

Agenda Item 8B



STAFF REPORT

TO: Board of Directors

PREPARED BY: Steven Palmer, PE, CSDM, General Manager *SP*

SUBJECT: Financial Health Checkup

RECOMMENDATION

Receive 2025 Financial Health Checkup.

BACKGROUND

The State of California and US Environmental Protection Agency make various technical resources available to small water systems through the Environmental Finance Center Network's Smart Water Management for Small Water Systems project managed by the University of North Carolina at Chapel Hill (EFCN). These resources are provided to small water and wastewater systems at no charge to the local system.

One resource offered is a Financial Health Checkup for Water and Wastewater Utilities. This Checkup provides an assessment of the financial performance of a water and/wastewater utility fund. The Checkup uses financial data readily available from annual financial statements (ie. audits) to compute key financial indicators that measure the ability to pay debt service, availability of cash to pay for operations and maintenance, the sufficiency of revenues generated, etc. These Indicators are compared to targets to demonstrate the financial health of the utility fund over the past 5 years.

In 2023, the General Manager contacted the EFCN and provided them with copies of the District's audited financial statements from the last 5 years (FYE 2018-2022). The EFCN utilized the financial data to perform a Financial Health Checkup for District. The General Manager has updated this checkup annually after completion of the financial audit and presented the results to the Board. The results of the FY2025 Financial Health Checkup are being provided to the Board and the community so that informed decisions can be made about future District budgets, rates, fees, and other financial decisions

DISCUSSION

The Financial Health Checkup is included as Attachment 1.

I. Financial Data Input

The financial data that was input into the Checkup are listed in the table below.

| Financial Data | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|--------------|--------------|--------------|--------------|--------------|
| Operating Revenues | \$ 3,228,408 | \$ 3,746,096 | \$ 3,986,517 | \$ 4,216,706 | \$ 4,522,852 |
| Operating Expenses | \$ 3,665,106 | \$ 3,671,237 | \$ 4,045,265 | \$ 4,443,800 | \$ 4,492,870 |
| Depreciation/Amor | \$ 895,859 | \$ 875,748 | \$ 896,188 | \$ 911,869 | \$ 1,004,048 |
| Debt Principal Payments | \$ 777,756 | \$ 714,547 | \$ 654,384 | \$ 657,707 | \$ 663,345 |
| Debt Interest Payments | \$ 126,656 | \$ 130,117 | \$ 123,159 | \$ 119,032 | \$ 164,885 |
| Current Assets, excluding inventories, restricted cash, prepaids | \$ 1,067,580 | \$ 847,881 | \$ 1,327,817 | \$ 2,519,437 | \$ 1,308,526 |
| Current Liabilities, excluding deposits & bond anticipation notes | \$ 1,126,761 | \$ 1,039,342 | \$ 1,311,700 | \$ 2,378,388 | \$ 3,207,595 |
| Unrestricted Cash & Investments | \$ 1,067,580 | \$ 73,911 | \$ 423,142 | \$ 478,367 | \$ 541,193 |
| Total Accumulated Depreciation | \$11,818,090 | \$12,675,387 | \$13,531,097 | \$14,387,873 | \$15,332,823 |
| Total Depreciable Capital Assets | \$38,145,741 | \$38,392,034 | \$38,403,161 | \$38,678,585 | \$40,908,822 |

II. Financial Indicators

A. Operating Ratio

The Operating Ratio illustrates whether the revenues are sufficient to fund operations. The formula to calculate the Operating Ratio is the Operating Revenue divided by the Operating Expenses. This Indicator is calculated two different ways; once including depreciation, and once excluding depreciation. Depreciation is used as a surrogate for capital needs. Depreciation amount is often insufficient to cover actual capital and infrastructure needs, but it is useful to track the Operating Ratio with depreciation over time. If these Indicators are less than one, this means that the District is spending from reserves. The recommended benchmarks and the Districts values are summarized below.

| Indicator | Target | District Value |
|--------------------------------------|------------|----------------|
| Operating Ratio With Depreciation | 1.0 to 1.2 | 1.01 |
| Operating Ratio Without Depreciation | 1.0 to 1.5 | 1.30 |

The Operating Ratio With Depreciation and the Operating Ratio Without Depreciation are both slightly above the minimum target. This indicates that the District revenue is sufficient to pay for operations and maintenance and capital replacement needs.

