

# **DRAFT STOUGHTON UTILITIES COMMITTEE REGULAR MEETING MINUTES**

**Monday, May 14, 2012 – 5:00 p.m.**

**Stoughton, WI**

**Page No. 3**

**Stoughton Utilities Audit Report And Management Letter:** Stoughton Utilities Finance and Administrative Manager Kim Jennings and Stoughton Utilities Director Robert Kardasz introduced Baker Tilly Virchow Krause LLP Manager Jodi Dobson. A presentation of the Stoughton Utilities Audit Report and Management Letter followed. Discussion followed. Motion by Citizen Member David Erdman, the motion seconded by Alderperson Eric Hohol, to approve the Stoughton Utilities Audit and Management Letter and recommend their approval and the adoption of the corresponding resolution to the Stoughton Common Council on May 22, 2012. The motion carried unanimously.



**Stoughton Utilities**

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

*Serving Electric, Water & Wastewater Since 1886*

**Date:** May 8, 2012

**To:** Stoughton Utilities Committee

**From:** Kim M. Jennings, CPA  
Stoughton Utilities Finance and Administrative Manager

Robert P. Kardasz, P.E.  
Stoughton Utilities Director

**Subject:** Stoughton Utilities Audit Report And Management Letter.

The Stoughton Utilities Audit Reports and Management Letter will be presented at the May 14, 2012 Stoughton Utilities Committee meeting. Ms. Jodi Dobson of Baker Tilly Virchow Krause, LLP is scheduled to present the information. Please review the attached information and contact us if you have any questions prior to the meeting.

We are requesting that the Utilities Committee accept the Stoughton Utilities Audit Report and Management Letter and recommend the acceptance of the audit report and the management letter and the adoption of the corresponding resolution to the Stoughton Common Council on May 22, 2012.

Encl.

cc: John C. Andres, CPA, Partner - Baker Tilly Virchow Krause, LLP  
Jodi Dobson, CPA, Manager - Baker Tilly Virchow Krause, LLP  
Brian G. Erickson - Stoughton Utilities Wastewater System Supervisor  
Brian R. Hoops - Stoughton Utilities Office and Information Systems Supervisor  
Sean O Grady - Stoughton Utilities Operations Superintendent  
Laurie Sullivan - City of Stoughton Finance Director  
Roger M. Thorson - Stoughton Utilities Water System Supervisor



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March 16, 2012

To Stoughton Utilities Committee  
600 South Fourth Street  
Stoughton, WI 53589

Dear Committee Members:

We are presenting for your consideration our comments and recommendations that are intended to improve the system of internal control or promote other operating efficiencies. These matters came to our attention during our audit of the financial statements of Stoughton Utilities (utilities) for the year ended December 31, 2011 which we reported upon on March 16, 2012.

This letter, by its nature, focuses on improvements and does not comment on the many strong areas of the utilities' systems and procedures. The comments and suggestions in this letter are not intended to reflect in any way on the integrity or ability of the personnel responsible for the utilities' operations. They are made solely in the interest of establishing sound internal control practices and improving the utilities' operations.

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

The electric utility's operating income increased in 2011 to \$1,007,000 compared to \$798,000 in 2010. Total kWh sold were up by about 1.4% in 2011. The primary reason for the increase in operating income is due to a rate increase effective January 3, 2011. The electric utility's rate of return was 6.2% in 2011 compared to a rate of return of 4.8% in 2010.

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

The water utility's operating income increased in 2011 to \$604,000 compared to \$506,000 in 2010. Revenues were up as the result of an 8% increase in the volume sold, primarily to industrial usage.

The water utility's rate of return was 5.8% in 2011 compared to an authorized rate of return of 6.50%.

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

The wastewater utility's operating income increased in 2011 to \$538,000 compared to \$519,000 in 2010. Revenues were constant from 2010 to 2011. Sewer rates have not changed since 2007. We understand that the sufficiency of revenues is reviewed as part of the annual budget process, but given the usage patterns that could have changed in the last five years we recommend management complete a detailed sewer rate review in the near future.

To the Stoughton Utilities Committee

March 16, 2012

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## **CURRENT YEAR COMMENTS**

### ***STRATEGIC PLANNING INCLUDES SUCCESSION PLANNING***

Operating a successful utility requires technical skills, knowledge of regulatory requirements, financial planning, staff management and other skills. Many utilities experience relatively low turnover which allows staff to gain an in-depth understanding of the local community and build a vast knowledge of the systems and operations at that utility. Stoughton Utilities is not unlike other utilities in having several team members who have been with the utility for a number of years. Unfortunately, when a senior team member decides to retire it can leave a significant knowledge void within the organization. We recommend that management work to establish plans for cross training as well as the development of management skills in the future leaders of the utility in order to allow a smooth transition in these situations. We understand that roughly 20% of the Stoughton Utilities current workforce is eligible for retirement which results in an increased need for proactive planning.

### **Managements' Response:**

Stoughton Utilities has been annually reviewing its succession plan over the last nine years. All employees are cross-trained and seven employees have been registered in the Municipal Electric Utilities of Wisconsin two-year Utility Management Program.

## **PRIOR YEAR COMMENTS**

### ***ACCOUNTABILITY FOR MATERIALS INVENTORY***

As part of the annual audit process we complete a physical inspection of a sample of the materials and supplies inventory items. By verifying a sample of the items on the inventory report to the physical items on hand we can gain assurance that the inventory systems and process are operating correctly. During the 2010 physical inventory count we noted small variances between the physical count list and the financial records. Although the amount that was unaccounted for was insignificant it creates a concern over other variances that may exist. Given the current market value of copper and other metals we felt it important to make management and the committee aware of this. We recommend that management review the processes and procedures related to charging out inventory and the year end physical count to ensure that there are no gaps which would allow materials to be used or taken out of the storeroom without being properly documented and charged to the project.

**Status 12/31/11:** No significant variances were noted during the 2011 audit. We consider this point cleared.

### ***INCORPORATING AN ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC) INTO THE PROJECT ACCOUNTING PROCESS***

The utilities annually complete various capital projects, some of which take a significant amount of time and resources. Generally accepted accounting principles and regulatory accounting allow the utility to calculate the financing costs associated with such projects and include this as a portion of the project costs recoverable through rates. There are two methods for calculating the allowance for funds used during construction (AFUDC), one which applies when there is a specific tax exempt borrowing for that project and one which applies the weighted average interest rate on outstanding debt to the project costs during the construction period. The theory is that the utilities could choose to borrow funds to complete the project and use funds on hand to pay down existing debt, therefore there is always a financing cost to such projects.



To the Stoughton Utilities Committee

March 16, 2012

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## **PRIOR YEAR COMMENTS (cont.)**

### ***INCORPORATING AN ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC) INTO THE PROJECT ACCOUNTING PROCESS (cont.)***

We recommend that management develop criteria for the types of projects that will include AFUDC, possibly based on the cost of the project or the duration of the project, and then implement a process to calculate and apply the financing charge to the projects prior to closing. We would be happy to provide management with additional information on the two methods mentioned above.

**Status 12/31/11:** Management has developed a policy for capitalizing the cost of financing during construction which was followed during 2011. We consider this point cleared.

### ***REVIEWING CUSTOMER ACCOUNTS***

The utilities have complex revenue reporting based on customer type, location, meter type or size, usage patterns, etc. It is imperative for accurate financial reporting that each customer account is assigned to the appropriate billing rates as well as reporting categories. Management noted during the year end reconciliations that certain customers who had shifted between electric reporting categories had been updated to the proper billing rates but not the revenue classifications within the general ledger. Although the impact was not material, and it does not change revenues overall, it emphasizes the need for a second review on any new customer accounts or changes to existing accounts to ensure that all billing rates and revenue classifications are consistent and appropriate.

**Status 12/31/11:** Management has continued to review customer classifications during 2011. All customer accounts with demand meters are reviewed quarterly. This is done as accounts are identified through normal billing processes as well as by periodic analysis of certain classes of customers. We commend management for these efforts and encourage them to continue the ongoing reviews. We consider this point cleared.

### ***MONITORING OF RESTRICTED ASSETS***

The utilities maintain several special investment accounts as required by the bond resolutions and the Wisconsin Department of Natural Resources. During the 2010 audit we noted that the amounts maintained in individual investment accounts at the LGIP or with brokers do not always equate on a one to one basis with the restricted funds. As such it is necessary for management to reconcile where the investments are held with the purpose for which they are held. For the December 31, 2010 financial statements management did reclassify certain investments for reporting as DNR replacement funds based on their purpose, not where they are held. The water and electric reserve accounts were overfunded at year end, however we understand these resources are maintained in these investments to maximize returns. We note management calculates the required balances in each of the restricted accounts and that the utilities have sufficient funds on hand to meet all of their current required funding obligations. We recommend that management consider additional reclassifications in the future.

**Status 12/31/11:** During 2011 management has reallocated funds as investments have matured and thus reduced the excess funding within the restricted accounts. We consider this point cleared.

To the Stoughton Utilities Committee

March 16, 2012

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## **PRIOR YEAR COMMENTS (cont.)**

### ***TREATMENT OF EXCESS SEWER VOLUMES***

An analysis of volumes billed for sewer treatment and the total volume treated at the plant revealed that for 2008 the infiltration/inflow (I/I) level was at 38%. Although this was an improvement over the 39% I/I for 2007 this is still a significant level. We realize that 2008 was a very unusual year with the record snowfalls and heavy rains, but we recommend management begin to monitor this on a regular basis to identify when the differences occur and work to eliminate any significant leaks in the system.

**Status 12/31/11:** The overall I/I level was reduced to 19% in 2011 as a result of ongoing monitoring and the sewer lining program. We commend management for these efforts and anticipate continued improvements in the future.

### ***COMMITMENT TO COMMUNITY PROGRAM***

The electric utility retains the commitment to community program funds at the local level for both the conservation and low income programs. We noted that the program spending during 2008 was slightly higher than collections, which indicates that customers are utilizing these programs. However we also noted that the accumulated balance of \$72,000 is still a significant amount of unspent program funds, primarily in energy conservation funds. We encourage management to investigate additional programs for using these funds or promote current programs in the community for increased participation.

**Status 12/31/11:** During 2011 management worked to utilized the existing funds on hand on several projects including upgrades to energy efficient lighting in several municipal buildings. We consider this point cleared.

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

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

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

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

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

To the Stoughton Utilities Committee

March 16, 2012

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

- c. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for reporting material misstatements while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the entity's financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by error or fraud, is detected.

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

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

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

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

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

With regard to the timing of our audit, here is some general information. If necessary, we may do preliminary financial audit work during the fall. Our final financial fieldwork is scheduled during January to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial audit procedures at our office and may issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your staff. This is typically 6-12 weeks after final fieldwork, but may vary depending on a number of factors. We typically perform much of the single audit fieldwork during the financial audit. After single audit fieldwork, we wrap up our single audit procedures at our office and then issue drafts of our report for your review. Final copies of our Report on Federal Awards are issued after approval by your staff. This will be after both the utilities and the city audits are complete, but may vary depending upon a number of factors.

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

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

To the Stoughton Utilities Committee

March 16, 2012

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## **INTERNAL CONTROLS**

In planning and performing our audit of the financial statements of the Stoughton Utilities as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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

Our review of internal control disclosed a control deficiency in that segregation of duties is not feasible due to the limited number of staff in the office. For example, many reconciliations are prepared by a person who is also involved in the day to day transactions. Although we do not feel this is a material weakness or significant deficiency we do believe it is important that the Committee is aware of this fact.

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

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

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

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

Although the above items are beneficial, you should be aware that the following additional controls have not been implemented:

- > Review of the year end accrued payroll
- > Reviews of the monthly receivable reconciliations
- > Review of the reconciliation of open work orders to the construction balance in the ledger
- > Review of the monthly or yearend financial statements.

To the Stoughton Utilities Committee

March 16, 2012

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## **COMMUNICATIONS TO UTILITIES COMMITTEE**

We have completed our audit of the financial statements of Stoughton Utilities for the year ended December 31, 2011 and have issued our report thereon dated March 16, 2012. This letter presents communications required by our professional standards.

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

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

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

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Stoughton Utilities' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

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

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

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

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

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

#### ***Accounting Policies***

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the utilities are described in Note 1 to the financial statements. We noted no transactions entered into by the utilities during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

To the Stoughton Utilities Committee

March 16, 2012

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## **COMMUNICATIONS TO UTILITIES COMMITTEE (cont.)**

### ***QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES (cont.)***

#### ***Accounting Estimates***

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

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

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

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

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

#### ***AUDIT ADJUSTMENTS***

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

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the utilities' financial reporting process. Matters underlying adjustments proposed by the auditor could potentially cause future financial statements to be materially misstated. We did not have audit adjustments to the financial statements.

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

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

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

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

To the Stoughton Utilities Committee

March 16, 2012

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**COMMUNICATIONS TO UTILITIES COMMITTEE (cont.)**

***MANAGEMENT REPRESENTATIONS***

We have requested certain representations from management that are included in the management representation letter. This letter is attached.

***INDEPENDENCE***

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

Relating to our audit of the financial statements of for the year ended December 31, 2011, Baker Tilly Virchow Krause, LLP hereby confirms in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants, that we are, in our professional judgment, independent with respect to the Stoughton Utilities and provided no services to the utilities other than audit services provided in connection with the audit of the current year's financial statements.

***OTHER AUDIT FINDINGS OR ISSUES***

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

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

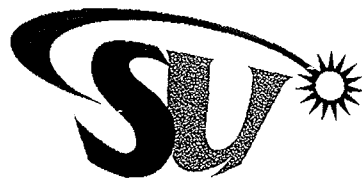
We welcome the opportunity to discuss the information included in this letter and any other matters. Thank you for allowing us to serve you.

