

STOUGHTON UTILITIES

Enterprise Funds of the
City of Stoughton, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2017 and 2016

STOUGHTON UTILITIES

Enterprise Funds of the City of Stoughton, Wisconsin

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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 financial statements of Stoughton Utilities, enterprise funds of the City of Stoughton, Wisconsin, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Stoughton Utilities enterprise funds and do not purport to, and do not, present fairly the financial position of the City of Stoughton, Wisconsin, as of December 31, 2017 and 2016 and the respective changes in financial position, or cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 9, 2018

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

STOUGHTON UTILITIES

STOUGHTON UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016

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, 2017, 2016 and 2015. You are invited to read this narrative in conjunction with the utilities' financial statements.

FINANCIAL HIGHLIGHTS

ELECTRIC:

- > Electric sales increased by .84% in 2017 due to a 1.71% increase in electric rates effective April 1, 2017 and offset by a 1.31% decrease in electric consumption.
- > The electric division's net position increased by \$666,900 from the prior year.
- > Completed \$1.1 million of capital improvements to accommodate developments and improve operations and electric system reliability.

WATER:

- > Completed \$859,000 of capital improvements and received \$222,000 in customer contributions.
- > The water division's net position increased by \$357,600 from the prior year.
- > Sales increased by \$75,900 or 3.88% in 2017 due to a 13% increase in retail rates effective May 1, 2016 and offset by a 1.61% decrease in water consumption.

WASTEWATER:

- > Completed \$473,000 of sewer projects and received \$215,000 in municipal and customer contributions.
- > The utility experienced a slight increase in operating revenues of \$15,300 or .75% in 2017 mainly due to an increase in industrial surcharge revenue.
- > The wastewater division's net position increased by \$350,100 from the prior year.

STOUGHTON UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016

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 provides electric service to the following Townships: Dunkirk, Dunn, Pleasant Springs, Porter and Rutland.

The water and electric utilities are managed by a Utilities 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 Utilities Committee also manages the wastewater utility. The Utilities Committee and the Common Council establish 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 Position, and the Statement of Revenues, Expenses and Changes in Net Position. These two statements report the utilities' net position and changes therein. The utilities' net position – 'the difference between assets and liabilities' is key to measuring the financial health of the utilities. Over time, increases or decreases in the net position value are an indicator of whether the overall 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 Position 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 Position is presented below in Tables 1 through 3.

STOUGHTON UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

Table 1
Condensed Statement of Net Position – Electric Utility

	2017	2016	2015	2017-2016 Change
Current and Other Assets	\$ 11,697,166	\$ 13,309,505	\$ 10,989,389	\$ (1,612,339)
Capital Assets	16,249,631	14,402,176	14,249,247	1,847,455
Total Assets	<u>27,946,797</u>	<u>27,711,681</u>	<u>25,238,636</u>	<u>235,116</u>
Deferred Outflows of Resources	<u>405,146</u>	<u>575,914</u>	<u>158,933</u>	<u>(170,768)</u>
Long-Term Debt Outstanding	5,640,000	6,250,000	4,460,000	(610,000)
Other Liabilities	2,334,375	2,275,608	2,223,030	58,767
Total Liabilities	<u>7,974,375</u>	<u>8,525,608</u>	<u>6,683,030</u>	<u>(551,233)</u>
Deferred Inflows of Resources	<u>169,885</u>	<u>221,246</u>	<u>1,063</u>	<u>(51,361)</u>
Investment in Capital Assets	10,853,462	9,860,679	9,740,384	992,783
Restricted	1,145,536	1,090,228	1,198,784	55,308
Unrestricted	8,208,685	8,589,834	7,774,308	(381,149)
Total Net Position	<u>\$ 20,207,683</u>	<u>\$ 19,540,741</u>	<u>\$ 18,713,476</u>	<u>\$ 666,942</u>

In 2017, the electric utility net position increased \$666,900, an increase of 3.41%. The increase was as anticipated and in line with the 2017 operating and capital budgets.

In 2016, the electric utility net position increased \$827,265, an increase of 4.42%.

STOUGHTON UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

Table 2
Condensed Statement of Net Position – Water Utility

	2017	2016	2015	2017-2016 Change
Current and Other Assets	\$ 1,884,231	\$ 2,416,880	\$ 1,610,745	\$ (532,649)
Capital Assets	15,849,145	15,281,587	13,898,850	567,558
Total Assets	<u>17,733,376</u>	<u>17,698,467</u>	<u>15,509,595</u>	<u>34,909</u>
Deferred Outflows of Resources	<u>136,127</u>	<u>206,806</u>	<u>57,424</u>	<u>(70,679)</u>
Long-Term Debt Outstanding	3,043,747	3,417,424	2,297,381	(373,677)
Other Liabilities	657,507	656,534	560,512	973
Total Liabilities	<u>3,701,254</u>	<u>4,073,958</u>	<u>2,857,893</u>	<u>(372,704)</u>
Deferred Inflows of Resources	<u>57,271</u>	<u>77,947</u>	<u>390</u>	<u>(20,676)</u>
Investment in Capital Assets	12,776,352	12,041,652	11,601,469	734,700
Restricted	524,459	528,997	442,722	(4,538)
Unrestricted	<u>810,167</u>	<u>1,182,719</u>	<u>664,545</u>	<u>(372,552)</u>
Total Net Position	<u>\$ 14,110,978</u>	<u>\$ 13,753,368</u>	<u>\$ 12,708,736</u>	<u>\$ 357,610</u>

In 2017, the water utility net position increased \$357,600, an increase of 2.60%. The increase was mainly due to capital improvements, the implementation of a 13% retail rate adjustment effective May 1, 2016 and the pay down of long-term debt.

In 2016, the water utility net position increased \$1,044,632, an increase of 8.22%. The increase was mainly due to capital improvements that were financed by customers or developers and the implementation of a 13% retail rate adjustment effective May 1, 2016.

STOUGHTON UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

Table 3
Condensed Statements of Net Position – Wastewater Utility

	2017	2016	2015	2017-2016 Change
Current and Other Assets	\$ 3,548,449	\$ 3,523,717	\$ 3,551,473	\$ 24,732
Capital Assets	18,596,768	18,723,878	18,211,980	(127,110)
Total Assets	<u>22,145,217</u>	<u>22,247,595</u>	<u>21,763,453</u>	<u>(102,378)</u>
Deferred Outflows of Resources	<u>151,361</u>	<u>227,166</u>	<u>62,601</u>	<u>(75,805)</u>
Long-Term Debt Outstanding	5,026,967	5,474,363	5,908,753	(447,396)
Other Liabilities	219,175	277,920	202,878	(58,745)
Total Liabilities	<u>5,246,142</u>	<u>5,752,283</u>	<u>6,111,631</u>	<u>(506,141)</u>
Deferred Inflows of Resources	<u>65,246</u>	<u>87,394</u>	<u>418</u>	<u>(22,148)</u>
Investment in Capital Assets	13,569,801	13,249,638	12,303,350	320,163
Restricted	1,480,251	1,472,409	1,494,868	7,842
Unrestricted	<u>1,935,138</u>	<u>1,913,037</u>	<u>1,915,787</u>	<u>22,101</u>
Total Net Position	<u>\$16,985,190</u>	<u>\$ 16,635,084</u>	<u>\$ 15,714,005</u>	<u>\$ 350,106</u>

In 2017, the wastewater utility net position increased \$350,100, an increase of 2.10 %. The increase was mainly due to the pay down of long-term debt.

In 2016, the wastewater utility net position increased \$921,100, an increase of 5.86%. The increase was mainly due to capital improvements that were financed by customers or developers.

The restricted portion of net position 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 Position as shown in Tables 4 through 6.

STOUGHTON UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

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

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

	2017	2016	2015	2017-2016 Change
Operating Revenues	\$ 15,249,623	\$ 15,116,204	\$ 15,057,028	\$ 133,419
Non-Operating Revenues	119,431	103,266	113,721	16,165
Total Revenues	<u>15,369,054</u>	<u>15,219,470</u>	<u>15,170,749</u>	<u>149,584</u>
Depreciation Expense	1,019,024	996,954	965,661	22,070
Other Operating Expense	13,257,421	13,329,607	13,261,410	(72,186)
Non-Operating Expenses	138,490	262,172	149,159	(123,682)
Total Expenses	<u>14,414,935</u>	<u>14,588,733</u>	<u>14,376,230</u>	<u>(173,798)</u>
Income Before Capital Contributions and Transfers	954,119	630,737	794,519	323,382
Capital Contributions	120,147	324,625	220,414	(204,478)
Capital Contribution - Municipal	-	269,901	-	(269,901)
Transfers - Tax Equivalent	(394,626)	(376,785)	(370,260)	(17,841)
Transfers	<u>(12,698)</u>	<u>(21,213)</u>	<u>(23,455)</u>	<u>8,515</u>
Changes in Net Position	666,942	827,265	621,218	(160,323)
Beginning Net Position	<u>19,540,741</u>	<u>18,713,476</u>	<u>17,791,591</u>	<u>827,265</u>
Cumulative Effect of Change in Accounting Principle	<u>-</u>	<u>-</u>	<u>300,667</u>	<u>-</u>
Total Net Position - Ending	<u>\$ 20,207,683</u>	<u>\$ 19,540,741</u>	<u>\$ 18,713,476</u>	<u>\$ 666,942</u>

STOUGHTON UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

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

	2017	2016	2015	2017-2016 Change
Operating Revenues	\$ 2,071,229	\$ 2,001,124	\$ 1,784,416	\$ 70,105
Non-Operating Revenues	28,800	27,981	8,608	819
Total Revenues	<u>2,100,029</u>	<u>2,029,105</u>	<u>1,793,024</u>	<u>70,924</u>
Depreciation Expense	444,601	428,084	408,632	16,517
Other Operating Expense	1,049,770	1,012,205	885,770	37,565
Non-Operating Expenses	60,136	126,093	87,136	(65,957)
Total Expenses	<u>1,554,507</u>	<u>1,566,382</u>	<u>1,381,538</u>	<u>(11,875)</u>
Income Before Capital Contributions and Transfers	545,522	462,723	411,486	82,799
Capital Contributions	236,136	756,373	501,276	(520,237)
Capital Contribution - Municipal	-	215,803	498,076	(215,803)
Transfers - Tax Equivalent	(420,305)	(387,855)	(363,249)	(32,450)
Transfers	<u>(3,743)</u>	<u>(2,412)</u>	<u>(59)</u>	<u>(1,331)</u>
Changes in Net Position	357,610	1,044,632	1,047,530	(687,022)
Beginning Net Position	<u>13,753,368</u>	<u>12,708,736</u>	<u>11,550,727</u>	<u>1,044,632</u>
Cumulative Effect of Change in Accounting Principle	<u>-</u>	<u>-</u>	<u>110,479</u>	<u>-</u>
Total Net Position - Ending	<u>\$ 14,110,978</u>	<u>\$ 13,753,368</u>	<u>\$ 12,708,736</u>	<u>\$ 357,610</u>

STOUGHTON UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

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

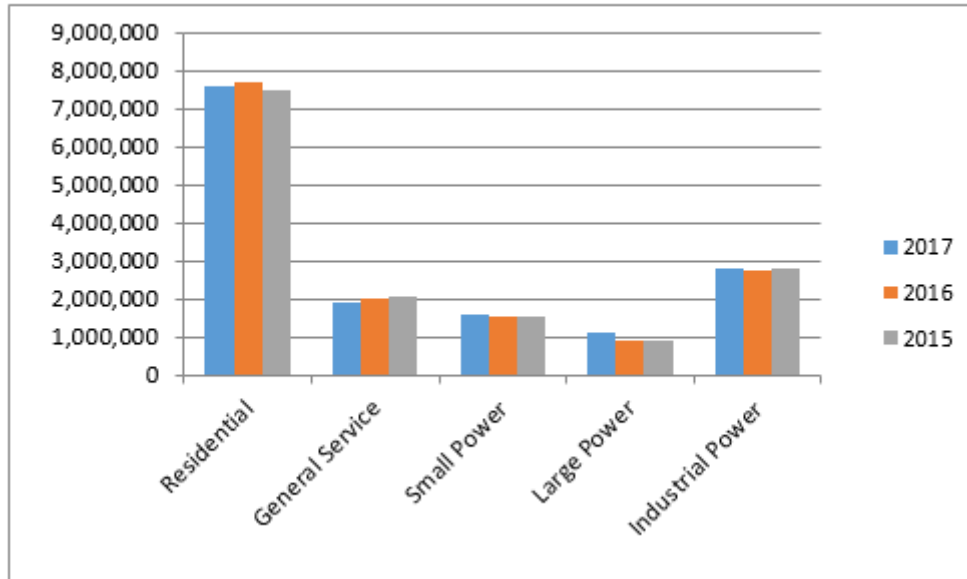
	2017	2016	2015	2017-2016 Change
Operating Revenues	\$ 2,051,313	\$ 2,036,002	\$ 2,037,835	\$ 15,311
Non-Operating Revenues	33,367	2,485	9,863	30,882
Total Revenues	2,084,680	2,038,487	2,047,698	46,193
Depreciation Expense	811,239	796,285	777,150	14,954
Other Operating Expense	1,012,657	1,020,298	1,042,161	(7,641)
Non-Operating Expenses	134,977	147,663	156,284	(12,686)
Total Expenses	1,958,873	1,964,246	1,975,595	(5,373)
Income Before Capital Contributions and Transfers	125,807	74,241	72,103	51,566
Capital Contributions	224,299	846,838	647,528	(622,539)
Changes in Net Position	350,106	921,079	719,631	(570,973)
Beginning Net Position	16,635,084	15,714,005	14,876,176	921,079
Cumulative Effect of Change in Accounting Principle	-	-	118,198	-
Total Net Position - Ending	\$ 16,985,190	\$ 16,635,084	\$ 15,714,005	\$ 350,106

STOUGHTON UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

Comparison of Electric Sales



Electric sales increased by .84% in 2017. The increase is mainly due to a 1.71% retail rate increase effective April 1, 2017 offset by a slight decrease in consumption.

