**Agenda - Council – July 16, 2008**

**Report – Alternate Service Delivery Committee – July 8, 2008**

**Item No. 1 Glacial Sand and Gravel Special Operating Agency – 2007 Annual Report**
**File GL 5.6.1**

COMMITTEE RECOMMENDATION:

On July 9, 2008, the Executive Policy Committee concurred in the recommendation of the Alternate Service Delivery Committee and submits the following to Council:

1. That the Glacial Sand and Gravel Special Operating Agency's 2007 Final Annual Report and the Audited Financial Statements outlined in Appendix A, in the report of the Director of Public Works dated April 29, 2008, be received as information.

2. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

**Agenda - Council – July 16, 2008**

**Report - Alternate Service Delivery Committee - July 8, 2008**

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On July 9, 2008, the Executive Policy Committee concurred in the recommendation of the Alternate Service Delivery Committee and submitted the matter to Council.

COMMITTEE RECOMMENDATION:

On July 8, 2008, the Alternate Service Delivery Committee concurred in the recommendation of the Winnipeg Public Service and submitted the matter to the Executive Policy Committee and Council.

**RE: GLACIAL SAND AND GRAVEL SPECIAL OPERATING AGENCY (SOA) 2007 ANNUAL REPORT**

**FOR SUBMISSION TO:** **Alternate Service Delivery Committee**

**ORIGINAL REPORT SIGNED BY:** **Director of Public Works**

**REPORT DATE:** **April 29, 2008**

**RECOMMENDATIONS:**

It is recommended that the Glacial Sand and Gravel Special Operating Agency's 2007 final annual report and the audited financial statements in Appendix A be received as information.

## Report Summary

**Key Issues:**

- This is Glacial Sand and Gravel Special Operating Agency's final annual report. Following the sale of the Pine Ridge Property, along with its reserve assets and equipment, in February 2007, the Agency was dissolved, effective December 31st, 2007, and its Operating Charter revoked and Advisory Board discharged.
- The surplus funds amounting to $9,934,000 have been transferred to the City of Winnipeg-Equipment and Material Services Fund until further direction from Council.
- The remaining operations, assets and liabilities were transferred to the Public Works Department effective January 1, 2008.
- Staff redeployment has been completed.

**Implications of the Recommendation(s):**

**General Implications**
(X) None
( ) For the organization overall and/or for other departments
( ) For the community and/or organizations external to the City
( ) Comment(s):

**Policy Implications**
(X) No
( ) No
Comment(s):

**Regulatory Implications**
(X) None
( ) Eliminates or reduces regulatory impact
( ) Proposes regulatory impact
Comment(s):

**Environmental Implications**
(X) No
( ) Yes
Comment(s):

**Human Resources Implications**
(X) No
( ) Yes
Comment(s):

**Financial Implications**
(X) Within approved current and/or capital budget
( ) Current and/or capital budget adjustment required
Comment(s):

## Report

### REASON FOR THE REPORT

In accordance with By-law 7100/97, the Alternate Service Delivery Committee receives the annual reports of the special operating agencies (SOA) and submits them to Executive Policy Committee and Council as information.

### HISTORY

Glacial Sand and Gravel (GSG) was designated a Special Operating Agency (SOA) by Council effective January 1, 2001. The Agency had three properties namely:

- Pine Ridge Pit;
- Transcona Pit; and
- Gunton property

Operating as a SOA, and adhering to business-like principles, the GSG was intended to produce the best return for the asset to the taxpayers. To review its performance and plan for the future business strategy, the Agency initiated and completed its strategic review of the business in 2005-06. Based upon the recommendations of that business review, Council directed GSG management and the Public Works Department to initiate an Expression of Interest and Proposal (EOIP) process for the Pine Ridge Pit and equipment. The EOIP process was completed in 2006 and a decision was made on September 27, 2006 by the Council to sell the Pine Ridge Pit along with its reserve assets and equipment. At its March 21, 2007 meeting, Council directed the Administration to submit a report outlining a plan to finalize operations and dissolve GSG.

### DISCUSSION

On July 18, 2007, Council directed that effective December 31, 2007, the GSG be dissolved, all remaining assets, operations and liabilities be transferred to the Public Works Department and the surplus funds be transferred to an interest bearing account in the General Ledger until further direction from Council.

The Administration has completed the following effective December 31, 2007:

1. **Remaining Assets, Liabilities and Operations**
   The remaining assets (Transcona Pit and Gunton Property) have been transferred to Public Works Department. GSG had an ongoing royalty agreement for the sale of bank run material from the Transcona Pit which has been assigned to the Public Works Department. This agreement, which is based on a royalty rate, is in place until July 2009, or earlier if the pit material is depleted before this date.