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP

*Baker Tilly Virchow Krause, LLP*





**Stoughton Utilities**

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

*Serving Electric, Water & Wastewater Needs Since 1886*

February 2, 2011

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

Dear Auditors:

We are providing this letter in connection with your audit of the financial statements of the Stoughton Municipal Utilities as of December 31, 2011 and 2010 and for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position, results of operations, and cash flows of the Stoughton Municipal Utilities in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the financial statements of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America.

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

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

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We have made available to you all –
  - a. Financial records and related data.
  - b. Minutes of the meetings of our governing body and summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.



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4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. All yearend adjustments have been included in the financial statements. We believe the effects of the prior year uncorrected inventory variance was immaterial, both individually and in the aggregate, to the financial statements taken as a whole for the current year.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
  - a. Management,
  - b. Employees who have significant roles in internal control, or
  - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
9. We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities or fund equity.
10. The following, if any, have been properly recorded or disclosed in the financial statements:
  - a. Joint ventures
  - b. Related party transactions, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
  - c. Collateralization agreements with financial institutions.
  - d. Guarantees, whether written or oral, under which the utility is contingently liable.
  - e. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.
11. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including debt contracts and debt covenants; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
12. There are no –
  - a. Violations or possible violations of budget ordinances, provisions of contracts and grant agreements, laws or regulations and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - b. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
  - c. Violations of restrictions placed on revenues as a result of a bond resolution covenants – such as revenue distribution, or debt service funding.

- d. Unasserted claims, assessments or pending lawsuits that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies.
  - e. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.
13. Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.
  14. We have satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral other than liens created by our revenue debt.
  15. We have complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
  16. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) are properly classified.
  17. Provisions for uncollectible receivables have been properly identified and recorded.
  18. Interfund activity and balances have been appropriately classified and reported.
  19. Deposits and investment securities are properly classified in category of custodial credit risk.
  20. The investment in ATC is properly valued and all activity has been recorded.
  21. Capital assets are properly capitalized and depreciated. Any known impairments have been disclosed and recorded.
  22. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
  23. With regards to the Commitment to Community report, we are responsible for the preparation of the report including its accuracy, completeness and timely filing with the PSCW. We believe this report to be complete and accurate as prepared by WPPI.
  24. We understand that, as part of your audit, you prepared and acknowledge that we have reviewed and approved those entries and understand the impact on the financial statements.

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to December 31, 2011 and through the date of this letter that would require adjustment to, or disclosure in, the aforementioned financial statements.

Baker Tilly Virchow Krause, LLP

February 2, 2012

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Signed: Paul P. Kelly

Title/Date: UTILITIES DIRECTOR 2/10/12

Signed: Kim M. J.

Title/Date: Finance Manager 2/2/12

# **STOUGHTON UTILITIES**

Enterprise Funds of the  
City of Stoughton, Wisconsin

## **FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**STOUGHTON UTILITIES**  
Enterprise Funds of the City of Stoughton, Wisconsin

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December 31, 2011 and 2010

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**STOUGHTON UTILITIES**  
Enterprise Funds of the City of Stoughton, Wisconsin

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December 31, 2011 and 2010

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## INDEPENDENT AUDITORS' REPORT

To the Utilities Committee  
Stoughton Utilities  
Stoughton, Wisconsin

We have audited the accompanying statements of net assets of Stoughton Utilities, enterprise funds of the City of Stoughton, Wisconsin, as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the utilities' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stoughton Utilities as of December 31, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents be presented to supplement the financial statements. Such information, although not 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, economical, or historical context. The management discussion and analysis does not include a discussion of changes in financial position between 2009 and 2010. 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.

To the Utilities Committee  
Stoughton Utilities

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

*Baker Tully Virellan Krauss, LLP*

Madison, Wisconsin  
March 16, 2012

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

***STOUGHTON UTILITIES***

# **STOUGHTON UTILITIES**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011 and 2010**

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, 2011, 2010 and 2009. You are invited to read this narrative in conjunction with the utilities' financial statements.

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### **FINANCIAL HIGHLIGHTS**

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#### **ELECTRIC:**

- Installed automatic fuse protection at our north and south substations.
- The electric division's net assets increased by \$508,609 from the prior year.
- Revenues increased in 2011 by 6.47%. The increase was due to an increase in sales and a retail rate increase effective on January 1, 2011.
- Financed nearly \$1 million dollars of capital improvements to improve operations and electric system reliability.
- Provided a loan of \$555,000 to the City of Stoughton for payment of the Wisconsin Retirement System Unfunded Actuarial Accrued Liability. The loan will be repaid over a period of ten years with 3.0% interest. The combined utilities portion of the liability was \$185,000.

#### **WATER:**

- Completed water main replacements on a section of Main Street on the City's east side.
- The water division's net assets increased by \$214,709 from the prior year.
- Revenues from water sales increased by 11.42% in 2011. A two-phase increase in retail rates was effective on October 1, 2009 and September 1, 2010. Water consumption also increased 8.5% in 2011.
- Started planning for water and sewer main replacement on Eighth Street in 2012.

#### **WASTEWATER:**

- Financed \$540,000 of sewer projects which included both main upgrades and slip lining of sewer mains to extend the life of the existing mains.
- Completed sewer main replacements on a section of Main Street on the City's east side.
- The wastewater division's net assets increased by \$432,926 from the prior year.
- Operating revenue and sales volume remained constant in 2011.

# **STOUGHTON UTILITIES**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011 and 2010**

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### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

---

### **UTILITY FINANCIAL ANALYSIS**

---

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

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

# STOUGHTON UTILITIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011 and 2010

### UTILITY FINANCIAL ANALYSIS (cont.)

**Table 1**  
**Condensed Statement of Net Assets – Electric Utility**

		2011	2010	2009	2011-2010 Change
Current and Other Assets		\$ 8,982,799	\$ 9,143,906	\$ 8,923,948	\$ (161,107)
Capital Assets		15,310,259	15,303,719	15,005,746	6,540
Total Assets		24,293,058	24,447,625	23,929,694	(154,567)
Long-Term Debt Outstanding		5,905,000	6,280,000	6,630,000	(375,000)
Other Liabilities		2,264,789	2,552,965	2,337,956	(288,176)
Total Liabilities		8,169,789	8,832,965	8,967,956	(663,176)
Invested in Capital Assets					
Net of Related Debt		8,677,595	8,321,055	7,851,580	356,540
-Restricted		1,016,417	1,336,158	1,264,843	(319,741)
-Unrestricted		6,429,257	5,957,447	5,845,315	471,810
Total Net Assets		\$16,123,269	\$ 15,614,660	\$ 14,961,738	\$ 508,609

In 2011, the electric utility net assets increased \$508,609, an increase of 3.26%. The increase was slightly less than anticipated due to an increase in operation and maintenance expense for payoff of the Wisconsin Retirement System Unfunded Actuarial Accrued Liability in the amount of \$101,700.

# STOUGHTON UTILITIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011 and 2010

### UTILITY FINANCIAL ANALYSIS (cont.)

**Table 2**  
**Condensed Statement of Net Assets – Water Utility**

		2011	2010	2009	2011-2010 Change
Current and Other Assets		\$ 1,759,183	\$ 1,904,584	\$ 1,677,119	\$ (145,401)
Capital Assets		12,341,715	12,076,405	10,979,317	265,310
Total Assets		14,100,898	13,980,989	12,656,436	119,909
Long-Term Debt Outstanding		2,262,123	2,441,386	2,035,000	(179,263)
Other Liabilities		638,518	554,055	454,010	84,463
Total Liabilities		2,900,641	2,995,441	2,489,010	(94,800)
Invested in Capital Assets					
Net of Related Debt		9,900,329	9,466,387	8,829,317	433,942
-Restricted		427,587	469,062	342,153	(41,475)
-Unrestricted		872,341	1,050,099	995,956	(177,758)
Total Net Assets		\$11,200,257	\$ 10,985,548	\$ 10,167,426	\$ 214,709

In 2011, the water utility net assets increased \$214,709, an increase of 1.95%. The water utility portion of the payoff of the Wisconsin Retirement System Unfunded Actuarial Accrued Liability was \$37,000.



# STOUGHTON UTILITIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011 and 2010

### UTILITY FINANCIAL ANALYSIS (cont.)

**Table 3**  
**Condensed Statements of Net Assets – Wastewater Utility**

	2011	2010	2009	2011-2010 Change
Current and Other Assets	\$ 3,222,504	\$ 3,536,403	\$ 3,224,003	\$ (313,899)
Capital Assets	14,847,485	14,639,909	15,043,459	207,576
Total Assets	18,069,989	18,176,312	18,267,462	(106,323)
Long-Term Debt Outstanding	3,553,191	4,183,666	4,795,455	(630,475)
Other Liabilities	891,302	800,076	716,375	91,226
Total Liabilities	4,444,493	4,983,742	5,511,830	(539,249)
Invested in Capital Assets				
Net of Related Debt	10,663,942	9,844,578	9,654,470	819,364
-Restricted	1,479,173	1,475,695	1,217,299	3,478
-Unrestricted	1,482,381	1,872,297	1,883,863	(389,916)
Total Net Assets	\$13,625,496	\$ 13,192,570	\$ 12,755,632	\$ 432,926

In 2011, wastewater net assets increased \$432,926 or 3.28%. The wastewater utility portion of the payoff of the Wisconsin Retirement System Unfunded Actuarial Accrued Liability was \$46,300.

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

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

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

# STOUGHTON UTILITIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011 and 2010

### UTILITY FINANCIAL ANALYSIS (cont.)

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

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

	2011	2010	2009	2011-2010 Change
Operating Revenues	\$ 15,055,468	\$ 14,140,673	\$ 12,547,681	\$ 914,795
Non-Operating Revenues	117,555	208,297	369,993	(90,742)
Total Revenues	15,173,023	14,348,970	12,917,674	824,053
Depreciation Expense	912,530	865,950	792,269	46,580
Other Operating Expense	13,136,259	12,476,782	10,888,022	659,477
Non-Operating Expenses	289,363	298,565	335,160	(9,202)
Total Expenses	14,338,152	13,641,297	12,015,451	696,855
Income Before Capital Contributions and Transfers	834,871	707,673	902,223	127,198
Capital Contributions	17,407	267,667	38,002	(250,260)
Transfers - Tax Equivalent Transfers	(322,881)	(291,922)	(258,797)	(30,959)
	(20,788)	(30,496)	(32,442)	9,708
Changes in Net Assets	508,609	652,922	648,986	(144,313)
Beginning Net Assets	15,614,660	14,961,738	14,312,752	652,922
Total Net Assets-Ending	\$ 16,123,269	\$ 15,614,660	\$ 14,961,738	\$ 508,609

# STOUGHTON UTILITIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011 and 2010

### UTILITY FINANCIAL ANALYSIS (cont.)

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

	2011	2010	2009	2011-2010 Change
Operating Revenues	\$ 1,734,825	\$ 1,558,841	\$ 1,320,413	\$ 175,984
Non-Operating Revenues	11,297	68,129	134,766	(56,832)
Total Revenues	1,746,122	1,626,970	1,455,179	119,152
Depreciation Expense	342,667	327,160	321,225	15,507
Other Operating Expense	788,488	725,930	708,094	62,558
Non-Operating Expenses	175,123	102,724	100,013	72,399
Total Expenses	1,306,278	1,155,814	1,129,332	150,464
Income Before Capital Contributions and Transfers	439,844	471,156	325,847	(31,312)
Capital Contributions	86,600	612,176	3,421	(525,576)
Transfers - Tax Equivalent	(301,135)	(259,162)	(228,514)	(41,973)
Transfers	(10,600)	(6,048)	(5,256)	(4,552)
Changes in Net Assets	214,709	818,122	95,498	(603,413)
Beginning Net Assets	10,985,548	10,167,426	10,071,928	818,122
Total Net Assets-Ending	\$ 11,200,257	\$ 10,985,548	\$ 10,167,426	\$ 214,709

## STOUGHTON UTILITIES

### MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011 and 2010

#### UTILITY FINANCIAL ANALYSIS (cont.)

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

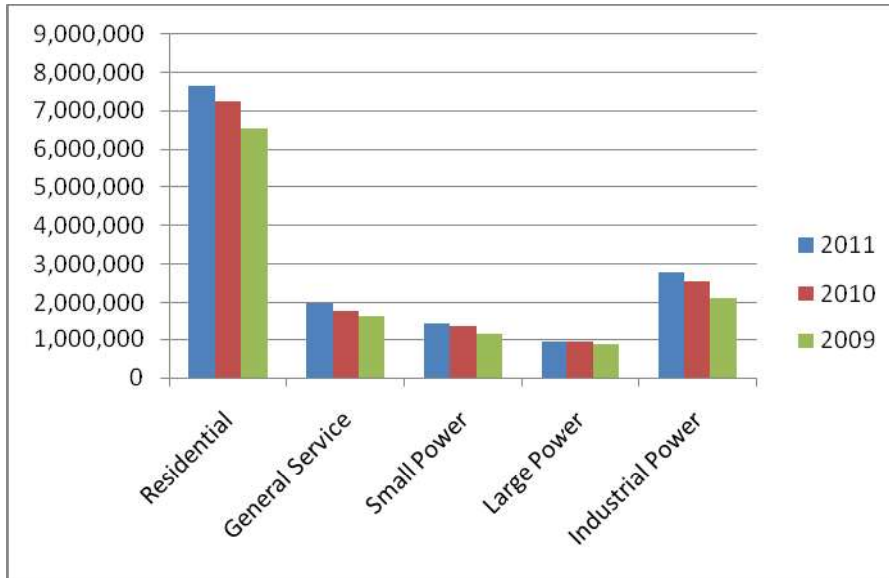
		2011	201	200	2011-2010 Chang
Operating Revenues		\$ 2,073,764	\$ 2,070,720	\$ 2,198,566	\$ 3,04
Non-Operating Revenues		19,13	60,77	23,85	(41,634
Total Revenues		2,092,902	2,131,492	2,222,418	(38,590
Depreciation Expense		630,35	649,40	636,27	(19,048
Other Operating Expense		905,61	902,64	920,30	2,97
Non-Operating Expenses		124,00	142,51	160,78	(18,504
Total		1,659,976	1,694,554	1,717,362	(34,578
Income Before Capital Contributions and Transfers		432,92	436,93	505,05	(4,012
Capital Contributions		-	-	-	-
Changes in Net Assets		432,92	436,93	505,05	(4,012
Beginning Net Assets		13,192,570	12,755,632	12,250,576	436,93
Total Net Assets-Ending		<u>\$ 13,625,496</u>	<u>\$ 13,192,570</u>	<u>\$ 12,755,632</u>	<u>\$ 432,92</u>

# STOUGHTON UTILITIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011 and 2010

### UTILITY FINANCIAL ANALYSIS (cont.)

Comparison of Electric Sales



Increasing electric sales, a retail rate increase effective January 1, 2011 and a wholesale power cost adjustment resulted in an increase in total sales of \$906,143, or 6.47% in 2011.

