Audit Committee

Agenda

Tuesday, March 12, 2019
2:00 p.m.

2nd Floor Council Chambers
320 Esplanade
Sydney, N.S.

Committee Members: Deputy Mayor Ivan Doncater - Chair
Councillor Clarence Prince
Councillor Ray Paruch
Councillor Darren Bruckschwaiger – Vice-Chair
Councillor Kendra Coombes
Qin (Jackie) Hou, Citizen
Ian MacLean, Citizen
CBRM Audit Committee

Agenda
March 12, 2019
2:00 p.m.

2nd Floor Council Chambers
City Hall, 320 Esplanade
Sydney, N.S.

Roll Call

1. Approval of Minutes: (previously distributed)
   - September 18, 2018

2. Approval of Agenda: (Motion Required)

3. Policy, Duties and Responsibilities of Audit Committee: Jennifer Campbell, Chief Financial Officer (See page __3__)

4. MGM & Associates, Chartered Professional Accountants – Presentation:
   a) Audit Planning Report for Year Ended March 31, 2018: Mr. Darren Chiasson, CPA, CA (See page __8__)

5. Update – 2017/18 Financial Condition Indicators: Jennifer Campbell, Chief Financial Officer (See page __25__)

Adjournment
Memo

Date: March 7, 2019
To: Members of Audit Committee
From: Jennifer Campbell, CPA, CA Chief Financial Officer
Re: Policy, Duties and Responsibilities of Audit Committee

CBRM’s Audit Committee Policy details various items for which it is responsible for oversight. To ensure there are no gaps in the fulfillment of these duties, this memo serves as a proposed timeline to ensure the committee fulfills its mandate in the coming year.

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Duty/Responsibilities</th>
<th>Meeting</th>
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</thead>
<tbody>
<tr>
<td>Key financial information that will be provided to the Province or made public</td>
<td>• Ensure that meaningful financial information regarding current financial results and up to date forecasts is received on a timely basis, and that it provides information required for decision making;</td>
<td>March</td>
</tr>
<tr>
<td>Financial Condition indicators</td>
<td></td>
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<tr>
<td>External and/or internal audit activities</td>
<td>• Review the qualifications, independence, quality of service, performance and fees of the External Auditors annually and recommend the appointment of an auditor to Council;</td>
<td>September/March</td>
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<td></td>
<td>• Review with Management and the External Auditor, the annual audited financial statements and recommend the approval to Council;</td>
<td>September</td>
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<tr>
<td></td>
<td>• Recommend approval of the audited financial statements to Council</td>
<td>September</td>
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</tbody>
</table>
While the minimum requirement is to have 2 audit committee meetings per year, given this is the inaugural year of CBRM's audit committee guided by this policy, I would propose a 3rd meeting for this year to specifically discuss current financial policies, assess banking services and discuss insurance coverage. The month of December is proposed as this provides for a timely discussion on these items in advance of budget preparation and the expiry of various service contracts.

Respectfully submitted,

Original Signed by

Jennifer Campbell, CPA, CA
Chief Financial Officer
Cape Breton Regional Municipality
Audit Committee Policy

1.0 PURPOSE:

The Audit Committee assists Municipal Council in fulfilling its oversight responsibilities relating to finance and audit matters delegated to management by Council. In particular, the Committee assists Council by reviewing:
   a. Key financial information that will be provided to the Province or made public;
   b. External and/or internal audit activities
   c. The system of internal controls, risk management and financial information technology;
   d. Cash and investment management activities;
   e. Insurance coverage and significant risks and uncertainties;
   f. Financial Condition Indicators.

2.0 SCOPE:

This Policy is applicable to all serving members of the Cape Breton Regional Municipality’s Audit Committee.

3.0 REFERENCES:


4.0 DEFINITIONS:

4.1 CAO means the Chief Administrative Officer for the Cape Breton Regional Municipality.

4.2 CFO means the Chief Financial Officer of the Cape Breton Regional Municipality.

4.2 Independent means not an employee, council member or immediate family member; and not an employee of an agency funded in whole or in part by CBRM.
5.0 POLICY, DUTIES AND RESPONSIBILITIES:

5.1 Composition

It is the responsibility of Council to ensure that audit committee members are independent, financially literate, and have the skills to serve as effective audit committee members:
- a general understanding of the Municipality’s major economic, operating, and financial risks;
- a broad awareness of the interrelationship of the Municipality’s operations and its financial reporting;
- understand the difference between the oversight function of the Committee and the decision-making function of management; and
- a willingness to challenge management, when necessary.

