES	<u>2010</u>	<u>Restated 2009</u>
CURRENT LIABILITIES			
Accounts payable		\$ 9,832	\$ 9,564
Due to municipality		259,162	228,514
Accrued wages		13,218	11,466
Current Liabilities Payable from Restricted Assets			
Current portion of revenue bonds		168,632	115,000
Accrued interest		17,520	15,794
Total Current Liabilities		<u>468,364</u>	<u>380,338</u>
NON-CURRENT LIABILITIES			
Revenue bonds		2,441,386	2,035,000
Accrued sick leave		85,691	73,672
Total Non-Current Liabilities		<u>2,527,077</u>	<u>2,108,672</u>
Total Liabilities		<u>2,995,441</u>	<u>2,489,010</u>
NET ASSETS			
Net assets invested in capital assets, net of related debt		9,466,387	8,829,317
Restricted		469,062	342,153
Unrestricted		<u>1,050,099</u>	<u>995,956</u>
TOTAL NET ASSETS		<u>\$ 10,985,548</u>	<u>\$ 10,167,426</u>

STOUGHTON WATER UTILITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS Years Ended December 31, 2010 and 2009

	2010	Restated 2009
OPERATING REVENUES		
Sales of water	\$ 1,535,259	\$ 1,298,450
Other	23,582	21,963
Total Operating Revenues	1,558,841	1,320,413
OPERATING EXPENSES		
Operation and maintenance	725,930	708,094
Depreciation	327,160	321,225
Total Operating Expenses	1,053,090	1,029,319
OPERATING INCOME	505,751	291,094
NON-OPERATING REVENUES (EXPENSES)		
Investment income	68,129	134,766
Interest expense	(98,444)	(95,733)
Miscellaneous expenses	(4,280)	(4,280)
Total Non-Operating Revenues (Expenses)	(34,595)	34,753
Income Before Contributions and Transfers	471,156	325,847
CAPITAL CONTRIBUTIONS	612,176	3,421
TRANSFER IN (OUT)	(6,048)	(5,256)
TRANSFERS - TAX EQUIVALENT	(259,162)	(228,514)
CHANGE IN NET ASSETS	818,122	95,498
NET ASSETS - Beginning of Year	10,167,426	10,071,928
NET ASSETS - END OF YEAR	\$ 10,985,548	\$ 10,167,426

STOUGHTON WATER UTILITY

STATEMENTS OF CASH FLOWS Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>Restated 2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 1,531,506	\$ 1,304,703
Paid to suppliers for goods and services	(425,528)	(422,356)
Paid to employees for operating payroll	(252,779)	(284,516)
Net Cash Flows From Operating Activities	<u>853,199</u>	<u>597,831</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Paid to municipality for tax equivalent	(228,514)	(211,710)
Transfers to other funds	(6,048)	(5,256)
Net Cash Flows From Noncapital Financing Activities	<u>(234,562)</u>	<u>(216,966)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(1,453,311)	(835,671)
Received from the sale of capital assets	1,706	-
Capital contributions received	612,176	3,421
Debt proceeds	575,018	-
Debt retired	(115,000)	(80,000)
Interest paid	(96,718)	(96,448)
Net Cash Flows From Capital and Related Financing Activities	<u>(476,129)</u>	<u>(1,008,698)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments purchased	-	(1,369,931)
Investments sold and matured	136,126	1,854,367
Investment income	61,542	83,868
Net Cash Flows From Investing Activities	<u>197,668</u>	<u>568,304</u>
Net Change in Cash and Cash Equivalents	340,176	(59,529)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>17,382</u>	<u>76,911</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 357,558</u>	<u>\$ 17,382</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Unrealized gain (loss) on investments	<u>\$ 13,133</u>	<u>\$ 6,756</u>

	2010	Restated 2009
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 505,751	\$ 291,094
Noncash items in operating income		
Depreciation	327,160	321,225
Depreciation charged to clearing and other utilities	27,357	30,831
Changes in assets and liabilities		
Customer accounts receivable	(27,377)	(14,014)
Other account receivable	42	(4,389)
Due from municipality	-	2,693
Materials and supplies	6,074	2,768
Prepayments	153	(9,061)
Accounts payable	268	(26,789)
Accrued wages	1,752	936
Accrued sick leave	12,019	2,537
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 853,199	\$ 597,831
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS ACCOUNTS		
Cash and investments	\$ 675,467	\$ 593,894
Redemption account	111,922	97,287
Reserve account	349,660	235,660
Depreciation account	25,000	25,000
Water plant and maintenance reserve account	367,089	366,870
Sick leave reserve account	79,861	79,861
Total Cash and Investments	1,608,999	1,398,572
Less: Noncash equivalents	(1,251,441)	(1,381,190)
CASH AND CASH EQUIVALENTS	\$ 357,558	\$ 17,382

WASTEWATER UTILITY

STOUGHTON WASTEWATER UTILITY

STATEMENTS OF NET ASSETS December 31, 2010 and 2009

ASSETS	2010	Restated 2009
CURRENT ASSETS		
Cash and investments	\$ 1,726,300	\$ 1,639,038
Interest receivable	2,471	2,400
Restricted Assets		
Redemption account	427,323	432,003
Customer accounts receivable	234,352	264,423
Other accounts receivable	1,547	1,595
Prepayments	11,838	12,029
Total Current Assets	2,403,831	2,351,488
NON-CURRENT ASSETS		
Restricted Assets		
Depreciation account	33,283	33,283
Replacement account	1,037,836	777,779
Construction account	123	123
Other Assets		
Sick leave reserve account	61,330	61,330
Capital Assets		
Plant in service	21,822,945	21,646,283
Accumulated depreciation	(7,246,797)	(6,605,232)
Construction work in progress	63,761	2,408
Total Non-Current Assets	15,772,481	15,915,974
Total Assets	18,176,312	18,267,462

	LIABILITIES	<u>2010</u>	<u>Restated 2009</u>
CURRENT LIABILITIES			
Accounts payable		\$ 56,722	\$ 40
Accrued wages		15,488	14,621
Current Liabilities Payable from Restricted Assets			
Current portion of revenue bonds		611,788	593,657
Accrued interest		22,747	25,766
Total Current Liabilities		<u>706,745</u>	<u>634,084</u>
NON-CURRENT LIABILITIES			
Revenue bonds		4,183,666	4,795,455
Accrued sick leave		93,331	82,291
Total Non-Current Liabilities		<u>4,276,997</u>	<u>4,877,746</u>
Total Liabilities		<u>4,983,742</u>	<u>5,511,830</u>
NET ASSETS			
Net assets invested in capital assets, net of related debt		9,844,578	9,654,470
Restricted		1,475,695	1,217,299
Unrestricted		<u>1,872,297</u>	<u>1,883,863</u>
TOTAL NET ASSETS		<u>\$ 13,192,570</u>	<u>\$ 12,755,632</u>

STOUGHTON WASTEWATER UTILITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>Restated 2009</u>
OPERATING REVENUES		
Treatment charges	\$ 1,994,669	\$ 2,110,492
Other	76,051	88,074
Total Operating Revenues	<u>2,070,720</u>	<u>2,198,566</u>
OPERATING EXPENSES		
Operation and maintenance	902,642	920,301
Depreciation	649,400	636,277
Total Operating Expenses	<u>1,552,042</u>	<u>1,556,578</u>
OPERATING INCOME	<u>518,678</u>	<u>641,988</u>
NON-OPERATING REVENUES (EXPENSES)		
Investment income	60,772	23,852
Interest expense	(142,512)	(160,784)
Total Non-Operating Revenues (Expenses)	<u>(81,740)</u>	<u>(136,932)</u>
CHANGE IN NET ASSETS	436,938	505,056
NET ASSETS - Beginning of Year	<u>12,755,632</u>	<u>12,250,576</u>
NET ASSETS - END OF YEAR	<u><u>\$ 13,192,570</u></u>	<u><u>\$ 12,755,632</u></u>

STOUGHTON WASTEWATER UTILITY

STATEMENTS OF CASH FLOWS Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>Restated 2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 2,100,839	\$ 2,226,097
Paid to suppliers for goods and services	(541,818)	(545,719)
Paid to employees for operating payroll	(323,422)	(397,445)
Net Cash Flows From Operating Activities	<u>1,235,599</u>	<u>1,282,933</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(214,544)	(808,292)
Debt retired	(593,658)	(576,069)
Interest paid	(145,531)	(163,358)
Net Cash Flows From Capital and Related Financing Activities	<u>(953,733)</u>	<u>(1,547,719)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments purchased	(247,000)	(1,147,412)
Investments sold and matured	500,000	756,829
Investment income	40,327	43,985
Net Cash Flows From Investing Activities	<u>293,327</u>	<u>(346,598)</u>
Net Change in Cash and Cash Equivalents	575,193	(611,384)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>1,808,045</u>	<u>2,419,429</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,383,238</u>	<u>\$ 1,808,045</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Unrealized gain (loss) on investments	<u>\$ 8,545</u>	<u>\$ (11,901)</u>

