



Administrative Report

Office of the Director, Financial Services/Treasurer

To: Warden MacDonald and Members of Essex County Council

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

Date: Wednesday, June 21, 2023

Subject: 2022 County of Essex Consolidated Financial Statements Report

Report #: 2023-0621-FIN-R13-SZ

Purpose

To present the 2022 County of Essex Consolidated Financial Report detailing the consolidated results of operations for the year ended December 31, 2022 and the financial position of the Corporation as of December 31, 2022.

Background

The 2022 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 2022 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, 2022, and its financial position as at December 31, 2022 are **fairly** and **appropriately** represented in accordance with Generally Accepted Accounting Principles (GAAP) in the Consolidated Financial Report.

KPMG Audit Findings Report: 2022 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 that were corrected or required correction
- No identification of control deficiencies

2022 County of Essex Consolidated Financial Report

Attached for Council's review and approval are the 2022 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 2022 in relation to the 2022 operations (detailed in Note 10). The accumulated surplus represents the municipality's equity or retained earnings, totaling \$473,781,750 as at December 31, 2022 (2021 - \$441,518,961). 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: 2022 Accumulated Surplus

Accumulated Surplus	2022 Accumulated Surplus	2021 Accumulated Surplus	2022 Annual Surplus
Invested in tangible capital assets	221,815,313	218,480,698	3,334,615
Long term debt	(26,244,038)	(27,867,707)	1,623,669
Unfunded liabilities	(14,335,627)	(14,730,836)	395,209
Corporate reserves	268,002,142	241,429,373	26,572,769
EWSWA reserves	24,543,960	24,207,433	336,527
Total	473,781,750	441,518,961	32,262,789

Included within the annual surplus is the Corporation’s overall 2022 Budget surplus of approximately \$73,195 (2021 - \$791,500), exclusive of EWSWA operations, which in accordance with the Corporation’s Reserve Strategy, was contributed to the Rate Stabilization Reserve. The 2022 operating surplus was approximately \$117,405 higher than the projected surplus used in the preparation of the 2023 Budget. The primary driver of the difference in projected and actual Budget surplus relates to the final reconciliation of provincial grant funding received by the EWEMS which was greater than previously estimated.

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 \$268,002,142 as at December 31, 2022 (2021 - \$241,429,373), an increase from prior year of approximately \$26.6 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: 2022/2021 Reserve Detail

Reserves	2022	2021
Capital – Corporate	75,255,992	72,330,408
Capital – EMS	15,546,160	11,719,860
Capital – Library	1,446,338	1,400,938
Total Capital Acquisition/Replacement	92,248,490	85,451,206
W.S.I.B. – Corporate (schedule 2)	1,919,422	2,029,411
W.S.I.B. – Sun Parlor Home (schedule 1)	976,039	821,907
W.S.I.B. – EMS (schedule 1 and 2)	1,417,140	535,073
W.S.I.B. – Library (schedule 2)	124,284	119,743
Total W.S.I.B.	4,436,885	3,506,134
Rate Stabilization – Corporate	15,814,943	13,458,308
Rate Stabilization – Corporate (Lib. Surplus)	451,640	451,640
Rate Stabilization – Sun Parlor Home	84,933	86,193
Rate Stabilization – County Official Plan	676,826	694,730
Rate Stabilization – Library	980,898	516,737
Total Rate Stabilization	18,009,240	15,207,608
Roadway Expansion	117,812,799	101,583,456
Working Funds	4,500,000	4,500,000
Insurance and Health Benefits	3,848,339	3,545,823
EMS Severance	330,153	330,153
New Windsor Essex Hospital System	34,825,000	27,305,000
Unrealized Investment Losses	(8,008,764)	0
Total Reserves	268,002,142	241,429,380

The reserve allocation (50%) held by the Essex-Windsor Solid Waste Authority and reflected on the consolidated statement of financial position amounts to \$24,543,960 (2021 - \$24,207,433).

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 2022 financial statements and prior years’ data.

Table 3: Financial Condition Indicator – Sustainability

Sustainability	Consolidated / Without EWSWA	2022	2021	2020	2019	2018
Financial Assets/Liabilities	Consolidated	4.207	4.0525	3.4388	3.2259	2.9616
	Without EWSWA	7.7554	8.4909	7.6111	7.5977	7.1169
Debt/Total Revenue	Consolidated	12.45%	12.62%	14.36%	15.44%	17.69%
	Without EWSWA	0.00%	0.00%	0.00%	0.00%	0.00%
Debt/Household	Consolidated	\$344.77	\$366.10	\$403.59	\$420.07	\$446.81
	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 2022 financial statements and prior years’ data.

Table 4: Financial Condition Indicator – Flexibility

Flexibility	2022	2021	2020	2019	2018
Debt Service/Total Revenue	0.81%	0.82%	0.92%	0.99%	1.13%
Net book value of capital/cost of capital assets	51.18%	49.09%	50.43%	51.30%	52.12%

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. The Corporation’s Asset Management Plan (2022), presented to Council in February 2023, identified an infrastructure funding gap that requires attention. This 2021 indicator was identified by the Ministry of Municipal Affairs and Housing in 2022 as being an indicator that represents a moderate risk and is an area the Corporation needs to focus on improving.

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 2022, (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. During the pandemic, the Corporation received higher levels of transfers than pre-COVID. That trend is starting to reverse itself as pandemic supports wind down. Our percentage indicates that the Corporation has a reasonable level of control over its financial condition.

Table 5: Financial Condition Indicator - Vulnerability

Vulnerability	2022	2021	2020	2019	2018
Government Transfers/Total Revenue	24.70%	25.48%	23.97%	22.76%	21.07%

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 \$26,244,038, 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, 2022 include the following:

- A \$90-\$100 million New Windsor Essex Hospital System future commitment to be paid no sooner than 2026 (\$34,825,000 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 (\$200,000 remaining).

Financial Implications

The 2022 Consolidated Financial Statements illustrate the Corporation's continued commitment to sound financial planning and long-term fiscal sustainability.

Consultations

Heidi McLeod, Manager of Accounting - Administration / Deputy Treasurer
Cynthia Swift, Partner, KPMG LLP

Recommendation

That Essex County Council receive the 2022 County of Essex Consolidated Financial Report;

That Essex County Council approve the 2022 County of Essex Consolidated Financial Statements; and

That Essex County Council approve the 2022 Sun Parlor Home Residents' Trust Fund Statements.

Approvals

Respectfully Submitted,

Sandra Zwiers

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

Concurred With,

Mary Birch

Mary Birch, BA, CMO, Interim Chief Administrative Officer

Appendix Number	Title
A	KPMG Audit Findings Report for the year ended December 31, 2022
B	2022 Draft County of Essex Consolidated Financial Statements
C	2022 Draft Sun Parlor Home Residents' Trust Fund Statements