


Internal Monitoring Report

Policy # EL-2D Financial Condition and Activities
Frequency: Three times a year

Date: October 23, 2012

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 external report of auditor's unqualified opinion on the Utility's financial statements for the years ended December 31, 2011 and 2010, was presented to the board by a representative of Baker Tilly Virchow Krause, LLP at its August 28, 2012 meeting.

The 2013 Capital Budget of \$27,810,000 was reviewed by the City's Board of Estimates on September 11, 2012. The 2013 Operating Budget of \$33,317,468 was approved by the board at its August 28, 2012 meeting and reviewed by the Board of Estimates on October 9, 2012.

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 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 second 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 June 30, 2012, capital expenditures totaled \$5,624,806 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 June 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, were presented to the board at its August 28, 2012 meeting. Included was the repayment schedule for the Utility's working capital loan from the City of Madison.

A Revenue Bond issue of approximately \$21.1 million is scheduled for November 27, 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 on December 22, 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 by December 31, 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 on May 3, 2011, and became fully effective on January 1, 2012.

I report compliance.

Attachments:

- A. Actual Operating Expenditures and Income Update as of second quarter 2012
- B. Capital Expenditures compared to Budget Update as of July 31, 2012
- C. Fund Balance Report as of July 31, 2012

MADISON WATER UTILITY

Comparative Income Statement

	Six (6) Months Ended June 30,	
	2012	2011
Operating Revenue	\$14,811,331	\$14,270,114
Operating Expenses:		
Source of Supply	27,421	14,859
Pumping	1,625,083	1,502,737
Water Treatment	236,723	243,995
Transmission and Distribution	1,708,424	1,639,765
Customer Accounts	188,001	165,959
Administrative and General	1,694,572	2,069,914
Total Operation & Maintenance Expense	\$5,480,224	\$5,637,229
Depreciation	2,432,113	2,270,810
Payment in lieu of Taxes (PILOT)	2,477,266	2,259,885
Total Operating Expense	\$10,389,603	\$10,167,924
Operating Income	\$4,421,728	\$4,102,190
Interest Income	83,750	131,993
Other Income(Expense)	9,685	223
Interest Expense	(1,934,196)	(1,926,484)
Net Income	\$2,580,967	\$2,307,922

**MADISON WATER UTILITY
2012 CAPITAL BUDGET EXPENDITURES
THROUGH JULY 31, 2012**

	CAPITAL BUDGET								EXPENDITURES	
	BUDGET	JAN	FEB	MAR	APR	MAY	JUNE	JULY	TO DATE	REMAINING
1 METER PROGRAM	\$0	0	0	0	0	0	0	0	\$0	\$0
2 WATER MAINS - REPLACEMENTS	7,816,000	283,082	262,663	155,802	293,583	709,110	656,839	1,211,132	3,572,211	4,243,789
3 WATER MAINS - NEW	835,000	9,476	4,921	11,381	94,301	35,063	181,009	29,379	365,530	469,470
4 SCADA SYSTEM	32,000	0	246	647	30,869	0	0	0	31,762	238
5 ZONE 4 FIRE FLOW SUPPLY AUGMENTATION	1,161,000	47,430	2,875	7,417	3,225	5,355	15,644	985	82,931	1,078,069
6 ARBOR HILLS SUPPLEMENTAL FIRE FLOW SUPPLY	1,000,000	181,615	86,127	165,664	265,428	99,326	69,926	9,200	877,286	122,714
7 EAST SIDE WATER SUPPLY PROJECT	3,747,000	8,513	9,308	43,776	73,230	97,514	36,021	97,547	365,909	3,381,091
8 PRESSURE ZONE 9 STORAGE	0	0	0	0	0	0	0	0	0	0
9 PRESSURE ZONES 7 & 8 SUPPLEMENTAL SUPPLY	130,000	0	0	0	0	0	0	0	0	130,000
10 PUMP STATION 220	0	0	0	0	0	0	0	0	0	0
11 LAKEVIEW RESERVOIR - RECONSTRUCTION	263,000	0	0	0	0	0	0	0	0	263,000
12 BOOSTER PUMP STATION 114	0	0	0	0	0	0	0	0	0	0
13 NORTH END SUPPLEMENTAL SUPPLY	0	0	0	0	0	0	0	0	0	0
14 SECURITY UPGRADES	100,000	3,580	2,959	10,750	9,698	5,951	4,060	2,520	39,518	60,482
15 SYSTEMWIDE MISCELLANEOUS PROJECTS	309,300	8,635	973	5,648	559	1,813	2,752	4,095	24,475	284,825
16 PATERSON STREET BUILDING REMODEL	0	0	0	0	0	0	0	0	0	0
17 ADVANCED METERING INFRASTRUCTURE (PROJECT H ₂ O)	8,400,000	71,648	82,699	77,542	347,607	452,555	408,115	977,053	2,417,219	5,982,781
18 BOOSTER STATION 106 - REBUILD	200,000	0	0	0	0	0	0	0	0	200,000
19 ZONE 11 - BLACKHAWK ELEVATED STORAGE	0	0	0	0	0	0	0	0	0	0
20 MISCELLANEOUS PUMP STATION / PRV / FACILITY PROJECTS	1,116,000	1,745	3,129	171,261	1,348	486	1,907	17,180	197,056	918,944
21 BOOSTER PUMP STATION 129 RECONSTRUCTION	0	0	0	0	0	0	0	0	0	0
22 IRON & MANGANESE FILTER @ WELL 19	0	0	0	0	0	0	0	0	0	0
23 IRON & MANGANESE FILTER @ WELL 30	0	0	0	0	0	0	0	0	0	0
24 NEAR WEST SIDE WATER SUPPLY PROJECT	0	0	0	0	0	0	0	0	0	0
	25,109,300	615,724	455,900	649,888	1,119,848	1,407,173	1,376,273	2,349,091	7,973,897	17,135,403

Fund Balance Report

	<u>July 31, 2012</u>	<u>Dec. 31, 2011</u>
Reserves required by Bond Ordinance		
Operation and Maintenance Fund		
* Reserve Account (Minimum \$150,000)	\$150,000	\$150,000
Special Redemption Fund		
* Principal and Interest Account	\$2,635,680	\$4,869,877
* Reserve Account (Minimum \$8,343,538)	\$8,441,536	\$8,383,387
Depreciation Fund(1)	\$750,000	\$750,000
Construction Fund	\$3,225,781	\$11,199,678
Assessment Revolving Fund	\$74,753	\$0
Unrestricted Funds		
PILOT Fund	\$2,870,000	\$4,519,770
Cash Flow Fund	\$1,047,978	(\$349,449)
Unrestricted Reserve Fund	\$0	\$0
Checking Account	\$581,227	\$251,532
Debt to City of Madison		
Short Term Construction Fund Loan	\$0.00	\$0.00
Short Term Loan from City	\$5,673,750	\$6,120,000