


Internal Monitoring Report

Policy # EL-2D Financial Condition and Activities

Date: August 28, 2012

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 2013 Operating Budget of \$33,387,879 was submitted to the City's Finance Dept. on August 6, 2012, and is attached for review and approval by the board as an agenda item at today's meeting. It is a balanced budget.

The Utility has implemented and uses a financial planning model to evaluate and project funding required to finance 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, 2011 and 2010, is attached for review and approval by the board as an agenda item at today's meeting.

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 2013 Operating Budget is a balanced budget as submitted. The first quarter update on 2012 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 April 30, 2012, capital expenditures totaled \$2,841,360 compared to the budget of \$25,109,300 for the 2012 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 of Madison Treasurer's office. The Utility's Fund Balance report as of April 30, 2012, 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, 2011, are attached herewith. The repayment schedule for the Utility's loan from the City of Madison as of December 31, 2011, also is attached.

A Revenue Bond issue of approximately \$23 million is being planned for November 2012. The bond issue will fund the balance of the Utility's 2012 capital budget and part of the 2013 capital budget. The last bond issue was in December 2011.

I report compliance.

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

The Utility currently is not funding its unrestricted reserve and likely will not do so until it completes the repayment of its loan from the City of Madison 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 rate increase application – approximately 12% - with the Public Service Commission of Wisconsin in October 2012. The last rate increase of 9% was granted in May 2011, and became fully effective on January 1, 2012.

I report compliance.

Attachments:

- A. Actual Operating Expenditures and Income Update as of first quarter 2012
- B. Capital Expenditures compared to Budget Update as of April 30, 2012
- C. Fund Balance Report as of April 30, 2012
- D. Revenue Bond Debt Repayment Schedules as of December 31, 2011
- E. Schedule of WRS Loan Repayment to the City of Madison as of December 31, 2011
- F. Schedule of Loan Repayment to the City of Madison as of December 31, 2011