



Assessing Financial Condition

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Session Objectives

- Understanding where your water system is right now financially
- Learning some standard measures that funders will be concerned with



Can You Sleep at Night?

- Is your system self sufficient?
- Are you able to cover your debt service after paying for your day to day operations?
- If your customers stop paying their bills, how long can you maintain operations?
- Can your system meet its short term obligations?
- How much of your utility's expected life has already run out (and how much is left)?



In terms of your system's finances, how do you sleep at night?

1. Like a baby/cat
2. Some tossing and turning
3. Insomniac
4. Heavily Medicated
5. I'm not sure yet...



Can You Sleep at Night?

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Operating Ratio

Debt Service
Coverage Ratio

Days Cash on
Hand

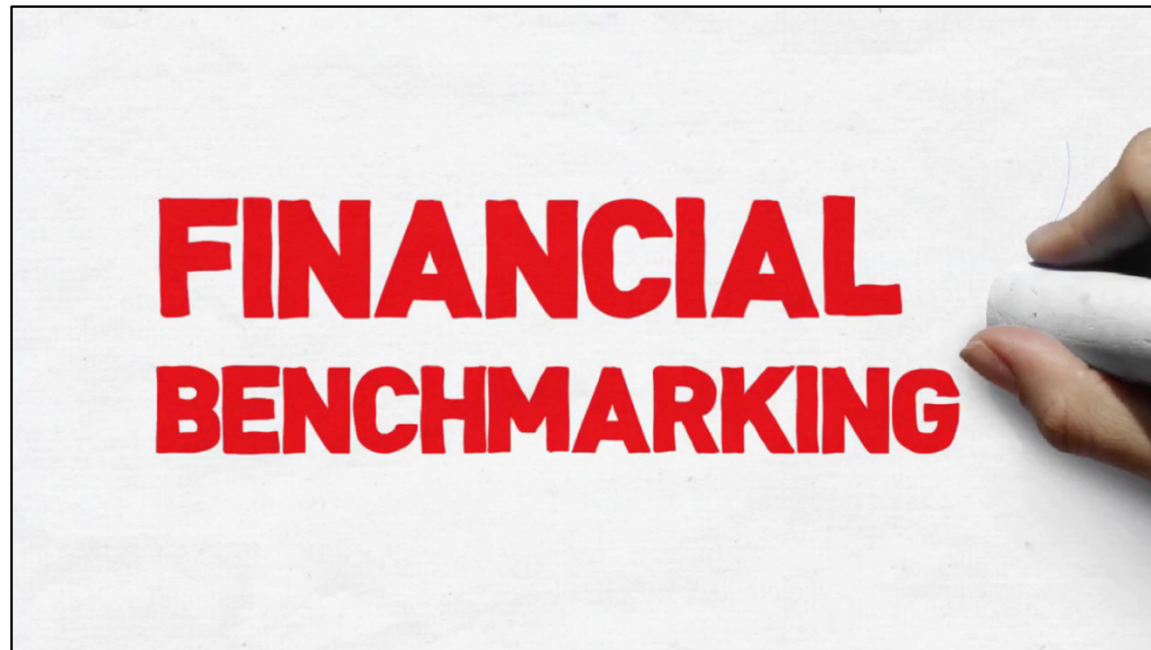
Current
Ratio

Asset
Depreciation



Whiteboard Video: Financial Benchmarking

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





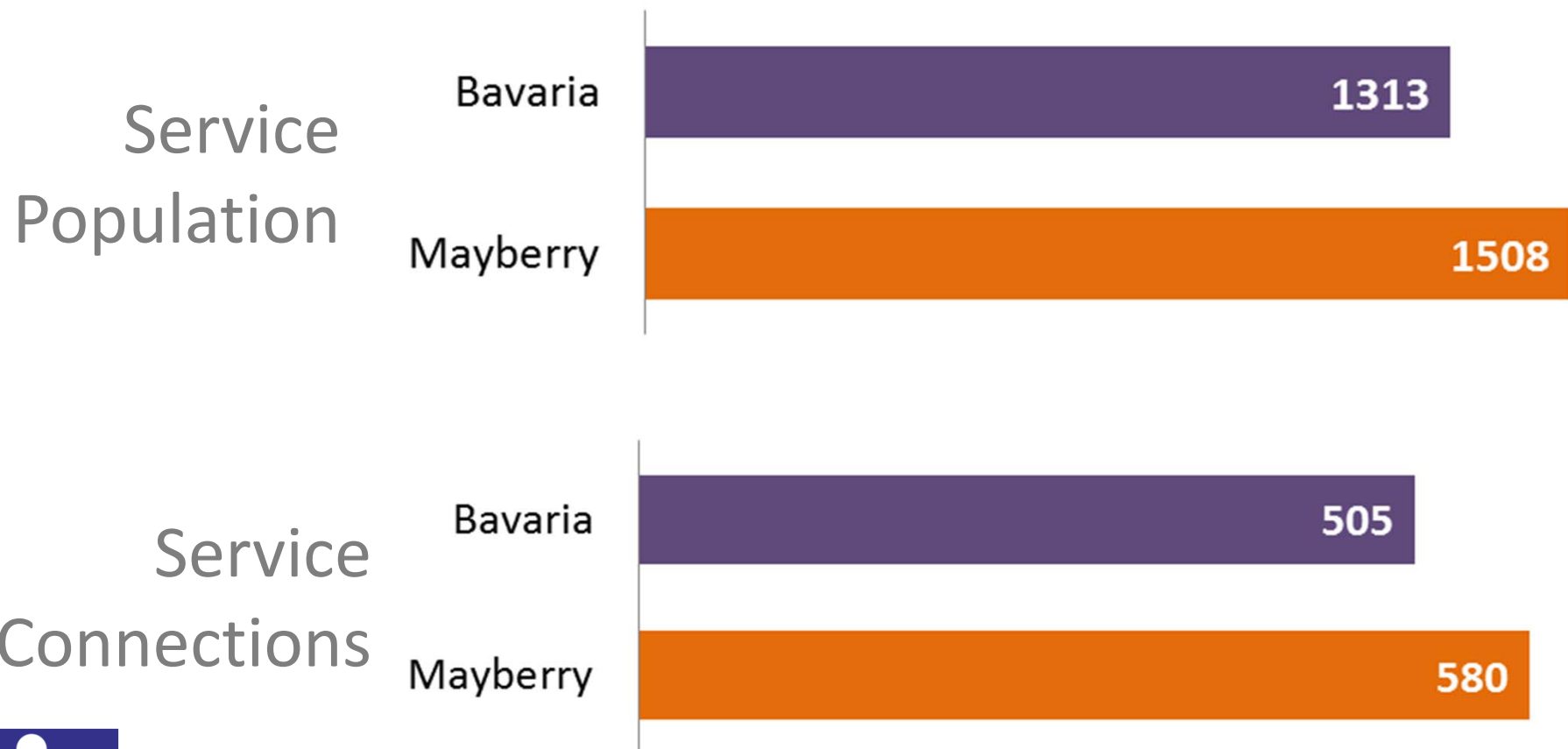
A Tale of Two Systems That Look Similar On Paper...

- **Bavaria** and **Mayberry**
- Two average small town community water systems from the same state

Note: Actual numbers from actual towns



They Serve Similar Populations





They Have Similar Demographics

MHI



Percent Poverty





BAYERNIA	
STATEMENT OF NET ASSETS	
PROPRIETARY FUND	
JUNE 30, 2011	
<p>MAINTENANCE STATEMENT OF NET ASSETS PROPRIETARY FUND DECEMBER 31, 2010</p>	
ASSETS	
Current Assets	
Cash	168,061
Receivables, net	60,346
Total Current Assets	5,856
Capital Assets	
Land and improvements	640,263
Buildings	177,208
Equipment	209,556
Intangible assets	22,982
Total Capital Assets	5,873,769
Total Assets	896,073
LIABILITIES	
Current Liabilities	
Accounts payable	1,454,079
