

# **MADISON WATER UTILITY**

Madison, Wisconsin

COMMUNICATION TO THOSE CHARGED  
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended December 31, 2013

DRAFT

# MADISON WATER UTILITY

## TABLE OF CONTENTS

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|  | <u>Page No.</u> |
|--|-----------------|
| Required Communication of Internal Control Related Matters Identified in the Audit to Those Charged with Governance  | 1               |
| Internal Control Over Financial Reporting  | 2               |
| Other Communications to Those Charged with Governance  |                 |
| Two Way Communication Regarding Your Audit   | 3 – 4           |
| Communication of Other Control Deficiencies, Recommendations and Informational Points to Management that are not Material Weaknesses or Significant Deficiencies | 5 – 7           |
| Required Communications by the Auditor to Those Charged with Governance  | 8 – 11          |
| Management Representations   |                 |

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

DRAFT

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, 2013, 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.

Madison, Wisconsin  
\_\_\_\_\_, 2014

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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.
- > Material misstatements are identified and corrected during the normal course of duties.
- > 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 utility's internal controls relating to financial reporting has identified control deficiencies that are considered material weakness surrounding the preparation of complete and accurate financial statements and footnotes, adjusting journal entries to correct misstatements, and an independent review by someone other than the preparer.

As a result of these deficiencies, management has not prepared financial statements that are in conformity with generally accepted accounting principles. Management should consider what resources and changes are necessary to address and resolve the control deficiencies identified.

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**

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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 commission 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?

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.

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**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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### ***REVIEW OF CUSTOMER ADVANCES***

The utility collects customer advances for construction and meter projects. Once a project is complete, the utility will determine whether the customer advances related to the project should be recognized as revenue or a refund is given to the customer if the actual project costs were less than the advance received. It was noted that there are some customer advances received that date back to 2006, which could mean there are customer advances retained that are related to completed projects. We are recommending that the utility review customer advances to see if related projects are complete and whether the utility should recognize the advances related to completed projects as revenue or provide a refund to the customer.

### ***EVALUATION OF PROPERTY HELD FOR FUTURE USE***

Currently this balance represents tower and well sites, which are owned by the utility but not currently used during the course of operation. The listing of these projects are vague, in that there are no explanations on where the costs have come from, the expectations on when the projects will begin, what triggers the projects, and the evaluation process to ensure that the costs should not have been expensed. We are recommending that the utility review the current listing of properties that are being held for future use, and for each item provide an explanation describing the costs, when the project will begin, what triggers the project and the evaluation to describe why the costs are not being expensed.

### ***REVIEW OF WORK ORDER CLOSING PROCESS***

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). We recommend that the utility review the process of closing work orders and work with engineering to help in determining whether projects with open work orders have been placed in service and should be closed to capital assets.

In addition, work orders have also been closed to a temporary account called completed construction not classified. This account is depreciated on an annual basis but is meant as a temporary account. This account should be reviewed and properly classified before the utility intends to file the next water rate increase.

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**PROFESSIONAL STANDARDS UPDATE / INFORMATIONAL POINTS**

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***GASB UPDATES***

The following is a schedule of GASB projects:

| <b>Task or Event</b>   | <b>Effective Date</b>  | <b>Impact</b>  |
|--|--|--|
| GASB No. 67 – Financial Reporting for Pension Plans  | For fiscal years beginning after June 15, 2013. For the Wisconsin Retirement System this will be for the year ending December 31, 2014 | This standard is applicable to the Wisconsin Retirement System (WRS) or the plan itself. This will not have a direct impact on the Madison Water Utility.  |
| GASB No. 68 – Accounting and Financial Reporting for Pensions  | December 31, 2015  | The Madison Water Utility belongs to the Wisconsin Retirement System (WRS). The WRS is a cost-sharing, multiple-employer, defined-benefit, public employee retirement system. WRS has represented that it will provide the information necessary for the employers to implement GASB No. 68. The Madison Water Utility's share of the net pension liability / asset will be reported in its full-accrual funds and the government-wide financial statements. The footnote disclosures will have significant changes. |
| GASB No. 69 – Government Combinations and Disposals of Government Operations   | December 31, 2014  | This standard provides the guidance necessary for government combinations and disposals of government operations.  |
| GASB No. 70 – Accounting and Financial Reporting For Nonexchange Financial Guarantees                                    | December 31, 2015  | This standard provides guidance for non-exchange financial guarantees that the Madison Water Utility would become involved in.   |
| GASB No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68 | December 31, 2015  | The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB No. 68 in the accrual-basis financial statements of the Madison Water Utility. This will be addressed with the implementation of GASB No. 68.  |
| Current Agenda Topic: Conceptual Framework - Measurement   | The GASB Board is scheduled to issue a final Concepts Statement in March 2014  | The objective of this project is to consider the measurement concepts that should be used in governmental financial statements. A measurement approach determines whether an asset or liability presented in a financial statement should be (1) reported at an amount that reflects a value at the date that the asset was acquired or the liability was incurred or (2) remeasured and reported at an amount that reflects a value at the date of the financial statements.  |