5.1.1 The audit committee will consist of 7 members – the Deputy Mayor, 4 Council members and two members at large.

5.1.2 The Chair shall be the Deputy Mayor.

5.1.3 Citizen appointments shall be residents of the Cape Breton Regional Municipality, be independent, and possess a professional accounting designation.

5.1.4 Citizen appointments will serve 2 year terms and will rotate off in opposite years to maintain continuity. In the first year, one of the members at large will sit for a two year term with an option to extend for an additional 1 year term.

5.1.5 All Committee members serve without pay.

5.2 Audit

5.2.1 Review the qualifications, independence, quality of service, performance and fees of the External Auditors annually and recommend the appointment of an auditor to Council;

5.2.2 Carry out the responsibilities of an Audit Committee contained in Section 44 of the Municipal Government Act;
   a. Review with Management and the External Auditor, the annual audited financial statements and recommend the approval to Council;
   b. Review with Management, the internal control management letter received from the auditors and recommend any changes to Council, as required;
   c. Review of such matters arising out of the audit as may appear to the audit committee to require investigation;
   d. Inquire into any activities or transactions that may be illegal, questionable or unethical;
   e. Review the overall reasonableness of CAO, Mayor and Council travel and hospitality expenses;
   f. Such other matters as may be determined by Council to be the duties of an audit committee.
5.2.3 Recommend approval of the audited financial statements to Council.

5.3 Finance and Risk Management

5.3.1 Ensure that meaningful financial information regarding current financial results and up to date forecasts is received on a timely basis, and that it provides information required for decision making;

5.3.2 Review with Management annually all financial policies including those used in the preparation of the external financial statements;

5.3.3 Review with Management the adequacy of internal controls;

5.3.4 Review with Management the adequacy and use of reserve and surplus funds;

5.3.5 Review with Management annually risk management practices including adequacy of insurance coverage for significant risks and uncertainties.

5.3.6 Periodically assess banking services, oversee the procurement of these services in accordance with Council policy, and recommend any changes to Council.

5.4 Administration

5.4.1 The Committee shall meet at least twice during each fiscal year.

5.4.2 Additional meetings may be necessary to review items relating to the audit and will be called by the Chair.

5.4.3 The CAO and CFO will provide staff support to the Committee.

5.4.4 The agenda will be agreed upon by the Committee Chair, CAO, and CFO.

5.4.5 The Committee shall meet with the external auditors as it deems appropriate to consider any matter the Committee or auditors determine should be brought to the attention of Council;

5.4.6 There may be an occasional need for the auditor to meet with the Committee without staff present. This can be initiated by either party.

5.4.7 The Committee may also call upon the expertise from external sources (e.g. actuaries, finance professionals) to assist with committee business as required.

Approved by Council: March 7, 2018

Cape Breton Regional Municipality
Audit Planning Report

Cape Breton Regional Municipality

Year ended March 31, 2019
Contents

Audit plan for Audit Committee approval

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This Audit Planning Report is prepared for the year ending March 31, 2019 and is designed to provide an overview for the Audit Committee of the Municipality of the audit procedures to be performed by MGM & Associates in discharging its audit responsibilities.

This Audit Planning Report is confidential and intended solely for the use of the Audit Committee with respect to carrying out and discharging their responsibilities and should not be used for any other purposes. No responsibility for loss or damages, if any, to any third party is accepted as this report has not been prepared for, and is not intended for, any other purposes.
Key Responsibilities Regarding Financial Reporting

Management

Audit Committee

Independent Auditors
**Our Audit Process**

### Risk Assessment

- **Client Acceptance**
  - Preliminary procedures
  - Audit pre-conditions

- **Planning**
  - Team Discussions
  - Overall Audit Strategy

**Risk Assessment Procedures**

- Assumed Risks of Material Misstatement of the Financial Statement & Assertion Levels

### Risk Response

- **Overall Responses**
- **Design Further Audit Procedures**

- **Perform Procedures**
  - Tests of Detail
  - Tests of Control

- **Sufficient Appropriate Audit Evidence**

### Reporting

- **Evaluate the Audit Evidence Obtained**

- **Form Opinion**
  - Tests of Detail
  - Analytical Procedures

- **Conclusions Drawn Based on Evidence Obtained**
Planning: Materiality

Materiality (definition): A misstatement in the financial statements that is likely to change or influence the decisions of persons relying on the financial statements. Materiality takes into account both quantitative and qualitative factors.

