

MADISON WATER UTILITY

Madison, Wisconsin

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

As of and for the Year Ended December 31, 2012

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, 2012, 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 Virchow Krause, LLP

Madison, Wisconsin
June 20, 2013

INTERNAL CONTROL OVER FINANCIAL REPORTING

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.

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.

OTHER COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

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 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 board 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?

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)

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

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**

FINANCIAL RESULTS

2012 FINANCIAL HIGHLIGHTS

During 2012, the utility increased its total net position, or equity, by \$3,790,000 compared to an increase of \$2,750,000 in 2011. Cash and investments increased by \$3,586,000 due to an increase in construction funds from the 2012 bond issue partially offset by the payment of the 2012 and 2011 tax equivalent to the City of Madison in 2012. Sales of water increased \$1,790,000 in 2012 due to an increase in water consumption and a full year of new water rates implemented in 2011. Operation and maintenance expense decreased \$1,052,000 driven in part by decreased maintenance due to a warm winter and spring and in part by employees making half of the Wisconsin Retirement System contributions in 2012.

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.

STATUS UPDATE ON PRIOR YEAR COMMENTS AND RECOMMENDATIONS

REVIEW OF CAPITALIZED INTEREST

The utility often issues debt to fund capital projects that incurs interest during the construction process. Accounting standards require the utility calculate this cost of capital and include it in the project cost as capitalized interest. This component of the project cost is calculated using an average cost of borrowing. Given recent large borrowings, management should review the rate applied to calculate capitalized interest to ensure that the rate is consistent with the current average rate on the utility's outstanding debt.

Status 12/31/2012

During 2012, management reviewed and adjusted the rate applied to calculate capitalized interest to be consistent with the current average rate on the utility's outstanding debt.

INDEPENDENT REVIEW OF WORK ORDER CLOSINGS

The utility completes a significant amount of construction each year and as such the proper accounting for capital assets is a key area for the finance department. Costs including labor, materials, contractor charges and overheads are accumulated in a separate work order for each project. When the project is complete, finance obtains reports from engineering on the types of assets and quantities installed and removed. This is used to close the work order and record the assets in the detailed property accounts as required by the Public Service Commission of Wisconsin (PSCW). Independent review of work order closings should be reviewed by someone other than the preparer. We noted that due to time constraints, not all work orders were independently reviewed this year. The utility should strive for timely reporting that allows for such controls to operate as designed.

Status 12/31/2012

In 2012, the utility was able to complete reporting in a more timely manner and work orders were independently reviewed.

STATUS UPDATE ON PRIOR YEAR COMMENTS AND RECOMMENDATIONS

ACCOUNTING FOR METERS

The PSCW chart of accounts states that meters should be charged to account 346 "Plant in Service" and depreciated at the time of purchase rather than tracked through inventory. Historically, the utility has flowed its meters through inventory, however, the balance of meters on hand at year end has not been significant. In 2011, in preparation for the H2O project, the amount of meters in inventory increased substantially. We recommend management consider moving the accounting for meters out of inventory and into account 346 to follow PSCW recommended accounting at this time.

Status 12/31/2012

All meters have been reported as plant in service at December 31, 2012. The meters will still be tracked through the inventory system and will be reclassified at year end for reporting purposes to follow industry standards and the PSCW recommended treatment.

EVALUATION OF YEAR-END PROCEDURES

During the audit, we noted that there were a lot of entries, allocations and reconciliations that are only done once a year. For example, work orders are closed once per year. If engineering were able to provided data on completed projects quarterly, finance could complete closings throughout the year. Similarly, the clearing accounts and interfunds are only reconciled at year end. Completion on a periodic basis would result in less time investigating activity from several months ago and more accurate financial data during the year. We recommend that management review the listing of all year-end procedures to determine which could be performed monthly or quarterly to alleviate compression at year end.

Status 12/31/2012

During the year, there was no change to year-end procedures, however, with better efficiencies during the year, year-end procedures were completed in a more timely manner in 2012.