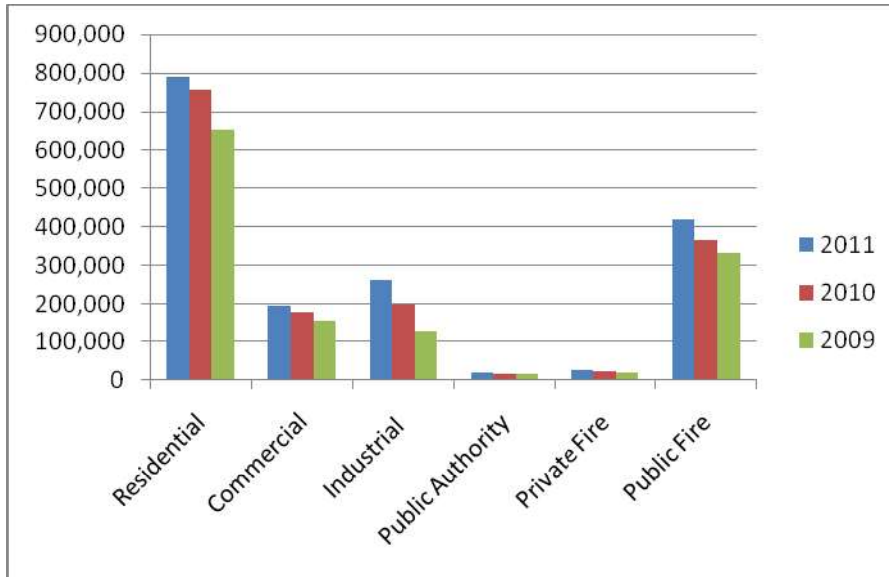
		2011	2010	2009
Residential	\$	7,652,332	7,262,312	6,536,235
General Service		1,966,989	1,779,438	1,652,891
Small Power		1,410,706	1,340,462	1,137,138
Large Power		956,963	944,496	864,748
Industrial Power		2,781,578	2,554,604	2,100,050
Public Lighting		150,044	131,157	129,151
Total Electric Sales	\$	14,918,612	14,012,469	12,420,213

## STOUGHTON UTILITIES

### MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011 and 2010

#### UTILITY FINANCIAL ANALYSIS (cont.)

Comparison of Water Sales



Sales increased \$175,329 or 11.42% in 2011. A retail rate increase was implemented in two phases on October 1, 2009 and September 1, 2010.

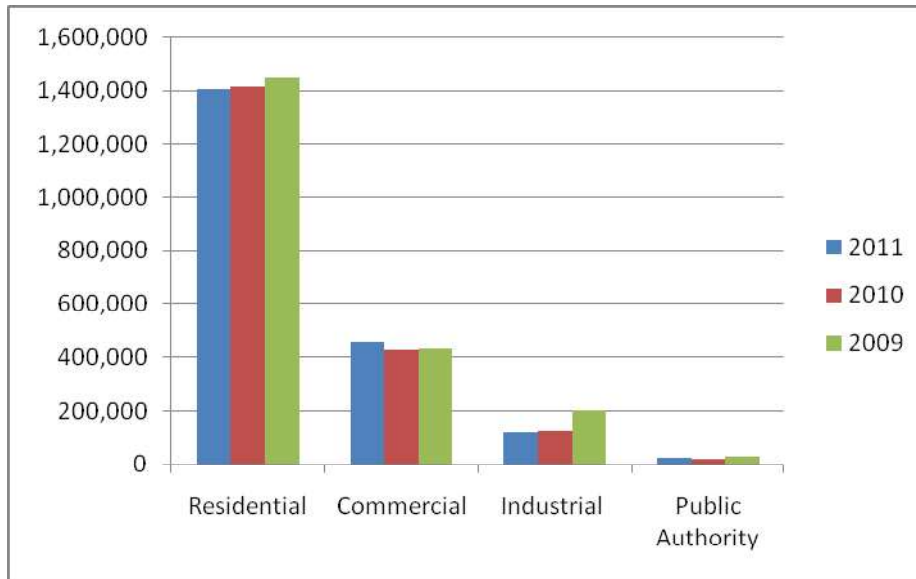
		2011	2010	2009
Residential		\$ 792,642	\$ 756,725	\$ 650,463
Commercial		193,971	178,491	152,687
Industrial		263,376	199,210	126,679
Public Authority		17,828	15,828	15,857
Private Fire		25,417	20,999	19,394
Public Fire		417,354	364,006	333,370
Total Water Sales		\$ 1,710,588	\$ 1,535,259	\$ 1,298,450

## STOUGHTON UTILITIES

### MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011 and 2010

#### UTILITY FINANCIAL ANALYSIS (cont.)

Comparison of Wastewater Sales



The utility experienced an increase in revenues of \$10,056 or 0.50% in 2011. Overall, consumption remained constant in 2011.

		2011	2010	2009
Residential	\$	1,403,877	1,415,649	1,446,074
Commercial		456,246	429,388	432,652
Industrial		120,473	127,345	201,249
Public Authority		24,129	22,287	30,517
Total Wastewater Sales	\$	2,004,725	1,994,669	2,110,492



# STOUGHTON UTILITIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011 and 2010

### 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**

	2011	201	200	2011-2010 Chang
Cash Flows				
Operating activities	\$ 1,941,440	\$ 1,782,162	\$ 1,606,464	\$ 159,27
Non-capital financing activities	(867,454)	(289,293)	(269,856)	(578,161)
Capital and related financing activities	(1,717,639)	(1,689,114)	(2,065,190)	(28,525)
Investing activities	(733,924)	1,377,387	649,49	(2,111,311)
Net Change in Cash and Cash Equivalents	(1,377,577)	1,181,142	(79,090)	(2,558,719)
Cash and Cash Equivalents Beginning of Year	3,400,049	2,218,907	2,297,997	1,181,142
Cash and Cash Equivalents End of Year	<u>\$ 2,022,472</u>	<u>\$ 3,400,049</u>	<u>\$ 2,218,907</u>	<u>\$ (1,377,577)</u>

During 2011, several long term investments that matured just prior to the end of 2010 were reinvested which results in a decrease in cash and cash equivalents of \$1,377,577 in 2011.

# STOUGHTON UTILITIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011 and 2010

### UTILITY FINANCIAL ANALYSIS (cont.)

**Table 8**  
**Condensed Statements of Cash Flows -**  
**Water Utility**

	2011	2010	2009	2011-2010 Change
Cash Flows From:				
Operating activities	\$ 1,017,676	\$ 853,199	\$ 597,831	\$ 164,477
Non-Capital financing activities	(269,762)	(234,562)	(216,966)	(35,200)
Capital and related financing activities	(888,548)	(476,129)	(1,008,698)	(412,419)
Investing activities	485,432	197,668	568,304	287,764
Net Change in Cash and Cash Equivalents	344,798	340,176	(59,529)	4,622
Cash and Cash Equivalents Beginning of Year	357,558	17,382	76,911	340,176
Cash and Cash Equivalents End of Year	\$ 702,356	\$ 357,558	\$ 17,382	\$ 344,798

The water utility experienced an increase in cash and cash equivalents of \$344,798 in 2011. The increase is due to the maturity of four Certificates of Deposit during 2011.

## STOUGHTON UTILITIES

### MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011 and 2010

#### UTILITY FINANCIAL ANALYSIS (cont.)

**Table 9**  
**Condensed Statements of Cash Flows -**  
**Wastewater Utility**

			2011	2010	2009	2011-2010 Change
Cash Flows From:						
Operating activities			\$ 1,256,322	\$ 1,235,599	\$ 1,282,933	\$ 20,723
Capital and related financing activities			(1,574,558)	(953,733)	(1,547,719)	(620,825)
Investing activities			177,730	293,327	(346,598)	(115,597)
Net Change in Cash and Cash Equivalents			(140,506)	575,193	(611,384)	(715,699)
Cash and Cash Equivalents Beginning of Year			2,383,238	1,808,045	2,419,429	575,193
Cash and Cash Equivalents End of Year			\$ 2,242,732	\$ 2,383,238	\$ 1,808,045	\$ (140,506)

The utility experienced a decrease in cash and cash equivalents of \$140,506 in 2011. Nearly \$900,000 of capital improvements and work in progress were financed by the wastewater utility without acquiring new debt.

# STOUGHTON UTILITIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011 and 2010

### UTILITY FINANCIAL ANALYSIS (cont.)

**Table 10**  
**Capital Assets – Electric Utility**

		2011	2010	2009	2011-2010 Change
Capital Assets					
Transmission and distribution		\$21,002,881	\$ 20,274,337	\$ 19,735,559	\$ 728,544
General		4,312,988	4,258,484	3,816,851	54,504
Total Capital Assets		25,315,869	24,532,821	23,552,410	783,048
Less: Accumulated depreciation		(10,038,045)	(9,255,784)	(8,597,069)	(782,261)
Construction in progress		32,435	26,682	50,405	5,753
Net Capital Assets		\$15,310,259	\$ 15,303,719	\$ 15,005,746	\$ 6,540

# STOUGHTON UTILITIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011 and 2010

### UTILITY FINANCIAL ANALYSIS (cont.)

**Table 11**  
**Capital Assets – Water Utility**

		2011	2010	2009	2011-2010 Change
Capital Assets					
Source of supply		\$ 581,758	\$ 575,629	\$ 575,629	\$ 6,129
Pumping		1,407,274	1,526,063	1,506,362	(118,789)
Water treatment		90,763	90,763	90,763	-
Transmission and distribution		13,904,420	13,426,711	11,828,361	477,709
General		914,078	913,082	907,307	996
Total Capital Assets		16,898,293	16,532,248	14,908,422	366,045
Less: Accumulated depreciation		(4,785,085)	(4,501,174)	(4,169,917)	(283,911)
Construction in progress		228,507	45,331	240,812	183,176
Net Capital Assets		\$12,341,715	\$ 12,076,405	\$ 10,979,317	\$ 265,310

## STOUGHTON UTILITIES

### MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2011 and 2010

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#### UTILITY FINANCIAL ANALYSIS (cont.)

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**Table 12**  
**Capital Assets – Wastewater Utility**

	2011	2010	2009	2011-2010 Change
Capital Assets				
Collection system	\$ 8,277,782	\$ 7,822,109	\$ 7,684,151	\$ 455,673
Collection system pumping	397,412	397,412	389,554	-
Treatment and disposal	12,786,069	12,757,388	12,735,749	28,681
General	841,480	846,036	836,829	(4,556)
Total Capital Assets	22,302,743	21,822,945	21,646,283	479,798
Less: Accumulated depreciation	(7,816,519)	(7,246,797)	(6,605,232)	(569,722)
Construction in progress	361,261	63,761	2,408	297,500
Net Capital Assets	\$14,847,485	\$ 14,639,909	\$ 15,043,459	\$ 207,576

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#### LONG-TERM DEBT

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As of December 31, 2011, the electric utility had total mortgage revenue bond debt outstanding of \$6,280,000 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, 2011, the water utility had total mortgage revenue bond debt outstanding of \$2,441,386 payable from and secured by a pledge of income and revenue to be derived from the operation of the water utility. These issues were primarily for additions and improvements to the water system, street improvement projects, AMR implementation and a new tower.

The wastewater utility had \$4,183,666 of clean water fund loans outstanding as of December 31, 2011. These bonds were issued for a series of wastewater treatment plant upgrade and expansion projects.

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

## **STOUGHTON UTILITIES**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS** December 31, 2011 and 2010

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#### **CONTACTING UTILITY MANAGEMENT**

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

General information relating to the Stoughton Utilities can be found at the utilities' web site at [www.stoughtonutilities.com](http://www.stoughtonutilities.com).

