

# Indicators of Financial Performance



## Financial Indicators

### A. Reporting on financial condition

In Canada, the development and maintenance of principles for financial reporting fall under the responsibility of the Accounting Standards Oversight Council ('AcSOC'), a volunteer body established by the Canadian Institute of Chartered Accountants in 2000. In this role, AcSOC provides input to and monitors and evaluates the performance of the two boards that are tasked with establishing accounting standards for the private and public sector:

- The Public Sector Accounting Board ('PSAB') establishes accounting standards for the public sector, which includes municipal governments; and
- The Accounting Standards Board ('AcSB'), which is responsible for the establishment of accounting standards for Canadian entities outside of the public sector.

In May 2009, PSAB released a Statement of Recommended Practice that provided guidance on how public sector bodies should report on indicators of financial condition. As defined in the statement, financial condition is 'a government's financial health as assessed by its ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others'. In reporting on financial condition, PSAB also recommended that three factors, at a minimum, need to be considered:

- **Sustainability.** Sustainability is the degree to which the City can deliver services and meet its financial commitments without increasing its debt or tax burden relative to the economy in which it operates. To the extent that the level of debt or tax burden grows at a rate that exceeds the growth in the City's assessment base, there is an increased risk that the City's current spending levels (and by association, its services, service levels and ability to meet creditor obligations) cannot be maintained.
- **Flexibility.** Flexibility reflects the City's ability to increase its available sources of funding (debt, taxes or user fees) to meet increasing costs. Municipalities with relatively high flexibility have the potential to absorb cost increases without adversely impacting affordability for local residents and other ratepayers. On the other hand, municipalities with low levels of flexibility have limited options with respect to generating new revenues, requiring an increased focus on expenditure reduction strategies.
- **Vulnerability.** Vulnerability represents the extent to which the City is dependent on sources of revenues, predominantly grants from senior levels of government, over which it has no discretion or control. The determination of vulnerability considers (i) unconditional operating grants such as OMPF; (ii) conditional operating grants such as Provincial Gas Tax for transit operations; and (iii) capital grant programs. Municipalities with relatively high indicators of vulnerability are at risk of expenditure reductions or taxation and user fee increases in the event that senior levels of funding are reduced. This is particularly relevant for municipalities that are vulnerable with respect to operating grants from senior levels of government, as the Municipal Act does not allow municipalities to issue long-term debt for operating purposes (Section 408(2.1)).

## Financial Indicators

### B. Selected financial indicators

As a means of reporting the City's financial condition, we have considered the following financial indicators (\*denotes PSAB recommended financial indicator).

Financial Condition Category	Financial Indicators
Sustainability	<ol style="list-style-type: none"> <li>1. Financial assets to financial liabilities*</li> <li>2. Total reserves and reserve funds per household</li> <li>3. Total operating expenses as a percentage of taxable assessment*</li> <li>4. Capital additions as a percentage of amortization expense</li> </ol>
Flexibility	<ol style="list-style-type: none"> <li>5. Residential taxes per household</li> <li>6. Total long-term debt per household</li> <li>7. Residential taxation as a percentage of average household income</li> <li>8. Total taxation as a percentage of total assessment*</li> <li>9. Debt servicing costs (interest and principal) as a percentage of total revenues*</li> <li>10. Net book value of tangible capital assets as a percentage of historical cost of tangible capital assets*</li> </ol>
Vulnerability	<ol style="list-style-type: none"> <li>11. Operating grants as a percentage of total revenues*</li> <li>12. Capital grants as a percentage of total capital expenditures*</li> </ol>

A detailed description of these financial indicators, as well as comparisons to selected municipalities, is included on the following pages.

Our analysis is based on Financial Information Return data. Given the timing of financial reporting for municipalities, the analysis is based on 2016 FIR data as 2017 FIRs are not available at the time of this report.

## Financial Indicators

### C. Selecting Comparator Municipalities

There are a number of factors that will influence the financial performance and position of municipalities, including but not limited to geographic size, number of households, delegation of responsibilities between upper and lower tier levels of government and services and service levels. Accordingly, there is no 'perfect' comparative municipality for the City. However, in order to provide some perspective as to the City's financial indicators, we have selected comparator municipalities that have comparable:

- Governance structures (i.e. single-tier municipality);
- Household levels; and
- Geographic size.

