



Administrative Report

Office of the Director, Financial Services/Treasurer

To: Warden McNamara and Members of Essex County Council

From: Sandra Zwiers, MAcc, CPA, CA
Director, Financial Services/Treasurer

Date: Wednesday, May 18, 2022

Subject: 2021 County of Essex Consolidated Financial Report

Report #: 2022-0518-FIN-R08-SZ

Purpose

To present the 2021 County of Essex Consolidated Financial Report detailing the consolidated results of operations for the year ended December 31, 2021 and the financial position of the Corporation as of December 31, 2021.

Background

The 2021 County of Essex Consolidated Financial Report includes the operations of the following entities:

- Essex County Library Board
- Essex Windsor Solid Waste Authority

The agreement between the County of Essex and the City of Windsor establishing the Essex-Windsor Solid Waste Authority (EWSWA) requires that an audit of the accounts of the Authority be conducted. In accordance with the Public Sector Accounting Board (PSAB) reporting standards, the Corporation's financial statements include fifty percent (50%) of EWSWA's financial statements, representing the proportionate share the Corporation has control over EWSWA operations.

The Sun Parlor Home Residents' Trust Fund is not consolidated. The operations of the Fund are reported separately in the Consolidated Financial Report on the Trust Fund Statement of Financial Position and Statement of Continuity.

The 2021 audit was conducted by KPMG LLP. The auditor's opinion is attached to the Consolidated Financial Report.

Discussion

Audit Opinion

KPMG has expressed a **clean** (unqualified) audit opinion following its examination of the accounts of the Corporation.

An unqualified audit opinion is an auditor's judgement that the Corporation's results of operations for the year ended December 31, 2021, and its financial position as at December 31, 2021 are **fairly** and **appropriately** represented in accordance with Generally Accepted Accounting Principles (GAAP) in the Consolidated Financial Report.

KPMG Audit Findings Report: 2021 Financial Statements

Professional standards require KPMG to communicate to County Council, as the Corporation's governing body, on financial controls and accounting policies such as: unusual transactions, illegal and fraudulent activities, audit discrepancies, Auditor independence, etc. Attached as Appendix A is KPMG's correspondence to Council. Provided below is a summary of KPMG's findings:

- No significant changes in accounting policies and practices
- No identification of differences requiring correction
- No identification of control deficiencies

2021 County of Essex Consolidated Financial Report

Attached for Council's review and approval are the 2021 County of Essex Consolidated Financial Statements. The following elements of the statements are highlighted for Council's consideration:

Operating Results

Highlighted in the chart below is a summary comparison of the Corporation's consolidated Accumulated Surplus for 2021 in relation to the 2021 operations (detailed in Note 10). The accumulated surplus represents the municipality's equity or retained earnings, totaling \$441,518,961 as at December 31, 2021 (2020 - \$389,565,631). The term "accumulated surplus" has a much different meaning than the term "surplus" or "deficit" used in describing the Corporation's current year performance against budget. As highlighted in Table 1, the Annual Surplus is a function of the net investment

in capital coupled with operating results, incorporating a net increase in unfunded liabilities (re: EWSWA Landfill Post Closure costs), net of a reduction in debt and increase in net reserves.

Table 1: 2021 Accumulated Surplus

Accumulated Surplus	2021 Accumulated Surplus	2020 Accumulated Surplus	2021 Annual Surplus
Invested in tangible capital assets	218,480,698	210,821,704	7,658,994
Long term debt	(27,867,707)	(29,265,444)	1,397,737
Unfunded liabilities	(14,730,836)	(14,839,416)	(108,580)
Corporate reserves	241,429,373	200,226,337	41,203,036
EWSWA reserves	24,207,433	22,622,450	1,584,983
Total	441,518,961	389,565,631	51,953,330

Included within the annual surplus is the Corporation's overall 2021 Budget surplus of approximately \$791,500 (2020 - \$1.05 million), exclusive of EWSWA operations, which in accordance with the Corporation's Reserve Strategy, was contributed to the Rate Stabilization Reserve. The 2021 operating surplus was approximately \$106,000 higher than the projected surplus used in the preparation of the 2022 Budget.

