



Smart Management for
Small Water Systems

Utility Rate Setting & Financial Planning Training

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UNC
ENVIRONMENTAL
FINANCE CENTER

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



Assessing Financial Condition



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?

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/>



Key Financial Indicators

Glenn Barnes
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www.efcnetwork.org





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



Include or
Exclude

DEPRECIATION

ANNUAL COST OF WEAR
AND TEAR ON THE SYSTEM

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/>

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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/>

www.efcnetwork.org



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/>

www.efcnetwork.org



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	<u>434,203</u>
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	<u>5,781,215</u>
Total Assets	<u><u>6,421,478</u></u>
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	<u>898,474</u>
Noncurrent Liabilities:	
Compensated Absences	15,605
Revenue Bonds (Net of current portion)	233,357
Notes Payable (Net of current portion)	646,873
Total Noncurrent Liabilities	<u>895,835</u>
Total Liabilities	<u><u>1,794,309</u></u>
Fund Net assets	
Invested in capital assets, net of related debt	4,355,133
Restricted for debt service	114,583
Unrestricted	163,361
Total fund net assets	<u><u>\$ 4,633,078</u></u>

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



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>

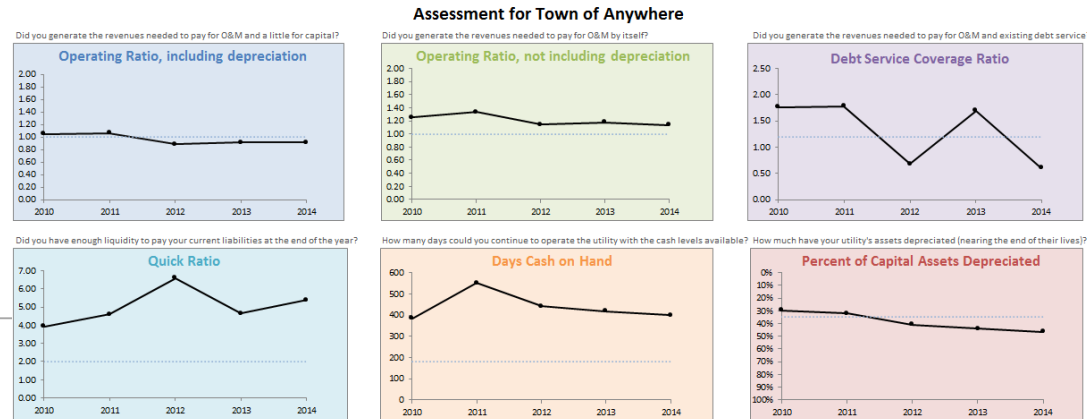
What does this tool do?
This tool assists in the assessment of the financial performance of a water (and/or wastewater) utility fund. Financial data readily available in annual financial statements are copied into this tool, which computes key financial indicators that measure a variety of important 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.



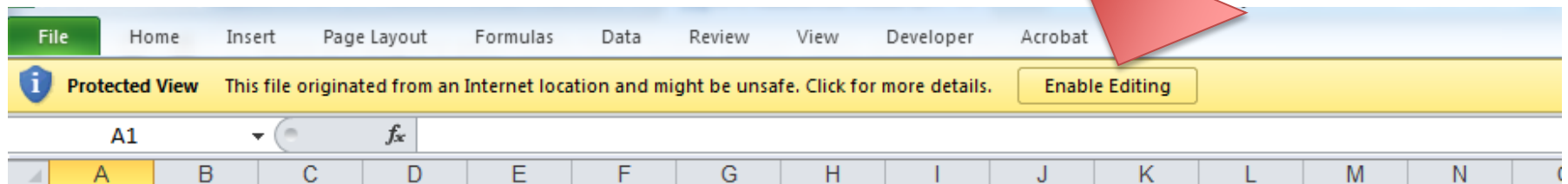
Excel®- based tool
Free to use



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.



Tip: when you first use this file after downloading from our website, click on “Enable Editing” at the top





Demonstration of the tool

Direct link to the tool:

<http://www.efc.sog.unc.edu/reslib/item/financial-health-checkup-water-utilities>



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?



Generating Revenue - Rates

CITY OF WOODBINE, GEORGIA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2010

	Enterprise Funds Water and Sewer
ASSETS	
Current assets	
Cash	\$ 28
Receivables, net	4
Total current assets	32
Capital assets	
Land and improvements	
Distribution collection systems	
Buildings	
Less accumulated depreciation	
Total capital assets	
Total Assets	
LIABILITIES	
Current liabilities	
Accounts payable	
Customer deposits	
Bonds payable - current	
Total current liabilities	
Noncurrent liabilities	
Bonds, notes, and loans payable	
Total noncurrent liabilities	
Total Liabilities	
NET ASSETS	
Restricted in capital projects - related debt	17
Restricted for debt services	9
Unrestricted	6
Total net assets	312
Total Liabilities and Net Assets	\$ 4,05

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