



Administrative Report

Office of the Director, Financial Services/Treasurer

To: Warden MacDonald and Members of Essex County Council

From: Melissa Ryan, CPA
Director, Financial Services/Treasurer

Date: Wednesday, June 19, 2024

Subject: 2023 County of Essex Consolidated Financial Statements Report

Report #: 2024-0619-FIN-R13-MR

Purpose

To present the 2023 County of Essex Consolidated Financial Report detailing the consolidated results of operations for the year ended December 31, 2023 and the financial position of the Corporation as at December 31, 2023.

Background

The 2023 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 Financial Report on the Trust Fund Statement of Financial Position and Statement of Continuity.

The 2023 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, 2023, and its financial position as at December 31, 2023 are **fairly** and **appropriately** represented in accordance with Generally Accepted Accounting Principles (GAAP) in the Consolidated Financial Report.

KPMG Audit Findings Report: 2023 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:

- Changes in accounting policies and practices
 - Restatement- Note 2 in the financial statements explains that certain comparative information for the year ended December 31, 2022, has been restated. The note details the reasons for the restatement and the adjustments made. The audit opinion remains unmodified in this regard. Additionally, during the audit of the 2023 financial statements, they reviewed and confirmed that the adjustments to the 2022 comparative information were appropriate and properly applied.
- No identification of control deficiencies

2023 County of Essex Consolidated Financial Report

Attached for Council's review and approval are the 2023 County of Essex Consolidated Financial Statements. The following elements of the statements are highlighted for Council's consideration:

Changes in Accounting Policy

The Corporation of the County of Essex has adopted several new accounting standards, impacting the financial statements for the year ended December 31, 2023. Key changes include the replacement of PS 1200 with PS 1201 Financial Statement Presentation, introducing a separate Statement of Remeasurement Gains and Losses. This new statement captures unrealized gains and losses from foreign currency translations, financial instruments, and portfolio investments, aligning with PS 2601, PS 3450, and PS 3041 respectively.

Additionally, the adoption of PS 3280 Asset Retirement Obligations (ARO) has resulted in recognizing liabilities associated with the retirement of Tangible Capital Assets (TCA). The County now includes estimated retirement costs in the carrying value of the associated assets, amortized over their useful life. As part of this change, an asset retirement obligation of \$18,438,937 has been recognized, reflecting the costs of retiring County-owned buildings, infrastructure, and the Regional Landfill. This restatement ensures a more accurate reflection of the County's financial position and future obligations.

Operating Results

Highlighted in the chart on the next page is a summary comparison of the Corporation's consolidated Accumulated Surplus for 2023 in relation to its 2023 operations (detailed in Note 10). The accumulated surplus represents the municipality's equity or retained earnings, totaling \$511,421,479 as at December 31, 2023 (2022 - \$468,265,255-restated). 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: 2023 Accumulated Surplus

Accumulated Surplus	2023 Accumulated Surplus	2022 Accumulated Surplus (Restated)	2021 Accumulated Surplus
Invested in tangible capital assets	250,858,503	224,624,994	218,480,698
Long term debt	-24,379,583	-26,244,038	-27,867,707
Unfunded liabilities	-32,048,727	-22,661,805	-14,730,836
Corporate reserves	292,291,361	268,002,144	241,429,373
EWSWA reserves	24,699,925	24,543,960	24,207,433
Total	511,421,479	468,265,255	441,518,961

Included within the annual surplus is the Corporation’s overall 2023 Budget surplus of approximately \$884,373 (2022 - \$73,195), exclusive of EWSWA operations, which in accordance with the Corporation’s Reserve Strategy, was contributed to the Rate Stabilization Reserve. The 2023 operating surplus was approximately \$313,187 lower 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 less 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 \$292,291,361 as at December 31, 2023 (2022 - \$268,002,144), an increase from prior year of approximately \$24.3 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: 2023 Reserve Detail

