



Smart Management for
Small Water Systems

Navigating Water Infrastructure Funding Programs - Workshop for Small Water Systems

06/01/17| Phoenix, AZ

www.efcnetwork.org



UNC
ENVIRONMENTAL
FINANCE CENTER



American Water Works
Association

This program is made possible under a cooperative agreement with the U.S. EPA.



Can You Sleep at Night?

Is your system self sufficient?

Operating Ratio

Are you able to cover your debt service after paying for your day to day operations?

Debt Service
Coverage Ratio

If your customers stop paying their bills, how long can you maintain operations?

Days Cash on
Hand

Can your system meet its short term obligations?

Current
Ratio

How much of your system's expected life has already run out?

Asset
Depreciation

Whiteboard Video: Financial Benchmarking for Water Utilities

<http://www.waterrf.org/Pages/Projects.aspx?PID=4366>



Recording of Prior Webinar: Key Financial Indicators

<http://efcnetwork.org/events/webinar-is-your-water-system-financially-healthy-key-financial-indicators/>



The slide features a header with three small images: a yellow water pump handle, a circular metal cover with the word 'WATER' and a cross, and hands holding a pen over a document. The main title 'Key Financial Indicators' is in a large, dark blue font. Below it, the speaker's name 'Glenn Barnes' and affiliation 'Environmental Finance Center, University of North Carolina at Chapel Hill' are listed, along with a phone number and email address. A portrait of Glenn Barnes is on the right. The footer includes logos for 'Global Management for Small Water Systems' and 'UNC ENVIRONMENTAL FINANCE CENTER', and the website 'www.efcnetwork.org'.

Key Financial Indicators

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Quick Review of Key Financial Indicators

Operating Ratio

Current Ratio

Debt Service
Coverage Ratio

Days of Cash
on Hand

Asset Depreciation



Is your system self-sufficient?



Operating Ratio

OPERATING REVENUES



OPERATING EXPENSES



DEPRECIATION

ANNUAL COST OF WEAR
AND TEAR ON THE SYSTEM

Include or
Exclude

Read more: <http://efc.web.unc.edu/2015/02/27/operating-ratio/>



Are you able to cover your debt service after paying for your day to day operations?



Debt Service Coverage Ratio

OPERATING REVENUES – OPERATING EXPENSES
(EXCLUDING DEPRECIATION)

PRINCIPAL + INTEREST PAYMENTS
ON LONG TERM DEBT

Read more: <http://efc.web.unc.edu/2015/04/23/debt-service-coverage-ratio/>



**Can your system meet its short
term obligations?**



Current Ratio

**UNRESTRICTED CURRENT ASSETS
EXCLUDING INVENTORIES AND
PREPAID ITEMS**

CURRENT LIABILITIES

Read more: <http://efc.web.unc.edu/2015/10/01/key-indicator-current-ratio/>



**If your customers stop paying
their bills, how long can you
maintain operations?**



Days Cash on Hand

UNRESTRICTED CASH AND INVESTMENTS

**OPERATING EXPENSES EXCLUDING
DEPRECIATION & AMORTIZATION / 365**

Read more: <http://efc.web.unc.edu/2015/06/24/days-cash-on-hand/>



**How much of your system's
expected life has already run out?**



Asset Depreciation

$$= \frac{\textit{Accumulated Depreciation}}{\textit{Gross Plant and Equipment}}$$

Caveat: this indicator is only as accurate as your depreciation schedule, and even then historic pricing is likely to distort the results.

Where Do We Get Started?

- Local governments: audited financial statements
- Non-governments: balance sheets, shareholder reports, annual reports, etc.


BAVARIA STATEMENT OF NET ASSETS PROPRIETARY FUND JUNE 30, 2011	
	Water and Sewer Enterprise Fund
Assets	
Current Assets:	
Cash - operating	\$ 368,001
Accounts Receivable (Net)	60,346
Prepaid Insurance	5,856
Total Current Assets	434,203
Noncurrent Assets:	
Restricted cash	177,208
Capital assets	
Land	209,556
Buildings	22,982
Improvements other than buildings	5,873,769
Machinery and equipment	896,073
Construction in progress	1,454,079
Less: Accumulated depreciation	(2,883,225)
Deferred Charge	39,833
Total noncurrent assets	5,781,215
Total Assets	6,421,478
Liabilities	
Current Liabilities:	
Accounts Payable	21,090
Accrued Expenses	2,767
Due to Other Funds	8,176
Customer Deposits	62,625
Deferred Subsidy Revenue	460,005
Current Portion of Long Term Debt	343,811
Total Current Liabilities	898,474
Noncurrent Liabilities:	
Compensated Absences	15,695
Revenue Bonds (Net of current portion)	233,357
Notes Payable (Net of current portion)	646,873
Total Noncurrent Liabilities	889,925
Total Liabilities	1,788,399
Fund Net assets	
Invested in capital assets, net of related debt	4,355,133
Restricted for debt service	114,583
Unrestricted	163,261
Total fund net assets	\$ 4,633,078

