

Liquidity Indicator

The liquidity indicator answers the question, “How strong is the co-op’s financial position?” A balance-sheet test, it measures the co-op’s ability to service its non-negotiable financial obligations.

The indicator is based on a ratio calculated using the following formula:

$$\frac{\text{Adjusted Liquid Assets}}{\text{Effective Monthly Debt Service, Ground Rent, Property Taxes and Utilities,}}$$

where

- *Adjusted Liquid Assets* is the sum of all cash, restricted and unrestricted short- and long-term investments (at the lesser of book or market value), including accrued investment earnings, GST or HST rebates or input tax credits receivable, CMHC, provincial or municipal rent-gear-to-income or operating subsidies receivable, loan advances receivable and pre-paid expenses, minus the sum of any draw on a line of credit or bank overdraft, all accounts payable, construction holdbacks payable, any subsidy due to CMHC, a province or a municipality, payroll and other accrued liabilities, including accrued interest charges due within one month of the fiscal year end, and unearned income;
- *Effective Monthly Debt Service, Ground Rent, Property Taxes and Utilities* is the sum of current scheduled monthly principal and interest payments on all mortgages and loans, monthly ground-rent payments, if any, and, at rates reported for the previous year, property taxes and utilities for common areas and, if applicable, units, paid by the co-op less any current monthly operating subsidy to which the co-operative is entitled. The values used in the test derive from all of the co-op’s properties, whether under a CMHC program, or not.

The indicator tells how many months’ mortgage, ground-rent, property-tax and average utility payments the co-operative has on hand, thus serving as a broad indicator of its liquidity.

Five different liquidity ratings are possible:

- a ratio of 3 or less returns a Liquidity Indicator of Poor
- a ratio above 3 but less than or equal to 5 returns a Liquidity Indicator of Fair
- a ratio above 5 but under or equal to 8 returns a Liquidity Indicator of Good
- a ratio above 8 returns a Liquidity Indicator of Excellent
- a ratio of at least 15 returns a Liquidity Indicator of Excellent High.

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