

The Corporation of the City of London

Audit Planning Report
for the year ended December 31, 2021

KPMG LLP

Licensed Public Accountants

Prepared as of January 12, 2022 for presentation
to the Audit Committee on February 9, 2022

KPMG



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KPMG contacts

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Our refreshed Values

What we believe



We do what is right.



We never stop learning
and improving.



We think and act boldly.



We respect each other
and draw strength from
our differences.



We do what matters.

Executive summary

Audit quality

See page 2 for how we deliver audit quality.

Materiality

Materiality has been established by considering various metrics that are relevant to users of the financial statements, including total consolidated expenses, total consolidated revenues, and consolidated accumulated surplus. We have determined group materiality to be \$18,000,000.

Materiality will be set at lower thresholds to meet standalone subsidiary financial statement audit requirements.

See page 3.

Group audit scope

Our audit consists of 20 of components over which we plan to perform:

- 17 full scope audits
- See pages 4 – 5.

Audit and business risks

Our audit is risk focused. In planning our audit, we have considered key areas of focus for financial reporting. These include:

- Capital projects and acquisitions
- Payroll and employee future benefits
- Taxation, user charges, and transfer payment revenue
- Debt issuances

See pages 6 – 8.

Proposed fees

Proposed fees for the annual group audit are discussed on page 11.

This report to the Audit Committee is intended solely for the information and use of management, the Audit Committee, Council and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report to the Audit Committee has to been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.



Audit Quality: How do we deliver audit quality?



Quality essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contribute to its delivery.

'Perform quality engagements' sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

Our **quality value drivers** are the cornerstones to our approach underpinned by the **supporting drivers** and give clear direction to encourage the right behaviours in delivering audit quality.

We define **'audit quality'** as being the outcome when:

- audits are **executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality controls**; and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics, and integrity**.



Doing the right thing. Always.



Materiality

Materiality is established to identify risks of material misstatements, to develop an appropriate audit response to such risks, and to evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

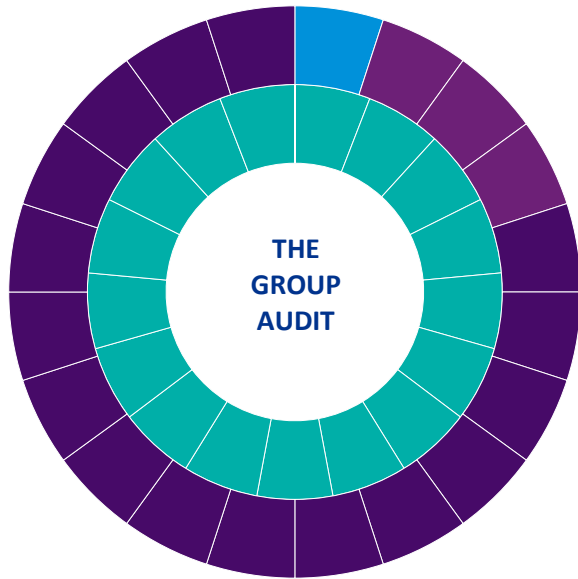
To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality (e.g., performance materiality or, in the case of a group audit, component materiality).

Materiality determination	Comments	Group amount
Materiality	The corresponding amount for the prior year's audit was \$17,900,000.	\$18,000,000
Benchmark	Based on the prior year's total consolidated expenses. This benchmark is consistent with the prior year.	\$1,161,379,000
% of Benchmark	The corresponding percentage for the prior year's audit was 1.5%.	1.5%
Audit Misstatement Posting Threshold	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was \$895,000. A higher threshold has been used for reclassification misstatements. The corresponding amount for the previous year's audit was \$4,475,000.	\$900,000 Threshold for reclassification: \$4,500,000

We will report to the Audit Committee:

-  Corrected audit misstatements
-  Uncorrected audit misstatements

Group audit – scope



Type of work performed	# of components	Legend
Significant due to risk	0	
Individually financially significant	1	
In-scope not significant *	16	
Not significant – Untested	3	

*Components are not significant; however, separate statutory audits are required over these components on a stand-alone basis.

Procedures performed by	Legend
Group team – KPMG London	

Group Audit Scope (continued)

The components over which we plan to perform audit procedures are as follows:

Component	Why	Our Audit Approach	Managers
City of London (unconsolidated)	Individually financially significant	Audit of component financial information	[1] Melissa Redden
Boards & Commissions	Non-significant components; however, necessary to issue separate statutory audit opinion	Audit of financial statements	[1] Dania Nabhani [2] Melissa Redden

Audit risks

Significant risk - professional requirements

Why is it significant?

Presumption of the risk of fraud involving improper revenue recognition

We have not identified any risk of material misstatement resulting from fraudulent revenue recognition

Presumption of the risk of fraud resulting from management override of controls

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.

Our audit approach

Presumption of the risk of fraud resulting from management override of controls

As this presumed risk of material misstatement due to fraud is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.

Audit risks (continued)

Other areas of focus	Why are we focusing here?
Capital projects and acquisitions	The City has a large balance of tangible capital assets and is continuously spending on capital projects. There is judgment involved in determining the useful lives of capital and when the amortization period should begin.
Payroll and employee future benefits	The City provides defined retirement and other future benefits for some groups of its retirees and employees. As at December 31, 2020, the City of London had a liability for employee future benefits of \$182 million. There is complexity associated with this estimate, both through the method and assumptions used. Management judgment is required.

Our audit approach

KPMG will perform the following procedures over capital projects and acquisitions:

- Substantive testing over capital additions and disposals, including the determination of when capital expenditures are transferred from assets under construction and amortization begins.
- Review management’s determination of the useful lives of capital assets and the related amortization rates, as well as recalculate amortization expense.
- Perform data and analytical procedures as follows:
 - Assets under construction: Utilize Computer Assisted Audit Techniques (CAATs) to compare the WIP detail in fiscal 2021 to the WIP detail in fiscal 2020, testing any projects that did not incur costs in fiscal 2021 and remain in WIP as at December 31, 2021. This routine will obtain audit evidence over the completeness of tangible capital assets and amortization expense.
 - Tangible capital assets – Disposals: Utilize CAATs to compare the disposal listing to the asset detail, testing assets that were recorded in both listings. This routine will obtain audit evidence over existence of tangible capital assets.
 - Holdback accrual: Utilize CAATs to compare the tangible capital asset WIP listing to the holdbacks accrual listing, testing any significant WIP project that did not have a corresponding holdback accrual. This routine will obtain audit evidence over the completeness of holdback accruals.

KPMG will perform the following procedures over payroll and employee future benefits:

- Test the reasonableness of assumptions, as well as input data, provided by management to the actuaries that are used in preparing the valuation and calculating the post-employment and post-retirement benefits liability and WSIB obligation.
- Take a combined approach to testing payroll expense, which will include both substantive and control testing.

Audit risks (continued)

Other areas of focus	Why are we focusing here?
Taxation, user charges and transfer payments revenue	For the year ending December 31, 2020, these revenue streams amounted to more than \$1.26 billion. In fiscal 2021, the City anticipated to receive between \$50 million to \$60 million approximately of COVID funding (subject to final reconciliation and recognition principles).
Debt issuances	Individual debt issuances at the City have historically been for significant amounts.