The Financial Health Checkup also includes graphs showing the five-year trends for these Indicators. These graphs show that the Operating Ratio With Depreciation have been

hovering around the minimum target since 2021. Additionally, the graphs show that the Operating Ratio Without Depreciation has been slightly above the minimum target since 2021.

B. Debt Service Coverage Ratio

The Debt Service Coverage Ratio measures the ability of the District to pay debt service with operating revenue. It is calculated by subtracting the operating expenses and depreciation from the operating revenue then dividing by the total debt payments (principal and interest). The target for this Indicator is 1.2. The District's current Debt Service Coverage Ratio is 1.25, an increase from 0.88 in FY2024. The Financial Health Checkup graph of the five-year trend for the Debt Service Coverage Ratio shows that it was 0.5 in FY2021, increased to 1.13 in FY2022, decreased to 0.88 in FY2024, and then reached 1.25 in FY2025.

C. Quick Ratio

The Quick Ratio measures the ability of the District to pay its bills with unrestricted assets at the end of the fiscal year. This is an indicator of the District's short term liquidity. The Quick Ratio is calculated by dividing the current unrestricted assets by the current liabilities. EFCN indicates that it is good practice for this Indicator to be 2.0 with a minimum value of 1.0. The District's Quick Ratio for June 30, 2025 was 0.4.

The Financial Health Checkup graph of the five-year trend for the Quick Ratio shows that it was very close to 1.0 in 2021 through 2024 before decreasing in 2025. This Indicator shows that the District does not have enough unrestricted assets (ie. operating fund cash).

D. Days Cash on Hand

Days Cash on Hand measures the ability of the District to withstand a temporary reduction or disruption in revenue and still continue paying for daily operations and maintenance. In other words, it is an estimate of the number of days the District could operate without receiving revenue. Days Cash on Hand is calculated by dividing the unrestricted cash and investments by the total operating expenses excluding depreciation. According to EFCN, it is good practice for this Indicator to be greater than or less than 180 days. It should be more than enough to last one billing cycle. The District's Days Cash on Hand on June 30, 2025 was 57, which is less than the target of 180 days.

The graph of the five-year trend for this indicator shows that it has steadily decreased from sharply from June 30, 2021 to June 30, 2022, and gradually increased for the next three years but still remains at one-third of the target.

E. Percent of Capital Assets Depreciated

The Percent of Capital Assets Depreciated is a measure of how much of the District's assets have been depreciated. This Indicator is calculated by dividing the total accumulated depreciation by the value of the total depreciable capital assets. A value of one hundred percent indicates that all of the District's assets have reached the end of their service life and need replacement. A value of zero percent indicates that all of the District's assets are brand new. This Indicator should never get near 100% and EFCN recommends a target of less than or equal to 35%. The District's Percent of Capital Assets Depreciated is 37%, which is considered slightly higher than acceptable. This value indicates that a large percentage of the District's assets still have considerable useful life remaining.

The graph of the five-year trend shows that this Indicator has increased from 28% on June 30, 2019 to 37% on June 30, 2024. This illustrates the rate at which the District assets are aging.

ANALYSIS

The Financial Health Checkup for June 30, 2025 indicates the following:

1. District revenues are sufficient to pay for operations and maintenance.
The Operating Ratio Without Depreciation is 1.30, which is still below the target of 1.5. Also, this Indicator is flat since last fiscal year. This data indicates that revenues were sufficient for day-to-day operations for year end June 30, 2025.
2. District revenues are marginally sufficient to pay for debt service.
The Debt Service Coverage Ratio target is 1.2 and the value on June 30, 2025 was 1.01. This Indicator increased from 0.88 since last year and indicates that the District may need to reduce operating expenses.
3. District cash reserves do not meet recommendations.
The Quick Ratio of 0.4 is less than the target of 2.0. Additionally, Days Cash on Hand on June 30, 2025 was 57 days. This is less than the EFCN target of 180 days. The Board adopted Reserve Policy sets a goal of 4 to 6 months (120 to 180 days) of operating costs for unrestricted cash.
4. District revenues may not be sufficient to adequately fund capital expenses.
The Operating Ratio With Depreciation is 1.01, which is slightly above the minimum value of 1.0 and is less than the recommended target of 1.2. This indicates that the District is funding the bare minimum for capital replacements. A more thorough evaluation would also consider an asset management plan, capital improvement program, and capital reserve needs. For example, the District has adopted a Reserve Policy which includes a goal that the Capital Reserves be 50% of the total five-year expenditures shown in the adopted capital improvement plan. Due to operating cash and restricted cash requirements, the District currently does not have any cash allocated to Capital Reserves.

