




**Indicators of Utility Financial Health**

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 Let's talk about an opportunity.

**Presented by**  
Jodi Dobson, CPA, Manager


 an independent member of  
**BAKER TILLY**  
INTERNATIONAL

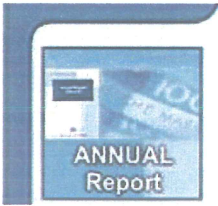
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**Financial reporting overview**


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- > Public Service Commission of Wisconsin Annual Reports
- > Annual audit report in compliance with GAAP
- > CAFR – Comprehensive Annual Financial Report

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Key basic financial statements




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### Balance Sheet

- > Snapshot at point in time
- > Includes assets, liabilities, net assets (equity)
- > Segregates current and non-current items
- > Provides information on:
  - Cash resources – restricted and unrestricted
  - Customer receivables
  - Net capital asset values
  - Amount of outstanding debt
  - Capitalization (debt to equity)

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Key basic financial statements




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### Income or Operating Statement

- > Covers a period of time
- > Segregates operating items from non-operating items
- > Includes special category for “contributed capital”
- > Provides information on:
  - Revenue sources
  - Expense trends
  - Revenue sufficiency
  - Non-routine items such as capital contributions, grants, transfers, sales of equipment, etc.

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Key basic financial statements


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### Statement of Cash Flows

- > Usually only prepared at year-end
- > Summarizes all cash flows by four categories
  - Operating
  - Non-capital related financing
  - Capital and related financing
  - Investing
- > Focuses on when cash is received or paid – not when service is provided

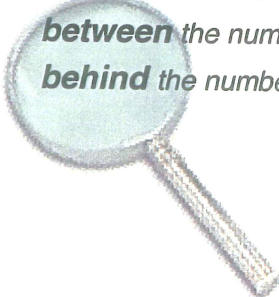
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Financial statement analysis

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### So what can these statements tell us?

*Sometimes we need to look  
**between** the numbers or  
**behind** the numbers to see the true picture!*



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Financial statement analysis




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### Types of analysis

- > Trend analysis
- > Budget to actual analysis
- > Ratio analysis
- > Benchmarking

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Financial statement analytics – ratio analysis




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The PSC prepares customer bill comparisons of electric and water utilities. Available on the PSC website.

- > Water
  - <http://psc.wi.gov/utilityinfo/water/newsinfo/newsinfo-index.htm>

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Financial statement analytics – ratio analysis



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**Utility rate of return**

Regulatory operating income  
Average rate base

- > Return on investment in capital infrastructure
- > Should be near authorized

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Financial statement analytics – ratio analysis



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**Debt coverage ratio**

Defined earnings  
Debt service

- > Defined earnings is typically operating and non-operating revenues less operating and maintenance expenses (based on resolution)
- > Revenue bond resolution sets minimum requirement
- > 1.1, 1.2, 1.25, 1.3

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Financial statement analytics – ratio analysis



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### Months of unrestricted cash on hand

Unrestricted cash on hand  
Annual operating revenues / 12

- > Measure of reserves
- > Typically should be 2 – 3 months

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Financial statement analytics – ratio analysis



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### Current ratio

Current assets – inventory  
Current liabilities

- > Measure of liquidity or ability to pay obligations
- > Should be >1

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Financial statement analytics – ratio analysis



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**Debt vs. equity ratio or Capitalization ratio**

Net assets invested capital assets  
Capital assets – accumulated depreciation

> Percent of infrastructure financed by operations

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Financial statement analytics – ratio analysis



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**Asset utilization ratio**

Accumulated depreciation  
Capital assets

> Illustrates the relative age of system overall

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Financial statement analytics – ratio analysis



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### Revenue ratios

Gallons / customer  
Rev / customer  
Rev / Gallon

- > Requires non-financial data
- > Compare to history or peers

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Financial statement analytics – ratio analysis



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### Expense ratios


O&M / Gallon  
Distribution cost / ft of main  
Maintenance of mains / # main breaks  
Customer billing cost / customer  
Etc.

- > Used to benchmark operations

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Financial statement analytics – ratio analysis



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**Labor ratios**

Pension and benefits  
Total labor

Customers  
FTE

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Financial statement analytics – ratio analysis




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**Sources**


- > State or national associations
- > Use PSC Website to gather data on peers of similar size and operation
- > Contact your peers that you consider to be similar entities
- > Use your historical information

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Financial statement analytics – ratio analysis

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Ok so you have calculated your ratios.... Now what?



The key is to use the information to make decisions and monitor operations.

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Thank You!

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Any Questions....

- > Jodi Dobson, CPA, Manager
  - 608 240 2469
  - [jodi.dobson@bakertilly.com](mailto:jodi.dobson@bakertilly.com)

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