Management
- Consider quantitative and qualitative materiality factors
- Assess misstatements, individually and collectively
- Correct all material misstatements
- Must not make intentional misstatements even if not material
- Provide written representation re immateriality, individually and collectively, of uncorrected audit differences

Independent Auditors
- Understand management’s process for identifying, communicating and correcting misstatements
- Consider whether misstatements are indicative of fraud
- Recommend management correct all misstatements
- Communicate corrected and uncorrected misstatements to management and the Audit Committee

Audit Committee
- Understand management’s process for identifying, communicating and correcting misstatements
- Understand management’s tolerance for uncorrected misstatements
- Monitor “tone at the top”
- Discuss corrected and uncorrected misstatements
- Encourage management to correct all misstatements
Planning: Materiality

Quantitative Measure of Materiality for Planning Purposes

- We define a level of materiality to provide a quantitative starting point for planning the precision of our audit.

Reporting Materiality

- Reporting materiality is the threshold we use to determine whether corrections must be made at the completion of the audit.
- As part of our Audit Findings Report, we will communicate to you all corrected misstatements identified by us during the audit as well as uncorrected misstatements identified by us during the audit that management has determined to be immaterial.
- At that time, we will discuss with you the reporting materiality for the Municipality.
Planning: Fraud and Error

A number of legal, regulatory and standard-setting initiatives have created increased expectations of management, Audit Committees and Auditors to prevent, detect and remediate fraud.

CPA Canada Assurance Handbook Section 340, The Auditor’s Responsibility Related to Fraud in the Audit of Financial Statements, includes a requirement for audit procedures directed at testing for fraud. The objective of these procedures is as follows:

- To identify any fraud risk factors that may increase the risk that the financial statements could be materially misstated; and,
- To address any factors identified in a manner sufficient to obtain reasonable assurance that the financial statements are free from any material misstatements arising from fraud or error.

Specific audit procedures which we will perform to address this issue include:

- Risk assessments at the planning stage.
- Specific enquiries of management, the Audit Committee and others within the Municipality.
- Obtain an understanding of how the Audit Committee exercises oversight of management’s processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Procedures to address the risk of management override of controls, such as journal entry testing.
- Procedures around revenue recognition, presumed by professional standards to be a risk factor.
- Focused review of accounting estimates/judgment areas.
- Testing of mitigating controls and additional substantive testing as required.
- Full consideration of the qualitative effects of each misstatement or potential misstatement identified – amount, nature and direction to determine whether any indications of fraudulent financial reporting exist.
Planning: Fraud and the Role of the Audit Finance Committee

Those charged with governance of an entity, in particular the Audit Committee in its oversight of the financial reporting process, have responsibility for the Municipality’s systems for monitoring risk, financial reporting and compliance with the law. This includes the oversight of the Municipality’s process for identifying the risks of fraud and of the internal control the Municipality has established to mitigate specific fraud risks identified.

As your auditors we are required to make the following enquiries of the Audit Committee:

- Does the Audit Committee have any knowledge of any actual, suspected or alleged fraud affecting the Municipality?
- Have there been any changes in the way in which the Audit Committee exercises its oversight of (a) management’s processes for identifying and responding to risks of fraud and error and (b) the internal controls that management has established to mitigate these risks?
- Does the Audit Committee still share the view that the risks of fraud at the Municipality are low?
# Planning: Audit Response Identified Financial Reporting Risks on Significant Accounts or Disclosures

<table>
<thead>
<tr>
<th>Significant Accounts and Disclosures</th>
<th>Inherent Risks</th>
<th>Planned Audit Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Relevant assertions</td>
<td>Risk of Error</td>
</tr>
<tr>
<td>Cash and bank indebtedness</td>
<td>CEA</td>
<td>Moderate</td>
</tr>
<tr>
<td>Taxes receivable</td>
<td>CEAV</td>
<td>Low</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>CEAV</td>
<td>Low</td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>CEA</td>
<td>Moderate</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>CEA</td>
<td>Low</td>
</tr>
</tbody>
</table>

(1) An account balance is considered "significant" if there is more than a remote likelihood that an account could contain misstatements that individually, or when aggregated with others, could have a material effect on the financial statements. All note disclosures are considered significant.

