

# **MADISON WATER UTILITY**

Madison, Wisconsin

**COMMUNICATION TO THOSE CHARGED  
WITH GOVERNANCE AND MANAGEMENT**

As of and for the Year Ended December 31, 2017

# MADISON WATER UTILITY

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**REQUIRED COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS  
IDENTIFIED IN THE AUDIT TO THOSE CHARGED WITH GOVERNANCE**

To the Water Utility Board  
Madison Water Utility  
Madison, Wisconsin

In planning and performing our audit of the financial statements of the Madison Water Utility as of and for the year ended December 31, 2017, 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 that are appropriate in the circumstances 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 consider the following deficiency in Madison Water Utility's internal control to be material weaknesses, as further discussed on the following page:

> Internal Control Over Financial Reporting

As certain processes are combined with the municipality those systems were reviewed and control deficiencies, if any, reported as part of the municipality's overall audit. These include payroll, special assessments, information technology, and risk assessment.

This communication is intended solely for the information and use of management, those charged with governance, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

*Baker Tilly Veitchau Krause, LLP*

Madison, Wisconsin  
July 17, 2018

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## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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Auditing standards require that we perform procedures to obtain an understanding of your government and its internal control environment as part of the annual audit. This includes an analysis of the utility's year-end financial reporting process and preparation of your financial statements.

A properly designed system of internal control allows for the presentation of year-end financial data and financial statements without material errors. At this time, the utility does not have internal controls in place that allow for the presentation of materially correct year-end financial statements. As a result, we consider this absence of controls to be a material weakness in internal control over the utility's financial reporting.

Our audit includes a review and evaluation of the utility's internal controls relating to financial reporting. Common attributes of a properly designed system of internal control for financial reporting are as follows:

- > There is adequate staffing to prepare financial reports throughout and at the end of the year.
- > Staff is properly trained and knowledgeable to perform all financial reporting functions.
- > Complete and accurate financial statements including footnotes are prepared.
- > Financial reports are reviewed by an individual who is not the preparer for completeness and accuracy.

Our evaluation of the internal controls over financial reporting has identified control deficiencies that are considered material weakness surrounding the preparation of financial statements and footnotes and material adjusting journal entries identified by the auditors.

To provide some perspective, establishment of such internal controls can be a difficult task for governments. Many governments do rely on their auditors to prepare certain year-end adjusting entries and prepare the year-end financial statements. Because the auditors are not involved with the utility's day-to-day activities, it is important that management have the skills, knowledge, and experience to review the audit adjustments and financial statements prepared by the auditors to ensure completeness, accuracy, and consistency with management's knowledge of transactions impacting the utility during the year.

### ***Management Response***

The Utility filled a vacant position within the finance department on January 2, 2017, enabling the Utility to create quarterly financial statements for the Water Board. These statements are created by the Finance Supervisor and reviewed by the Chief Administrative Officer. The Finance Supervisor prepares month-end journal entries and a monthly trial balance report which are reviewed and approved by the Chief Administrative Officer. During these reviews, we highlight and discuss significant account variations between months and years in order to avoid material misstatements.

The Utility currently prepares the MD&A for the financial report. The Utility intends to prepare its own financial statements for 2018.

**OTHER COMMUNICATIONS TO THOSE CHARGED WITH GOVERNANCE**

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

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

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

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

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

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

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

- a. We typically will communicate with your top level of management unless you tell us otherwise.
- b. We understand that the utility and the board have 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?

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

- a. The utility's 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?

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

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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. Our final financial fieldwork is scheduled during the spring to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial audit procedures at our office and may issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your staff. This is typically 6-10 weeks after final fieldwork, but may vary depending on a number of factors.

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

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



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

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## **FINANCIAL RESULTS**

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The management discussion and analysis section of the utility's financial statements highlights financial and operating information useful to management. It contains an excellent discussion of the major financial and operational events for the year.

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## **CURRENT YEAR COMMENTS AND RECOMMENDATIONS**

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### ***RECONCILIATION OF CASH BALANCES***

The water utility maintains a general ledger apart from the city of Madison's financial system subsequent to the city's implementation of a new system in 2015. From the initial implementation, the water utility's system of record for work orders, capital assets and miscellaneous other processes is housed only at the water utility and not represented in the city-wide general ledger. The city manages cash receipting, disbursements and various other financial areas on behalf of the water utility. As a result of this separation, the water utility manually records activity from the city into the water utility's general ledger to reflect the transactions of the water utility. The utility plans to fully implement the city's system beginning in 2019.