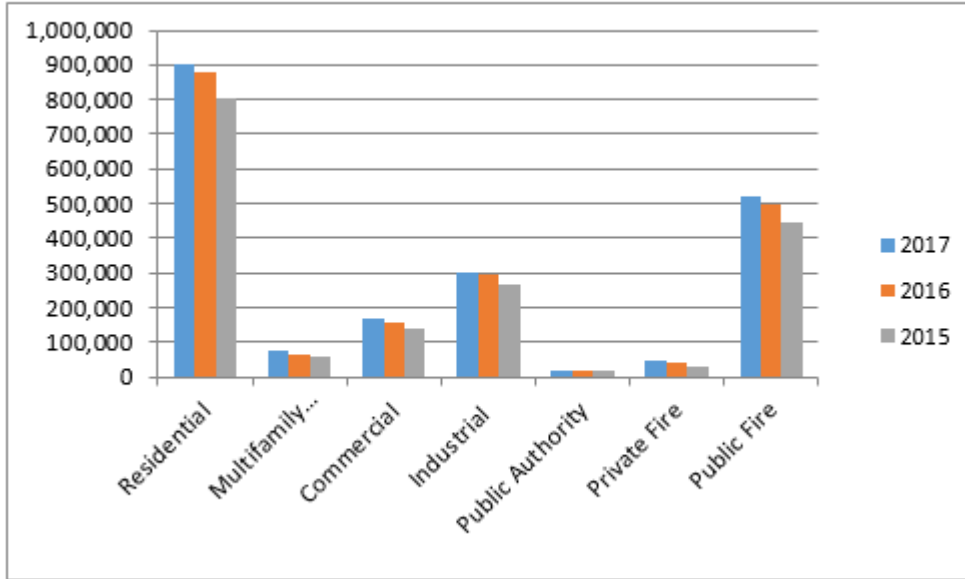
	2017	2016	2015
Residential	\$ 7,577,650	\$ 7,708,713	\$ 7,467,797
General Service	1,919,866	1,975,648	2,049,345
Small Power	1,601,536	1,509,874	1,548,289
Large Power	1,107,643	914,513	885,980
Industrial Power	2,766,794	2,742,903	2,814,381
Public Lighting	133,097	129,286	140,565
Total Electric Sales	\$ 15,106,586	\$ 14,980,937	\$ 14,906,357

STOUGHTON UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

Comparison of Water Sales



Sales increased by \$75,900 or 3.88% in 2017 mainly due to the implementation of a 13% retail rate adjustment effective May 1, 2016 offset by a decrease in consumption.

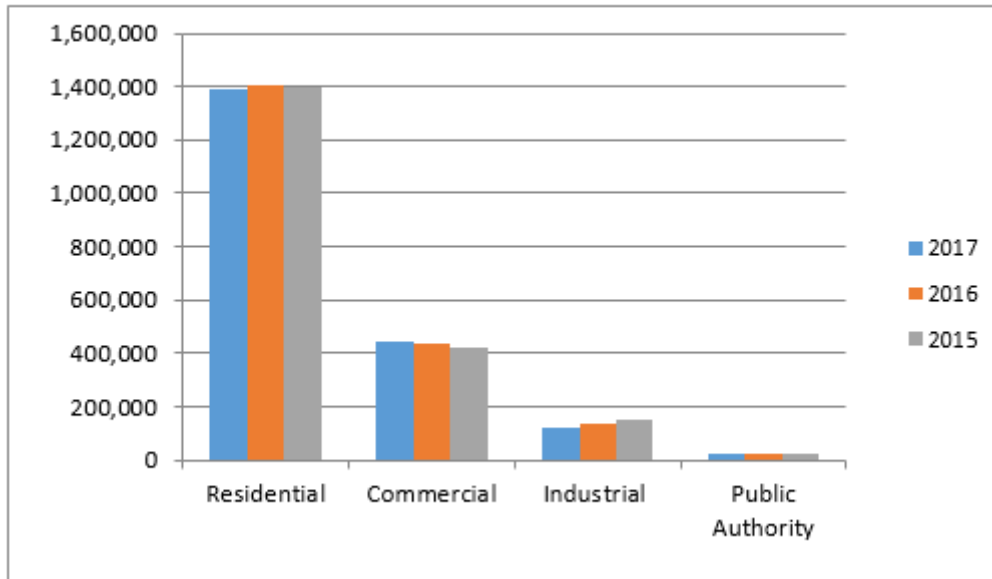
	2017	2016	2015
Residential	\$ 899,421	\$ 876,828	\$ 805,271
Multifamily Residential	74,247	65,660	56,463
Commercial	170,380	158,636	136,433
Industrial	301,957	296,674	268,342
Public Authority	19,310	18,747	18,485
Private Fire	43,901	38,842	29,373
Public Fire	520,495	498,439	446,666
Total Water Sales	\$ 2,029,711	\$ 1,953,826	\$ 1,761,033

STOUGHTON UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

Comparison of Wastewater Sales



The utility experienced a decrease in revenues of \$26,100 or 1.31 % in 2017 due to a 1.5% decrease in consumption.

	2017	2016	2015
Residential	\$ 1,386,580	\$ 1,405,052	\$ 1,399,906
Commercial	441,215	434,528	417,257
Industrial	121,253	135,789	150,898
Public Authority	23,360	23,174	25,331
Total Wastewater Sales	\$ 1,972,408	\$ 1,998,543	\$ 1,993,392

STOUGHTON UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016

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

	2017	2016	2015	2017-2016 Change
Cash Flows From:				
Operating activities	\$ 1,978,120	\$ 1,855,536	\$ 2,082,750	\$ 122,584
Non-capital financing activities	(338,993)	(341,973)	(340,958)	2,980
Capital and related financing activities	(3,700,950)	838,779	(1,147,670)	(4,539,729)
Investing activities	339,760	30,632	115,694	309,128
Net Change in Cash and Cash Equivalents	(1,722,063)	2,382,974	709,816	(4,105,037)
Cash and Cash Equivalents Beginning of Year	6,668,674	4,285,700	3,575,884	2,382,974
Cash and Cash Equivalents End of Year	\$ 4,946,611	\$ 6,668,674	\$ 4,285,700	\$ (1,722,063)

The decrease in cash and cash equivalents in 2017 is mainly the result capital expenditures offset by cash flows from normal operating activities during 2017.

The increase in cash and cash equivalents in 2016 is mainly the result of cash flows from normal operating activities and proceeds from long-term debt issued during 2016.

The electric utility's goal is to maintain unrestricted cash and cash equivalent balances to cover a minimum of 6 months of average electric sales.

STOUGHTON UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

Table 8
Condensed Statements of Cash Flows -
Water Utility

	2017	2016	2015	2017-2016 Change
Cash Flows From:				
Operating activities	\$ 1,046,543	\$ 1,020,539	\$ 940,902	\$ 26,004
Non-Capital financing activities	(391,598)	(359,016)	(343,995)	(32,582)
Capital and related financing activities	(1,139,594)	120,688	(738,915)	(1,260,282)
Investing activities	38,866	37,294	53,308	1,572
Net Change in Cash and Cash Equivalents	(445,783)	819,505	(88,700)	(1,265,288)
Cash and Cash Equivalents Beginning of Year	1,079,216	259,711	348,411	819,505
Cash and Cash Equivalents End of Year	\$ 633,433	\$ 1,079,216	\$ 259,711	\$ (445,783)

The water utility experienced a decrease in cash and cash equivalents in 2017 resulting mainly from capital expenditures offset by cash flows from normal operating activities during 2017.

The water utility experienced an increase in cash and cash equivalents in 2016 resulting mainly from the 13% increase in retail rates effective May 1, 2016 and proceeds from long-term debt issued during 2016.

STOUGHTON UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

Table 9
Condensed Statements of Cash Flows -
Wastewater Utility

	2017	2016	2015	2017-2016 Change
Cash Flows From:				
Operating activities	\$ 1,022,329	\$ 1,067,230	\$ 1,033,828	\$ (44,901)
Capital and related financing activities	(1,003,192)	(1,052,534)	(762,538)	49,342
Investing activities	52,538	(336,570)	35,624	389,108
Net Change in Cash and Cash Equivalents	71,675	(321,874)	306,914	393,549
Cash and Cash Equivalents Beginning of Year	2,033,724	2,355,598	2,048,684	(321,874)
Cash and Cash Equivalents End of Year	\$ 2,105,399	\$ 2,033,724	\$ 2,355,598	\$ 71,675

The utility experienced an increase in cash and cash equivalents in 2017 resulting mainly from reduced purchases of long-term investments compared to 2016.

The utility experienced a decrease in cash and cash equivalents in 2016 resulting mainly from increased purchases of long-term investments throughout the year.

STOUGHTON UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

Table 10
Capital Assets – Electric Utility

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017-2016</u> <u>Change</u>
Capital Assets				
Transmission and distribution	\$ 25,073,360	\$ 24,173,466	\$ 23,013,424	\$ 899,894
General	<u>4,107,521</u>	<u>4,116,528</u>	<u>4,109,843</u>	<u>(9,007)</u>
Total Capital Assets	<u>29,180,881</u>	<u>28,289,994</u>	<u>27,123,267</u>	<u>890,887</u>
Less: Accumulated depreciation	(15,289,472)	(14,429,881)	(13,478,535)	(859,591)
Construction in progress	<u>2,358,222</u>	<u>189,399</u>	<u>251,853</u>	<u>2,168,823</u>
Net Capital Assets	<u>\$ 16,249,631</u>	<u>\$ 14,049,512</u>	<u>\$ 13,896,585</u>	<u>\$ 2,200,119</u>

STOUGHTON UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

Table 11
Capital Assets – Water Utility

	2017	2016	2015	2017-2016 Change
Capital Assets				
Source of supply	\$ 607,365	\$ 607,365	\$ 607,365	\$ -
Pumping	1,513,265	1,489,439	1,468,519	23,826
Water treatment	90,763	90,763	90,763	-
Transmission and distribution	19,500,116	18,550,406	16,779,796	949,710
General	1,242,106	1,241,535	1,248,562	571
Total Capital Assets	<u>22,953,615</u>	<u>21,979,508</u>	<u>20,195,005</u>	<u>974,107</u>
Less: Accumulated depreciation	(7,110,163)	(6,778,559)	(6,402,633)	(331,604)
Construction in progress	<u>5,693</u>	<u>80,638</u>	<u>106,478</u>	<u>(74,945)</u>
Net Capital Assets	<u>\$ 15,849,145</u>	<u>\$ 15,281,587</u>	<u>\$ 13,898,850</u>	<u>\$ 567,558</u>

STOUGHTON UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016

UTILITY FINANCIAL ANALYSIS (cont.)

Table 12
Capital Assets – Wastewater Utility

	2017	2016	2015	2017-2016 Change
Capital Assets				
Collection system	\$ 11,807,685	\$ 11,214,653	\$ 10,363,837	\$ 593,032
Collection system pumping	733,518	733,518	401,065	-
Treatment and disposal	15,614,020	15,554,352	15,554,351	59,668
General	1,377,328	1,376,617	1,314,953	711
Total Capital Assets	<u>29,532,551</u>	<u>28,879,140</u>	<u>27,634,206</u>	<u>653,411</u>
Less: Accumulated depreciation	(10,994,875)	(10,250,053)	(9,483,326)	(744,822)
Construction in progress	<u>59,092</u>	<u>94,791</u>	<u>61,100</u>	<u>(35,699)</u>
Net Capital Assets	<u>\$ 18,596,768</u>	<u>\$ 18,723,878</u>	<u>\$ 18,211,980</u>	<u>\$ (127,110)</u>

LONG-TERM DEBT

As of December 31, 2017, the electric utility had total mortgage revenue bond debt outstanding of \$5,640,000 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, 2017, the water utility had total mortgage revenue bond debt outstanding of \$2,620,747 payable from and secured by a pledge of income and revenue to be derived from the operation of the water utility and \$423,000 of general obligation bonds. These issues were primarily for additions and improvements to the water system, street improvement projects, AMR implementation and a new tower.

The wastewater utility had \$4,744,967 of clean water fund loans and \$282,000 of general obligation bonds outstanding as of December 31, 2017. These bonds were issued for a sewer main extension to 5 customers, a series of wastewater treatment plant upgrade and expansion projects, and an electrical upgrade in 2014.

Tables of separate bond issues are included in note 7 of this audit report.

STOUGHTON UTILITIES

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2017 and 2016

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 Jamin Friedl, CPA, 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.

STOUGHTON ELECTRIC UTILITY

STATEMENTS OF NET POSITION As of December 31, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and investments	\$ 6,786,544	\$ 6,951,441
Interest receivable	23,727	49,995
Restricted Assets		
Redemption account	503,126	486,538
Customer accounts receivable	1,520,616	1,526,861
Other accounts receivable	239,188	161,218
Due from municipality	10,182	15,289
Materials and supplies	153,499	163,294
Prepayments	8,402	3,276
Current portion of advance	<u>41,375</u>	<u>39,190</u>
Total Current Assets	<u>9,286,659</u>	<u>9,397,102</u>
NONCURRENT ASSETS		
Restricted Assets		
Reserve account	649,338	649,338
Depreciation account	25,000	25,000
Construction account	-	1,840,074
Other Assets		
Electric plant and maintenance reserve account	510,846	508,914
Sick leave reserve account	176,481	171,811
Advances to other funds	296,088	337,463
Investment in ATC	389,457	361,850
Property held for future use	352,664	352,664
Non-utility property, net	10,633	17,953
Capital Assets		
Plant in service	29,180,881	28,289,994
Accumulated depreciation	(15,289,472)	(14,429,881)
Construction work in progress	<u>2,358,222</u>	<u>189,399</u>
Total Noncurrent Assets	<u>18,660,138</u>	<u>18,314,579</u>
Total Assets	<u>27,946,797</u>	<u>27,711,681</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pension	<u>405,146</u>	<u>575,914</u>

LIABILITIES		<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES			
Accounts payable		\$ 1,217,494	\$ 1,068,767
Due to municipality		459,897	462,554
Customer deposits		119,724	106,064
Accrued wages		6,685	2,973
Accrued interest		2,751	2,005
Accrued liabilities		107,880	102,073
Commitment to community		21,114	26,651
Current Liabilities Payable from Restricted Assets			
Current portion of revenue bonds		610,000	610,000
Accrued interest		<u>31,928</u>	<u>70,648</u>
Total Current Liabilities		<u>2,577,473</u>	<u>2,451,735</u>
NONCURRENT LIABILITIES			
Revenue bonds		5,030,000	5,640,000
Unamortized debt premium		108,833	131,571
Accrued sick leave		176,481	171,811
Customer advances for construction		28,641	27,141
Net pension liability		<u>52,947</u>	<u>103,350</u>
Total Noncurrent Liabilities		<u>5,396,902</u>	<u>6,073,873</u>
Total Liabilities		<u>7,974,375</u>	<u>8,525,608</u>
 DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension		<u>169,885</u>	<u>221,246</u>
 NET POSITION			
Net investment in capital assets		10,853,462	9,860,679
Restricted for:			
Debt service		1,145,536	1,090,228
Unrestricted		<u>8,208,685</u>	<u>8,589,834</u>
TOTAL NET POSITION		<u><u>\$ 20,207,683</u></u>	<u><u>\$ 19,540,741</u></u>

See accompanying notes to the financial statements.