Financial Health Checkup for Water Utilities


<http://efc.sog.unc.edu> or <http://efcnetwork.org>

Find the most up-to-date version in Resources / Tools

Financial Health Checkup for Water Utilities



UNC ENVIRONMENTAL FINANCE CENTER
Developed by the Environmental Finance Center at the University of North Carolina, Chapel Hill
<http://efc.sog.unc.edu>





A resource for water systems through the Environmental Finance Center Network's Smart Management for Small Water Systems project, funded under a cooperative agreement with the U.S. Environmental Protection. <http://efcnetwork.org>

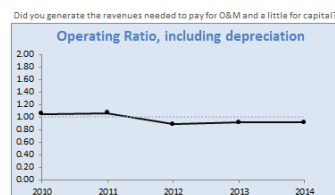
What does this tool do?
This tool assists in the assessment of the financial performance of a water (and/or wastewater) utility fund. Financial data readily available in annual financial statements are copied into this tool, which computes key financial indicators that measure a variety of important metrics, such as the ability to pay debt service, availability of cash to pay for operations and maintenance, the sufficiency of revenues generated, etc. Each metric is compared against targets that are specified by the user. The tool demonstrates the financial strengths and weaknesses of the utility fund in the past 5 years.

Features:
Simple data entry (uses data already reported in your audited financial statements)
6 financial performance indicators with explanations
Set your own targets
Assessment of last year's financial ratios, improvements since previous year, and five-year trends
Guided navigation through hyperlinked images

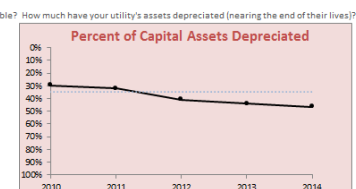
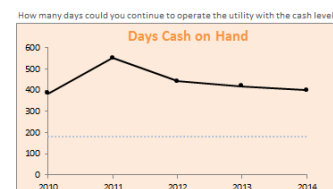
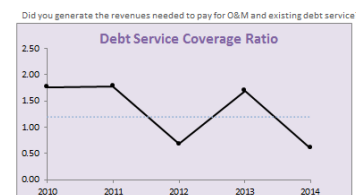
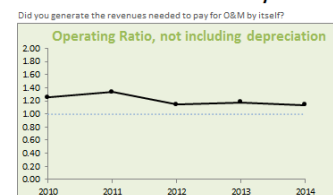
What are financial indicators?
Watch a whiteboard video explaining financial performance indicators in lay terms.

Excel®- based tool
Free to use



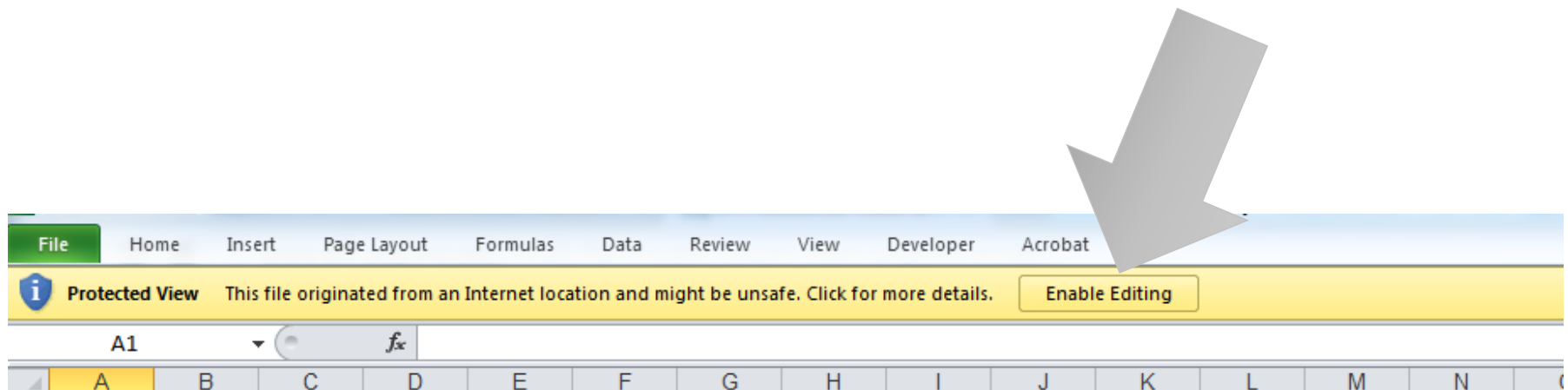
Assessment for Town of Anywhere



Created by the Environmental Finance Center at the University of North Carolina, Chapel Hill's School of Government
A resource for water systems from the EFCN's Smart Management for Small Water Systems project
funded under a cooperative agreement with the U.S. E.P.A.



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Why Care About This?

- Funders and ratings agencies care about this
- As you think about the future needs of your system, you have to know where you are starting from



So....

- Now that we know where we are, let's decide where we are going...
- How do we estimate the future costs and revenues?