Based on these considerations, the selected comparator municipalities are as follows:

Municipality	Population	Households	Area (square km)
London	383,822	175,342	420.35
Ottawa	968,580	409,643	2790.3
Hamilton	558,397	222,918	1117.29
Windsor	217,188	99,233	146.38
Kingston	123,798	53,518	451.19
Guelph	131,794	54,881	87.22

# Financial Indicators

## FINANCIAL ASSETS TO FINANCIAL LIABILITIES

This financial indicator provides an assessment of the City's solvency by comparing financial assets (including cash, investments and accounts receivable) to financial liabilities (accounts payable, deferred revenue and long-term debt). Low levels of financial assets to financial liabilities are indicative of limited financial resources available to meet cost increases or revenue losses.

### TYPE OF INDICATOR

Sustainability ✓  
Flexibility  
Vulnerability

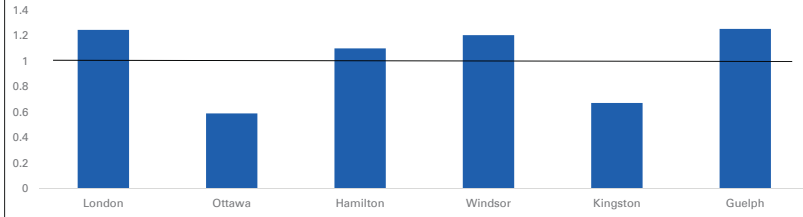
### FORMULA

FIR Schedule 70, Line 9930, Column 1 divided by FIR Schedule 70, Line 9940, Column 1

### POTENTIAL LIMITATIONS

- Financial assets may include investments in government business enterprises, which may not necessarily be converted to cash or yield cash dividends
- Financial liabilities may include liabilities for employee future benefits and future landfill closure and post-closure costs, which may (i) not be realized for a number of years; and/or (ii) may not be realized at once but rather over a number of years

Financial Assets to Financial Liabilities



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5

# Financial Indicators

## TOTAL RESERVES AND RESERVE FUNDS PER HOUSEHOLD

This financial indicator provides an assessment of the City's ability to absorb incremental expenses or revenue losses through the use of reserves and reserve funds as opposed to taxes, user fees or debt. Low reserve levels are indicative of limited capacity to deal with cost increases or revenue losses, requiring the City to revert to taxation or user fee increases or the issuance of debt.

### TYPE OF INDICATOR

Sustainability ✓  
Flexibility  
Vulnerability

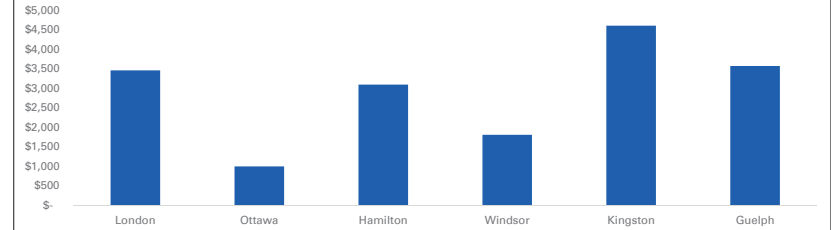
### FORMULA

FIR Schedule 70, Line 6420, Column 1 divided by FIR Schedule 2, Line 40, Column 1

### POTENTIAL LIMITATIONS

- Reserves and reserve funds are often committed to specific projects or purposes and as such, may not necessarily be available to fund incremental costs or revenue losses
- As reserves are not funded, the City may not actually have access to financial assets to finance additional expenses or revenue losses

Reserve and Reserve Funds per Household



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6

# Financial Indicators

## TOTAL OPERATING EXPENSES AS A PERCENTAGE OF TAXABLE ASSESSMENT

This financial indicator provides an assessment of the City's solvency by determining the extent to which increases in operating expenses correspond with increases in taxable assessment. If increases correspond, the City can fund any increases in operating costs without raising taxation rates.

### TYPE OF INDICATOR

Sustainability ✓  
Flexibility  
Vulnerability

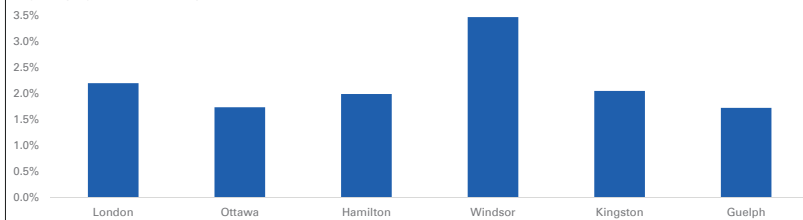
### FORMULA

FIR Schedule 40, Line 9910, Column 7 less FIR Schedule 40, Line 9910, Column 16 divided by FIR Schedule 26, Column 17, Line 9199

### POTENTIAL LIMITATIONS

- As operating expenses are funded by a variety of sources, the City's sustainability may be impacted by reductions in other funding sources that would not be identified by this indicator.

