



Subject: 2023 Consolidated Financial Statements

To: Council

From: Corporate Services Department

Report Number: 2024-223

Meeting Date: November 26, 2024

Recommendation:

That Corporate Services Department Report 2024-223 be received; and

That the reserve transfers proposed in this report and included in the consolidated financial statements, be approved; and

That the consolidated financial statements in Appendix A of Corporate Services Report 2024-223 be approved; and

That the auditors of Donne Grant Thornton be appointed the auditors for the City and related boards and agencies for the 2024 and 2025 year ends.

Purpose:

The purpose of this report is to seek Council's approval of the consolidated financial statements for the year ended December 31, 2023, for The Corporation of the City of Port Colborne (the City).

Background:

The *Municipal Act, 2001*, states that a municipality shall prepare financial statements each fiscal year. Management, in accordance with Canadian public sector accounting standards (PSAS) as recommended by the Public Sector Accounting Board (PSAB), prepares the consolidated financial statements for the City. PSAB serves the public interest by establishing standards and other guidance for financial reporting by all Canadian entities in the public sector and by contributing to the development of internationally accepted public sector financial reporting standards.

The Consolidated statement of financial position; the consolidated statement of operations; the consolidated statement of changes in debt; the consolidated statement of cash flows; and notes to the consolidated financial statements, comprising a summary of significant accounting policies, have been audited by the City's auditor, Doane Grant Thornton LLP.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PSAB, and for such internal control as management determines necessary, to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor's responsibility is to express an opinion on the consolidated financial statements based on their audit fieldwork. Following completion of the audit, Grant Thornton has stated, in their opinion, that "the accompanying consolidated financial statements present fairly in all material respects, the financial position of The Corporation of the City of Port Colborne as at December 31, 2023, and its results of operations, its changes in its net financial assets, and its cash flows for the year ended in accordance with Canadian public sector accounting standards".

Discussion:

Consolidated Financial Statements (Appendix A)

A draft copy of the consolidated financial statements for the year ended December 31, 2023, is attached to this report as Appendix A – 2023 Consolidated Financial Statements.

The most significant change year over year with respect to the audited consolidated financial statements is the City now needs to account for asset retirement obligations. Consolidated financial statements note 2 and 7 identify a liability of \$1.7 million which is primarily the result of hazardous substances in the grain terminal. Readers of this report and the consolidated financial statements should note this is to remove hazardous substances such as lead paint or asbestos only.

As a reminder the consolidated financial statements, including the attached segmented disclosure, follow full accrual accounting whereas the 2023 Year End Surplus and Project Closeout Report (Report 2024-57) follows a modified cash model for budget and cash flow purposes. Further, there may be certain presentation differences between the two as a result of PSAB vs managerial accounting. To support comparison, staff recommend users of this report and Report 2024-57 compare the reserve balances. Users of both reports will find the reserve balances agree with the proposed adjustments below to account for capital close-out funding requirements finalized after Report 2024-57 was issued. The adjustment to the capital reserve represents unallocated year end surplus. The adjustment to the WIP reserve represents capital

activity of 2023 vs. 2024. This was adjusted prior to audit. The reclassifications represent a difference in reserve groupings between the two reports. The reserve groups will follow the audited consolidated financial statements on a go forward basis.

Total Reserve Balances by Type	Reserve Balances in Report 2024-57	Adjustments	Reclassification	Airport Consolidation	New Reserve Balances
Boards and Committees	1,142,523		(586,663)		555,860
Programs, Grants and Activities	482,213		515,799		998,012
Self Sustaining Entities	(571,368)				(571,368)
General Government	9,396,051			31,507	9,427,558
Capital	8,235,162	26,378	70,864		8,332,404 *
Total Reserves before WIP	18,684,581	26,378	-	31,507	18,742,466
Work-in-progress (WIP)	10,406,093	(124,187)			10,281,906
Total Reserves	29,090,674	(97,809)	-	31,507	29,024,372

* This balance includes deferred revenue amounts (\$2,794,328) reported in Note 5 of the Consolidated Financial

Financial Services Staff continue to move financial reporting practices to meet leading practices set out through the Government Finance Officers Association (GFOA). This process has taken time as comparative year data was compiled. Staff anticipate submitting to the GFOA in 2025 for verification the GFOA standard has been achieved.