(2) Relevant assertions have been abbreviated as follows: completeness (C), existence (E), accuracy (A), valuation (V), rights and obligations (R), presentation (P).

(3) Inherent risk is the susceptibility of a financial statement assertion to misstatement due to error or fraud, which could be material either individually or when aggregated with other misstatements, assuming that there were no related internal controls.

(4) Fraud risk is the susceptibility of an account to be misstated because of fraudulent financial reporting or misappropriation of assets.
# Planning: Audit Response Identified Financial Reporting Risks on Significant Accounts or Disclosures

<table>
<thead>
<tr>
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<th>Planned Audit Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Relevant assertions</td>
<td>Risk of error</td>
</tr>
<tr>
<td>Accrued employee benefits</td>
<td>CEAV</td>
<td>Yes</td>
</tr>
<tr>
<td>Solid waste management facilities liabilities</td>
<td>CEA</td>
<td>Yes</td>
</tr>
<tr>
<td>Long-term debt/capital lease</td>
<td>CEA</td>
<td>Low</td>
</tr>
<tr>
<td>Tangible capital assets and work in progress</td>
<td>CEAV</td>
<td>Low</td>
</tr>
</tbody>
</table>

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### Planning: Audit Response Identified Financial Reporting Risks on Significant Accounts or Disclosures

<table>
<thead>
<tr>
<th>Significant Accounts and Disclosures</th>
<th>Inherent Risks&lt;sup&gt;3&lt;/sup&gt;</th>
<th>Planned Audit Approach</th>
<th>Involvement of Others</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Relevant assertions&lt;sup&gt;2&lt;/sup&gt;</td>
<td>Risk of Error</td>
<td>Risk of fraud&lt;sup&gt;4&lt;/sup&gt;</td>
</tr>
<tr>
<td>Inventory, prepaid expenses and other</td>
<td>CEA</td>
<td>Low</td>
<td>No</td>
</tr>
<tr>
<td>Tax revenue</td>
<td>CEA</td>
<td>Low</td>
<td>Yes</td>
</tr>
<tr>
<td>Water rate revenue</td>
<td>CEA</td>
<td>Low</td>
<td>Yes</td>
</tr>
<tr>
<td>Grants in lieu of taxes</td>
<td>CEA</td>
<td>Low</td>
<td>No</td>
</tr>
<tr>
<td>Other revenues</td>
<td>CEA</td>
<td>Low</td>
<td>Yes</td>
</tr>
<tr>
<td>Payroll expense</td>
<td>CEA</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>All other expenses</td>
<td>CEA</td>
<td>Low</td>
<td>Yes</td>
</tr>
</tbody>
</table>

<sup>1</sup> An account balance is considered “significant” if there is more than a remote likelihood that an account could contain misstatements that individually, or when aggregated with others, could have a material effect on the financial statements. All note disclosures are considered significant.

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<sup>4</sup> Fraud risk is the susceptibility of an account to be misstated because of fraudulent financial reporting or misappropriation of assets.
Executing the Audit Service Team

Darren Chiasson, CPA, CA
Lead Audit Engagement Partner

- Serves as primary contact for your Audit Committee and management. Has the overall authority and responsibility for the audit engagement and key conclusions reached by the engagement team on all accounting, auditing and tax matters.

Sonny MacDougall, CPA, CA
Quality Control Partner

- Responsible for providing technical assistance to the audit team throughout all aspects of the audit. Will ensure the design of an efficient audit and assist in the review of major issues as they arise. Brings to the team technical strength along with diversified audit experience to help ensure that the lead audit engagement partner has the resources to meet the needs of the audit committee and management.