Our audit approach

KPMG will perform the following procedures over taxation, user charges and transfer payments revenue:

- Substantive procedures over these revenue streams, including substantive analytical procedures over taxation revenue and vouching of significant transfer payments.
- Perform cut-off procedures around year-end.

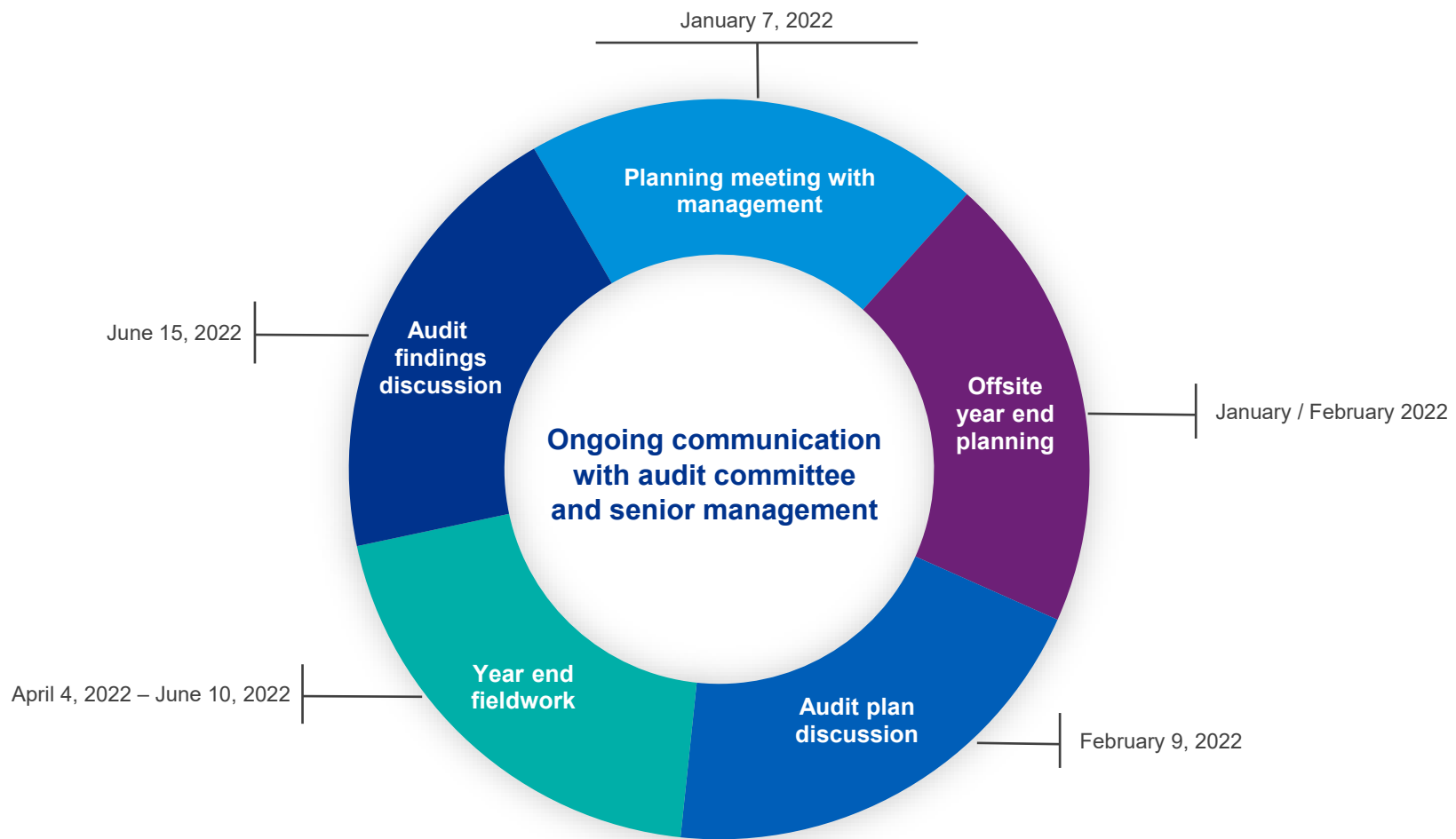
For the COVID funding recognized during the year:

- Vouch significant amounts to receipt of funds and obtain agreements to verify appropriate recognition.

KPMG will perform the following procedures over debt issuances:

- Debentures totaling \$23 million were issued during 2021 with a 10-year term with an average all-in rate of 1.819%. KPMG will review the accounting for this transaction in detail during the audit.

Key milestones and deliverables



Report to the audit committee

Your KPMG Team

Team member	Background / Experience	Discussion of Role
<p>Katie denBok Lead Audit Engagement Partner kdenbok@kpmg.ca 519-660-2115</p>	<p>Katie has over 16 years of public auditing, accounting and reporting experience and has been involved with the audit of not-for-profit and public sector organizations, and a number of local private company clients. She proficiently assists clients with process improvement, accounting and financial reporting matters.</p>	<ul style="list-style-type: none"> – Katie will lead our audit for the City, as well as the Boards and Commissions, and be responsible for the quality and timeliness of everything we do. – She will be working with the team often and will always be available and accessible to you.
<p>Diane Wood Tax Partner dianejwood@kpmg.ca 519-660-2123</p>	<p>Diane is a member of the Financial Planners Standards Council and the Society of Trust and Estate Practitioners. Her principal activities are in not-for-profit taxation planning and compliance, personal income tax planning and compliance, estate planning, international executive taxation and providing financial planning and taxation assistance to individuals facing early retirement or severance packages.</p>	<ul style="list-style-type: none"> – Diane will assist with any tax related matters that arise.
<p>Melissa Redden Audit Senior Manager mredden@kpmg.ca 519-660-2124</p>	<p>Melissa has over 11 years of public auditing, accounting and reporting experience and has been involved with the audit of not-for-profit and public sector organizations, as well as a number of local private and public company clients. She proficiently assists clients with process improvement, accounting and financial reporting matters.</p>	<ul style="list-style-type: none"> – Melissa will work very closely with Katie on all aspects of our audit for the City, as well as select Boards and Commissions. – She will be on site and directly oversee and manage our audit field team and work closely with your management team.
<p>Dania Nabhani Audit Manager dnabhani@kpmg.ca 519-660-2120</p>	<p>Dania has over 6 years of experience in public accounting serving a broad range of clientele, including public sector entities and private companies.</p>	<ul style="list-style-type: none"> – Dania will work closely with Katie on select Boards and Commissions. – She will directly oversee and manage the audit field team for these entities, as well as work closely with the management teams.

Proposed fees

In determining the fees for our services, we have considered the nature, extent and timing of our planned audit procedures as described above. Our fee analysis has been reviewed with and agreed upon by management.

Estimated fees	Current period (budget)	Prior period (actual)
Audit of the group financial statements (includes the implementation of the new auditing standard over accounting estimates in prior period)	\$102,500	\$99,000

Matters that could impact our fee

The proposed fees outlined above are based on the assumptions described in the engagement letter.