Auditors Audit Strategy and Results (Appendix B)

The Financial Services Division, in preparing the financial statements, has historically, and in the current year, utilized Doane Grant Thornton LLP to finalize reserve transaction accounting as well as the consolidation of certain boards and committees. The summation of these entries is recorded on page 10 of Appendix B – Audit Strategy and Results.

Staff highlight the following in Appendix B – Audit Strategy and Results, which also provides Council with:

- the auditors; approach to the audit and how they treated certain risks;
- comments on the auditors' independence;
- the management representation letter that staff are required to sign upon approval of the consolidated financial statements;
- a letter of internal control with management's plan to address; and
- upcoming audit and accounting developments.

Staff identify that in Appendix B – Audit Strategy and Results, the Auditors have recommended the Port Colborne Downtown Development Board, which is consolidated into the City's financial statements, should engage a qualified bookkeeper or accountant. The Auditors noted significant additional work required in their audit this year.

Enterprise Resource Planning (ERP)

The City's new human resource and accounting system known as an enterprise resource planning (ERP) system is in its final phase of testing. The implementation team from Human Resources, Financial Services and Customer Services have begun early training to socialize the system.

Staff are working with Niagara Falls on a long-term shared service arrangement to share expertise between the two Cities. This has been a significant undertaking for the team. Unlike most ERP implementations it has been done with no backfilling of positions. The City's Senior Leadership team says thank you to this implementation team.

As the system does go-live, it is anticipated there may be a couple hick-ups. Most implementations have them. We are equipped to adjust quickly and navigate them as they are identified. The team is paying particular attention to payroll and has stated to run payroll in parallel (new and old system) to make sure everything is operating properly. After go-live there will be a phase to transition inventory in the spring of 2025 and additional human resource functionality in late 2025/early 2026.

Appointment of Auditors

The audit engagement for the City's auditors ends with the 2023 financial statements. Staff are appreciative of the perspective, independence and work of the City's auditors. In recognition of the City transitioning to a new ERP system, Staff recommend extending the audit engagement for the 2024 and 2025 year ends. This will take the City through a full year in the new ERP system. Staff recommend at that time Council consider directing staff to go forward with a request for proposal (RFP) for audit services. The proposed fees are attached as Appendix C to this report.

Timing of Consolidated Financial Statements

The City's audit occurred in March of 2024. The delay in finalizing the financial statements was the result of the auditors time on:

- Boards and agencies financial statements. Staff will be discussing with the boards and agencies the benefits of moving to the City's new ERP system in 2025 for 2026. If everyone was on the same system Staff anticipate the year end audited financial statements could be completed within a month of year end (December 31).
- New accounting standards adopted for financial statement preparation, foreign currency translation, portfolio investments, financial instruments and asset retirement obligations.
- The comparative budget note 26 and aligning it with the non-linear completion of capital projects.

The Financial Information Return (FIR) is being prepared at the time of writing this report. The FIR is the main data collection tool used by the Ministry of Municipal Affairs to collect financial and statistical information from municipalities.

Financial Services would like to thank staff, boards, and committees across the City and associated with the City for their efforts in the completion of the Audited Financial Statements.

Internal Consultations:

Financial Services would like to thank all departments for their assistance and cooperation.

Financial Implications:

As stated within this report, the auditors have identified “the accompanying consolidated financial statements presents fairly in all material respects”.

Public Engagement:

The consolidated financial statements will be publicly posted on the City’s website.

Strategic Plan Alignment:

The initiative contained within this report supports the following pillar(s) of the strategic plan:

- Environment and Climate Change
 - Welcoming, Livable, Healthy Community
 - Economic Prosperity
 - Increased Housing Options
 - Sustainable and Resilient Infrastructure
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Conclusion:

That Council approve the recommendations as presented above.

Appendices:

- a. Appendix A – 2023 Consolidated Financial Statements
- b. Appendix B – Port Colborne 2023 Communication of Audit Results

Respectfully submitted,

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Report Approval:

All reports reviewed and approved by the Department Director and also the City Treasurer when relevant. Final review and approval by the Chief Administrative Officer.