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# Financial Indicators in Plain Language 2014

# Important Notice

- Municipalities are responsible for making local decisions, including compliance with any applicable statutes or regulations.
- This presentation is for information only and is not a substitute for legal, financial or other professional advice in connection with any particular matter. This presentation deals with complicated issues and concepts in a highly summarized fashion, and key details may not be included. Users should verify this information from other sources prior to making decisions or acting upon it.

# Outline

- **Background**
  - Financial Reporting
  - Financial Information Review
- **7 Financial Indicators**
- **Conclusion**

# Financial Reporting to the Public

## For Municipalities:

- Audited Financial Statements
- Financial Information Return (FIR)
- Municipal Performance Measurement Program

## For Service Managers

- Service Manager Annual Information Return (SMAIR)

# Financial Information Return (FIR)

*The FIR is an invaluable resource for both the province and the municipality*

- The province uses it for many purposes including:
  - calculating grant amounts,
  - developing policy
  - monitoring the financial status of municipalities
  - preparing municipal debt limit reports
  - requests for financial and statistical data

# Financial Information Return (FIR)

From a municipal perspective, the FIR is an integral tool with many applications including:

- Preparation of year over year comparisons, trend analysis, forecasting
- Performance measurement and for comparative purposes with other like municipalities on key indicators (for example, debt and reserve levels)
- Supporting land use planning, strategic planning, and asset management planning

**[oraweb.mah.gov.on.ca/fir/welcome.htm](http://oraweb.mah.gov.on.ca/fir/welcome.htm)**

# Financial Indicator Review

- On an annual basis assess certain financial indicators regarding a municipality.
- 7 indicators are produced from data points in the FIR.
- Shared with the municipality and analyzed by the Ministry of Municipal Affairs and Housing for trends.
- Financial Indicator Review results are provided to municipalities for information purposes – they should not be looked at in isolation, and are not a substitute for financial or other professional advice in connection with any particular matter.

# 7 Financial Indicators

1. Net Financial Assets or Net Debt as a % of Own Purpose Taxation Plus User Fees
2. Total Reserves and Discretionary Reserve Funds as a % of Operating Expenses
3. Debt Servicing Cost as a % of Total Operating Revenue
4. Total Taxes Receivable less Allowance for Uncollectables as a % of Total Taxes Levied
5. Total Cash and Temporary Investments as a % of Operating Expenses
6. Net Working Capital as a % of Total Municipal Operating Expenses
7. Net Book Value of Capital Assets as a % of Cost of Capital Assets



# FINANCIAL INDICATOR REVIEW

(Based on 2013 Financial Information Return)

Date Prepared:

Tier:

MSO Office:

MAH Code:

Prepared By:

MUNID:

REV Code:

## FINANCIAL INDICATORS

Indicator	Ranges	Actuals	South - LT - Counties - Rural		Level of Challenge
			Median	Average	
Net Financial Assets or Net Debt as a % of Own Purpose Taxation Plus User Fees	Low: > -50% Mod: -50% to -100% High: < -100%	2011	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2012	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2013	<input type="text"/>	<input type="text"/>	<input type="text"/>
Total Reserves and Discretionary Reserve Funds as a % of Operating Expenses	Low: > 20% Mod: 10% to 20% High: < 10%	2011	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2012	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2013	<input type="text"/>	<input type="text"/>	<input type="text"/>
Debt Servicing Cost as a % of Total Operating Revenue	Low: < 5% Mod: 5% to 10% High: > 10%	2011	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2012	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2013	<input type="text"/>	<input type="text"/>	<input type="text"/>
Total Taxes Receivable less Allowance for Uncollectables as a % of Total Taxes Levied	Low: < 10% Mod: 10% to 15% High: > 15%	2011	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2012	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2013	<input type="text"/>	<input type="text"/>	<input type="text"/>
Total Cash and Temporary Investments as a % of Operating Expenses	Low: > 10% Mod: 5% to 10% High: < 5%	2011	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2012	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2013	<input type="text"/>	<input type="text"/>	<input type="text"/>
Net Working Capital as a % of Total Municipal Operating Expenses	Low: > 10% Mod: 10% to -10% High: < -10%	2011	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2012	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2013	<input type="text"/>	<input type="text"/>	<input type="text"/>
Net Book Value of Capital Assets as a % of Cost of Capital Assets	Low: > 50% Mod: 35% to 50% High: < 35%	2009	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2010	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2011	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2012	<input type="text"/>	<input type="text"/>	<input type="text"/>
		2013	<input type="text"/>	<input type="text"/>	<input type="text"/>

