

# Key Financial Indicators Exercise

## 1. OPERATING RATIO

A measure of self-sufficiency; the revenue you get from daily operations, divided by the expenditures or expenses you make to keep operations running.

Natural Benchmark: >1.0; higher preferred

A.

$$\frac{\text{Operating Revenues (1)}}{\text{Operating Expenses (including depreciation) (2)}} = \text{[ ]}$$

B.

$$\frac{\text{Operating Revenues (1)}}{\text{Operating Expenses (excluding depreciation) (2-3)}} = \text{[ ]}$$

## 2. DEBT SERVICE COVERAGE RATIO

A measure of the ability to pay debt service with operating revenue.

Natural Benchmark: >1.0, though funders often set requirements above 1.0 (usually >1.2)

$$\frac{\text{Operating Revenues (1)} - \text{Operating Expenses (excluding depreciation) (2-3)}}{\text{Principal \& Interest on Long-Term Debt (4)}} = \text{[ ]}$$

### 3. DAYS OF CASH ON HAND

A measure of the ability of the utility to weather a significant temporary reduction in revenue and continue paying for daily operations.

**Natural Benchmark:** At least enough to last a billing cycle or when you expect a substantial inflow of cash. The median for Fitch A rated systems is 285 days, and the median for Fitch AA rated systems is 418 days.

$$\frac{\text{Unrestricted Cash \& Cash Equivalents (5)}}{\text{Operating Expenses (excluding depreciation) (2-3)} / 365} = \text{[ ]}$$

### 4. CURRENT RATIO

A measure of short-term liquidity; ability to pay your current bills.

**Natural Benchmark:** >1.0; >2.0 is preferred

$$\frac{\text{Unrestricted Cash \& Cash Equivalents (5)} + \text{Receivables, net (6)}}{\text{Current Liabilities (7)}} = \text{[ ]}$$

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