

# Key Financial Indicators Exercise



## 1. Operating Ratio

Operating ratio measures 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

1a.

*Operating Revenues (1)*

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=

*Operating Expenses (including depreciation) (2)*

1b.

*Operating Revenues (1)*

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=

*Operating Expenses (excluding depreciation) (2-3)*

## 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)

2.

*Operating Revenues (1)*

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*Operating Expenses (2-3)  
(excluding depreciation)*

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*Principal & Interest on Long-Term Debt (4)*



### **3. Days of Cash on Hand**

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

**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.

**3.**

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

### **4. Current Ratio**

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

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

**4.**

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