As a result of operating two separate systems, the water utility reconciles its cash balances and internal activity with the city since all cash related operations are maintained by the city. During the audit it was noted that the co-mingled cash balances of the water utility were not reconciled with the city's confirmed bank balances for the audit period. Initially water utility management was unable to identify the root cause(s) of the variance. The water utility worked extensively to identify the variances prior to the issuance of the audit report and the city and utility made the necessary journal entries to balance both cash systems. At the time of audit fieldwork it was indeterminate what the differences related to and where the financial statements could be misstated. This resulted in an elevated audit risk to the presentation of materially correct financial statements. We recommend the city and water utility design and implement a periodic reconciliation process to ensure unsupported cash variances are resolved prior to the audit.

### ***Management Response***

The Water Utility was able to identify a majority of the cash variance between the two systems before the issuance of the current year audit report. The City and the Water Utility have been working together to ensure all necessary functions are performed in both systems to enable the Water Utility to perform a quarterly cash reconciliation in 2018 so that cash will be reconciled before the end of audit fieldwork in 2019.

### ***MONITORING FINANCIAL POSITION***

The water utility presents a \$6.1 million cash implicit financing from the city as of December 31, 2017. This balance represents the necessary cash funding from the city to adequately fund restricted cash accounts maintained as a requirement of the utility's bond covenants. The cash shortfall is anticipated to be repaid over a two-year period.

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## STATUS OF PRIOR YEAR COMMENTS AND RECOMMENDATIONS

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### ***MONITORING FINANCIAL POSITION*** (cont.)

Several factors lead to the temporary financing from the city including those that were both manageable and uncontrollable by the utility. It was noted during the audit there are presently no periodic reviews of financial performance or cash positioning of the water utility. The lack of a formal review is partially due to the availability of adequate reporting from the city and utility's accounting system in addition to the cash balancing comment mentioned above. In order to prevent future cash deficiencies we recommend the utility develop and utilize the reporting tools necessary to monitor key account activity and balances. Common reporting tools for local governments and utilities include budget to actual reports for operating and capital budgets, interim financial statements and cash position statements and financial forecasts. Utilization of these reports will assist management and the board in making informed decisions regarding the utility's operations.

### ***Management Response***

As mentioned in the Management Response above, the Utility is starting to reconcile cash to the City system on a quarterly basis in 2018. Along with the quarterly cash reconciliations, the Utility is working to implement a financial model that will allow it to monitor cash flows more closely and to forecast future revenue increases on a timelier basis. The Utility will be preparing quarterly budget to actual reports in 2018 for the City and the Water Board.

In order to repay the City within two years, the Utility has identified 9 properties held for future use and deemed them surplus and available to sell. Selling and closing on these properties in a timely fashion will require the cooperation of the City's Department of Planning, Community and Economic Development. The Utility has reevaluated its Capital Improvement Plan and has deferred projects where feasible. We have also identified and implemented savings opportunities in the 2018 and 2019 Operating Budgets.

### ***DEBT COVERAGE REQUIREMENTS (12/31/15 LETTER)***

The general debt covenant provisions of the utility's revenue bonds require the utility to maintain a debt coverage ratio of 1.25. During the year, the utility issued an additional \$41.6 million in revenue bonds which raised the funding requirement by approximately \$4 million beginning in 2016. As a result, the utility did not meet the debt coverage requirement for 2015. New water rates were placed into effect beginning in October 2015 which should reduce the shortfall. We recommend that the utility monitor their debt coverage requirement and account for this new issuance in order to stay in compliance with their bond agreement.

### ***Status Update – 12/31/2017***

The water utility did not meet the debt coverage requirement in 2017 as a result of decreased revenues from the loss of a major customer, increased maintenance expenses associated with painting three water towers and increased debt service costs associated with the 2016 bond issuance. As the utility anticipates to issue debt and awaits approval for a rate application in 2018, we continue to recommend the utility closely monitor this metric and develop measures to ensure proper compliance with bond covenants.

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## PROFESSIONAL STANDARDS UPDATE / INFORMATIONAL POINTS

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### *UPCOMING LEASE STANDARD*

In June 2017, the Governmental Accounting Standards Board (GASB) issued new guidance to establish a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This standard is effective for fiscal years ending on or after December 31, 2020. Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognize as inflows of resources or outflow of resources based on the payment provisions of the contract.