# 1. Net Assets or Net Debt ÷ (Own Purpose Taxation + User Fees)

• Net Assets or Net Debt = Assets - Debt

• Own Purpose Taxation + User Fees = Tax dollars the municipality collects for its own purposes + user fees and charges (e.g. garbage, water, recreation); the revenue tools a municipality can control.

• What might it indicate: How much tax and fee revenue is servicing debt.

Potential Level of Challenge		
Low	Moderate	High
More than -50%	-50 to -100%	Less than -100%

## 2. Reserves ÷ Operating Expenses

- **Reserves** = Net revenue set aside by Council for future needs.
- **Operating Expenses** = Any expenses incurred for daily operations.
- **What might it indicate:** How much money is set aside for future needs/contingencies.

Potential Level of Challenge		
Low	Moderate	High
More than 20%	10 to 20%	Less than 10%

### 3. Debt Servicing Cost ÷ Operating Revenue

- **Debt Servicing Cost** = payments on debt.
- **Operating Revenue** = taxes, payments-in-lieu, grants, fees, rent, fines, income on investment or on property sale.
- **What might it indicate:** How much of each dollar raised is spent on debt.

Potential Level of Challenge		
Low	Moderate	High
Less than 5%	5 to 10%	More than 10%

# 4. Tax Arrears

• **Taxes Arrears** = Outstanding taxes owed to the municipality.

• **What might it indicate**: High percentage may indicate collection problems or taxpayers' inability to pay.

Potential Level of Challenge		
Low	Moderate	High
Less than 10%	10% to 15%	More than 15%

## 5. (Total Cash + Temporary Investments) ÷ Operating Expenses

- **Total Cash + Temporary Investments** = A measure of money that the municipality can access on short notice (liquidity).
- **Operating Expenses** = Any expenses incurred for daily operations.
- **What might it indicate:** High percent indicates ability to cover payments or unexpected costs on short notice.

Potential Level of Challenge		
Low	Moderate	High
More than 10%	5% to 10%	Less than 5%

## 6. Net Working Capital ÷ Operating Expenses

- **Net Working Capital** = cash, accounts receivable, taxes receivable, inventories, and prepaid expenses minus temporary loans, accounts payable; measure of liquidity.
- **Operating Expenses** = Any expenses incurred for daily operations.
- **What might it indicate**: Higher percent may indicate sufficient working capital to meet its short-term obligations.

Potential Level of Challenge		
Low	Moderate	High
More than 10%	10% to -10%	Less than -10%

## 7. Net Book Value of Capital Assets ÷ Cost of Capital Assets

- **Net Book Value of Capital Assets** = Historical cost for purchase, improvements and repair minus amortization.
- **Cost of Capital Assets** = Assets' historical capital cost plus repairs and improvements, excluding the value of land.
- **What might it indicate:** Remaining life/value in infrastructure; high percent may indicate “new” assets, low may indicate “used up” and may need repair/replacement soon.



# Conclusion

- Financial Information Reviews, as provided to municipalities, are prepared from the previous year's FIR.
- Consist of 7 indicators of financial challenge.
- Provides valuable information as part of ongoing provincial/municipal dialogue.

# For Further Information:

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Financial Information Return:

<http://csconramp.mah.gov.on.ca/fir/welcome.htm>