CBRM *A Community of Communities*

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

CBRM A Community of Communities

Cape Breton Regional Municipality

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 fulfilment of these duties, this memo serves as a proposed timeline to ensure the committee fulfils its mandate in the coming year.

Purpose	Duty/Responsibilities	Meeting
Key financial information that will be provided to the Province or made public **Financial Condition Indicators**	• 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;	March
External and/or internal audit activities	• Review the qualifications, independence, quality of service, performance and fees of the External Auditors annually and recommend the appointment of an auditor to Council;	September/March
	• Review with Management and the External Auditor, the annual audited financial statements and recommend the approval to Council;	September
	• Recommend approval of the audited financial statements to Council	September

The system of internal controls, risk management and financial information technology	• Review with Management, the internal control management letter received from the auditors and recommend any changes to Council, as required	September
	• Review with Management the adequacy of internal controls;	September/March
	• Review of such matters arising out of the audit as may appear to the audit committee to require investigation	September/March
	• Inquire into any activities or transactions that may be illegal, questionable or unethical;	September
	• Review the overall reasonableness of CAO, Mayor and Council travel and hospitality expenses	September
	• Review with Management annually all financial policies including those used in the preparation of the external financial statements	December
Cash and investment management activities	• Review with Management the adequacy and use of reserve and surplus funds;	September
	• Periodically assess banking services, oversee the procurement of these services in accordance with Council policy, and recommend any changes to Council.	December
Insurance coverage and significant risks and uncertainties	• Review with Management annually risk management practices including adequacy of insurance coverage for significant risks and uncertainties.	December

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:

3.1 *Nova Scotia Municipal Government Act* (MGA).

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 he 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

MGM & Associates
Chartered Professional Accountants

Audit Planning Report

Cape Breton Regional Municipality

Year ended March 31, 2019

March 12, 2019

MGM & Associates
Chartered Professional Accountants

Contents

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.

MGM & Associates
Chartered Professional Accountants

Key Responsibilities Regarding Financial Reporting

Audit Deliverables

Audit Committee
- Audit Planning Report
- Audit Findings Report
- Management Letter

Council
- Audit opinion on financial statements in accordance with Canadian generally accepted accounting principles

Provincial Government
- Audited Financial Statements
- Management Letter

Our Audit Process

Risk Assessment

Client Acceptance

Planning

Preliminary procedures
Audit pre-conditions

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

Significant Accounts and Disclosures [1]	Inherent Risks[3]			Planned Audit Approach				
				Selected controls		Substantive analytical procedures	Substantive tests of detail	Involvement of others
	Relevant assertions[2]	Risk of Error	Risk of fraud[4]	Evaluate design and implementation	Test operating effectiveness			
Cash and bank indebtedness	CEA	Moderate	Yes	Yes	Yes	No	Yes (confirmation)	Yes (confirmation)
Taxes receivable	CEAV	Low	No	Yes	Yes	Yes	Yes	No
Accounts receivable	CEAV	Low	No	Yes	Yes	Yes	Yes	No
Accounts payable and accrued liabilities	CEA	Moderate	Yes	Yes	Yes	Yes	Yes	No
Deferred revenue	CEA	Low	No	No	No	No	Yes	No

(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

Significant Accounts and Disclosures [1]	Inherent Risks[3]			Planned Audit Approach				
	Relevant assertions[2]	Risk of Error	Risk of fraud[4]	Selected controls: Evaluate design and implementation	Selected controls: Test operating effectiveness	Substantive analytical procedures	Substantive tests of detail	Involvement of others
Accrued employee benefits	CEAV	Yes	No	No	No	Yes	No	No
Solid waste management facilities liabilities	CEA	Yes	No	No	No	Yes	No	No
Long-term debt/ capital lease	CEA	Low	No	No	No	Yes	Yes (confirmation)	Yes (confirmation)
Tangible capital assets and work in progress	CEAV	Low	Yes	Yes	No	Yes	No	No

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MGM & Associates
Chartered Professional Accountants