Jerred Stephenson, CPA, CA
Audit Manager

- Serves as the audit liaison between the Municipality and MGM & Associates. Responsible for planning the audit, scheduling and supervising the professionals who perform the day-to-day audit work for your organization, reporting directly to the lead partner.
## Audit Timetable

<table>
<thead>
<tr>
<th></th>
<th>April</th>
<th>June</th>
<th>July</th>
<th>Aug</th>
<th>Sept</th>
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</thead>
<tbody>
<tr>
<td>Audit Committee reporting</td>
<td></td>
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<tr>
<td>deliverables</td>
<td></td>
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<td>Audit</td>
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<td>plan</td>
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<td>Audit</td>
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<tr>
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<td>findings</td>
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<tr>
<td>Testing &amp; process</td>
<td>Interim</td>
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<td></td>
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<tr>
<td>documentation</td>
<td></td>
<td></td>
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<tr>
<td>Substantive procedures</td>
<td></td>
<td></td>
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<td>Year end audit work</td>
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</tbody>
</table>
Current Context for our Audit
Maintaining our Independence

Independence Requirements

- Auditor reports to Audit Committee
- Audit Committee pre-approval of all MGM & Associates' services
- Compensation of audit partners on audit team
- Communication
Audit Fees and Assumptions

- We estimated our audit fees for the year ending March 31, 2019 to be $45,000.

These fees are based on the following assumptions:

- Management will be available to us as necessary throughout the audit process.

- We find no material weaknesses or other deficiencies in internal control over financial reporting that have a significant effect on our audit approach.

- Regular communication on plans and progress.
<table>
<thead>
<tr>
<th>Nature of service</th>
<th>April 30, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit related</td>
<td>✔️</td>
</tr>
<tr>
<td>Tax</td>
<td>✔️</td>
</tr>
<tr>
<td>Non-audit related</td>
<td></td>
</tr>
</tbody>
</table>

Audit of financial statements for the year ended March 31, 2019 in accordance with Canadian generally accepted auditing standards.

Capital compliance audits, as required.
Memo

Date: March 5, 2019
To: Members of Audit Committee
From: Jennifer Campbell, CPA, CA Chief Financial Officer
Re: Update – 2017/18 Financial Condition Indicators

During the September 2018 audit committee meeting when the 2018 year end audited financial statements were presented, preliminary calculations of the financial condition indicators were also included as part of the Year End Financial Report package.

The Department of Municipal Affairs has completed its review of our Financial Information Return for 2017-18 which forms the basis of the FCI calculations. The results of their review are attached for information purposes. The report confirms the draft calculations presented in September 2018, with no discrepancies noted. The final Municipal Report prepared by the Province of NS on the CBRM will be published on the DMA website at a future date.

Respectfully submitted,

Jennifer Campbell, CPA, CA
Chief Financial Officer
Financial Condition Indicators Graph

Reading the Graph
The House graphic presents indicators scores and are colour coded to indicate overall risk level. (Low risk is green, moderate risk is yellow and high risk is red.) The graph allows users to graphically pinpoint priority areas for actions as well as areas of success.

![Image of House with boxes for financial indicators]

Please refer to the "Detailed Results" pages for comparative information.
## Detailed Results

### FCI - Base Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2016</th>
<th>2017</th>
<th>+/-</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>3-year Change in Tax Base</strong>: This indicator measures how a municipality's tax base keeps pace with inflation.</td>
<td>7.3%</td>
<td>10.9%</td>
<td>-3.6%</td>
</tr>
<tr>
<td><strong>Reliance on a Single Business or Institution</strong>: This indicator speaks to the municipality's reliance on one employer for a significant portion of their tax base. Over reliance on any source of revenue can represent a vulnerability.</td>
<td>1.5%</td>
<td>1.1%</td>
<td>0.5%</td>
</tr>
<tr>
<td><strong>Residential Tax Effort</strong>: Residential tax effort is the average property tax burden per household in the municipality. This indicator speaks to the municipality's flexibility to increase taxes if additional revenue is required.</td>
<td>2.7%</td>
<td>2.7%</td>
<td>0.1%</td>
</tr>
</tbody>
</table>