Under the new standard a lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Control is defined by 1) the right to obtain the present service capacity from the use of the underlying asset and 2) the right to determine the nature and manner of use of the underlying asset. Any contract that meets this definition should be accounted for under the lease guidance, unless specifically excluded in this statement. Leases include contracts that, although not explicitly identified as leases, meet the above definition of a lease.

The following are contract exclusions and exceptions from applying lease accounting:

- > Intangible assets (mineral rights, patents, software, copyrights)
- > Biological assets (including timber, living plants, and living animals)
- > Service concession arrangements (See GASB Statement 60)
- > Assets financed with outstanding conduit debt unless both the asset and conduit debt are reported by lessor
- > Supply contracts (such as power purchase agreements that do not convey control of the right to use the underlying power generating facility)
- > Inventory
- > Short-term leases - max possible term 12 mo or less
- > Leases that transfer ownership and do not contain termination options
- > Leases of assets that are investments

We recommend the utility review this standard and start planning how this will affect your financial reporting. An inventory of all contracts that might meet the definition of a lease should be started. The contract listing should include key terms of the contracts such as:

- > Description of contract
- > Underlying asset
- > Contract term
- > Options for extensions and terminations
- > Service components, if any
- > Dollar amount of lease

In addition, the utility should begin to establish a lease policy to address the treatment of common lease types, including a dollar threshold for each lease. We are available to discuss this further and help you develop an action plan.

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## PROFESSIONAL STANDARDS UPDATE / INFORMATIONAL POINTS (cont.)

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### **CYBER SECURITY**

Cybersecurity continues to be a top concern and is critical for governments of all sizes and types. Information demands from the board and directors, citizens/customers, investors and analysts, and industry regulators continue to increase which makes it critical to ensure key data is protected. Potential business impacts on security incidents can include:

- > Lost IP
- > Business interruption
- > Regulatory fines and penalties
- > Legal and PR fees
- > Remediation costs
- > Reputation

AICPA has recently developed a cybersecurity risk management reporting framework that includes a new System and Organization Controls (SOC) for Cybersecurity engagement, through which the enterprise-wide cybersecurity risk management program is reviewed. Although not required for governments, this new standard can be used to help the utility begin to put in place a cybersecurity program.

We recommend reviewing this new standard and performing an initial cyber-risk assessment to identify the types and location of data on your system as well as considering the sensitivity or potential regulations associated with your data. Once this is done the cybersecurity program objectives can be further defined so informed decisions can be made.

Our professionals are also available to assist with your cybersecurity questions, assessments, and programs.

### **UPDATED STANDARDS FOR OTHER POSTEMPLOYMENT BENEFITS**

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB).

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB.

This Statement requires the liability of employers to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

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**PROFESSIONAL STANDARDS UPDATE / INFORMATIONAL POINTS (cont.)**

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***UPDATED STANDARDS FOR OTHER POSTEMPLOYMENT BENEFITS (cont.)***

The utility provides OPEB benefits in the form of health care benefits for retirees and will be required to adopt Statement No. 75 for the year ending December 31, 2018. Some action items to consider during this year of implementation are:

- > Coordinating key items with your actuary, including:
  - Measurement date and valuation date
  - Actuarial assumptions
  - Timing and availability of their report
- > Assessing your responsibility for:
  - Allocating costs among departments or funds
  - Tracking of benefit payments for active employees separate from retirees
  - Accuracy of census data to be provided to the actuary
  - Assumptions used in the actuarial valuation
  - Accounting and financial reporting changes

The accounting and reporting of OPEB has become more complex with the implementation of GASB Statement No. 75. We are available to answer any questions on how this new accounting standard will affect the utility's financial statements starting next year.

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

To the Water Utility Board  
Madison Water Utility  
Madison, Wisconsin

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor. We have completed our audit of the financial statements dated June 20, 2018. This letter presents communications required by our professional standards.

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

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our 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 those charged with governance 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.

***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 general timing previously communicated in our letter about planning matters.

***Accounting Policies***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Madison Water Utility are described in Note 1 to the financial statements. No new accounting policies were established by Madison Water Utility during the year. We noted no other transactions entered into by the Madison Water Utility 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.



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

### ***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 estimates affecting the financial statements were:

Management's estimates of accrued sick leave and other postemployment benefit liabilities are based on a combination of historical data and possible future outcomes. We have reviewed the methodology for the accrued sick leave and the actuarial report for the other postemployment benefits and related assumptions in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension asset/liability and related deferrals are based on information provided by the Wisconsin Retirement System as audited by the Legislative Audit Bureau. We evaluated the key factors and assumptions used to develop the pension asset and related deferrals in determining that it is reasonable in relation to the financial statements taken as a whole.