PROFESSIONAL STANDARDS UPDATE / INFORMATIONAL POINTS

GASB STATEMENT NO. 65: ITEMS PREVIOUSLY REPORTED AS ASSETS AND LIABILITIES

Government Accounting Standards Board (GASB) Statement No. 65 – *Items Previously Reported as Assets and Liabilities* will result in a reclassification of some financial statement line items on the Statement of Net Position and Balance Sheet of governments. The new financial statement categories of deferred outflows of resources and deferred inflows of resources will become more commonly used upon implementation of this standard. In addition to reclassifications to these new categories, the standard will also result in a change in the accounting treatment for certain items, including debt issuance costs. This standard is effective for periods beginning after December 15, 2012, and was intended to complement Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Some of the most significant changes of this standard that will impact many governments include:

- > Debt issuance costs previously amortized will now be expensed in the period incurred
- > Losses on refunding of debt will now be classified as a deferred outflow of resources, and consistent with the change noted previously, the formula for calculating the loss has been adjusted to exclude debt issuance costs (prospectively)
- > Regulatory credits recorded by utilities will now be recorded either as a liability or a deferred inflow of resources, depending on how the credit will be applied in the future
- > The terminology of *deferred revenue* is no longer permitted to be used. In addition, the items previously recorded as deferred revenue will need to be analyzed to determine if they now will be presented as a deferred inflow of resources or a liability

We are available to discuss these changes and the impact on your financial statements.

GASB STATEMENT NO. 68: ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS

The Governmental Accounting Standards Board (GASB) has issued Statement No. 68, which will change the accounting and financial reporting requirements for state and local governments that provide their employees with pensions. This Statement replaces the requirements of GASB Statement Nos. 27 and 50 as they relate to pensions that are provided through pension plans administered as trusts, or equivalent arrangements that meet certain criteria. These changes will affect your financial statements for the year ended December 31, 2015.

This Statement applies specifically to governments that provide their employees with pensions through pension plans in which a government's contributions to the trust used to administer a pension plan are (1) irrevocable, (2) restricted to paying pension benefits, and (3) beyond the reach of creditors.

Government employers that provide their employees with a defined benefit pension are classified in one of the following categories for this Statement:

Under the new standards, in financial statements prepared using the economic resources measurement focus (accrual basis of accounting), a cost-sharing employer, such as those participating in the Wisconsin Retirement System, is required to recognize its proportionate share of the net pension liability of the applicable plan. The net pension liability is defined as the present value of projected benefit payments to be provided through the pension plan, to current and inactive employees, that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's net position.

PROFESSIONAL STANDARDS UPDATE / INFORMATIONAL POINTS (cont.)

GASB STATEMENT NO. 68: ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS (cont.)

The new Statement contains requirements related to the actuarial cost method and certain other assumptions used in the preparation of an actuarial valuation. The Statement also requires that an actuarial valuation of the total pension liability be performed at least every two years, with more frequent valuations encouraged. In addition, this Statement also requires disclosing certain information in the notes to the financial statements, as well as presenting certain required supplementary information (RSI) for the ten most recent fiscal years.

We are available to further discuss these changes and the impact on your financial statements.

RECENT CHANGES TO THE PSCW WATER CHART OF ACCOUNTS

The Public Service Commission of Wisconsin (PSCW) recently approved Docket 5-US-118, which updated the uniform system of accounts (USOA) for municipal water utilities. The changes created new revenue reporting classifications and clarified accounting for conservation programs.

New Revenue Reporting Classifications

The PSCW has established two new customer classifications for reporting revenues. Along with residential, commercial, industrial, and public authority, the new categories are irrigation and multi-family residential. The irrigation classification applies only when the utility has a separate rate approved for irrigation. The multi-family residential classification should include any building primarily for residential purposes where one meter is used to serve three or more residential units. While implementation of this category is allowed for the 2013 information filed in 2014, it may be delayed until 2014 and included in the annual report filed in 2015.

In order to comply with these reporting requirements, utilities should consider:

- > How will customers that meet these definitions be identified?
- > What codes need to be set up in the billing system to segregate the related volume, customer counts, and revenues?
- > What accounts need to be set up in the general ledger, and how does the information interface between these systems?
- > What is the process for changing customer classifications? Who is responsible, and how will it be reviewed for accuracy?
- > Does the software vendor need to make any modifications or assist in this process?
- > When do changes need to be made so that the revenue and usage information for 2013 and 2014 are reported properly in the annual reports to the PSCW?