**ELECTRIC UTILITY**



# STOUGHTON ELECTRIC UTILITY

## STATEMENTS OF NET ASSETS

December 31, 2011 and 2010

	ASSETS	2011	2010
<b>CURRENT ASSETS</b>			
Cash and investments	\$	5,035,976	\$ 5,318,499
Interest receivable		25,142	22,889
Restricted Assets			
Redemption account		358,057	339,705
Customer accounts receivable		1,491,484	1,611,101
Other accounts receivable		34,666	114,436
Due from municipality		25,630	32,918
Current portion of advance to municipality		41,569	-
Materials and supplies		135,057	124,597
Prepayments		25,277	27,043
Total Current Assets		<u>7,172,858</u>	<u>7,591,188</u>
<b>NON-CURRENT ASSETS</b>			
Restricted Assets			
Reserve account		704,728	1,046,094
Depreciation account		25,000	25,000
Other Assets			
Electric plant and maintenance reserve account		103,860	103,717
Sick leave reserve account		170,916	97,000
Advance to municipality		513,175	-
Investment in ATC		259,669	244,654
Non-utility property (net)		32,593	36,253
Capital Assets			
Plant in service		24,963,205	24,180,157
Accumulated depreciation		(10,038,045)	(9,255,784)
Property held for future use		352,664	352,664
Construction work in progress		32,435	26,682
Total Non-Current Assets		<u>17,120,200</u>	<u>16,856,437</u>
Total Assets		<u>24,293,058</u>	<u>24,447,625</u>

	<b>LIABILITIES</b>		2011	2010
<b>CURRENT LIABILITIES</b>				
Accounts payable		\$	1,009,395	\$ 1,298,931
Due to municipality			322,881	291,922
Customer deposits			125,914	118,128
Accrued wages			14,656	15,083
Accrued interest			2,135	4,314
Accrued liabilities			106,485	104,199
Commitment to community			56,599	129,683
Current Liabilities Payable from Restricted Assets				
Current portion of revenue bonds			375,000	350,000
Accrued interest			71,368	74,641
Total Current Liabilities			<u>2,084,433</u>	<u>2,386,901</u>
<b>NON-CURRENT LIABILITIES</b>				
Revenue bonds			5,905,000	6,280,000
Accrued sick leave			170,916	163,637
Customer advances for construction			9,440	2,427
Total Non-Current Liabilities			<u>6,085,356</u>	<u>6,446,064</u>
Total Liabilities			<u>8,169,789</u>	<u>8,832,965</u>
<b>NET ASSETS</b>				
Net assets invested in capital assets, net of related debt			8,677,595	8,321,055
Restricted			1,016,417	1,336,158
Unrestricted			<u>6,429,258</u>	<u>5,957,447</u>
<b>TOTAL NET ASSETS</b>		\$	<u>16,123,269</u>	<u>\$ 15,614,660</u>

# STOUGHTON ELECTRIC UTILITY

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS Years Ended December 31, 2011 and 2010

	2011	2010
<b>OPERATING REVENUES</b>		
Sales of electricity	\$ 14,918,612	\$ 14,012,469
Other	136,856	128,204
Total Operating Revenues	15,055,468	14,140,673
<b>OPERATING EXPENSES</b>		
Operation and maintenance	13,136,259	12,476,782
Depreciation	912,530	865,950
Total Operating Expenses	14,048,789	13,342,732
<b>OPERATING INCOME</b>	1,006,679	797,941
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Investment income	117,555	208,297
Interest expense	(288,750)	(303,054)
Amortization of debt issuance costs	-	(5,834)
Miscellaneous revenues (expenses)	(613)	10,323
Total Non-Operating Revenues (Expenses)	(171,808)	(90,268)
Income Before Contributions and Transfers	834,871	707,673
<b>CAPITAL CONTRIBUTIONS</b>	17,407	267,667
<b>TRANSFER IN (OUT)</b>	(20,788)	(30,496)
<b>TRANSFERS - TAX EQUIVALENT</b>	(322,881)	(291,922)
<b>CHANGE IN NET ASSETS</b>	508,609	652,922
NET ASSETS - Beginning of Year	15,614,660	14,961,738
<b>NET ASSETS - END OF YEAR</b>	\$ 16,123,269	\$ 15,614,660

# STOUGHTON ELECTRIC UTILITY

## STATEMENTS OF CASH FLOWS Years Ended December 31, 2011 and 2010

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 15,129,043	\$ 13,914,342
Received for street lighting	140,379	131,157
Paid to suppliers for goods and services	(12,398,852)	(11,506,180)
Paid to employees for operating payroll	(936,916)	(846,254)
Customer deposit	7,786	89,097
Net Cash Flows From Operating Activities	<u>1,941,440</u>	<u>1,782,162</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Paid to municipality for tax equivalent	(291,922)	(258,797)
Advanced to municipality for Wisconsin Retirement UAAL	(554,744)	-
Transfers to other funds	(20,788)	(30,496)
Net Cash Flows From Noncapital Financing Activities	<u>(867,454)</u>	<u>(289,293)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(1,209,483)	(1,039,935)
Received from the sale of capital assets	9,917	23,753
Capital contributions received	123,920	164,635
Debt retired	(350,000)	(530,000)
Interest paid	(291,993)	(307,567)
Net Cash Flows From Capital and Related Financing Activities	<u>(1,717,639)</u>	<u>(1,689,114)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investments purchased	(2,693,190)	(642,000)
Investments sold and matured	1,800,800	1,821,212
Dividends/(Investment) in ATC	13,996	15,087
Investment income	144,470	183,088
Net Cash Flows From Investing Activities	<u>(733,924)</u>	<u>1,377,387</u>
<b>Net Change in Cash and Cash Equivalents</b>	<u>(1,377,577)</u>	<u>1,181,142</u>
<b>CASH AND CASH EQUIVALENTS - Beginning of Year</b>	<u>3,400,049</u>	<u>2,218,907</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 2,022,472</u>	<u>\$ 3,400,049</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Unrealized gain (loss) on investments	\$ (46,291)	\$ 25,209
Capital grant accrued	\$ -	\$ 99,500

	2011	2010
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH</b>		
<b>FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income	\$ 1,006,679	\$ 797,941
Nonoperating revenue (expense)	(613)	10,323
Noncash items in operating income		
Depreciation	912,530	865,950
Depreciation charged to clearing and other utilities	39,600	39,600
Changes in assets and liabilities		
Customer accounts receivable	119,617	(122,224)
Other account receivable	79,770	23,062
Due from municipality	7,288	(1,110)
Materials and supplies	(10,460)	6,791
Prepayments	1,766	422
Accounts payable	(158,577)	16,939
Customer deposits	7,786	89,097
Accrued sick leave	7,279	5,098
Other current liabilities	1,859	27,040
Commitment to community	(73,084)	23,233
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>\$ 1,941,440</u>	<u>\$ 1,782,162</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO</b>		
<b>STATEMENT OF NET ASSETS ACCOUNTS</b>		
Cash and investments	\$ 5,035,976	\$ 5,318,499
Redemption account	358,057	339,705
Reserve account	704,728	1,046,094
Depreciation account	25,000	25,000
Electric plant and maintenance reserve account	103,860	103,717
Sick leave reserve account	170,916	97,000
Total Cash and Investments	<u>6,398,537</u>	<u>6,930,015</u>
Less: Noncash equivalents	<u>(4,376,065)</u>	<u>(3,529,966)</u>
<b>CASH AND CASH EQUIVALENTS</b>	<u>\$ 2,022,472</u>	<u>\$ 3,400,049</u>

## **WATER UTILITY**

# STOUGHTON WATER UTILITY

## STATEMENTS OF NET ASSETS December 31, 2011 and 2010

	ASSETS	2011	2010
<b>CURRENT ASSETS</b>			
Cash and investments		\$ 600,438	\$ 675,467
Interest receivable		4,491	5,178
Restricted Assets			
Redemption account		145,061	111,922
Customer accounts receivable		185,762	193,105
Other accounts receivable		4,457	4,413
Materials and supplies		23,257	27,101
Prepayments		8,828	9,470
Total Current Assets		<u>972,294</u>	<u>1,026,656</u>
<b>NON-CURRENT ASSETS</b>			
Restricted Assets			
Reserve account		274,005	349,660
Depreciation account		25,000	25,000
Other Assets			
Water plant and maintenance reserve account		347,214	367,089
Sick leave reserve account		88,632	79,861
Non-utility property (net)		52,038	56,318
Capital Assets			
Plant in service		16,898,293	16,532,248
Accumulated depreciation		(4,785,085)	(4,501,174)
Construction work in progress		228,507	45,331
Total Non-Current Assets		<u>13,128,604</u>	<u>12,954,333</u>
Total Assets		<u>14,100,898</u>	<u>13,980,989</u>

	<b>LIABILITIES</b>		2011	2010
<b>CURRENT LIABILITIES</b>				
Accounts payable		\$	37,814	\$ 9,832
Due to municipality			301,135	259,162
Customer deposits			353	-
Accrued wages			14,842	13,218
Current Liabilities Payable from Restricted Assets				
Current portion of revenue bonds			179,263	168,632
Accrued interest			16,479	17,520
Total Current Liabilities			<u>549,886</u>	<u>468,364</u>
<b>NON-CURRENT LIABILITIES</b>				
Revenue bonds			2,262,123	2,441,386
Accrued sick leave			88,632	85,691
Total Non-Current Liabilities			<u>2,350,755</u>	<u>2,527,077</u>
 Total Liabilities			<u>2,900,641</u>	<u>2,995,441</u>
	<b>NET ASSETS</b>			
Net assets invested in capital assets, net of related debt			9,900,329	9,466,387
Restricted			427,587	469,062
Unrestricted			<u>872,341</u>	<u>1,050,099</u>
 TOTAL NET ASSETS		\$	<u>11,200,257</u>	<u>\$ 10,985,548</u>



# STOUGHTON WATER UTILITY

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS Years Ended December 31, 2011 and 2010

	2011	2010
<b>OPERATING REVENUES</b>		
Sales of water	\$ 1,710,588	\$ 1,535,259
Other	24,237	23,582
Total Operating Revenues	<u>1,734,825</u>	<u>1,558,841</u>
<b>OPERATING EXPENSES</b>		
Operation and maintenance	788,488	725,930
Depreciation	342,667	327,160
Total Operating Expenses	<u>1,131,155</u>	<u>1,053,090</u>
<b>OPERATING INCOME</b>	<u>603,670</u>	<u>505,751</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Investment income	11,297	68,129
Interest expense	(100,680)	(98,444)
Loss on disposal of assets	(73,663)	-
Miscellaneous expenses	(780)	(4,280)
Total Non-Operating Revenues (Expenses)	<u>(163,826)</u>	<u>(34,595)</u>
Income Before Contributions and Transfers	439,844	471,156
<b>CAPITAL CONTRIBUTIONS</b>	86,600	612,176
<b>TRANSFER IN (OUT)</b>	(10,600)	(6,048)
<b>TRANSFERS - TAX EQUIVALENT</b>	<u>(301,135)</u>	<u>(259,162)</u>
<b>CHANGE IN NET ASSETS</b>	214,709	818,122
NET ASSETS - Beginning of Year	<u>10,985,548</u>	<u>10,167,426</u>
<b>NET ASSETS - END OF YEAR</b>	<u><u>\$ 11,200,257</u></u>	<u><u>\$ 10,985,548</u></u>

# STOUGHTON WATER UTILITY

## STATEMENTS OF CASH FLOWS Years Ended December 31, 2011 and 2010

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 1,742,124	\$ 1,531,506
Paid to suppliers for goods and services	(458,315)	(425,528)
Paid to employees for operating payroll	(266,133)	(252,779)
Net Cash Flows From Operating Activities	<u>1,017,676</u>	<u>853,199</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Paid to municipality for tax equivalent	(259,162)	(228,514)
Transfers to other funds	(10,600)	(6,048)
Net Cash Flows From Noncapital Financing Activities	<u>(269,762)</u>	<u>(234,562)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(704,722)	(1,453,311)
Received from the sale of capital assets	-	1,706
Capital contributions received	86,600	612,176
Debt proceeds	-	575,018
Debt retired	(168,632)	(115,000)
Interest paid	(101,794)	(96,718)
Net Cash Flows From Capital and Related Financing Activities	<u>(888,548)</u>	<u>(476,129)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investments purchased	(206,517)	-
Investments sold and matured	644,057	136,126
Investment income	47,892	61,542
Net Cash Flows From Investing Activities	<u>485,432</u>	<u>197,668</u>
<b>Net Change in Cash and Cash Equivalents</b>	344,798	340,176
<b>CASH AND CASH EQUIVALENTS - Beginning of Year</b>	<u>357,558</u>	<u>17,382</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 702,356</u>	<u>\$ 357,558</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Unrealized gain (loss) on investments	<u>\$ (35,908)</u>	<u>\$ 6,377</u>

	2011	2010
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income	\$ 603,670	\$ 505,751
Noncash items in operating income		
Depreciation	342,667	327,160
Depreciation charged to clearing and other utilities	27,007	27,357
Changes in assets and liabilities		
Customer accounts receivable	7,343	(27,377)
Other account receivable	(44)	42
Materials and supplies	3,844	6,074
Prepayments	642	153
Accounts payable	27,982	268
Accrued wages	1,624	1,752
Accrued sick leave	2,941	12,019
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>\$ 1,017,676</u>	<u>\$ 853,199</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS ACCOUNTS</b>		
Cash and investments	\$ 600,438	\$ 675,467
Redemption account	145,061	111,922
Reserve account	274,005	349,660
Depreciation account	25,000	25,000
Water plant and maintenance reserve account	347,214	367,089
Sick leave reserve account	88,632	79,861
Total Cash and Investments	<u>1,480,350</u>	<u>1,608,999</u>
Less: Noncash equivalents	<u>(777,994)</u>	<u>(1,251,441)</u>
<b>CASH AND CASH EQUIVALENTS</b>	<u>\$ 702,356</u>	<u>\$ 357,558</u>