STOUGHTON ELECTRIC UTILITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Sales of electricity	\$ 15,106,586	\$ 14,980,937
Other	143,037	135,267
Total Operating Revenues	15,249,623	15,116,204
OPERATING EXPENSES		
Operation and maintenance	13,257,421	13,329,607
Depreciation	1,019,024	996,954
Total Operating Expenses	14,276,445	14,326,561
OPERATING INCOME	973,178	789,643
NONOPERATING REVENUES (EXPENSES)		
Investment income	92,681	92,308
Debt issuance costs	-	(110,140)
Interest expense	(128,148)	(148,952)
Amortization of premium	22,739	10,958
Miscellaneous expenses	(10,342)	(3,080)
Other income (expense)	4,011	-
Total Nonoperating Revenues (Expenses)	(19,059)	(158,906)
Income Before Contributions and Transfers	954,119	630,737
CAPITAL CONTRIBUTIONS	120,147	324,625
CAPITAL CONTRIBUTIONS - MUNICIPAL	-	269,901
TRANSFER IN (OUT)	(12,698)	(21,213)
TRANSFERS - TAX EQUIVALENT	(394,626)	(376,785)
CHANGE IN NET POSITION	666,942	827,265
NET POSITION - Beginning of Year	19,540,741	18,713,476
NET POSITION - END OF YEAR	\$ 20,207,683	\$ 19,540,741

See accompanying notes to the financial statements.

STOUGHTON ELECTRIC UTILITY

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 15,132,657	\$ 14,973,046
Received for street lighting	133,097	129,286
Paid to suppliers for goods and services	(12,503,353)	(12,486,322)
Paid to employees for operating payroll	(784,281)	(760,474)
Net Cash Flows From Operating Activities	1,978,120	1,855,536
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Paid to municipality for tax equivalent	(376,785)	(370,260)
Received from municipality principal on Wisconsin Retirement UAAL liability	39,190	37,088
Received from municipality interest on Wisconsin Retirement UAAL liability	11,300	12,412
Transfers to other funds	(12,698)	(21,213)
Net Cash Flows From Noncapital Financing Activities	(338,993)	(341,973)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(3,081,826)	(1,196,807)
Capital contributions received	156,998	374,680
Premium on debt issue	-	93,666
Debt retired	(610,000)	(2,215,000)
Interest paid	(166,122)	(112,620)
Proceeds from debt issue	-	4,005,000
Debt issuance costs	-	(110,140)
Net Cash Flows From Capital and Related Financing Activities	(3,700,950)	838,779
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments purchased	(466,567)	(1,926,705)
Investments sold and matured	704,983	1,893,138
Dividends/(Investment) in ATC	21,520	15,064
Investment income	79,824	49,135
Net Cash Flows From Investing Activities	339,760	30,632
Net Change in Cash and Cash Equivalents	(1,722,063)	2,382,974
CASH AND CASH EQUIVALENTS - Beginning of Year	6,668,674	4,285,700
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,946,611	\$ 6,668,674
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
ATC earnings allocated	\$ 6,831	\$ 10,016
Unrealized gain (loss) on investments	\$ (21,302)	\$ (37,560)
Capital contribution	\$ 6,384	\$ -

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 973,178	\$ 789,643
Nonoperating revenue (expense)	990	(3,080)
Noncash items in operating income		
Depreciation	1,019,024	996,954
Depreciation charged to clearing and other utilities	46,140	45,600
Changes in assets and liabilities		
Customer accounts receivable	6,245	(77,030)
Other accounts receivable	(9,871)	66,161
Due from other funds	5,107	(8,637)
Materials and supplies	9,795	(33,889)
Prepayments	(5,126)	(741)
Pension related deferrals and liabilities	69,004	57,322
Accounts payable	(138,180)	(29,236)
Due to other funds	(20,498)	46,468
Customer deposits	13,660	8,714
Accrued sick leave	4,670	1,728
Other current liabilities	9,519	(5,004)
Commitment to community	(5,537)	563
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 1,978,120</u>	<u>\$ 1,855,536</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION ACCOUNTS		
Cash and investments	\$ 6,786,544	\$ 6,951,441
Redemption account	503,126	486,538
Reserve account	649,338	649,338
Depreciation account	25,000	25,000
Construction account	-	1,840,074
Electric plant and maintenance reserve account	510,846	508,914
Sick leave reserve account	176,481	171,811
Total Cash and Investments	8,651,335	10,633,116
Less: Noncash equivalents	(3,704,724)	(3,964,442)
CASH AND CASH EQUIVALENTS	<u>\$ 4,946,611</u>	<u>\$ 6,668,674</u>

See accompanying notes to the financial statements.

WATER UTILITY

STOUGHTON WATER UTILITY

STATEMENTS OF NET POSITION As of December 31, 2017 and 2016

	ASSETS	<u>2017</u>	<u>2016</u>
CURRENT ASSETS			
Cash and investments		\$ 292,435	\$ 412,856
Interest receivable		1,271	3,858
Restricted Assets			
Redemption account		262,397	267,550
Customer accounts receivable		216,487	198,827
Other accounts receivable		5,356	38,421
Due from municipality		238,930	70,394
Materials and supplies		41,401	34,812
Prepayments		2,692	828
Current portion of special assessments		<u>29,026</u>	<u>50,103</u>
Total Current Assets		<u>1,089,995</u>	<u>1,077,649</u>
NONCURRENT ASSETS			
Restricted Assets			
Reserve account		244,677	244,677
Depreciation account		25,000	25,000
Construction account		-	213,127
Other Assets			
Water plant and maintenance reserve account		186,538	328,378
Sick leave reserve account		99,237	96,587
Preliminary survey and investigation		9,245	-
Special assessments receivable		203,181	400,824
Non-utility property, net		26,358	30,638
Capital Assets			
Plant in service		22,953,615	21,979,508
Accumulated depreciation		(7,110,163)	(6,778,559)
Construction work in progress		<u>5,693</u>	<u>80,638</u>
Total Noncurrent Assets		<u>16,643,381</u>	<u>16,620,818</u>
Total Assets		<u>17,733,376</u>	<u>17,698,467</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension		<u>136,127</u>	<u>206,806</u>

LIABILITIES	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES		
Accounts payable	\$ 41,086	\$ 75,473
Due to municipality	446,538	403,264
Accrued wages	10,503	8,515
Accrued interest	2,168	2,423
Current portion of general obligation debt	51,000	51,000
Current Liabilities Payable from Restricted Assets		
Current portion of revenue bonds	318,415	322,677
Accrued interest	7,615	8,230
Total Current Liabilities	<u>877,325</u>	<u>871,582</u>
NONCURRENT LIABILITIES		
General obligation debt	372,000	423,000
Revenue bonds	2,302,332	2,620,747
Unamortized debt premium	29,046	35,638
Accrued sick leave	99,237	86,587
Net pension liability	<u>21,314</u>	<u>36,404</u>
Total Noncurrent Liabilities	<u>2,823,929</u>	<u>3,202,376</u>
 Total Liabilities	 <u>3,701,254</u>	 <u>4,073,958</u>
 DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pension	<u>57,271</u>	<u>77,947</u>
 NET POSITION		
Net investment in capital assets	12,776,352	12,041,652
Restricted for:		
Debt service	524,459	528,997
Unrestricted	<u>810,167</u>	<u>1,182,719</u>
 TOTAL NET POSITION	 <u>\$ 14,110,978</u>	 <u>\$ 13,753,368</u>

See accompanying notes to the financial statements.

STOUGHTON WATER UTILITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Sales of water	\$ 2,029,711	\$ 1,953,826
Other	<u>41,518</u>	<u>47,298</u>
Total Operating Revenues	<u>2,071,229</u>	<u>2,001,124</u>
OPERATING EXPENSES		
Operation and maintenance	1,049,770	1,012,205
Depreciation	<u>444,601</u>	<u>428,084</u>
Total Operating Expenses	<u>1,494,371</u>	<u>1,440,289</u>
OPERATING INCOME	<u>576,858</u>	<u>560,835</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	22,208	25,029
Interest expense	(55,856)	(74,001)
Amortization of premium	6,592	2,952
Miscellaneous expenses	(4,280)	(4,280)
Debt issuance costs	<u>-</u>	<u>(47,812)</u>
Total Nonoperating Revenues (Expenses)	<u>(31,336)</u>	<u>(98,112)</u>
Income Before Contributions	545,522	462,723
CAPITAL CONTRIBUTIONS	236,136	756,373
CAPITAL CONTRIBUTIONS - MUNICIPAL	-	215,803
TRANSFER IN (OUT)	(3,743)	(2,412)
TRANSFERS - TAX EQUIVALENT	<u>(420,305)</u>	<u>(387,855)</u>
CHANGE IN NET POSITION	357,610	1,044,632
NET POSITION - Beginning of Year	<u>13,753,368</u>	<u>12,708,736</u>
NET POSITION - END OF YEAR	<u><u>\$ 14,110,978</u></u>	<u><u>\$ 13,753,368</u></u>

See accompanying notes to the financial statements.

STOUGHTON WATER UTILITY

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 2,077,982	\$ 2,000,726
Paid to suppliers for goods and services	(643,222)	(600,919)
Paid to employees for operating payroll	(388,217)	(379,268)
Net Cash Flows From Operating Activities	1,046,543	1,020,539
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Paid to municipality for tax equivalent	(387,855)	(356,604)
Transfers to other funds	(3,743)	(2,412)
Net Cash Flows From Noncapital Financing Activities	(391,598)	(359,016)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(833,246)	(1,497,384)
Capital contributions received	58,921	586,352
Special assessments received	65,134	-
Premium on debt issue	-	38,590
Debt retired	(373,677)	(1,399,957)
Interest paid	(56,726)	(79,101)
Proceeds from debt issue	-	2,520,000
Debt issuance costs	-	(47,812)
Net Cash Flows From Capital and Related Financing Activities	(1,139,594)	120,688
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments purchased	(194,506)	(200,000)
Investments sold and matured	212,292	222,122
Investment income	21,080	15,172
Net Cash Flows From Investing Activities	38,866	37,294
Net Change in Cash and Cash Equivalents	(445,783)	819,505
CASH AND CASH EQUIVALENTS - Beginning of Year	1,079,216	259,711
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 633,433	\$ 1,079,216
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	\$ 210,787	\$ 352,096
Unrealized gain (loss) on investments	\$ (14,322)	\$ (8,367)

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 576,858	\$ 560,835
Noncash items in operating income		
Depreciation	444,601	428,084
Depreciation charged to clearing and other utilities	28,133	31,606
Changes in assets and liabilities		
Customer accounts receivable	(17,660)	(31,717)
Other accounts receivable	(507)	14,969
Due from other funds	3,087	(2,841)
Materials and supplies	(6,589)	(4,981)
Prepayments	(1,864)	(277)
Pension related deferrals and liabilities	34,913	19,979
Accounts payable	(39,891)	8,963
Due to other funds	10,824	-
Customer deposits	-	(1,615)
Accrued wages	1,988	4,029
Accrued sick leave	12,650	(6,495)
	<u>12,650</u>	<u>(6,495)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 1,046,543</u>	<u>\$ 1,020,539</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION ACCOUNTS		
Cash and investments	\$ 292,435	\$ 412,856
Redemption account	262,397	267,550
Reserve account	244,677	244,677
Depreciation account	25,000	25,000
Construction account	-	213,127
Water plant and maintenance reserve account	186,538	328,378
Sick leave reserve account	99,237	96,587
Total Cash and Investments	<u>1,110,284</u>	<u>1,588,175</u>
Less: Noncash equivalents	<u>(476,851)</u>	<u>(508,959)</u>
CASH AND CASH EQUIVALENTS	<u>\$ 633,433</u>	<u>\$ 1,079,216</u>

See accompanying notes to the financial statements.

