

Financial Indicators Thresholds Tip Sheet

	FITs Terminology	Common Language Terms	Threshold		
			Low	Moderate	High
1	Net Financial Assets or Net Debt as % of Own Purpose Taxation Plus User Fees	Revenue Available (or Needed) to Pay for Future Transactions	> -50%	-50% to -100%	< -100%
	<ul style="list-style-type: none"> • A net financial asset (a positive amount) indicates that resources may be available for future needs. Net debt (a negative amount) provides a measure of the future revenue that may be required to pay for past spending decisions. • With respect to the net financial asset ratio, a decreasing indicator over time may show that municipal liabilities are increasing faster than revenues and more revenue will be needed to eliminate those liabilities. • An increasing net debt ratio over time may show that municipal liabilities are increasing faster than revenues and more revenue will be needed to eliminate those liabilities. A trend in this direction may not be sustainable. 				
2	Total Reserves and Discretionary Reserve Funds as a % of Operating Expenses	Reserve Levels	> 20%	10% to 20%	< 10%
	<ul style="list-style-type: none"> • Reserves are monies set aside for planned future needs (e.g. capital projects), to smooth expenses (e.g. winter road maintenance reserve) or for unexpected costs (such as contingency or emergency reserve). • A high threshold (reserves less than 10%) indicates that the municipality may have limited flexibility to offset unexpected revenue losses or increases in expenses. • A low threshold (reserves greater than 20%) would indicate that a municipality is setting aside money for future needs. • Reserves can be discretionary or mandatory (e.g. required by legislation). A long-term financial plan may indicate a preferred level of reserves to meet future needs. 				
3	Debt Servicing Cost as a % of Total Operating Revenues	Amount Used to Pay Existing Debt (Principal and Interest)	< 5%	5% to 10%	> 10%
	<ul style="list-style-type: none"> • Debt servicing is how much of each dollar raised in revenue is spent paying down existing debt (both principal and interest). • This indicator shows the extent to which past borrowing decisions may impact the current budget. • The more a municipality uses current revenues to pay for past borrowing, the less will be available for day-to-day spending. • This is similar to your personal finances where high mortgage payments will leave you with less money to spend on other things. 				

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4	Total Taxes Receivable Less Allowance for Uncollectables as a % of Total Taxes Levied	Level of Tax Arrears	< 10%	10% to 15%	> 15%
	<ul style="list-style-type: none"> Taxes receivable is the amount of outstanding taxes owed to the municipality (also known as tax arrears). This is a lower-tier/single-tier measure only (upper tier-taxes are collected by lower-tiers). High outstanding taxes may reflect the inability of residents to pay their taxes or it could indicate problems with the municipality's tax collection procedures. High outstanding taxes could create cash flow problems for the municipality or result in higher tax rates to fund uncollectable taxes or tax write offs. 				
5	Total Cash and Cash Equivalents as a % of Operating Expenses	Cash Available to Pay Operating Costs	> 10%	5% to 10%	< 5%
	<ul style="list-style-type: none"> Total cash and cash equivalents is a measure of the money that the municipality can access quickly (e.g. cash on hand or short term investments which can be accessed quickly). This measure helps assess the ability of the municipality to meet its current (day-to-day) expenses. 				
6	Net Working Capital as a % of Operating Expenses	Net Financial Resources Available to Pay Operating Costs	> 10%	10% to -10%	< -10%
	<ul style="list-style-type: none"> Net working capital (current assets minus current liabilities) is a measure of a municipality's short-term financial health. This indicator measures the amount of working capital available to meet short-term obligations. A positive indicator generally suggests that a municipality has sufficient working capital and is able to pay off short-term liabilities immediately. A negative indicator generally indicates that a municipality has insufficient working capital to ensure it pay its short-term liabilities when they are due. 				
7	Net Book Value of Capital Assets as a % of Cost of Capital Assets	Remaining Useful Life of Capital Assets	> 50%	35% to 50%	< 35%
	<ul style="list-style-type: none"> Net book value measures the estimated remaining useful life of municipal capital assets (such as machinery, buildings, land and inventory). It does not measure the condition of the assets. A decreasing value for this indicator could indicate that investment in capital repairs or replacement may be needed. If this indicator is decreasing the municipality may wish to review any long-term planning related to capital assets such as Asset Management Plans. 				