Deferred maintenance	(2,883,225)
Total Current Liabilities	39,833
Long-term Liabilities	
Bonds, notes and other payable	5,781,215
Total Long-term Liabilities	5,781,215
Total Liabilities	5,821,048
NET ASSETS	
Invested in capital assets, net of related debt	2,440,079
Restricted for debt service	114,583
Unrestricted	341,411
Total Net Assets	4,055,339
<p>The accompanying notes are an integral part of these financial statements.</p>	
15	



Statement of Net Assets

- The assets and liabilities of the water system on the day the financial statements were prepared



Statement of Revenues, Expenses & Changes in Net Assets

- Annual operating and non-operating revenues and expenses for the water system
- Also transfers to and from the general fund



Statement of Cash Flows

- Money in and money out of the water system



Notes to Financial Statements

- Explanations, where needed, to the financial statements



Operating Ratio

$$= \frac{\textit{Operating Revenues}}{\textit{Operating Expenses}}$$

Please calculate two numbers—one including depreciation, and one excluding depreciation



Operating Ratio

Including Depreciation

MAYBERRY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Enterprise Funds</u> <u>Water and Sewer</u>	
OPERATING REVENUES		
Charges for services	\$ 444,231	
Grants	0	
Total operating revenues	<u>444,231</u>	- ①
OPERATING EXPENSES		
Personnel services	178,885	
Contractual services	63,898	
Other supplies and expense	126,202	- ③
Depreciation	<u>142,463</u>	- ②
Total operating expenses	<u>511,448</u>	
Operating income (loss)	<u>(67,217)</u>	



Operating Ratio – Mayberry

Including Depreciation

$$\begin{array}{rcccl} & \boxed{\$444,231} & & & \\ & \text{Operating Revenues (1)} & & & \\ \boxed{1a.} & \hline & \boxed{\$511,448} & = & \boxed{0.87} & \\ & \text{Operating Expenses (including depreciation) (2)} & & & \end{array}$$