WASTEWATER UTILITY

STOUGHTON WASTEWATER UTILITY

STATEMENTS OF NET POSITION As of December 31, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and investments	\$ 1,361,952	\$ 1,333,682
Interest receivable	4,229	1,921
Restricted Assets		
Redemption account	333,597	365,599
Customer accounts receivable	210,313	205,564
Other accounts receivable	8,865	6,718
Due from municipality	164,633	49,361
Prepayments	3,363	1,035
Current portion of special assessments	<u>19,905</u>	<u>34,359</u>
Total Current Assets	<u>2,106,857</u>	<u>1,998,239</u>
NONCURRENT ASSETS		
Restricted Assets		
Depreciation account	33,283	33,283
Replacement account	1,134,247	1,096,288
Construction account	-	123
Other Assets		
Sick leave reserve account	124,633	120,910
Preliminary survey and investigation	10,093	-
Special assessments receivable	139,336	274,874
Capital Assets		
Plant in service	29,532,551	28,879,140
Accumulated depreciation	(10,994,875)	(10,250,053)
Construction work in progress	<u>59,092</u>	<u>94,791</u>
Total Noncurrent Assets	<u>20,038,360</u>	<u>20,249,356</u>
Total Assets	<u>22,145,217</u>	<u>22,247,595</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pension	<u>151,361</u>	<u>227,166</u>

LIABILITIES		<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES			
Accounts payable		\$ 15,513	\$ 66,855
Due to municipality		20,147	9,073
Accrued wages		13,728	15,881
Accrued interest		1,445	1,615
Current portion of general obligation debt		34,000	34,000
Current Liabilities Payable from Restricted Assets			
Current portion of revenue bonds		424,703	413,395
Accrued interest		<u>20,876</u>	<u>22,761</u>
Total Current Liabilities		<u>530,412</u>	<u>563,580</u>
NONCURRENT LIABILITIES			
General obligation debt		248,000	282,000
Revenue bonds		4,320,264	4,744,968
Accrued sick leave		124,633	120,910
Net pension liability		<u>22,833</u>	<u>40,825</u>
Total Noncurrent Liabilities		<u>4,715,730</u>	<u>5,188,703</u>
Total Liabilities		<u>5,246,142</u>	<u>5,752,283</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension		<u>65,246</u>	<u>87,394</u>
NET POSITION			
Net investment in capital assets		13,569,801	13,249,638
Restricted for:			
Debt service		346,004	376,121
Equipment replacement		1,134,247	1,096,288
Unrestricted		<u>1,935,138</u>	<u>1,913,037</u>
TOTAL NET POSITION		<u><u>\$ 16,985,190</u></u>	<u><u>\$ 16,635,084</u></u>

See accompanying notes to the financial statements.

STOUGHTON WASTEWATER UTILITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Treatment charges	\$ 1,972,408	\$ 1,998,543
Other	<u>78,905</u>	<u>37,459</u>
Total Operating Revenues	<u>2,051,313</u>	<u>2,036,002</u>
OPERATING EXPENSES		
Operation and maintenance	1,012,657	1,020,298
Depreciation	<u>811,239</u>	<u>796,285</u>
Total Operating Expenses	<u>1,823,896</u>	<u>1,816,583</u>
OPERATING INCOME	<u>227,417</u>	<u>219,419</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	33,367	2,485
Interest expense	<u>(134,977)</u>	<u>(147,663)</u>
Total Nonoperating Revenues (Expenses)	<u>(101,610)</u>	<u>(145,178)</u>
Income Before Contributions	125,807	74,241
CAPITAL CONTRIBUTIONS	224,299	660,959
CAPITAL CONTRIBUTIONS - MUNICIPAL	<u>-</u>	<u>185,879</u>
CHANGE IN NET POSITION	350,106	921,079
NET POSITION - Beginning of Year	<u>16,635,084</u>	<u>15,714,005</u>
NET POSITION - END OF YEAR	<u><u>\$ 16,985,190</u></u>	<u><u>\$ 16,635,084</u></u>

See accompanying notes to the financial statements.

STOUGHTON WASTEWATER UTILITY

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 2,041,099	\$ 2,027,899
Paid to suppliers for goods and services	(622,707)	(579,463)
Paid to employees for operating payroll	(396,063)	(381,206)
Net Cash Flows From Operating Activities	1,022,329	1,067,230
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(492,428)	(745,230)
Capital contributions received	28,998	277,552
Special assessments received	44,666	-
Debt retired	(447,396)	(434,390)
Interest paid	(137,032)	(150,466)
Net Cash Flows From Capital and Related Financing Activities	(1,003,192)	(1,052,534)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments purchased	(240,466)	(825,095)
Investments sold and matured	242,360	469,943
Investment income	50,644	18,582
Net Cash Flows From Investing Activities	52,538	(336,570)
Net Change in Cash and Cash Equivalents	71,675	(321,874)
CASH AND CASH EQUIVALENTS - Beginning of Year	2,033,724	2,355,598
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,105,399	\$ 2,033,724
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Unrealized gain (loss) on investments	\$ (31,954)	\$ (26,717)
Capital Contributions	\$ 201,042	\$ 563,389

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 227,417	\$ 219,419
Noncash items in operating income		
Depreciation	811,239	796,285
Changes in assets and liabilities		
Customer accounts receivable	(4,749)	(14,000)
Other accounts receivable	(7,888)	7,568
Due to / from other funds	13,497	1,559
Prepayments	(2,328)	(334)
Pension related deferrals and liabilities	35,665	22,507
Accounts payable	(52,094)	14,153
Accrued sick leave	3,723	15,088
Other current liabilities	<u>(2,153)</u>	<u>4,985</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 1,022,329</u>	<u>\$ 1,067,230</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION ACCOUNTS		
Cash and investments	\$ 1,361,952	\$ 1,333,682
Redemption account	333,597	365,599
Depreciation account	33,283	33,283
Replacement account	1,134,247	1,096,288
Construction account	-	123
Sick leave reserve account	<u>124,633</u>	<u>120,910</u>
Total Cash and Investments	2,987,712	2,949,885
Less: Noncash equivalents	<u>(882,313)</u>	<u>(916,161)</u>
CASH AND CASH EQUIVALENTS	<u>\$ 2,105,399</u>	<u>\$ 2,033,724</u>

See accompanying notes to the financial statements.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

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.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

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.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)

Deposits and Investments (cont.)

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

- > Time deposits in any credit union, bank, savings bank or trust company maturing in three years or less.
- > 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 the University of Wisconsin Hospitals and Clinics Authority, or the Wisconsin Aerospace Authority.
- > Bonds or securities issued or guaranteed by the federal government.
- > The local government investment pool.
- > Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
- > Securities of an open end management investment company or investment trust, subject to various conditions and investment options.
- > 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 methods and inputs as outlined in Note 2. 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. As such, no allowance for uncollectible customer accounts is considered necessary.

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.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)

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% of ATC.

The investment earns dividends quarterly, some of which is paid in cash and some of which is 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 investment is valued at net asset value per share which is equal to the original cost plus additional contributions and reinvested dividends and approximates fair value.

Sick Leave Reserve Account

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

Plant and Maintenance Reserve Account

These accounts are utilized to segregate funds for the future repairs and replacements of electric and water utility capital assets as designated by the committee.

Special Assessments Receivable

This account represents the balances of special assessments levied against property owners for infrastructure improvements. The balances are receivable over various time periods with interest accrued annually.

Property Held for Future Use

The electric utility has purchased land with the intent of it being used for the site of a future substation.

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, 2017 and 2016. Water utility non-utility property consists of a park shelter with a balance of \$107,000 at December 31, 2017 and 2016. The costs are being amortized on a straight-line basis over their useful life.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)

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 estimated acquisition value at the time of contribution to the utilities. Major outlays for utility 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 or amortized using the straight-line method over the following useful lives:

	<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

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the Wisconsin Retirement System (WRS) and additions to/deductions from WRS' fiduciary net position have been determined on the same basis as they are reported by WRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, investments are reported at fair value.

Deferred Outflow of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

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

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)

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 2006 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 net collections and expenditures/remittances associated with the program are recorded as a current liability on the statements of net position.

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.

Long-Term Obligations

Long-term debt and other obligations are reported as utility liabilities. Bond premiums and discounts, are 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. The balance at year end for premiums and discounts is shown as an increase or decrease in the liability section of the statement of net position.

Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

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

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 utility's 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 April 1, 2017. The rates are designed to provide a 5% return on rate base.

Current water rates were approved by the PSCW effective May 1, 2016. The rates are designed to earn a 5.25% return on rate base.

Current wastewater rates were approved by the utilities committee effective January 1, 2015.

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 are reported as revenue on the statements of revenues, expenses, and changes in net position.

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

GASB has approved GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 80, *Blending Requirements for Certain Component Units*, an amendment of GASB Statement No. 14, Statement No. 81, *Irrevocable Split-Interest Agreements*, Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 84, *Fiduciary Activities*, Statement No. 85, *Omnibus*, Statement No. 86, *Certain Debt Extinguishment Issues*, and Statement No. 87, *Leases*. When they become effective, application of these standards may restate portions of these financial statements.

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.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 2 - DEPOSITS AND INVESTMENTS

	Carrying Value as of December 31,		Risks
	2017	2016	
Checking or savings	\$ 6,586,033	\$ 8,664,392	Custodial credit risk
Local government investment pool	1,099,120	1,119,688	Credit and interest rate risks
Certificates of deposit	2,638,245	2,643,412	Custodial credit risk
State and local bonds	1,021,945	1,029,196	Custodial credit, credit, concentration and interest rate risks
U.S. agency securities -explicitly guaranteed	1,011,045	1,317,486	Custodial credit and interest rate risks
U.S. agency securities - implicitly guaranteed	392,193	396,252	Custodial credit, credit, concentration and interest rate risks
Petty cash	750	750	
Totals	\$ 12,749,331	\$ 15,171,176	

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest bearing and noninterest bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250,000 for the combined amount of all deposit accounts.

Bank accounts are also insured by the State Deposit Guarantee Fund (SDGF) in the amount of \$400,000.

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.

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

In addition, the utilities have collateral or depository insurance agreements in the amount of \$5,062,722 and \$4,848,162 at December 31, 2017 and 2016 respectively.

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, 2017 and 2016, the fair value of the LGIP's assets were substantially equal to the utilities' share.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

The utilities categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The utilities value the fair value measurement using the market approach.

<u>Investment Type</u>	December 31, 2017			
	Level 1	Level 2	Level 3	Total
U.S. agency securities	\$ -	\$ 1,403,238	\$ -	\$ 1,403,238
State and local bonds	-	1,021,945	-	1,021,945
Total	\$ -	\$ 2,425,183	\$ -	\$ 2,425,183

<u>Investment Type</u>	December 30, 2016			
	Level 1	Level 2	Level 3	Total
U.S. agency securities	\$ -	\$ 1,713,738	\$ -	\$ 1,713,738
State and local bonds	-	1,029,196	-	1,029,196
Total	\$ -	\$ 2,742,934	\$ -	\$ 2,742,934

The investment in ATC is measured at the net asset value (NAV) per share of ownership. As of December 31, 2017 and 2016 the fair value of the investment was \$389,457 and \$361,850, respectively. ATC was formed by approximately 25 utilities to plan, construct, maintain, monitor and own electric transmission facilities in Wisconsin. The utility elected to receive an investment in ATC at its inception rather than directly sell its transmission facilities. The utility owns less than 1/2 of 1 percent of ATC. The utility has no unfunded commitment at year end. The investment in ATC can only be redeemed by ATC or another existing member.

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.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

Custodial Credit Risk (cont.)

Deposits (cont.)

The utilities maintain certain deposits in the same institutions as the municipality. The following is a summary of the utilities' total deposit balances at these institutions.

	2017		2016	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
Wells Fargo	\$ 5,143,549	\$ 4,359,801	\$ 5,228,864	\$ 5,108,339
Wells Fargo Brokerage	928	928	928	928
Associated Bank	2,152,445	2,216,945	3,554,084	3,553,875
USB Financial Services	-	-	1,250	1,250
Wisconsin Investment Series Cooperative	8,359	8,359	-	-
Totals	\$ 7,305,281	\$ 6,586,033	\$ 8,785,126	\$ 8,664,392

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.

As of December 31, 2017 and 2016 the utilities' investments were exposed to custodial credit risk as follows:

Neither Insured nor Registered and Held by Counterparty	2017	2016
U.S. agencies - implicitly guaranteed	\$ 392,193	\$ 396,252
U.S. agencies - explicitly guaranteed	1,011,045	1,317,486
State and local bonds	1,021,945	1,029,196
Total Neither Insured nor Registered and Held by Counterparty	\$ 2,425,183	\$ 2,742,934

The utilities' investment policy does not address this risk.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

Credit Risk

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

As of December 31, 2017, the utilities' investments were rated as follows:

Investment Type	Standard & Poors	Moody's Investors Services
U.S. agencies - implicitly guaranteed	AAA	Aaa
State and local bonds	AA	Aa1 - Aaa

As of December 30, 2016, the utilities' investments were rated as follows:

Investment Type	Standard & Poors	Moody's Investors Services
U.S. agencies - implicitly guaranteed	AAA	Aa
State and local bonds	AA	Aa1 - Aa2

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

The utilities' investment policy does not address this risk.

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, 2017 and 2016, the utilities' investment portfolio was concentrated as follows:

Issuer	Investment Type	Percentage of Portfolio	
		2017	2016
FHLB	U.S. agencies - implicitly guaranteed	6.36%	6.09%
State of Wisconsin	State and local bonds	10.78%	10.30%
Arkansas State	State and local bonds	5.80%	5.51%

The utilities' investment policy does not address this risk.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

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, 2017, 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	\$ 392,193	\$ -	\$ -	\$ 392,193
State and local bonds	<u>1,021,945</u>	<u>-</u>	<u>-</u>	<u>1,021,945</u>
Totals	<u>\$ 1,414,138</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,414,138</u>

As of December 30, 2016, 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	\$ 1,713,738	\$ -	\$ -	\$ 1,713,738
State and local bonds	<u>1,029,196</u>	<u>-</u>	<u>-</u>	<u>1,029,196</u>
Totals	<u>\$ 2,742,934</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,742,934</u>

The utilities maintain certain investments commingled with the municipality. The interest rate risk pertaining specifically to the utilities' resources cannot be determined for those accounts. Please refer to the municipality's financial statements for information on this risk.