FISCAL IMPACT

There is no fiscal impact to this item.

CEQA ASSESSMENT

This is not a CEQA Project.

ATTACHMENTS

1. Financial Health Checkup

Attachment 1



Financial data input worksheet

Step 1: Type in your utility's information in the green cells below.

Prepared by: Steven Palmer
 Date prepared: February 10, 2026

Utility / Organization: Donner Summit Public Utility District

End date of the most recent financial statement used: 6/30/2025

| Key | Field in the financial statement/CAFR | Fiscal Year End | | | | |
|------|---|-----------------|---------------|---------------|---------------|---------------|
| | | 2021 | 2022 | 2023 | 2024 | 2025 |
| [1] | Total Operating Revenues | \$ 3,228,408 | \$ 3,746,096 | \$ 3,986,517 | \$ 4,216,706 | \$ 4,522,852 |
| [2] | Total Operating Expenses | \$ 3,665,106 | \$ 3,671,237 | \$ 4,045,265 | \$ 4,443,800 | \$ 4,492,870 |
| [3] | Depreciation & Amortization Expenses | \$ 895,859 | \$ 875,748 | \$ 896,188 | \$ 911,836 | \$ 1,004,048 |
| [4] | Debt Principal Payments | \$ 777,756 | \$ 714,547 | \$ 654,384 | \$ 657,707 | \$ 663,345 |
| [4b] | Debt Interest Payments | \$ 126,656 | \$ 130,117 | \$ 123,159 | \$ 119,032 | \$ 164,885 |
| [5] | Current Assets, excluding inventories, restricted cash, prepaids | \$ 1,067,580 | \$ 847,881 | \$ 1,327,817 | \$ 2,519,437 | \$ 1,308,526 |
| [6] | Current Liabilities, excluding deposits & bond anticipation notes | \$ 1,126,761 | \$ 1,039,342 | \$ 1,311,700 | \$ 2,378,388 | \$ 3,207,595 |
| [7] | Unrestricted Cash & Investments | \$ 1,067,580 | \$ 73,911 | \$ 423,142 | \$ 478,367 | \$ 541,193 |
| [8] | Total Accumulated Depreciation | \$ 11,818,090 | \$ 12,675,387 | \$ 13,531,097 | \$ 14,387,873 | \$ 15,332,823 |
| [9] | Total Depreciable Capital Assets | \$ 38,145,741 | \$ 38,392,034 | \$ 38,403,161 | \$ 38,678,585 | \$ 40,908,822 |

Need help finding these numbers from your audited financial statements?

See examples by clicking links below.

| | | |
|------|---|---|
| [1] | Total Operating Revenues | Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds |
| [2] | Total Operating Expenses | |
| [3] | Depreciation & Amortization Expenses | |
| [4] | Debt Principal Payments | Statement of Cash Flows - Proprietary Funds |
| [4b] | Debt Interest Payments | |
| [5] | Current Assets, excluding restricted cash and prepaid items | Statement of Net Assets (or Net Position) - Proprietary Funds |
| [6] | Current Liabilities, excluding deposits & bond anticipation notes | |
| [7] | Unrestricted Cash & Investments | |
| [8] | Total Accumulated Depreciation | Detail Notes on Capital Assets |
| [9] | Total Depreciable Capital Assets | |

* Note: Assumes audited financials were prepared following GASB generally accepted accounting principles. Names of statements and line items within each statement may vary.