Operating Ratio

Excluding Depreciation

MAYBERRY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

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Operating income (loss)	<u>(67,217)</u>	



Operating Ratio – Mayberry

Excluding Depreciation

$$\begin{array}{rcl} \boxed{1b.} & \frac{\boxed{\$444,231}}{\boxed{\$368,985}} & = \boxed{1.20} \\ & \text{Operating Revenues (1)} & \\ & \text{Operating Expenses (excluding depreciation) (2-3)} & \end{array}$$

OE \$511,448
- DEP \$142,463



Debt Service Coverage Ratio

$$= \frac{\text{Operating Revenues} - \text{Operating Expenditures (excludes depreciation)}}{\text{Principal} + \text{Interest Payments on Long Term Debt}}$$



Debt Service Coverage Ratio

MAYBERRY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2010

MAYBERRY

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2010

Page 1 of 2

OPERATING REVENUES

Charges for services

Grants

Total operating revenues

OPERATING EXPENSES

Personnel services

Contractual services

Other supplies and expense

Depreciation

Total operating expenses

Operating income (loss)

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers

Payments to suppliers

Payments to employees

Net cash provided by operating activities

CASH FLOWS FROM NONCAPITAL

FINANCING ACTIVITIES

Transfers in (out)

Net cash (used) by noncapital

financing activities

CASH FLOWS FROM CAPITAL AND RELATED

FINANCING ACTIVITIES

Loan proceeds

Purchases of capital assets

Principal paid on capital debt

Interest paid on capital debt

Net cash (used) by capital and

related financing activities

Enterprise Funds Water and Sewer

\$ 437,947

(187,296)

(178,885)

71,766

(60,000)

(60,000)

0

(39,841)

(49,655)

(35,128)

(124,624)

④



Debt Service Coverage Ratio – Mayberry

OE \$511,448
- Dep \$142,463

$$\begin{array}{r} \$444,231 \\ \text{Operating Revenues (1)} \end{array} - \begin{array}{r} \$368,985 \\ \text{Operating Expenses (2-3)} \\ \text{(excluding depreciation)} \end{array}$$

2.

$$\frac{\$84,783}{\text{Principal \& Interest on Long-Term Debt (4)}}$$

0.89

P \$49,655
+ I \$35,128



Days of Cash on Hand

$$= \frac{\text{Unrestricted cash and cash equivalents}}{(\text{Operating Expenses} - \text{Depreciation}) / 365}$$



Days of Cash on Hand

MAYBERRY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
DECEMBER 31, 2010

Enterprise Funds
Water and Sewer

ASSETS

Current assets

Cash
Restricted cash
Receivables, net
Total current assets

107,706

176,424

41,870

326,000

Capital assets

Land and improvements
Distribution and collection systems
Buildings
Less accumulated depreciation
Total capital assets

10,229

5,732,845

503,398

(2,514,933)

3,731,539

Total Assets

\$ 4,057,539

LIABILITIES



Days of Cash on Hand – Mayberry

$$\begin{array}{rcl} \boxed{3.} & \frac{\boxed{\$107,706}}{\boxed{\$368,985} / 365} & = \boxed{107} \\ & \text{Unrestricted Cash \& Cash Equivalents (5)} & \\ & \text{Operating Expenses (excluding depreciation) (2-3)} & \end{array}$$

OE \$511,448
- DEP \$142,463



Current Ratio

$$= \frac{\text{Unrestricted cash and cash equivalents} + \text{Receivables, net}}{\text{Current Liabilities}}$$



Current Ratio – Mayberry

$$\begin{array}{rcl} \boxed{4.} & \frac{\boxed{\$107,706} + \boxed{\$41,870}}{\boxed{\$108,390}} & = \boxed{1.38} \\ & \begin{array}{l} \text{Unrestricted Cash \& Cash Equivalents (5)} \\ \text{Receivables, net (6)} \\ \text{Current Liabilities (7)} \end{array} & \end{array}$$