The critical assumptions, and factors that cause a change in our fees, include:

- Significant changes to internal control over financial reporting
- Significant unusual and/or complex transactions
- Changes in professional standards or requirements arising as a result of changes in professional standards or the interpretation thereof
- Changes in the timing of our work

Appendices

Content

Appendix 1: Required communications

Appendix 2: Use of technology in the audit

Appendix 3: Current developments

Appendix 4: Financial indicators

Appendix 5: Audit and Assurance Insights



Appendix 1: Other required communications

Report	Engagement terms
This report.	Unless you inform us otherwise, we understand that you acknowledge and agree to the terms of the engagement set out in the engagement letter and any subsequent amendments as provided by management.
Reports to the Audit Committee	Representations of management
At the completion of the audit, we will provide our findings report to the Audit Committee.	We will obtain from management certain representations at the completion of the audit.
Matters pertaining to independence	Control deficiencies
At the completion of our audit, we will provide our independence communications to the audit committee.	On a timely basis, identified significant deficiencies will be communicated to the audit committee in writing. Other control deficiencies identified that do not rise to the level of a significant deficiency will be communicated to management.

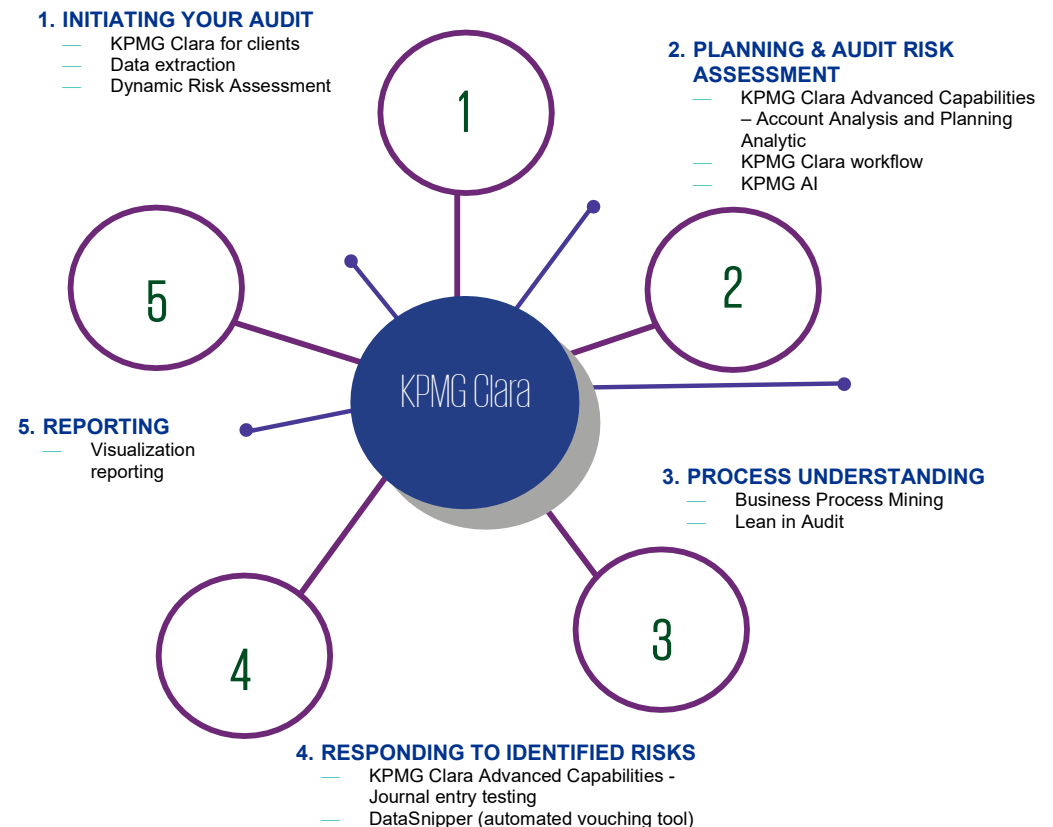
Appendix 2: Use of technology in the audit

KPMG Clara is our integrated, smart global audit platform that allows our teams globally to work simultaneously on audit documentation while sharing real time information. KPMG Clara embeds analytics throughout all phases of the audit and allows us to visualise the flow of transactions through the system, identify risks in your financial data and perform more specific audit procedures. KPMG's use of technology provides for:

1. a **higher quality audit** – looking at 100% of selected data
2. a **more efficient audit** as we are focussed on the transactions that are considered higher risk and
3. an audit that provides **insights into your business** through the use of technology in your audit with our extensive industry knowledge.

We are also actively piloting Artificial Intelligence (“AI”) tools which will be used in future audits and identifying areas to embed robotic process automation (“KPMG Bots”).

Our five-phased audit approach



Appendix 3: Current Developments

Public Sector Accounting Standards

Standard	Summary and implications
Asset Retirement Obligations	<ul style="list-style-type: none"> – The new standard is effective for fiscal years beginning on or after April 1, 2022. – The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area. – The ARO standard will require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets (“TCA”). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life. – As a result of the new standard, the public sector entity will have to: <ul style="list-style-type: none"> • Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; • Carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; • Begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.
Revenue	<ul style="list-style-type: none"> – The new standard is effective for fiscal years beginning on or after April 1, 2023. The effective date was deferred by one year due to COVID-19. – The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. – The standard notes that in the case of revenues arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. – The standard notes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.

Standard	Summary and implications
Financial Instruments and Foreign Currency Translation	<ul style="list-style-type: none"> – The accounting standards, PS3450 <i>Financial Instruments</i>, PS2601 <i>Foreign Currency Translation</i>, PS1201 <i>Financial Statement Presentation</i> and PS3041 <i>Portfolio Investments</i> are effective for fiscal years commencing on or after April 1, 2022. The effective date was deferred by one year due to COVID-19. – Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. – Hedge accounting is not permitted. – A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations. – In July 2020, PSAB approved federal government narrow-scope amendments to PS3450 <i>Financial Instruments</i> which will be included in the Handbook in the fall of 2020. Based on stakeholder feedback, PSAB is considering other narrow-scope amendments related to the presentation and foreign currency requirements in PS3450 <i>Financial Instruments</i>. The exposure drafts were released in summer 2020 with a 90-day comment period.
Employee Future Benefit Obligations	<ul style="list-style-type: none"> – PSAB has initiated a review of sections PS3250 <i>Retirement Benefits</i> and PS3255 <i>Post-Employment Benefits, Compensated Absences and Termination Benefits</i>. In July 2020, PSAB approved a revised project plan. – PSAB intends to use principles from International Public Sector Accounting Standard 39 <i>Employee Benefits</i> as a starting point to develop the Canadian standard. – Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, PSAB will implement a multi-release strategy for the new standards. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues. – PSAB released an exposure draft on proposed section PS3251, <i>Employee Benefits</i> in July 2021. Comments to PSAB on the proposed section are due by November 25, 2021. Proposed Section PS 3251 would apply to fiscal years beginning on or after April 1, 2026 and should be applied retroactively. Earlier adoption is permitted. The proposed PS3251 would replace existing Section PS 3250 and Section PS 3255. This proposed section would result in organizations recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations.