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

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***GASB UPDATES*** (cont.)

| <b>Task or Event</b>   | <b>Effective Date</b>  | <b>Impact</b>   |
|--|--|---|
| Current Agenda Project: Fair Value Measurement   | The GASB Board is scheduled to issue an Exposure Draft in May 2014   | The objective of this project is to review and consider alternatives for the further development of the definition of fair value, the methods used to measure fair value and the applicability of fair value guidance to investments and other items currently reported at fair value, and the potential disclosures about fair value.  |
| Current Agenda Project: Fiduciary Responsibilities   | The GASB Board is expected to issue an Exposure Draft on this project in September 2014  | This project is to assess what additional guidance should be developed regarding the application of the fiduciary responsibility criteria in deciding whether and how governments should report fiduciary activities in their financial reports.  |
| Current Agenda Project: Leases   | The GASB Board is scheduled to issue an Exposure Draft in November 2014  | The objective of this project is to reexamine issues associated with lease accounting, consider improvements to existing guidance, and provide a basis for the GASB Board to consider whether the current guidance is appropriate based on the definitions of assets and liabilities.   |
| Current Agenda Project: Postemployment Benefits Accounting and Financial Reporting: Other Postemployment Benefits Accounting and Financial Reporting | During the first part of 2014, the GASB Board will review remaining issues before issuing Exposure Drafts on employer and plan OPEB accounting and financial reporting and pensions not within the scope of Statement 68 | The Board will consider the possibility of modifications to the existing standards of accounting and financial reporting for other postemployment benefits (OPEB) by state and local governmental employers and by the trustees, administrators, or sponsors of OPEB plans. GASB has stated that their objectives are to increase financial reporting transparency and to improve the usefulness of information to the various users of the financial statements. |

The GASB has two other projects which are on hold. They include the conceptual framework for recognition and economic condition reporting – financial projections.

The GASB revisits GASB standards ten (10) years after issuance. The GASB is currently revisiting GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis for State and Local Governments*, as well as reporting model-related pronouncements including Statements No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis-for State and Local Governments; Omnibus*, No. 41, *Budgetary Comparison Schedules – Perspective Differences*, and No. 46, *Net Assets Restricted by Enabling Legislation*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. The GASB has indicated that they are revisiting the following major provisions of these standards: management’s discussion and analysis, government-wide financial statements, fund financial statements, capital asset reporting, budgetary comparisons, special purpose government reporting, and related notes to financial statements. We will share updates with you as they become available.

A full list of projects as well as many resources are available on GASB’s website which is located at [www.gasb.org](http://www.gasb.org).

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

DRAFT

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, 2013, and have issued our report thereon dated \_\_\_\_\_, 2014. 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 letter about planning matters dated June 20, 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. 65, *Items Previously Recorded as Assets and Liabilities* in 2013. 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.

GASB Statement No. 65, effective January 1, 2013, now requires debt issuance costs to be written off in the year incurred rather than restating prior years. Previously unamortized debt issuance costs of \$1,200,398 were expensed in the current year. Had this standard been applied retroactively, it would have decreased non-operating expenses by \$1,200,398 and increased net income by the same amount, but would have had no impact on net position. Management has determined that the effect is immaterial to the financial statements taken as a whole.