*Source: Financial Information Ream (FIR) for the year ended March 31, 2016*

- Low Risk
- Moderate Risk
- High Risk
## Detailed Results

### FCI - Structure Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2016</th>
<th>2017</th>
<th>+/-</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Uncollected Taxes:</strong> This indicator speaks to a municipality’s success in collecting revenues owed. Failure to collect taxes can significantly impact actual revenue, cash flow, and thereby could hinder their ability to provide services.</td>
<td>17.7%</td>
<td>16.7%</td>
<td>0.9%</td>
</tr>
<tr>
<td><strong>Budget Accuracy:</strong> This indicator speaks to the municipality’s success at projecting the revenue required to maintain a balanced operating budget.</td>
<td>5/5</td>
<td>5/5</td>
<td>0</td>
</tr>
<tr>
<td><strong>Operating Reserve:</strong> This indicator speaks to whether the municipality is setting aside funds to address unforeseen circumstances.</td>
<td>5.1%</td>
<td>6.5%</td>
<td>-1.4%</td>
</tr>
<tr>
<td><strong>Debt Services:</strong> This indicator speaks to how much of municipal revenue is going towards paying off debt.</td>
<td>14.3%</td>
<td>14.9%</td>
<td>-0.6%</td>
</tr>
<tr>
<td><strong>Outstanding Operating Debt:</strong> This measure calculates the municipality’s borrowing limit per the MGA Section 84.</td>
<td>12.0%</td>
<td>13.4%</td>
<td>-1.4%</td>
</tr>
<tr>
<td><strong>Undepreciated Assets:</strong> This indicator speaks to the age of the municipality’s existing capital assets (in relation to useful life).</td>
<td>61.3%</td>
<td>62.9%</td>
<td>-1.5%</td>
</tr>
</tbody>
</table>

Source: Financial Information Return (FIR) for the year ended March 31, 2018

*Based on feedback from municipalities and further research, how to assess the budget accuracy risk has been enhanced for 2016. For details, please refer to Appendix I.*

Low Risk: Moderate Risk: High Risk
## Detailed Results

### FCI - Roof (Key) Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2018</th>
<th>2017</th>
<th>+/-</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deficits in the Last 5 Years</strong>: This indicator speaks to the number of the deficits a municipality experienced in the last 5 years. A high number of deficits may indicate a municipality is struggling to meet services. If there is a deficit, further investigation would be required to determine the size and cause of the deficit.</td>
<td>0/5</td>
<td>0/5</td>
<td>0</td>
</tr>
<tr>
<td><strong>Liquidity</strong>: This Indicator speaks to whether the municipality has enough cash to pay bills as they come due. This indicator can highlight any cash flow problems or signal concerns in other areas such as potential revenue collection.</td>
<td>1.1</td>
<td>1.1</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Reliance on Government Transfers</strong>: This indicator speaks to municipality’s reliance on transfers from other government(s).</td>
<td>12.5%</td>
<td>12.9%</td>
<td>-0.3%</td>
</tr>
<tr>
<td><strong>Combined Reserve</strong>: This indicator speaks to whether the municipality is investing enough to keep pace with the aging of existing assets, and unforeseen circumstances.</td>
<td>5.3%</td>
<td>7.3%</td>
<td>-2.0%</td>
</tr>
</tbody>
</table>

Source: Financial Information Return (FIR) for the year ended March 31, 2018

Note: * Moderate Risk (Yellow) if one or more deficits in the last 5 years/High Risk (Red) if one or more deficits in the last 2 years with one material deficit (0.5% of Total Operating Expenses).  
** The result may not reflect an impact of PSA3 related liabilities (e.g., Pension Liabilities, Landfill Closure and Post Closure Liabilities, or Deferred Gas Tax Revenue) that are recorded only in the consolidated financial statements.

- Low Risk
- Moderate Risk
- High Risk

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Cape Breton Regional Municipality
## Appendix I - FCI Thresholds