Now You Calculate For Bavaria



Operating Ratio – Bavaria

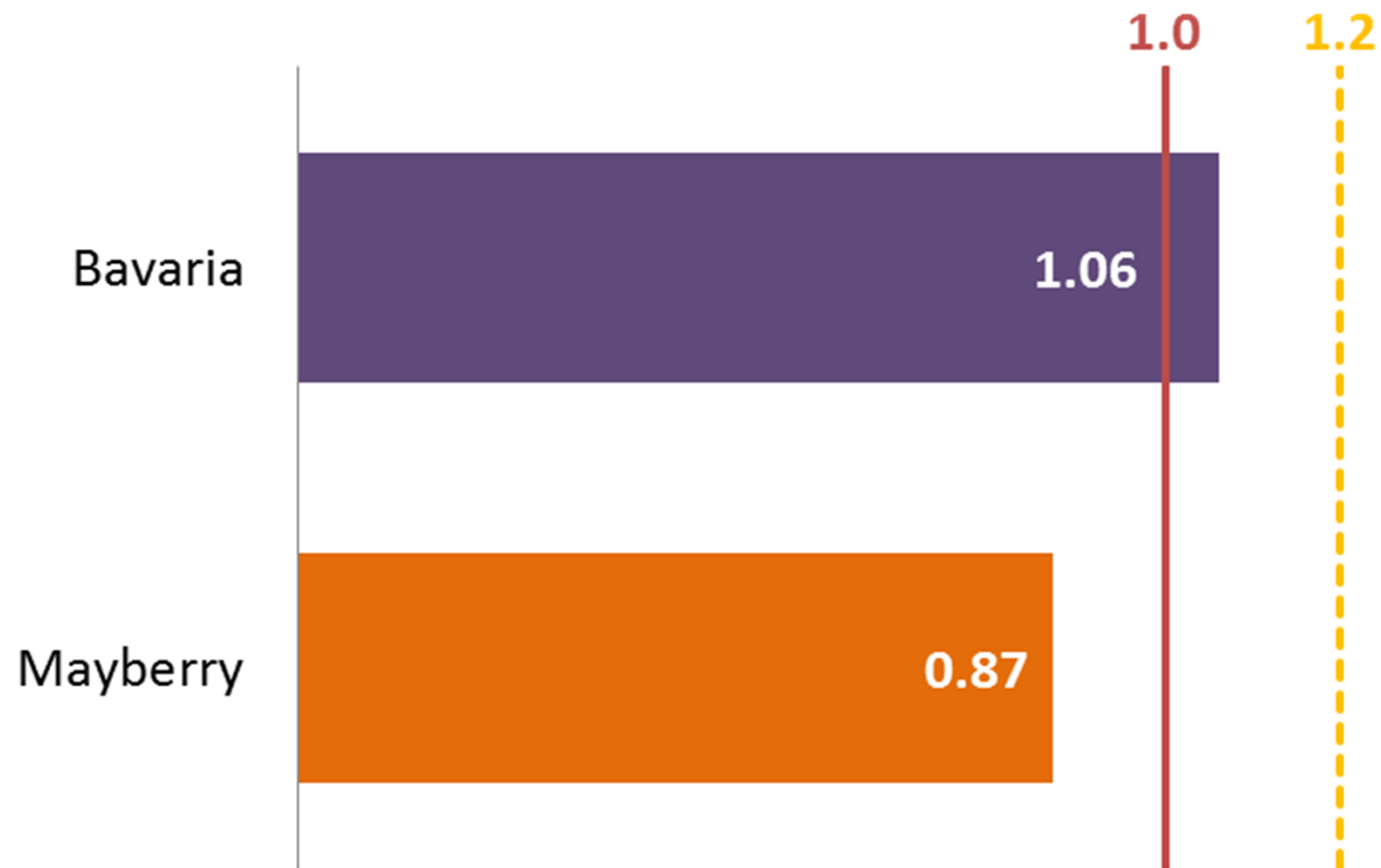
Including Depreciation

$$\begin{array}{rcccl} & \boxed{\$709,972} & & & \\ & \text{Operating Revenues (1)} & & & \\ \boxed{1a.} & \hline & \boxed{\$671,333} & = & \boxed{1.06} & \\ & \text{Operating Expenses (including depreciation) (2)} & & & \end{array}$$



