



Financial Benchmarks Series

Key financial indicators allow a utility to get a snapshot of its financial health and determine whether it needs to adjust its rates or consider regional solutions. These benchmarks should be calculated annually when financial statements are released. Please see the other overviews in the Financial Benchmarks Series for a more complete financial picture.

Days Cash on Hand

If your customers stop paying their bills, how long can you keep the lights on?

Days Cash on Hand is a measure of financial security. In essence, this is how much cash a system has saved up that isn't earmarked for anything else (unrestricted cash) and estimates the number of days the system can pay its daily operation and maintenance costs before running out of this cash. This is obviously a worst-case scenario—it estimates how long a system can run if it receives no additional revenue, but it is a helpful measure of how long a system can operate if it has a sudden and dramatic reduction in operating income, perhaps from a large customer leaving or from mandatory restrictions due to drought conditions. The higher the number, the more protected a system will be against revenue shocks, but the target value is subjective. Generally, a system should aim to maintain several months' worth of cash on hand, and at the very least exceed the length of the billing period (typically 30-60 days).

Do keep in mind that the cash position of the system on the financial statements is a snapshot in time – the cash equivalent on the day the financials were prepared. That day may or may not have been representative of the annual average. Perhaps the system just received a large influx of payments from customers to cover monthly bills, so the number could be higher than average. Conversely, it is possible that payments from customers are still a few days away, and perhaps a large expense like an energy bill has just been paid, so the number could be lower than average. Staff who work regularly with system financials should be consulted to understand whether the reported unrestricted cash number is close to typical.

There's really no one specific target that suits everyone's needs. Is three months enough for your utility? Is 15 months

enough? The answer to that is up to the utility. The COVID-19 pandemic highlighted the importance to consider Days Cash on Hand – some utilities may have seen a revenue reduction from businesses shutting down operations, or delinquencies piling up among residential customers. Sometimes physical conditions will not match the financial depreciation.

Calculate Days Cash on Hand

Equation

$$= \frac{\text{Unrestricted Cash and Cash Equivalents} \times 365}{\text{Operating Expense} - \text{Depreciation}}$$

Default Target

180

Unrestricted Cash and Cash Equivalents

\$558,692

Total Operating Expenses

\$1,585,376

Depreciation and Amortization Expenses

\$454,571

Days Cash on Hand

$$\frac{\$558,692 \times 365}{\$1,585,376 - \$454,571} = 180$$

Interpret Days Cash on Hand

Days Cash on Hand lower than 90

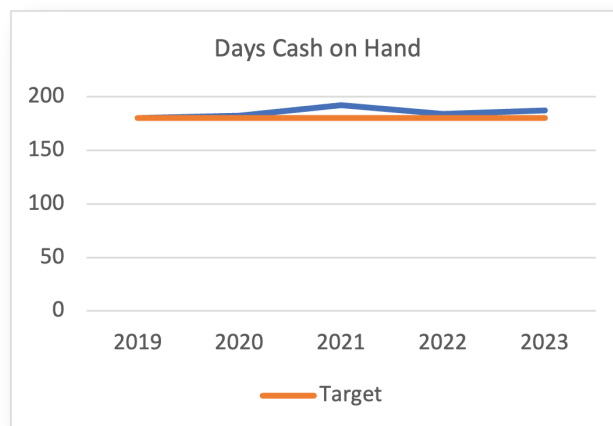
Days Cash on Hand lower than 90 means your utility could “keep the lights on” for only 3 months if all your revenue generation stopped. Having fewer Days Cash on Hand reduces your resiliency and makes you vulnerable to emergency situations in which your revenue is limited or your expenses are particularly high.

Days Cash on Hand higher than 350

Days Cash on Hand higher than 350 (nearly a year) means that you are sitting on sufficient cash to cover your expenses for a while. If high Days Cash on Hand is paired with high Percent Capital Assets Depreciated mean you might be sitting on too much cash. It might be worth investing some of the cash in asset repair and replacement, or moving some cash to a dedicated capital improvement fund or other type of protected reserve fund.

Year-over-year Trend - Flat

A flat trend for Days Cash on Hand indicates stable cash to expenses ratio. As long as the trend is flat and above 90 or so days, this is a healthy indicator.



Year-over-year Trend - Increasing

An increasing trend for the Days Cash on Hand indicates that you are either reducing your expenses or increasing revenues over time. Depending on the goals for your utility, this trend may need to continue to a target Days Cash on Hand value, or should reach that value and then cash be directed towards other functions for the utility.



Year-over-year Trend - Decreasing

A decreasing trend for the Days Cash on Hand should be a cause for concern. If you are spending your cash on asset repair and replacement, some reduction of Days Cash on Hand is expected. But consistent reduction, especially below a level that has been predetermined by your utility, should prompt a deeper look at your finances to determine how to reverse this trend.



Year-over-year Trend - Erratic

Erratic trends may reflect unusual circumstances and should not be looked at in isolation. Since Days Cash on Hand is a snapshot figure, erratic trends may simply be the cash level at that snapshot in time was different from normal (e.g., several checks just came in, or a large outstanding bill).

Where You Can Find These Numbers

If the system is owned by a government that follows GASB 34 procedures for audited financial statements, these numbers can be found on the Statement of Revenues, Expenses, and Changes in Fund Net Assets for the proprietary fund. They should be labeled explicitly as “operating revenues” and “operating expenses.” To include depreciation, you will likely need to find the separate line item that lists the depreciation value. Principal and interest on long-term debt can be found on the Statement of Cash Flows. Unrestricted cash and cash equivalents can be found on the Statement of Net Assets for the proprietary fund.

The UNC Environmental Finance Center is here to help! You can reach the UNC EFC by **email** at efc@sog.unc.edu or reach the UNC EFC via the **web** at <https://efc.sog.unc.edu/contact-us/>.

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