

Date: 2021-04-19

Subject: 2020 Audited Consolidated Financial Statements for the City of Brampton

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Report Number: Corporate Support Services-2021-510

Recommendations:

That the report titled **2020 Audited Consolidated Financial Statements for the City of Brampton**, to the Audit Committee Meeting of May 4, 2021, be received; and

That the **2020 Audited Consolidated Financial Statements for the City of Brampton**, be approved.

Overview:

- The 2020 Audited Consolidated Financial Statements from the City Auditor KPMG LLP Chartered Accountants are being presented to the Audit Committee for approval.
- The consolidated financial statements have been prepared in accordance with the Public Sector Accounting Board (PSAB) reporting standards and fully comply with Generally Accepted Accounting Principles (GAAP).
- These consolidated financial statements reflect the financial position as at December 31, 2020 and the operating results for the year for the City, its Local Boards and Committees of Council including The Brampton Public Library Board and the Downtown Brampton Business Improvement Area.
- The financial reporting standards do not change the City's budgeting process, how the tax levy is calculated or how funding decisions are made by Council.

- **A reconciliation of the operating results for tax levy purposes and PSAB adjusted consolidated financial statements is provided in Schedule A of this report.**
- **As part of the annual audit, the City Auditor, KPMG_{LLP} Chartered Accountants, conducted a review of Internal Controls and provides an Audit Findings Report to the Audit Committee.**
- **KPMG_{LLP} did not identify any corrected or uncorrected misstatements**

Background:

The audit of the 2020 Consolidated Financial Statements by the City Auditor, KPMG_{LLP} Chartered Accountants is complete and the statements are attached to this report. The work KPMG_{LLP} performed is conducted in accordance with Canadian Generally Accepted Auditing Standards (GAAP) and relevant ethical requirements, including those pertaining to independence. The work is also planned and performed to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error.

The 2020 Audited Consolidated Financial Statements for the City of Brampton reflect the financial position as at December 31, 2020 and the results of operations for the year for the City and its Local Boards and Committees of Council. The following Local Boards and Committees of Council which are included in these consolidated financial statements are accountable for the administration of their financial affairs and resources to the City and are owned or controlled by the City:

- The Brampton Public Library Board
- Downtown Brampton Business Improvement Area (DBBIA)

The consolidated financial statements for the 2020 fiscal year have been prepared in compliance with the requirements of the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada as required by the Province of Ontario. The consolidated financial statements are presented to the Audit Committee for review and approval, which are part of the key statutory functions of the Audit Committee.

Current Situation:

There have been two significant changes in 2020 which impacted financial reporting and our audit:

- COVID-19 pandemic – KPMG_{LLP} incorporated revisions to their audit plan arising from the impacts of the COVID-19 pandemic. They adapted their audit to respond to the changes in City's business, including the impacts on financial reporting, internal control, materiality and risk assessment.

- New CAS auditing standards – CAS 540, Auditing Accounting Estimates and Related Disclosures standard was applied on all estimates within the financial statements that had a risk of material misstatement due to estimation uncertainty and not just “key estimates”, “critical accounting estimates”, or “estimates with significant risk”. Based on audit procedures performed it was concluded by KPMG_{LLP} that management’s estimates and judgements were reasonable.

Audit Results

KPMG_{LLP} audited the consolidated financial statements of the City for the fiscal year 2020. These consolidated financial statements are the responsibility of the City’s management. The audit resulted in KPMG_{LLP} issuing an unqualified audit opinion, which means that the consolidated financial statements present fairly the financial position and comply with PSAB municipal financial reporting requirements.

Report Summary

The consolidated financial statements presented in this report comprise the following statements:

- Consolidated Statement of Financial Position
- Consolidated Statement of Operations and Accumulated Surplus
- Consolidated Statement of Cash Flows, and
- Consolidated Statement of Change in Net Financial Assets

The consolidated financial statements provide information on the City’s financial position including the value of assets and liabilities, cost of delivering the City’s municipal services and investment in capital projects, financing sources and investing activities.

The City of Brampton’s consolidated financial statements are prepared in accordance with Canadian public sector accounting standards established by the PSAB of the Chartered Professional Accountants of Canada.

There have been no new standards issued by PSAB for fiscal year ending December 31, 2020.

PSAB requires full accrual basis of accounting and financial reporting. This provides for inclusion of certain items such as amortization of tangible capital assets and tangible capital assets contributed to the City through the subdivision assumption process.