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

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				Selected controls		Substantive analytical procedures	Substantive tests of detail	Involvement of others
	Relevant assertions[2]	Risk of Error	Risk of fraud[4]	Evaluate design and implementation	Test operating effectiveness			
Inventory, prepaid expenses and other	CEAV	Low	No	No	No	Yes	Yes	No
Tax revenue	CEA	Low	Yes	Yes	Yes	Yes	Yes	No
Water rate revenue	CEA	Low	Yes	Yes	Yes	Yes	Yes	No
Grants in lieu of taxes	CEA	Low	No	No	No	Yes	Yes	No
Other revenues	CEA	Low	Yes	Yes	No	Yes	Yes	No
Payroll expense	CEA	Yes	Yes	Yes	Yes	Yes	Yes	No
All other expenses	CEA	Low	Yes	Yes	Yes	Yes	Yes	No

(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.

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MGM & Associates
Chartered Professional Accountants

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

	April	June	July	Aug	Sept
Audit Committee reporting deliverables		Audit plan			Audit findings
Testing & process documentation	Interim				
Substantive procedures			Year end audit work	Year end audit work	

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

MGM & Associates
Chartered Professional Accountants

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.

Services Planned for the Year Ending March 31, 2019

Nature of service	Audit related	Tax	Non-audit related
Audit of financial statements for the year ended March 31, 2019 in accordance with Canadian generally accepted auditing standards	✓		
Capital compliance audits, as required	✓		

CBRM *A Community of Communities*

Cape Breton Regional Municipality

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.