## **WASTEWATER UTILITY**

# STOUGHTON WASTEWATER UTILITY

## STATEMENTS OF NET ASSETS December 31, 2011 and 2010

	ASSETS	2011	2010
<b>CURRENT ASSETS</b>			
Cash and investments		\$ 1,387,496	\$ 1,726,300
Interest receivable		3,081	2,471
Restricted Assets			
Redemption account		438,483	427,323
Customer accounts receivable		222,634	234,352
Other accounts receivable		1,547	1,547
Prepayments		11,035	11,838
Total Current Assets		<u>2,064,276</u>	<u>2,403,831</u>
<b>NON-CURRENT ASSETS</b>			
Restricted Assets			
Depreciation account		33,283	33,283
Replacement account		1,027,040	1,037,836
Construction account		123	123
Other Assets			
Sick leave reserve account		97,782	61,330
Capital Assets			
Plant in service		22,302,743	21,822,945
Accumulated depreciation		(7,816,519)	(7,246,797)
Construction work in progress		361,261	63,761
Total Non-Current Assets		<u>16,005,713</u>	<u>15,772,481</u>
Total Assets		<u>18,069,989</u>	<u>18,176,312</u>

	<b>LIABILITIES</b>		2011	2010
<b>CURRENT LIABILITIES</b>				
Accounts payable		\$	125,728	\$ 56,722
Accrued wages			17,684	15,488
Current Liabilities Payable from Restricted Assets				
Current portion of revenue bonds			630,475	611,788
Accrued interest			19,633	22,747
Total Current Liabilities			<u>793,520</u>	<u>706,745</u>
<b>NON-CURRENT LIABILITIES</b>				
Revenue bonds			3,553,191	4,183,666
Accrued sick leave			97,782	93,331
Total Non-Current Liabilities			<u>3,650,973</u>	<u>4,276,997</u>
 Total Liabilities			<u>4,444,493</u>	<u>4,983,742</u>
	<b>NET ASSETS</b>			
Net assets invested in capital assets, net of related debt			10,663,942	9,844,578
Restricted			1,479,173	1,475,695
Unrestricted			<u>1,482,381</u>	<u>1,872,297</u>
 TOTAL NET ASSETS		\$	<u>13,625,496</u>	<u>\$ 13,192,570</u>

## STOUGHTON WASTEWATER UTILITY

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS Years Ended December 31, 2011 and 2010

	2011	2010
<b>OPERATING REVENUES</b>		
Treatment charges	\$ 2,004,725	\$ 1,994,669
Other	69,039	76,051
Total Operating Revenues	<u>2,073,764</u>	<u>2,070,720</u>
<b>OPERATING EXPENSES</b>		
Operation and maintenance	905,616	902,642
Depreciation	630,352	649,400
Total Operating Expenses	<u>1,535,968</u>	<u>1,552,042</u>
<b>OPERATING INCOME</b>	<u>537,796</u>	<u>518,678</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Investment income	15,638	60,772
Interest expense	(124,008)	(142,512)
Miscellaneous revenues	3,500	-
Total Non-Operating Revenues (Expenses)	<u>(104,870)</u>	<u>(81,740)</u>
<b>CHANGE IN NET ASSETS</b>	432,926	436,938
NET ASSETS - Beginning of Year	<u>13,192,570</u>	<u>12,755,632</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 13,625,496</u>	<u>\$ 13,192,570</u>

# STOUGHTON WASTEWATER UTILITY

## STATEMENTS OF CASH FLOWS Years Ended December 31, 2011 and 2010

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 2,085,482	\$ 2,100,839
Paid to suppliers for goods and services	(501,764)	(541,818)
Paid to employees for operating payroll	(327,396)	(323,422)
Net Cash Flows From Operating Activities	<u>1,256,322</u>	<u>1,235,599</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(835,648)	(214,544)
Debt retired	(611,788)	(593,658)
Interest paid	(127,122)	(145,531)
Net Cash Flows From Capital and Related Financing Activities	<u>(1,574,558)</u>	<u>(953,733)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investments purchased	(199,750)	(247,000)
Investments sold and matured	341,629	500,000
Investment income	35,851	40,327
Net Cash Flows From Investing Activities	<u>177,730</u>	<u>293,327</u>
<b>Net Change in Cash and Cash Equivalents</b>	(140,506)	575,193
<b>CASH AND CASH EQUIVALENTS - Beginning of Year</b>	<u>2,383,238</u>	<u>1,808,045</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 2,242,732</u>	<u>\$ 2,383,238</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Unrealized gain (loss) on investments	<u>\$ (19,603)</u>	<u>\$ 20,446</u>



	2011	2010
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income	\$ 537,796	\$ 518,678
Noncash items in operating income		
Depreciation	630,352	649,400
Changes in assets and liabilities		
Customer accounts receivable	11,718	30,071
Other account receivable	-	48
Prepayments	803	191
Accounts payable	69,006	29,190
Accrued sick leave	4,451	11,040
Other current liabilities	2,196	(3,019)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 1,256,322</b>	<b>\$ 1,235,599</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS ACCOUNTS</b>		
Cash and investments	\$ 1,387,496	\$ 1,726,300
Redemption account	438,483	427,323
Depreciation account	33,283	33,283
Replacement account	1,027,040	1,037,836
Construction account	123	123
Sick leave reserve account	97,782	61,330
Total Cash and Investments	2,984,207	3,286,195
Less: Noncash equivalents	(741,475)	(902,957)
<b>CASH AND CASH EQUIVALENTS</b>	<b>\$ 2,242,732</b>	<b>\$ 2,383,238</b>

# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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The financial statements of Stoughton Utilities (utilities) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the utilities are described below.

#### ***REPORTING ENTITY***

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

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

#### ***MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION***

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

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

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

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

# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

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

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#### ***ASSETS, LIABILITIES AND NET ASSETS***

##### ***Deposits and Investments***

For purposes of the statement of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition.

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

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

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

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year end.

##### ***Receivables/Payables***

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

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

# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

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

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#### ***ASSETS, LIABILITIES AND NET ASSETS (cont.)***

##### ***Materials and Supplies***

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

##### ***Restricted Assets***

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified.

##### ***Investment in American Transmission Company (ATC)***

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

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

##### ***Sick Leave Reserve Account***

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

##### ***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.

##### ***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, 2011 and 2010. Water utility non-utility property consists of a park shelter with a balance of \$107,000 at December 31, 2011 and 2010. The costs are being amortized on a straight-line basis over their useful life.

##### ***Capital Assets***

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

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

# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

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

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#### **ASSETS, LIABILITIES AND NET ASSETS (cont.)**

##### **Capital Assets (cont.)**

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

##### **Accrued Vacation and Sick Leave**

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

##### **Customer Advances for Construction**

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

##### **Commitment to Community**

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

##### **Customer Deposits**

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

##### **Accrued Liabilities**

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

# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

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

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#### **ASSETS, LIABILITIES AND NET ASSETS (cont.)**

##### ***Long-Term Obligations***

Long-term debt and other obligations are reported as utilities liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Gains or losses on prior refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

##### **REVENUES AND EXPENSES**

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

##### ***Charges for Services***

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

Current electric rates were approved by the PSCW on January 3, 2011. The rates are designed to provide a 6.5% return on rate base

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

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

##### ***Capital Contributions***

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

##### ***Transfers***

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

#### **EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS**

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 60, *Eggsyrark\$erh\$Jmrgre\$Vitsvark\$sv\$Wivzngi\$Gsrgrwmsr\$Ewerkiq irxw* and Statement No. 61, *Xli Jmrgre\$Vitsvark\$Irxw\$Ssq rnfyw\$* Statement No. 62, *Gshnjgexr\$s\$Eggsyrark\$erh\$Jmrgre\$Vitsvark\$Kymergi\$Gsrerih\$nr\$TvlRszq fiw\$74\$5=<\$JEWF\$erh\$EMTE\$Tvsryrgiq irxw\$* Statement No. 63, *Jmrgre\$Vitsvark\$s\$Hijwih\$Syxjs{w\$S\$Vwsvygiw\$Hijwih\$Mris{w\$S\$Vwsvygiw\$erh\$Rix\$Tswmsr\$* and Statement No. 64, *Hivzexzi\$Mwxyq irxw\$Ettgexr\$s\$S\$Lihki\$Eggsyrark\$Xivq rrexsr\$Tsznwrw\$SerSeq irhq irxw\$SK EWF\$Wxexiq irxw\$R\$97*. Application of these standards may restate portions of these financial statements.

# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

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

#### COMPARATIVE DATA

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

### NOTE 2 - DEPOSITS AND INVESTMENTS

	Carrying Value as of December 31,		
	2011	2010	Risks
Checking and Savings	\$ 3,305,285	\$ 4,521,297	Custodial credit risk
LGIP	1,662,455	1,618,798	Credit and interest rate risks
Negotiable Certificates of Deposit	1,754,441	2,670,519	Custodial credit, credit, concentration, and interest rate risks
U.S. Agency Securities	3,115,073	1,965,500	Custodial credit, credit, concentration and interest rate risks
Corporate Bonds	1,025,090	1,048,345	Custodial credit, credit, concentration and interest rate risks
Petty Cash	<u>750</u>	<u>750</u>	
Totals	<u>\$ 10,863,094</u>	<u>\$ 11,825,209</u>	

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), \$250,000 for interest bearing demand deposit accounts, and unlimited amounts for non-interest bearing transaction accounts as of December 31, 2011. Coverage as of December 31, 2010 included \$250,000 for interest bearing accounts and unlimited amounts for non-interest bearing 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.

# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

### NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

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

In addition, the utilities, with the city, have collateral or depository insurance agreements in the amount of \$3,920,512 at December 31, 2011 and \$4,389,470 at December 31, 2010.

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, 2011 and 2010, the fair value of the LGIP's assets were substantially equal to the utilities' share.

#### ***Custodial Credit Risk***

##### **Deposits**

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

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

	2011		2010	
	Bank Balance	Carrying Value	Bank Balance	Carrying Value
Wells Fargo	\$ 3,347,697	\$ 3,304,357	\$ 4,056,266	\$ 4,023,157
Wells Fargo Brokerage	928	928	928	928
Ameriprise Financial	-	-	497,212	497,212
Deposits Exposed to Custodial Credit Risk	<u>\$ 3,348,625</u>	<u>\$ 3,305,285</u>	<u>\$ 4,554,406</u>	<u>\$ 4,521,297</u>

The utilities' investment policy does not address this risk.

##### **Investments**

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



# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

### NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

#### ***Custodial Credit Risk*** (cont.)

#### **Investments** (cont.)

As of December 31, 2011 and 2010 the utilities' investments were exposed to custodial credit risk as follows:

<u>U.S. Agencies - Implicitly Guaranteed</u>	<u>2011</u>	<u>2010</u>
Neither insured nor registered and held by counterparty	\$ <u>3,115,073</u>	\$ <u>1,965,500</u>
<u>Corporate Bonds</u>		
Neither insured nor registered and held by counterparty	\$ <u>1,025,090</u>	\$ <u>1,048,345</u>
<u>Negotiable Certificates of Deposit</u>		
Neither insured nor registered and held by counterparty	\$ <u>1,754,441</u>	\$ <u>2,670,519</u>

The utilities' investment policy does not address this risk.

#### ***Credit Risk***

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

As of December 31, 2011, the utilities' investments were rated as follows:

<u>Investment Type</u>	<u>Standard &amp; Poors</u>	<u>Moody's Investors Services</u>
U.S. Agencies - Implicitly Guaranteed	AAA	Aa
Corporate Bonds	AA+	Aa2
Negotiable Certificates of Deposit	not rated	

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

<u>Investment Type</u>	<u>Standard &amp; Poors</u>	<u>Moody's Investors Services</u>
U.S. Agencies - Implicitly Guaranteed	AAA	Aaa
Corporate Bonds	AA+	Aa2
Negotiable Certificates of Deposit	not rated	

# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

### NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

#### ***Credit Risk*** (cont.)

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

The utilities' investment policy follows state statutes.

#### ***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, 2011 and 2010, the utilities' investment portfolio was concentrated as follows:

Issuer	Investment Type	Percentage of Portfolio	
		2011	2010
FHLMC	U.S. Agencies - Implicitly Guaranteed	4.26%	-%
Ginnie Mae	U.S. Agencies - Implicitly Guaranteed	20.84%	16.62%
GE Capital	Corporate bond	9.44%	8.87%

The utilities' investment policy does not address this risk.

#### ***Interest Rate Risk***

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment.

As of December 31, 2011, 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	\$ 3,115,073	\$ -	\$ -	\$ 3,115,073
Corporate Bonds	1,025,090	501,650	523,440	-
Negotiable Certificates of Deposit	1,754,441	1,004,977	253,760	495,704
Totals	<u>\$ 5,894,604</u>	<u>\$ 1,506,627</u>	<u>\$ 777,200</u>	<u>\$ 3,610,777</u>

# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

### NOTE 2 - DEPOSITS AND INVESTMENTS (cont.)

#### *Interest Rate Risk* (cont.)

Investment Type	Fair Value	Weighted Average Maturity (Years)
External investment pools	<u>\$ 1,662,455</u>	<u>.27</u>

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

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

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

The utilities' investment policy does not address this risk.

### NOTE 3 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund balances for the years ending December 31, 2011 and 2010:

Due To	Due From	2011		2010	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Water utility	\$ 301,135	Payment in lieu of taxes	\$ 259,162	Payment in lieu of taxes
Electric utility	Municipality	25,630	Operating	32,918	Operating
Municipality	Electric utility	322,881	Payment in lieu of taxes	291,922	Payment in lieu of taxes

# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

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

The following is a schedule of transfer balances for the years ending December 31, 2011 and 2010:

To	From	2011		2010	
		Amount	Principal Purpose	Amount	Principal Purpose
Municipality	Electric utility	\$ 20,788	Operating	\$ 30,496	Operating
Municipality	Electric utility	322,881	Payment in lieu of taxes	291,922	Payment in lieu of taxes
Municipality	Water utility	10,600	Operating	6,048	Operating
Municipality	Water utility	301,135	Payment in lieu of taxes	259,162	Payment in lieu of taxes

### NOTE 4 - ADVANCE RECEIVABLE

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, 2011 is \$554,744.

