

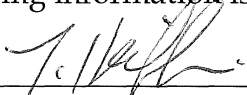
## Internal Monitoring Report

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

**Date:** August 27, 2013

**Frequency:** Three times a year

I certify that the following information is true.

Signed , General Manager

### 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.

### 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 to meet identified capital and operational requirements, and that are budgeted and reported on accordingly.

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

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

The 2014 Operating Budget of \$35,047,025 was submitted to the City's Finance Dept. on August 6, 2013, and is attached for review and approval by the board. It is a balanced budget.

The Utility 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.

The external report of auditor's unqualified opinion on the Utility's financial statements for the years ended December 31, 2012 and 2011, is attached for review and approval by the board.

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. Present a balanced annual operating budget and quarterly updates on actual expenditures and income.*

The 2014 Operating Budget is a balanced budget as submitted. The first quarter update on 2013 actual expenditures and income is attached herewith.

I report compliance.

*3. Total appropriations for the fiscal year shall not be exceeded, unless directed to do so by the board.*

As of March 31, 2013, capital expenditures totaled \$3,795,424 compared to the budget of \$27,810,000 for the 2013 fiscal year. A report of capital expenditures compared to budget by individual project is attached herewith.

I report compliance.

*4. Dedicated reserves shall not be used for purposes other than those for which they are designated, unless directed to do so by the board.*

The Utility's restricted reserves are accessible only through the City Treasurer's office. The Utility's Fund Balance report as of March 31, 2013, is attached herewith.

I report compliance.

*5. Debt shall not be undertaken without a payoff schedule and identification of revenue stream.*

The Utility's debt repayment schedules for all debt undertaken and outstanding as of December 31, 2012, are attached herewith. The repayment schedule for the Utility's loan from the City as of December 31, 2012, also is attached.

The Utility expects to issue approximately \$23 million in revenue bonds in December 2013. The bond proceeds will fund the balance of the Utility's 2013 capital budget and part of the 2014 capital budget. The previous bond issue was on December 19, 2012.

I report compliance.

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

The Utility 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. *Inform the board of where the Utility stands with any current rate case in progress.*

The Utility plans to file a formal 22% rate increase application with the Public Service Commission of Wisconsin by the end of 2013. The last rate increase of 9% became fully effective on January 1, 2012.

I report compliance.

**Attachments:**

- A. Actual Operating Expenditures and Income Update as of first quarter 2013
- B. Capital Expenditures compared to Budget Update as of March 31, 2013
- C. Fund Balance Report as of March 31, 2013
- D. Revenue Bond Debt Repayment Schedules as of December 31, 2012
- E. Schedule of WRS Loan Repayment to the City of Madison as of December 31, 2012
- F. Schedule of Loan Repayment to the City of Madison as of December 31, 2012

# MADISON WATER UTILITY

## Comparative Income Statement

	Three Months Ended March 31	
	2013	2012
Operating Revenue	\$7,312,503	\$7,596,628
Operating Expenses:		
Source of Supply	5,505	8,912
Pumping	753,268	766,078
Water Treatment	151,575	120,601
Transmission and Distribution	569,841	608,105
Customer Accounts	99,367	104,169
Administrative and General	759,201	699,190
Total Operation & Maintenance Expense	\$2,338,757	\$2,307,055
Depreciation	1,269,367	1,202,386
Payment in lieu of Taxes	1,342,061	1,254,365
Total Operating Expense	\$4,950,185	\$4,763,806
Operating Income	\$2,362,318	\$2,832,822
Interest Income	47,523	49,695
Other Income	0	0
Interest Expense	(1,062,049)	(1,081,253)
Net Income	\$1,347,792	\$1,801,264

