



Administrative Report

Office of the Director of Financial Services/Treasurer

To: Warden Tom Bain and Members of County Council

**From: Sandra Zwiers
Director of Financial Services/Treasurer**

Date: July 18, 2018

Subject: 2017 County of Essex Consolidated Financial Report

Report #: 2018-0718-FIN-R005-SZ

Purpose

To present the 2017 County of Essex Consolidated Financial Report detailing the consolidated results of operations for the year ended December 31, 2017 and the financial position of the Corporation as at December 31, 2017.

Background

The 2017 County of Essex Consolidated Financial Report includes the operations of the following entities:

- Essex County Library Board
- Essex Windsor Solid Waste Authority
- Essex County Civic and Education Centre

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 for which the Corporation has control of EWSWA operations.

During 2017, the Corporation negotiated the acquisition of full ownership of the Essex County Civic and Education Centre. The acquisition closed on

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November 30, 2017 and in accordance with PSAB reporting standards, the full value of the facility and its associated receivables, payables and equity were recorded in the Corporation's financial records as at December 31, 2017. The 2017 financial year represents the consolidation transition year. The value of operations from January 1 to November 30, 2017 are shown as a transfer into the accumulated surplus and the operating results for the final month of 2017 are reflected in the normal revenue and expense accounts of the Infrastructure Services department. All future reporting periods will record the costs and benefits of ownership in the regular accounts of the Corporation within the Infrastructure Services department.

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 2017 audit was conducted by KPMG. 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 judgment that the Corporation's results of operations for the year ended December 31, 2017, and its financial position as at December 31, 2017 are **fairly** and **appropriately** represented in accordance with Generally Accepted Accounting Principles (GAAP) in the Consolidated Financial Report.

KPMG report to County Council: 2017 Financial Statements

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

- No significant unusual transactions identified

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- No change in the application of accounting policies identified
- No exceptions in testing on significant estimates
- No illegal acts or possibly illegal acts identified
- No fraud or suspected fraud involving administration or employees having significant roles in internal control
- No audit differences identified
- Confirmation of KPMG's independence
- Full cooperation of administration and employees of the Corporation with complete access to the Corporation's accounting records and other documents required to conduct the audit
- No material weaknesses in the design of internal control, including anti-fraud controls identified

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Attached for Council's review are the 2017 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 2017 in relation to the 2017 operations (detailed in Note 9). The accumulated surplus represents the municipality's equity or retained earnings, totaling \$282,723,836 as at December 31, 2017 (2016 - \$257,288,846). The term "accumulated surplus" has a much different meaning than the term "surplus" or "deficit" used in describing the County'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 operation results, incorporating a net increase in unfunded liabilities (re: EWSWA Landfill Closure costs), net of a reduction in debt and an increase in net reserves.

Table 1: 2017 Accumulated Surplus

Accumulated Surplus	2017 Accumulated Surplus	2016 Accumulated Surplus	2017 Annual Surplus
Invested in tangible capital assets	174,272,126	155,874,547	18,397,579
Long term debt	(32,281,780)	(32,938,051)	656,271
Unfunded liabilities	(9,637,806)	(9,343,842)	(293,964)
Corporate reserves	125,888,287	120,836,997	5,051,290
EWSWA reserves	24,483,009	22,859,195	1,623,814
Total	282,723,836	257,288,846	25,434,990

Included within the annual surplus is the Corporation's overall 2017 Budget Surplus of approximately \$407,500, exclusive of EWSWA operations (2016 - \$1.8 million), which in accordance with the Corporation's Reserve Strategy, was contributed to the Corporation's Rate Stabilization Reserve. The 2017 operating surplus was approximately \$58,000 greater than the projected surplus of \$349,570, as estimated during the development of the 2018 Budget. The combination of significant factors such as the favourable variance relating to net supplementary tax/write-offs offset by the acquisition of the Essex County Civic and Education Centre and nominal operating surpluses resulted in a yearend surplus that very closely approximated the budget estimate.

Reserve Fund Balance (Note 9)

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 \$125,888,287 as at December 31, 2017 (2016 - \$120,836,997), an increase from prior year of approximately \$5 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.

