

# Internal Monitoring Report

**Policy:** EL-2D Financial Condition and Activities

**Frequency:** Three times a year

**Date:** April 24, 2018

## Policy Language:

With respect to the actual, ongoing financial condition and activities of the Madison Water Utility, the General Manager shall not cause or allow the development of fiscal jeopardy or a material deviation of actual expenditures from board priorities established in Outcomes policies.

Accordingly, the General Manager shall not cause or allow conditions, procedures, or decisions that:

1. Fail to ensure long-term financial health.
2. Fail to present a balanced annual operating budget and quarterly updates on actual expenditures and income.
3. Exceed total appropriations for the fiscal year, unless directed to do so by the board.
4. Use any dedicated reserves for purposes other than those for which they are designated, unless directed to do so by the board.
5. Undertake a debt without payoff schedule and identification of revenue stream.
6. Fail to establish an unrestricted reserve equal to a typical three months' operating expenses.
7. Fail to inform the board of where the utility stands with any current rate case in progress.
8. Fail to be able to provide a concise summary of the financial condition of the utility at any time.

## General Manager's interpretation and its justification:

This Executive Limitations Policy requires the utility to perform financial management without risk of jeopardy to the utility's financial health and that ensures actual expenditures do not deviate materially from board priorities established in Outcomes policies. The utility has the responsibility to establish, manage and plan for the necessary water rates and borrowings to fund all expenditures and to meet identified capital and operational requirements.

## Data directly addressing the General Manager's interpretation:

1. *Ensure the utility's long-term financial health.*

MWU has implemented and uses a financial planning model to evaluate and project funding required for financing infrastructure and operating needs. Through the use of this model, bond sales are planned and rate increases are developed.

MWU also has a multi-year budget in compliance with the board's Financial Planning/Budget Policy (EL-2C).

The external report of auditor's unqualified opinion on MWU's 2016 financial statements

was received by the board at its July 25, 2017 meeting. Prior year reports made several recommendations including certain revenue analytics and reconciliations and closing out work orders in the Completed Construction Not Classified Account. The utility has been implementing changes in its processes in response to these recommendations, and made significant progress in the last year.

The General Manager is not aware of any past or present event or matter that would give rise to a future materially adverse condition affecting the long-term financial health of the utility.

I report compliance.

*2. Fail to present a balanced annual operating budget and quarterly updates on actual expenditures and income.*

The Operating Budget is presented to the board every year in August. A report on 2017 actual expenditures and income is attached.

I report compliance.

*3. Exceed total appropriations for the fiscal year, unless directed to do so by the board.*

Madison Water Utility did not exceed total appropriations in 2017. A report on budget vs. actual expenditures is attached.

I report compliance.

*4. Use any dedicated reserves for purposes other than those for which they are designated, unless directed to do so by the board.*

MWU's restricted reserves are accessible only through the City Treasurer's office.

I report compliance.

*5. Undertake a debt without a payoff schedule and identification of revenue stream.*

MWU's debt repayment schedules are included in the utility's annual financial statements (2016 statements were presented to the board at its July 25, 2017 meeting). When new debt is undertaken through the sale of revenue bonds, a special meeting of the Water Utility Board is convened.

I report compliance.

*6. Fail to establish an unrestricted reserve equal to a typical three months' operating expenses.*

MWU is currently not funding its unrestricted reserve and likely will not do so until it completes the repayment of its loan from the City in year 2019.

I report non-compliance.

*7. Fail to inform the board of where the utility stands with any current rate case in progress.*

This is a standing agenda item at Water Utility Board meetings.

I report compliance.

*8. Fail to be able to provide a concise summary of the financial condition of the utility at any time.*

The General Manager is prepared to provide a summary of the financial condition of the utility during the informational 'items of general interest' portion of the board's meeting agenda.

I report compliance.

**Attachments:**

Fund Balance Report as of December 31, 2017  
Comparative Income Statement as of December 31, 2017  
2017 Budget vs. Actual Expenditures

## MADISON WATER UTILITY FUND BALANCE REPORT

April 24, 2018

	Balance	
Reserves Required by Bond Ordinance:	Dec. 31, 2017	Dec. 31, 2016
Operations and Maintenance Fund		
• Reserve Account (Minimum \$150,000)	\$ 150,000	\$ 150,000
Special Redemption Fund		
• Principal and Interest Account	\$ 2,781,679	\$ 9,675,922
• Reserve Account (Minimum \$16,271,293)	\$ 16,150,217	\$ 16,928,249
Depreciation Fund (1)	\$ 750,000	\$ 750,000
<b>Construction Fund</b>	\$ (426,924)	\$ 19,867,697
<b>Assessment Revolving Fund</b>	\$ 0	\$ 998,036
<b>Unrestricted Funds</b>		
PILOT Fund	\$ 0	\$ (957,854)
Cash Flow Fund	\$ 385,983	\$ 692,010
<b>Debt to City of Madison</b>		
Short Term Loan from City of Madison	\$ 1,530,000	\$ 2,295,000

(1) Transfer of funds to Construction Fund approved as needed.

Reporting special fund balances as specified in 1978 Waterworks Bond Ordinance.

Refer any questions to Robin Piper, Chief Administrative Officer, at (608) 266-4656.

## MADISON WATER UTILITY

### Comparative Income Statement

	12 Months Ended December 31	
	2017	2016
Operating Revenue	\$35,138,138	\$35,552,490
Operating Expenses:		
Source of Supply	16,977	75,312
Pumping	3,760,296	3,584,124
Water Treatment	734,902	741,882
Transmission and Distribution	8,067,044	5,460,025
Customer Accounts	848,724	846,503
Administrative and General	4,501,604	4,410,541
Total Operation & Maintenance Expense	\$17,929,547	\$15,118,387
Depreciation	6,944,967	6,328,463
Payment in lieu of Taxes	6,577,280	5,738,555
Other Taxes	502,016	476,502
Total Operating Expense	\$31,953,810	\$27,661,907
Operating Income	\$3,184,328	\$7,890,583
Interest Income	511,259	357,059
CIAC	6,620,985	5,789,485
Other Income	127,378	149,468
Interest Expense	(7,457,190)	(6,765,584)
Amortization of Debt	872,012	509,601
Capitalized Interest	116,127	385,952
Net Income	\$3,974,899	\$8,316,564

## MADISON WATER UTILITY

### 2017 Budget to Actual

	Adopted Budget	Actual
Revenue	42,775,305	35,159,496
Expenses		
Salaries	8,966,785	8,509,851
Benefits	3,063,132	3,602,148 *
Supplies	3,292,000	2,615,767
Purchased Services	7,701,380	6,440,234
Debt and Other Financing	21,767,934	20,639,294
Inter-Department Charges	803,870	751,316
Inter-Department Billings	(2,819,796)	(2,669,323)
Total Expenses	42,775,305	39,889,287

\* Benefits line did not include Pension Expense in Adopted Budget.  
This was a citywide oversight.