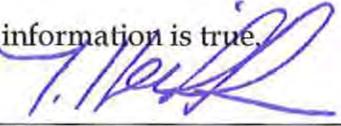


## Internal Monitoring Report

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

**Date:** October 28, 2014

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.
8. Fail to be able to provide a concise summary of the financial condition of the utility at any time.

### 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's 2015 Capital Budget Request of \$44,595,000 was reviewed by the City's Board of Estimates on September 10, 2014. The 2015 Operating Budget Request of \$38,550,606 was reviewed by the Board of Estimates on October 13, 2014.

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.

I report compliance.

- 2. Present a balanced annual operating budget and quarterly updates on actual expenditures and income.*

The 2015 Operating Budget is a balanced budget as submitted. The second quarter update on 2014 operating 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, 2014, capital expenditures totaled \$6,280,954 compared to the budget of \$38,356,000 for the 2014 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, 2014, 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, 2013, were presented to the board at its August 26, 2014 meeting. Included was the repayment schedule for the Utility's loan from the City of Madison.

The Utility has postponed its 2014 revenue bond sale until May - June, 2015. The bond issue will fund the balance of the Utility's 2015 capital budget and part of the 2016 capital budget. The last bond issue was on December 18, 2013.

I report compliance.

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

The Utility is currently 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 filed a 30.4% revenue increase application with the Public Service Commission of Wisconsin on October 20, 2014. The last revenue increase was approved by the Commission on May 5, 2011.

I report compliance.

8. *Provide a concise summary of the financial condition of the utility at any time.*

The General Manager is prepared to provide a summary of the financial condition of the Utility during the informational 'Items of General Interest' portion of the board's meeting agenda.

I report compliance.

**Attachments:**

- A. 2014 Operating Expenditures and Income through June 30, 2014
- B. 2014 Capital Budget Expenditures through June 30, 2014
- C. Fund Balance Report as of June 30, 2014