	2010	Restated 2009
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 518,678	\$ 641,988
Noncash items in operating income		
Depreciation	649,400	636,277
Changes in assets and liabilities		
Customer accounts receivable	30,071	24,753
Other account receivable	48	(1,595)
Due from municipality	-	4,373
Prepayments	191	(11,311)
Accounts payable	29,190	(10,975)
Accrued sick leave	11,040	2,704
Other current liabilities	(3,019)	(3,281)
	<u>\$ 1,235,599</u>	<u>\$ 1,282,933</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES		
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS ACCOUNTS		
Cash and investments	\$ 1,726,300	\$ 1,639,038
Redemption account	427,323	432,003
Depreciation account	33,283	33,283
Replacement account	1,037,836	777,779
Construction account	123	123
Sick leave reserve account	61,330	61,330
Total Cash and Investments	<u>3,286,195</u>	<u>2,943,556</u>
Less: Noncash equivalents	<u>(902,957)</u>	<u>(1,135,511)</u>
	<u>\$ 2,383,238</u>	<u>\$ 1,808,045</u>
CASH AND CASH EQUIVALENTS		

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Stoughton Utilities (utilities) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental 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 utilities are described below.

REPORTING ENTITY

The utilities are separate enterprise funds of the City of Stoughton (municipality). The utilities are managed by a utilities committee. The utilities provide electric, water and wastewater service to properties within the municipality. The utilities also provide electric service to the Townships of Dunkirk, Dunn, Pleasant Springs, Porter and Rutland.

The electric and water utilities operate under service rules and rates established by the Public Service Commission of Wisconsin (PSCW). The wastewater utility operates under rules and rates established by the utilities committee. The utilities are also regulated by the Wisconsin Department of Natural Resources.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The utilities are presented as enterprise funds 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 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 recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the utilities' financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Utilities also have the option of following subsequent private-sector guidance subject to this same limitation. The utilities have elected not to follow subsequent private-sector guidance.

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.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

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

ASSETS, LIABILITIES AND NET ASSETS

Deposits and Investments

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.

Investment of utilities' funds is restricted by state statutes. Investments are limited to:

1. Time deposits in any credit union, bank, savings bank or trust company maturing in three years or less.
2. Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state. Also, bonds issued by a local exposition district, local professional baseball park district, local professional football stadium district, local cultural arts district or by the University of Wisconsin Hospitals and Clinics Authority.
3. Bonds or securities issued or guaranteed by the federal government.
4. The local government investment pool.
5. Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
6. Securities of an open end management investment company or investment trust, subject to various conditions and investment options.
7. Repurchase agreements with public depositories, with certain conditions.

The utilities have adopted an investment policy. That policy follows the state statute for allowable investments.

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

Transactions between the utilities and other funds of the municipality that are representative of lending/borrowing arrangements outstanding at year end are referred to as advances to/from other funds. All other outstanding balances between the utilities and other funds of the municipality are reported as due to/from other funds.

The utilities have the right under Wisconsin statutes to place delinquent electric, water and wastewater bills on the tax roll for collection for properties within the municipality. As such, no allowance for uncollectible customer accounts is considered necessary.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

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

ASSETS, LIABILITIES AND NET ASSETS (cont.)

Materials and Supplies

Materials and supplies are generally used for construction, operation and maintenance work, not for resale. They are valued at the lower of cost or market utilizing the average cost method and charged to construction or expense when used.

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.

Investment in American Transmission Company (ATC)

The electric utility is a member of ATC. ATC was formed by approximately 25 utilities to plan, construct, maintain, monitor and own electric transmission facilities in Wisconsin. The utility owns less than 1/2 of 1 percent of ATC.

The investment earns dividends quarterly, some of which are paid in cash and some of which are required to be reinvested. From time to time, the utility has the option to contribute additional funds to maintain their proportionate share of ownership. The assets are valued at original cost plus additional contributions and reinvested dividends.

Sick Leave Reserve Account

Upon retirement, these funds are used for insurance coverage for utility employees.

Non-Utility Property

Electric utility non-utility property consists of the city dam with a balance of \$84,212 and leasehold rental property with a balance of \$91,458 at December 31, 2010 and 2009. Water utility non-utility property consists of a park shelter with a balance of \$107,000 at December 31, 2010 and 2009. The costs are being amortized on a straight-line basis over their useful life.

Capital Assets

Capital assets are generally defined by the utilities as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of one year.

Capital assets of the utilities are recorded at cost or the fair market value at the time of contribution to the utilities. Major outlays for utilities plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital assets constructed, net of interest earned on the invested proceeds over the same period. Capital assets in service are depreciated using the straight-line method over the following useful lives:

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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

ASSETS, LIABILITIES AND NET ASSETS (cont.)

Capital Assets (cont.)

	<u>Years</u>
Electric Plant	
Transmission	33
Distribution	25 - 54
General	5 - 30
Water Plant	
Source of supply	34
Pumping	23 - 31
Water treatment	30 - 31
Transmission and distribution	18 - 77
General	4 - 34
Wastewater Plant	
Collecting system	100
Collecting system pumping	25 - 50
Treatment and disposal	15 - 40
General	5 - 20

Accrued Vacation and Sick Leave

Under terms of employment, employees are granted sick leave and vacations in varying amounts. Only benefits considered to be vested are disclosed in these statements. Vested vacation and sick leave pay is accrued when earned in the financial statements. The liability is liquidated from general operating revenues of the utilities.

Customer Advances for Construction

The balance represents fees collected for future capital improvements. The fees may be refundable based on rules filed with the PSCW or statutory requirements.

Commitment to Community

The electric utility charges fees to all customers as required by the 1999 Energy Reliability Act and 2005 Act 141. Revenues generated from the fees are used to fund energy conservation and low-income energy assistance ("Commitment to Community") programs. The utility is acting as an agent administering the program so revenues and expenses associated with the program are recorded as a current liability on the statement of net assets.

Customer Deposits

This account represents amounts deposited with the utilities by customers as security for payment of bills.

Accrued liabilities

The balance represents collections of various payroll and sales taxes due to the state and federal government.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

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

ASSETS, LIABILITIES AND NET ASSETS (cont.)

Long-Term Obligations

Long-term debt and other obligations are reported as utilities 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. Gains or losses on prior refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

REVENUES AND EXPENSES

The utilities distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the utilities' principal ongoing operations. The principal operating revenues of the utilities are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Charges for Services

Billings are rendered and recorded monthly based on metered usage. The utilities do accrue revenues beyond billing dates.

Current electric rates were approved by the PSCW on January 2, 2007. The rates are designed to provide a 6.5% return on rate base.

Current water rates were approved by the PSCW effective September 1, 2010. The rates are designed to earn a 6.5% return on rate base.

Current wastewater rates were approved by the utilities committee effective July 5, 2007.

Capital Contributions

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

Transfers

Transfers include the payment in lieu of taxes to the municipality and other operating transfers.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* and Statement No. 61, *The Financial Reporting Entity: Omnibus*. Application of these standards may restate portions of these financial statements.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

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

COMPARATIVE DATA

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

NOTE 2 - DEPOSITS AND INVESTMENTS

	Carrying Value as of December 31,		Risks
	2010	2009	
Checking and Savings	\$ 4,521,297	\$ 2,447,381	Custodial credit risk
LGIP	1,618,798	1,841,204	Credit and interest rate risks
Negotiable Certificates of Deposit	2,670,519	3,239,224	Custodial credit, credit, concentration, and interest rate risks
U.S. Agency Securities	1,965,500	2,678,848	Custodial credit, credit, concentration and interest rate risks
Corporate Bonds	1,048,345	1,035,385	Custodial credit, credit, concentration and interest rate risks
Petty Cash	750	750	
Totals	\$ 11,825,209	\$ 11,242,792	

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for interest bearing and unlimited for non-interest bearing accounts.

Bank accounts are also insured by the State Deposit Guarantee Fund (SDGF) in the amount of \$400,000. However, due to the relatively small size of the Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses may not be significant to individual municipalities.

The utilities may also maintain separate cash and investment accounts at the same financial institutions utilized by the municipality. Federal depository insurance and the SDGF apply to all municipal accounts, and accordingly, the amount of insured funds is not determinable for the utilities alone. Therefore, coverage for the utilities may be reduced. Investment income on commingled investments of the entire municipality is allocated based on average investment balances.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

\$500,000 of the utilities' investments have coverage from the Securities Investor Protection Corporation (SIPC).