Reserves	2023	2022 Restated	2021	2020
Capital – Corporate	84,617,536	67,247,227	72,330,408	54,199,259
Capital – EMS	13,445,455	15,546,160	11,719,860	10,010,734
Capital – Library	1,444,800	1,446,338	1,400,938	851,554
Total Capital Acquisition/Replacement	99,507,791	84,239,725	85,451,206	65,061,547
W.S.I.B. – Corporate (schedule 2)	4,425,310	1,919,422	2,029,411	1,972,117
W.S.I.B. – Sun Parlor Home (schedule 1)	0	976,039	821,907	821,907
W.S.I.B. – EMS (schedule 1 and 2)	0	1,417,140	535,073	535,073
W.S.I.B. – Library (schedule 2)	134,734	124,284	119,743	119,743
Total W.S.I.B.	4,560,044	4,436,885	3,506,134	3,448,840
Rate Stabilization – Corporate	17,506,028.02	15,814,945	13,458,308	12,916,830
Rate Stabilization – Corporate (Lib. Surplus)	451,640	451,640	451,640	451,640
Rate Stabilization – Sun Parlor Home	79,803	84,933	86,193	104,868
Rate Stabilization – County Official Plan	567,933	676,826	694,730	669,730
Rate Stabilization – Library	283,658	980,898	516,737	516,737
Total Rate Stabilization	18,889,061	18,009,241	15,207,608	14,659,805
Roadway Expansion	118,283,900	117,812,799	101,583,456	88,539,140
Working Funds	4,500,000	4,500,000	4,500,000	4,500,000
Insurance and Health Benefits	3,910,410	3,848,339	3,545,823	3,318,852
EMS Severance	330,153	330,153	330,153	330,153
New Windsor Essex Hospital	42,310,000	34,825,000	27,305,000	20,368,000
Total Reserves	292,291,359	268,002,144	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 \$24,699,925 (2022 - \$24,543,960).

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 2023 financial statements and prior years’ data.

Table 3: Financial Condition Indicator – Sustainability

Sustainability	Consolidated / Without EWSWA	2023	2022 Restated	2021	2020	2019
Financial Assets/Liabilities	Consolidated	3.998093	4.206996	4.0525	3.4388	3.2259
	Without EWSWA	7.6947	7.755397	8.4909	7.6111	7.5977
Debt/Total Revenue	Consolidated	10.46%	11.64%	12.62%	14.36%	15.44%
	Without EWSWA	0.00%	0.00%	0.00%	0.00%	0.00%
Debt/Household	Consolidated	\$320.28	\$344.77	\$366.10	\$403.59	\$420.07
	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 2023 financial statements and prior years’ data.

Table 4: Financial Condition Indicator – Flexibility

Flexibility	2023	2022 Restated	2021	2020	2019	2018
Debt Service/Total Revenue	0.80%	0.81%	0.82%	0.92%	0.99%	1.13%
Net book value of capital/cost of capital assets	51.32%	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 (2023), presented to Council on June 5, 2024, identified an infrastructure funding gap that requires attention. The 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 2023, (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 has reversed itself since pandemic supports is no longer occurring. Our percentage indicates that the Corporation has a reasonable level of control over its financial condition.

Table 5: Financial Condition Indicator - Vulnerability

Vulnerability	2023	2022 Restated	2021	2020	2019	2018
Government Transfers/Total Revenue	21.61%	23.10%	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 \$24,379,583 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 16)

The Corporation’s long-term commitments at December 31, 2023 include the following:

- A \$90-\$100 million New Windsor Essex Hospital System future commitment to be paid no sooner than 2026 (\$42,310,000 currently in reserve to support this initiative); and
- A \$2 million, ten-year commitment that commenced in 2024 but was approved in 2023, to Erie Shores Healthcare, at \$200,000 per year (\$2 million remaining).
- A \$960,000, twenty-year commitment that commenced in 2023, to The Bridge, at \$48,000 per year (\$912,000 remaining).

Financial Implications

The 2023 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
 Kevin Macchio, Partner, KPMG LLP

Strategic Plan Alignment

Working as Team Essex County	Growing as Leaders in Public Service Excellence	Building a Regional Powerhouse
<ul style="list-style-type: none"> <input type="checkbox"/> Scaling Sustainable Services through Innovation <input type="checkbox"/> Focusing “Team Essex County” for Results <input type="checkbox"/> Advocating for Essex County’s Fair Share 	<ul style="list-style-type: none"> <input type="checkbox"/> Being an Employer with Impact <input checked="" type="checkbox"/> A Government Working for the People <input checked="" type="checkbox"/> Promoting Transparency and Awareness 	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Providing Reliable Infrastructure for Partners <input checked="" type="checkbox"/> Supporting Dynamic and Thriving Communities Across the County <input type="checkbox"/> Harmonizing Action for Growth <input type="checkbox"/> Advancing Truth and Reconciliation

Recommendation

That Essex County Council receive the 2023 County of Essex Consolidated Financial Report;

That Essex County Council approve the 2023 County of Essex Consolidated Financial Statements; and

That Essex County Council approve the 2023 Sun Parlor Home Residents’ Trust Fund Statements.

Approvals

Respectfully Submitted,

Melissa Ryan

Melissa Ryan, CPA, Director, Financial Services/Treasurer

Concurred With,

Sandra Zwiers

Sandra Zwiers, MAcc, CPA, CA, Chief Administrative Officer

Appendix	Title
A	KPMG Audit Findings Report for the year ended December 31, 2023
B	2023 Draft County of Essex Consolidated Financial Statements
C	2023 Draft Sun Parlor Home Residents' Trust Fund Statements