Accounting for Conservation Programs

When the PSCW has authorized a conservation program, the actual costs incurred should be charged to account 186, *Miscellaneous Deferred Debits*. The amount authorized for annual recovery is charged to account 253, *Other Deferred Credits*, and account 906 (class AB/C) or 691 (class D), *Customer Service and Informational Expenses*. At year-end, the activity in accounts 186 and 253 should be reported net in the annual report. If a utility does not have an approved conservation program, the actual expenses incurred are charged to account 906 or 691.

The updated USOA, as well as an updated Utility Reference Manual, are available on the PSCW website.

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 of the Madison Water Utility for the year ended December 31, 2012, and have issued our report thereon dated June 20, 2013. 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 timing previously communicated to the City of Madison Common Council in our planning letter and discussed with you in our meeting about planning matters in April 2013.

To the Water Utility Board
Madison Water Utility

QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Madison Water Utility are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, Madison Water Utility changed accounting policies related to deferred outflows of resources, deferred inflows of resources, and net position by adopting Statement of Governmental Accounting Standards (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in 2012. We noted no 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.

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 estimate of the accrued revenue is based on actual and historical billing data. We evaluated the key factors and assumptions used to develop the accrued revenue in determining that it is reasonable in relation to the financial statements taken as a whole.

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.

Financial Statement Disclosures

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

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

CORRECTED AND UNCORRECTED MISSTATEMENTS

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

There were no such misstatements identified.

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.

To the Water Utility Board
Madison Water Utility

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, 2012, 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

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

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.

To the Water Utility Board
Madison Water Utility

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 Vinchow Krause, LLP

Madison, Wisconsin
June 20, 2013

MANAGEMENT REPRESENTATIONS

Quality and Reliability since 1882



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June 20, 2013

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 Madison Water Utility as of December 31, 2012 and 2011, 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, results of operations and cash flows of Madison Water Utility 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 also are 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.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal controls 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 controls to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates are reasonable.
6. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No 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 known audit and bookkeeping adjustments have been included in our financial statements and we are in agreement with those adjustments.
8. There are no unasserted claims or assessments that the City of Madison Attorney 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

9. 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 records, 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 Madison Water Utility from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of meetings of the Madison Water Utility Board or summaries of actions of recent meetings for which minutes have not yet been prepared.
10. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
11. We have disclosed to you the 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 Madison Water Utility 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 Madison Water Utility received in communications from employees, former employees, regulators, or others.
14. There are no known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse, whose effects should be considered when preparing financial statements.
15. There are no known actual or possible litigation, claims and assessments whose effects should be considered when preparing the financial statements.

Other

16. We have made available to you all financial records and related data.
17. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in, financial reporting practices.
18. We have a process to track the status of audit findings and recommendations.

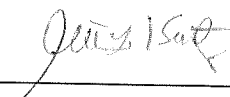
19. We have identified to you any previous financial audits, attestation engagements and other studies related to the audit objectives and whether related recommendations have been implemented.
20. We have provided our views on reported findings, conclusions and recommendations, as well as our planned corrective actions, for our financial statements referred to above.
21. Madison Water Utility has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities and 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 and debt contracts; 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 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.
 - 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) made all management decisions and performed all management functions; 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 non attest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.
25. 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. Madison Water Utility has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
27. We have followed all applicable laws and regulations in adopting, approving and amending budgets.

- 28. Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
- 29. Provisions for uncollectible receivables have been properly identified and recorded.
- 30. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
- 31. Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.
- 32. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported and, if applicable, depreciated/amortized.
- 33. 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.
- 34. With respect to the supplemental schedules:
 - a. We acknowledge our responsibility for presenting the supplemental schedules in accordance with accounting principles generally accepted in the United States of America, and we believe the supplemental schedules including form and content, are fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the supplemental schedules 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 supplemental schedules are 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.

Sincerely,

MADISON WATER UTILITY

Signed:  Title: FINANCIAL MANAGER

Signed:  Title: General Manager