In addition, the utilities, with the city, have collateral or depository insurance agreements in the amount of \$4,389,470 at December 31, 2010 and \$5,292,470 at December 31, 2009.

The Wisconsin Local Government Investment Pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw their funds in total on one day's notice. At December 31, 2010 and 2009, the fair value of the LGIP's assets were substantially equal to the utilities' share.

Custodial Credit Risk

Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the utilities' deposits may not be returned to the utilities.

The utilities maintain certain deposits at the same institutions as the municipality. The custodial credit risk pertaining specifically to the utilities' resources at these institutions cannot be determined individually for those accounts. The following is a summary of the utilities' total deposit balances at these institutions.

	2010		2009	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
Wells Fargo	\$ 4,056,266	\$ 4,023,157	\$ 2,291,453	\$ 2,201,453
Wells Fargo Brokerage	928	928	928	928
Ameriprise Financial	497,212	497,212	245,000	245,000
Deposits Exposed to Custodial Credit Risk	<u>\$ 4,554,406</u>	<u>\$ 4,521,297</u>	<u>\$ 2,537,381</u>	<u>\$ 2,447,381</u>

The utilities' investment policy does not address this risk.

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the utilities will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

Custodial Credit Risk (cont.)

Investments (cont.)

As of December 31, 2010 and 2009 the utilities' investments were exposed to custodial credit risk as follows:

	<u>2010</u>	<u>2009</u>
U.S. Agencies - Implicitly Guaranteed		
Neither insured nor registered and held by counterparty	\$ <u>1,965,500</u>	\$ <u>2,678,848</u>
Corporate Bonds – GE Capital		
Neither insured nor registered and held by counterparty	\$ <u>1,048,345</u>	\$ <u>1,035,385</u>
Negotiable Certificates of Deposit		
Neither insured nor registered and held by counterparty	\$ <u>2,670,519</u>	\$ <u>3,239,224</u>

The utilities' investment policy does not address this risk.

Credit Risk

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

As of December 31, 2010, the utilities' investments were rated as follows:

Investment Type	Standard & Pooors	Moody's Investors Services
U.S. Agencies - Implicitly Guaranteed	AAA	Aaa
Corporate Bonds	AA+	Aa2
Negotiable Certificates of Deposit	not rated	

As of December 31, 2009, the utilities' investments were rated as follows:

Investment Type	Standard & Pooors	Moody's Investors Services
U.S. Agencies - Implicitly Guaranteed	AAA	Aaa
Corporate Bonds	AA	A2
Negotiable Certificates of Deposit	not rated	

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

Credit Risk (cont.)

The utilities held investments in the Local Government Investment Pool which is an external pool that is not rated.

The utilities' investment policy follows state statutes. There is one investment which does not meet these standards as it is rated below the highest two categories.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

At December 31, 2010 and 2009, the utilities' investment portfolio was concentrated as follows:

Issuer	Investment Type	Percentage of Portfolio	
		2010	2009
FHLB	U.S. Agencies - Implicitly Guaranteed	-%	7.19%
Ginnie Mae	U.S. Agencies - Implicitly Guaranteed	16.62%	20.75%
GE Capital	Corporate bond	8.87%	14.89%

The utilities' investment policy does not address this risk.

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, 2010, the utilities' investments were as follows:

Investment Type	Maturity (In Years)			
	Fair Value	Less than 1	1 - 3	3 or more
U.S. Agencies - Implicitly Guaranteed	\$ 1,965,500	\$ -	\$ -	\$ 1,965,500
Corporate Bonds	1,048,345	-	1,048,345	-
Negotiable Certificates of Deposit	2,670,519	1,386,000	1,284,519	-
Totals	\$ 5,684,364	\$ 1,386,000	\$ 2,332,864	\$ 1,965,500

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

Interest Rate Risk (cont.)

Investment Type	Fair Value	Weighted Average Maturity (Years)
External investment pools	\$ <u>1,618,798</u>	<u>.20</u>

As of December 31, 2009, the utilities' investments were as follows:

Investment Type	Fair Value	Maturity (In Years)		
		Less than 1	1 - 3	3 or more
U.S. Agencies - Implicitly Guaranteed	\$ 2,678,848	\$ -	\$ 500,000	\$ 2,178,848
Corporate Bonds	1,035,385	-	512,750	522,635
Negotiable Certificates of Deposit	<u>3,239,224</u>	<u>838,816</u>	<u>2,152,532</u>	<u>247,876</u>
Totals	<u>\$ 6,953,457</u>	<u>\$ 838,816</u>	<u>\$ 3,165,282</u>	<u>\$ 2,949,359</u>

Investment Type	Fair Value	Weighted Average Maturity (Years)
External investment pools	\$ <u>1,841,204</u>	<u>.24</u>

The utilities' investment policy does not address this risk.

NOTE 3 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances for the years ending December 31, 2010 and 2009:

Due To	Due From	2010		2009	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water utility	\$ 259,162	Payment in lieu of taxes	\$ 228,514	Payment in lieu of taxes
Electric utility	Municipality	32,918	Operating	31,808	Operating
Municipality	Electric utility	291,922	Payment in lieu of taxes	258,797	Payment in lieu of taxes

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 3 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS (cont.)

The following is a schedule of transfer balances for the years ending December 31, 2010 and 2009:

To	From	2010		2009	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Electric utility	\$ 30,496	Operating	\$ 32,442	Operating
Municipality	Electric utility	291,922	Payment in lieu of taxes	258,797	Payment in lieu of taxes
Municipality	Water utility	6,048	Operating	5,256	Operating
Municipality	Water utility	259,162	Payment in lieu of taxes	228,514	Payment in lieu of taxes

NOTE 4 - RESTRICTED ASSETS

Restricted Accounts

Certain proceeds of the utilities' debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited. The following accounts are reported as restricted assets:

- Redemption - 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 redemption account.
- Depreciation - Used to report resources set aside to fund plant renewals and replacement or make up potential future deficiencies in the redemption account.
- Construction - Used to report debt proceeds restricted for use in construction.

Replacement Account

As a condition of receiving state and federal funds for wastewater plant construction, the utilities have established an account for replacement of certain mechanical equipment.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 4 - RESTRICTED ASSETS (cont.)

Restricted Net Assets

The following calculation supports the amount of electric restricted net assets:

	<u>2010</u>	<u>2009</u>
Restricted Assets		
Redemption account	\$ 339,705	\$ 481,077
Reserve account	1,046,094	838,094
Depreciation account	<u>25,000</u>	<u>25,000</u>
Total Restricted Assets	<u>1,410,799</u>	<u>1,344,171</u>
Current Liabilities Payable From Restricted Assets	<u>(74,641)</u>	<u>(79,328)</u>
Total Restricted Net Assets as Calculated	<u>\$ 1,336,158</u>	<u>\$ 1,264,843</u>

The following calculation supports the amount of water restricted net assets:

	<u>2010</u>	<u>2009</u>
Restricted Assets		
Redemption account	\$ 111,922	\$ 97,287
Reserve account	349,660	235,660
Depreciation account	<u>25,000</u>	<u>25,000</u>
Total Restricted Assets	<u>486,582</u>	<u>357,947</u>
Current Liabilities Payable From Restricted Assets	<u>(17,520)</u>	<u>(15,794)</u>
Total Restricted Net Assets as Calculated	<u>\$ 469,062</u>	<u>\$ 342,153</u>

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 4 - RESTRICTED ASSETS (cont.)

Restricted Net Assets (cont.)

The following calculation supports the amount of wastewater restricted net assets:

	2010	2009
Restricted Assets		
Redemption account	\$ 427,323	\$ 432,003
Depreciation account	33,283	33,283
Replacement account	1,037,836	777,779
Construction account	123	123
Total Restricted Assets	1,498,565	1,243,188
Less: Restricted Assets Not Funded by Revenues		
Construction account	(123)	(123)
Current Liabilities Payable From Restricted Assets	(22,747)	(25,766)
Total Restricted Net Assets as Calculated	\$ 1,475,695	\$ 1,217,299

NOTE 5 - CHANGES IN CAPITAL ASSETS

Electric Utility

A summary of changes in electric capital assets for 2010 follows:

	Balance 01/01/10	Increases	Decreases	Balance 12/31/10
Capital assets, not being depreciated				
Land and land rights	\$ 573,461	\$ -	\$ -	\$ 573,461
Capital assets being depreciated				
Transmission	15,019	-	-	15,019
Distribution	19,499,743	614,512	75,734	20,038,521
General	3,464,187	622,152	180,519	3,905,820
Total Capital Assets Being Depreciated	22,978,949	1,236,664	256,253	23,959,360
Total Capital Assets	23,552,410	1,236,664	256,253	24,532,821
Less: Accumulated depreciation				
Transmission	(19,366)	-	-	(19,366)
Distribution	(6,758,531)	(726,744)	90,069	(7,395,206)
General	(1,819,172)	(202,559)	180,519	(1,841,212)
Total Accumulated Depreciation	(8,597,069)	(929,303)	270,588	(9,255,784)
Construction in progress	50,405	851,018	874,741	26,682
Net Capital Assets	\$ 15,005,746			\$ 15,303,719

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

Electric Utility (cont.)