2. **Surplus Funds**
   The surplus funds in the amount of $9.934 million have been transferred to City of Winnipeg - Equipment and Material Services Fund until further direction from Council.

**3. Staff Redeployment**

GSG's permanent staff has been redeployed to different divisions within the Public Works Department. In total, 4 permanent CUPE staff and 1 permanent WAPSO (exempt) staff have been transferred to the Public Works Department.

**4. Advisory Board**

Glacial Sand and Gravel's Advisory Board has been discharged from its duties effective December 31, 2007, at which time GSG's management thanked members for their services.

**Financial Highlights:**

Detailed audited financial statements for 2007 are attached in Appendix A. The financial highlights include:

- The Pine Ridge pit along with reserves and equipment was sold for an amount of $11 million.
- Retained earnings to the end of 2007 were $9.934 million which has been transferred to City of Winnipeg - Equipment and Material Services Fund until otherwise directed by Council.
- All future expenses related to Transcona pit will be borne by the Public Works Department through its own budget from revenues generated by the royalty arrangement in the Transcona pit.
- The Salary and Benefits expense for 2007 is $182,000 which is $200,000 lower compared to 2006 due to staff redeployment that took place in 2007.
- The Net income from operations for 2007 is $252,000.
- The Revenues for 2007 are $761,000 due to the sale of inventory from the Pine Ridge pit at the time of the property transfer; bank run from the Transcona pit; and interest income.
- The Expenses for 2007 are $509,000 resulting from inventory adjustment; redeployment costs; and minimal operating expenses.

**GLACIAL SAND AND GRAVEL SPECIAL OPERATING AGENCY (SOA) 2007 ANNUAL REPORT**

**COMMENTS:**

As this report is for information only there is no financial impact. The 2007 SOA Audited Financial Statements are included as an appendix to this report.

*"Original Signed by Darcy Stewart, CA"*

Manager of Finance & Administration

**IN PREPARING THIS REPORT THERE WAS:**

**Internal Consultation With and Concurrence By:**

The Public Works Department
Internal Services Department - Legal Services Division

**External Consultation With:**

N/A

**THIS REPORT SUBMITTED BY:**

| | |
|---|---|
| Department: | Public Works Department |
| Division: | Glacial Sand and Gravel SOA |
| Prepared by: | P. Paul, P. Eng., COO, Glacial Sand and Gravel ..... 986-5335 |
| Processed by: | K. Ross ..... 986-4141 |
| File No.: | Glacial SOA Final Information Report |
| File Name: | L:\Admin\Reports 2008\Preetipal Paul\April\Glacial 07 Annual Report April 23 08.doc |

Attach.

# Appendix A - Audited Financial Statements for the year 2007

# 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, 2007 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 Agency as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Winnipeg, Canada,
February 29, 2008.

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)*

| | **2007** | 2006 |
|---|---|---|
| | **(Note 1)** | |
| ***ASSETS*** | | |
| Current | | |
| Accounts receivable | **$ -** | $ 280 |
| Inventory | - | 277 |
| Capital assets held for sale | - | 4,066 |
| | - | 4,623 |
| Capital assets | - | 27 |
| | **$ -** | $ 4,650 |
| ***LIABILITIES*** | | |
| Current | | |
| Due to The City of Winnipeg - General Revenue Fund | - | 1,412 |
| Accounts payable and accrued liabilities | - | 28 |
| Deferred revenue | - | 272 |
| Vacation payable | - | 31 |
| Current portion of long-term debt | - | 3,875 |
| | - | 5,618 |
| Retirement allowance | - | 45 |
| Long-term debt | - | 12 |
| | - | 5,675 |
| ***CAPITAL*** | | |
| Deficit | - | (1,025) |
| | **$ -** | $ 4,650 |

*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)*

| | **2007** | 2006 |
|---|---|---|
| | **(Note 1)** | |
| ***REVENUES*** | | |
| Sales of goods and services | **$ 336** | $ 2,419 |
| Interest income (Note 3) | **425** | - |
| | **761** | 2,419 |
| ***EXPENSES*** | | |
| Administrative services | **3** | 283 |
| Amortization and depletion | **-** | 286 |
| Interest (Note 3) | **15** | 90 |
| Material, parts and supplies | **279** | 351 |
| Salaries and benefits | **182** | 382 |
| Services | **30** | 661 |
| | **509** | 2,053 |
| Income from operations | **252** | 366 |
| Gain on disposal of Pine Ridge Pit and assets (Note 1) | **10,707** | - |
| Net income for the year | **10,959** | 366 |
| Deficit, Beginning of Year | **(1,025)** | (1,391) |
| Transfer to The City of Winnipeg - Equipment and Material Services Fund | **(9,934)** | - |
| ***DEFICIT, END OF YEAR*** | **$ -** | $ (1,025) |