Reserve Fund Balance (Note 10)

Although reserves are not formally reported under PSAB prepared financial statements, they are a key component of financial management and operations for the Corporation. Reserve balances are consolidated within the accumulated surplus position on the Consolidated Statement of Financial Position and Consolidated Statement of Operations and Accumulated Surplus. Highlighted in [Table 2](#) is a summary of the Corporation's reserves held for its own purposes, totaling \$241,429,373 as at December 31, 2021 (2020 - \$200,226,337), an increase from prior year of approximately \$41.2 million. The positive change in reserve balances is a function of timing in infrastructure expansion work, including roadways, facilities and active transportation as well as the continued commitment to managing the County's capital assets and the funding of the New Windsor Essex Hospital System.

Table 2: 2021/2020 Reserve Detail

Reserves	2021	2020
Capital - Corporate	72,330,408	54,199,259
Capital - EMS	11,719,860	10,010,734

Reserves	2021	2020
Capital – Library	1,400,938	851,554
Total Capital Acquisition/Replacement	85,451,206	65,061,547
W.S.I.B. – Corporate (schedule 2)	2,029,411	1,972,117
W.S.I.B. – Sun Parlor Home (schedule 1)	821,907	821,907
W.S.I.B. – EMS (schedule 1 and 2)	535,073	535,073
W.S.I.B. – Library (schedule 2)	119,743	119,743
Total W.S.I.B.	3,506,134	3,448,840
Rate Stabilization – Corporate	13,458,308	12,916,830
Rate Stabilization – Corporate (Lib. Surplus)	451,640	451,640
Rate Stabilization – Sun Parlor Home	86,193	104,868
Rate Stabilization – County Official Plan	694,730	669,730
Rate Stabilization – Library	516,737	516,737
Total Rate Stabilization	15,207,608	14,659,805
Roadway Expansion	101,583,456	88,539,140
Working Funds	4,500,000	4,500,000
Insurance and Health Benefits	3,545,823	3,318,852
EMS Severance	330,153	330,153
New Windsor Essex Hospital System	27,305,000	20,368,000
Total Reserves	241,429,380	200,226,337

The reserve allocation (50%) held by the Essex-Windsor Solid Waste Authority and reflected on the consolidated statement of financial position amounts to \$24,207,433 (2020 - \$22,622,450).

Indicators of Government Financial Condition

The Ministry of Municipal Affairs and Housing produces a Financial Indicator Threshold Results (FITs Results) Report for every municipality in the province. The objective, through standard measures of sustainability and flexibility is to assess the municipality’s financial health in the context of the overall economic and financial environment. Provided in the following pages is a discussion of the Corporation’s various measures of sustainability, flexibility and vulnerability and an analysis of the Corporation’s performance over the past five-year period.

Sustainability – degree to which the municipality can maintain its existing service and financial obligations and debt burden. [Table 3](#) illustrates some sustainability measures based on the County’s 2021 financial statements and prior years’ data.

Table 3: Financial Condition Indicator – Sustainability

Sustainability	Consolidated / Without EWSWA	2021	2020	2019	2018	2017
Financial Assets/Liabilities	Consolidated	4.0525	3.4388	3.2259	2.9616	2.7007
	Without EWSWA	8.4909	7.6111	7.5977	7.1169	6.1605
Debt/Total Revenue	Consolidated	12.62%	14.36%	15.44%	17.69%	19.67%
	Without EWSWA	0.00%	0.00%	0.00%	0.00%	0.00%
Debt/Household	Consolidated	\$366.10	\$403.59	\$420.07	\$446.81	\$458.48
	Without EWSWA	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Inclusive of EWSWA’s debt, which is fee supported, the Corporation’s Sustainability Indicators remain extremely positive, with more than sufficient financial assets to support its liabilities. Debt levels continue to decline. This trend indicates the Corporation’s future revenue is not burdened by its past debt. **Exclusive of EWSWA’s financial data, the Corporation’s indicators of sustainability improve dramatically, with financial assets significantly greater than its liabilities and zero (\$0) debt load per household.**

Flexibility – degree to which the municipality can change its debt or tax burden to meet its existing service and financial commitments. A government that increases its current borrowing reduces its future flexibility to respond to adverse economic conditions as future increases are necessary to support that debt. [Table 4](#) illustrates some flexibility measures based on the County’s 2021 financial statements and prior years’ data.