A summary of changes in electric capital assets for 2009 follows:

	Balance 01/01/09	Increases	Decreases	Balance 12/31/09
Capital assets, not being depreciated				
Land and land rights	\$ 220,797	\$ 352,664	\$ -	\$ 573,461
Capital assets being depreciated				
Transmission	15,019	-	-	15,019
Distribution	18,950,697	633,121	84,075	19,499,743
General	2,861,436	602,751	-	3,464,187
Total Capital Assets Being Depreciated	21,827,152	1,235,872	84,075	22,978,949
Total Capital Assets	22,047,949	1,588,536	84,075	23,552,410
Less: Accumulated depreciation				
Transmission	(19,366)	-	-	(19,366)
Distribution	(6,147,373)	(709,078)	97,920	(6,758,531)
General	(1,659,561)	(159,611)	-	(1,819,172)
Total Accumulated Depreciation	(7,826,300)	(868,689)	97,920	(8,597,069)
Construction in progress	347,181	1,514,812	1,811,588	50,405
Net Capital Assets	\$ 14,568,830			\$ 15,005,746

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

Water Utility

A summary of changes in water capital assets for 2010 follows:

	Balance 01/01/10	Increases	Decreases	Balance 12/31/10
Capital assets, not being depreciated				
Land and land rights	\$ 24,841	\$ -	\$ -	\$ 24,841
Capital assets being depreciated				
Source of supply	563,994	-	-	563,994
Pumping	1,506,363	19,701	-	1,526,064
Water treatment	90,763	-	-	90,763
Transmission and distribution	11,815,154	1,607,620	9,270	13,413,504
General	907,307	21,471	15,696	913,082
Total Capital Assets Being Depreciated	14,883,581	1,648,792	24,966	16,507,407
Total Capital Assets	14,908,422	1,648,792	24,966	16,532,248
Less: Accumulated depreciation				
Source of supply	(253,729)	(16,356)	-	(270,085)
Pumping	(919,032)	(59,798)	-	(978,830)
Water treatment	(79,614)	(2,981)	-	(82,595)
Transmission and distribution	(2,469,153)	(233,979)	9,270	(2,693,862)
General	(448,389)	(43,109)	15,696	(475,802)
Total Accumulated Depreciation	(4,169,917)	(356,223)	24,966	(4,501,174)
Construction in progress	240,812	1,468,382	1,663,863	45,331
Net Capital Assets	\$ 10,979,317			\$ 12,076,405

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

Water Utility (cont.)

A summary of changes in water capital assets for 2009 follows:

	Balance 01/01/09	Increases	Decreases	Balance 12/31/09
Capital assets, not being depreciated				
Land and land rights	\$ 24,841	\$ -	\$ -	\$ 24,841
Capital assets being depreciated				
Source of supply	552,160	11,834	-	563,994
Pumping	1,482,499	23,864	-	1,506,363
Water treatment	90,763	-	-	90,763
Transmission and distribution	11,472,082	349,667	6,595	11,815,154
General	688,670	218,637	-	907,307
Total Capital Assets Being Depreciated	14,286,174	604,002	6,595	14,883,581
Total Capital Assets	14,311,015	604,002	6,595	14,908,422
Less: Accumulated depreciation				
Source of supply	(237,545)	(16,184)	-	(253,729)
Pumping	(860,192)	(58,840)	-	(919,032)
Water treatment	(76,633)	(2,981)	-	(79,614)
Transmission and distribution	(2,260,922)	(214,826)	6,595	(2,469,153)
General	(389,164)	(59,225)	-	(448,389)
Total Accumulated Depreciation	(3,824,456)	(352,056)	6,595	(4,169,917)
Construction in progress	9,143	696,394	464,725	240,812
Net Capital Assets	\$ 10,495,702			\$ 10,979,317

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 5 - CHANGES IN CAPITAL ASSETS (cont.)

Wastewater Utility

A summary of changes in wastewater capital assets for 2010 follows:

	Balance 01/01/10	Increases	Decreases	Balance 12/31/10
Capital assets being depreciated				
Collecting system	\$ 7,684,151	\$ 137,958	\$ -	\$ 7,822,109
Collecting system pumping	389,554	9,993	2,135	397,412
Treatment and disposal	12,735,749	27,339	5,700	12,757,388
General	836,829	9,207	-	846,036
Total Capital Assets Being Depreciated	21,646,283	184,497	7,835	21,822,945
Less: Accumulated depreciation	(6,605,232)	(649,400)	7,835	(7,246,797)
Construction in progress	2,408	233,536	172,183	63,761
Net Capital Assets	\$ 15,043,459			\$ 14,639,909

A summary of changes in wastewater capital assets for 2009 follows:

	Balance 01/01/09	Increases	Decreases	Balance 12/31/09
Capital assets being depreciated				
Collecting system	\$ 7,264,526	\$ 421,295	\$ 1,670	\$ 7,684,151
Collecting system pumping	387,063	2,491	-	389,554
Treatment and disposal	12,582,116	153,633	-	12,735,749
General	559,216	277,613	-	836,829
Total Capital Assets Being Depreciated	20,792,921	855,032	1,670	21,646,283
Less: Accumulated depreciation	(5,970,625)	(636,277)	1,670	(6,605,232)
Construction in progress	49,149	585,331	632,072	2,408
Net Capital Assets	\$ 14,871,445			\$ 15,043,459

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 6 - LONG-TERM OBLIGATIONS

Revenue Bonds - Electric

The following bonds have been issued:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Amount</u>	<u>Outstanding Amount 12/31/10</u>
April 1, 2003	Electric system improvements	April 1, 2023	2.25 - 5.10%	\$ 4,580,000	\$ 4,180,000
September 15, 2004	Additions and improvements	April 1, 2010	2.00 - 3.50	2,090,000	-
November 15, 2006	Electric system improvements	April 1, 2023	4.00 - 4.50	2,550,000	2,450,000

Revenue bonds debt service requirements to maturity follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 350,000	\$ 291,993	\$ 641,993
2012	375,000	278,243	653,243
2013	400,000	263,368	663,368
2014	450,000	246,968	696,968
2015	450,000	227,868	677,868
2016 - 2020	2,650,000	781,556	3,431,556
2021 - 2023	1,955,000	135,665	2,090,665
Totals	<u>\$ 6,630,000</u>	<u>\$ 2,225,661</u>	<u>\$ 8,855,661</u>

All utilities' 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 2010 and 2009 were \$837,567 and \$825,624, respectively. Total gross revenues as defined for the same periods were \$14,348,970 and \$12,917,674, respectively. Annual principal and interest payments are expected to require 4.5% of gross revenues.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Revenue Bonds - Water

The following bonds have been issued:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Amount</u>	<u>Outstanding Amount 12/31/10</u>
March 25, 2003	Additions and improvements	May 1, 2013	3.50 - 4.80%	\$ 520,000	\$ 235,000
November 15, 2006	Additions and improvements	May 1, 2023	4.00 - 4.50	1,925,000	1,800,000
January 27, 2010	Additions and improvements	May 1, 2029	2.668	575,018	575,018

Revenue bonds debt service requirements to maturity follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 168,632	\$ 101,794	\$ 270,426
2012	179,263	94,742	274,005
2013	184,910	87,146	272,056
2014	150,575	80,277	230,852
2015	151,257	74,273	225,530
2016-2020	917,175	263,798	1,180,973
2021-2025	712,180	68,775	780,955
2026-2029	146,026	7,920	153,946
Totals	<u>\$ 2,610,018</u>	<u>\$ 778,725</u>	<u>\$ 3,388,743</u>

All utilities' 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 2010 and 2009 were \$211,718 and \$176,448, respectively. Total gross revenues as defined for the same periods were \$1,626,970 and \$1,455,179, respectively. Annual principal and interest payments are expected to require 16.5% of gross revenues.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Revenue Bonds - Wastewater