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Table 2: 2017/2016 Reserve Detail

Reserves	2017	2016
Capital – Corporate	32,533,413	34,342,992
Capital – EMS	6,506,096	5,574,322
Capital – Library	853,161	701,694
Total Capital Acquisition/Replacement	39,892,670	40,619,008
W.S.I.B. – Corporate (schedule 2)	1,714,097	1,550,877
W.S.I.B. – Sun Parlor Home (schedule 1)	458,907	458,907
W.S.I.B. – EMS (schedule 1 and 2)	535,073	535,073
W.S.I.B. – Library (schedule 2)	119,173	109,385
Total W.S.I.B.	2,827,250	2,654,242
Rate Stabilization – Corporate	6,583,117	8,055,103
Rate Stabilization – Corporate (Lib. Surplus)	790,000	790,000
Rate Stabilization – Sun Parlor Home	686,845	597,088
Rate Stabilization – County Official Plan	535,000	477,000
Rate Stabilization – Library	537,267	537,267
Total Rate Stabilization	9,132,229	10,456,458
Roadway Expansion	58,576,983	53,651,660
CWATS	2,697,800	2,697,800
Working Funds	4,500,000	4,500,000
Insurance and Health Benefits	1,490,202	1,658,676
EMS Severance	330,153	330,153
New Windsor Essex Hospital System	6,441,000	4,269,000
Total Reserves	125,888,287	120,836,997

The reserve allocation (50%) held by the Essex-Windsor Solid Waste Authority and reflected on the consolidated statement of financial position amounts to \$24,483,009 (2016 - \$22,859,195).

Indicators of Government Financial Condition

PSAB has produced a Statement of Recommended Practices (SORP), titled “Indicators of Government Financial Condition”. The objective, through standard measures of sustainability, flexibility and vulnerability 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.

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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 2017 financial statements and prior years’ data.

Table 3: Financial Condition Indicator – Sustainability

Sustainability	Consolidated / Without EWSWA	2017	2016	2015	2014	2013
Financial Assets/Liabilities	Consolidated	2.7007	2.7067	2.2181	2.1508	1.9630
	Without EWSWA	5.6312	6.8829	4.7663	5.6248	4.8522
Debt/Total Revenue	Consolidated	19.67%	20.08%	22.29%	23.01%	24.67%
	Without EWSWA	0.00%	0.00%	0.00%	0.00%	0.24%
Debt/Household	Consolidated	\$458.48	\$466.39	\$492.70	\$498.04	\$505.98
	Without EWSWA	\$0.00	\$0.00	\$0.00	\$0.00	\$4.54

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 2017 financial statements and prior years’ data.

Table 4: Financial Condition Indicator – Flexibility

Flexibility	2017	2016	2015	2014	2013
Debt Service/Total Revenue	1.25%	1.31%	1.40%	1.45%	1.54%
Net book value of capital/cost of capital assets	52.02%	50.85%	50.91%	52.19%	52.54%

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 2% 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. An update of the results of the County’s reserve strategy was presented to County Council in December 2017 (Report #2017-R19-FIN-0906-RM) and an update of the Corporation’s Asset Management Plan (Report #2017-R06-ADM-1115-RM) was presented in November 2017. Both reports highlight the strong financial stability of the County’s long term fiscal position.

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 2017, (see [Table 5](#)) one-time government transfers continue to remain very low and the Corporation’s measure for government transfers has stabilized at traditional levels, below 25% of total revenue. This percentage indicates that the Corporation has a reasonable level of control over its financial condition.

Table 5: Financial Condition Indicator - Vulnerability

Vulnerability	2017	2016	2015	2014	2013
Government Transfers/Total Revenue	21.82%	21.95%	22.97%	23.01%	23.07%

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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 7)

The net long term liabilities of the Corporation amount to \$32,281,780, 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 11)

The Corporation's long-term commitments at December 31, 2017 include the following:

- A \$90-\$100 million New Windsor Essex Hospital System future commitment to be paid no sooner than 2026 (\$6,441,000 currently in reserve to support this initiative);
- A \$1 million, ten-year commitment that commenced in 2010, to the Windsor Regional Hospital – Corner Stone of Caring campaign, at \$100,000 per year (\$200,000 remaining);
- A \$2 million, ten-year commitment that commenced in 2014, to the Hospice, Erie Shores, Leamington facility, at \$200,000 per year (\$1.2 million remaining), and;
- A \$1.1 million, five-year commitment that commenced in 2015, to Southwestern Integrated Fibre Technology Inc. (SWIFT), at \$220,205 per year (\$440,410 remaining).

Financial Implications

The 2017 Consolidated Financial Statements illustrate the Corporation's continued commitment to sound financial planning and long term fiscal sustainability.

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Recommendation

Administration recommends as follows:

- Receive the Administrative Report presenting the 2017 County of Essex Consolidated Financial Report, and;
- Approve the 2017 County of Essex Consolidated Financial Statements.

Respectfully Submitted

Sandra Zwiers

Originally Signed by

Sandra Zwiers, Director of Financial Services/Treasurer

Concurred With,

Robert Maisonville

Originally Signed by

Robert Maisonville, Chief Administrative Officer

Appendix No.	Title of Appendix
Appendix A	KPMG report to County Council: 2017 Consolidated Financial Statements
Appendix B	2017 County of Essex Consolidated Financial Statements