Standard	Summary and implications
Public Private Partnerships (“P3”)	<ul style="list-style-type: none"> – PSAB has introduced Section PS3160, which includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. The standard has an effective date of April 1, 2023, and may be applied retroactively or prospectively. – The standard notes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the P3 ends. – The public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. – The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project.
Concepts Underlying Financial Performance	<ul style="list-style-type: none"> – PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards. – PSAB released four exposure drafts in early 2021 for the proposed conceptual framework and proposed revised reporting model, and their related consequential amendments. The Board is in the process of considering stakeholder comments received. – PSAB is proposing a revised, ten chapter conceptual framework intended to replace PS 1000 <i>Financial Statement Concepts</i> and PS 1100 <i>Financial Statement Objectives</i>. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced. – In addition, PSAB is proposing: <ul style="list-style-type: none"> • Relocation of the net debt indicator to its own statement and the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained. • Separating liabilities into financial liabilities and non-financial liabilities. • Restructuring the statement of financial position to present non-financial assets before liabilities. • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). • Removal of the statement of rereasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities), including a new component called “accumulated other”. • A new provision whereby an entity can use an amended budget in certain circumstances. • Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position.

Standard	Summary and implications
Purchased Intangibles	<ul style="list-style-type: none"> – In October 2019, PSAB approved a proposal to allow public sector entities to recognize intangibles purchased through an exchange transaction. Practitioners are expected to use the definition of an asset, the general recognition criteria and the GAAP hierarchy to account for purchased intangibles. – PSAB has approved Public Sector Guideline 8 which allows recognition of intangibles purchased through an exchange transaction. Narrow-scope amendments were made to Section PS 1000 Financial statement concepts to remove prohibition on recognition of intangibles purchased through exchange transactions and PS 1201 Financial statement presentation to remove the requirement to disclose that purchased intangibles are not recognized. – The effective date is April 1, 2023 with early adoption permitted. Application may be retroactive or prospective.
Government Not-for-Profit Strategy	<ul style="list-style-type: none"> – PSAB is in the process of reviewing its strategy for government not-for-profit (“GNFP”) organizations. PSAB intends to understand GNFPs’ fiscal and regulatory environment, and stakeholders’ financial reporting needs. – PSAB released a second consultation paper in January 2021 which summarizes the feedback received to the first consultation paper. It also describes options for the GNFP strategy and the decision-making criteria used to evaluate the options. PSAB recommends incorporating the PS4200 series with potential customizations into PSAS. This means reviewing the existing PS4200 series to determine if they should be retained and added to PSAS. Incorporating the updated or amended PS4200 series standards in PSAS would make the guidance available to any public sector entity. Accounting and/or reporting customizations may be permitted if PSAB determines there are substantive and distinct accountabilities that warrant modification from PSAS. – PSAB is in the process of considering stakeholder comments.
2022 – 2027 Strategic Plan	<ul style="list-style-type: none"> – PSAB’s Draft 2022 – 2027 Strategic Plan was issued for public comment in May 2021. Comments were requested for October 6, 2021. – The Strategic Plan sets out broad strategic objectives that help guide PSAB in achieving its public interest mandate over a multi-year period, and determining standard-setting priorities – The Strategic Plan emphasizes four key priorities: <ul style="list-style-type: none"> – Develop relevant and high-quality accounting standards - Continue to develop relevant and high-quality accounting standards in line with PSAB’s due process, including implementation of the international strategy (focused on adapting International Public Sector Accounting Standards for new standards) and completion of the Conceptual Framework and Reporting Model project. – Enhance and strengthen relationships with stakeholders - Includes increased engagement with Indigenous Governments and exploring the use of customized reporting. – Enhance and strengthen relationships with other standard setters – In addition to continued collaboration with other standard setters, this emphasizes strengthened relationship with the IPSASB. – Support forward-looking accounting and reporting initiatives – Supporting and encouraging ESG reporting, and consideration of the development of ESG reporting guidance for the Canadian public sector.

Appendix 4: Financial indicators



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

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 (FIR) data. Given the timing of financial reporting for municipalities, the analysis is based on 2020 FIR data with comparative information provided based upon the 2016 – 2019 FIR data.

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 (2020)	Households (2020)	Area (square km)
London	402,659	181,841	420.6
Ottawa	1,018,001	434,013	2,790
Hamilton	578,000	237,420	1,138
Windsor	230,900	100,084	146.3
Kingston	124,148	54,426	451.2
Guelph	131,794	57,225	87.2

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

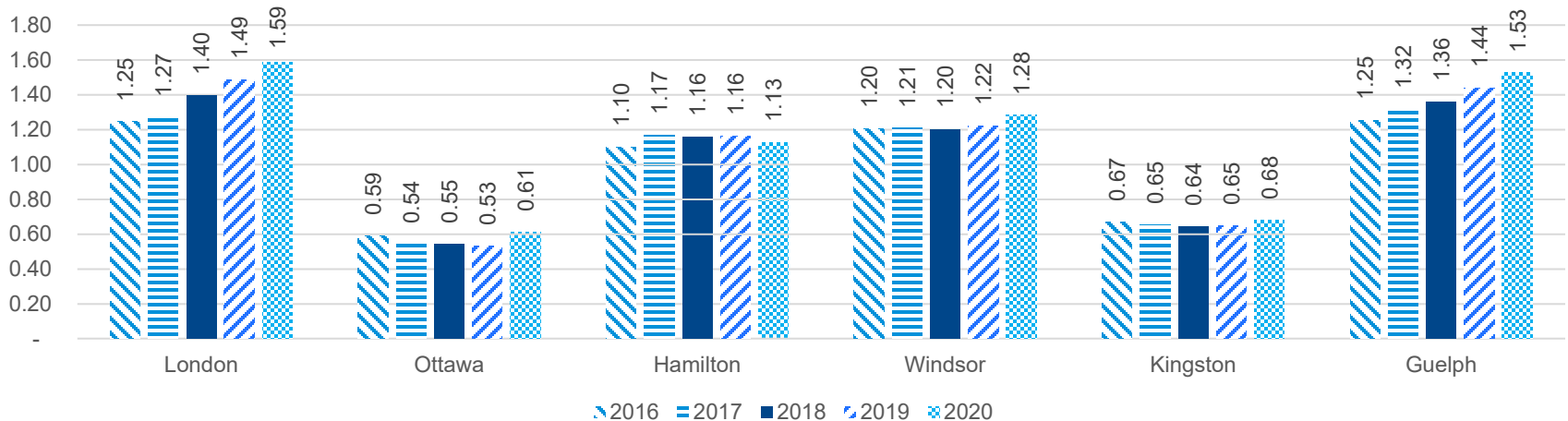
Sustainability ✓
 Flexibility
 Vulnerability

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 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