The following bonds have been issued:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Amount</u>	<u>Outstanding Amount 12/31/10</u>
March 9, 1994	WWTP improvements	May 1, 2013	3.224 %	\$ 5,472,357	\$ 1,162,798
December 22, 1999	Wastewater interceptor	May 1, 2019	3.049	623,465	330,810
July 12, 2000	WWTP improvements	May 1, 2020	3.049	1,116,259	643,905
September 10, 2003	WWTP improvements	May 1, 2023	2.766	1,670,624	1,193,897
June 27, 2007	WWTP improvements	May 1, 2027	2.475	1,539,762	1,464,044

Revenue bonds debt service requirements to maturity follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 611,788	\$ 127,123	\$ 738,911
2012	630,475	108,150	738,625
2013	649,737	88,589	738,326
2014	256,735	75,084	331,819
2015	263,891	67,829	331,720
2016-2020	1,391,429	223,623	1,615,052
2021-2025	785,956	68,378	854,334
2026-2027	205,443	5,116	210,559
Totals	<u>\$ 4,795,454</u>	<u>\$ 763,892</u>	<u>\$ 5,559,346</u>

All utilities' 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 2010 and 2009 were \$739,189 and \$739,427, respectively. Total gross revenues as defined for the same periods were \$2,131,492 and \$2,222,418, respectively. Annual principal and interest payments are expected to require 34% of gross revenues.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Long-Term Obligations Summary - Electric

Long-term obligation activity for the year ended December 31, 2010 is as follows:

	<u>01/01/10 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/10 Balance</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 7,160,000	\$ -	\$ 530,000	\$ 6,630,000	\$ 350,000
Accrued sick leave	158,539	24,317	19,219	163,637	-
Customer advances for construction	5,959	61,552	65,084	2,427	-
Totals	<u>\$ 7,324,498</u>	<u>\$ 85,869</u>	<u>\$ 614,303</u>	<u>\$ 6,796,064</u>	<u>\$ 350,000</u>

Long-term obligation activity for the year ended December 31, 2009 is as follows:

	<u>01/01/09 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/09 Balance</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 7,660,000	\$ -	\$ 500,000	\$ 7,160,000	\$ 530,000
Accrued sick leave	160,754	24,432	26,647	158,539	-
Customer advances for construction	14,963	32,895	41,899	5,959	-
Totals	<u>\$ 7,835,717</u>	<u>\$ 57,327</u>	<u>\$ 568,546</u>	<u>\$ 7,324,498</u>	<u>\$ 530,000</u>

Long-Term Obligations Summary - Water

Long-term obligation activity for the year ended December 31, 2010 is as follows:

	<u>01/01/10 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/10 Balance</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 2,150,000	\$ 575,018	\$ 115,000	\$ 2,610,018	\$ 168,632
Accrued sick leave	73,672	17,405	5,386	85,691	-
Totals	<u>\$ 2,223,672</u>	<u>\$ 592,423</u>	<u>\$ 120,386</u>	<u>\$ 2,695,709</u>	<u>\$ 168,632</u>

Long-term obligation activity for the year ended December 31, 2009 is as follows:

	<u>01/01/09 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/09 Balance</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 2,230,000	\$ -	\$ 80,000	\$ 2,150,000	\$ 115,000
Accrued sick leave	71,135	8,047	5,510	73,672	-
Totals	<u>\$ 2,301,135</u>	<u>\$ 8,047</u>	<u>\$ 85,510</u>	<u>\$ 2,223,672</u>	<u>\$ 115,000</u>

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Long-Term Obligations Summary - Wastewater

Long-term obligation activity for the year ended December 31, 2010 is as follows:

	01/01/10 Balance	Additions	Reductions	12/31/10 Balance	Due Within One Year
Revenue bonds	\$ 5,389,112	\$ -	\$ 593,658	\$ 4,795,454	\$ 611,788
Accrued sick leave	82,291	17,390	6,350	93,331	-
Totals	\$ 5,471,403	\$ 17,390	\$ 600,008	\$ 4,888,785	\$ 611,788

Long-term obligation activity for the year ended December 31, 2009 is as follows:

	01/01/09 Balance	Additions	Reductions	12/31/09 Balance	Due Within One Year
Revenue bonds	\$ 5,965,181	\$ -	\$ 576,069	\$ 5,389,112	\$ 593,657
Accrued sick leave	79,587	10,513	7,809	82,291	-
Totals	\$ 6,044,768	\$ 10,513	\$ 583,878	\$ 5,471,403	\$ 593,657

Bond Covenant Disclosures

The following information is provided in compliance with the resolutions creating the utilities' revenue bonds:

Insurance

The utilities are exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, workers compensation, and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded coverage in any of the last three years. There were no significant reductions in coverage compared to the prior year.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Bond Covenant Disclosures (cont.)

Insurance (cont.)

The utilities are covered under the following insurance policies at December 31, 2010:

Type	Coverage	Expiration
Automobile	\$ 10,000,000 CVMIC Self-Insured	1/1/11
Excess Liability	5,000,000 CVMIC Self-Insured	1/1/11
Workers Compensation	5,000,000 CVMIC Self-Insured	1/1/11
	1,000,000 CVMIC Self-Insured	1/1/11
Boiler Insurance	100,000,000 CVMIC Self-Insured	1/1/11
Property	42,830,334 Wisconsin Local Property Insurance Fund	2/1/11

Debt Coverage - Electric

Under terms of the resolutions providing for the issue of revenue bonds, revenues less operating expenses excluding depreciation (defined net earnings) must exceed 1.3 times the highest annual debt service of the bonds. The coverage only includes revenue debt and does not include general obligation or other debt. The coverage requirement was met in 2010 and 2009 as follows:

	2010	2009
Operating revenues	\$ 14,140,673	\$ 12,547,681
Investment income	208,297	369,993
Less: Operation and maintenance expenses	<u>(12,476,782)</u>	<u>(10,888,022)</u>
Net Defined Earnings	<u>\$ 1,872,188</u>	<u>\$ 2,029,652</u>
Minimum Required Earnings per Resolution:		
Highest annual debt service	\$ 704,728	\$ 837,927
Coverage factor	<u>1.30</u>	<u>1.30</u>
Minimum Required Earnings	<u>\$ 916,146</u>	<u>\$ 1,089,305</u>
Actual Debt Coverage	<u>2.66</u>	<u>2.42</u>

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Bond Covenant Disclosures (cont.)

Debt Coverage - Water

Under terms of the resolutions providing for the issue of revenue bonds, revenues less operating expenses excluding depreciation (defined net earnings) must exceed 1.3 times the highest annual debt service of the bonds. The coverage only includes revenue debt and does not include general obligation or other debt. The coverage requirement was met in 2010 and 2009 as follows:

	2010	2009
Operating revenues	\$ 1,558,841	\$ 1,320,413
Investment income	68,129	134,766
Less: Operation and maintenance expenses	(725,930)	(708,094)
Net Defined Earnings	\$ 901,040	\$ 747,085
Minimum Required Earnings per Resolution:		
Highest annual debt service	\$ 274,005	\$ 235,355
Coverage factor	1.30	1.30
Minimum Required Earnings	\$ 356,207	\$ 305,962
Actual Debt Coverage	3.04	3.17

Debt Coverage - Wastewater

Under terms of the resolutions providing for the issue of revenue bonds, revenues less operating expenses excluding depreciation (defined net earnings) must exceed 1.1 times the highest annual debt service of the bonds. The coverage only includes revenue debt and does not include general obligation or other debt. The coverage requirement was in 2010 and 2009 as follows:

	2010	2009
Operating revenues	\$ 2,070,720	\$ 2,198,566
Investment income	60,772	23,852
Less: Operation and maintenance expenses	(902,642)	(920,301)
Net Defined Earnings	\$ 1,228,850	\$ 1,302,117
Minimum Required Earnings per Resolution:		
Highest annual debt service	\$ 738,910	\$ 739,427
Coverage factor	1.10	1.10
Minimum Required Earnings	\$ 812,801	\$ 813,370
Actual Debt Coverage	1.66	1.76

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Bond Covenant Disclosures (cont.)