Operating Expenses as a Percentage of Taxable Assessment



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7

# Financial Indicators

## CAPITAL ADDITIONS AS A PERCENTAGE OF AMORTIZATION EXPENSE

This financial indicator provides an assessment of the City's solvency by assessing the extent to which it is sustaining its tangible capital assets. In the absence of meaningful reinvestment in tangible capital assets, the City's ability to continue to deliver services at the current levels may be compromised.

### TYPE OF INDICATOR

Sustainability ✓  
Flexibility  
Vulnerability

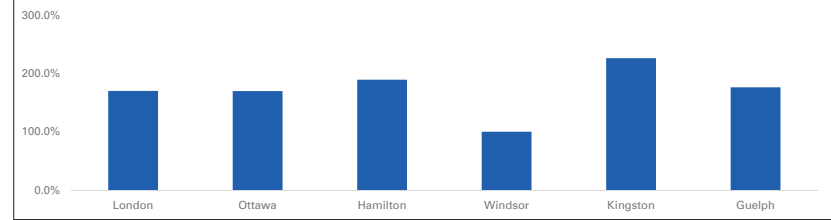
### FORMULA

FIR Schedule 51, Line 9910, Column 3 divided by FIR Schedule 40, Line 9910, Column 16

### POTENTIAL LIMITATIONS

- This indicator considers amortization expense, which is based on historical as opposed to replacement cost. As a result, the City's capital reinvestment requirement will be higher than its reported amortization expense due to the effects of inflation.
- This indicator is calculated on a corporate-level basis and as such, will not identify potential concerns at the departmental level.

Capital Additions as a Percentage of Amortization Expense



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8

# Financial Indicators

## RESIDENTIAL TAXES PER HOUSEHOLD

This financial indicator provides an assessment of the City's ability to increase taxes as a means of funding incremental operating and capital expenditures.

### TYPE OF INDICATOR

Sustainability  
Flexibility ✓  
Vulnerability

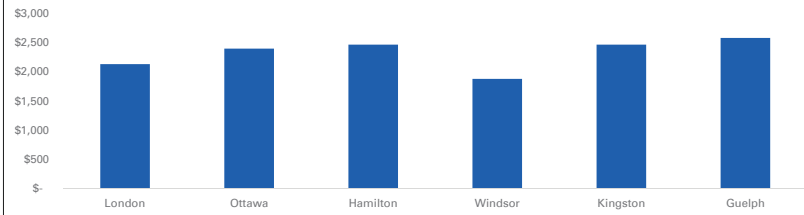
### FORMULA

FIR Schedule 26, Line 0010 and Line 1010, Column 4 divided by FIR Schedule 2, Line 0040, Column 1

### POTENTIAL LIMITATIONS

- This indicator does not incorporate income levels for residents and as such, does not fully address affordability concerns.
- This indicator is calculated based on lower-tier taxation only and does not consider upper tier or education taxes.
- This indicator does not consider the level of service provided by each municipality

Residential Taxes per Household



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# Financial Indicators

## TOTAL LONG-TERM DEBT PER HOUSEHOLD

This financial indicator provides an assessment of the City's ability to issue more debt by considering the existing debt load on a per household basis. High debt levels per household may preclude the issuance of additional debt.

### TYPE OF INDICATOR

Sustainability  
Flexibility ✓  
Vulnerability

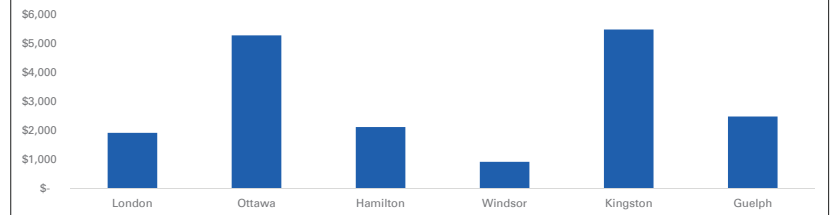
### FORMULA

FIR Schedule 70, Line 2699, Column 1 divided by FIR Schedule 1, Line 0040, Column 1

### POTENTIAL LIMITATIONS

- This indicator does not consider the Provincial limitations on debt servicing cost, which cannot exceed 25% of own-source revenues unless approved by the Ontario Municipal Board

Long-Term Debt per Household



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# Financial Indicators

## RESIDENTIAL TAXATION AS A PERCENTAGE OF HOUSEHOLD INCOME

This financial indicator provides an indication of potential affordability concerns by calculating the percentage of total household income used to pay municipal property taxes.