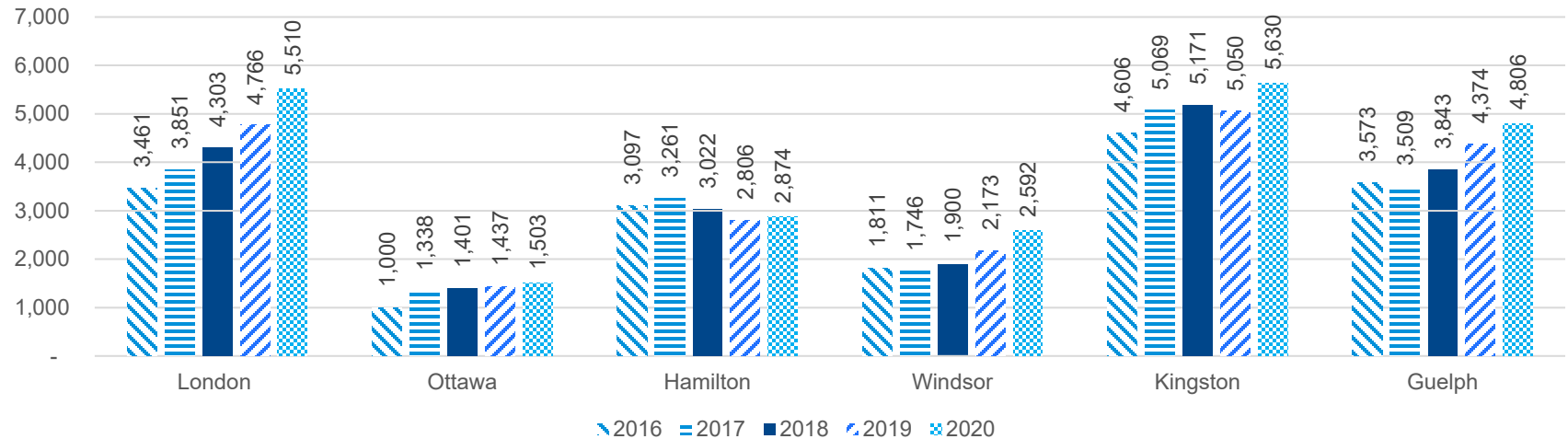
Sustainability ✓
Flexibility
Vulnerability

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



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

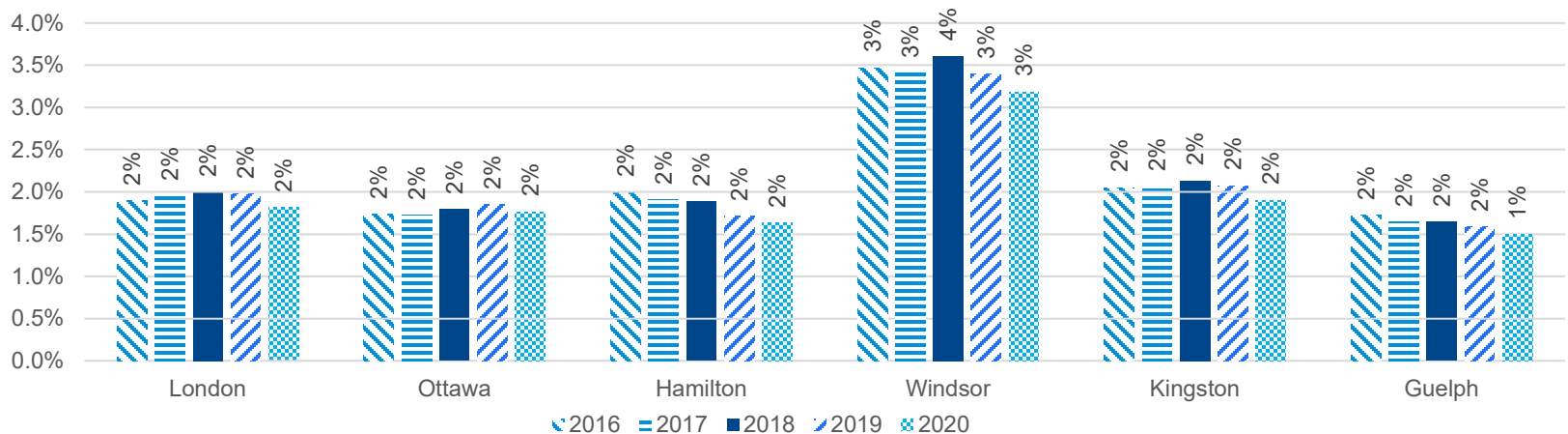
Sustainability ✓
 Flexibility
 Vulnerability

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.



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

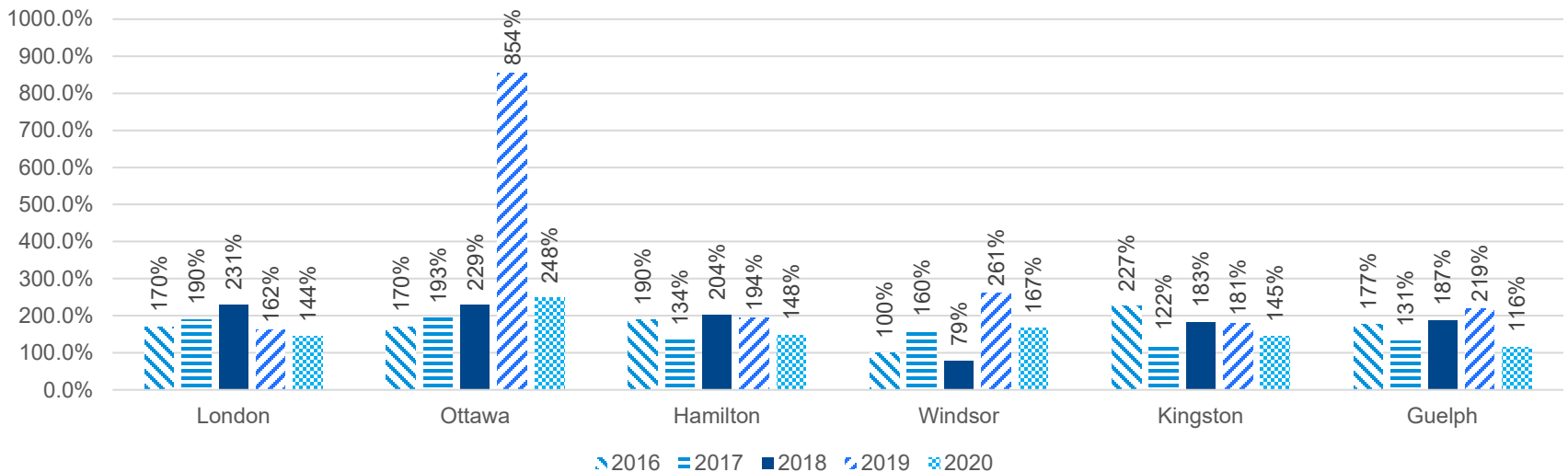
Sustainability ✓
 Flexibility
 Vulnerability

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.