Number of Customers - Electric

The utility has the following number of customers and billed volumes for 2010 and 2009:

	Customers		Sales (000 kWh)	
	2010	2009	2010	2009
Residential	7,585	7,569	66,538	63,498
General	774	771	24,349	17,254
Small power	50	50	14,071	13,215
Large power	9	9	9,663	9,894
Industrial	7	7	28,994	24,379
Street and highway lighting	6	6	935	1,012
Totals	<u>8,431</u>	<u>8,412</u>	<u>144,550</u>	<u>129,252</u>

Number of Customers - Water

The utility has the following number of customers and billed volumes for 2010 and 2009:

	Customers		Sales (000 gals)	
	2010	2009	2010	2009
Residential	4,370	4,373	219,210	225,614
Commercial	424	405	78,293	80,243
Industrial	21	21	148,088	111,817
Public authority	36	35	5,740	7,152
Interdepartmental	2	2	45	41
Totals	<u>4,851</u>	<u>4,836</u>	<u>451,376</u>	<u>424,867</u>

Number of Customers - Wastewater

The utility has the following number of customers and billed volumes for 2010 and 2009:

	Customers		Sales (000 gals)	
	2010	2009	2010	2009
Residential	4,365	4,344	219,059	225,276
Commercial	388	380	77,612	78,758
Industrial	17	17	25,046	47,391
Public authority	24	24	3,709	5,389
Interdepartmental	2	2	45	41
Totals	<u>4,794</u>	<u>4,767</u>	<u>325,471</u>	<u>356,855</u>

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 6 - LONG-TERM OBLIGATIONS (cont.)

Bond Covenant Disclosures (cont.)

Utilities Budget

The 2010 and 2009 utilities' budgets were prepared and approved as required by the bond resolutions.

NOTE 7 - NET ASSETS

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

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted - This component of net assets consists of constraints placed on net assets either 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 - The component of net asset consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

When both restricted and unrestricted resources are available for use, it is the utilities' policy to use restricted resources first, then unrestricted resources as they are needed.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 7 - NET ASSETS (cont.)

The following calculation supports the electric net assets invested in capital assets, net of related debt:

	2010	2009
Plant in service	\$ 24,180,157	\$ 23,552,410
Accumulated depreciation	(9,255,784)	(8,597,069)
Construction work in progress	26,682	50,405
Sub-Totals	14,951,055	15,005,746
Less: Capital related debt		
Current portion of capital related long-term debt	350,000	530,000
Long-term portion of capital related long-term debt	6,280,000	6,630,000
Unamortized debt issuance costs	-	(5,834)
Sub-Totals	6,630,000	7,154,166
Total Net Assets Invested in Capital Assets, Net of Related Debt	\$ 8,321,055	\$ 7,851,580

The following calculation supports the water net assets invested in capital assets, net of related debt:

	2010	2009
Plant in service	\$ 16,532,248	\$ 14,908,422
Accumulated depreciation	(4,501,174)	(4,169,917)
Construction work in progress	45,331	240,812
Sub-Totals	12,076,405	10,979,317
Less: Capital related debt		
Current portion of capital related long-term debt	168,632	115,000
Long-term portion of capital related long-term debt	2,441,386	2,035,000
Unamortized debt issuance costs	-	-
Sub-Totals	2,610,018	2,150,000
Total Net Assets Invested in Capital Assets, Net of Related Debt	\$ 9,466,387	\$ 8,829,317

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 7 - NET ASSETS (cont.)

The following calculation supports the wastewater net assets invested in capital assets, net of related debt:

	2010	2009
Plant in service	\$ 21,822,945	\$ 21,646,283
Accumulated depreciation	(7,246,797)	(6,605,232)
Construction work in progress	63,761	2,408
Sub-Totals	14,639,909	15,043,459
Less: Capital related debt		
Current portion of capital related long-term debt	611,788	593,657
Long-term portion of capital related long-term debt	4,183,666	4,795,455
Sub-Totals	4,795,454	5,389,112
Add: Unspent debt proceeds		
Construction funds	123	123
Total Net Assets Invested in Capital Assets, Net of Related Debt	\$ 9,844,578	\$ 9,654,470

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM

All eligible employees of the utilities participate in the Wisconsin Retirement System (System), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). All permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees in the General category were required by statute to contribute 6.1% and 5.8% of their salary to the plan in 2010 and 2009, respectively. Employers generally make these contributions to the plan on behalf of employees. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits. Covered payroll listed below is substantially the same as total payroll.

Electric

	Year Ended December 31		
	2010	2009	2008
Total Covered Employee Payroll	\$ 846,254	\$ 815,578	\$ 779,144
Total Required Contributions	\$ 103,243	\$ 94,607	\$ 91,939
Total Required Contributions	12.2%	11.6%	11.8%

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 8 - EMPLOYEES RETIREMENT SYSTEM (cont.)

Water

	Year Ended December 31		
	2010	2009	2008
Total Covered Employee Payroll	<u>\$ 252,779</u>	<u>\$ 244,957</u>	<u>\$ 262,521</u>
Total Required Contributions	<u>\$ 30,839</u>	<u>\$ 28,415</u>	<u>\$ 30,977</u>
Total Required Contributions	<u>12.2%</u>	<u>11.6%</u>	<u>11.8%</u>

Wastewater

	Year Ended December 31		
	2010	2009	2008
Total Covered Employee Payroll	<u>\$ 323,422</u>	<u>\$ 339,224</u>	<u>\$ 310,839</u>
Total Required Contributions	<u>\$ 39,458</u>	<u>\$ 39,350</u>	<u>\$ 36,679</u>
Total Required Contributions	<u>12.2%</u>	<u>11.6%</u>	<u>11.8%</u>

Details of the plan are disclosed in the basic financial statements of the City of Stoughton.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Long-Term Contracts - WPPI Energy

The electric utility is one of 51 WPPI Energy member municipalities located throughout the States of Wisconsin, Iowa and Michigan. On December 1, 1989, each initial WPPI Energy member commenced purchasing electric service from WPPI Energy under a long-term Power Supply Contract for Participating Members (long-term contract). Under the long-term contract, WPPI Energy is obligated to provide and sell, and each member is obligated to take and pay for, the electric power and energy required for the operation of each member's electric utility.

The long-term contract requires all WPPI Energy members to pay for power and energy requirements supplied or made available by WPPI Energy at rates sufficient to cover WPPI Energy's revenue requirement including power supply costs, administrative expenses and debt service. WPPI Energy's subsequent year's operating budget and rates are approved annually by its Board of Directors, consisting of representatives from each member. The members have agreed to charge rates to retail customers sufficient to meet their WPPI Energy obligations. The long-term contract provides that all payments to WPPI Energy constitute operating expenses of the utility payable from any operating and maintenance fund established for that system.

In 2002, all WPPI Energy members ratified a thirteen year extension to their original thirty-five year contracts. The new contract expires at midnight on December 31, 2037.

WPPI Energy's outstanding debt service obligation to be paid by its members through their wholesale power charges through the remainder of the long-term contract is \$414 million as of December 31, 2010.

Claims and Judgments

From time to time, the utilities are 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 utilities' legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the utilities' financial position or results of operations.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS December 31, 2010 and 2009

NOTE 10 - RISK MANAGEMENT

Wisconsin Municipal Insurance Commission (WMIC) Cities and Villages Mutual Insurance Company (CVMIC)

The WMIC is an intergovernmental cooperation commission created by contract under Section 66.30 of the Wisconsin Statutes. It was created in August, 1987 for the purpose of facilitating the organization, establishment and capitalization of the CVMIC, and has numerous municipalities as members.

The CVMIC is a municipal mutual insurance company established on September 19, 1987 under Section 611.23 of the Wisconsin Statutes. The CVMIC provides liability insurance coverage to the municipalities which make up the membership of the WMIC.

The CVMIC is self-insured up to a maximum of \$2,000,000 of each insurance risk. Losses paid by CVMIC plus administrative expenses will be recovered through premiums to the participating pool of municipalities. The municipality's share of such losses is less than 1%.

Management of each organization consists of a board of directors or officers comprised of representatives elected by each of three classes of participants based on population. The municipality does not exercise any control over the activities of the agencies beyond the election of the officers and board.

Financial statements of WMIC and CVMIC are available directly from: Cities and Village Mutual Insurance Company, 1250 South Sunnyslope Road, Suite 105, Brookfield, WI 53005.

NOTE 11 - SELF INSURANCE

The utilities are part of the municipality's self-funded health insurance program with claims processed by an administrative firm on behalf of the municipality. A separate fund has been established into which deposits are made and actual claims are paid out. As part of the plan, a reinsurance policy has been purchased which covers claims in excess of \$45,000 per individual up to a maximum of \$1,000,000. Deposits to the self-insured fund in excess of the claims and other costs paid are retained by the municipality. The utilities' total contributions to the program during the years 2010 and 2009 were \$283,197 and \$230,646, respectively. Details of the plan can be found in the basic financial statements of the City of Stoughton.

NOTE 12 – RESTATEMENT OF NET ASSETS

The 2009 statements have been restated to adjust the allocation of electric service charges for the Wastewater Treatment Plant.