Table 4: Financial Condition Indicator – Flexibility

Flexibility	2021	2020	2019	2018	2017
Debt Service/Total Revenue	0.82%	0.92%	0.99%	1.13%	1.25%
Net book value of capital/cost of capital assets	49.09%	50.43%	51.30%	52.12%	52.02%

Debt service costs as a percentage of total revenue measures the extent that past borrowing decisions constrain an entity’s ability to meet its financial and service commitments for the current period. At less than 1% of total revenue, the County is not constrained by its debt service obligations.

The “net book value of capital assets-to-cost of capital assets” measures the extent to which the estimated useful lives of the County’s assets are available to provide its products and services. This indicator should be reviewed/analyzed in concert with the Corporation’s reserve balances and capital replacement program to ensure that assets are repaired and/or replaced without undue pressure on the County’s future annual levy. As Council is aware, the Corporation has a comprehensive reserve strategy in place to manage asset repair and replacement.

Vulnerability – degree to which the municipality is dependent on sources of funding outside its control or influence or is exposed to risks that could impair its ability to meet its existing financial obligations. The following measure illustrates the degree to which the County is dependent on government transfers. A municipality whose vulnerability is relatively low has greater control over its financial condition. In 2021, (see [Table 5](#)) one-time government transfers continue to remain very low and the Corporation’s measure for government transfers remains consistently at or below 25% of total revenue. The increase over prior years is attributable to transfers relating to COVID-19 relief. This percentage indicates that the Corporation has a reasonable level of control over its financial condition.

Table 5: Financial Condition Indicator - Vulnerability

Vulnerability	2021	2020	2019	2018	2017
Government Transfers/Total Revenue	25.48%	23.97%	22.76%	21.07%	21.82%

As highlighted in these measures and reported previously to Council as part of its credit rating by Standard and Poor’s, **the Corporation’s financial health can be measured as sustainable, flexible and well positioned to meet its service and financial obligations.**

Long-Term Debt (Note 8)

The net long term liabilities of the Corporation amount to \$27,867,707, representing 50% of the EWSWA obligation for the mediated and Court approved settlement between the County, City of Windsor, EWSWA and MFP Technology Services Ltd./Leasing-Infrastructure Financing Trust I (LIFTI). The settlement relates to the financing of expenditures related to the locating, approval and construction of the Regional Landfill.

Commitments (Note 12)

The Corporation’s long-term commitments at December 31, 2021 include the following:

- A \$90-\$100 million New Windsor Essex Hospital System future commitment to be paid no sooner than 2026 (\$27,305,000 currently in reserve to support this initiative); and
- A \$2 million, ten-year commitment that commenced in 2014, to the Hospice, Erie Shores, Leamington facility, at \$200,000 per year (\$400,000 remaining).

Financial Implications

The 2021 Consolidated Financial Statements illustrate the Corporation's continued commitment to sound financial planning and long-term fiscal sustainability.

Consultations

Heidi McLeod, Manager of Accounting / Deputy Treasurer
Paula Beattie, Manager of Budget & Administration
Cynthia Swift, Partner, KPMG LLP

Recommendation

That Essex County Council receive the 2021 County of Essex Consolidated Financial Report;

That Essex County Council approve the 2021 County of Essex Consolidated Financial Statements; and

That Essex County Council approve the 2021 Sun Parlor Home Residents' Trust Fund Statements.

Approvals

Respectfully Submitted,

Sandra Zwiers

Sandra Zwiers, MAcc, CPA, CA, Director, Financial Services/Treasurer

Concurred With,

Mike Galloway

Mike Galloway, MBA, CMO, Chief Administrative Officer

Appendix Number	Title
A	KPMG Audit Findings Report for the year ended December 31, 2021
B	2021 Draft County of Essex Consolidated Financial Statements
C	2021 Draft Sun Parlor Home Residents' Trust Fund Statements