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 ✓

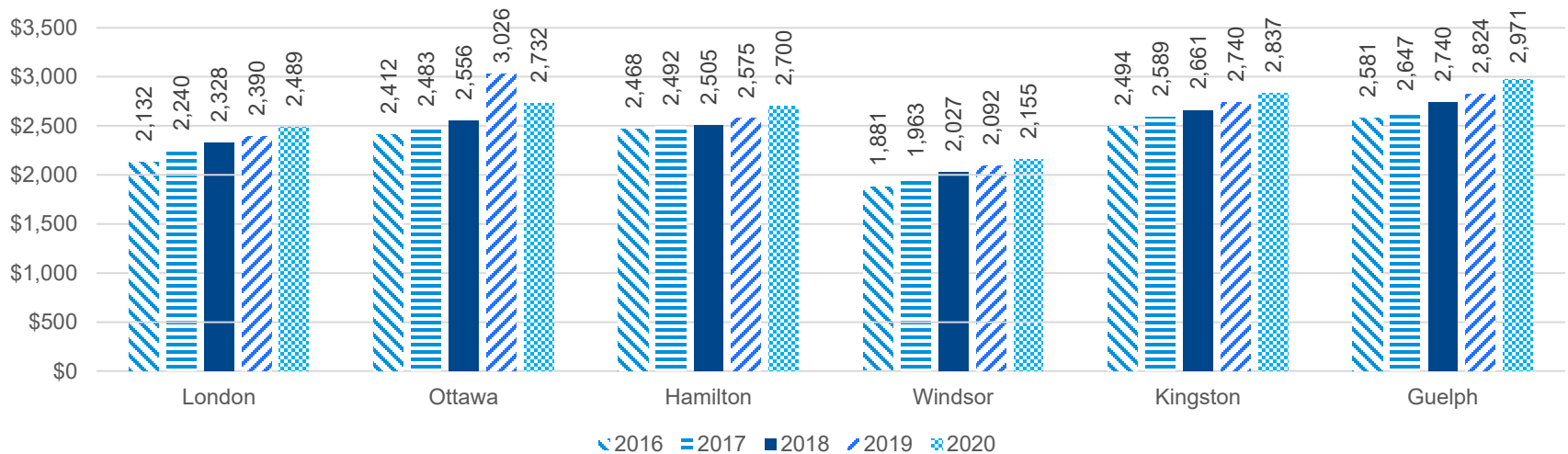
Vulnerability

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.



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 loan on a per household basis. High debt levels per household may preclude the issuance of additional debt.

TYPE OF INDICATOR

Sustainability

Flexibility ✓

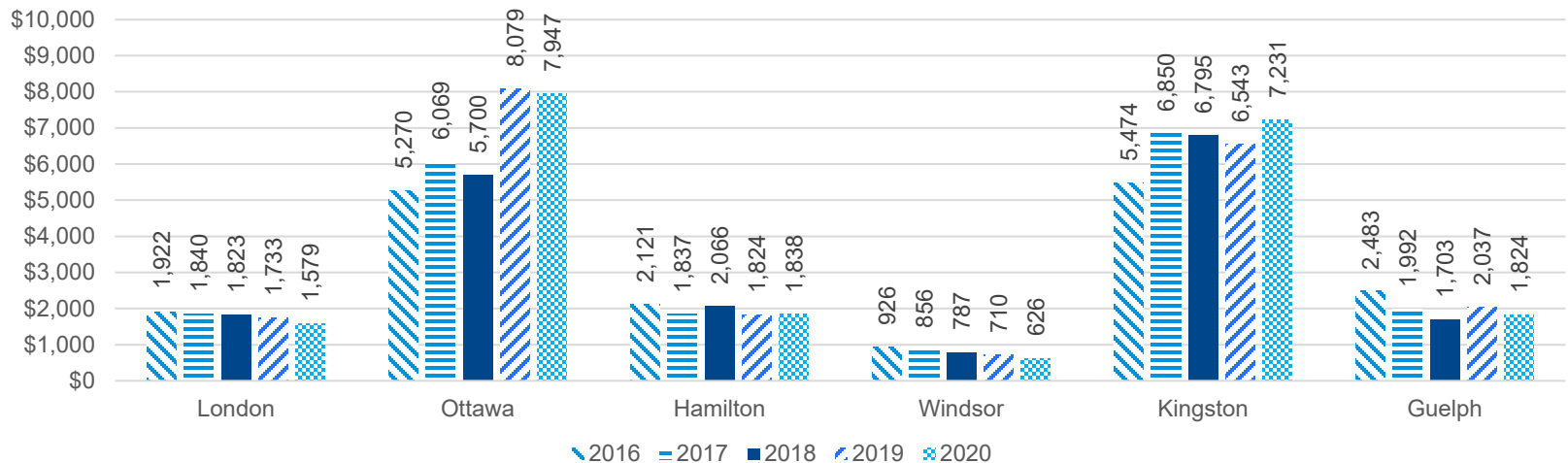
Vulnerability

FORMULA

FIR Schedule 70, Line 2699,
Column 1 divided by FIR
Schedule 2, 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



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 median after tax household income used to pay municipal property taxes.

TYPE OF INDICATOR

Sustainability

Flexibility ✓

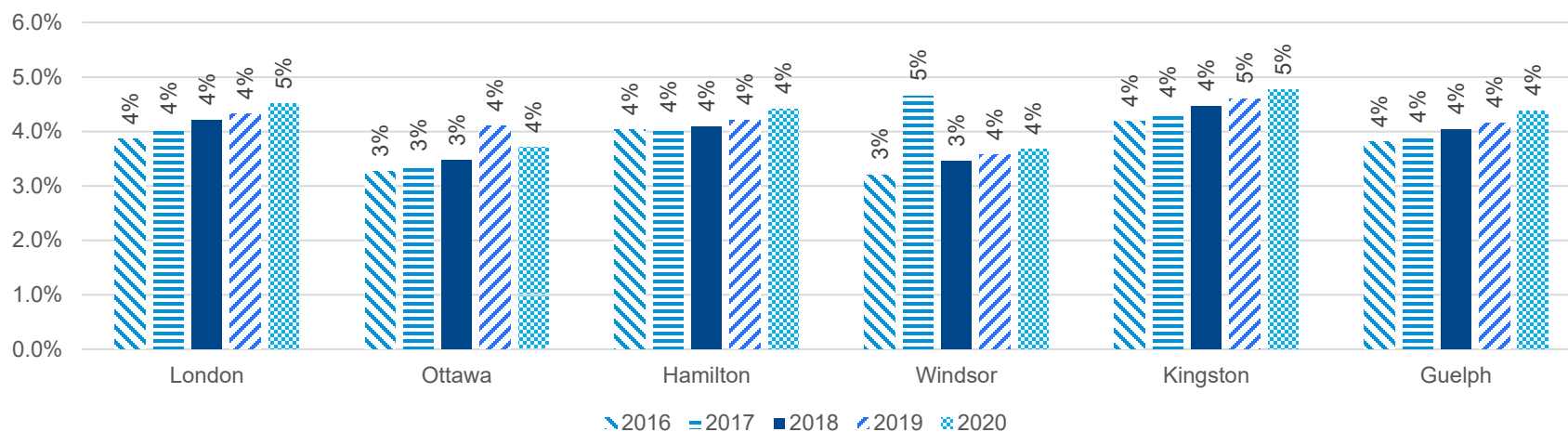
Vulnerability

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). Median household income is derived from 2016 and 2011 census data.