**MADISON WATER UTILITY  
2013 CAPITAL BUDGET EXPENDITURES  
THROUGH MARCH 31, 2013**

	CAPITAL				EXPENDITURES	
	BUDGET	JAN	FEB	MAR	TO DATE	REMAINING
1 METER PROGRAM	0	0	0	0	0	0
2 WATER MAINS - REPLACEMENTS	7,500,000	229,246	154,640	248,383	632,269	6,867,731
3 WATER MAINS - NEW	840,000	2,715	48,898	5,728	57,341	782,659
4 SCADA SYSTEM	72,000	0	0	0	0	72,000
5 ZONE 4 FIRE FLOW SUPPLY AUGMENTATION	1,289,000	885	6,809	40,513	48,207	1,240,793
6 ARBOR HILLS SUPPLEMENTAL FIRE FLOW SUPPLY	0	2,136	82,476	0	84,612	-84,612
7 EAST SIDE - WELL 15 VOC MITIGATION	2,061,000	5,911	178,240	15,886	200,037	1,860,963
8 EAST SIDE - WELL 8 FE & MN MITIGATION	541,000	0	0	0	0	541,000
9 EAST SIDE - WELL 7 FE & MN FILTRATION	6,340,000	24,756	9,720	24,090	58,566	6,281,434
10 EAST SIDE - REPLACEMENT WELL	0	0	0	0	0	0
11 PRESSURE ZONE 9 STORAGE	0	0	0	0	0	0
12 PRESSURE ZONES 7 & 8 SUPPLEMENTAL SUPPLY	130,000	0	0	0	0	130,000
13 PUMP STATION 220 - RAYMOND ROAD	0	0	0	0	0	0
14 LAKEVIEW RESERVOIR - RECONSTRUCTION	291,000	0	0	0	0	291,000
15 BOOSTER PUMP STATION 114	0	0	0	0	0	0
16 NORTHEAST SIDE SUPPLEMENTAL SUPPLY	0	0	0	0	0	0
17 SECURITY UPGRADES	100,000	10,859	6,726	2,899	20,484	79,516
18 SYSTEM WIDE MISCELLANEOUS PROJECTS	957,000	25,854	27,360	7,763	60,977	896,023
19 PATERSON STREET BUILDING REMODEL	508,000	0	0	0	0	508,000
20 ADVANCED METERING INFRASTRUCTURE (PROJECT H <sub>2</sub> O)	4,000,000	780,780	987,538	735,413	2,503,731	1,496,269
21 BOOSTER STATION 106 - REBUILD	1,698,000	4,312	15,632	28,446	48,390	1,649,610
22 ZONE 11 - BLACKHAWK ELEVATED STORAGE	0	0	0	0	0	0
23 MISCELLANEOUS PUMP STATION / PRV / FACILITY PROJECTS	1,037,000	15,097	6,475	59,238	80,810	956,190
24 BOOSTER PUMP STATION 129 RECONSTRUCTION	0	0	0	0	0	0
25 IRON & MANGANESE FILTER @ WELL 19	0	0	0	0	0	0
26 IRON & MANGANESE FILTER @ WELL 30	0	0	0	0	0	0
27 NEAR WEST SIDE WATER SUPPLY PROJECT	0	0	0	0	0	0
28 WELL 29 FILTER CAPACITY EXPANSION	446,000	0	0	0	0	446,000
29 WELL 12 CONVERSION TO A TWO ZONE WELL	0	0	0	0	0	0
30 BOOSTER PUMP STATION 109	0	0	0	0	0	0
31 ZONE 10 FAR WEST ELEVATED RESERVOIR	0	0	0	0	0	0
	27,810,000	1,102,551	1,524,514	1,168,359	3,795,424	24,014,576