The utilities' investment policy does not address this risk.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 3 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances for the years ending December 31, 2017 and 2016:

Due To	Due From	2017		2016	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water utility	\$ 420,305	Payment in lieu of taxes	\$ 387,855	Payment in lieu of taxes
Municipality	Water utility	26,233	Operating	15,409	Operating
Electric utility	Municipality	10,182	Operating	15,289	Operating
Water utility	Municipality	238,930	Operating and special assessments	70,394	Operating and special assessments
Wastewater utility	Municipality	164,633	Operating and special assessments	49,361	Operating and special assessments
Municipality	Electric utility	65,271	Stormwater	85,769	Stormwater
Municipality	Electric utility	394,626	Payment in lieu of taxes	376,785	Payment in lieu of taxes
Municipality	Wastewater utility	20,147	Operating	9,073	Operating

The following is a schedule of transfer balances for the years ending December 31, 2017 and 2016:

To	From	2017		2016	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Electric utility	\$ 12,698	Operating	\$ 21,213	Operating
Municipality	Electric utility	394,626	Payment in lieu of taxes	376,785	Payment in lieu of taxes
Municipality	Water utility	3,743	Operating	2,412	Operating
Municipality	Water utility	420,305	Payment in lieu of taxes	387,855	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 position 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.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 4 - RESTRICTED ASSETS (cont.)

Restricted Accounts (cont.)

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.

Restricted Net Position

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

	2017	2016
Restricted Assets		
Redemption account	\$ 503,126	\$ 486,538
Reserve account	649,338	649,338
Depreciation account	25,000	25,000
Construction account	-	1,840,074
Total Restricted Assets	1,177,464	3,000,950
Less: Restricted Assets Not Funded by Revenues		
Construction account	-	(1,840,074)
Current Liabilities Payable From Restricted Assets	(31,928)	(70,648)
Total Restricted Net Position as Calculated	\$ 1,145,536	\$ 1,090,228

The purpose of the restricted net position is as follows:

	2017	2016
Debt service	\$ 1,145,536	\$ 1,090,228

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 4 - RESTRICTED ASSETS (cont.)

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

	2017	2016
Restricted Assets		
Redemption account	\$ 262,397	\$ 267,550
Reserve account	244,677	244,677
Depreciation account	25,000	25,000
Construction account	-	213,127
Total Restricted Assets	532,074	750,354
Less: Restricted Assets Not Funded by Revenues		
Construction account	-	(213,127)
Current Liabilities Payable From Restricted Assets	(7,615)	(8,230)
Total Restricted Net Position as Calculated	\$ 524,459	\$ 528,997

The purpose of the restricted net position is as follows:

	2017	2016
Debt service	\$ 524,459	\$ 528,997

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

	2017	2016
Restricted Assets		
Redemption account	\$ 333,597	\$ 365,599
Depreciation account	33,283	33,283
Replacement account	1,134,247	1,096,288
Construction account	-	123
Total Restricted Assets	1,501,127	1,495,293
Less: Restricted Assets Not Funded by Revenues		
Construction account	-	(123)
Current Liabilities Payable From Restricted Assets	(20,876)	(22,761)
Total Restricted Net Position as Calculated	\$ 1,480,251	\$ 1,472,409

The purpose of the restricted net position is as follows:

	2017	2016
Debt service	\$ 346,004	\$ 376,121
Equipment replacement	1,134,247	1,096,288
Total Restricted Net Position	\$ 1,480,251	\$ 1,472,409

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 5 - ADVANCES TO OTHER FUNDS

In December 2011, the Electric Utility provided an advance to the General Fund in the amount of \$554,744 for the purpose of full payment of the Wisconsin Retirement System Unfunded Actuarial Accrued Liability. The General Fund will repay the Electric Utility over a period of fourteen years at 3.0% annual interest. The amount outstanding at December 31, 2017 is \$337,463.

Repayment requirements to maturity follow:

Year Ending December 31	Principal	Interest	Total
2018	\$ 41,375	\$ 10,124	\$ 51,499
2019	43,646	8,883	52,529
2020	46,007	7,573	53,580
2021	48,459	6,193	54,652
2022	51,006	4,739	55,745
2023-2025	106,970	4,987	111,957
Totals	<u>\$ 337,463</u>	<u>\$ 42,499</u>	<u>\$ 379,962</u>

NOTE 6 - CHANGES IN CAPITAL ASSETS

Electric Utility

A summary of changes in electric capital assets for 2017 follows:

	Balance 1/1/17	Increases	Decreases	Balance 12/31/17
Capital assets, not being depreciated				
Land and land rights	\$ 220,797	\$ -	\$ -	\$ 220,797
Capital assets being depreciated				
Transmission	15,019	-	-	15,019
Distribution	23,937,651	1,059,041	159,147	24,837,545
General	4,116,527	35,215	44,222	4,107,520
Total Capital Assets Being Depreciated	<u>28,069,197</u>	<u>1,094,256</u>	<u>203,369</u>	<u>28,960,084</u>
Total Capital Assets	<u>28,289,994</u>	<u>1,094,256</u>	<u>203,369</u>	<u>29,180,881</u>
Less: Accumulated depreciation				
Transmission	(19,366)	-	-	(19,366)
Distribution	(11,485,664)	(882,648)	163,920	(12,204,392)
General	(2,924,851)	(154,306)	13,443	(3,065,714)
Total Accumulated Depreciation	<u>(14,429,881)</u>	<u>(1,036,954)</u>	<u>177,363</u>	<u>(15,289,472)</u>
Construction in progress	<u>189,399</u>	<u>2,358,222</u>	<u>189,399</u>	<u>2,358,222</u>
Net Capital Assets	<u>\$ 14,049,512</u>			<u>\$ 16,249,631</u>

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 6 - CHANGES IN CAPITAL ASSETS (cont.)

Electric Utility (cont.)

A summary of changes in electric capital assets for 2016 follows:

	Balance 1/1/16	Increases	Decreases	Balance 12/31/16
Capital assets, not being depreciated				
Land and land rights	\$ 220,797	\$ -	\$ -	\$ 220,797
Capital assets being depreciated				
Transmission	15,019	-	-	15,019
Distribution	22,777,607	1,251,311	91,267	23,937,651
General	4,109,842	6,685	-	4,116,527
Total Capital Assets Being Depreciated	26,902,468	1,257,996	91,267	28,069,197
Total Capital Assets	27,123,265	1,257,996	91,267	28,289,994
Less: Accumulated depreciation				
Transmission	(19,366)	-	-	(19,366)
Distribution	(10,731,629)	(845,302)	91,267	(11,485,664)
General	(2,727,540)	(197,311)	-	(2,924,851)
Total Accumulated Depreciation	(13,478,535)	(1,042,613)	91,267	(14,429,881)
Construction in progress	251,853	187,437	249,891	189,399
Net Capital Assets	\$ 13,896,583			\$ 14,049,512

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 6 - CHANGES IN CAPITAL ASSETS (cont.)

Water Utility

A summary of changes in water capital assets for 2017 follows:

	Balance 1/1/17	Increases	Decreases	Balance 12/31/17
Capital assets, not being depreciated				
Land and land rights	\$ 430,131	\$ -	\$ -	\$ 430,131
Capital assets being depreciated				
Source of supply	595,730	-	-	595,730
Pumping	1,489,440	42,723	18,897	1,513,266
Water treatment	90,763	-	-	90,763
Transmission and distribution	18,527,741	1,030,499	80,789	19,477,451
General	845,703	571	-	846,274
Total Capital Assets Being Depreciated	<u>21,549,377</u>	<u>1,073,793</u>	<u>99,686</u>	<u>22,523,484</u>
Total Capital Assets	<u>21,979,508</u>	<u>1,073,793</u>	<u>99,686</u>	<u>22,953,615</u>
Less: Accumulated depreciation				
Source of supply	(369,713)	(17,276)	-	(386,989)
Pumping	(1,258,488)	(58,437)	44,632	(1,272,293)
Water treatment	(88,640)	(437)	-	(89,077)
Transmission and distribution	(4,229,057)	(349,150)	133,893	(4,444,314)
General	(832,661)	(92,139)	7,310	(917,490)
Total Accumulated Depreciation	<u>(6,778,559)</u>	<u>(517,439)</u>	<u>185,835</u>	<u>(7,110,163)</u>
Construction in progress	<u>80,638</u>	<u>5,693</u>	<u>80,638</u>	<u>5,693</u>
Net Capital Assets	<u>\$ 15,281,587</u>			<u>\$ 15,849,145</u>

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 6 - CHANGES IN CAPITAL ASSETS (cont.)

Water Utility (cont.)

A summary of changes in water capital assets for 2016 follows:

	Balance 1/1/16	Increases	Decreases	Balance 12/31/16
Capital assets, not being depreciated				
Land and land rights	\$ 430,131	\$ -	\$ -	\$ 430,131
Capital assets being depreciated				
Source of supply	595,730	-	-	595,730
Pumping	1,468,520	20,920	-	1,489,440
Water treatment	90,763	-	-	90,763
Transmission and distribution	16,766,589	1,827,934	66,782	18,527,741
General	843,272	2,431	-	845,703
Total Capital Assets Being Depreciated	19,764,874	1,851,285	66,782	21,549,377
Total Capital Assets	20,195,005	1,851,285	66,782	21,979,508
Less: Accumulated depreciation				
Source of supply	(352,437)	(17,276)	-	(369,713)
Pumping	(1,214,858)	(43,630)	-	(1,258,488)
Water treatment	(88,203)	(437)	-	(88,640)
Transmission and distribution	(3,999,252)	(316,262)	86,457	(4,229,057)
General	(747,883)	(84,778)	-	(832,661)
Total Accumulated Depreciation	(6,402,633)	(462,383)	86,457	(6,778,559)
Construction in progress	106,478	883,885	909,725	80,638
Net Capital Assets	\$ 13,898,850			\$ 15,281,587

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 6 - CHANGES IN CAPITAL ASSETS (cont.)

Wastewater Utility

A summary of changes in wastewater capital assets for 2017 follows:

	Balance 1/1/17	Increases	Decreases	Balance 12/31/17
Capital assets being depreciated				
Collecting system	\$ 11,214,653	\$ 603,049	\$ 10,023	\$ 11,807,679
Collecting system pumping	733,519	-	-	733,519
Treatment and disposal	15,554,351	83,696	24,025	15,614,022
General	1,376,617	714	-	1,377,331
Total Capital Assets Being Depreciated	28,879,140	687,459	34,048	29,532,551
Less: Accumulated depreciation	(10,250,053)	(811,612)	66,790	(10,994,875)
Construction in progress	94,791	59,092	94,791	59,092
Net Capital Assets	\$ 18,723,878			\$ 18,596,768

A summary of changes in wastewater capital assets for 2016 follows:

	Balance 1/1/16	Increases	Decreases	Balance 12/31/16
Capital assets being depreciated				
Collecting system	\$ 10,363,837	\$ 868,844	\$ 18,028	\$ 11,214,653
Collecting system pumping	401,065	332,454	-	733,519
Treatment and disposal	15,554,351	-	-	15,554,351
General	1,314,953	61,664	-	1,376,617
Total Capital Assets Being Depreciated	27,634,206	1,262,962	18,028	28,879,140
Less: Accumulated depreciation	(9,483,326)	(796,285)	29,558	(10,250,053)
Construction in progress	61,100	39,244	5,553	94,791
Net Capital Assets	\$ 18,211,980			\$ 18,723,878

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 7 - LONG-TERM OBLIGATIONS

Revenue Bonds - Electric

The following bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/17
May 3, 2016	Electric system improvements, refund 2006 bonds	April 1, 2036	2.00 - 3.00%	\$ 4,005,000	\$ 3,695,000
February 15, 2013	Electric system improvements	April 1, 2023	2.00 - 2.25	3,170,000	1,945,000

Revenue bonds debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
2018	\$ 610,000	\$ 121,613	\$ 731,613
2019	620,000	109,313	729,313
2020	660,000	96,513	756,513
2021	670,000	82,813	752,813
2022	685,000	68,438	753,438
2023 - 2027	1,150,000	221,956	1,371,956
2028 - 2032	655,000	138,825	793,825
2033 - 2036	590,000	36,150	626,150
Totals	<u>\$ 5,640,000</u>	<u>\$ 875,621</u>	<u>\$ 6,515,621</u>

All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2017 and 2016 were \$775,948 and \$602,450, respectively, not including the refunding in the prior year. Total customer gross revenues as defined for the same periods were \$15,342,304 and \$15,208,512. Annual principal and interest payments are expected to require 2% of gross revenues on average.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

Revenue Bonds - Water

The following bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/17
May 3, 2016	Additions and improvements, refund 2006 bonds	May 1, 2026	1.00 - 2.75%	\$ 2,520,000	\$ 2,225,000
January 27, 2010	Additions and improvements	May 1, 2029	2.668	575,018	395,747

Revenue bonds debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
2018	\$ 318,415	\$ 43,867	\$ 362,282
2019	314,173	39,867	354,040
2020	339,952	35,360	375,312
2021	335,751	30,325	366,076
2022	326,571	24,994	351,565
2023 - 2027	910,949	51,564	962,513
2028 - 2029	74,936	2,012	76,948
Totals	<u>\$ 2,620,747</u>	<u>\$ 227,989</u>	<u>\$ 2,848,736</u>

All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2017 and 2016 were \$370,217 and \$243,450, respectively, not including the refunding in the prior year. Total customer gross revenues as defined for the same periods were \$2,093,437 and \$2,026,153. Annual principal and interest payments are expected to require 11% of gross revenues on average.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

Revenue Bonds - Wastewater

The following bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/17
December 22, 1999	Wastewater interceptor	May 1, 2019	3.049%	\$ 623,465	\$ 81,426
July 12, 2000	WWTP improvements	May 1, 2020	3.049	1,116,259	213,851
September 10, 2003	WWTP improvements	May 1, 2023	2.766	1,670,624	603,752
June 27, 2007	WWTP improvements	May 1, 2027	2.475	1,539,762	933,743
November 1, 2014	WWTP improvements	May 1, 2034	2.625	3,305,713	2,912,195

Revenue bonds debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
2018	\$ 424,703	\$ 119,449	\$ 544,152
2019	436,322	107,670	543,992
2020	405,676	96,216	501,892
2021	340,971	86,252	427,223
2022	349,930	77,175	427,105
2023 - 2027	1,431,472	266,196	1,697,668
2028 - 2032	943,088	117,353	1,060,441
2033 - 2034	412,805	10,906	423,711
Totals	<u>\$ 4,744,967</u>	<u>\$ 881,217</u>	<u>\$ 5,626,184</u>