POTENTIAL LIMITATIONS

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



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

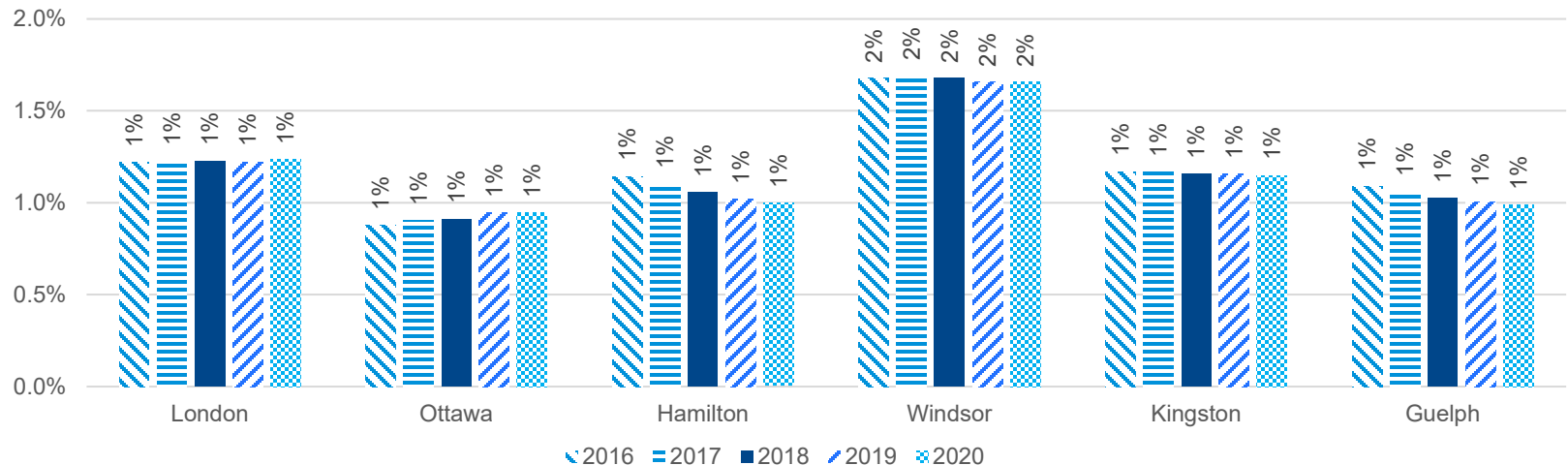


FORMULA

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).



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

Sustainability
Flexibility
Vulnerability

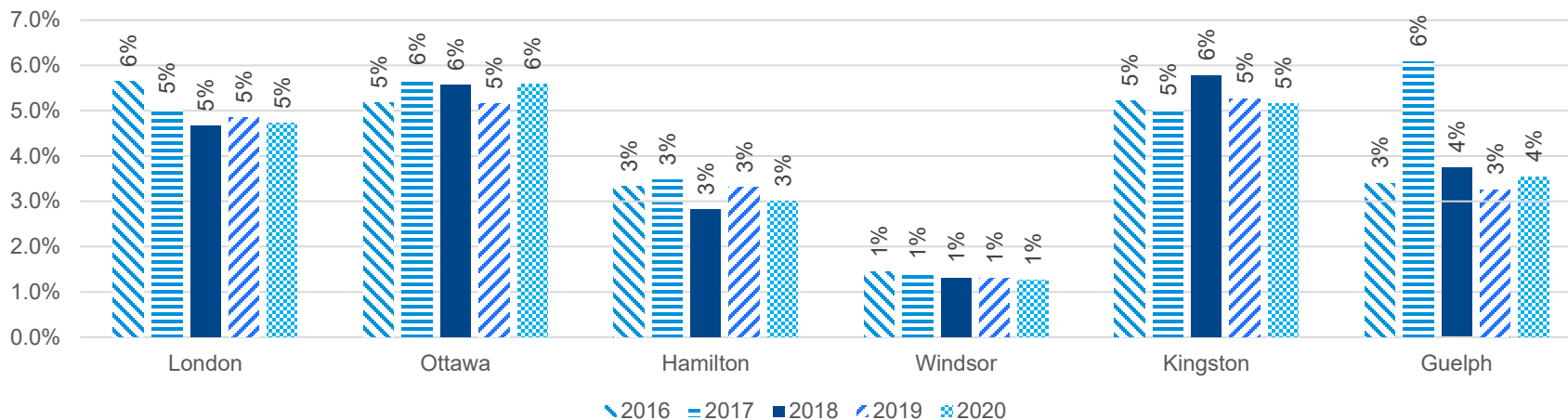


FORMULA

FIR Schedule 74C, Line 3099, Column 1 and Column 2 divided by FIR Schedule 10, Line 9910, Column 1.

POTENTIAL LIMITATIONS

- No significant limitations have been identified in connection with this indicator



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

Sustainability
Flexibility
Vulnerability

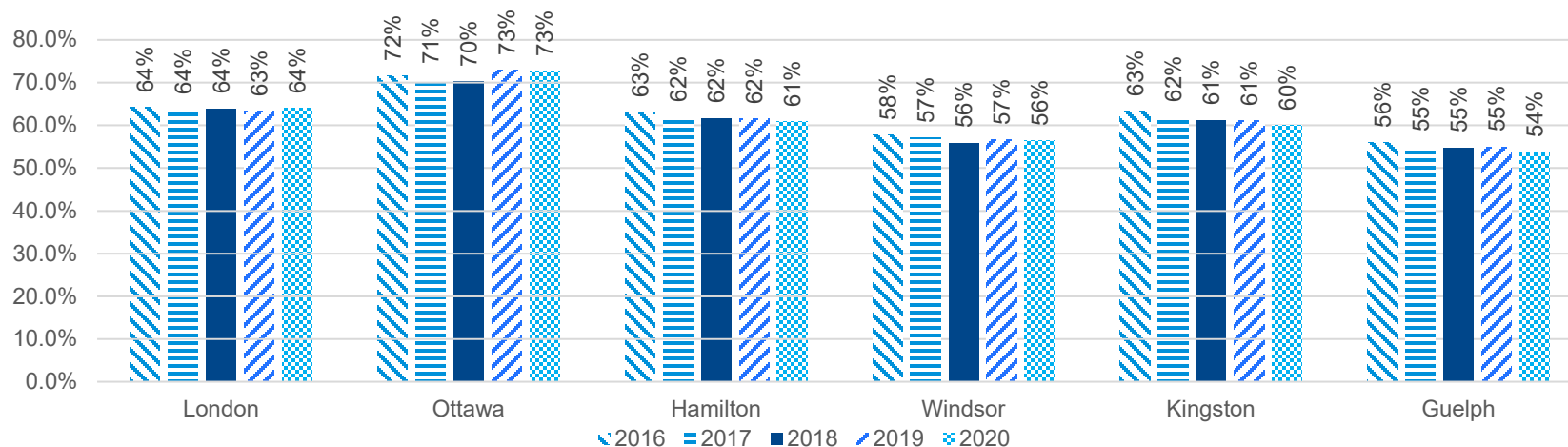


FORMULA

FIR Schedule 51A, Line 9910,
Column 11 divided by FIR
Schedule 51A, Line 9910,
Column 6.