## Fund Balance Report

	<u>Mar. 31, 2013</u>	<u>Dec. 31, 2012</u>
<b>Reserves required by Bond Ordinance</b>		
Operation and Maintenance Fund		
* Reserve Account (Minimum \$150,000)	\$150,000	\$150,000
Special Redemption Fund		
* Principal and Interest Account	\$2,349,216	\$5,925,680
* Reserve Account (Minimum \$9,846,138)	\$9,867,878	\$9,853,127
Depreciation Fund <sup>(1)</sup>	\$750,000	\$750,000
<b>Construction Fund</b>	<b>\$10,216,176</b>	<b>\$14,011,600</b>
<b>Assessment Revolving Fund</b>	<b>\$77,088</b>	<b>\$0</b>
<b>Unrestricted Funds</b>		
PILOT Fund	\$1,392,000	\$0
Cash Flow Fund	\$2,529,593	\$2,597,671
Unrestricted Reserve Fund	\$0	\$0
Checking Account	\$134,406	\$72,252
<b>Debt to City of Madison</b>		
Short Term Construction Fund Loan	\$0.00	\$0.00
Short Term Loan from City	\$5,163,750	\$5,355,000

<sup>(1)</sup>Transfer of funds to Construction Fund approved as needed.  
 Reporting special fund balances as specified in 1978 Waterworks Bond Ordinance

**MADISON WATER UTILITY**

REVENUE BOND DEBT REPAYMENT SCHEDULES  
As of December 31, 2012

Year	2007A MRB's			2007B MRB's			2009A Refunding		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 930,000	\$ 871,600	\$ 1,801,600	\$ 330,000	\$ 80,600	\$ 410,600	\$ 885,000	\$ 1,476,581	\$ 2,361,581
2014	965,000	833,700	1,798,700	340,000	67,200	407,200	920,000	1,449,506	2,369,506
2015	1,005,000	794,300	1,799,300	360,000	53,200	413,200	930,000	1,417,106	2,347,106
2016	1,045,000	753,300	1,798,300	370,000	38,600	408,600	1,215,000	1,374,206	2,589,206
2017	1,085,000	710,700	1,795,700	385,000	23,500	408,500	1,625,000	1,317,406	2,942,406
2018	1,130,000	666,400	1,796,400	395,000	7,900	402,900	1,675,000	1,251,406	2,926,406
2019	1,175,000	619,566	1,794,566	-	-	-	2,055,000	1,174,238	3,229,238
2020	1,230,000	569,963	1,799,963	-	-	-	2,040,000	1,079,570	3,119,570
2021	1,280,000	517,394	1,797,394	-	-	-	2,110,000	975,820	3,085,820
2022	1,340,000	461,719	1,801,719	-	-	-	2,510,000	860,320	3,370,320
2023	1,395,000	402,728	1,797,728	-	-	-	2,955,000	723,695	3,678,695
2024	1,460,000	339,362	1,799,362	-	-	-	2,900,000	577,320	3,477,320
2025	1,525,000	271,247	1,796,247	-	-	-	2,900,000	446,820	3,346,820
2026	1,595,000	199,097	1,794,097	-	-	-	2,970,000	329,420	3,299,420
2027	1,670,000	122,550	1,792,550	-	-	-	2,085,000	228,320	2,313,320
2028	1,745,000	41,444	1,786,444	-	-	-	2,175,000	141,760	2,316,760
2029	-	-	-	-	-	-	2,280,000	48,450	2,328,450
2030	-	-	-	-	-	-	-	-	-
2031	-	-	-	-	-	-	-	-	-
Totals	\$ 20,575,000	\$ 8,175,070	\$ 28,750,070	\$ 2,180,000	\$ 271,000	\$ 2,451,000	\$ 34,230,000	\$ 14,871,944	\$ 49,101,944