**MADISON WATER UTILITY**  
**2014 CAPITAL BUDGET EXPENDITURES**  
 THROUGH JUNE 30, 2014

|   | ADOPTED<br>CAPITAL<br>BUDGET |           |         |         |           |           |           |           | EXPENDITURES |  |
|---|------------------------------|-----------|---------|---------|-----------|-----------|-----------|-----------|--------------|--|
|   |                              | JAN       | FEB     | MAR     | APR       | MAY       | JUN       | TO DATE   | REMAINING    |  |
| 1 WATER MAINS - REPLACE / REHAB / IMPROVEMENTS          | 11,718,000                   | 157,042   | 107,035 | 161,157 | 221,917   | 581,495   | 778,807   | 2,007,453 | 9,710,547    |  |
| 2 WATER MAINS - NEW                                     | 1,366,000                    | 223,567   | 9,026   | 23,338  | 24,458    | 12,098    | 8,247     | 300,734   | 1,065,266    |  |
| 3 ZONE 4 FIRE FLOW SUPPLY AUGMENTATION                  | 415,000                      | 256,649   | 1,789   | 4,126   | 12,651    | 118,654   | 1,538     | 395,407   | 19,593       |  |
| 4 ARBOR HILLS SUPPLEMENTAL FIRE FLOW SUPPLY             | 642,000                      | 136       | 1,901   | 0       | 0         | 0         | 0         | 2,037     | 639,963      |  |
| 5 EAST SIDE - WELL 7 FE & MN FILTRATION                 | 5,300,000                    | 48,318    | 119,207 | 304     | 33,134    | 10,786    | 5,914     | 217,663   | 5,082,337    |  |
| 6 EAST SIDE - REPLACEMENT WELL (WELL 3)                 | 480,000                      | 0         | 0       | 0       | 0         | 0         | 0         | 0         | 480,000      |  |
| 7 PRESSURE ZONES 7 & 8 SUPPLEMENTAL SUPPLY              | 397,000                      | 0         | 0       | 0       | 0         | 0         | 0         | 0         | 397,000      |  |
| 8 LAKEVIEW RESERVOIR RECONSTRUCTION                     | 2,974,000                    | 18,675    | 285     | 1,708   | 20,844    | 5,854     | 29,418    | 76,784    | 2,897,216    |  |
| 9 BOOSTER PUMP STATION 114                              | 0                            | 0         | 0       | 0       | 0         | 0         | 0         | 0         | 0            |  |
| 10 NORTHEAST SIDE SUPPLEMENTAL SUPPLY                   | 0                            | 0         | 0       | 0       | 0         | 0         | 0         | 0         | 0            |  |
| 11 SYSTEM WIDE MISCELLANEOUS PROJECTS                   | 2,737,000                    | 82,886    | 177,474 | 120,569 | 71,095    | 128,675   | 186,938   | 767,637   | 1,969,363    |  |
| 12 PATERSON STREET BUILDING REMODEL / UPGRADE           | 6,847,000                    | 10,347    | 4,912   | 9,430   | 12,886    | 1,228     | 0         | 38,803    | 6,808,197    |  |
| 13 BOOSTER STATION 106 - RECONSTRUCTION                 | 1,698,000                    | 258,181   | 194,952 | 6,764   | 697,552   | 17,913    | 375,374   | 1,550,736 | 147,264      |  |
| 14 ZONE 11 - BLACKHAWK ELEVATED RESERVOIR               | 0                            | 0         | 0       | 0       | 0         | 0         | 0         | 0         | 0            |  |
| 15 MISCELLANEOUS PUMP STATION / PRV / FACILITY PROJECTS | 2,944,000                    | 86,265    | 13,504  | 31,386  | 28,079    | 232,431   | 532,035   | 923,700   | 2,020,300    |  |
| 16 BOOSTER PUMP STATION 129 RECONSTRUCTION              | 0                            | 0         | 0       | 0       | 0         | 0         | 0         | 0         | 0            |  |
| 17 IRON & MANGANESE FILTER @ WELL 19                    | 344,000                      | 0         | 0       | 0       | 0         | 0         | 0         | 0         | 344,000      |  |
| 18 IRON & MANGANESE FILTER @ WELL 30                    | 0                            | 0         | 0       | 0       | 0         | 0         | 0         | 0         | 0            |  |
| 19 NEAR WEST SIDE WATER SUPPLY PROJECT                  | 0                            | 0         | 0       | 0       | 0         | 0         | 0         | 0         | 0            |  |
| 20 WELL 29 FILTER CAPACITY EXPANSION                    | 446,000                      | 0         | 0       | 0       | 0         | 0         | 0         | 0         | 446,000      |  |
| 21 WELL 12 CONVERSION TO A TWO-ZONE WELL                | 48,000                       | 0         | 0       | 0       | 0         | 0         | 0         | 0         | 48,000       |  |
| 22 BOOSTER PUMP STATION 109                             | 0                            | 0         | 0       | 0       | 0         | 0         | 0         | 0         | 0            |  |
| 23 ZONE 10 FAR WEST ELEVATED RESERVOIR                  | 0                            | 0         | 0       | 0       | 0         | 0         | 0         | 0         | 0            |  |
| 24 BOOSTER PUMP STATION / PRV 124 CONSTRUCTION          | 0                            | 0         | 0       | 0       | 0         | 0         | 0         | 0         | 0            |  |
|   | 38,356,000                   | 1,142,066 | 630,085 | 358,782 | 1,122,616 | 1,109,134 | 1,918,271 | 6,280,954 | 32,075,046   |  |

## Fund Balance Report

|   | <u>Jun 30, 2014</u> | <u>Dec. 31, 2013</u> |
|---|---------------------|----------------------|
| <b>Reserves required by Bond Resolution</b>       |                     |                      |
| Operation and Maintenance Fund                    |                     |                      |
| * Reserve Account (Minimum \$150,000)             | \$150,000           | \$150,000            |
| Special Redemption Fund                           |                     |                      |
| * Principal and Interest Account                  | \$5,736,708         | \$7,243,803          |
| * Reserve Account (Minimum \$11,767,538)          | \$11,870,755        | \$11,703,873         |
| Depreciation Fund                                 | \$750,000           | \$750,000            |
| <br><b>Construction Fund</b>                      | <br>\$13,325,436    | <br>\$19,606,390     |
| <br><b>Assessment Revolving Fund</b>              | <br>\$120,181       | <br>\$0              |
| <br><b>Unrestricted Funds</b>                     |                     |                      |
| PILOT Fund  | \$3,018,000         | \$0                  |
| City Pooled Agency Fund                           | (\$553,547)         | \$2,264,144          |
| Unrestricted Reserve Fund                         | \$0                 | \$0                  |
| Checking Account                                  | \$578,663           | \$610,986            |
| <br><b>Debt to City of Madison</b>                |                     |                      |
| Loan from City                                    | \$4,207,500         | \$4,590,000          |
| Loan from City to payoff unfunded WRS Pension Lbl | \$1,228,872         | \$1,228,872          |
| Advance from City for Burke Utility District #1   | \$432,008           | \$432,008            |
| <br><b>Debt to Revenue Bond Holders</b>           | <br>\$136,935,000   | <br>\$141,870,000    |