components represented are summarized below, and discussed in more detail in subsequent chapters.

Funding for Historic Under-investment A sustainable level of revenue accounts **Funding for Inflation in Asset Costs** for the future investment needs of the utility in addition to current period **Funding for System Growth** expenses. Revenues in excess of current period expenses will be reflected as an accounting surplus in **Funding for Service Enhancements** financial statements. Funding for Debt Principal Repayment If revenues are at this point, the utility is just meeting current Amortization of period expenses. It is not **Tangible Capital** adequately planning for the **Assets** future. If revenues are at this point, the utility is just recovering cash **Interest Expense** costs. It is significantly under-(If Any) funded. **Operating**

Figure 1-1 – A Building-block Approach to Determining Utility Needs

I.2.1 Measuring Current Period Expenses

Expenses

The bottom three components make up an accounting view of cost under full accrual accounting; that is, they are the costs measured by the accounting system of the utility. These include operating costs, debt interest expenses, and tangible capital asset amortization. Added together, the three components constitute current period expenses. For any given period, a utility that is generating more revenue than these costs combined will show a positive net income (i.e. a surplus) for that period from an accounting perspective. An

2008 Operating Budget	2009 Operating Budget
Revenues	Revenues
User Fees Fees, Permits, Licenses & Fines Government Grants Investment Income Other	User Fees Fees, Permits, Licenses & Fines Government Grants Investment Income Other

Expenses	Expenses
Salaries & Benefits Goods & Services Debt Charges (Interest) Other	Salaries & Benefits Goods & Services Interest Other
Transfer to Capital / Reserve	Amortization
Transfer to Reserve Transfer to Reserve Transfer to Reserve Transfer to Reserve	Funding for Historic Under-investment Funding for Inflation in Asset Costs Funding for System Growth Funding for Service Enhancements
Debt Charges (Principal)	Funding for Debt Principal Repayment

Taxation	Taxation
-----------------	-----------------

2009 Statement of Operations

Revenues	Revenues
	Taxation
User Fees Fees, Permits, Licenses & Fines Government Grants	User Fees Fees, Permits, Licenses & Fines Government Grants
Investment Income Other	Investment Income Other

Expenses	Expenses
Salaries & Benefits Goods & Services Interest Other Amortization	Salaries & Benefits Goods & Services Interest Other Amortization
Funding for Historic Under-investment Funding for Inflation in Asset Costs Funding for System Growth Funding for Service Enhancements Funding for Debt Principal Repayment	

Taxation	Annual Surplus / Deficit
. 67 (6(1) 6)	