Repayment requirements to maturity follow:

Year Ending December 31	Principal	Interest	Total
2012	\$ 41,569	\$ 4,161	\$ 45,730
2013	31,250	15,395	46,645
2014	33,119	14,458	47,577
2015	35,065	13,464	48,529
2016	37,088	12,412	49,500
2017 - 2021	218,677	44,073	262,750
2022 - 2025	157,976	9,726	167,702
Totals	<u>\$ 554,744</u>	<u>\$ 113,689</u>	<u>\$ 668,433</u>

### NOTE 5 - RESTRICTED ASSETS

#### *Restricted Accounts*

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

- Redemption - Used to segregate resources accumulated for debt service payments over the next twelve months.
- Reserve - Used to report resources set aside to make up potential future deficiencies in the redemption account.
- Depreciation - Used to report resources set aside to fund plant renewals and replacement or make up potential future deficiencies in the redemption account.
- Construction - Used to report debt proceeds restricted for use in construction.

#### *Replacement Account*

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

## STOUGHTON UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

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#### NOTE 5 - RESTRICTED ASSETS (cont.)

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##### ***Restricted Net Assets***

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

	<u>2011</u>	<u>2010</u>
Restricted Assets		
Redemption account	\$ 358,057	\$ 339,705
Reserve account	704,728	1,046,094
Depreciation account	<u>25,000</u>	<u>25,000</u>
Total Restricted Assets	<u>1,087,785</u>	<u>1,410,799</u>
Current Liabilities Payable From Restricted Assets	<u>(71,368)</u>	<u>(74,641)</u>
Total Restricted Net Assets as Calculated	<u>\$ 1,016,417</u>	<u>\$ 1,336,158</u>

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

	<u>2011</u>	<u>2010</u>
Restricted Assets		
Redemption account	\$ 145,061	\$ 111,922
Reserve account	274,005	349,660
Depreciation account	<u>25,000</u>	<u>25,000</u>
Total Restricted Assets	<u>444,066</u>	<u>486,582</u>
Current Liabilities Payable From Restricted Assets	<u>(16,479)</u>	<u>(17,520)</u>
Total Restricted Net Assets as Calculated	<u>\$ 427,587</u>	<u>\$ 469,062</u>

# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

### NOTE 5 - RESTRICTED ASSETS (cont.)

#### **Restricted Net Assets** (cont.)

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

	2011	2010
Restricted Assets		
Redemption account	\$ 438,483	\$ 427,323
Depreciation account	33,283	33,283
Replacement account	1,027,040	1,037,836
Construction account	123	123
Total Restricted Assets	<u>1,498,929</u>	<u>1,498,565</u>
Less: Restricted Assets Not Funded by Revenues		
Construction account	<u>(123)</u>	<u>(123)</u>
Current Liabilities Payable From Restricted Assets	<u>(19,633)</u>	<u>(22,747)</u>
Total Restricted Net Assets as Calculated	<u>\$ 1,479,173</u>	<u>\$ 1,475,695</u>

### NOTE 6 - CHANGES IN CAPITAL ASSETS

#### **Electric Utility**

A summary of changes in electric capital assets for 2011 follows:

	Balance 01/01/11	Increases	Decreases	Balance 12/31/11
Capital assets, not being depreciated				
Land and land rights	\$ 573,461	\$ -	\$ -	\$ 573,461
Capital assets being depreciated				
Transmission	15,019	-	-	15,019
Distribution	20,038,521	865,364	136,820	20,767,065
General	3,905,820	80,373	25,869	3,960,324
Total Capital Assets Being Depreciated	<u>23,959,360</u>	<u>945,737</u>	<u>162,689</u>	<u>24,742,408</u>
Total Capital Assets	<u>24,532,821</u>	<u>945,737</u>	<u>162,689</u>	<u>25,315,869</u>
Less: Accumulated depreciation				
Transmission	(19,366)	-	-	(19,366)
Distribution	(7,395,206)	(747,186)	153,916	(7,988,476)
General	(1,841,212)	(214,860)	25,869	(2,030,203)
Total Accumulated Depreciation	<u>(9,255,784)</u>	<u>(962,046)</u>	<u>179,785</u>	<u>(10,038,045)</u>
Construction in progress	<u>26,682</u>	<u>957,329</u>	<u>951,576</u>	<u>32,435</u>
Net Capital Assets	<u>\$ 15,303,719</u>			<u>\$ 15,310,259</u>

# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

### NOTE 6 - CHANGES IN CAPITAL ASSETS (cont.)

#### *Electric Utility* (cont.)

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

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

# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

### NOTE 6 - CHANGES IN CAPITAL ASSETS (cont.)

#### *Water Utility*

A summary of changes in water capital assets for 2011 follows:

	Balance 01/01/11	Increases	Decreases	Balance 12/31/11
Capital assets, not being depreciated				
Land and land rights	\$ 24,841	\$ -	\$ -	\$ 24,841
Capital assets being depreciated				
Source of supply	563,994	6,729	600	570,123
Pumping	1,526,064	-	118,789	1,407,275
Water treatment	90,763	-	-	90,763
Transmission and distribution	13,413,504	484,810	7,101	13,891,213
General	913,082	33,932	32,936	914,078
Total Capital Assets Being Depreciated	16,507,407	525,471	159,426	16,873,452
Total Capital Assets	16,532,248	525,471	159,426	16,898,293
Less: Accumulated depreciation				
Source of supply	(270,085)	(16,445)	600	(285,930)
Pumping	(978,830)	(55,004)	45,126	(988,708)
Water treatment	(82,595)	(2,981)	-	(85,576)
Transmission and distribution	(2,693,862)	(253,012)	7,101	(2,939,773)
General	(475,802)	(42,232)	32,936	(485,098)
Total Accumulated Depreciation	(4,501,174)	(369,674)	85,763	(4,785,085)
Construction in progress	45,331	641,306	458,130	228,507
Net Capital Assets	\$ 12,076,405			\$ 12,341,715



# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

### NOTE 6 - CHANGES IN CAPITAL ASSETS (cont.)

#### *Water Utility* (cont.)

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

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

# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

### NOTE 6 - CHANGES IN CAPITAL ASSETS (cont.)

#### *Wastewater Utility*

A summary of changes in wastewater capital assets for 2011 follows:

	Balance 01/01/11	Increases	Decreases	Balance 12/31/11
Capital assets, not being depreciated				
Land and land rights	\$ 100	\$ -	\$ -	\$ 100
Capital assets being depreciated				
Collecting system	7,822,009	457,490	1,817	8,277,682
Collecting system pumping	397,412	-	-	397,412
Treatment and disposal	12,757,388	58,271	29,590	12,786,069
General	846,036	24,668	29,224	841,480
Total Capital Assets Being Depreciated	21,822,845	540,429	60,631	22,302,643
Total Capital Assets	21,822,945	540,429	60,631	22,302,743
Less: Accumulated depreciation	(7,246,797)	(630,353)	60,631	(7,816,519)
Construction in progress	63,761	850,982	553,482	361,261
Net Capital Assets	\$ 14,639,909			\$ 14,847,485

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

	Balance 01/01/10	Increases	Decreases	Balance 12/31/10
Capital assets, not being depreciated				
Land and land rights	\$ 100	\$ -	\$ -	\$ 100
Capital assets being depreciated				
Collecting system	7,684,051	137,958	-	7,822,009
Collecting system pumping	389,554	9,993	2,135	397,412
Treatment and disposal	12,735,749	27,339	5,700	12,757,388
General	836,829	9,207	-	846,036
Total Capital Assets Being Depreciated	21,646,183	184,497	7,835	21,822,845
Total Capital Assets	21,646,283	184,497	7,835	21,822,945
Less: Accumulated depreciation	(6,605,232)	(649,400)	7,835	(7,246,797)
Construction in progress	2,408	233,536	172,183	63,761
Net Capital Assets	\$ 15,043,459			\$ 14,639,909

# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

### NOTE 7 - LONG-TERM OBLIGATIONS

#### *Revenue Bonds - Electric*

The following bonds have been issued:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Outstanding Amount 12/31/11</u>
April 1, 2003	Electric system improvements	April 1, 2023	2.25 - 5.10 %	\$ 4,580,000	\$ 3,880,000
November 15, 2006	Electric system improvements	April 1, 2023	4.00 - 4.50	2,550,000	2,400,000

Revenue bonds debt service requirements to maturity follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 375,000	\$ 278,243	\$ 653,243
2013	400,000	263,368	663,368
2014	450,000	246,968	696,968
2015	450,000	227,868	677,868
2016	475,000	206,124	681,124
2017 - 2021	2,805,000	650,160	3,455,160
2022 - 2023	<u>1,325,000</u>	<u>60,938</u>	<u>1,385,938</u>
Totals	<u>\$ 6,280,000</u>	<u>\$ 1,933,669</u>	<u>\$ 8,213,669</u>

All utilities' revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2011 and 2010 were \$641,993 and \$837,567, respectively. Total gross revenues as defined for the same periods were \$15,173,023 and \$14,348,970, respectively. Annual principal and interest payments are expected to require 4.3% of gross revenues.

# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

### 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 12/31/11
March 25, 2003	Additions and improvements	May 1, 2013	3.50 - 4.80%	\$ 520,000	\$ 165,000
November 15, 2006	Additions and improvements	May 1, 2023	4.00 - 4.50	1,925,000	1,725,000
January 27, 2010	Additions and improvements	May 1, 2029	2.668%	575,018	551,386

Revenue bonds debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
2012	\$ 179,263	\$ 94,742	\$ 274,005
2013	184,910	87,146	272,056
2014	150,575	80,277	230,852
2015	151,257	74,273	225,530
2016	176,958	67,719	244,677
2017-2021	945,968	224,704	1,170,672
2022-2026	541,507	43,578	585,085
2027-2029	110,948	4,492	115,440
Totals	<u>\$ 2,441,386</u>	<u>\$ 676,931</u>	<u>\$ 3,118,317</u>

All utilities' revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2011 and 2010 were \$270,426 and \$211,718, respectively. Total gross revenues as defined for the same periods were \$1,746,122 and \$1,626,970, respectively. Annual principal and interest payments are expected to require 15.7% of gross revenues.

# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

### 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 12/31/11
March 9, 1994	WWTP improvements	May 1, 2013	3.224 %	\$ 5,472,357	\$ 787,431
December 22, 1999	Wastewater interceptor	May 1, 2019	3.049	623,465	298,312
July 12, 2000	WWTP improvements	May 1, 2020	3.049	1,116,259	587,863
September 10, 2003	WWTP improvements	May 1, 2023	2.766	1,670,624	1,116,332
June 27, 2007	WWTP improvements	May 1, 2027	2.475	1,539,762	1,393,728

Revenue bonds debt service requirements to maturity follows:

Year Ending December 31	Principal	Interest	Total
2012	\$ 630,475	\$ 108,150	\$ 738,625
2013	649,737	88,589	738,326
2014	256,735	75,084	331,819
2015	263,891	67,829	331,720
2016	271,247	60,369	331,616
2017-2021	1,311,870	186,185	1,498,055
2022-2026	695,734	49,276	745,010
2027	103,977	1,287	105,264
Totals	\$ 4,183,666	\$ 636,769	\$ 4,820,435

All utilities' revenues net of specified operating expenses are pledged as security of the above revenue bonds until the bonds are defeased. Principal and interest paid for 2011 and 2010 were \$738,910 and \$739,189, respectively. Total gross revenues as defined for the same periods were \$2,089,402 and \$2,131,492, respectively. Annual principal and interest payments are expected to require 35% of gross revenues.

# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

### NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

#### *Long-Term Obligations Summary - Electric*

Long-term obligation activity for the year ended December 31, 2011 is as follows:

	<u>01/01/11 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/11 Balance</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 6,630,000	\$ -	\$ 350,000	\$ 6,280,000	\$ 375,000
Accrued sick leave	163,637	34,757	27,478	170,916	-
Customer advances for construction	<u>2,427</u>	<u>32,138</u>	<u>25,125</u>	<u>9,440</u>	<u>-</u>
Totals	<u>\$ 6,796,064</u>	<u>\$ 66,895</u>	<u>\$ 402,603</u>	<u>\$ 6,460,356</u>	<u>\$ 375,000</u>

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

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

#### *Long-Term Obligations Summary - Water*

Long-term obligation activity for the year ended December 31, 2011 is as follows:

	<u>01/01/11 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/11 Balance</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 2,610,018	\$ -	\$ 168,632	\$ 2,441,386	\$ 179,263
Accrued sick leave	<u>85,691</u>	<u>9,472</u>	<u>6,531</u>	<u>88,632</u>	<u>-</u>
Totals	<u>\$ 2,695,709</u>	<u>\$ 9,472</u>	<u>\$ 175,163</u>	<u>\$ 2,530,018</u>	<u>\$ 179,263</u>

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

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

# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

### NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

#### *Long-Term Obligations Summary - Wastewater*

Long-term obligation activity for the year ended December 31, 2011 is as follows:

	<u>01/01/11 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/11 Balance</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 4,795,454	\$ -	\$ 611,788	\$ 4,183,666	\$ 630,475
Accrued sick leave	<u>93,331</u>	<u>12,932</u>	<u>8,481</u>	<u>97,782</u>	<u>-</u>
Totals	<u>\$ 4,888,785</u>	<u>\$ 12,932</u>	<u>\$ 620,269</u>	<u>\$ 4,281,448</u>	<u>\$ 630,475</u>

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

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

#### *Bond Covenant Disclosures*

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

#### *Insurance*

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

# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

### NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

#### **Bond Covenant Disclosures** (cont.)

##### **Insurance** (cont.)

The utilities are covered under the following insurance policies at December 31, 2011:

Type		Coverage	Expiration
Automobile	\$ 5,000,000	CVMIC & Self-Insured Retention	1/1/12
Excess Liability	5,000,000	CVMIC & Self-Insured Retention	1/1/12
Workers Compensation	5,000,000	CVMIC & Self-Insured Retention	1/1/12
	1,000,000	CVMIC & Self-Insured Retention	1/1/12
Boiler Insurance	100,000,000	CVMIC & Self-Insured Retention	1/1/12
Property	44,396,060	Wisconsin Local Property Insurance Fund	2/1/12

##### **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 2011 and 2010 as follows:

	2011	2010
Operating revenues	\$ 15,055,468	\$ 14,140,673
Investment income	117,555	208,297
Less: Operation and maintenance expenses	<u>(13,136,259)</u>	<u>(12,476,782)</u>
Net Defined Earnings	<u>\$ 2,036,764</u>	<u>\$ 1,872,188</u>
Minimum Required Earnings per Resolution:		
Highest annual debt service	\$ 704,728	\$ 704,728
Coverage factor	<u>1.30</u>	<u>1.30</u>
Minimum Required Earnings	<u>\$ 916,146</u>	<u>\$ 916,146</u>
Actual Debt Coverage	<u>2.89</u>	<u>2.66</u>



# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

### NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

#### ***Bond Covenant Disclosures*** (cont.)

##### ***Debt Coverage - Water***

Under terms of the resolutions providing for the issue of revenue bonds, revenues less operating expenses excluding depreciation (defined net earnings) must exceed 1.3 times the highest annual debt service of the bonds. The coverage only includes revenue debt and does not include general obligation or other debt. The coverage requirement was met in 2011 and 2010 as follows:

	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 1,734,825	\$ 1,558,841
Investment income	11,297	68,129
Less: Operation and maintenance expenses	<u>(788,488)</u>	<u>(725,930)</u>
Net Defined Earnings	<u>\$ 957,634</u>	<u>\$ 901,040</u>
Minimum Required Earnings per Resolution:		
Highest annual debt service	\$ 274,005	\$ 274,005
Coverage factor	<u>1.30</u>	<u>1.30</u>
Minimum Required Earnings	<u>\$ 356,207</u>	<u>\$ 356,207</u>
Actual Debt Coverage	<u>3.49</u>	<u>3.04</u>

##### ***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 2011 and 2010 as follows:

	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 2,073,764	\$ 2,070,720
Investment income	15,638	60,772
Less: Operation and maintenance expenses	<u>(905,616)</u>	<u>(902,642)</u>
Net Defined Earnings	<u>\$ 1,183,786</u>	<u>\$ 1,228,850</u>
Minimum Required Earnings per Resolution:		
Highest annual debt service	\$ 738,622	\$ 738,910
Coverage factor	<u>1.10</u>	<u>1.10</u>
Minimum Required Earnings	<u>\$ 812,484</u>	<u>\$ 812,801</u>
Actual Debt Coverage	<u>1.60</u>	<u>1.66</u>

# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

### NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

#### ***Bond Covenant Disclosures (cont.)***

#### ***Number of Customers - Electric***

The utility has the following number of customers and billed volumes for 2011 and 2010:

	Customers		Sales (000 kWh)	
	2011	2010	2011	2010
Residential	7,596	7,585	65,811	66,538
General	785	774	17,478	17,895
Small power	47	50	14,460	14,071
Large power	8	9	9,959	9,663
Industrial	6	7	31,251	28,994
Street and highway lighting	6	6	1,004	935
Totals	<u>8,448</u>	<u>8,431</u>	<u>139,963</u>	<u>138,096</u>

#### ***Number of Customers - Water***

The utility has the following number of customers and billed volumes for 2011 and 2010:

	Customers		Sales (000 gals)	
	2011	2010	2011	2010
Residential	4,401	4,370	216,334	219,210
Commercial	416	424	80,246	78,293
Industrial	21	21	186,533	148,088
Public authority	47	36	6,228	5,740
Interdepartmental	3	2	534	45
Totals	<u>4,888</u>	<u>4,853</u>	<u>489,875</u>	<u>451,376</u>

#### ***Number of Customers - Wastewater***

The utility has the following number of customers and billed volumes for 2011 and 2010:

	Customers		Sales (000 gals)	
	2011	2010	2011	2010
Residential	4,360	4,365	216,279	219,059
Commercial	384	388	81,661	77,612
Industrial	16	17	23,667	25,046
Public authority	33	24	3,981	3,709
Interdepartmental	2	2	67	45
Totals	<u>4,795</u>	<u>4,796</u>	<u>325,655</u>	<u>325,471</u>

# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

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### NOTE 7 - LONG-TERM OBLIGATIONS (cont.)

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#### ***Bond Covenant Disclosures*** (cont.)

##### ***Utilities Budget***

The 2011 and 2010 utilities' budgets were prepared and approved as required by the bond resolutions.

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### NOTE 8 - NET ASSETS

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

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

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

Unrestricted net assets - The component of net asset consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

### NOTE 8 - NET ASSETS (cont.)

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

	<u>2011</u>	<u>2010</u>
Plant in service	\$ 24,963,205	\$ 24,180,157
Accumulated depreciation	(10,038,045)	(9,255,784)
Construction work in progress	<u>32,435</u>	<u>26,682</u>
Sub-Totals	<u>14,957,595</u>	<u>14,951,055</u>
Less: Capital related debt		
Current portion of capital related long-term debt	375,000	350,000
Long-term portion of capital related long-term debt	5,905,000	6,280,000
Unamortized debt issuance costs	<u>-</u>	<u>-</u>
Sub-Totals	<u>6,280,000</u>	<u>6,630,000</u>
Total Net Assets Invested in Capital Assets, Net of Related Debt	<u>\$ 8,677,595</u>	<u>\$ 8,321,055</u>

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

	<u>2011</u>	<u>2010</u>
Plant in service	\$ 16,898,293	\$ 16,532,248
Accumulated depreciation	(4,785,085)	(4,501,174)
Construction work in progress	<u>228,507</u>	<u>45,331</u>
Sub-Totals	<u>12,341,715</u>	<u>12,076,405</u>
Less: Capital related debt		
Current portion of capital related long-term debt	179,263	168,632
Long-term portion of capital related long-term debt	2,262,123	2,441,386
Unamortized debt issuance costs	<u>-</u>	<u>-</u>
Sub-Totals	<u>2,441,386</u>	<u>2,610,018</u>
Total Net Assets Invested in Capital Assets, Net of Related Debt	<u>\$ 9,900,329</u>	<u>\$ 9,466,387</u>

# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

### NOTE 8 - NET ASSETS (cont.)

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

	2011	2010
Plant in service	\$ 22,302,743	\$ 21,822,945
Accumulated depreciation	(7,816,519)	(7,246,797)
Construction work in progress	361,261	63,761
Sub-Totals	<u>14,847,485</u>	<u>14,639,909</u>
Less: Capital related debt		
Current portion of capital related long-term debt	630,475	611,788
Long-term portion of capital related long-term debt	3,553,191	4,183,666
Sub-Totals	<u>4,183,666</u>	<u>4,795,454</u>
Add: Unspent debt proceeds		
Construction funds	<u>123</u>	<u>123</u>
Total Net Assets Invested in Capital Assets, Net of Related Debt	<u>\$ 10,663,942</u>	<u>\$ 9,844,578</u>

### NOTE 9 - EMPLOYEES RETIREMENT SYSTEM

All eligible employees of the utilities participate in the Wisconsin Retirement System (System), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). All permanent employees expected to work over 600 hours a year (1,200 hours for employees hired on or after July 1, 2011) are eligible to participate in the System. Covered employees in the General category were required by statute to contribute 6.2% of their salary in 2010, 6.5% of their salary through June 28, 2011 and 5.8% of their salary beginning June 29, 2011. Employers generally make these contributions to the plan on behalf of employees through June 28, 2011. Thereafter, employees are required to fund their contribution, subject to terms of employment contracts and which employee group they are a member of. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits. Covered payroll listed below is substantially the same as total payroll.

Electric

	Year Ended December 31		
	2011	2010	2009
Total Covered Employee Payroll	\$ 985,805	\$ 846,254	\$ 815,578
Total Required Contributions	\$ 126,183	\$ 103,243	\$ 94,607
Total Required Contributions	<u>12.8%</u>	<u>12.2%</u>	<u>11.6%</u>

## STOUGHTON UTILITIES

### NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

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#### NOTE 9 - EMPLOYEES RETIREMENT SYSTEM (cont.)

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##### Water

	Year Ended December 31		
	2011	2010	2009
Total Covered Employee Payroll	\$ 240,336	\$ 252,779	\$ 244,957
Total Required Contributions	\$ 30,763	\$ 30,839	\$ 28,415
Total Required Contributions	12.8%	12.2%	11.6%

##### Wastewater

	Year Ended December 31		
	2011	2010	2009
Total Covered Employee Payroll	\$ 299,570	\$ 323,422	\$ 339,224
Total Required Contributions	\$ 38,345	\$ 39,458	\$ 39,350
Total Required Contributions	12.8%	12.2%	11.6%

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

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#### NOTE 10 - COMMITMENTS AND CONTINGENCIES

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##### ***Long-Term Contracts - WPPI Energy***

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

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

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

WPPI Energy's outstanding debt service obligation to be paid by its members through their wholesale power charges through the remainder of the long-term contract is \$402 million as of December 31, 2010.

##### ***Claims and Judgments***

From time to time, the utilities are party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the utilities' legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the utilities' financial position or results of operations.

# STOUGHTON UTILITIES

## NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

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### NOTE 11 - RISK MANAGEMENT

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

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

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

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

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

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

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### NOTE 12 - SELF INSURANCE

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The utilities are part of the municipality's self-funded health insurance program with claims processed by an administrative firm on behalf of the municipality. A separate fund has been established into which deposits are made and actual claims are paid out. As part of the plan, a reinsurance policy has been purchased which covers claims in excess of \$45,000 per individual up to a maximum of \$1,000,000. Deposits to the self-insured fund in excess of the claims and other costs paid are retained by the municipality. The utilities' total contributions to the program during the years 2011 and 2010 were \$318,389 and \$283,197, respectively. Details of the plan can be found in the basic financial statements of the City of Stoughton.

## SUPPLEMENTAL INFORMATION



## **ELECTRIC UTILITY**

# STOUGHTON ELECTRIC UTILITY

## ELECTRIC UTILITY PLANT December 31, 2011

	Balance 1/1/2011	Additions	Retirements	Balance 12/31/2011
<b>TRANSMISSION</b>				
Land and land rights	\$ 1	\$ -	\$ -	\$ 1
Poles and fixtures	5,035	-	-	5,035
Overhead conductors and devices	9,984	-	-	9,984
Total Transmission	15,020	-	-	15,020
<b>DISTRIBUTION</b>				
Land and land rights	220,796	-	-	220,796
Structures and improvements	44,389	-	-	44,389
Station equipment	4,018,351	251,643	19,485	4,250,509
Poles, towers and fixtures	2,831,178	55,022	27,979	2,858,221
Overhead conductors and devices	4,857,788	400,943	55,146	5,203,585
Underground conduit	313,632	29,806	1,955	341,483
Underground conductors and devices	2,471,162	40,797	567	2,511,392
Line transformers	2,779,365	39,111	16,336	2,802,140
Services	1,583,597	36,693	5,197	1,615,093
Meters	626,906	3,149	-	630,055
Street lighting and signal systems	512,153	8,200	10,155	510,198
Total Distribution	20,259,317	865,364	136,820	20,987,861
<b>GENERAL</b>				
Structures and improvements	1,635,949	-	-	1,635,949
Office furniture and equipment	187,465	1,450	-	188,915
Computer equipment	173,274	5,074	-	178,348
Transportation equipment	240,998	73,849	25,869	288,978
Stores equipment	9,984	-	-	9,984
Tools, shop and garage equipment	64,576	-	-	64,576
Laboratory equipment	50,236	-	-	50,236
Power-operated equipment	1,200,625	-	-	1,200,625
Communication equipment	58,270	-	-	58,270
SCADA equipment	279,453	-	-	279,453
Miscellaneous equipment	4,990	-	-	4,990
Total General	3,905,820	80,373	25,869	3,960,324
<b>TOTAL ELECTRIC UTILITY PLANT</b>	<b>\$ 24,180,157</b>	<b>\$ 945,737</b>	<b>\$ 162,689</b>	<b>\$ 24,963,205</b>

# STOUGHTON ELECTRIC UTILITY

## ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES

Years Ended December 31, 2011 and 2010

OPERATING REVENUES	2011	2010
Sales of Electricity		
Residential	\$ 5,187,083	\$ 4,915,645
Rural	2,876,794	2,721,581
General service	1,542,501	1,404,524
Large commercial and industrial	1,270,052	1,248,510
Large power	956,963	944,496
Industrial	2,781,578	2,554,604
Public street and highway lighting	140,379	131,157
Interdepartmental	163,262	91,952
Total Sales of Electricity	14,918,612	14,012,469
Other Operating Revenues		
Forfeited discounts	45,508	43,067
Other	91,348	85,137
Total Operating Revenues	15,055,468	14,140,673
 OPERATING EXPENSES		
Operation and Maintenance		
Other Power Supply		
Purchased power	11,563,743	10,952,336
Transmission		
Operating supervision and engineering	5,502	7,250
Station	38,993	1,664
Overhead lines	72,853	79,318
Underground lines	31,438	39,282
Total Transmission	148,786	127,514
Distribution		
Street lighting and signal system	5,194	19,660
Meter	34,567	14,076
Customer installations	375	24,313
Miscellaneous	4,577	6,602
Maintenance		
Structures	-	-
Station equipment	20,050	58,175
Overhead lines	191,236	239,230
Underground lines	17,598	23,731
Line transformers	3,491	1,603
Street lighting and signal system	971	3,461
Meters	547	726
Miscellaneous	-	-
Total Distribution	278,606	391,577
Customer Accounts		
Meter reading	7,076	5,738
Accounting and collecting labor	213,762	186,828
Miscellaneous	16,402	13,790
Total Water Treatment	237,240	206,356

