Financial 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.

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?
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.