POTENTIAL LIMITATIONS

- 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.
- This indicator is calculated on a corporate-level basis and as such, will not identify potential concerns at the departmental level.



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

Sustainability

Flexibility

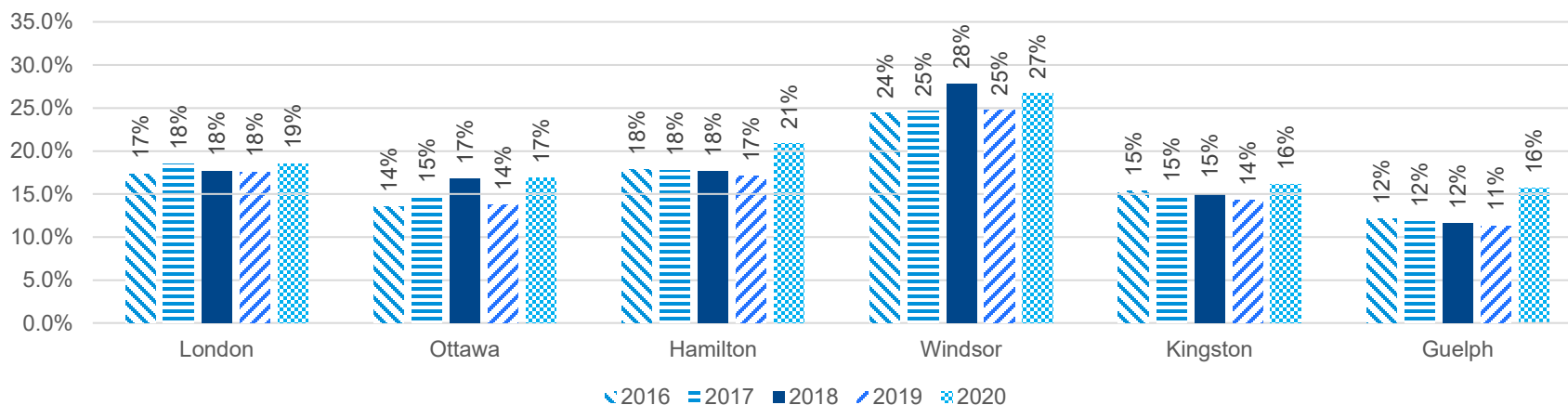
Vulnerability ✓

FORMULA

FIR Schedule 10, Line 0699, Line 0810, Line 0820, Line 0830, Column 1 divided by FIR Schedule 10, Line 9910, Column 1.

POTENTIAL LIMITATIONS

- 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.



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

Sustainability

Flexibility

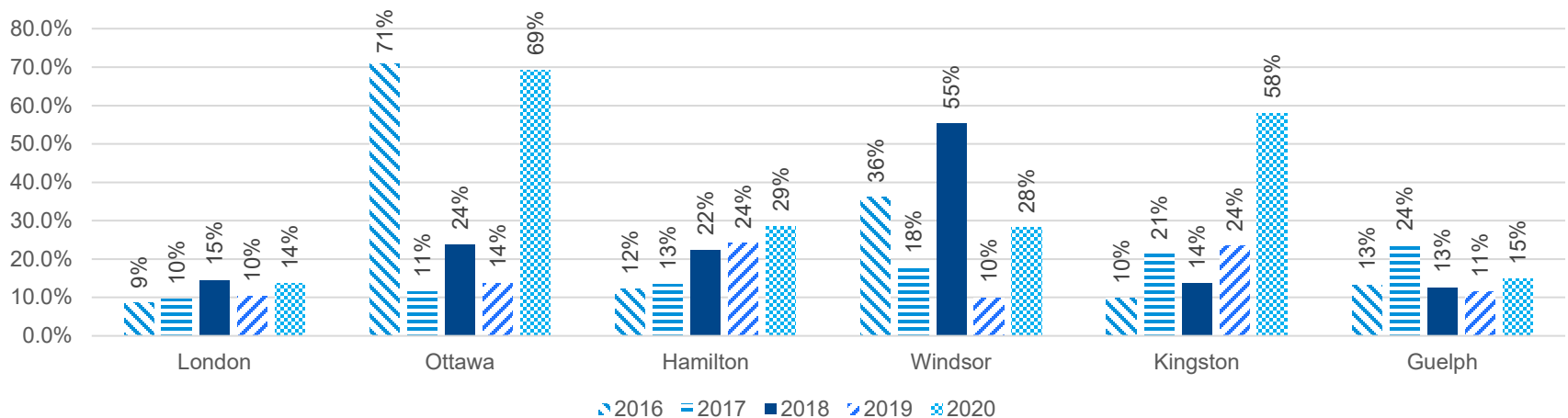
Vulnerability ✓

FORMULA

FIR Schedule 10, Line 0815,
Line 0825, Line 0831,
Column 1 divided by FIR
Schedule 51, Line 9910,
Column 3.

POTENTIAL LIMITATIONS

- 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.





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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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Appendix 5: Audit and Assurance Insights

Our latest thinking on the issues that matter most to audit committees, Council and management.

Featured insight	Summary
<u>KPMG Audit & Assurance Insights</u>	Curated research and insights for audit committees and boards
<u>COVID-19 Financial Reporting Resource Centre</u>	Resource centre on the financial reporting impacts of coronavirus
<u>Board Leadership - Audit committee insights</u>	The KPMG in Canada Board Leadership Centre (BLC) engages with directors, board members and business leaders to discuss timely and relevant boardroom challenges and deliver practical thought leadership on risk and strategy, talent and technology, globalization and regulatory issues, financial reporting, and more.
<u>Current Developments</u>	Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook.
<u>The ESG journey: Lessons from the boardroom and C-suite (kpmg.us)</u>	To build on our work in ESG, strategy and the long view, the Board Leadership Center interviewed directors and officers of major corporations, including Morgan Stanley, Tyson Foods, Ford Motor, Microsoft, Mars, and Whirlpool, among others.
<u>ESG, strategy, and the long view (kpmg.us)</u>	To help boards understand and shape the total impact of the company's strategy and operations externally—on the environment, the company's consumers and employees, the communities in which it operates, and other stakeholders—and internally, on the company's performance, this paper presents a five-part framework.
<u>Inclusion and diversity practices</u>	Getting started on the inclusion and diversity journey. Unique inclusion and diversity considerations for boards.
<u>Preparing for the ONCA transition: What organizations need to know</u>	The Ontario Not-for-Profit Corporations Act, 2020 (OCNA) has been proclaimed into force effective October 19, 2021. Find out the legal changes relevant for organizations incorporated provincially.
<u>The Future of Cities</u>	The future of cities is outcome led – leveraging informed digital technology to create an experience-centric and decentralized city model. We invite you to explore this page and unpack KPMG's global research and insights on The future of local government
<u>Accelerate</u>	The key issues driving the audit committee agenda in 2022.





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