All utility revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2017 and 2016 were \$544,307 and \$544,459, respectively. Total customer gross revenues as defined for the same periods were \$2,084,680 and \$2,038,487. Annual principal and interest payments are expected to require 16% of gross revenues on average.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt - Water

The following general obligation bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/17
July 9, 2015	Additions and improvements	April 1, 2025	2.00 - 2.25%	\$ 522,000	\$ 423,000

General obligation bonds debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
2018	\$ 51,000	\$ 8,160	\$ 59,160
2019	51,000	7,140	58,140
2020	51,000	6,120	57,120
2021	51,000	5,100	56,100
2022	54,000	4,050	58,050
2023 - 2025	<u>165,000</u>	<u>5,468</u>	<u>170,468</u>
Totals	<u>\$ 423,000</u>	<u>\$ 36,038</u>	<u>\$ 459,038</u>

General Obligation Debt - Wastewater

The following general obligation bonds have been issued:

Date	Purpose	Final Maturity	Interest Rate	Original Amount	Outstanding Amount 12/31/17
July 9, 2015	Additions and improvements	April 1, 2025	2.00 - 2.25%	\$ 348,000	\$ 282,000

General obligation bonds debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
2018	\$ 34,000	\$ 5,440	\$ 39,440
2019	34,000	4,760	38,760
2020	34,000	4,080	38,080
2021	34,000	3,400	37,400
2022	36,000	27,000	63,000
2023-2025	<u>110,000</u>	<u>3,645</u>	<u>113,645</u>
Totals	<u>\$ 282,000</u>	<u>\$ 48,325</u>	<u>\$ 330,325</u>

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

Long-Term Obligations Summary - Electric

Long-term obligation activity for the year ended December 31, 2017 is as follows:

	1/1/17 Balance	Additions	Reductions	12/31/17 Balance	Due Within One Year
Revenue bonds	\$ 6,250,000	\$ -	\$ 610,000	\$ 5,640,000	\$ 610,000
Accrued sick leave	171,811	32,035	27,365	176,481	-
Customer advances for construction	27,141	93,410	91,910	28,641	-
Unamortized premium on bonds	131,571	-	22,738	108,833	-
Net pension liability	<u>103,350</u>	<u>11,897</u>	<u>62,300</u>	<u>52,947</u>	<u>-</u>
Totals	<u>\$ 6,683,873</u>	<u>\$ 137,342</u>	<u>\$ 814,313</u>	<u>\$ 6,006,902</u>	<u>\$ 610,000</u>

Long-term obligation activity for the year ended December 31, 2016 is as follows:

	1/1/16 Balance	Additions	Reductions	12/31/16 Balance	Due Within One Year
Revenue bonds	\$ 4,460,000	\$ 4,005,000	\$ 2,215,000	\$ 6,250,000	\$ 610,000
Accrued sick leave	170,083	24,501	22,773	171,811	-
Customer advances for construction	225,387	175,808	374,054	27,141	-
Unamortized premium on bonds	48,863	93,666	10,958	131,571	-
Net pension liability	<u>-</u>	<u>103,350</u>	<u>-</u>	<u>103,350</u>	<u>-</u>
Totals	<u>\$ 4,904,333</u>	<u>\$ 4,402,325</u>	<u>\$ 2,622,785</u>	<u>\$ 6,683,873</u>	<u>\$ 610,000</u>

Long-Term Obligations Summary - Water

Long-term obligation activity for the year ended December 31, 2017 is as follows:

	1/1/17 Balance	Additions	Reductions	12/31/17 Balance	Due Within One Year
Revenue bonds	\$ 2,943,424	\$ -	\$ 322,677	\$ 2,620,747	\$ 318,415
General obligation debt	474,000	-	51,000	423,000	51,000
Accrued sick leave	86,587	22,612	9,962	99,237	-
Unamortized premium on bonds	35,638	-	6,592	29,046	-
Net pension liability	<u>36,404</u>	<u>9,989</u>	<u>25,079</u>	<u>21,314</u>	<u>-</u>
Totals	<u>\$ 3,576,053</u>	<u>\$ 32,601</u>	<u>\$ 415,310</u>	<u>\$ 3,193,344</u>	<u>\$ 369,415</u>

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

Long-Term Obligations Summary - Water (cont.)

Long-term obligation activity for the year ended December 31, 2016 is as follows:

	1/1/16 Balance	Additions	Reductions	12/31/16 Balance	Due Within One Year
Revenue bonds	\$ 1,775,381	\$ 2,520,000	\$ 1,351,957	\$ 2,943,424	\$ 322,677
General obligation debt	522,000	-	48,000	474,000	51,000
Accrued sick leave	93,082	-	6,495	86,587	-
Unamortized premium on bonds	-	38,590	2,952	35,638	-
Net pension liability	-	36,404	-	36,404	-
Totals	<u>\$ 2,390,463</u>	<u>\$ 2,594,994</u>	<u>\$ 1,409,404</u>	<u>\$ 3,576,053</u>	<u>\$ 373,677</u>

Long-Term Obligations Summary - Wastewater

Long-term obligation activity for the year ended December 31, 2017 is as follows:

	1/1/17 Balance	Additions	Reductions	12/31/17 Balance	Due Within One Year
Revenue bonds	\$ 5,158,363	\$ -	\$ 413,396	\$ 4,744,967	\$ 424,703
General obligation debt	316,000	-	34,000	282,000	34,000
Accrued sick leave	120,910	15,492	11,769	124,633	-
Net pension liability	40,825	8,874	26,866	22,833	-
Totals	<u>\$ 5,636,098</u>	<u>\$ 24,366</u>	<u>\$ 486,031</u>	<u>\$ 5,174,433</u>	<u>\$ 458,703</u>

Long-term obligation activity for the year ended December 31, 2016 is as follows:

	1/1/16 Balance	Additions	Reductions	12/31/16 Balance	Due Within One Year
Revenue bonds	\$ 5,560,753	\$ -	\$ 402,390	\$ 5,158,363	\$ 413,395
General obligation debt	348,000	-	32,000	316,000	34,000
Accrued sick leave	105,822	19,691	4,603	120,910	-
Net pension liability	-	40,825	-	40,825	-
Totals	<u>\$ 6,014,575</u>	<u>\$ 60,516</u>	<u>\$ 438,993</u>	<u>\$ 5,636,098</u>	<u>\$ 447,395</u>

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

Current Refunding

On May 26, 2016, electric utility issued bonds in the amount of \$4,005,000 were issued with an average interest rate of 2.2% to refund \$1,725,000 of outstanding 2006 electric bonds with an average interest rate of 3.71% and provide \$2,445,000 of proceeds to fund new construction. \$1,560,000 of the net proceeds, along with \$188,616 of restricted funds on hand, were used to prepay the outstanding debt service requirements on the 2006 bonds.

The cash flow requirements on the old bonds prior to the current refunding was \$2,058,000 from 2017 through 2023. The cash flow requirements on the new bonds are \$1,685,833 from 2017 through 2023. The current refunding resulted in an economic gain of \$157,590.

On May 26, 2016, the water utility issued bonds in the amount of \$2,650,000 were issued with an average interest rate of 1.77% to refund \$1,175,000 of outstanding 2006 bonds with an average interest rate of 3.77% and provide \$1,320,000 of proceeds to fund new construction. \$1,200,000 of the net proceeds were used to prepay the outstanding debt service requirements on the 2006 bonds.

The cash flow requirements on the old bonds prior to the current refunding was \$1,396,625 from 2017 through 2023. The cash flow requirements on the new bonds are \$1,269,531 from 2017 through 2023. The current refunding resulted in an economic gain of \$122,199.

Bond Covenant Disclosures

The following information is provided in compliance with the resolution 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.

The utilities are covered under the following insurance policies at December 31, 2017:

Type	Coverage	Expiration
Automobile	\$ 10,000,000 CVMIC Self-Insured	1/1/18
Excess Liability	5,000,000 CVMIC Self-Insured	1/1/18
Workers Compensation	5,000,000 CVMIC Self-Insured	1/1/18
	1,000,000 CVMIC Self-Insured	1/1/18
Boiler Insurance	250,000,000 CVMIC Self-Insured	1/1/18
Property	59,566,800 Wisconsin Local Property Insurance Fund	2/1/18

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

Bond Covenant Disclosures (cont.)

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 2017 and 2016 as follows:

	2017	2016
Operating revenues	\$ 15,249,623	\$ 15,116,204
Investment income	92,681	92,308
Less: Operation and maintenance expenses	(13,257,421)	(13,329,607)
Net Defined Earnings	\$ 2,084,883	\$ 1,878,905
Minimum Required Earnings per Resolution:		
Highest annual debt service	\$ 756,513	\$ 775,948
Coverage factor	1.30	1.30
Minimum Required Earnings	\$ 983,467	\$ 1,008,732
Actual Debt Coverage	2.76	2.42

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 2017 and 2016 as follows:

	2017	2016
Operating revenues	\$ 2,071,229	\$ 2,001,124
Investment income	22,208	25,029
Less: Operation and maintenance expenses	(1,049,770)	(1,012,205)
Net Defined Earnings	\$ 1,043,667	\$ 1,013,948
Minimum Required Earnings per Resolution:		
Highest annual debt service	\$ 375,312	\$ 375,312
Coverage factor	1.30	1.30
Minimum Required Earnings	\$ 487,906	\$ 487,906
Actual Debt Coverage	2.78	2.70

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

Bond Covenant Disclosures (cont.)

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 2017 and 2016 as follows:

	2017	2016
Operating revenues	\$ 2,051,313	\$ 2,036,002
Investment income	33,367	2,485
Less: Operation and maintenance expenses	(1,012,657)	(1,020,298)
Net Defined Earnings	\$ 1,072,023	\$ 1,018,189
Minimum Required Earnings per Resolution:		
Highest annual debt service	\$ 544,152	\$ 544,307
Coverage factor	1.10	1.10
Minimum Required Earnings	\$ 598,567	\$ 598,738
Actual Debt Coverage	1.97	1.87

Number of Customers and Billed Volumes - Electric

The utility has the following number of customers and billed volumes for 2017 and 2016:

	Customers		Sales (000 kWh)	
	2017	2016	2017	2016
Residential	7,744	7,714	63,176	69,348
General	829	833	16,248	14,157
Small power	62	52	15,612	13,291
Large power	10	10	12,310	10,164
Industrial	6	6	30,905	31,257
Street and highway lighting	7	7	770	735
Totals	8,658	8,622	139,021	138,952

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

Bond Covenant Disclosures (cont.)

Number of Customers and Billed Volumes - Water

The utility has the following number of customers and billed volumes for 2017 and 2016:

	Customers		Sales (000 gals)	
	2017	2016	2017	2016
Residential	4,469	4,444	202,150	206,657
Multifamily residential	64	63	28,762	25,465
Commercial	375	366	54,306	53,304
Industrial	25	25	174,238	179,746
Public authority	45	44	4,976	5,304
Interdepartmental	6	6	432	533
Totals	<u>4,984</u>	<u>4,948</u>	<u>464,864</u>	<u>471,009</u>

Number of Customers and Billed Volumes - Wastewater

The utility has the following number of customers and billed volumes for 2017 and 2016:

	Customers		Sales (000 gals)	
	2017	2016	2017	2016
Residential	4,465	4,440	201,168	230,659
Multifamily residential	64	63	26,228	25,465
Commercial	358	349	51,364	50,898
Industrial	21	21	23,241	26,567
Public authority	32	32	3,544	3,554
Interdepartmental	1	1	48	50
Totals	<u>4,941</u>	<u>4,906</u>	<u>305,593</u>	<u>337,193</u>

Utility Budget

The 2017 and 2016 utility budgets were prepared and approved as required by the bond resolutions.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

NOTE 8 - NET POSITION

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

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

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - This component of net position consists of net positions that do not meet the definition of "restricted" or "net investment in capital assets."

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

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

	2017	2016
Construction work in progress	\$ 2,358,222	\$ 189,399
Plant in service	29,180,881	28,289,994
Accumulated depreciation	(15,289,472)	(14,429,881)
Property held for future use	352,664	352,664
Sub-Totals	16,602,295	14,402,176
Less: Capital related debt		
Current portion of capital related long-term debt	610,000	610,000
Long-term portion of capital related long-term debt	5,030,000	5,640,000
Unamortized debt premium	108,833	131,571
Sub-Totals	5,748,833	6,381,571
Add: Unspent debt proceeds		
Construction funds	-	1,840,074
Total Net Investment in Capital Assets	\$ 10,853,462	\$ 9,860,679

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 8 - NET POSITION (cont.)

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

	2017	2016
Construction work in progress	\$ 5,693	\$ 80,638
Plant in service	22,953,615	21,979,508
Accumulated depreciation	<u>(7,110,163)</u>	<u>(6,778,559)</u>
Sub-Totals	<u>15,849,145</u>	<u>15,281,587</u>
Less: Capital related debt		
Current portion of capital related long-term debt	369,415	373,677
Long-term portion of capital related long-term debt	2,674,332	3,043,747
Unamortized debt premium	<u>29,046</u>	<u>35,638</u>
Sub-Totals	<u>3,072,793</u>	<u>3,453,062</u>
Add: Unspent debt proceeds		
Construction funds	<u>-</u>	<u>213,127</u>
Total Net Investment in Capital Assets	<u>\$ 12,776,352</u>	<u>\$ 12,041,652</u>

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

	2017	2016
Construction work in progress	\$ 59,092	\$ 94,791
Plant in service	29,532,551	28,879,140
Accumulated depreciation	<u>(10,994,875)</u>	<u>(10,250,053)</u>
Sub-Totals	<u>18,596,768</u>	<u>18,723,878</u>
Less: Capital related debt		
Current portion of capital related long-term debt	458,703	447,395
Long-term portion of capital related long-term debt	<u>4,568,264</u>	<u>5,026,968</u>
Sub-Totals	<u>5,026,967</u>	<u>5,474,363</u>
Add: Unspent debt proceeds		
Reserve from borrowing	<u>-</u>	<u>123</u>
Total Net Investment in Capital Assets	<u>\$ 13,569,801</u>	<u>\$ 13,249,638</u>

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM

General Information About the Pension Plan

Plan description. The WRS is a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1,200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

ETF issues a standalone Comprehensive Annual Financial Report (CAFR), which can be bound at <http://etf.wi.gov/publications/cafr.htm>.

