

# Financial Reports

## Leslie Cleveland, IUB Utility Specialist, IUB

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The Board rules require utilities to file various documents and information with the Board in order for Board staff and other parties to be able to determine the merits of the case. Specifically, for finance and economic staff, several pieces of information are important for the review process of rate cases and reorganization cases. The information below highlights the three major reports that are used and provides examples of what is included in each of them.

### Annual Report to Shareholders

- General background information on the parent company and its subsidiaries
- Direction of the company
- Financial statements
- Details of financial changes
- Discussion of future capital expenditures
- Highlights from past year
- A discussion of company risks

### Credit Report

- Qualitative and quantitative analysis of how it determine the utility's credit rating
- Description of business
- Outlooks for future changes in ratings
- Review of potential purchasing or selling of assets, mergers with other companies, or financial transactions regarding impact on ratings

### 10Q's or 10K's

- Consolidated financial statements
- Analysis of financial operations and results of operations
- Risk factors
- Quantitative and qualitative disclosures about market risk

In reviewing a reorganization case where either two companies are merging together or the assets of an Iowa utility company are being sold to another entity, the credit reports are the most useful report to staff. One condition the Board needs to consider in a reorganization docket is whether the reorganization will impair the utility's ability to attract capital on reasonable terms and its ability to maintain a reasonable capital structure. The credit reports first, and most importantly, provide the credit rating of a specific company. Because the credit rating reflects both the business risk and financial risk of the company, it gives staff and the Board a quick assessment of that company's

financial health which shows its ability to go to the markets when capital is needed. Additionally, the credit rating analysts provide their analysis of how the credit rating was determined which gives insight into the strengths and weaknesses of that company.

Staff also finds the 10Q and 10K reports helpful. These reports are required to be filed with the Federal Security and Exchange Commission on a quarterly basis giving information about its operations over a 3-month period in order for investors to be better informed. Included in these reports are financial statements, such as balance sheets, income statements, and cash flow statements. This provides valuable financial information such as the amount of debt in the utility company's capital structure which impacts its financial risk, the company's net income which shows whether the company is earning a profit after it pays its long-term debt interest expense obligation, and the amount of cash flow available which shows how solvent the company is, along with other information.

In reviewing a rate case where the utility is asking for a rate increase, staff relies not as much on the above-listed reports but more on the witnesses' testimony and exhibits. In a rate case, the Board needs to decide what is the appropriate return on equity and what is the appropriate capital structure for a utility. For the capital structure, the witnesses provide information on each type of capital found directly from its own books and records. However, the witnesses often include a copy of credit reports to show that the levels of common equity and debt in its capital structure are needed to maintain a certain credit rating. In determining the return on equity, several sources of financial information are relied on beyond the reports listed above.

Finally, staff often uses the annual reports to shareholders to obtain background information and to gain knowledge of what is happening at the parent level. It provides general information about the various businesses the company is involved in and discusses the future plans of the entire company. What the parent does operationally can have an impact on its subsidiaries. If the parent company is moving to increase its international exposure or is planning to increase its unregulated businesses, this can increase the risk of the company as whole which could impact the utility's credit rating.