## STOUGHTON ELECTRIC UTILITY

### ELECTRIC UTILITY OPERATING REVENUES AND EXPENSES Years Ended December 31, 2011 and 2010

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#### OPERATING EXPENSES (cont'd)

##### Operation and Maintenance (cont'd)

##### Administrative and General

Salaries	\$	216,789	\$	224,263
Office supplies		48,675		35,303
Outside services employed		19,526		53,692
Property insurance		18,637		9,059
Injuries and damages		24,736		25,597
Employee pensions and benefits		333,997		193,240
Regulatory commission		46		7,262
Miscellaneous		16,462		10,701
Rents		10,673		10,673
Maintenance		45,703		77,509
Total Administrative and General		<u>735,244</u>		<u>647,299</u>
Taxes		<u>172,640</u>		<u>151,700</u>
Total Operation and Maintenance		<u>13,136,259</u>		<u>12,476,782</u>
Depreciation		<u>912,530</u>		<u>865,950</u>
Total Operating Expenses		<u>14,048,789</u>		<u>13,342,732</u>

OPERATING INCOME	\$	<u>1,006,679</u>	\$	<u>797,941</u>
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# STOUGHTON ELECTRIC UTILITY

## RATE OF RETURN - REGULATORY BASIS December 31, 2011 and 2010

	2011	2010
Utility Plant in Service		
Beginning of year	\$ 21,630,993	\$ 20,901,724
End of year	22,421,815	21,630,993
Average	<u>22,026,404</u>	<u>21,266,359</u>
Accumulated Depreciation		
Beginning of year	(8,653,406)	(8,075,447)
End of year	(9,353,662)	(8,653,406)
Average	<u>(9,003,534)</u>	<u>(8,364,427)</u>
Materials and Supplies		
Beginning of year	124,597	131,388
End of year	135,057	124,597
Average	<u>129,827</u>	<u>127,993</u>
Regulatory Liability		
Beginning of year	(288,084)	(310,244)
End of year	(265,924)	(288,084)
Average	<u>(277,004)</u>	<u>(299,164)</u>
Customer Advances for Construction		
Beginning of year	(2,427)	(5,959)
End of year	(9,440)	(2,427)
Average	<u>(5,934)</u>	<u>(4,193)</u>
AVERAGE NET RATE BASE	<u>\$ 12,869,759</u>	<u>\$ 12,726,568</u>
OPERATING INCOME - REGULATORY BASIS	<u>\$ 791,512</u>	<u>\$ 603,164</u>
RATE OF RETURN (PERCENT)	<u>6.15</u>	<u>4.74</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 December 31, 2011

	Balance 1/1/2011	Additions	Retirements	Balance 12/31/2011
<b>SOURCE OF SUPPLY</b>				
Land and land rights	\$ 11,635	\$ -	\$ -	\$ 11,635
Wells and springs	563,994	6,729	600	570,123
Total Source of Supply	575,629	6,729	600	581,758
<b>PUMPING</b>				
Structures and improvements	576,342	-	-	576,342
Other power production equipment	246,036	-	-	246,036
Electric pumping equipment	584,896	-	-	584,896
Other pumping equipment	118,789	-	118,789	-
Total Pumping	1,526,063	-	118,789	1,407,274
<b>WATER TREATMENT</b>				
Structures and improvements	13,671	-	-	13,671
Water treatment equipment	77,092	-	-	77,092
Total Water Treatment	90,763	-	-	90,763
<b>TRANSMISSION AND DISTRIBUTION</b>				
Land and land rights	13,206	-	-	13,206
Structures and improvements	1,611	-	-	1,611
Distribution reservoirs and standpipes	1,919,253	-	-	1,919,253
Transmission and distribution mains	8,050,746	363,852	2,605	8,411,993
Services	1,803,534	94,354	662	1,897,226
Meters	584,598	-	-	584,598
Hydrants	1,052,790	26,604	3,834	1,075,560
Other transmission and distribution plant	973	-	-	973
Total Transmission and Distribution	13,426,711	484,810	7,101	13,904,420
<b>GENERAL</b>				
Land and land rights	405,290	-	-	405,290
Office furniture and equipment	54,749	528	-	55,277
Computer equipment	75,320	1,845	17,240	59,925
Transportation equipment	43,722	-	15,696	28,026
Stores equipment	2,187	-	-	2,187
Tools, shop and garage equipment	35,109	-	-	35,109
Power-operated equipment	102,034	-	-	102,034
Communication equipment	35,668	-	-	35,668
SCADA equipment	158,914	31,559	-	190,473
Miscellaneous equipment	89	-	-	89
Total General	913,082	33,932	32,936	914,078
<b>TOTAL WATER UTILITY PLANT</b>	<b>\$ 16,532,248</b>	<b>\$ 525,471</b>	<b>\$ 159,426</b>	<b>\$ 16,898,293</b>

# STOUGHTON WATER UTILITY

## WATER UTILITY OPERATING REVENUES AND EXPENSES Years Ended December 31, 2011 and 2010

	2011	2010
<b>OPERATING REVENUES</b>		
Sales of Water		
Metered		
Residential	\$ 792,642	\$ 756,725
Commercial	192,504	178,173
Industrial	263,376	199,210
Public authorities	17,828	15,828
Interdepartmental	1,467	318
Total Metered Sales	1,267,817	1,150,254
Private fire protection	25,417	20,999
Public fire protection	417,354	364,006
Total Sales of Water	1,710,588	1,535,259
Other Operating Revenues		
Forfeited discounts	5,701	4,607
Other	18,536	18,975
Total Operating Revenues	1,734,825	1,558,841
<b>OPERATING EXPENSES</b>		
Operation and Maintenance		
Source of Supply		
Operation labor	44	407
Maintenance		
Wells and springs	-	833
Total Source of Supply	44	1,240
Pumping		
Fuel or purchased power for pumping	120,322	105,529
Pumping labor	2,258	1,332
Miscellaneous	68	18,419
Maintenance		
Structures and improvements	2,572	681
Pumping equipment	8,275	15,125
Total Pumping	133,495	141,086
Water Treatment		
Chemicals	16,541	14,676
Operation labor	19,435	5,355
Miscellaneous	99	336
Maintenance		
Structures and improvements	1,625	1,550
Water treatment equipment	2,204	4,558
Total Water Treatment	39,904	26,475



# STOUGHTON WATER UTILITY

## WATER UTILITY OPERATING REVENUES AND EXPENSES Years Ended December 31, 2011 and 2010

### OPERATING EXPENSES (cont'd)

#### Operation and Maintenance (cont'd)

##### Transmission and Distribution

Transmission and distribution lines	\$ 17,997	\$ 3,252
Meters	3,749	7,811
Miscellaneous	12,384	19,884
Maintenance		
Reservoirs and standpipes	62,047	45,089
Mains	73,543	50,903
Services	14,158	28,028
Meters	-	4,961
Hydrants	5,022	17,244
Miscellaneous	4,997	1,695

##### Total Transmission and Distribution

193,897	178,867
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##### Customer Accounts

Meter reading	3,252	3,697
Accounting and collecting labor	75,070	63,943
Total Customer Accounts	78,322	67,640

##### Administrative and General

Salaries	156,014	155,042
Office supplies	15,835	11,657
Outside services employed	8,590	4,189
Property insurance	6,781	3,295
Injuries and damages	9,732	10,718
Employee pensions and benefits	121,798	102,052
Regulatory commission	125	-
Rents	3,881	3,881
Maintenance	4,168	4,234

##### Total Administrative and General

326,924	295,068
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##### Taxes

15,902	15,554
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##### Total Operation and Maintenance

788,488	725,930
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##### Depreciation

342,667	327,160
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##### Total Operating Expenses

1,131,155	1,053,090
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### OPERATING INCOME

\$ 603,670	\$ 505,751
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# STOUGHTON WATER UTILITY

## RATE OF RETURN - REGULATORY BASIS

December 31, 2011 and 2010

	2011	2010
Utility Plant in Service		
Beginning of year	\$ 10,512,396	\$ 9,502,316
End of year	10,791,839	10,512,396
Average	<u>10,652,117</u>	<u>10,007,356</u>
Accumulated Depreciation		
Beginning of year	(3,188,937)	(2,902,806)
End of year	(3,319,808)	(3,188,937)
Average	<u>(3,254,373)</u>	<u>(3,045,872)</u>
Materials and Supplies		
Beginning of year	27,101	33,175
End of year	23,257	27,101
Average	<u>25,179</u>	<u>30,138</u>
Regulatory Liability		
Beginning of year	(444,968)	(479,196)
End of year	(410,740)	(444,968)
Average	<u>(427,854)</u>	<u>(462,082)</u>
AVERAGE NET RATE BASE	<u>\$ 6,995,069</u>	<u>\$ 6,529,540</u>
OPERATING INCOME - REGULATORY BASIS	<u>\$ 404,895</u>	<u>\$ 342,394</u>
RATE OF RETURN (PERCENT)	<u>5.79</u>	<u>5.24</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

December 31, 2011

	Balance 1/1/2011	Additions	Retirements	Balance 12/31/2011
<b>COLLECTING SYSTEM</b>				
Land and land rights	\$ 100	\$ -	\$ -	\$ 100
Collecting mains	5,969,848	457,490	1,817	6,425,521
Interceptor mains	1,803,210	-	-	1,803,210
Force mains	48,951	-	-	48,951
Total Collecting System	<u>7,822,109</u>	<u>457,490</u>	<u>1,817</u>	<u>8,277,782</u>
<b>COLLECTING SYSTEM PUMPING</b>				
Structures and improvements	67,382	-	-	67,382
Electric pumping equipment	308,631	-	-	308,631
Other pumping equipment	21,399	-	-	21,399
Total Collecting System Pumping	<u>397,412</u>	<u>-</u>	<u>-</u>	<u>397,412</u>
<b>TREATMENT AND DISPOSAL</b>				
Structures and improvements	3,249,743	-	-	3,249,743
Preliminary treatment equipment	1,259,171	-	-	1,259,171
Primary treatment equipment	1,147,165	-	-	1,147,165
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	3,530,109	58,271	29,590	3,558,790
Plant site pumping	685,498	-	-	685,498
Flow metering and monitoring equipment	25,166	-	-	25,166
Other treatment and disposal equipment	34,590	-	-	34,590
Total Treatment and Disposal	<u>12,757,388</u>	<u>58,271</u>	<u>29,590</u>	<u>12,786,069</u>
<b>GENERAL</b>				
Structures and improvements	232,233	-	-	232,233
Office furniture and equipment	55,215	-	-	55,215
Computer equipment	110,021	-	-	110,021
Transportation equipment	404,517	21,703	29,224	396,996
Communication equipment	14,442	2,965	-	17,407
Other general equipment	29,608	-	-	29,608
Total General	<u>846,036</u>	<u>24,668</u>	<u>29,224</u>	<u>841,480</u>
<b>TOTAL WASTEWATER UTILITY PLANT</b>	<u>\$ 21,822,945</u>	<u>\$ 540,429</u>	<u>\$ 60,631</u>	<u>\$ 22,302,743</u>

# STOUGHTON WASTEWATER UTILITY

## WASTEWATER UTILITY OPERATING REVENUES AND EXPENSES Years Ended December 31, 2011 and 2010

	2011	2010
<b>OPERATING REVENUES</b>		
Wastewater Revenues		
Residential	\$ 1,403,877	\$ 1,415,649
Commercial	455,766	428,949
Industrial	120,473	127,345
Public authorities	24,129	22,287
Interdepartmental	480	439
Total Wastewater Revenues	<u>2,004,725</u>	<u>1,994,669</u>
Other Operating Revenues		
Forfeited discounts	6,380	6,491
Miscellaneous	62,659	69,560
Total Operating Revenues	<u>2,073,764</u>	<u>2,070,720</u>
<b>OPERATING EXPENSES</b>		
Operation and Maintenance		
Operation		
Supervision and labor	169	1,205
Power and fuel for pumping	98,861	92,294
Sludge conditioning chemicals	9,839	12,686
Other operating supplies	13,299	23,946
Transportation	-	-
Total Operation	<u>122,168</u>	<u>130,131</u>
Maintenance		
Collection system	77,700	83,331
Treatment and disposal plant equipment	107,513	116,797
General plant structures and equipment	57,975	68,753
Total Maintenance	<u>243,188</u>	<u>268,881</u>
Customer Accounts		
Accounting and collecting	<u>131,264</u>	<u>135,558</u>
Administrative and General		
Salaries	82,934	74,617
Office supplies	20,596	15,561
Outside services employed	19,153	32,593
Insurance	18,925	14,777
Employee pensions and benefits	164,652	128,865
Miscellaneous	20,885	18,140
Rents	57,644	58,293
Total Administrative and General	<u>384,789</u>	<u>342,846</u>
Taxes	<u>24,207</u>	<u>25,226</u>
Total Operation and Maintenance	<u>905,616</u>	<u>902,642</u>
Depreciation	<u>630,352</u>	<u>649,400</u>
Total Operating Expenses	<u>1,535,968</u>	<u>1,552,042</u>
<b>OPERATING INCOME</b>	<u>\$ 537,796</u>	<u>\$ 518,678</u>