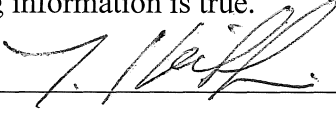


## Internal Monitoring Report

Policy # EL-2D Financial Condition and Activities

Date: July 26, 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.

### 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 2012 Capital Budget of \$25,109,300 equates to 10.98% of the \$228,578,322 Capital Assets of the Utility at December 31, 2010. The budget, as part of the updated long range capital improvement plan, was approved by the board at its June 28, 2011 meeting. The budget was approved by City Finance Dept. on July 18, 2011, and reviewed by the Mayor's office on July 19, 2011.

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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, 2010 and 2009, is an agenda item for the board at its August meeting. The Utility has received a clean, unqualified opinion from its external CPA auditors in as many years as the Utility has been audited.

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 2012 Operating Budget is an agenda item for the board at its August meeting. The 1st 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 May 31, 2011, capital expenditures totaled \$2,189,469 compared to the budget of \$19,036,300 for the 2011 fiscal year.

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. A copy of the Utility's Fund Balance report as of May 31, 2011, is attached herewith.

I report compliance.

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

A copy of the Utility's Revenue Bond Debt Repayment Schedules for all debt undertaken and outstanding as of December 31, 2010, is attached herewith. A copy of the repayment schedule for the Utility's working capital loan from the City of Madison as of December 31, 2010, is also attached.

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's application to increase rates was filed with the Public Service Commission of Wisconsin (PSCW) on October 6, 2010. The board was updated as to the status of this rate case as reflected in the minutes of monthly board meetings from October 2010 through May 2011. On May 5, 2011, The PSCW authorized the Utility's rate increase as proposed.

I report compliance.

***Attachments***

- A. Fund Balance Report as of May 31, 2011
- B. Revenue Bond Debt Repayment Schedules as of December 31, 2010
- C. Working Capital Loan Repayment Schedule to the City of Madison as of 12/31/10
- D. Actual Expenditures and Income Update as of first quarter 2011