

# Internal Monitoring Report

Policy #: EL-2D Financial Condition and Activities

Date: April 27, 2011

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.

## CEO's interpretation and its justification:

This Executive Limitations policy seeks to ensure that the utility remains on a sound financial footing so that it may continue to perform its core mission of providing clean, safe, water in sufficient quantities to protect public health, fight fires, and promote economic development. Fiscal jeopardy not only threatens this mission but also puts the organization into disrepute and must be avoided.

*This interpretation should be considered provisional until I have had the opportunity to hire a new Financial Manager, who will be charged with developing the necessary reports to fully comply with this policy.*

**Data directly addressing the CEO'S interpretation:**

Please see the attached reports:

1. Financial Planning Model Projections 2010-2019
2. Comparative Income Statement 2009 -2010
3. Fund Balance Report

WATER UTILITY PROJECTIONS - RETAIL ONLY

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Rates Increases for all users and all use	6.00%	6.00%	7.00%	13.00%	10.75%	11.00%	7.50%	6.50%	6.25%

	Budget 2010	Projected 2011	Projected 2012	Projected 2013	Projected 2014	Projected 2015	Projected 2016	Projected 2017	Projected 2018	Projected 2019
Total Operating Revenue	25,680,284	27,171,377	28,751,203	30,699,349	34,543,719	38,212,061	42,372,965	45,563,108	48,556,456	51,632,080
Total Operation and Maintenance	13,924,000	14,478,450	15,059,187	15,570,944	16,205,714	16,984,852	17,686,197	18,421,870	19,193,781	20,003,951
Less	11,756,284	12,692,927	13,692,017	15,128,405	18,338,005	21,227,210	24,686,769	27,141,238	29,362,676	31,628,129
Depreciation on Financed Plant - Retail	3,842,574	4,304,517	4,780,519	5,281,995	5,678,029	6,054,696	6,433,473	6,810,470	7,108,337	7,328,387
Taxes	4,301,927	4,662,009	4,933,495	5,402,709	5,860,895	6,311,963	6,796,400	7,287,933	7,746,479	8,166,983
Operating Income (Loss)	3,611,783	3,726,401	3,978,003	4,443,700	6,799,081	8,860,551	11,456,895	13,042,835	14,507,860	16,132,758
Non Operating Revenues (Expenses)	(3,026,197)	(3,287,318)	(3,973,729)	(4,948,785)	(5,974,398)	(6,912,309)	(7,889,190)	(8,811,951)	(9,587,310)	(10,194,921)
Net Income (Loss) Before Contributions & Transfers	585,586	439,083	4,274	(505,085)	824,683	1,948,242	3,567,705	4,230,883	4,920,550	5,937,838
Contributed Capital - Retail	2,825,000	2,830,000	2,835,000	2,840,000	2,845,000	2,850,000	2,855,000	2,860,000	2,865,000	2,870,000
Depreciation on Contributed Plant - Retail	(1,399,215)	(1,446,493)	(1,494,111)	(1,541,839)	(1,589,677)	(1,637,625)	(1,685,683)	(1,733,851)	(1,782,129)	(1,830,517)
Transfers In	-	-	468,000	468,000	468,000	468,000	468,000	468,000	468,000	468,000
Transfers (Out)	-	-	-	-	-	-	-	-	-	-
<b>Net Income (Loss)</b>	<b>2,011,370</b>	<b>1,822,591</b>	<b>1,813,163</b>	<b>1,261,076</b>	<b>2,548,006</b>	<b>3,628,617</b>	<b>5,205,022</b>	<b>5,825,033</b>	<b>6,471,422</b>	<b>7,445,321</b>