Vesting. For employees beginning participation on or after January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998, and prior to July 1, 2011, are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011, must have five years of creditable service to be vested.

Benefits provided. Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits.

The WRS also provides death and disability benefits for employees.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

Post-retirement adjustments. The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the system's consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount (the "floor") set at retirement. The Core and Variable annuity adjustments granted during recent years are as follows:

Year	Core Fund Adjustment	Variable Fund Adjustment
2007	3.0%	10%
2008	6.6	0
2009	(2.1)	(42)
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25
2015	2.9	2
2016	0.5	(5)

Contributions. Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees, including teachers, and Executives and Elected Officials. Starting January 1, 2016, the Executives and Elected Officials category merged into the General Employee category. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

The WRS recognized \$114,245 and \$111,938 in contributions from the utilities during the current and prior reporting periods, respectively.

Contribution rates as of December 31, 2017 and December 31, 2016 are:

	2017		2016	
	Employee	Employer	Employee	Employer
General (including Executives and Elected Officials)	6.8%	6.8%	6.6%	6.6%
Protective with Social Security	6.8%	10.6%	6.6%	9.4%
Protective without Social Security	6.8%	14.9%	6.6%	13.2%

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017, the utilities reported a liability (asset) of \$97,094 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2015 rolled forward to December 31, 2016. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The utilities's proportion of the net pension liability (asset) was based on the utilities's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2016, the City of Stoughton's proportion was 0.04705035%, which was an increase of 0.00107361% from its proportion measured as of December 31, 2015.

At December 31, 2016, the utilities reported a liability (asset) of \$180,579 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2014 rolled forward to December 31, 2015. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The utilities's proportion of the net pension liability (asset) was based on the utilities's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2015, the City of Stoughton's proportion was 0.045976740%, which was an increase of 0.001111810% from its proportion measured as of December 31, 2014.

For the year ended December 31, 2017 and 2016, the utilities recognized pension expense of \$264,772 and \$218,179.

At December 31, 2017, the utilities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Electric Utility</u>		<u>Water Utility</u>		<u>Wastewater Utility</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 19,644	\$ 164,337	\$ 7,388	\$ 55,210	\$ 7,809	\$ 62,991
Changes in assumption	54,635	-	18,355	-	20,941	-
Net differences between project and actual earnings on pension plan	258,607	-	83,986	-	96,079	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	5,548	-	2,061	-	2,255
Employer contributions subsequent to the measurement date	<u>72,260</u>	<u>-</u>	<u>26,398</u>	<u>-</u>	<u>26,532</u>	<u>-</u>
Total	<u>\$ 405,146</u>	<u>\$ 169,885</u>	<u>\$ 136,127</u>	<u>\$ 57,271</u>	<u>\$ 151,361</u>	<u>\$ 65,246</u>

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

At December 31, 2016, the utilities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Electric Utility</u>		<u>Water Utility</u>		<u>Wastewater Utility</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 17,236	\$ 217,499	\$ 6,411	\$ 76,611	\$ 6,765	\$ 85,916
Changes in assumption	422,315	-	149,893	-	166,680	-
Net differences between project and actual earnings on pension plan	72,308	-	25,470	-	28,563	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	3,747	-	1,336	-	1,478
Employer contributions subsequent to the measurement date	<u>64,055</u>	<u>-</u>	<u>25,032</u>	<u>-</u>	<u>25,158</u>	<u>-</u>
Total	<u>\$ 575,914</u>	<u>\$ 221,246</u>	<u>\$ 206,806</u>	<u>\$ 77,947</u>	<u>\$ 227,166</u>	<u>\$ 87,394</u>

Deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date reported in the tables above will be recognized as a reduction of the net pension liability (asset) in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>
2018	\$ 66,920	\$ 21,536	\$ 24,461
2019	66,920	21,536	24,461
2020	45,297	14,578	16,558
2021	(16,194)	(5,212)	(5,919)
2022	58	20	22
Thereafter	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 163,001</u>	<u>\$ 52,458</u>	<u>\$ 59,583</u>

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

Actuarial assumptions. The total pension liability in the actuarial valuation used in the current and prior year was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2017	2016
Actuarial valuation date	December 31, 2015	December 31, 2014
Measurement date of net pension liability (asset)	December 31, 2016	December 31, 2015
Actuarial cost method	Entry age	Entry age
Asset valuation method	Fair market value	Fair market value
Long-term expected rate of return	7.2%	7.2%
Discount rate	7.2%	7.2%
Salary increases		
Inflation	3.2%	3.2%
Seniority/Merit	0.2% - 5.6%	0.2% - 5.6%
Mortality	Wisconsin 2012 Mortality Table	Wisconsin 2012 Mortality Table
Post-retirement adjustments	2.1%	2.1%

** No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 2.1% is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.*

Actuarial assumptions used in the December 31, 2015 actuarial valuation are based upon an experience study conducted in 2015 using experience from 2012 – 2014. The total pension liability for December 31, 2016 is based upon a roll-forward of the liability calculated from the December 31, 2015 actuarial valuation.

Actuarial assumptions used in the December 31, 2014 actuarial valuation are based upon an experience study conducted in 2012 using experience from 2009 – 2011. The total pension liability for December 31, 2015 is based upon a roll-forward of the liability calculated from the December 31, 2014 actuarial valuation.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

Long-term expected return on plan assets. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2017 are summarized in the following table:

Core Fund Asset Class	Current Asset Allocation %	Destination Target Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
Global Equities	50%	45%	8.3%	5.4%
Fixed Income	24.5	37	4.24	1.4
Inflation Sensitive Assets	15.5	20	4.3	1.5
Real Estate	8	7	6.5	3.6
Private Equity/Debt	7	7	9.4	6.5
Multi-Asset	4	4	6.6	3.7
Total Core Fund	110	120	7.4	4.5
<u>Variable Fund Asset Class</u>				
U.S Equities	70	70	7.6	4.7
International Equities	30	30	8.5	5.6
Total Variable Fund	100	100	7.9	5.0

New England Pension Consultants Long-Term U.S. CPI (Inflation) Forecast: 2.75%.
Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2016 are summarized in the following table:

Core Fund Asset Class	Current Asset Allocation %	Destination Target Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
U.S. Equities	27%	23%	7.6%	4.7%
International Equities	24.5	22	8.5	5.6
Fixed Income	27.5	37	4.4	1.6
Inflation Sensitive Assets	10	20	4.2	1.4
Real Estate	7	7	6.5	3.6
Private Equity/Debt	7	7	9.4	6.5
Multi-Asset	4	4	6.7	3.8
Total Core Fund	107	120	7.4	4.5
<u>Variable Fund Asset Class</u>				
U.S Equities	70	70	7.6	4.7
International Equities	30	30	8.5	5.6
Total Variable Fund	100	100	7.9	5.0

New England Pension Consultants Long-Term U.S. CPI (Inflation) Forecast: 2.75%.
Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations.

Single discount rate. A single discount rate of 7.20% was used to measure the total pension liability as of December 31, 2017 and December 31, 2016. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long-term bond rate of 3.78% in 2017 and 3.56% in 2016. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

Sensitivity of the utilities' proportionate share of the net pension liability (asset) to changes in the discount rate. The following presents the utilities' proportionate share of the net pension liability (asset) calculated using the discount rate of 7.20 percent, as well as what the utilities' proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate.

The sensitivity analysis as of December 31, 2017 follows:

	<u>1% Decrease to Discount Rate (6.20%)</u>	<u>Current Discount Rate (7.20%)</u>	<u>1% Increase to Discount Rate (8.20%)</u>
Electric Utility's proportionate share of the net position liability (asset)	\$ 696,552	\$ 52,947	\$ (442,658)
Water Utility's proportionate share of the net position liability (asset)	280,400	21,314	(178,194)
Wastewater Utility's proportionate share of the net position liability (asset)	300,383	22,833	(190,893)

The sensitivity analysis as of December 31, 2016 follows:

	<u>1% Decrease to Discount Rate (6.20%)</u>	<u>Current Discount Rate (7.20%)</u>	<u>1% Increase to Discount Rate (8.20%)</u>
Electric Utility's proportionate share of the net position liability (asset)	\$ 724,899	\$ 103,350	\$ (382,091)
Water Utility's proportionate share of the net position liability (asset)	255,338	36,404	(134,588)
Wastewater Utility's proportionate share of the net position liability (asset)	286,347	40,825	(150,932)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <http://etf.wi.gov/Publications/cafr.htm>.

NOTE 10 - 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.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (cont.)

Long-Term Contracts - WPPI Energy (cont.)

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 2015 and 2016, all but two of WPPI Energy members ratified an extension to their existing contracts. The new contract expires at midnight on December 31, 2055. The contract for the remaining members expires 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 \$388 million as of December 31, 2017.

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.

NOTE 11 - 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 14, 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 approximately 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 can be obtained directly from CVMIC's offices.

STOUGHTON UTILITIES

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

NOTE 11 - RISK MANAGEMENT (cont.)

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

The municipality shows the general obligation bond that it owes to WMIC in the insurance internal service fund (governmental activities column of government-wide statement of net position). The transactions of the organization are not included in these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

STOUGHTON UTILITIES

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) - WISCONSIN RETIREMENT SYSTEM For the Year Ended December 31, 2017

The required supplementary information presented below represents the proportionate information for the enterprise funds included in this report.

Fiscal Year Ending	Proportion of the Net Pension Liability (Asset) - City	Utilities' Proportionate Share of the Net Pension Liability (Asset)	Covered Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
12/31/17	0.04705035%	\$ 97,094	\$ 1,730,985	5.61%	99.12%
12/31/16	0.04597674%	180,579	1,643,602	10.99%	98.20%
12/31/15	0.04486493%	(265,441)	1,372,152	19.34%	102.74%

SCHEDULE OF EMPLOYER CONTRIBUTIONS - WISCONSIN RETIREMENT SYSTEM For the Year Ended December 31, 2016

Fiscal Year Ending	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/17	\$ 125,190	\$ 125,190	\$ -	1,841,029	6.80%
12/31/16	114,245	114,245	-	1,730,985	6.60%
12/31/15	111,938	111,938	-	1,643,602	6.81%

See independent auditors' report and accompanying notes to the required supplementary information.

STOUGHTON UTILITIES

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION For the Year Ended December 31, 2017

WISCONSIN RETIREMENT SYSTEM

The amounts determined for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

The Utilities' are required to present the last ten fiscal years of data; however accounting standards allow the presentation of as many years as are available until ten fiscal years are presented.

Changes in benefit terms. There were no changes of benefit terms for any participating employer in the Wisconsin Retirement System.

Changes in Assumptions. There were no changes in assumptions.

SUPPLEMENTAL INFORMATION

ELECTRIC UTILITY

STOUGHTON ELECTRIC UTILITY

ELECTRIC UTILITY PLANT
As of and for the Year Ended December 31, 2017

	Balance 1/1/17	Additions	Retirements	Balance 12/31/17
TRANSMISSION				
Land and land rights	\$ 1	\$ -	\$ -	\$ 1
Poles and fixtures	5,035	-	-	5,035
Overhead conductors and devices	9,984	-	-	9,984
Total Transmission	<u>15,020</u>	<u>-</u>	<u>-</u>	<u>15,020</u>
DISTRIBUTION				
Land and land rights	220,796	-	-	220,796
Structures and improvements	52,834	-	-	52,834
Station equipment	4,336,785	2,085	-	4,338,870
Poles, towers and fixtures	3,319,040	140,314	36,464	3,422,890
Overhead conductors and devices	5,830,148	169,014	63,169	5,935,993
Underground conduit	538,813	86,650	366	625,097
Underground conductors and devices	3,702,473	373,532	18,801	4,057,204
Line transformers	3,097,723	163,447	11,468	3,249,702
Services	1,822,777	63,425	7,223	1,878,979
Meters	671,922	16,283	1,628	686,577
Street lighting and signal systems	565,135	44,291	20,028	589,398
Total Distribution	<u>24,158,446</u>	<u>1,059,041</u>	<u>159,147</u>	<u>25,058,340</u>
GENERAL				
Structures and improvements	1,656,659	-	-	1,656,659
Office furniture and equipment	215,401	1,569	-	216,970
Computer equipment	191,677	-	-	191,677
Transportation equipment	310,127	-	25,719	284,408
Stores equipment	9,984	-	-	9,984
Tools, shop and garage equipment	81,791	5,746	-	87,537
Laboratory equipment	60,822	-	-	60,822
Power-operated equipment	1,213,502	27,900	18,503	1,222,899
Communication equipment	92,122	-	-	92,122
Fiber optic equipment	279,453	-	-	279,453
Miscellaneous equipment	4,990	-	-	4,990
Total General	<u>4,116,528</u>	<u>35,215</u>	<u>44,222</u>	<u>4,107,521</u>
TOTAL ELECTRIC UTILITY PLANT	<u><u>\$28,289,994</u></u>	<u><u>\$ 1,094,256</u></u>	<u><u>\$ 203,369</u></u>	<u><u>\$29,180,881</u></u>