Operating Ratio

Including Depreciation





Operating Ratio – Bavaria

Excluding Depreciation

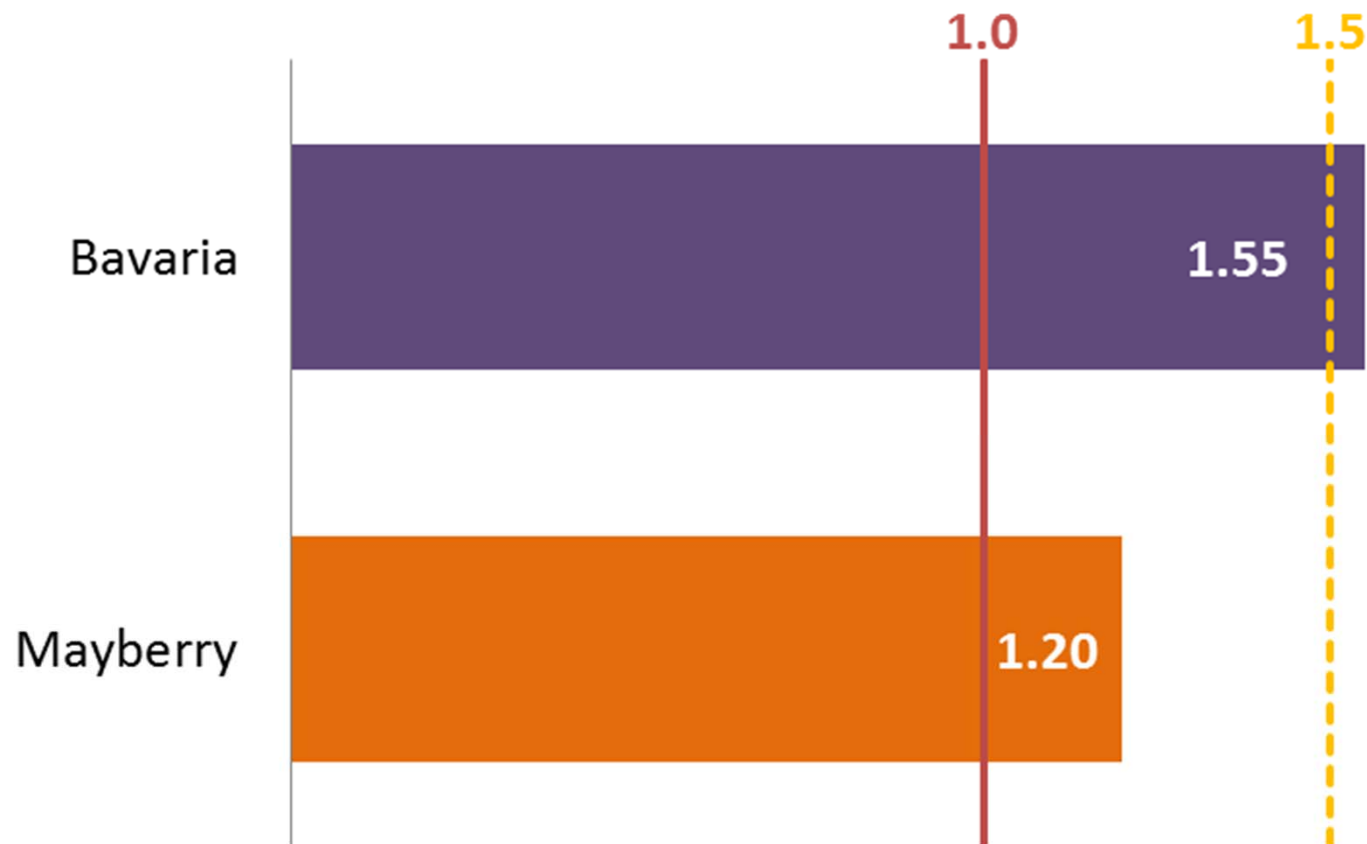
$$\begin{array}{rcl} \boxed{1b.} & \frac{\boxed{\$709,972}}{\boxed{\$459,082}} & = \boxed{1.55} \\ & \text{Operating Revenues (1)} & \\ & \text{Operating Expenses (excluding depreciation) (2-3)} & \end{array}$$