Year	2009B Refunding			2009C Bonds			2010 BAB's			
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Federal Credit	Total
2013	\$ 295,000	\$ 27,275	\$ 322,275	\$ 260,000	\$ 433,938	\$ 693,938	\$ 560,000	\$ 486,935	\$ (170,427)	\$ 876,508
2014	310,000	17,425	327,425	265,000	426,063	691,063	565,000	480,041	(168,014)	877,027
2015	320,000	6,000	326,000	280,000	416,488	696,488	570,000	471,383	(164,984)	876,399
2016	-	-	-	345,000	403,988	748,988	575,000	460,788	(161,276)	874,512
2017	-	-	-	340,000	390,288	730,288	585,000	448,018	(156,806)	876,212
2018	-	-	-	355,000	376,388	731,388	595,000	433,114	(151,590)	876,524
2019	-	-	-	365,000	361,532	726,532	605,000	415,399	(145,390)	875,009
2020	-	-	-	390,000	344,026	734,026	620,000	394,718	(138,151)	876,567
2021	-	-	-	415,000	323,901	738,901	635,000	371,961	(130,186)	876,775
2022	-	-	-	300,000	306,026	606,026	650,000	347,218	(121,526)	875,692
2023	-	-	-	-	298,526	298,526	670,000	320,478	(112,167)	878,311
2024	-	-	-	-	298,526	298,526	685,000	291,676	(102,087)	874,589
2025	-	-	-	-	298,526	298,526	705,000	260,739	(91,259)	874,480
2026	-	-	-	-	298,526	298,526	725,000	227,481	(79,618)	872,863
2027	-	-	-	515,000	288,226	803,226	750,000	190,575	(66,701)	873,874
2028	-	-	-	530,000	266,995	796,995	775,000	150,544	(52,690)	872,854
2029	-	-	-	2,615,000	200,495	2,815,495	800,000	109,200	(38,220)	870,980
2030	-	-	-	3,410,000	72,463	3,482,463	825,000	66,544	(23,290)	868,254
2031	-	-	-	-	-	-	855,000	22,444	(7,855)	869,589
Totals	\$ 925,000	\$ 50,700	\$ 975,700	\$ 10,385,000	\$ 5,804,921	\$ 16,189,921	\$ 12,750,000	\$ 5,949,256	\$ (2,082,237)	\$ 16,617,019

## MADISON WATER UTILITY

### REVENUE BOND DEBT REPAYMENT SCHEDULES As of December 31, 2012

Year	2011 Revenue Bonds			2012 Revenue Bonds			TOTAL			
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Federal Credit	Total
2013	\$ 715,000	\$ 638,906	\$ 1,353,906	\$ -	\$ 351,360	\$ 351,360	\$ 3,975,000	\$ 4,367,195	\$ (170,427)	\$ 8,171,768
2014	750,000	620,506	1,370,506	820,000	650,600	1,470,600	4,935,000	4,545,041	(168,014)	9,312,027
2015	765,000	597,782	1,362,782	860,000	633,800	1,493,800	5,090,000	4,390,059	(164,984)	9,315,075
2016	780,000	574,606	1,354,606	880,000	616,400	1,496,400	5,210,000	4,221,888	(161,276)	9,270,612
2017	795,000	547,006	1,342,006	895,000	598,650	1,493,650	5,710,000	4,035,568	(156,806)	9,588,762
2018	815,000	514,806	1,329,806	915,000	580,550	1,495,550	5,880,000	3,830,564	(151,590)	9,558,974
2019	840,000	485,906	1,325,906	935,000	552,700	1,487,700	5,975,000	3,609,341	(145,390)	9,438,951
2020	865,000	460,331	1,325,331	950,000	515,000	1,465,000	6,095,000	3,363,608	(138,151)	9,320,457
2021	890,000	429,556	1,319,556	970,000	476,600	1,446,600	6,300,000	3,095,232	(130,186)	9,265,046
2022	920,000	397,956	1,317,956	990,000	437,400	1,427,400	6,710,000	2,810,639	(121,526)	9,399,113
2023	950,000	369,906	1,319,906	1,015,000	397,300	1,412,300	6,985,000	2,512,633	(112,167)	9,385,466
2024	985,000	339,650	1,324,650	1,040,000	356,200	1,396,200	7,070,000	2,202,734	(102,087)	9,170,647
2025	1,020,000	308,344	1,328,344	1,065,000	314,100	1,379,100	7,215,000	1,899,776	(91,259)	9,023,517
2026	1,055,000	276,560	1,331,560	1,095,000	276,375	1,371,375	7,440,000	1,607,459	(79,618)	8,967,841
2027	1,090,000	242,363	1,332,363	1,125,000	243,075	1,368,075	7,235,000	1,315,109	(66,701)	8,483,408
2028	1,135,000	205,497	1,340,497	1,160,000	208,800	1,368,800	7,520,000	1,015,040	(52,690)	8,482,350
2029	1,175,000	165,781	1,340,781	1,195,000	173,475	1,368,475	8,065,000	697,401	(38,220)	8,724,181
2030	1,225,000	123,016	1,348,016	1,235,000	137,025	1,372,025	6,695,000	399,048	(23,290)	7,070,758
2031	1,275,000	76,906	1,351,906	1,275,000	99,375	1,374,375	3,405,000	198,725	(7,855)	3,595,870
2032	1,325,000	26,500	1,351,500	1,315,000	60,525	1,375,525	2,640,000	87,025	-	2,727,025
2033	-	-	-	1,360,000	20,400	1,380,400	1,360,000	20,400	-	1,380,400
<b>Totals</b>	<b>\$ 19,370,000</b>	<b>\$ 7,401,884</b>	<b>\$ 26,771,884</b>	<b>\$ 21,095,000</b>	<b>\$ 7,699,710</b>	<b>\$ 28,794,710</b>	<b>\$ 121,510,000</b>	<b>\$ 50,224,485</b>	<b>\$ (2,082,237)</b>	<b>\$ 169,652,248</b>



