



**Subject: 2020 Consolidated Financial Statements**

**To: Council**

**From: Corporate Services Department**

Report Number: 2021-76

Meeting Date: June 14, 2021

---

**Recommendation:**

That Corporate Services Department Report 2021-76 be received;

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

That the consolidated financial statements attached as Appendix A to Corporate Services Department Report 2021-76, be approved; and

That Grant Thornton be reappointed as the auditors of the City of Port Colborne for the fees as outlined in Appendix C to Corporate Services Department Report 2021-76.

---

**Purpose:**

The purpose of this report is to seek Council's approval of the consolidated financial statements for the year ended December 31, 2020 for The Corporation of the City of Port Colborne and consider a proposal by Grant Thornton for future audit services.

---

**Background:**

The *Municipal Act, 2001*, states that a municipality shall prepare financial statements for 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, Grant Thornton.

Management is responsible for the preparation and fair presentation of the consolidated 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, 2020, 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, 2020, is attached to this report as Appendix A – 2020 Consolidated Financial Statements.

As a reminder the consolidated financial statements, including the attached segmented disclosure follows full accrual accounting whereas the Year End Surplus/(Deficit) and Closeout Report, Report 2021-74 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. In reconciling, staff recommend users of this report and Report 2021-74 compare the reserve balances. Users of both reports will find the reserve balances agree with the proposed adjustments below to account for previous years under or over allocated balances.

Financial Services staff have begun a process to move financial reporting practices to meet leading practices set out through the Government Finance Officers Association ("GFOA"). This process will take time as comparative year data is compiled. An initial step has resulted in some changes to the components of the consolidated financial statements and related notes. Some notable changes are as follows:

- Certain income such as penalties and interest and investment income is now noted on the financial statements and the operating and capital funding is now

combined with enhanced note disclosure.

- The long-term debt note has been reorganized (Note 6 b) to follow in order of debt maturity rather than issuance date.
- The historical accumulated surplus/(deficit) was reviewed for both the City and Library. These balances effectively represent the budget to actual balance of the City after any reserve transfers and/or debt financing. Effectively having a zero balance or better communicates the City is maintaining its requirement under the *Municipal Act* to balance its budget. In 2019, the City's year end balance was (\$5,342,748). As Council is aware considerable work was performed in the development of a reserve policy in 2020 and the establishment and reallocation of certain reserves. Following that work and the issuance of the Nickel Storm Sewer debt in 2020, staff identified the following remaining balances that represent historical under/(over) allocations of previous budgets to reserves:
  - City (over) allocation was (\$654,857)
  - Water under allocation was \$156,213
  - Wastewater under allocation was \$40,973

This report recommends Council approve the above transfers to/(from) their respective reserves. Specifically, the over allocation at the City would reduce the General Stabilization reserve and the under allocation of water and wastewater would increase those reserves. The consolidated financial statements attached in Appendix A reflect these reserve transfers and, should Council desire not to transfer these funds, Financial Services will reverse the entries.

For greater clarity and as noted in Note 9 of the consolidated financial statements, should Council approve these reserve transfers, their accumulated surplus/(deficit) for the City will show as zero.

At the April 12, 2021 Council meeting, Financial Services presented a Year End Surplus/(Deficit) and Closeout Report, Report 2021-74. That report identified the reserve balances as of December 31, 2020. These transactions would change the following reserves as follows:

Impacted Reserve	Balance in April 12, 2021 Report	Proposed Reserve Transactions	Other Audit Impact of Reserves	New Reserve Balance
City General stabilization	\$2,892,187	(\$654,857)	\$3,232*	\$2,240,562
City Water	\$744,517	\$156,213		\$900,730
City Wastewater	\$43,963	\$40,973		\$84,936

\* Impact of Airport Accounting (Auditors grouped the City's portion of the Airport reserve balance here)

The only other reserve balances that are different between the audited financial statements and Report 2021-74 are those related to the Library. The Library approved reserve transfers at the June 1, 2021 board meeting. The net change in Library reserves was an increase of \$41,447 primarily resulting from their 2020 budget to actual surplus of \$35,475.

- Year over year the Reserve note remains as note 10 but has changed to reflect the newly approved reserve accounts and internal financing at the Marina.
- The segmented disclosure that starts on page 30 of the consolidated financial statements now breaks out storm sewer and specifically highlights the consolidated levy impact.

Financial Services thanks the City's audit firm for accommodating these changes at staff's request in the consolidated financial statements.

### **Auditors Audit Strategy and Results (Appendix B)**

Financial Services, in preparing the financial statements, has historically, and in the current year, utilized Grant Thornton to balance reserve transaction accounting, record post-employment benefits and sick leave liability, as well as the consolidation of certain boards and committees. The summation of these entries is recorded on page 7 of Appendix B – Audit Strategy and Results. Staff highlight the largest entry relates to the recording of the auditor entries from the prior year and the second largest entry was the difference of recording a grant in reserves vs. deferred revenue.

Staff highlight Appendix B – Audit Strategy and Results 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 (notably comments of potential segregation of duties weaknesses that have been addressed following the recent changes in Financial Service staffing); and
- upcoming audit and accounting developments.

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. The FIR is a standard

document comprised of a number of schedules that are updated each year to comply with current legislation and reporting requirements. It is possible when completing the FIR that certain account groupings may change and, because the financial statements and FIR need to match, the account groupings of revenue and expense on the financial statements may change. There will be no change in the net financial results of the City should any adjustment be required.

Financial Services would like to thank staff, boards and committees across the City and associated with the City for their efforts in moving up the timing of the completion of the Audited Financial Statements. A goal was set for May 2021 and, while that goal was missed, the timing was certainly an improvement from the fall of previous years. Staff will be debriefing the financial year-end close process with the incoming Manager, Financial Services and look to move the timing of audit completion (when audited financial statements come to Council for approval) to April 2022.

### **City Auditors**

As the 2020 audit has come to a completion the contracted engagement with the City's auditors has also concluded.

Staff identify the auditors, being Grant Thornton LLP, have provided the City with an unsolicited proposal to extend their services another three years as attached in Appendix C.

In considering this proposal staff highlight the following:

- An extension is permitted according to the City's purchasing policy.
- The fees proposed represent a nominal increase over fiscal 2020. The proposed City increase is \$100.
- Staff have discussed with other area municipalities and note the proposed fees to be consistent with other area municipalities.

As Financial Services is working through a number of changes, including significant changes to the chart of accounts in addition to certain personnel changes, Financial Services identifies maintaining consistency in the audit function would be a tremendous resource at the present time. For this reason, this report recommends reappointing the auditors for another three years.

Having noted the above, should Council desire to tender the audit services, Financial Services will do that.

---

### **Financial Implications:**

It is desirable to present audited financial statements to Council shortly after the end of each fiscal year and to be provided with an unqualified audit opinion each year.

**Conclusion:**

That Council approve the recommendation as presented above.

---

**Appendices:**

- a. Appendix A – 2020 Consolidated Financial Statements.
- b. Appendix B – Audit Strategy & Results
- c. Appendix C – Grant Thornton Audit Proposal

Respectfully submitted,

Bryan Boles, CPA, CA, MBA  
Director, Corporate Services / Treasurer  
(905) 835-2900 Ext. 105  
[Bryan.Boles@portcolborne.ca](mailto:Bryan.Boles@portcolborne.ca)

**Report Approval:**

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