

Internal Monitoring Report

Policy # EL-2D Financial Condition and Activities

Date: January 24, 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 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 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 third quarter update on 2011 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 September 30, 2011, capital expenditures totaled \$9,062,342 compared to the budget of \$19,036,300 for the 2011 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 September 30, 2011, is attached herewith.

I report compliance.

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

The Utility's Revenue Bond Debt Repayment Schedules for all debt undertaken and outstanding as of December 31, 2010, were presented to the board at the July 26, 2011 meeting. The board also received a copy of the repayment schedule for the Utility's working capital loan from the City of Madison as of December 31, 2010.

A Revenue Bond issue of \$19,370,000 was approved at a special meeting of the board on December 13, 2011, and completed on December 22, 2011. The bond issue included funding for capital projects in fiscal years 2011 and 2012. The bond's debt repayment schedule is attached herewith.

The last bond issue was in November 2010.

I report compliance.

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

The Utility is currently funding its unrestricted reserve at a minimum of \$500,000 per year. Any excess above our projected year-end cash balance will be added to the reserve.

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 8-9% rate increase application with the Public Service Commission of Wisconsin early in 2012. The last rate increase of 9% was granted in May 2011.

I report compliance.

Attachments:

- A. Actual Operating Expenditures and Income Update as of third quarter 2011
- B. Capital Expenditures compared to Budget Update as of third quarter 2011
- C. Fund Balance Report as of September 30, 2011
- D. \$19,370,000 Revenue Bond Debt Repayment Schedule