To the Water Utility Board  
Madison Water Utility

***CORRECTED AND UNCORRECTED MISSTATEMENTS (cont.)***

The following is a summary of a material financial statement misstatement (audit adjustments) that was corrected in the audited financial statements:

|                               | <u>Increase /<br/>(Decrease)</u> |
|-------------------------------|----------------------------------|
| Plant in service              | \$ 5,582,793                     |
| Accumulated depreciation      | (442,867)                        |
| Construction work in progress | (8,335,516)                      |
| Depreciation expense          | 359,418                          |
| Loss on early retirement      | 1,950,438                        |

***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.

***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, 2013, 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

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



To the Water Utility Board  
Madison Water Utility

***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.

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.

Madison, Wisconsin  
\_\_\_\_\_, 2014

**MANAGEMENT REPRESENTATIONS**

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CUSTOMER ADVANCES FOR CONSTRUCTION  
AS OF DECEMBER 31, 2013  
ACCOUNT #25200

| DATE RECEIVED | PIV PROJECT NAME                                    | DEVELOPER                            | WORK ORDER | ORIGINAL DEPOSIT | AVAILABLE DEPOSIT |
|---------------|---|--------------------------------------|------------|------------------|-------------------|
| 01/09/06      | KENNEDY POINT CONDS PUD                             | KRUPP GENERAL CONTRACTORS LLC        | 1-0560-73  | \$5,000          | \$ 5,000.00       |
| 04/18/06      | KENNEDY POINT CONDS PUD                             | BONKAMP EXCAVATING                   | 1-0560-73  | \$2,030          | \$ 2,030.00       |
| 04/30/07      | 1ST ADDITION TO HAWKS CREEK - PHASE 1               | BADGER MILL CREEK LLC                | 1-0760-03  | \$10,600         | \$ 565.49         |
| 04/04/08      | TRADESMAN COMMERCE PARK                             | THE GALLINA COMPANIES                | 1-0880-03  | \$6,600          | \$ 6,600.00       |
| 02/05/09      | MCALLEN - 120 BUSINESS PARK - PHASE 1               | MCALLEN PROPERTIES 120 LLC           | 1-1360-43  | \$14,400         | \$ 14,400.00      |
| 10/09/13      | 21193 MCALLEN - 120 BUSINESS PARK                   | MCALLEN PROPERTIES LLC               | 1-1360-43  | \$3,500          | \$ 3,500.00       |
| 05/11/09      | UNION SOUTH REDEVELOPMENT                           | STATE OF WI                          | 1-0960-01  | \$5,000          | \$ 5,000.00       |
| 06/25/09      | NORTHPORT COMMONS - ADDENDUM #1                     | HABITAT FOR HUMANITY - DANE COUNTY   | 1-0960-17  | \$5,000          | \$ 5,000.00       |
| 09/28/10      | GRANDVIEW COMMONS - PHASE 16                        | VERIDIAN HOMES LLC                   | 1-1060-13  | \$3,600          | \$ 929.39         |
| 11/23/10      | 1802 MAPLECREST DR PUD PHASE 2                      | HAWKS CONDOMINIUM CORP               | 1-1060-07  | \$7,900          | \$ 7,900.00       |
| 05/06/11      | WOODSTONE - PHASE 1                                 | PHEASANT RIDGE                       | 1-0860-15  | \$20,000         | \$ 20,000.00      |
| 12/27/11      | UNIVERSITY CROSSING                                 | KRUPP GENERAL CONTRACTORS LLC        | 1-1160-14  | \$8,300          | \$ 8,300.00       |
| 07/05/12      | UNIVERSITY CROSSING (ADDITIONAL DEPOSIT)            | THE LENHART CO INC                   | 1-1160-14  | \$1,900          | \$ 1,900.00       |