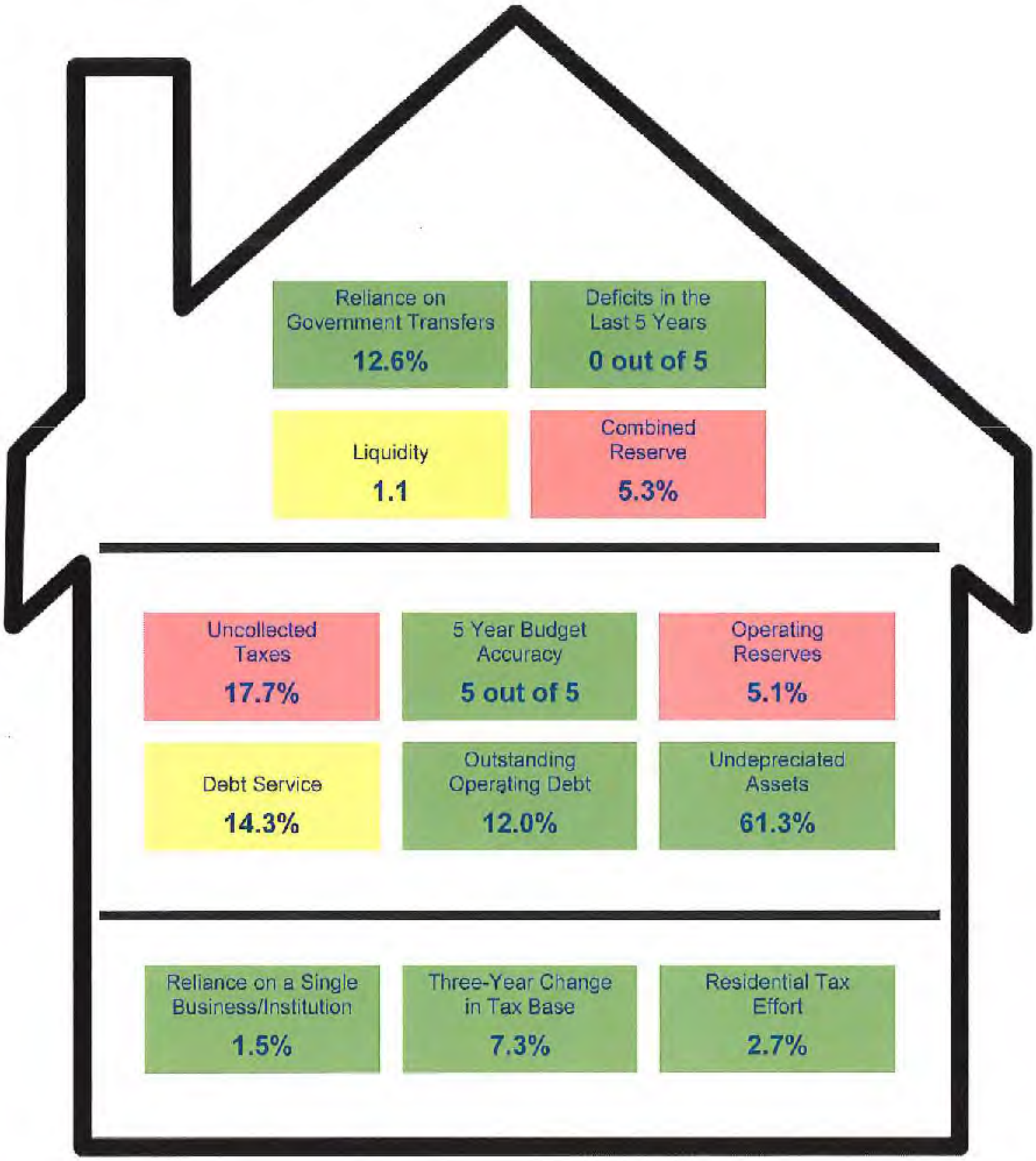
Respectfully submitted,

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.



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

Detailed Results

FCI - Base Indicators

Indicator	2018	2017	+/-
3-year Change in Tax Base: This indicator measures how a municipality's tax base keeps pace with inflation.	7.3%	10.9%	-3.6%
Reliance on a Single Business or Institution: 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.	1.5%	1.1%	0.5%
Residential Tax Effort: 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.	2.7%	2.7%	0.1%

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

Low Risk · Moderate Risk · High Risk

Detailed Results

FCI - Structure Indicators

Indicator	2018	2017	+/-
Uncollected Taxes: 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.	17.7%	16.7%	0.9%
Budget Accuracy*: This indicator speaks to the municipality's success at projecting the revenue required to maintain a balanced operating budget.	5/5	5/5	0
Operating Reserves: This indicator speaks to whether the municipality is setting aside funds to address unforeseen circumstances.	5.1%	6.5%	-1.4%
Debt Services: This indicator speaks to how much of municipal revenue is going towards paying off debt.	14.3%	14.9%	-0.6%
Outstanding Operating Debt: This measure calculates the municipality's borrowing limit per the MGA Section 84.	12.0%	13.4%	-1.4%
Undepreciated Assets: This indicator speaks to the age of the municipality's existing capital assets (in relation to useful life).	61.3%	62.9%	-1.5%

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 2018. For details, please refer to Appendix I.

Low Risk Moderate Risk High Risk

Detailed Results

FCI - Roof (Key) Indicators

Indicator	2018	2017	+/-
Deficits in the Last 5 Years*: 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.	0/5	0/5	0
Liquidity: 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.	1.1	1.1	0.0
Reliance on Government Transfers: This indicator speaks to municipality's reliance on transfers from other government(s).	12.6%	12.9%	-0.3%
Combined Reserve:** This indicator speaks to whether the municipality is investing enough to keep pace with the aging of existing assets, and unforeseen circumstances.	5.3%	7.3%	-2.0%

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 Expense).

** The result may not reflect an impact of PSAB 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

Appendix I - FCI Thresholds

FCI - Base Indicators

Low Risk · Moderate Risk · High Risk

Indicator Name / Rationale	Thresholds	Interpretations
3-year Change in Tax Base 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.	Low Risk: Equal or Greater than Consumer Price Index (CPI) rate - **4.4% for 2018 year.** Moderate Risk: Less than CPI High Risk: Negative Growth	◆ A percentage lower than the CPI rate indicates property assessments are growing slower than the inflation. ◆ A percentage higher than the CPI rate indicates property assessments are growing faster than the inflation. ◆ A negative percentage indicates a decreasein assessment value, which usually indicatesserious economic concerns in the region, eitherbecause of the loss of a major employer orpersistent economic and demographic decline.
Reliance on a Single Business or Institution 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.	Low Risk: Less than 10% Moderate Risk: 10% to 15% High Risk: Greater than 15%	◆ A low percentage indicates that the municipality may not rely on a single business or institution for a large part of its tax revenue. ◆ 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.
Residential Tax Effort 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.	Low Risk: Less than 4% Moderate Risk: 4% to 6% High Risk: Greater than 6%	◆ A lower result suggests the municipality may have more flexibility to increase the tax rate. ◆ A higher result suggests that the municipality may have less flexibility to increase the tax rate, if additional revenue is required.