### TYPE OF INDICATOR

Sustainability  
Flexibility ✓  
Vulnerability

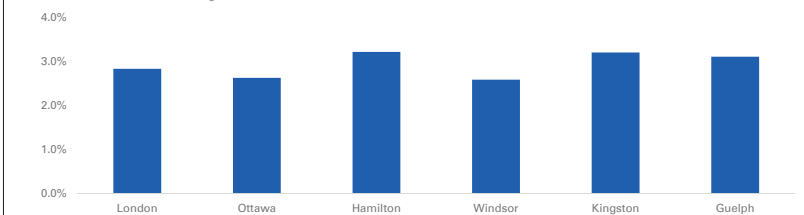
### FORMULA

FIR Schedule 26, Line 0010 and Line 1010, Column 4 divided by FIR Schedule 2, Line 0040, Column 1 (to arrive at average residential tax per household). Average household income is derived from the National Housing Survey.

### POTENTIAL LIMITATIONS

- This indicator considers residential affordability only and does not address commercial or industrial affordability concerns.
- This indicator is calculated on an average household basis and does not provide an indication of affordability concerns for low income or fixed income households.

Residential Taxation as a Percentage of Household Income



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# Financial Indicators

## TOTAL TAXATION AS A PERCENTAGE OF TOTAL ASSESSMENT

This financial indicator provides an indication of potential affordability concerns by calculating the City's overall rate of taxation. Relatively high tax rate percentages may limit the City's ability to generate incremental revenues in the future.

### TYPE OF INDICATOR

Sustainability  
Flexibility ✓  
Vulnerability

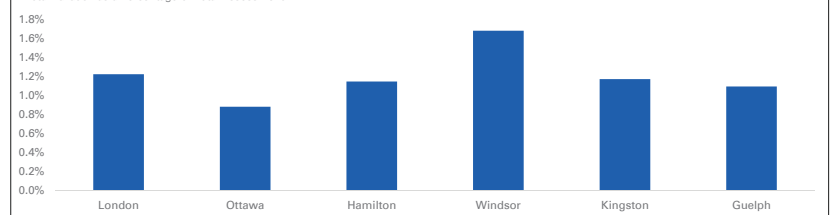
### FORMULA

FIR Schedule 26, Line 9199 and Line 9299, Column 4 divided by FIR Schedule 26, Line 9199 and 9299, Column 17.

### POTENTIAL LIMITATIONS

- This indicator considers the City's overall tax rate and will not address affordability issues that may apply to individual property classes (e.g. commercial).

Total Taxation as a Percentage of Total Assessment



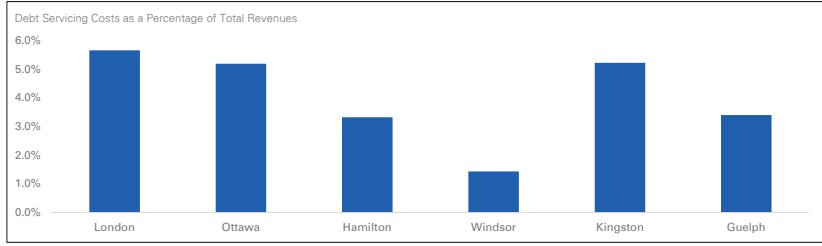
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# Financial Indicators

**DEBT SERVICING COSTS (INTEREST AND PRINCIPAL) AS A PERCENTAGE OF TOTAL REVENUES**

This financial indicator provides an indication as to the City's overall indebtedness by calculating the percentage of revenues used to fund long-term debt servicing costs. The City's ability to issue additional debt may be limited if debt servicing costs on existing debt are excessively high.