Financial targets (benchmarks) worksheet

Did you generate the revenues needed to pay for O&M and a little for capital?

Operating Ratio (including depreciation)

Measures the profitability of the water and/or wastewater system. It shows whether the utility's revenues from sales are sufficient to cover the cost of operations (O&M) and depreciation, which is used here as a surrogate for capital needs.

[Read more about Operating Ratios in this blog post](#)

Formula

$$\frac{\text{Total Operating Revenues [1]}}{\text{Total Operating Expenses [2]}}$$

Set Your Target:

greater than or equal to: **1.0** Minimum Benchmark: >1.0
 (you may wish it to be > 1.2)

Value for Donner Summit Public Utility District in Fiscal Year 2025: **1.01**

Did you meet your target?

Did you improve since the previous year?

What's the trend over the last 5 years?

[See Full Size Graph](#)

Did you generate the revenues needed to pay for O&M by itself?

Operating Ratio (not including depreciation)

This version of operating ratio measures whether the utility's revenues from sales are sufficient to cover just the cost of operations and maintenance (without any consideration for capital expenses).

[Read more about Operating Ratios in this blog post](#)

Formula

$$\frac{\text{Total Operating Revenues [1]}}{\text{Total Operating Expenses [2] - Depreciation [3]}}$$

Set Your Target:

greater than or equal to: **1.0** Minimum Benchmark: >1.0
 (you may wish it to be > 1.5)

Value for Donner Summit Public Utility District in Fiscal Year 2025: **1.30**

Did you meet your target in Fiscal Year 2025?

Did you improve since the previous year?

What's the trend over the last 5 years?

[See Full Size Graph](#)



Financial targets (benchmarks) worksheet

Did you generate the revenues needed to pay for O&M and existing debt service?

Debt Service Coverage Ratio

Measures the ability to pay debt service with operating revenue. This means that after paying off your operating and maintenance costs, you have enough money left over to pay your existing debt service.

Applies only to utilities with debt.

[Read more about Debt Service Coverage Ratios in this blog post](#)

Formula

$$\frac{\text{Total Operating Revenues [1] - (Total Operating Expenses [2] - Depreciation [3])}}{(\text{Debt Principal Payments [4] + Debt Interest Payments [4b])}$$

Set Your Target:

greater than or equal to:

1.2

Minimum Benchmark: >1.0

(Many bonds covenants require at least 1.2)

Value for Donner Summit Public Utility District in Fiscal Year 2025:

1.25

Did you meet your target in Fiscal Year 2025?



Did you improve since the previous year?



What's the trend over the last 5 years?



[See Full Size Graph](#)

Did you have enough liquidity to pay your current liabilities at the end of the year?

Quick Ratio

Measures short-term liquidity: the system's ability to pay its bills with its unrestricted assets on the day the financial statements are recorded. Remember that assets and liabilities are measured on the day your financial statements are prepared and may not be typical.

[Read more about Quick \(Current\) Ratios in this blog post](#)

Formula

$$\frac{\text{Current Assets excluding restricted assets and prepaid items [5]}}{\text{Current Liabilities excluding deposits and bond}}$$

Set Your Target:

greater than or equal to:

2.0

Minimum Benchmark: >1.0

(Good practice is at least 2.0)

Value for Donner Summit Public Utility District in Fiscal Year 2025:

0.4

Did you meet your target in Fiscal Year 2025?



Did you improve since the previous year?



What's the trend over the last 5 years?



[See Full Size Graph](#)



Financial targets (benchmarks) worksheet

How many days could you continue to operate the utility with the cash levels available?

Days Cash on Hand

Measures the ability of the system to weather a significant temporary reduction in revenue to continue paying for daily operations and maintenance. How many days could you operate if no new revenue came in?

[Read more about Days Cash on Hand in this blog post](#)

Formula

$$\frac{\text{Unrestricted Cash \& Investments [7]}}{(\text{Total Operating Expenses [2]} - \text{Depreciation (within Operating Expenses) [3]}) / 365}$$

Set Your Target:

greater than or equal to:

180

More than enough to last a billing cycle or when you expect a substantial inflow of cash. Good practice is several months.