**2010-C WRS Refunding Debt Schedule (Water Only)**

Classification	(All)
F/S Date	(All)
Paid by	City

				Data	
Agency2	Agency	Issued	Payment Month	Sum of Principal	Sum of Interest
Water	Debt Service Advance	10/3/2010	4/1/2011	-	18,540.05
			10/1/2011	55,106.35	20,600.06
			4/1/2012	-	20,448.52
			10/1/2012	57,716.65	20,448.52
			4/1/2013	-	20,203.22
			10/1/2013	62,357.19	20,203.22
			4/1/2014	-	19,891.44
			10/1/2014	68,157.86	19,891.44
			4/1/2015	-	19,448.41
			10/1/2015	74,248.56	19,448.41
			4/1/2016	-	18,798.73
			10/1/2016	81,499.39	18,798.73
			4/1/2017	-	17,881.87
			10/1/2017	89,040.26	17,881.87
			4/1/2018	-	16,768.86
			10/1/2018	97,451.23	16,768.86
			4/1/2019	-	15,307.09
			10/1/2019	107,022.34	15,307.09
			4/1/2020	-	13,567.98
			10/1/2020	117,463.54	13,567.98
			4/1/2021	-	11,512.37
			10/1/2021	129,064.88	11,512.37
			4/1/2022	-	9,156.94
			10/1/2022	141,536.31	9,156.94
4/1/2023	-	6,467.75			
10/1/2023	154,587.82	6,467.75			
4/1/2024	-	3,375.99			
10/1/2024	168,799.46	3,375.99			
<b>Grand Total</b>				<b>1,404,051.83</b>	<b>424,798.43</b>

### City Loan to Water Utility Repayment Schedule

	Payments	Remaining Balance
12/31/2010 Balance Due to City on Loan		8,245,000
12/31/2011 Repayments due to City	2,125,000	6,120,000
12/31/2012 Repayments due to City	765,000	5,355,000
12/31/2013 Repayments due to City	765,000	4,590,000
12/31/2014 Repayments due to City	765,000	3,825,000
12/31/2015 Repayments due to City	765,000	3,060,000
12/31/2016 Repayments due to City	765,000	2,295,000
12/31/2017 Repayments due to City	765,000	1,530,000
12/31/2018 Repayments due to City	765,000	765,000
12/31/2019 Repayments due to City	765,000	0

Interest payable on unpaid balance calculated  
at pool earnings rate plus .25%