### FCI - Base Indicators

<table>
<thead>
<tr>
<th>Indicator Name / Rationale</th>
<th>Thresholds</th>
<th>Interpretations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>3-year Change in Tax Base</strong></td>
<td></td>
<td><strong>Low Risk</strong></td>
</tr>
<tr>
<td>This indicator illustrates the growth in property assessment. Municipalities rely heavily on the property tax to fund services; therefore, healthy growth in property tax is important to a municipality's financial position. If growth in assessments does not keep pace with inflation, it is a sign that the municipality may have trouble maintaining the current service levels without raising the tax rate.</td>
<td>Equal or Greater than Consumer Price Index (CPI) rate - 4.4% for 2018 year.</td>
<td>• A percentage lower than the CPI rate indicates property assessments are growing slower than the inflation.</td>
</tr>
<tr>
<td><strong>Reliance on a Single Business or Institution</strong></td>
<td>Less than 10%</td>
<td>• A low percentage indicates that the municipality may not rely on a single business or institution for a large part of its tax revenue.</td>
</tr>
<tr>
<td>This indicator shows how much a municipality's tax base depends on a single commercial or institutional account. Government Finance Officers Association (GFOA) recommends that municipalities are aware of any reliance on a single industry or employer when making financial plans including budgeting and establishing reserves.</td>
<td>10% to 15%</td>
<td>• A high percentage indicates that the municipality may have a greater reliance on a single business or institution for its tax revenue. Often a large tax account will be a key part of the local economy, so a major operational change or business closure can have a significant impact on the municipality and the community's economic health.</td>
</tr>
<tr>
<td><strong>Residential Tax Effort</strong></td>
<td>Greater than 15%</td>
<td>• A lower result suggests the municipality may have more flexibility to increase the tax rate.</td>
</tr>
<tr>
<td>This indicator shows how much of a household's income is required to pay the average tax bill. This indicator combines two other indicators: residential tax burden and median household income to provide a comparison for relative tax burden rather than simply comparing property tax rates. Measures of tax burden and effort are important so that council can assess the affordability of taxes in relation to service levels when setting a municipality's budget.</td>
<td>Less than 4%</td>
<td>• A higher result suggests that the municipality may have less flexibility to increase the tax rate, if additional revenue is required.</td>
</tr>
<tr>
<td></td>
<td>4% to 6%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Greater than 6%</td>
<td></td>
</tr>
</tbody>
</table>
## Appendix I - FCI Thresholds

### FCI - Structure Indicators

<table>
<thead>
<tr>
<th>Indicator Name / Rationale</th>
<th>Thresholds</th>
<th>Interpretations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Uncollected Taxes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>This indicator measures how much of current and previous years' taxes were not collected at year end, compared to the current taxes billed. Failure to collect taxes can significantly impact actual revenue, cash flow, and thereby could hinder their ability to provide services. The potential lost or delayed tax revenue could threaten the financial health of the municipality.</td>
<td>![Low Risk] Less than 10%</td>
<td>• A low percentage indicates the municipality is managing tax revenue collection.</td>
</tr>
<tr>
<td></td>
<td>![Moderate Risk] 10% to 15%</td>
<td>• A high percentage may indicate the municipality is having trouble monitoring and collecting overdue tax accounts.</td>
</tr>
<tr>
<td></td>
<td>![High Risk] Greater than 15%</td>
<td></td>
</tr>
<tr>
<td><strong>Budget Accuracy</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>It is important that municipalities can accurately project revenues and expenditures. Difficulty projecting revenues and expenditures may lead to future deficits, and can make longer term budgeting decisions and strategic planning challenging.</td>
<td>For the last 5 years, expenditures budget vs. actual variance is within ±6%; or expenditures and revenue variances are within ±3% of each other.</td>
<td>![Low Risk] Less than 4 of the last 5 years, expenditures budget vs. actual variance is within ±6%; or expenditures and revenue variances are within ±3% of each other.</td>
</tr>
<tr>
<td></td>
<td>![High Risk] Greater than 4 of the last 5 years, expenditures budget vs. actual variance is within ±6%; or expenditures and revenue variances are within ±3% of each other.</td>
<td>• Low risk (green) indicates the municipality had greater success in maintaining a balanced operating budget.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• High risk (red) indicates the municipality did not consistently maintain a balanced operating budget.</td>
</tr>
<tr>
<td><strong>Operating Reserves</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>This indicator shows the total value of funds held in operating reserves compared to a single year's operating budget. Reserves can play an important role in prudent budget planning.</td>
<td>Greater than 20%</td>
<td>![High Risk] Greater than 20%</td>
</tr>
<tr>
<td></td>
<td>10% to 20%</td>
<td>• A low percentage indicates less flexibility to address unexpected events in the future, which could put the municipality in a deficit position.</td>
</tr>
<tr>
<td></td>
<td>Less than 10%</td>
<td></td>
</tr>
</tbody>
</table>
## Appendix I - FCI Thresholds

