Financial Statements

# The City of Winnipeg Glacial Sand and Gravel – Special Operating Agency

December 31, 2005

# AUDITORS' REPORT

To the Mayor and Members of City Council
The City of Winnipeg

We have audited the statement of financial position of **The City of Winnipeg Glacial Sand and Gravel – Special Operating Agency** as at December 31, 2005 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of **The City of Winnipeg Glacial Sand and Gravel – Special Operating Agency** as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Winnipeg, Canada,
March 31, 2006.

Chartered Accountants

# THE CITY OF WINNIPEG
# GLACIAL SAND AND GRAVEL - SPECIAL OPERATING AGENCY

## STATEMENT OF FINANCIAL POSITION

*As at December 31*
*(in thousands of dollars)*

| | 2005 | 2004 |
|---|---|---|
| ***ASSETS*** | | |
| Current | | |
| Cash (Note 3) | $ 85 | $ 39 |
| Accounts receivable (Note 4) | 537 | 455 |
| Income taxes recoverable (Note 5) | - | 86 |
| Inventory | 526 | 549 |
| | 1,148 | 1,129 |
| Capital assets (Note 6) | 4,378 | 4,516 |
| | $ 5,526 | $ 5,645 |
| ***LIABILITIES*** | | |
| Current | | |
| Due to City of Winnipeg - General Revenue Fund (Note 3) | $ 2,095 | $ 1,157 |
| Accounts payable and accrued liabilities | 313 | 748 |
| Deferred revenue | 442 | 255 |
| Vacation payable | 61 | 67 |
| Current portion of long-term debt (Note 7) | 3,878 | 3,997 |
| | 6,789 | 6,224 |
| Retirement allowance (Note 8a) | 45 | 84 |
| Long-term debt (Note 7) | 99 | 177 |
| | 6,933 | 6,485 |
| ***CAPITAL DEFICIENCY*** | | |
| Deficit | (1,407) | (840) |
| | $ 5,526 | $ 5,645 |

*See accompanying notes to the financial statements*

# THE CITY OF WINNIPEG
# GLACIAL SAND AND GRAVEL - SPECIAL OPERATING AGENCY

## STATEMENT OF OPERATIONS AND DEFICIT

*For the years ended December 31*
*(in thousands of dollars)*

| | 2005 | 2004 |
|---|---|---|
| ***REVENUES*** | | |
| Sales of goods and services (Note 9) | **$ 2,297** | $ 2,352 |
| ***EXPENSES*** | | |
| Administrative services (Note 9) | **117** | 42 |
| Amortization and depletion | **201** | 184 |
| Interest on long-term debt (Note 7) | **303** | 286 |
| Material, parts and supplies | **445** | 580 |
| Salaries and benefits | **598** | 670 |
| Services | **1,114** | 1,295 |
| | **2,778** | 3,057 |
| Net loss before income taxes | **(481)** | (705) |
| Income tax expense (Note 5) | **(86)** | - |
| Net loss for the year | **(567)** | (705) |
| ***DEFICIT, BEGINNING OF YEAR*** | **(840)** | (135) |
| ***DEFICIT, END OF YEAR*** | **$ (1,407)** | $ (840) |

*See accompanying notes to the financial statements*

# THE CITY OF WINNIPEG
# GLACIAL SAND AND GRAVEL - SPECIAL OPERATING AGENCY

## STATEMENT OF CASH FLOWS

*For the years ended December 31*
*(in thousands of dollars)*

***NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:***

| | 2005 | 2004 |
|---|---|---|
| ***OPERATING*** | | |
| Net loss for the year | **$ (567)** | $ (705) |
| Non-cash items related to operations | | |
| Amortization and depletion | **201** | 184 |
| Retirement allowance | **(39)** | - |
| Working capital from operations | **(405)** | (521) |
| Net change in working capital | **(227)** | 324 |
| | **(632)** | (197) |
| ***FINANCING*** | | |
| Due to City of Winnipeg - General Revenue Fund | **938** | 486 |
| Repayment of long-term debt | **(197)** | (151) |
| Proceeds of issuance of long-term debt | **-** | 45 |
| | **741** | 380 |
| ***INVESTING*** | | |
| Proceeds on disposal of capital assets | **-** | 68 |
| Purchase of capital assets | **(63)** | (241) |
| | **(63)** | (173) |
| ***INCREASE IN CASH POSITION*** | **46** | 10 |
| ***CASH POSITION, BEGINNING OF YEAR*** | **39** | 29 |
| ***CASH POSITION, END OF YEAR*** | **$ 85** | $ 39 |

*See accompanying notes to the financial statements*

# THE CITY OF WINNIPEG
# GLACIAL SAND AND GRAVEL - SPECIAL OPERATING AGENCY

## NOTES TO THE FINANCIAL STATEMENTS

*As at December 31, 2005*
*(in thousands of dollars, except as noted)*

### 1. *Description of Business*

Glacial Sand and Gravel - Special Operating Agency ("Agency") commenced operations on January 1, 2001. Since the inception, sales of gravel pit aggregate, limestone, and treated sand are realized from both The City of Winnipeg and private industry customers.