The City uses a full accrual basis (PSAB) budgeting methodology. This methodology does not change how the tax levy is calculated, or how funding decisions are made by City Council. The 2020 Audited Consolidated Financial Statements reflects full accrual budget figures for comparison purposes.

Schedule “A” attached shows the 2020 fiscal year tax-based operating results versus that of the PSAB based financial reporting.

Highlights of 2020 Consolidated Financial Statements:

Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position (balance sheet) has two key components that make up accumulated surplus: net financial assets and non-financial assets (tangible capital assets, inventory and prepaid expenses).

- “Net Financial Assets” is the net of assets (cash, investments, receivables and other assets) minus liabilities (accounts payable, capital lease obligation, deferred revenues and employee benefits and other liabilities) generated from the City’s operations, activities of capital projects and Reserves and Reserve Funds. This value serves as a key indicator of the City’s ability to manage its cash resources to meet its financial obligations. The City’s 2020 net financial assets had a balance of \$420 million (2019 - \$442 million), a decrease of \$22 million from 2019. A decrease in Net Financial Assets is primarily attributable to an increase in deferred revenue as well as employee benefits and other liabilities.
- “Non-Financial Assets” primarily consists of the City’s investment in tangible capital assets of \$4 billion (2019 - \$3.9 billion). The increase in tangible capital assets is attributable to the combination of assets constructed by the City and brought into service and assets contributed to the City through the subdivision assumption process.

The accumulated surplus (retained earnings) as at December 31, 2020 is \$4.4 billion (2019 - \$4.3 billion), an increase of \$82.9 million.

Key items to note:

- **Increase in cash, short-term and long-term investment balances**
 - Cash and short-term investments increased from \$301 million in 2019 to \$311 million in 2020. Increase was mainly due to lower cash-outflow and the receipt of Safe Restart Provincial funding. City slightly decreased the allocation to longer-term investments to optimize the overall earnings while ensuring a prudent amount of liquidity was maintained to meet the cash flow requirements for operating and capital needs. As a result, long-term investments decreased from \$775 million in 2019 to \$768 million in 2020.

- **Increase in Taxes Receivable**
 - Taxes receivable increased from \$56 million in 2019 to \$77 million in 2020. Increase was mainly due to the introduction of the property tax assistance program in the form of waiver of penalty and interest on unpaid amounts. This program ensured residents that suffering economic hardship due to COVID-19 did not get penalized for not making their tax instalments.

- **City Hall West Tower Capital Lease Obligation**
 - In 2014, the City entered into a capital lease arrangement for City Hall West Tower. The lease value has been recorded in the City's consolidated financial statements as a tangible capital asset (TCA) with a corresponding capital lease obligation with remaining balance of \$83 million as at December 31, 2020.

- **Deferred Revenue - Obligatory Reserve Funds**
 - Any unspent development charges (DCs), gas tax funds and other obligatory reserves at the end of the fiscal year are recorded as deferred revenue. Deferred revenue increased by \$36 million from \$399 in 2019 to \$435 in 2020 caused by the timing of capital project spending.

- **Employee Benefits and Other Liabilities**
 - Employee benefits and other liabilities increased from \$95 million in 2019 to \$103 million in 2020 mainly due to increase in actuarial valuations for vested sick leave, WSIB liability and early retirement liability.

- **Long-term Liabilities**
 - In 2019 the City acquired long-term debt managed and issued by the Region of Peel. The City has the responsibility for the annual contribution towards sinking funds that would be used to extinguish the debt at maturity. As at December 31, 2020 unsecured debenture net of sinking fund deposits was \$25 million.

- **Net Book Value of Tangible Capital Assets**
 - An increase of \$96 million due to the infrastructure assets assumed from developers through subdivision agreements, property acquisitions, purchase of transit buses, road construction activities as well as facility construction, most notable being Gore Meadows Phase 2.

The Net Financial Assets position continues to be in a strong, positive position, which signifies that the City is fully able to meet its financial obligations.

Consolidated Statement of Operations and Accumulated Surplus

The Consolidated Statement of Operations and Accumulated Surplus (income statement) presents the sources and uses of City's operating financial resources recognized in the reporting period.

Accumulated Surplus represents the City's equity (equivalent to retained earnings of a private business). 90% of the City's Accumulated Surplus represents the City's investment (net book value) in tangible capital assets required to deliver municipal services. The remainder of the Accumulated Surplus consists of funds committed for capital projects, reserves and reserve funds. Accumulated Surplus is therefore not available to be used to moderate the annual tax levy since it would require selling City assets that are used to deliver municipal services.