### FCI - Structure Indicators (continued)

<table>
<thead>
<tr>
<th>Indicator Name / Rationale</th>
<th>Thresholds</th>
<th>Interpretations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Debt Service</strong></td>
<td></td>
<td>✦ A low number may indicate that the municipality has deferred capital projects to keep the debt load low. This may also indicate that the municipality has prudent financial debt management.</td>
</tr>
<tr>
<td>Municipalties are not allowed to incur debt because of operating deficits, but they can borrow funds to purchase/construct capital assets. The debt service result provides an indication of how much of a municipality's revenue is devoted to debt repayment. Own source revenue is used instead of total revenue to allow analysis of only the revenue within council's control.</td>
<td>Less than 10%</td>
<td>✦ A high number may indicate the municipality has borrowed a large amount of debt. This could limit its ability to borrow in the future, and paying the debt expense will tie up operating revenue. However, it is important to note that a municipality with an aggressive debt repayment schedule will have a higher debt service indicator due to the larger principal payments.</td>
</tr>
<tr>
<td></td>
<td>10% to 15%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Greater than 15%</td>
<td></td>
</tr>
<tr>
<td><strong>Outstanding Operating Debt</strong></td>
<td></td>
<td>✦ A low percentage may indicate that a municipality is covering the annual current expenditures without a high reliance on borrowing.</td>
</tr>
<tr>
<td>This measure calculates the municipality's borrowing limit per the MGA Section 84. A municipality may borrow to cover the annual current expenditures of the municipality that has been authorized by the council, but their borrowing can not exceed 50% of the combined total of the taxes levied and government transfers.</td>
<td>Less than 25%</td>
<td>✦ A high percentage may indicate that a municipality has a high debt load relative to their revenue base.</td>
</tr>
<tr>
<td></td>
<td>25% to 50%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Greater than 50%</td>
<td></td>
</tr>
<tr>
<td><strong>Undepreciated Assets</strong></td>
<td></td>
<td>✦ A lower percentage indicates older infrastructure. It does not necessarily indicate the condition of the assets. Some older assets still could be in a good working condition.</td>
</tr>
<tr>
<td>This indicator provides an estimate of the useful life left in the municipality's capital assets. Municipalities across Canada are facing significant infrastructure challenges. Therefore, it is important to keep informed of the age and condition of its capital assets to ensure they are making timely and appropriate investments.</td>
<td>More than 50%</td>
<td>✦ A higher percentage indicates newer infrastructure.</td>
</tr>
<tr>
<td></td>
<td>35% to 50%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Less than 35%</td>
<td></td>
</tr>
</tbody>
</table>
## Appendix I - FCI Thresholds

### FCI - Roof (Key) Indicators

<table>
<thead>
<tr>
<th>Indicator Name / Rationale</th>
<th>Thresholds</th>
<th>Interpretations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deficits in the Last 5 Years</strong></td>
<td></td>
<td>• Several deficits in a 5-year period may indicate financial difficulty. However, results should be interpreted in context; unpredictable events beyond the control of a municipality can significantly affect its budgeted revenues or expenditures. Further investigation is required to determine the size and cause of any deficit.</td>
</tr>
<tr>
<td>Deficits are an important indication of financial health for municipalities. All municipalities are required to prepare balanced operating budgets. Any operating deficits incurred are required to be repaid in the following budget year.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Liquidity</strong></td>
<td></td>
<td>• A liquidity below 1.0 indicates that the municipality has less cash and assets that are easily converted to cash on hand than the amount required to pay current obligations.</td>
</tr>
<tr>
<td>Liquidity is a key short-term financial performance indicator. Low liquidity can indicate a cash flow problem, and may indicate concern in other areas such as revenue collection.</td>
<td></td>
<td>• A municipality with an exceptionally high liquidity may be better served by investing in instruments that will earn interest revenue.</td>
</tr>
<tr>
<td><strong>Reliance on Government Transfers</strong></td>
<td></td>
<td>• A low indicator may indicate higher self-sufficiency; therefore, might provide council increased autonomy in making decisions.</td>
</tr>
<tr>
<td>This indicator measures how much of total revenues come from government transfers. This assesses a municipality's level of independence in making decisions.</td>
<td></td>
<td>• A high score may indicate a higher dependency on government transfers which could limit councils' autonomy in making decisions.</td>
</tr>
<tr>
<td><strong>Combined Reserves</strong></td>
<td></td>
<td>• A low percentage may indicate the municipality has limit flexibility to offset unexpected losses or increases in expenses.</td>
</tr>
<tr>
<td>This indicator provides the total value of funds aside for planned future needs (e.g. capital projects), to smooth expenses (e.g. winter road maintenance reserve) or for the unexpected expenses.</td>
<td></td>
<td>• A high percentage would indicate that a municipality is setting aside money for future needs.</td>
</tr>
</tbody>
</table>