TYPE OF INDICATOR	FORMULA	POTENTIAL LIMITATIONS
Sustainability Flexibility ✓ Vulnerability	FIR Schedule 74C, Line 3099, Column 1 and Column 2 divided by FIR Schedule 10, Line 9910, Column 1.	<ul style="list-style-type: none"> <li>No significant limitations have been identified in connection with this indicator</li> </ul>

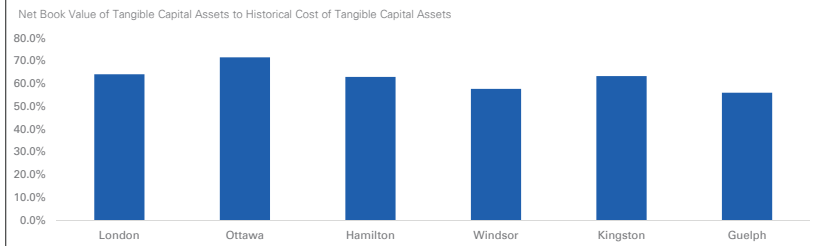


# Financial Indicators

**NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS AS A PERCENTAGE OF HISTORICAL COST OF TANGIBLE CAPITAL ASSETS**

This financial indicator provides an indication as to the extent to which the City is reinvesting in its capital assets as they reach the end of their useful lives. An indicator of 50% indicates that the City is, on average, investing in capital assets as they reach the end of useful life, with indicators of less than 50% indicating that the City's reinvestment is not keeping pace with the aging of its assets.

TYPE OF INDICATOR	FORMULA	POTENTIAL LIMITATIONS
Sustainability Flexibility ✓ Vulnerability	FIR Schedule 51A, Line 9910, Column 11 divided by FIR Schedule 51A, Line 9910, Column 6.	<ul style="list-style-type: none"> <li>This indicator is based on the historical cost of the City's tangible capital assets, as opposed to replacement cost. As a result, the City's pace of reinvestment is likely lower than calculated by this indicator as replacement cost will exceed historical cost.</li> <li>This indicator is calculated on a corporate-level basis and as such, will not identify potential concerns at the departmental level.</li> </ul>

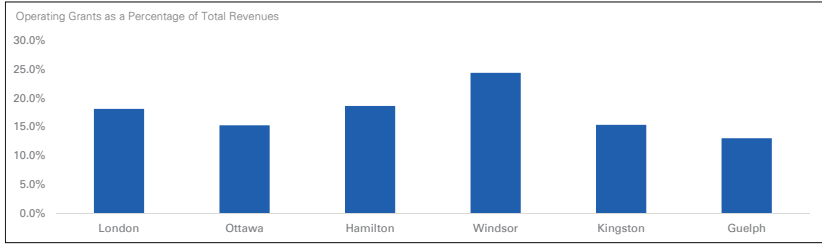


# Financial Indicators

**OPERATING GRANTS AS A PERCENTAGE OF TOTAL REVENUES**

This financial indicator provides an indication as to the City's degree of reliance on senior government grants for the purposes of funding operating expenses. The level of operating grants as a percentage of total revenues is directly proportionate with the severity of the impact of a decrease in operating grants.

TYPE OF INDICATOR	FORMULA	POTENTIAL LIMITATIONS
Sustainability Flexibility Vulnerability ✓	FIR Schedule 10, Line 0699, Line 0810, Line 0820, Line 0830, Column 1 divided by FIR Schedule 10, Line 9910, Column 1.	<ul style="list-style-type: none"> <li>To the extent possible, the City should maximize its operating grant revenue. As such, there is arguably no maximum level associated with this financial indicator.</li> </ul>

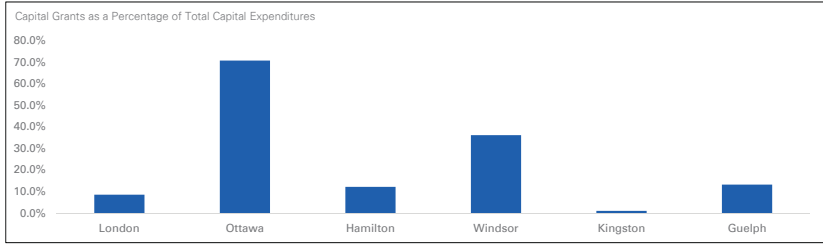


# Financial Indicators

**CAPITAL GRANTS AS A PERCENTAGE OF TOTAL CAPITAL EXPENDITURES**

This financial indicator provides an indication as to the City's degree of reliance on senior government grants for the purposes of funding capital expenditures. The level of capital grants as a percentage of total capital expenditures is directly proportionate with the severity of the impact of a decrease in capital grants.

TYPE OF INDICATOR	FORMULA	POTENTIAL LIMITATIONS
Sustainability Flexibility Vulnerability ✓	FIR Schedule 10, Line 0815, Line 0825, Line 0831, Column 1 divided by FIR Schedule 51, Line 9910, Column 3.	<ul style="list-style-type: none"> <li>To the extent possible, the City should maximize its capital grant revenue. As such, there is arguably no maximum level associated with this financial indicator.</li> </ul>





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