| 03/14/12      | GRIM STREET RELOCATION                              | STATE OF WI - DEPT OF TRANSPORTATION | 1-1160-08  | \$8,200          | \$ 8,200.00       |
| 08/09/12      | CARDINAL GLENN - PHASE 5                            | MREC VH MADISON LLC                  | 1-1260-11  | \$3,000          | \$ 1,189.34       |
| 08/09/12      | SECRET PLACES @ SIGGELKOW PRESERVE - PH 7           | MREC VH MADISON LLC                  | 1-1160-01  | \$6,300          | \$ 6,300.00       |
| 08/09/12      | GRANDVIEW COMMONS - PHASE 17                        | MREC VH MADISON LLC                  | 1-1260-09  | \$3,200          | \$ 3,200.00       |
| 09/06/12      | SECRET PLACES @ SIGGELKOW PRESERVE - PH 8           | MREC VH MADISON LLC                  | 1-1260-23  | \$5,400          | \$ 5,400.00       |
| 09/27/12      | PANKRATZ STREET CSM                                 | STATE OF WI - DEPT OF TRANSPORTATION | 1-1260-19  | \$2,400          | \$ 2,400.00       |
| 10/22/12      | 8TH ADDITION TO BLACKHAWK - PHASE 3                 | MCKENZIE 300 CORP                    | 1-0760-25  | \$2,300          | \$ 2,300.00       |
| 04/29/13      | 20858 CARDINAL GLENN - PHASE 7                      | MREC VH MADISON LLC                  | 1-1360-06  | \$7,100          | \$ 7,100.00       |
| 04/29/13      | 20859 CARDINAL GLENN - PHASE 6                      | MREC VH MADISON LLC                  | 1-1260-13  | \$2,100          | \$ 2,100.00       |
| 05/15/13      | 20883 GRANDVIEW COMMONS - PHASE 11                  | MREC VH MADISON LLC                  | 1-0460-18  | \$8,100          | \$ 8,100.00       |
| 06/25/13      | 20943 TOWN CENTER ADDITION TO GRANDVIEW COMMONS     | MREC VH MADISON INVESTORS, LLC       | 1-1360-04  | \$4,800          | \$ 4,800.00       |
| 07/17/13      | 21009 SECRET PLACES - PHASE 9                       | MREC VH MADISON LLC                  | 1-1360-20  | \$10,300         | \$ 10,300.00      |
| 07/17/13      | 21010 WOODSTONE - REPLAT 2                          | PHEASANT RIDGE LLC                   | 1-1360-10  | \$18,500         | \$ 18,500.00      |
| 07/25/13      | 21027 BLACKHAWK - 8TH ADDITION - PHASE 7            | MCKENZIE 300 CORPORATION             | 1-1360-12  | \$5,100          | \$ 5,100.00       |
| 08/09/13      | 21073 5302 TANCHO DRIVE                             | FIDUCIARY REAL ESTATE                | 1-1360-08  | \$4,700          | \$ 4,700.00       |
| 08/12/13      | 21078 GRANDVIEW COMMONS - PHASE 19                  | MREC VH MADISON LLC                  | 1-1360-22  | \$6,700          | \$ 6,700.00       |
| 08/12/13      | 21079 LINDEN PARK - PHASE 10                        | PREFERRED TITLE LLC                  | 1-1260-15  | \$3,600          | \$ 3,600.00       |
| 09/15/13      | 21136 MEADOWLANDS - PHASE 6                         | PREFERRED TITLE LLC                  | 1-1360-18  | \$4,600          | \$ 4,600.00       |
| 09/15/13      | 21137 CARDINAL GLENN - PHASE 8                      | MREC VH MADISON LLC                  | 1-1360-30  | \$5,100          | \$ 5,100.00       |
| 10/01/13      | 21168 1802 MAPLECREST DR - PHASE 2                  | HAWKS CONDOMINIUM CORP               | 1-1360-47  | \$4,900          | \$ 4,900.00       |
| 11/07/13      | 21254 SECRET PLACES @ SIGGELKOW PRESERVE - PHASE 10 | MREC VH MADISON LLC                  | 1-1360-24  | \$8,300          | \$ 8,300.00       |
| 12/23/13      | 21322 WOODSTONE - PHASE 3                           | WOODSTONE PARTNERS LLC               | 1-1360-41  | \$9,000          | \$ 9,000.00       |