	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>
Net Assets – December 31, 2009 (as reported)	\$14,922,673	\$10,147,893	\$12,814,230
Adjustment to 2009 operating expenses	\$ 39,065	\$ 19,533	(\$ 58,598)
Net Assets – December 31, 2009 (as restated)	\$14,961,738	\$10,167,426	\$12,755,632
Net Income Increase (Decrease)	\$ 39,065	\$ 19,533	(\$ 58,598)

SUPPLEMENTAL INFORMATION

ELECTRIC UTILITY

STOUGHTON ELECTRIC UTILITY

ELECTRIC UTILITY PLANT December 31, 2010

	Balance 1/1/2010	Additions	Retirements	Balance 12/31/2010
TRANSMISSION				
Land and land rights	\$ 1	\$ -	\$ -	\$ 1
Poles and fixtures	5,035	-	-	5,035
Overhead conductors and devices	9,984	-	-	9,984
Total Transmission	15,020	-	-	15,020
DISTRIBUTION				
Land and land rights	220,796	-	-	220,796
Structures and improvements	44,389	-	-	44,389
Station equipment	3,939,723	78,628	-	4,018,351
Poles, towers and fixtures	2,794,282	58,004	21,108	2,831,178
Overhead conductors and devices	4,652,046	234,363	28,621	4,857,788
Underground conduit	284,159	29,473	-	313,632
Underground conductors and devices	2,400,371	75,666	4,875	2,471,162
Line transformers	2,715,896	71,243	7,774	2,779,365
Services	1,549,461	39,285	5,149	1,583,597
Meters	611,842	15,121	57	626,906
Street lighting and signal systems	507,574	12,729	8,150	512,153
Total Distribution	19,720,539	614,512	75,734	20,259,317
GENERAL				
Structures and improvements	1,551,260	84,689	-	1,635,949
Office furniture and equipment	175,860	11,605	-	187,465
Computer equipment	173,274	-	-	173,274
Transportation equipment	274,768	15,414	49,184	240,998
Stores equipment	9,984	-	-	9,984
Tools, shop and garage equipment	64,576	-	-	64,576
Laboratory equipment	50,236	-	-	50,236
Power-operated equipment	826,506	505,454	131,335	1,200,625
Communication equipment	58,270	-	-	58,270
SCADA equipment	279,453	-	-	279,453
Miscellaneous equipment	-	4,990	-	4,990
Total General	3,464,187	622,152	180,519	3,905,820
TOTAL ELECTRIC UTILITY PLANT	\$ 23,199,746	\$ 1,236,664	\$ 256,253	\$ 24,180,157

STOUGHTON ELECTRIC UTILITY

ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES Years Ended December 31, 2010 and 2009

	2010	Restated 2009
OPERATING REVENUES		
Sales of Electricity		
Residential	\$ 4,915,645	\$ 4,420,205
Rural	2,721,581	2,456,175
General service	1,404,524	1,312,746
Large commercial and industrial	1,248,510	1,070,508
Large power	944,496	864,748
Industrial	2,554,604	2,100,050
Public street and highway lighting	131,157	129,151
Interdepartmental	91,952	66,630
Total Sales of Electricity	<u>14,012,469</u>	<u>12,420,213</u>
Other Operating Revenues		
Forfeited discounts	43,067	42,411
Other	85,137	85,057
Total Operating Revenues	<u>14,140,673</u>	<u>12,547,681</u>
OPERATING EXPENSES		
Operation and Maintenance		
Other Power Supply		
Purchased power	<u>10,952,336</u>	<u>9,377,438</u>
Transmission		
Operating supervision and engineering	7,250	5,940
Station	1,664	22,663
Overhead lines	79,318	69,121
Underground lines	39,282	36,770
Total Transmission	<u>127,514</u>	<u>134,494</u>
Distribution		
Street lighting and signal system	19,660	5,605
Meter	14,076	17,335
Customer installations	24,313	383
Miscellaneous	6,602	23,292
Maintenance		
Structures	-	-
Station equipment	58,175	37,047
Overhead lines	239,230	224,802
Underground lines	23,731	11,490
Line transformers	1,603	1,790
Street lighting and signal system	3,461	2,393
Meters	726	424
Miscellaneous	-	-
Total Distribution	<u>391,577</u>	<u>324,561</u>
Customer Accounts		
Meter reading	5,738	4,783
Accounting and collecting labor	186,828	170,063
Miscellaneous	13,790	4,976
Total Water Treatment	<u>206,356</u>	<u>179,822</u>

STOUGHTON ELECTRIC UTILITY

ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES Years Ended December 31, 2010 and 2009

	2010	Restated 2009
OPERATING EXPENSES (cont'd)		
Operation and Maintenance (cont'd)		
Administrative and General		
Salaries	\$ 224,263	\$ 263,215
Office supplies	35,303	22,802
Outside services employed	53,692	35,385
Property insurance	9,059	19,642
Injuries and damages	25,597	27,842
Employee pensions and benefits	193,240	255,968
Regulatory commission	7,262	-
Miscellaneous	10,701	14,611
Rents	10,673	10,964
Maintenance	77,509	72,145
Total Administrative and General	647,299	722,574
Taxes	151,700	149,133
Total Operation and Maintenance	12,476,782	10,888,022
Depreciation	865,950	792,269
Total Operating Expenses	13,342,732	11,680,291
OPERATING INCOME	\$ 797,941	\$ 867,390

STOUGHTON ELECTRIC UTILITY

RATE OF RETURN - REGULATORY BASIS December 31, 2010 and 2009

	2010	2009
Utility Plant in Service		
Beginning of year	\$ 20,901,724	\$ 19,780,415
End of year	21,454,011	20,901,724
Average	21,177,868	20,341,070
Accumulated Depreciation		
Beginning of year	(8,075,447)	(7,390,573)
End of year	(8,792,818)	(8,075,447)
Average	(8,434,133)	(7,733,010)
Materials and Supplies		
Beginning of year	131,388	139,767
End of year	124,597	131,388
Average	127,993	135,578
Regulatory Liability		
Beginning of year	(310,244)	(332,404)
End of year	(288,084)	(310,244)
Average	(299,164)	(321,324)
Customer Advances for Construction		
Beginning of year	(5,959)	(14,963)
End of year	(2,427)	(5,959)
Average	(4,193)	(10,461)
AVERAGE NET RATE BASE	\$ 12,568,371	\$ 12,411,853
OPERATING INCOME - REGULATORY BASIS	\$ 603,164	\$ 694,491
RATE OF RETURN (PERCENT)	4.80	5.60

This schedule is computed based on Public Service Commission of Wisconsin regulatory accounting which differs from accounting principles generally accepted in the United States of America due to GASB No. 34 as well as PSC order 05-US-105, which was effective January 1, 2003 as amended September 8, 2004.

WATER UTILITY

STOUGHTON WATER UTILITY

WATER UTILITY PLANT December 31, 2010

	Balance 1/1/2010	Additions	Retirements	Balance 12/31/2010
SOURCE OF SUPPLY				
Land and land rights	\$ 11,635	\$ -	\$ -	\$ 11,635
Wells and springs	563,994	-	-	563,994
Total Source of Supply	<u>575,629</u>	<u>-</u>	<u>-</u>	<u>575,629</u>
PUMPING				
Structures and improvements	576,342	-	-	576,342
Other power production equipment	246,036	-	-	246,036
Electric pumping equipment	565,195	19,701	-	584,896
Other pumping equipment	118,789	-	-	118,789
Total Pumping	<u>1,506,362</u>	<u>19,701</u>	<u>-</u>	<u>1,526,063</u>
WATER TREATMENT				
Structures and improvements	13,671	-	-	13,671
Water treatment equipment	77,092	-	-	77,092
Total Water Treatment	<u>90,763</u>	<u>-</u>	<u>-</u>	<u>90,763</u>
TRANSMISSION AND DISTRIBUTION				
Land and land rights	13,206	-	-	13,206
Structures and improvements	1,611	-	-	1,611
Distribution reservoirs and standpipes	579,803	1,339,450	-	1,919,253
Transmission and distribution mains	7,836,229	221,557	7,040	8,050,746
Services	1,798,681	5,983	1,130	1,803,534
Meters	573,091	11,507	-	584,598
Hydrants	1,024,767	29,123	1,100	1,052,790
Other transmission and distribution plant	973	-	-	973
Total Transmission and Distribution	<u>11,828,361</u>	<u>1,607,620</u>	<u>9,270</u>	<u>13,426,711</u>
GENERAL				
Land and land rights	405,290	-	-	405,290
Office furniture and equipment	51,400	3,349	-	54,749
Computer equipment	75,320	-	-	75,320
Transportation equipment	41,296	18,122	15,696	43,722
Stores equipment	2,187	-	-	2,187
Tools, shop and garage equipment	35,109	-	-	35,109
Power-operated equipment	102,034	-	-	102,034
Communication equipment	35,668	-	-	35,668
SCADA equipment	158,914	-	-	158,914
Miscellaneous equipment	89	-	-	89
Total General	<u>907,307</u>	<u>21,471</u>	<u>15,696</u>	<u>913,082</u>
TOTAL WATER UTILITY PLANT	<u>\$ 14,908,422</u>	<u>\$ 1,648,792</u>	<u>\$ 24,966</u>	<u>\$ 16,532,248</u>