Value for Donner Summit Public Utility District in Fiscal Year 2025:

57

Did you meet your target in Fiscal Year 2025?



Did you improve since the previous year?



What's the trend over the last 5 years?



[See Full Size Graph](#)

How much have your utility's assets depreciated (nearing the end of their lives)?

Percent of Capital Assets Depreciated

An indicator that measures how much of the assessed value of all of your depreciable assets has already been depreciated. Keep in mind that depreciation is measured by accountants and not by your system engineers. The number may or may not be a good measure of the actual wear and tear on your system.

Formula

$$\frac{\text{Total Accumulated Depreciation [8]}}{\text{Total Depreciable Capital Assets [9]}}$$

Set Your Target:

Less than or equal to:

35%

Don't get close to 100%

Value for Donner Summit Public Utility District in Fiscal Year 2025:

37%

Did you meet your target in Fiscal Year 2025?



Did you improve since the previous year?



What's the trend over the last 5 years (reversed)?



[See Full Size Graph](#)

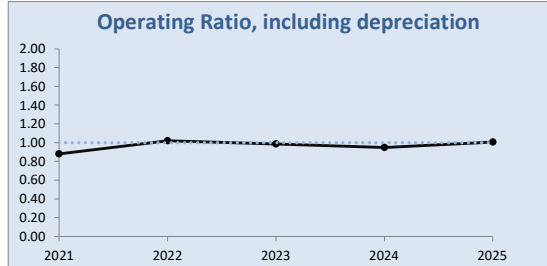


Five-Year Trends

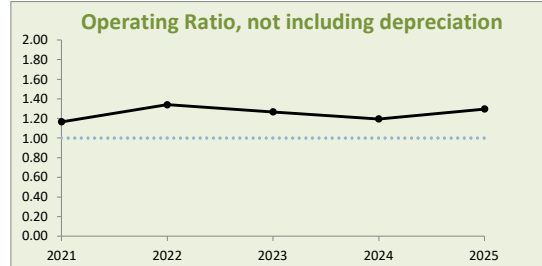
Key: Blue line = target (edit targets in Step 2)
 Above dotted line = exceeded target (good)
 Below dotted line = did not meet target (needs improvement)

Assessment for Donner Summit Public Utility District

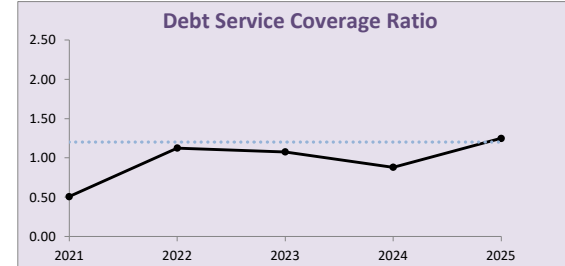
Did you generate the revenues needed to pay for O&M and a little for capital?



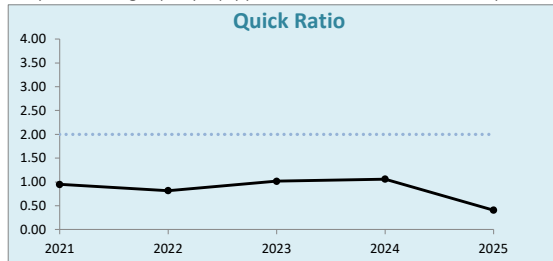
Did you generate the revenues needed to pay for O&M by itself?



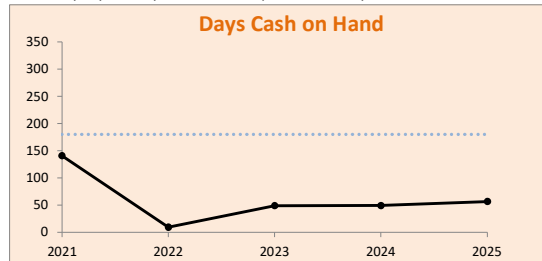
Did you generate the revenues needed to pay for O&M and existing debt service?



Did you have enough liquidity to pay your current liabilities at the end of the year?



How many days could you continue to operate the utility with the cash levels available?



How much have your utility's assets depreciated (nearing the end of their lives)?