\$227,530 \$ 213,014.22

PROPERTY HELD FOR FUTURE USE

AS OF DECEMBER 31, 2013

ACCOUNT 10500

|   |                     |
|---|---------------------|
| Casing under I-90 & Cottage Grove Road  | \$7,206.81          |
| Casing under I-90 & Portage Road  | \$6,924.74          |
| Well Site Mineral Point Road & Whitney Way 1976-P-808.1<br>(WO4938-Sidewalk Assessment=\$681.35)  | \$20,604.07         |
| Well Site Country Grove Plat, 7353 East Pass  | \$40,971.71         |
| Blackhawk Tower Site - Pioneer Road & Old Sauk Road Intersection  | \$470,952.26        |
| Test Well, 5802 Femrite Drive - WO 9-7071-00  | \$56,976.44         |
| Well Site, 5802 Femrite Dr<br>(Sewer Assessment - WO 1-0450-68 - \$13,195.57)<br>(St. Improve. Assess. - WO 1-1150-77 - \$1,080.49)<br>(St. Improve. Assess. - WO 1-1250-86 - \$1,491.90)<br>(St. Improve. Assess. - WO 1-1350-89 - \$1,456.86)             | \$17,224.82         |
| Well Site, Lot 60 Center for Industry & Commerce - WO 1-0450-71<br>(6802 Graaskamp Way)<br>(Deferred Sewer & Storm - WO 1-0750-80 = \$8284.53)<br>(Special Assessment Refund - WO 1-0850-83 = \$-1,204.97)<br>(Special Assessment - WO 1-0950-79 = \$83.36) | \$42,740.92         |
|   | <u>\$663,601.77</u> |

**Madison Water Utility**  
 Year End: December 31, 2013  
 Adjusting Journal Entries  
 Date: 1/1/2013 To 12/31/2013  
 Account No: A01 To A99

TB. 2

|              |               |              |
|--------------|---------------|--------------|
| Done By      | In-Charge     | Manager      |
| Partner      | Pre-issuance  | LMH 5/1/2014 |
| VH 5/14/2014 | JLD 5/23/2014 |              |

| Number                   | Date       | Name  | Account No            | Reference | Annotation | Debit         | Credit        | Recurrence | Misstatement |
|--------------------------|------------|---|-----------------------|-----------|------------|---------------|---------------|------------|--------------|
| A01                      | 12/31/2013 | Construction Work in Progress   | 10700                 | H. 2.     | 4          |               | 8,037,237.07  |            |              |
| A01                      | 12/31/2013 | Construction Work in Progress   | 10700                 | H. 2.     | 4          |               | 298,279.09    |            |              |
| A01                      | 12/31/2013 | Meters  | 34600                 | H. 2.     | 4          | 7,365,601.07  |               |            |              |
| A01                      | 12/31/2013 | Meters  | 34600                 | H. 2.     | 4          |               | 4,068,267.49  |            |              |
| A01                      | 12/31/2013 | Meters  | 34600                 | H. 2.     | 4          | 265,611.00    |               |            |              |
| A01                      | 12/31/2013 | RfD Meters  | 34609                 | H. 2.     | 4          | 2,117,829.00  |               |            |              |
| A01                      | 12/31/2013 | RfD Meters  | 34609                 | H. 2.     | 4          |               | 97,981.00     |            |              |
| A01                      | 12/31/2013 | Computer Equipment  | 39110                 | H. 2.     | 4          | 671,636.00    |               |            |              |
| A01                      | 12/31/2013 | Computer Equipment  | 39110                 | H. 2.     | 4          | 32,668.09     |               |            |              |
| A01                      | 12/31/2013 | RfD Computer Equipment  | 39119                 | H. 2.     | 4          |               | 261,437.00    |            |              |
| A01                      | 12/31/2013 | Depreciation Expense  | 40300                 | H. 2.     | 4          | 359,418.00    |               |            |              |
| A01                      | 12/31/2013 | Loss on early retirement  | 40700                 | H. 2.     | 4          | 1,950,438.49  |               |            |              |
|                          |            | Close AMI work-order and book the associated retirement and depreciation. |                       |           |            |               |               |            |              |
|                          |            |   |                       |           |            | 12,763,201.65 | 12,763,201.65 |            |              |
| <b>Net Income (Loss)</b> |            |   | <b>(3,256,329.96)</b> |           |            |               |               |            |              |