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

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

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

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

### ***CORRECTED MISSTATEMENTS***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Please see the attached listing of all adjusting journal entries identified during the audit for further information.

### ***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 auditors' report. 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.

### ***MANAGEMENT REPRESENTATIONS***

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

### ***INDEPENDENCE***

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

Relating to our audit of the financial statements of the Madison Water Utility for the year ended December 31, 2017, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the Madison Water Utility in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to the Madison Water Utility other than audit services provided in connection with the audit of the current year's financial statements and nonaudit services which in our judgment do not impair our independence, including:

- > Financial statement preparation
- > Adjusting journal entries
- > Consulting services related to transfer of operations from Waunona Sanitary District #2

None of these nonaudit services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

### ***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 Madison Water Utility's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### ***OTHER MATTERS***

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

### ***RESTRICTION OF USE***

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

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

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
July 17, 2018

## **MANAGEMENT REPRESENTATIONS**



June 20, 2018

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

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the Madison Water Utility as of December 31, 2017 and 2016 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 financial position of the Madison Water Utility and the respective changes in financial position and cash flows in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

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

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

*Financial Statements*

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. The financial statements include all properly classified funds of the utility required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, if any, are reasonable.

6. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements
7. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
8. All known audit and bookkeeping adjustments have been included in our financial statements, and we are in agreement with those adjustments.
9. There are no known or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with accounting principles generally accepted in the United States of America.

*Information Provided*

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

*Other*

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

19. We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
20. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.
21. The Madison Water Utility has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
22. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
23. There are no:
  - a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.
  - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.
  - c. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
  - d. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.
24. In regards to the nonattest services performed by you listed below, we have 1) accepted all management responsibility; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.
  - a. Financial statement preparation
  - b. Adjusting journal entries

None of these nonattest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.
25. The Madison Water Utility has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
26. The Madison Water Utility has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
27. Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
28. The Madison Water Utility has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
29. Provisions for uncollectible receivables, if any, have been properly identified and recorded.

30. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
31. Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).
32. Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.
33. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.
34. We have appropriately disclosed the Madison Water Utility's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy.
35. 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.
36. With respect to the supplementary information, (SI):
  - a. We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
  - b. If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
37. We assume responsibility for, and agree with, the information provided by the Wisconsin Retirement System as audited by the Legislative Audit Bureau relating to the net pension asset/liability and related deferred outflows and deferred inflows and have adequately considered the reasonableness of the amounts and disclosures used in the financial statements and underlying accounting records. We also assume responsibility for the census data that has been reported to the plan.
38. We assume responsibility for and have provided all relevant reconciliations and support for cash co-mingled with the City. We are unaware of any unreconciled differences as of the end of the fiscal year.

Sincerely,

Madison Water Utility

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

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

**AUDIT ADJUSTMENTS**



**Madison Water Utility**  
 Year End: December 31, 2017  
 Adjusting Journal Entries  
 Date: 1/1/2017 To 12/31/2017  
 Account No: A01 To A03

TB. 2

Done By	In-Charge	Manager
Partner	Pre-issuance	JTS 5/10/2018

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
A01	12/31/2017	Unappropriated Surplus -Fin	21601	EQUITY		52,249.00			
A01	12/31/2017	Unappropriated Surplus-Contr	21602	EQUITY		2,500.00			
A01	12/31/2017	Special Item - Net Assets acquired from Transfe	49999	EQUITY			54,749.00		
To adjust net assets acquired from Waunona SD out of beginning equity and to a special item for 2017.									
A02	12/31/2017	Temporary Cash Investments	13600	D. 1		33,285.48			
A02	12/31/2017	Due from Sanitary SewerUtility	14530	D. 1			16,434.95		
A02	12/31/2017	Due from Storm Water Utility	14540	D. 1			13,836.01		
A02	12/31/2017	Due from Urban Forestry	14550	D. 1			3,014.52		
To record cash received from sewer utility prior to year-end previously booked as a receivable.									
A03	12/31/2017	WW Construction Funds Invest	12550	A. 1		426,923.95			
A03	12/31/2017	Cash in Bank	13100	A. 1			426,923.95		
To eliminate the negative cash balance in the construction fund and balance cash with the city.									
						<b>514,958.43</b>	<b>514,958.43</b>		
Net Income (Loss)			4,376,143.35						