STOUGHTON WATER UTILITY

WATER UTILITY OPERATING REVENUES AND EXPENSES Years Ended December 31, 2010 and 2009

	2010	Restated 2009
OPERATING REVENUES		
Sales of Water		
Metered		
Residential	\$ 756,725	\$ 650,463
Commercial	178,173	152,417
Industrial	199,210	126,679
Public authorities	15,828	15,857
Interdepartmental	318	270
Total Metered Sales	1,150,254	945,686
Private fire protection	20,999	19,394
Public fire protection	364,006	333,370
Total Sales of Water	1,535,259	1,298,450
Other Operating Revenues		
Forfeited discounts	4,607	4,380
Other	18,975	17,583
Total Operating Revenues	1,558,841	1,320,413
 OPERATING EXPENSES		
Operation and Maintenance		
Source of Supply		
Operation labor	407	626
Maintenance		
Wells and springs	833	4,529
Total Source of Supply	1,240	5,155
Pumping		
Fuel or purchased power for pumping	105,529	92,658
Pumping labor	1,332	2,045
Miscellaneous	18,419	8,390
Maintenance		
Structures and improvements	681	-
Pumping equipment	15,125	13,056
Total Pumping	141,086	116,149
Water Treatment		
Chemicals	14,676	11,382
Operation labor	5,355	1,835
Miscellaneous	336	461
Maintenance		
Structures and improvements	1,550	1,450
Water treatment equipment	4,558	3,315
Total Water Treatment	26,475	18,443

STOUGHTON WATER UTILITY

WATER UTILITY OPERATING REVENUES AND EXPENSES Years Ended December 31, 2010 and 2009

OPERATING EXPENSES (cont'd)	2010	Restated 2009
Operation and Maintenance (cont'd)		
Transmission and Distribution		
Transmission and distribution lines	\$ 3,252	\$ 4,326
Meters	7,811	6,140
Miscellaneous	19,884	25,678
Maintenance		
Reservoirs and standpipes	45,089	8,354
Mains	50,903	81,829
Services	28,028	29,152
Meters	4,961	593
Hydrants	17,244	21,441
Miscellaneous	1,695	3,758
Total Transmission and Distribution	178,867	181,271
Customer Accounts		
Meter reading	3,697	2,110
Accounting and collecting labor	63,943	48,496
Total Customer Accounts	67,640	50,606
Administrative and General		
Salaries	155,042	154,782
Office supplies	11,657	7,251
Outside services employed	4,189	29,389
Property insurance	3,295	6,992
Injuries and damages	10,718	10,316
Employee pensions and benefits	102,052	97,372
Regulatory commission	-	8,631
Miscellaneous	4,234	1,864
Rents	3,881	3,986
Maintenance	-	2,020
Total Administrative and General	295,068	322,603
Taxes	15,554	13,867
Total Operation and Maintenance	725,930	708,094
Depreciation	327,160	321,225
Total Operating Expenses	1,053,090	1,029,319
OPERATING INCOME	\$ 505,751	\$ 291,094

STOUGHTON WATER UTILITY

RATE OF RETURN - REGULATORY BASIS December 31, 2010 and 2009

	2010	2009
Utility Plant in Service		
Beginning of year	\$ 9,502,316	\$ 8,905,070
End of year	10,512,396	9,502,316
Average	10,007,356	9,203,693
Accumulated Depreciation		
Beginning of year	(2,902,806)	(3,330,497)
End of year	(3,188,937)	(2,902,806)
Average	(3,045,872)	(3,116,652)
Materials and Supplies		
Beginning of year	33,175	35,943
End of year	27,101	33,175
Average	30,138	34,559
Regulatory Liability		
Beginning of year	(479,196)	(513,424)
End of year	(444,968)	(479,196)
Average	(462,082)	(496,310)
AVERAGE NET RATE BASE	\$ 6,529,540	\$ 5,625,290
OPERATING INCOME - REGULATORY BASIS	\$ 342,394	\$ 151,167
RATE OF RETURN (PERCENT)	5.24	2.69

This schedule is computed based on Public Service Commission of Wisconsin regulatory accounting which differs from accounting principles generally accepted in the United States of America due to GASB No. 34 as well as PSC order 05-US-105, which was effective January 1, 2003 as amended September 8, 2004.

WASTEWATER UTILITY

STOUGHTON WASTEWATER UTILITY

WASTEWATER UTILITY PLANT December 31, 2010

	Balance 1/1/2010	Additions	Retirements	Balance 12/31/2010
COLLECTING SYSTEM				
Land and land rights	\$ 100	\$ -	\$ -	\$ 100
Collecting mains	5,831,890	137,958	-	5,969,848
Interceptor mains	1,803,210	-	-	1,803,210
Force mains	48,951	-	-	48,951
Total Collecting System	7,684,151	137,958	-	7,822,109
COLLECTING SYSTEM PUMPING				
Structures and improvements	67,382	-	-	67,382
Electric pumping equipment	300,773	9,993	2,135	308,631
Other pumping equipment	21,399	-	-	21,399
Total Collecting System Pumping	389,554	9,993	2,135	397,412
TREATMENT AND DISPOSAL				
Structures and improvements	3,249,743	-	-	3,249,743
Preliminary treatment equipment	1,255,681	9,190	5,700	1,259,171
Primary treatment equipment	1,134,958	12,207	-	1,147,165
Secondary treatment equipment	529,291	-	-	529,291
Advanced treatment equipment	1,924,551	5,942	-	1,930,493
Chlorination equipment	366,162	-	-	366,162
Sludge treatment and disposal equipment	3,530,109	-	-	3,530,109
Plant site pumping	685,498	-	-	685,498
Flow metering and monitoring equipment	25,166	-	-	25,166
Other treatment and disposal equipment	34,590	-	-	34,590
Total Treatment and Disposal	12,735,749	27,339	5,700	12,757,388
GENERAL				
Structures and improvements	232,233	-	-	232,233
Office furniture and equipment	49,947	5,268	-	55,215
Computer equipment	110,021	-	-	110,021
Transportation equipment	404,517	-	-	404,517
Communication equipment	14,442	-	-	14,442
Other general equipment	25,669	3,939	-	29,608
Total General	836,829	9,207	-	846,036
TOTAL WASTEWATER UTILITY PLANT	\$ 21,646,283	\$ 184,497	\$ 7,835	\$ 21,822,945

STOUGHTON WASTEWATER UTILITY

WASTEWATER UTILITY OPERATING REVENUES AND EXPENSES

Years Ended December 31, 2010 and 2009

	2010	Restated 2009
OPERATING REVENUES		
Wastewater Revenues		
Residential	\$ 1,415,649	\$ 1,446,074
Commercial	428,949	432,263
Industrial	127,345	201,249
Public authorities	22,287	30,517
Interdepartmental	439	389
Total Wastewater Revenues	1,994,669	2,110,492
Other Operating Revenues		
Forfeited discounts	6,491	8,979
Miscellaneous	69,560	79,095
Total Operating Revenues	2,070,720	2,198,566
OPERATING EXPENSES		
Operation and Maintenance		
Operation		
Supervision and labor	1,205	1,282
Power and fuel for pumping	92,294	83,115
Sludge conditioning chemicals	12,686	12,686
Other operating supplies	23,946	38,336
Transportation	-	-
Total Operation	130,131	135,419
Maintenance		
Collection system	83,331	91,400
Treatment and disposal plant equipment	116,797	116,952
General plant structures and equipment	68,753	57,032
Total Maintenance	268,881	265,384
Customer Accounts		
Accounting and collecting	135,558	130,857
Administrative and General		
Salaries	74,617	79,589
Office supplies	15,561	9,800
Outside services employed	32,593	56,476
Insurance	14,777	20,095
Employee pensions and benefits	128,865	126,921
Miscellaneous	18,140	10,669
Rents	58,293	59,842
Total Administrative and General	342,846	363,392
Taxes	25,226	25,249
Total Operation and Maintenance	902,642	920,301
Depreciation	649,400	636,277
Total Operating Expenses	1,552,042	1,556,578
OPERATING INCOME	\$ 518,678	\$ 641,988