OE \$671,333
- DEP \$212,251



Operating Ratio

Excluding Depreciation





Debt Service Coverage Ratio – Bavaria

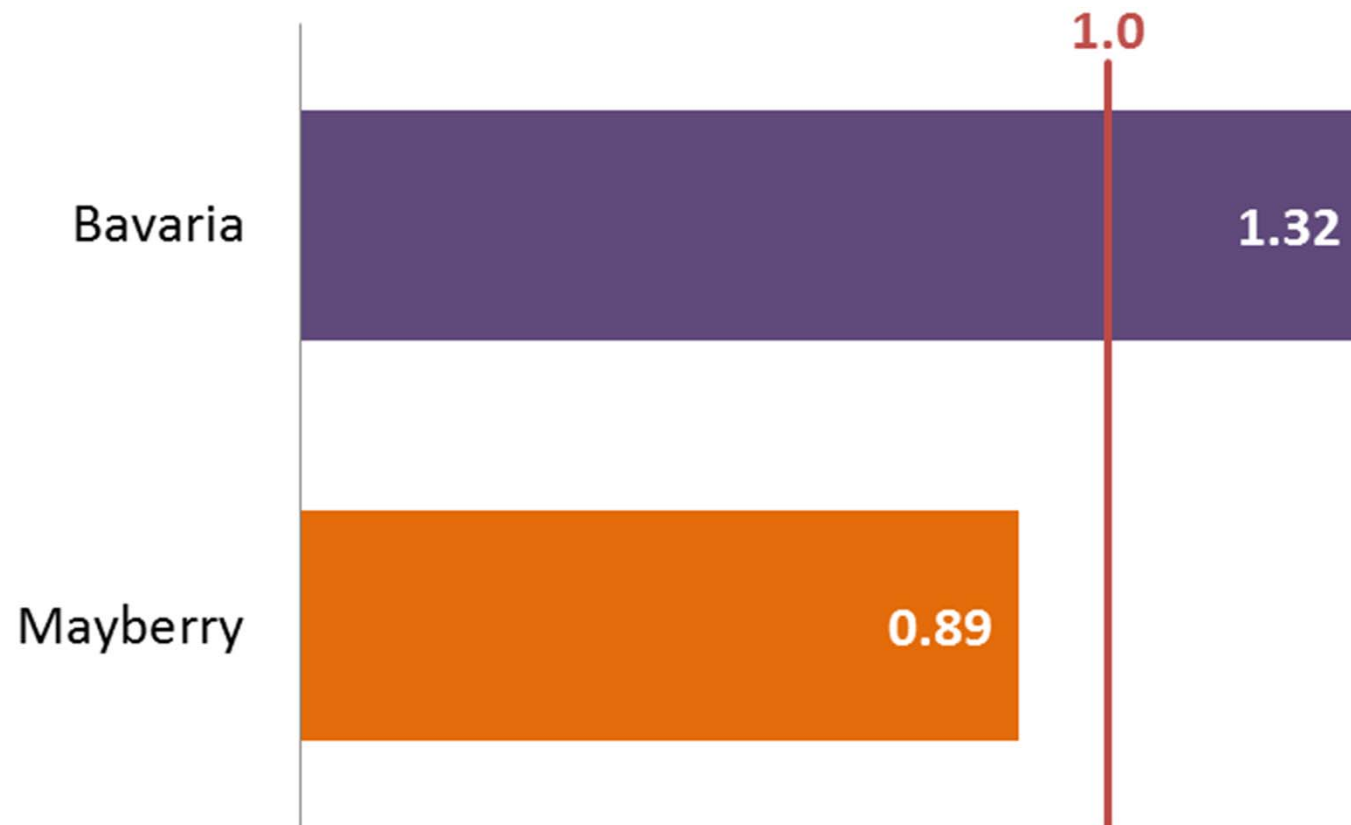
OE \$671,333
- Dep \$212,251

$$\frac{\begin{array}{l} \boxed{\$709,972} - \boxed{\$459,082} \\ \text{Operating Revenues (1)} \quad \text{Operating Expenses (2-3)} \\ \text{(excluding depreciation)} \end{array}}{\boxed{\$190,633} \text{ Principal \& Interest on Long-Term Debt (4)}} = \boxed{1.32}$$

2.



Debt Service Coverage Ratio





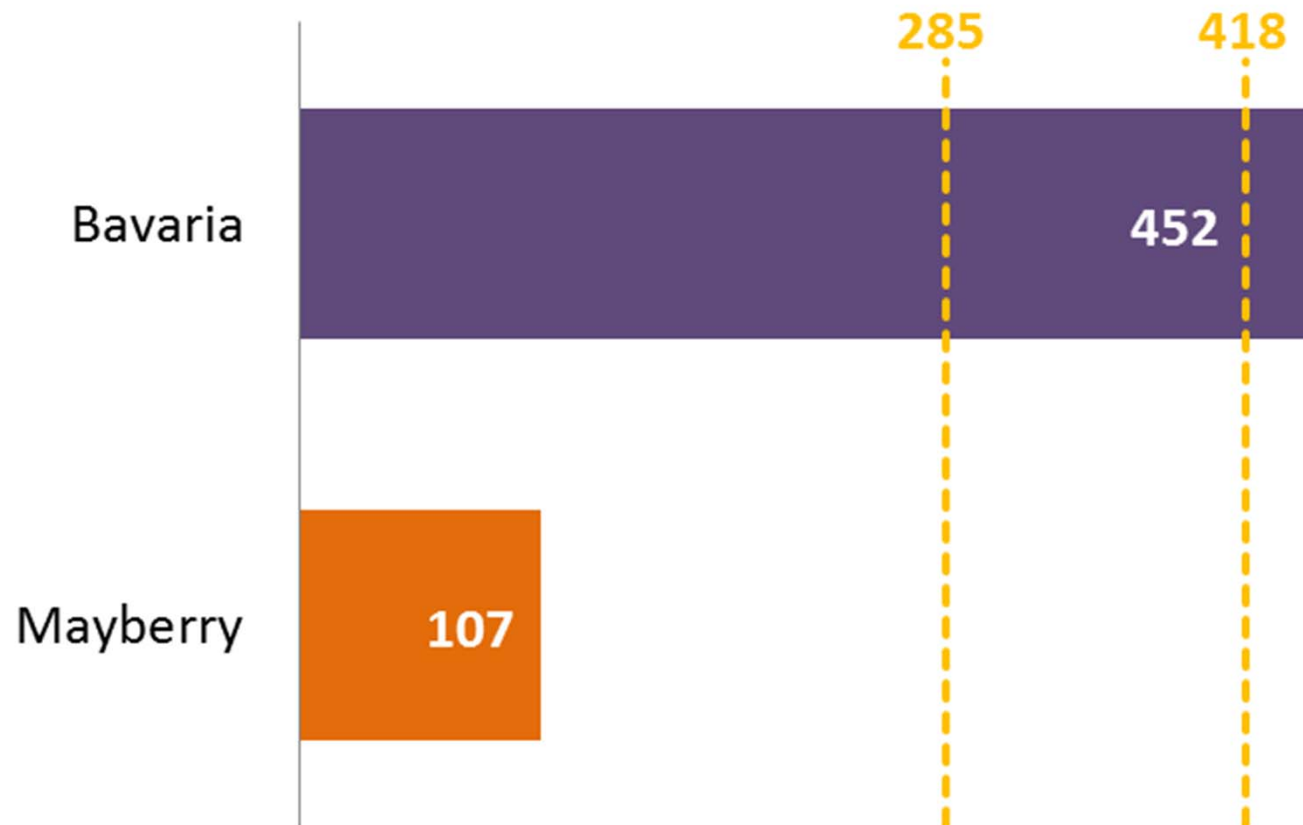
Days of Cash on Hand – Bavaria

$$\begin{array}{rcl} \boxed{3.} & \frac{\boxed{\$568,061}}{\boxed{\$459,082} / 365} & = \boxed{452} \\ & \text{Unrestricted Cash \& Cash Equivalents (5)} & \\ & \text{Operating Expenses (excluding depreciation) (2-3)} & \end{array}$$