*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:***

| | **2007** (Note 1) | 2006 |
|---|---|---|
| ***OPERATING*** | | |
| Net income for the year | **$ 10,959** | $ 366 |
| Non-cash items related to operations | | |
| Amortization and depletion | **-** | 286 |
| Gain on disposal of Pine Ridge Pit and assets | **(10,707)** | |
| Retirement allowance | **(45)** | - |
| Working capital from operations | **207** | 652 |
| Net change in working capital | **226** | 37 |
| | **433** | 689 |
| ***FINANCING*** | | |
| Due to The City of Winnipeg - General Revenue Fund | **(1,412)** | (683) |
| Repayment of long-term debt | **(87)** | (90) |
| | **(1,499)** | (773) |
| ***INVESTING*** | | |
| Proceeds from disposal of capital assets | **11,000** | - |
| Purchase of capital assets | **-** | (1) |
| Transfer to The City of Winnipeg - Equipment and Material Services Fund | **(9,934)** | - |
| | **1,066** | (1) |
| ***DECREASE IN CASH POSITION*** | **-** | (85) |
| ***CASH POSITION, BEGINNING OF YEAR*** | **-** | 85 |
| ***CASH POSITION, END OF YEAR*** | **$ -** | $ - |

*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, 2007*
*(in thousands of dollars, except as noted)*

***1. Wind-up of Operations***

On July 18, 2007, City Council approved the dissolution of Glacial Sand and Gravel - Special Operating Agency (the "Agency") effective December 31, 2007. The Agency's Pine Ridge property, facilities, equipment and reserve assets had been sold for cash consideration of $11.0 million, with transfer of ownership occurring February 5, 2007. All proceeds concerning the sale were received.

The Agency's $3.8 million gravel pit loan with The City of Winnipeg - Equipment and Material Services Fund ("EMS") and the offsetting Due from Glacial Sand and Gravel in the books of EMS were cancelled in 2007. The entire proceeds and gain from the sale of the Pine Ridge Pit and assets are reflected in the Agency's financial statements.

**Disposal of Pine Ridge Pit and assets**

| | | | | |
|---|---|---|---|---|
| Sale price (proceeds received) | | | **$** | **11,000** |
| Cost of Sale | | | | |
| Net Book Value of disposed capital assets | | | | |
| Gravel pit | **$** | **3,273** | | |
| Machinery | | **705** | | |
| Building under capital lease | | **43** | | |
| Land clearing | | **28** | | |
| Building | | **15** | | |
| Office equipment | | **2** | | **(4,066)** |
| Cancellation of gravel pit loan with The City of Winnipeg - Equipment and Material Services Fund | | | | **3,800** |
| Write-down of obsolete computer equipment | | | | **(27)** |
| Gain on disposal of Pine Ridge Pit and assets | | | **$** | **10,707** |

**Retirement allowance**

All staff were redeployed within the General Revenue Fund's operations of the Public Works Department by December 31, 2007.

An amount of $28 thousand was transferred to the Streets Maintenance division of the Public Works Department for consideration of Agency staff currently on sick leave.

## 1. *Wind-up of Operations (continued)*

**Transfer of Remaining Statement of Financial Position Balances**

As of December 31, 2007, all of the Agency's remaining assets and liabilities were transferred to the General Revenue Fund.
Assets and liabilities transferred to Streets Maintenance division of the Public Works Department:

| | | |
|---|---|---|
| Accounts receivable | **$ 187** | |
| Accounts payable and accrued liabilities | **(11)** | |
| Deferred revenue | **(173)** | |
| Vacation payable | **(22)** | **$ (19)** |

Balance transferred to The City of Winnipeg - Equipment and Material Services Fund:

| | |
|---|---|
| Accumulated surplus | **$ 9,934** |

## 2. *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 the significant 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:
**Revenue recognition**
Amounts billed for products not yet delivered are recorded as deferred revenue. Revenue is recognized upon delivery of products.

## 3. *Related Party Transactions*

The Agency is wholly-owned by The City of Winnipeg. Transactions between the Agency and The City of Winnipeg are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.
In addition to those disclosed elsewhere in the financial statements, the transactions that occurred are as follows:

a) Sales of goods and services of $nil (2006 - $227 thousand) to The City of Winnipeg;

b) Interest income of $425 thousand (2006 - $nil) from The City of Winnipeg;

c) Charges in the amount of $nil (2006 - $225 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;

d) Charges in the amount of $12 thousand (2006 - $75 thousand) to The City of Winnipeg Fleet Management - Special Operating Agency for services related to equipment supply, maintenance, and fuel;

e) Interest on the equipment loan during the year was $2 thousand (2006 - $8 thousand) and has been paid to The City of Winnipeg Fleet Management Special Operating Agency; and

f) Interest expense of $13 thousand (2006 - $82 thousand) to The City of Winnipeg.