

## FINANCIAL CAPACITY BUDGET SERIES

- Budgeting Basics
- The Budget Process
- **A Sample Budget**

**F**inancial capacity is the ability to acquire and manage sufficient funds to effectively operate and maintain your water system. This handout series is designed to help you develop a sound water system budget, which is the key element to developing financial capacity.



### DRINKING WATER SERVICES

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### DRINKING WATER SERVICES

# A SAMPLE BUDGET

Create a budget to create a secure financial future. From defining your long-term goals to fine tuning your postage costs, your budget is your water system's best friend. Improve your water system's resiliency by using the steps and principles outlined in this series.

This sample budget illustrates several concepts described in this series and introduces two more: Net Operating Income and Net Income. Are your revenues really covering your costs?

## — A SAMPLE BUDGET —

The Budgeting Basics handout outlines the Four Basic Steps to drafting a budget:

- Estimate Annual Operating Expenses
- Estimate Needed Reserves
- Identify Revenues Needed to Cover Expenses Plus Reserves
- Balance and Use The Budget

The budget catalogues your revenues and expenses. It identifies the full cost of operating your water system and provides a critical tool to assure your system is taking in enough revenue to cover the costs of regular operations.

In the sample budget below, the Expenses section divides costs between operating and capital expenses.

ANNUAL BUDGET	
Expenses	
Operating Expenses	Projected
Operation and Maintenance	
Salaries and benefits	\$ 149,213
Power and utilities	\$ 736
Chemical, treatment and monitoring	\$ 2,132
Billing, recovering, meter reading	\$ –
Small equipment - materials, supplies, parts	\$ 3,131
Transportation	\$ 1,693
Purchased water	\$ –
OPERATION AND MAINTENANCE SUBTOTAL	\$ 156,905
General & Administrative	
Office supplies	\$ 4,266
Insurance - vehicles, liability, workers comp	\$ 7,814
Customer billing and collection	\$ 10,733
Professional services - engr, acctg, legal	\$ 996
Taxes, permit fees, etc	\$ –
GENERAL AND ADMINISTRATIVE SUBTOTAL	\$ 23,809
TOTAL OPERATING EXPENSES	\$ 180,714
Capital Expenditures (Assets) and Reserve Transfers	
Assets	
New capital equipment, facilities and repairs (expended in current year)	\$ 18,187
Debt service: principal repayment and interest	\$ 12,691
CURRENT ASSET EXPENDITURES SUBTOTAL	\$ 30,878
Reserve Fund Cash Accounts Transfers	
Capital improvement reserve (equipment replacement)	\$ 1,909
Debt service reserve	\$ 1,198
Emergency reserve	\$ 969
Operating reserve	\$ 1,187
RESERVE TRANSFERS SUBTOTAL	\$ 5,263
TOTAL CAPITAL EXPENSES + RESERVE TRANSFERS	\$ 36,141
TOTAL EXPENSES	\$ 216,855

In the Revenues section, you separate operating revenues – sale of water – from non-operating revenues such as late charges, grants and other one-time monies. This becomes important as you assess whether revenues you generate from these operations are covering the costs of those operations.

Revenues	
Operating Revenue	Projected
Residential sale of water	\$ 186,496
Commercial sale of water	\$ 7,990
Other sale of water	\$ –
TOTAL OPERATING REVENUE	\$ 194,486
Non-Operating Revenue	
Meter Installation Charges	\$ 3,000
Connection fees and system development charges	\$ 4,000
Late charges (payments, penalties, reconnection fees)	\$ 1,240
Interest income from all accounts (including Reserves)	\$ 505
Non-rate recurring revenue	\$ 2,432
Loans (spent in current year)	\$ 9,187
Grants	\$ 4,000
Withdrawal from reserve	\$ 500
Taxes	\$ –
Other revenue	\$ 400
TOTAL NON-OPERATING REVENUE	\$ 25,264
TOTAL REVENUE	\$ 219,750
⇒ NET OPERATING INCOME	\$ 13,772
⇒ NET INCOME	\$ 2,895

The two key figures your budget will produce are: Net Operating Income and Net Income

Net Operating Income shows whether operating revenues - basically those associated with water sales - cover operating expenses. If this number is negative, your system is not producing sufficient revenues.

Net Income shows the difference between all revenues and all expenses – so it includes one-time monies. It is important that one time monies not be used to cover the lack of revenues generated from sale of water.

Taking time now to closely analyze the net operating income will help you maintain a financially sustainable water system in the future. Being “financially sustainable” means you are selling water at a rate that consistently generates enough revenue to meet all of your expenses.

Note: To make your budget more useful, add the following additional columns to your budget: **Last Year, Next Year's Projections, Actuals**. These numbers will assist you during regular budget meetings, help you prepare for next year's budget and make your job easier every year.