OE \$671,333
- DEP \$212,251



Days of Cash on Hand



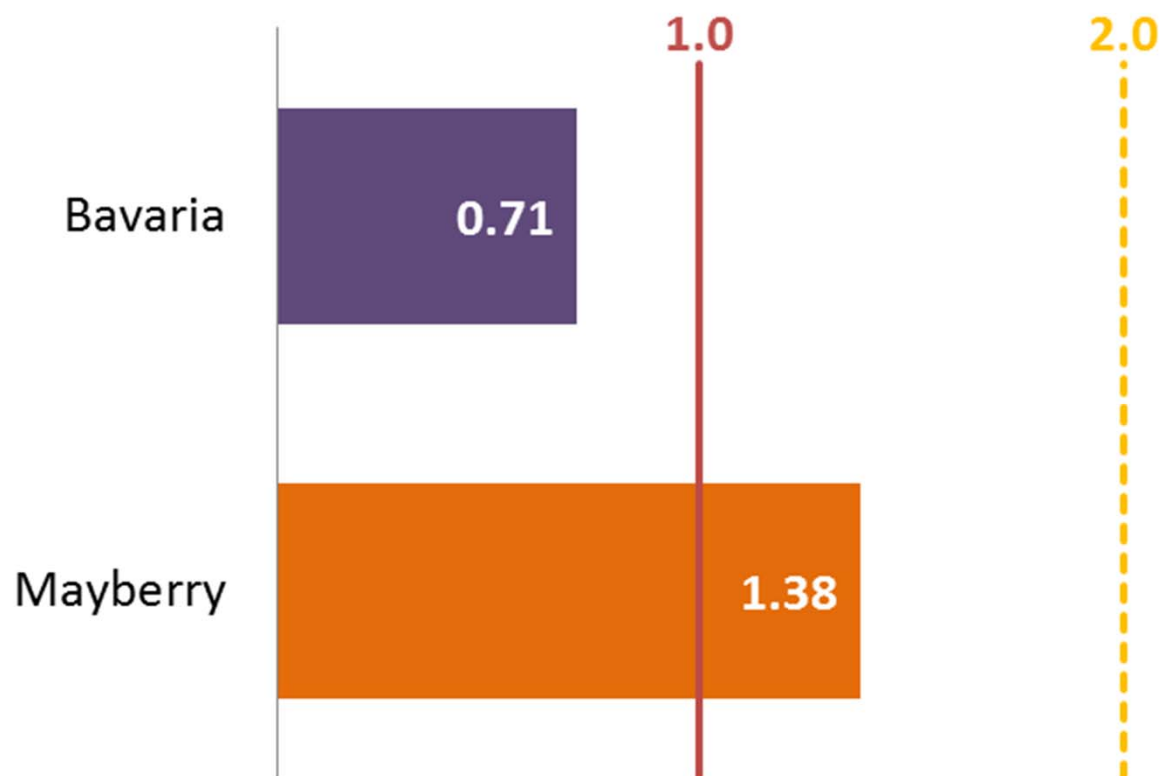


Current Ratio – Bavaria

$$\begin{array}{rcl} \boxed{4.} & \frac{\boxed{\$568,061} + \boxed{\$66,346}}{\boxed{\$898,474}} & = \boxed{0.71} \\ & \begin{array}{l} \text{Unrestricted Cash \& Cash Equivalents (5)} \\ \text{Receivables, net (6)} \\ \text{Current Liabilities (7)} \end{array} & \end{array}$$



Current Ratio





What Happened to Bavaria?

Or

Why the Notes to Financial Statements are Crucial

The accompanying notes are an integral part
of these financial statements.