The 2020 Annual Surplus was \$28 million lower than in 2019. The impacts of COVID-19 revenue losses and additional COVID-19 emergency measure costs were in big part offset by operational savings, mitigating measures and funds received through Provincial Safe Restart Program.

Revenues:

Total revenues in 2020 were \$51 million lower than 2019 decreasing from \$931 million to \$880 million. Major factors contributing to this decrease include:

- \$59 million decrease in User Charges primarily in Transit and Recreation divisions. Transit's revenue significantly lower compared to 2019 due to the suspension of fares between March 21st and July 1st, reduced capacity and lower ridership demand over the course of the year. Recreation revenue decrease was primarily driven by the City's decision to close recreation facilities, limit capacity and cancel programs and rentals to prevent the spread of the pandemic
- \$59 million increase in Government Transfers mainly due to funds received through Provincial Safe Restart Program Phases 1 and 2
- Lower number of subdivisions assumed from developers resulted in a \$41 million decrease in the Developer contributed tangible capital assets
- \$16 million decrease in Penalties, Fines and Interest was mainly a result of the City's decision to support residents through the suspension of penalty and interest on tax arrears until the end of the year

Expenses:

Total operating expenses in 2020 were \$23 million lower than 2019, decreasing from \$820 million to \$797 million.

Included in this is a \$4 million increase in amortization (depreciation) expense representing the value of tangible capital assets that were consumed during the year. The amortization expense increased due to the \$248 million in new tangible capital assets that were added during 2020. Amortization expenses are non-cash in nature, meaning that there was no outlay of cash resources related to the expense.

Following are key items driving the operating expense variance from 2019 to 2020:

- \$32.1 million is as a result of labour related savings, primarily driven by the temporary suspension of employment of part-time, temporary/casual, and seasonal staff members in non-essential and non-critical services with the highest impact in Transit, Recreation and Parks Maintenance and Forestry
- Operational savings in the areas of utility and fuel, preventative and demand maintenance, contracted services were seen throughout the City with the biggest impact in Transit and Recreation
- \$8 million increase in post-employment benefits and other liabilities

Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows reports changes in cash and cash equivalents. It provides information on how the City uses its cash for operating, investing and financing activities. As at December 31, 2020 the City's cash and cash equivalents had a balance of \$311 million (2019 - \$301 million).

Consolidated Statement of Change in Net Financial Assets

This statement explains the change in the City's Accumulated Surplus during the year. It is intended to provide the reader of the consolidated financial statements with detailed information on non-financial assets including the acquisition of tangible capital assets and the use of the assets through the value of amortization. This statement also provides reporting of other non-financial asset items that impact the change in annual surplus and the change in net financial assets.

Audit Findings Report

Each year as part of the annual audit, the City Auditor, KPMG_{LLP} Chartered Accountants, conducts a review of Internal Controls and provides an Audit Findings Report to the Audit Committee with recommendations for improvement and accompanying management responses.

The 2020 Audit Findings Report from KPMG_{LLP} Chartered Accountants is attached to this report. KPMG_{LLP} did not identify any corrected or uncorrected misstatements or internal control improvements.

Publication

The 2020 Consolidated Financial Statements will be made public and posted on the City's website.

Corporate Implications:

There are no corporate implications resulting from this report.

Term of Council Priorities:

This report fulfils the Council Priority of a Well-Run City through strict adherence to effective financial management policies and supports Brampton's 2040 Vision by ensuring sustainable financial operations.

Conclusion:

KPMG_{LLP} audited the consolidated financial statements of the City for the fiscal year 2020. These consolidated financial statements are the responsibility of the City's management. The audit resulted in KPMG_{LLP} issuing an unqualified audit opinion, which means that the consolidated financial statements present fairly the financial position and comply with PSAB municipal financial reporting requirements.

KPMG_{LLP} Chartered Accountants also conducted a review of Internal Controls and provides an Audit Findings Report to the Audit Committee with recommendations for improvement. KPMG_{LLP} did not identify any corrected or uncorrected misstatements.

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Attachments:

- 2020 Audited Financial Statements – The Corporation of the City of Brampton
- 2020 Audited Financial Statements – Trust Funds
- Audit Findings Report (for the year ended December 31, 2020)
- Schedule A - 2020 Municipal Surplus Reconciliations, Tax Levy Purpose vs Financial Statements