### 2. *Summary of Significant Accounting Policies*

The preparation of periodic financial statements necessarily involves the use of estimates and approximations because the precise determination of financial data frequently depends on future events. These financial statements have been prepared by management within reasonable limits of materiality and within the framework of accounting policies summarized below.

The financial statements have been prepared on the basis of Canadian generally accepted accounting principles and include the following significant accounting policies:

**Inventory**

Inventory is recorded at the lower of cost and net realizable value.

**Capital assets**

Capital assets transferred from the City of Winnipeg on January 1, 2001, were recorded at their estimated value. Subsequent acquisitions are recorded at cost. Capital assets are amortized over the estimated useful life using the following rates and methods:

| | | |
|---|---|---|
| Machinery | 10 years | Straight-line |
| Buildings | 4-5% | Declining balance |
| Office equipment | 20% | Declining balance |
| Computer equipment | 30% | Declining balance |

The depletion of the gravel pit is recorded at a rate of 20 cents per tonne of aggregate inventory extracted on an annual basis.

**Revenue recognition**

Amounts billed for products not yet delivered are recorded as deferred revenue. Revenue is recognized upon delivery of products.

**Financial instruments**

Financial instruments include cash, accounts receivable, income taxes recoverable, due to City of Winnipeg - General Revenue Fund, accounts payable and accrued liabilities, and long-term debt. Unless otherwise stated, it is management's opinion that the Agency is not exposed to significant interest, currency or credit risks arising from these financial instruments. The book value of the Agency's financial assets and liabilities approximates their fair value.

## 3. *Due to City of Winnipeg - General Revenue Fund*

The City of Winnipeg operates a centralized treasury function with a single operating bank account in the General Revenue Fund. Consequently, the Agency does not have a bank account. Bank transactions are credited or charged to the "Due (to)/from" account, and the amounts reported as cash represent bank deposits not yet charged to this account. Interest is credited or charged based on the City's average short-term earnings (cost of funds) on the single bank account.

Effective January 1, 2005, the previously authorized $400 thousand operating line of credit from The City of Winnipeg - Idea Bank Reserve was replaced with access to term debt financing at the City's applicable borrowing rate. As at December 31, 2005 there were no amounts owing with respect to this borrowing arrangement.

## 4. *Accounts Receivable*

| | **2005** | 2004 |
|---|---|---|
| Trade accounts receivable | **$ 537** | $ 465 |
| Allowance for doubtful accounts | **-** | (10) |
| | **$ 537** | $ 455 |

## 5. *Income Tax Equivalency*

As part of the municipal government, the Agency is not subject to corporate income taxes. However, in order to approximate a business model, the operation of the Agency is assessed with an income tax equivalency charge/recovery of 46% which is payable to (recoverable from) The City of Winnipeg. Amounts paid are to be directed to infrastructure renewal in the City of Winnipeg.

As there is no expectation of profitability in the near future it was determined that there is no basis for maintaining an income tax recoverable amount on the balance sheet at December 31, 2005. The prior year balance was recorded as a charge to the current year's operations.

## 6. *Capital Assets*

| | **Cost** | **Accumulated Amortization/ Depletion** | **Net Book Value 2005** | Net Book Value 2004 |
|---|---|---|---|---|
| Gravel pit | **$ 3,800** | **$ 372** | **$ 3,428** | $ 3,502 |
| Machinery | **1,167** | **345** | **822** | 866 |
| Building under capital lease | **51** | **7** | **44** | 47 |
| Computer equipment | **88** | **50** | **38** | 55 |
| Land clearing | **28** | **-** | **28** | 28 |
| Building | **19** | **3** | **16** | 16 |
| Office equipment | **4** | **2** | **2** | 2 |
| | **$ 5,157** | **$ 779** | **$ 4,378** | $ 4,516 |