15



Bavaria corrected

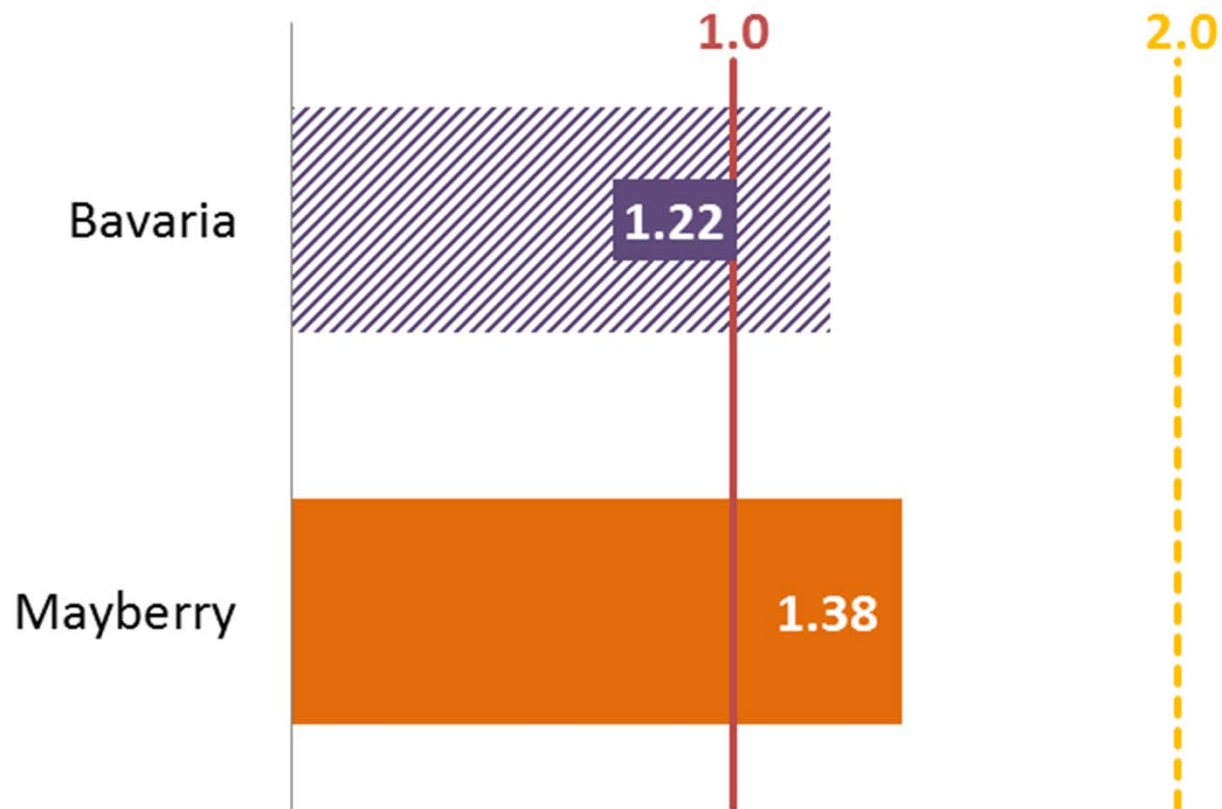
C \$568,061
+ G \$460.005

$$\begin{array}{rcl}
 \boxed{\$1,028,066} & + & \boxed{\$66,346} \\
 \text{Unrestricted Cash \& Cash Equivalents (5)} & & \text{Receivables, net (6)} \\
 \hline
 \boxed{4.} & & \boxed{1.22} \\
 \boxed{\$898,474} & & \\
 \text{Current Liabilities (7)} & &
 \end{array}$$



Current Ratio

Bavaria Corrected for Missing Grant Funds





One More to Mention: Asset Depreciation*

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

Benchmark? Don't get close to 1.0

*Caveat – This indicator is only as good as your depreciation schedule and even then historic pricing is likely to distort the results.



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



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



Key Financial Indicators for Water and Wastewater Systems: Operating Ratio

FEBRUARY 27, 2015 / GLENN BARNES / COMMENTS OFF ON KEY FINANCIAL INDICATORS FOR WATER AND WASTEWATER SYSTEMS: OPERATING RATIO

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In previous posts, we have discussed where to find [data](#) to help water and wastewater systems make smart financial and managerial decisions. Another vital data source for any water and wastewater system is its own financial

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



Key Financial Indicators for Water and Wastewater Systems: Debt Service Coverage Ratio

APRIL 23, 2015 / GLENN BARNES / COMMENTS OFF ON KEY FINANCIAL INDICATORS FOR WATER AND WASTEWATER SYSTEMS: DEBT SERVICE COVERAGE RATIO

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In a previous post, we outlined how to use the financial statements of a water or wastewater system to calculate the [key financial indicator](#) of [operating ratio](#), a measure of self-sufficiency. Another key financial indicator is debt service

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



Key Financial Indicators for Water and Wastewater Systems: Days of Cash on Hand

JUNE 24, 2015 / GLENN BARNES / COMMENTS OFF ON KEY FINANCIAL INDICATORS FOR WATER AND WASTEWATER SYSTEMS: DAYS OF CASH ON HAND

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In previous posts, we outlined how to use the financial statements of a water or wastewater system to calculate the [key financial indicators](#) of [operating ratio](#) (a measure of self-sufficiency) and [debt service coverage ratio](#) (a measure of a

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



Key Financial Indicators for Water and Wastewater Systems: Current Ratio

OCTOBER 1, 2015 / GLENN BARNES / 0 COMMENTS

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In previous posts, we outlined how to use the financial statements of a water or wastewater system to calculate the [key financial indicators](#) of [operating ratio](#) (a measure of self-sufficiency), [debt service coverage ratio](#) (a measure of a system's ability to pay its long-term debts) and [days of cash on hand](#) (a measure of a

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