STOUGHTON ELECTRIC UTILITY

ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Sales of Electricity		
Residential	\$ 5,156,589	\$ 5,245,492
Rural	2,804,789	2,860,599
General service	1,523,131	1,563,722
Large commercial and industrial	1,445,786	1,358,269
Large power	1,107,643	914,513
Industrial	2,766,795	2,742,903
Public street and highway lighting	123,726	121,306
Interdepartmental	178,127	174,133
Total Sales of Electricity	15,106,586	14,980,937
Other Operating Revenues		
Forfeited discounts	32,924	35,433
Other	110,113	99,834
Total Operating Revenues	15,249,623	15,116,204
OPERATING EXPENSES		
Operation and Maintenance		
Other Power Supply		
Purchased power	11,501,767	11,588,139
Transmission		
Operation supervision and engineering	16,411	3,431
Station	37,670	34,522
Overhead lines	29,364	51,527
Underground lines	30,125	32,928
Total Transmission	113,570	122,408
Distribution		
Street lighting and signal system	-	(17)
Meter	5,577	19,196
Customer installations	-	109
Miscellaneous	53,084	70,220
Maintenance		
Supervision and engineering	482	21,774
Station equipment	20,544	18,992
Overhead lines	316,183	206,090
Underground lines	75,818	56,207
Line transformers	5,557	2,659
Street lighting and signal system	7,034	6,342
Meters	39,647	27,199
Total Distribution	523,926	428,771
Customer Accounts		
Meter reading	4,627	3,900
Customer records and collection	246,712	261,008
Miscellaneous	8,085	19,486
Total Customer Accounts	259,424	284,394

STOUGHTON ELECTRIC UTILITY

ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES (cont.) For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING EXPENSES (cont.)		
Operation and Maintenance (cont.)		
Administrative and General		
Salaries	\$ 243,000	\$ 261,330
Office supplies	49,340	54,679
Outside services employed	23,734	23,697
Property insurance	31,228	30,397
Injuries and damages	37,740	36,826
Employee pensions and benefits	226,038	255,655
Regulatory commission	4,887	2,783
Miscellaneous	1,392	500
Rents	11,674	11,680
Maintenance	<u>56,484</u>	<u>57,664</u>
Total Administrative and General	<u>685,517</u>	<u>735,211</u>
Taxes	<u>173,217</u>	<u>170,684</u>
Total Operation and Maintenance	13,257,421	13,329,607
Depreciation	<u>1,019,024</u>	<u>996,954</u>
Total Operating Expenses	<u>14,276,445</u>	<u>14,326,561</u>
 OPERATING INCOME	 <u>\$ 973,178</u>	 <u>\$ 789,643</u>

STOUGHTON ELECTRIC UTILITY

RATE OF RETURN - REGULATORY BASIS For the Years Ended December 31, 2017 and 2016

	Electric	
	2017	2016
Utility Financed Plant in Service		
Beginning of year	\$ 24,962,668	\$ 24,260,890
End of year	<u>25,749,349</u>	<u>24,962,668</u>
Average	<u>25,356,009</u>	<u>24,611,779</u>
Utility Financed Accumulated Depreciation		
Beginning of year	(12,808,857)	(11,973,321)
End of year	<u>(13,559,734)</u>	<u>(12,808,857)</u>
Average	<u>(13,184,296)</u>	<u>(12,391,089)</u>
Materials and Supplies		
Beginning of year	163,294	129,405
End of year	<u>153,499</u>	<u>163,294</u>
Average	<u>158,397</u>	<u>146,350</u>
Regulatory Liability		
Beginning of year	(155,124)	(177,284)
End of year	<u>(132,964)</u>	<u>(155,124)</u>
Average	<u>(144,044)</u>	<u>(166,204)</u>
Customer Advances for Construction		
Beginning of year	(27,141)	(225,387)
End of year	<u>(28,641)</u>	<u>(27,141)</u>
Average	<u>(27,891)</u>	<u>(126,264)</u>
AVERAGE NET RATE BASE	<u>\$ 12,158,175</u>	<u>\$ 12,074,572</u>
OPERATING INCOME - REGULATORY BASIS	<u>\$ 785,048</u>	<u>\$ 597,291</u>
RATE OF RETURN (PERCENT)	<u>6.46</u>	<u>4.95</u>

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.

WATER UTILITY

STOUGHTON WATER UTILITY

WATER UTILITY PLANT
As of and for the Year Ended December 31, 2017

	Balance 1/1/17	Additions	Retirements	Balance 12/31/17
SOURCE OF SUPPLY				
Land and land rights	\$ 11,635	\$ -	\$ -	\$ 11,635
Wells and springs	595,730	-	-	595,730
Total Source of Supply	<u>607,365</u>	<u>-</u>	<u>-</u>	<u>607,365</u>
PUMPING				
Structures and improvements	625,811	29,800	11,000	644,611
Other power production equipment	278,732	12,923	7,897	283,758
Electric pumping equipment	584,896	-	-	584,896
Total Pumping	<u>1,489,439</u>	<u>42,723</u>	<u>18,897</u>	<u>1,513,265</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	1,955,851	-	-	1,955,851
Transmission and distribution mains	11,720,653	645,924	9,775	12,356,802
Services	2,609,094	197,970	2,266	2,804,798
Meters	774,883	92,705	54,655	812,933
Hydrants	1,474,135	89,085	13,166	1,550,054
Other transmission and distribution plant	973	4,815	927	4,861
Total Transmission and Distribution	<u>18,550,406</u>	<u>1,030,499</u>	<u>80,789</u>	<u>19,500,116</u>
GENERAL				
Structures and improvements	412,821	-	-	412,821
Office furniture and equipment	62,497	571	-	63,068
Computer equipment	55,313	-	-	55,313
Transportation equipment	63,006	-	-	63,006
Stores equipment	2,187	-	-	2,187
Tools, shop and garage equipment	47,309	-	-	47,309
Power-operated equipment	102,034	-	-	102,034
Communication equipment	37,858	-	-	37,858
SCADA equipment	458,421	-	-	458,421
Miscellaneous equipment	89	-	-	89
Total General	<u>1,241,535</u>	<u>571</u>	<u>-</u>	<u>1,242,106</u>
TOTAL WATER UTILITY PLANT	<u><u>\$21,979,508</u></u>	<u><u>\$ 1,073,793</u></u>	<u><u>\$ 99,686</u></u>	<u><u>\$22,953,615</u></u>

STOUGHTON WATER UTILITY

WATER UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Sales of Water		
Unmetered	\$ -	\$ 79
Metered		
Residential	899,421	876,749
Multifamily residential	74,247	65,660
Commercial	168,601	156,718
Industrial	301,957	296,674
Public authorities	19,310	18,747
Interdepartmental	1,779	1,918
Total Metered Sales	1,465,315	1,416,466
Private fire protection	43,901	38,842
Public fire protection	520,495	498,439
Total Sales of Water	2,029,711	1,953,826
Other Operating Revenues		
Forfeited discounts	6,422	6,309
Other	35,096	40,989
Total Operating Revenues	2,071,229	2,001,124
OPERATING EXPENSES		
Operation and Maintenance		
Source of Supply		
Maintenance		
Wells and springs	138	4,675
Pumping		
Fuel or purchased power for pumping	135,189	128,913
Pumping labor	2,899	15,995
Miscellaneous	1,501	2,498
Maintenance		
Structures and improvements	24,319	19,526
Pumping equipment	32,733	34,724
Total Pumping	196,641	201,656
Water Treatment		
Chemicals	16,159	14,569
Operation labor	53,737	44,842
Maintenance		
Structures and improvements	925	900
Water treatment equipment	2,538	8,267
Total Water Treatment	73,359	68,578

STOUGHTON WATER UTILITY

WATER UTILITY OPERATING REVENUES AND EXPENSES (cont.) For the Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING EXPENSES (cont.)		
Operation and Maintenance (cont.)		
Transmission and Distribution		
Transmission and distribution lines	\$ 13,769	\$ 14,316
Meters	40,099	25,178
Miscellaneous	41,519	40,808
Maintenance		
Reservoirs and standpipes	46,829	53,069
Mains	58,419	51,540
Services	35,154	51,644
Meters	1,160	510
Hydrants	30,842	16,191
Miscellaneous	2,348	9,386
Total Transmission and Distribution	270,139	262,642
Customer Accounts		
Meter reading	13,821	7,522
Accounting and collecting labor	94,299	92,476
Total Customer Accounts	108,120	99,998
Administrative and General		
Salaries	152,912	157,264
Office supplies	14,259	14,581
Outside services employed	30,927	28,928
Property insurance	11,355	11,054
Injuries and damages	12,540	12,621
Employee pensions and benefits	144,595	112,281
Regulatory commission	-	4,991
Miscellaneous	319	470
Rents	4,245	4,247
Maintenance	8,017	5,948
Total Administrative and General	379,169	352,385
Taxes	22,204	22,271
Total Operation and Maintenance	1,049,770	1,012,205
Depreciation	444,601	428,084
Total Operating Expenses	1,494,371	1,440,289
OPERATING INCOME	\$ 576,858	\$ 560,835

STOUGHTON WATER UTILITY

RATE OF RETURN - REGULATORY BASIS For the Years Ended December 31, 2017 and 2016

	Water	
	2017	2016
Utility Financed Plant in Service		
Beginning of year	\$ 14,600,959	\$ 13,552,786
End of year	<u>15,471,436</u>	<u>14,600,959</u>
Average	<u>15,036,198</u>	<u>14,076,873</u>
Utility Financed Accumulated Depreciation		
Beginning of year	(4,786,329)	(4,515,479)
End of year	<u>(5,004,855)</u>	<u>(4,786,329)</u>
Average	<u>(4,895,592)</u>	<u>(4,650,904)</u>
Materials and Supplies		
Beginning of year	34,812	29,831
End of year	<u>41,401</u>	<u>34,812</u>
Average	<u>38,107</u>	<u>32,322</u>
Regulatory Liability		
Beginning of year	(239,600)	(273,828)
End of year	<u>(205,372)</u>	<u>(239,600)</u>
Average	<u>(222,486)</u>	<u>(256,714)</u>
AVERAGE NET RATE BASE	<u>\$ 9,956,227</u>	<u>\$ 9,201,577</u>
OPERATING INCOME - REGULATORY BASIS	<u>\$ 320,159</u>	<u>\$ 318,087</u>
RATE OF RETURN (PERCENT)	<u>3.22</u>	<u>3.46</u>

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.

WASTEWATER UTILITY

STOUGHTON WASTEWATER UTILITY

WASTEWATER UTILITY PLANT
As of and for the Year Ended December 31, 2017

	Balance 1/1/17	Additions	Retirements	Balance 12/31/17
COLLECTING SYSTEM				
Land and land rights	\$ 100	\$ -	\$ -	\$ 100
Collecting mains	9,301,524	603,049	10,023	9,894,550
Interceptor mains	1,864,084	-	-	1,864,084
Force mains	48,951	-	-	48,951
Total Collecting System	<u>11,214,659</u>	<u>603,049</u>	<u>10,023</u>	<u>11,807,685</u>
COLLECTING SYSTEM PUMPING				
Structures and improvements	106,238	-	-	106,238
Electric pumping equipment	605,881	-	-	605,881
Other power pumping equipment	21,399	-	-	21,399
Total Collecting System Pumping	<u>733,518</u>	<u>-</u>	<u>-</u>	<u>733,518</u>
TREATMENT AND DISPOSAL				
Structures and improvements	5,364,072	-	-	5,364,072
Preliminary treatment equipment	1,542,566	43,010	8,683	1,576,893
Primary treatment equipment	1,150,534	-	-	1,150,534
Secondary treatment equipment	529,291	-	-	529,291
Advanced treatment equipment	1,930,493	-	-	1,930,493
Chlorination equipment	366,162	-	-	366,162
Sludge treatment and disposal equipment	3,921,749	10,853	4,311	3,928,291
Plant site piping	685,498	6,024	1,089	690,433
Flow metering and monitoring equipment	25,166	23,809	9,942	39,033
Other treatment and disposal equipment	38,818	-	-	38,818
Total Treatment and Disposal	<u>15,554,349</u>	<u>83,696</u>	<u>24,025</u>	<u>15,614,020</u>
GENERAL				
Structures and improvements	241,646	-	-	241,646
Office furniture and equipment	64,900	714	-	65,614
Computer equipment	118,386	-	-	118,386
Transportation equipment	427,383	-	-	427,383
Communication equipment	433,162	-	-	433,162
Other general equipment	91,137	-	-	91,137
Total General	<u>1,376,614</u>	<u>714</u>	<u>-</u>	<u>1,377,328</u>
TOTAL WASTEWATER UTILITY PLANT	<u><u>\$28,879,140</u></u>	<u><u>\$ 687,459</u></u>	<u><u>\$ 34,048</u></u>	<u><u>\$29,532,551</u></u>

STOUGHTON WASTEWATER UTILITY

WASTEWATER UTILITY OPERATING REVENUES AND EXPENSES For the Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Wastewater Revenues		
Residential	\$ 1,386,580	\$ 1,405,052
Commercial	440,709	434,012
Industrial	121,253	135,789
Public authorities	23,360	23,174
Interdepartmental sales	506	516
Total Wastewater Revenues	1,972,408	1,998,543
Other Operating Revenues		
Forfeited discounts	4,499	4,692
Miscellaneous	74,406	32,767
Total Operating Revenues	2,051,313	2,036,002
OPERATING EXPENSES		
Operation and Maintenance		
Operation		
Supervision and labor	149	50
Power and fuel for pumping	91,128	85,390
Sludge conditioning chemicals	10,282	10,710
Other operating supplies	33,078	26,766
Total Operation	134,637	122,916
Maintenance		
Collection system	96,325	104,074
Treatment and disposal plant equipment	119,171	118,943
General plant structures and equipment	71,232	75,878
Total Maintenance	286,728	298,895
Customer Accounts		
Accounting and collecting	146,128	145,249
Administrative and General		
Salaries	103,114	103,307
Office supplies	35,383	36,385
Outside services employed	22,584	25,019
Insurance	29,198	28,788
Employees pensions and benefits	140,696	142,767
Miscellaneous	19,300	22,719
Rents	65,214	65,298
Total Administrative and General	415,489	424,283
Taxes	29,675	28,955
Total Operation and Maintenance	1,012,657	1,020,298
Depreciation	811,239	796,285
Total Operating Expenses	1,823,896	1,816,583
 OPERATING INCOME	 \$ 227,417	 \$ 219,419