

# WATER UTILITY REFERENCE MANUAL

## Other Balance Sheet Issues

### Debt/Equity Ratios

A municipal capital structure is generally considered to be favorable if it has at least 50 percent earning equity and less than 50 percent debt. The Commission cautions that a high percentage of debt does not provide the degree of financial integrity that is required over the long term, and it is recommended that the high debt ratios be reduced to reasonable levels as soon as practical. Timely filing for needed rate increases will help to improve this situation. An effective tool to assist in keeping rates current is the simplified rate case (SRC) filing option. The SRC provides a quick and easy means of gaining an inflationary increase on an annual basis when basic eligibility criteria are met. It can help to build and maintain an improved capital structure. A favorable capital structure is beneficial when borrowing from lending institutions.

### Debt Refinancing

Occasionally, one long-term debt issue is redeemed before maturity and replaced by a different long-term debt issue. This is typically done when the debt can be refinanced at a lower interest rate. Usually, the utility has debt discount, debt issuance expense, or premium paid, related to one or both of the issues. There are several ways to account for these amounts.

1. The utility may record by immediate write-off any unamortized amounts relating to the refinanced issue and charge Account 434, Miscellaneous Credits to Surplus, or Account 435, Miscellaneous Debits to Surplus. No PSC approval is required for this method.

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2. The utility may proceed to amortize by equal monthly or annual charges, from the date of refunding, the remainder of charges associated with the refunded bonds, over a period not longer than that in which the saving in net annual interest and amortization equals the remainder of charges to be amortized. This is called the revenue neutral method.

Under the revenue neutral method, the savings of interest costs due to refinancing are exactly offset by the amortization of the premium. PSC approval is not required for this method.

3. The utility may amortize the charges associated with the refunded debt using a different method, such as GASB 23 method. However, this method must be requested in conjunction with a formal PSC rate case proceeding. Until a rate order is issued, the revenue neutral method must be used for each affected funding issue.

## Questions and Answers:

### **Accounts Receivable**

Q1: Should all receivables from the municipality be reported in Account 145?

A: If amounts are to be received within the current year, they are reported in Account 145, Receivables from Municipality. If amounts are to be repaid, over a period longer than one year, they are reported in Account 123, Investment in Municipality. If it is determined that amounts are not to be repaid, they are charged to Account 435, Miscellaneous Debits to Surplus.

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Q2: How should tax levy funds be reported?

A: If the tax levy funds are received for payment of debt principal, they are recorded in Account 200, Capital Paid by Municipality. If tax levy funds are received for interest payments associated with the debt, they are recorded in Account 421, Miscellaneous Non-operating Income. Tax levy funds intended for a sanitary district's operation and maintenance expenses are recorded in Account 474, Other Water Revenues. If any of the tax levy funds are intended for payment of the Public Fire Protection charge, they are reported in Account 463, Public Fire Protection Service.

Q3: If water main assessments are placed on the tax roll, how should they be recorded?

A: Water main assessments placed on the tax roll pursuant to Wis. Stat. § 66.0703, should be reported in Account 145, Receivables from Municipality.

## **Payables**

Q4: Should all amounts payable to the municipality be reported in Account 233?

A: Amounts to be repaid within one year are reported in Account 233, Payables to Municipality. If the amounts are to be repaid over a period longer than one year, they are reported in Account 223, Advances from Municipality. Amounts for construction that will not be repaid are recorded in Account 200, Capital Paid In by Municipality. Other amounts determined not to be repaid should be credited to Account 434, Miscellaneous Credits to Surplus.

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Q5: Where should expenditures, such as insurance premiums and rent payments, for periods extended beyond the end of the year be recorded?

A: The portion of payment that relates to future years is reported in Account 165, Prepayments. The portion that applies to the current year would be recorded as a current year operating expense.

Q6: Where should operating expenses that are forgiven by the municipality be recorded?

A: Payables to the municipality that were for operating expenses, but are forgiven, are credited to Account 434, Miscellaneous Credits to Surplus.

## **Debt**

Q7: Should the current portion of long-term debt be recorded in Account 231, Notes Payable?

A: Notes Payable is for indebtedness not exceeding one year from the date of issue. Therefore, the current portion of long-term debt should not be recorded in Notes Payable. The entire amount of long-term debt should be reported in Accounts 221, 223, or 224.

Q8: Where should interest payments for construction be recorded?

A: Debt financing for construction almost always requires interest payments. Whether the interest payments are recorded on a cash basis or accrual basis, they are reported in Account 237, Interest Accrued and charged to Account 427, Interest on Long-term Debt, or Account 430, Interest on Debt to Municipality. The interest expense allocated to plant accounts during construction periods is recorded as a credit to Account 432, Interest Charged to Construction.

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## **Water Service Lateral Installations**

Q9: How are the water service lateral costs associated with main extensions by a subdivision developer booked?

A: Where the main extension has been approved by the utility under the utility's Schedule X-3, Water Main Installations in Subdivisions, the subdivision developer is responsible for the water service lateral installation costs from the main through the curb stop and box. For Schedule X-3 extensions, rate schedule Cz-1 does not apply. The utility determines, from the developer, the actual cost of the extension. This is the basis for recording the utility plant additions in Account 345, Services-Contributed, and as a credit to Account 421, Miscellaneous Non Operating Income.

Q10: How does Schedule Cz-1 apply when a water service lateral is installed as part of a construction project that is special assessed?

A: Because the cost of the construction project, including the new service lateral, is being collected by the municipality through special assessments, Schedule Cz-1 does not apply. The amount recorded in Account 345, Services-Contributed and in Account 421, Miscellaneous Non Operating Income, for the water service lateral is the actual cost of the installation which is being special assessed.

Q11: What if a plumber installs the water service lateral?

A: If a plumber, or other type of contractor, installs the water service lateral through the curb stop (not part of a subdivision development or assessable utility extension), the installer will bill the utility for the service from the main through the curb stop. The utility will pay the installer the full amount and this actual cost is recorded in Account 345, Services-Contributed. The utility then bills the customer only the rate authorized in Schedule Cz-1 and records this amount in Account 421, Miscellaneous Non Operating Income.