<b>Beginning Cash &amp; Investments</b>	<b>13,881,015</b>	<b>7,955,120</b>	<b>13,737,212</b>	<b>14,951,918</b>	<b>15,971,012</b>	<b>17,512,926</b>	<b>19,719,480</b>	<b>22,330,582</b>	<b>24,724,818</b>	<b>26,862,452</b>
Net Income (Loss)	2,011,370	1,822,591	1,813,163	1,261,076	2,548,006	3,628,617	5,205,022	5,825,033	6,471,422	7,445,321
Non-Cash Adjustments										
Plus Depreciation - Financed	3,842,574	4,304,517	4,780,519	5,281,995	5,678,029	6,054,696	6,433,473	6,810,470	7,108,337	7,328,387
Less Contributed Capital	(2,825,000)	(2,830,000)	(2,835,000)	(2,840,000)	(2,845,000)	(2,850,000)	(2,855,000)	(2,860,000)	(2,865,000)	(2,870,000)
Plus Depreciation - Contributed	1,399,215	1,446,493	1,494,111	1,541,839	1,589,677	1,637,625	1,685,683	1,733,851	1,782,129	1,830,517
(Increase) Decrease in Accruals	(1,202,511)	2,423,450	(2,020,006)	(1,192,628)	(1,429,955)	(1,504,725)	(1,715,784)	(1,656,174)	(1,646,182)	(1,625,446)
Net Change to Utility Plant In Service - Financed	(4,832,866)	1,264,999	815,972	809,765	803,371	796,785	790,001	783,014	775,818	768,405
Net Change to Accumulated Depreciation - Financed	(1,281,788)	(1,281,786)	(1,281,786)	(1,281,786)	(1,281,786)	(1,281,786)	(1,281,786)	(1,281,786)	(1,281,786)	(1,281,786)
Acquisition of Plant in Service - Financed	(12,011,100)	(18,185,300)	(22,918,300)	(22,304,200)	(21,899,460)	(23,665,840)	(24,022,400)	(22,228,260)	(20,162,520)	(18,275,720)
Proceeds from New Long-Term Debt	13,327,710	20,003,830	25,210,130	24,534,620	24,089,406	26,032,424	26,424,640	24,451,086	22,178,772	20,103,292
Payments on Long-Term Debt	(2,680,000)	(3,186,702)	(3,844,098)	(4,791,587)	(5,710,374)	(6,641,243)	(8,052,748)	(9,182,997)	(10,223,354)	(11,269,262)
ADJUSTMENTS FOR ACTUAL DEBT PAYMENTS MADE	(1,673,500)	-	-	-	-	-	-	-	-	-
<b>Ending Cash Balance</b>	<b>7,955,120</b>	<b>13,737,212</b>	<b>14,951,918</b>	<b>15,971,012</b>	<b>17,512,926</b>	<b>19,719,480</b>	<b>22,330,582</b>	<b>24,724,818</b>	<b>26,862,452</b>	<b>29,016,160</b>
<b>Minimum Cash Balance</b>										
Operation and Maintenance Reserve	150,000	650,000	1,150,000	1,650,000	2,150,000	2,650,000	3,150,000	3,650,000	4,150,000	4,650,000
For Debt Service	6,987,521	8,062,679	10,007,137	11,972,258	13,870,254	16,300,163	18,403,145	20,262,963	21,956,327	23,542,229
Depreciation	750,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000
Construction	-	-	-	-	-	-	-	-	-	-
<b>Minimum Cash Balance Required</b>	<b>7,887,521</b>	<b>9,462,679</b>	<b>11,907,137</b>	<b>14,372,258</b>	<b>16,770,254</b>	<b>19,700,163</b>	<b>22,303,145</b>	<b>24,662,963</b>	<b>26,856,327</b>	<b>28,942,229</b>
<b>Amount Over (Under) Minimum</b>	<b>67,599</b>	<b>4,274,533</b>	<b>3,044,782</b>	<b>1,598,754</b>	<b>742,672</b>	<b>19,316</b>	<b>27,437</b>	<b>61,854</b>	<b>6,125</b>	<b>73,931</b>

# MADISON WATER UTILITY

## Income Statement

	Year Ended December 31, 2009	Year Ended December 31, 2010
Operating Revenue	22,369,500	27,106,886
Operating Expenses		
Source of Supply	189,994	81,297
Pumping	3,215,338	3,329,447
Water Treatment	768,645	779,977
Transmission & Distribution	5,698,701	5,834,896
Customer Accounts	612,366	697,730
Administrative & General	<u>3,373,902</u>	<u>3,370,734</u>
Total Operation & Maint. Expense	13,858,946	14,094,081
Depreciation	4,139,670	4,219,015
Taxes	<u>3,761,863</u>	<u>4,214,134</u>
Total Operating Expenses	<u>21,760,479</u>	<u>22,527,230</u>
Operating Income	609,021	4,579,656
Other Income	184,617	117,923
Interest Expense	<u>(3,073,134)</u>	<u>(3,526,998)</u>
Net Income before Non-operating Income	(2,279,496)	1,170,581
Non-operating Income (CIAC)	<u>2,906,364</u>	<u>1,224,236</u>
Net Income	626,868	2,394,817

# Fund Balance Report

20-Apr-11

	<u>Balance Dec 31 2010</u>	<u>Balance Jan 31 2011</u>	<u>Balance Feb 28 2011</u>
Reserves required by Bond Ordinance			
Operation and Maintenance Fund			
Reserve Account (Minimum \$150,000)	\$150,000.00	\$150,000.00	\$150,000.00
Special Redemption Fund			
Interest and Principal Account	\$4,238,859.35	\$659,290.06	\$1,318,290.11
Reserve Account (Minimum \$6,826,368.14)	\$6,943,066.00	\$7,033,302.05	\$7,033,302.34
Depreciation Fund <sup>(1)</sup>	\$750,000.00	\$750,000.00	\$750,000.00
(\$750,000 required by Bond Ordinance)			
Construction Fund	\$5,532,321.00	\$5,179,639.00	\$5,030,971.00
Assessment Revolving Fund	\$0.00	\$46,784.61	\$46,784.61
Unrestricted Funds			
PILOT Fund	\$0.00	\$350,000.00	\$700,000.00
Cash Flow Fund	\$26,260.52	(\$590,715.78)	(\$1,707,551.23)
Checking Account	\$140,112.12	\$360,864.00	\$1,340,024.02
Debt to City of Madison			
Short Term Loan from City	\$8,245,000.00	\$6,825,000.00	\$6,765,000.00

<sup>(1)</sup>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, Water Utility Finance/Accounting Manager, at (608) 266-4656.