Appendix I - FCI Thresholds

FCI - Structure Indicators

Low Risk · Moderate Risk · High Risk

Indicator Name / Rationale	Thresholds	Interpretations
Uncollected Taxes 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.	Low Risk: Less than 10% Moderate Risk: 10% to 15% High Risk: Greater than 15%	◆ A low percentage indicates the municipality is managing tax revenue collection. ◆ A high percentage may indicate the municipality is having trouble monitoring and collecting overdue tax accounts.
Budget Accuracy 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.	Low Risk: For the last 5 years, expenditures budget vs. actual variance is within +/-5%; or expenditures and revenue variances are within +/-5% of each other. Moderate Risk: Four of the last five years, expenditures budget vs. actual variance is within +/-5%; or expenditures and revenue variances are within +/-5% of each other. High Risk: Less than 4 of the last 5 years, expenditures budget vs. actual variance is within +/-5%; or expenditures and revenue variances are within +/-5% of each other.	◆ Low risk (green) indicates the municipality had greater success in maintaining a balanced operating budget. ◆ High risk (red) indicates the municipality did not consistently maintain a balanced operating budget.
Operating Reserves 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.	Low Risk: Greater than 20% Moderate Risk: 10% to 20% High Risk: Less than 10%	◆ A high percentage indicates more funds are held in operating reserves, which indicates higher flexibility to address unexpected events in the future. ◆ A low percentage indicates less flexibility to address unexpected events in the future, which could put the municipality in a deficit position.

Appendix I - FCI Thresholds

FCI - Structure Indicators (continued)

Low Risk Moderate Risk High Risk

Indicator Name / Rationale	Thresholds	Interpretations
Debt Service Municipalities 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.	Less than 10% 10% to 15% Greater than 15%	◆ 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. ◆ 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.
Outstanding Operating Debt 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.	Less than 25% 25% to 50% Greater than 50%	◆ A low percentage may indicate that a municipality is covering the annual current expenditures without a high reliance on borrowing. ◆ A high percentage may indicate that a municipality has a high debt load relative to their revenue base.
Undepreciated Assets 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.	More than 50% 35% to 50% Less than 35%	◆ 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. ◆ A higher percentage indicates newer infrastructure.

Appendix I - FCI Thresholds

FCI - Roof (Key) Indicators

Low Risk | Moderate Risk | High Risk

Indicator Name / Rationale	Thresholds	Interpretations
Deficits in the Last 5 Years Deficits are an important indication of financial health for municipalities. All municipalities are required to prepare balanced operating budgets. Any operatng deficits incurred are required to be repaid in the following budget year.	(Low Risk) None in the last 5 years (Moderate Risk) One or more in the last 5 years (High Risk) One or more in the last 2 years with one material (0.5% of total operating expenses)	◆ 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.
Liquidity 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.	(Low Risk) Greater than 1.5 (Moderate Risk) 1 to 1.5 (High Risk) Less than 1	◆ 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. ◆ A municipality with an exceptionally high liquidity may be better served by investing in instruments that will earn interest revenue.
Reliance on Government Transfers This indicator measures how much of total revenues come from government transfers. This assesses a municipality's level of independence in making decisions.	(Low Risk) Less than 15% (Moderate Risk) 15% to 20% (High Risk) Greater than 20%	◆ A low indicator may indicate higher self sufficiency; therefore, might provide council increased autonomy in making decisions. ◆ A high score may indicate a higher dependency on government transfers which could limit councils' autonomy in making decisions.
Combined Reserves 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.	(Low Risk) More than 40% (Moderate Risk) 30% to 40% (High Risk) Less than 30%	◆ A low percentage may indicate the municipality has limit flexibility to offset unexpected losses or increases in expenses. ◆ A high percentage would indicate that a municipality is setting aside money for future needs.