7. ***Long-Term Debt***

| | 2005 | 2004 |
|---|---|---|
| City of Winnipeg - Equipment and Material Services: | | |
| Equipment financing program loan, interest at 6.5%, payment of $5 hundred monthly, due December 2005 | $ - | $ 6 |
| Equipment loan, interest at 6.5%, payment of $5 thousand monthly, due December 2005 | - | 56 |
| Gravel pit loan, interest at 6.5%, no repayment schedule | **3,800** | 3,800 |
| City of Winnipeg - Fleet Management - Special Operating Agency | | |
| Equipment replacement loan, interest at 6.5%, payment of $2 thousand monthly, due September 2005 | - | 18 |
| Equipment loan, interest at 6.5%, payment of $6.5 thousand monthly, due February 2008 | **157** | 223 |
| Capital lease obligations | **20** | 71 |
| | **3,977** | 4,174 |
| Current portion of long-term debt | **(3,878)** | (3,997) |
| | **$ 99** | $ 177 |

a) Principal repayments due within the next five years are as follows:

| | |
|---|---|
| 2006 | $ 3,878 |
| 2007 | 83 |
| 2008 | 16 |
| | $ 3,977 |

b) Interest on the equipment loans during the year was $15 thousand (2004 - $25 thousand) and has been paid to The City of Winnipeg - Equipment and Material Services and Fleet Management - Special Operating Agency; and

The interest expense on the gravel pit loan during the year of $247 thousand (2004 - $247 thousand) is to be directed to infrastructure renewal in the City of Winnipeg.

The interest payable on the gravel pit loan included in accounts payable and accrued liabilities is $247 thousand (2004 - $523 thousand).

c) Cash paid for interest during the year was $41 thousand (2004 - $14 thousand).

## 8. *Employee Benefits*

### a) Retirement allowance

Under the retirement allowance plan, qualifying employees become entitled to a cash payment upon retirement, death or termination of service under certain conditions (not resignation). The costs are actuarially determined using the projected benefit valuation method pro-rated on services and reflects management's best estimate of retirement ages of employees, salary escalation and length of service. In addition, adjustments arising from plan amendment, changes in assumptions, and experience gains and losses are amortized on a straight-line basis over 14.4 years, which represents the expected average remaining service life of the employee group. Amortization is calculated beginning in the year following the year of occurrence of the actuarial gains or losses.

The Agency measures its accrued retirement allowance obligation as at December 31 of each year. The most recent actuarial valuation report was at December 31, 2005.

Information about the Agency's retirement allowance benefit plan is as follows:

| | **2005** | 2004 |
|---|---|---|
| Retirement allowance - accrued obligation: | | |
| Balance, beginning of year | **$ 92** | $ 84 |
| Current service cost | **2** | 2 |
| Interest cost | **5** | 5 |
| Benefit payments | **(47)** | - |
| Amortization of net actuarial loss | **1** | 1 |
| Net actuarial gain | **(11)** | - |
| Balance, end of year | **42** | 92 |
| Unamortized net actuarial gain (loss) | **3** | (8) |
| Retirement allowance - accrued liability | **$ 45** | $ 84 |

Retirement allowance expense consist of the following:

| | **2005** | 2004 |
|---|---|---|
| Current service cost | **$ 2** | $ 2 |
| Interest cost | **5** | 5 |
| Amortization of net actuarial loss | **1** | 1 |
| Adjustment to prior period payment | **(47)** | - |
| | **$ (39)** | $ 8 |

The significant actuarial assumptions adopted in measuring the retirement allowance obligation for the year ended December 31 are as follows:

| | **2005** | 2004 |
|---|---|---|
| Valuation interest rate | **4.50%** | 5.25% |
| General increases in pay | **3.00%** | 3.00% |

### b) Pension

The Agency's employees are eligible for pensions under the Winnipeg Civic Employees' Benefits Program. The Plan is a defined benefit plan. The City of Winnipeg allocates its pension costs to various departments. During the year, $35 thousand (2004 - $31 thousand) of pension costs were allocated to the Agency. An actuarial valuation for the Winnipeg Civic Employees' Benefits Program was made as of December 31, 2004 and has an actuarial surplus.

## 9. *Related Party Transactions*

Included in the Agency's revenues/expenses are the following transactions, which occurred in the normal course of operations and are recorded at the exchange amount:

a) Sales of goods and services of $809 thousand (2004 - $1.146 million) to The City of Winnipeg and

b) Charges in the amount of $76 thousand (2004 - $26 thousand), including general government charges in the amount of $26 thousand (2004 - $26 thousand), to The City of Winnipeg - General Revenue Fund which represents the estimated share of The City of Winnipeg's general expenses applicable to the Agency, and

c) Charges in the amount of $270 thousand (2004 - $143 thousand) to Fleet Management - Special Operating Agency for services related to equipment supply, maintenance, and fuel.

## 10. *Economic Dependence*

The Agency is dependent upon City of Winnipeg financing for its future viability.

## 11. *Comparative Figures*

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.