Glacial Sand and Gravel



2002

Special Operating Agency Annual Report

Winnipeg

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Message from the Acting Chief Administrative Officer



Winnipeg is becoming known as a center for innovative and cost-effective civic government. One of the innovations is the introduction of Special Operating Agencies. Working with staff and CUPE Local 500, the City has developed agencies that are different in the way they do business. The fully costed agencies are now more service oriented and businesslike. Glacial Sand and Gravel Special Operating Agency is now one of a family of three distinct agencies, which includes Animal Services and Golf Services.

Glacial Sand and Gravel continues to follow the Business Plan created as part of its Special Operating Agency development. It has sourced new sales agreements, invested in modern high-production equipment, introduced information technology advances, and invested in increased training for staff.

I would like to thank the staff of Glacial Sand and Gravel for their commitment to make the Agency a sound and efficient business enterprise. We encourage them to continue their hard work to realize Glacial's potential.

Bob Pruden,
Acting Chief Administrative Officer
City of Winnipeg

Message from the Director of Public Works



Public Works Department is pleased to be part of the new and innovative Special Operating Agencies. These Agencies represent a new way for the City of Winnipeg to conduct its business. Glacial Sand and Gravel was Public Work's first Special Operating Agency and will soon be joined by Fleet Management Services.

Like Public Works, Glacial Sand and Gravel's future success depends on its staff. We are pleased to report that through the hard work and expertise of this staff, Glacial is meeting its objectives.

Jim Thomson P.Eng.
Director of Public Works
City of Winnipeg

Message from the Chief Operating Officer



Future material sales continue to look favorable for Glacial Sand and Gravel. As non-renewable aggregate reserves in the Capital Region are depleted, the demand for the Agency's aggregate reserves increases. We continue to strive to achieve our performance goals laid out in our business plan.

This year Glacial Sand and Gravel made major commitments of time and resources in several areas of its operations. These commitments included updating its equipment, introducing new information technology, introducing new production methods, and investing in staff training.

Working with our staff, the Canadian Union of Public Employees Local 500, the Glacial Advisory Board and the Public Works Department, Glacial Sand and Gravel will continue to refine and enhance its business plan to ensure its future profitability.

David Jackson CET
Chief Operating Officer
Glacial Sand and Gravel

Profile

Glacial Sand and Gravel is a Special Operating Agency of the City of Winnipeg specializing in the mining and processing of quality sand and gravel products from gravel reserves in the Winnipeg region.

Mission Statement

To produce , supply, and sell high quality aggregate products at competitive prices in a manner that maximizes the financial potential of the City of Winnipeg's non-renewable resources.

Our Mandate

To supply users, on a competitive basis, aggregate products in a timely and cost efficient manner, both internal and external to the City of Winnipeg.

Our Goals

- be financially profitable
- mine aggregate resources in a responsible and prudent manner
- ensure a constant supply of various aggregate products
- improve and promote customer service

Products and Services

Glacial supplies a variety of screened or crushed sand and stone products such as:

- playground sand
- asphalt sand
- torpedo sand
- pea gravel
- septic stone
- concrete stone

Advisory Board

The role of the Advisory Board is to provide advice on Glacial Sand and Gravel's strategic operations and on changes to its mandate, structure, business practices, and finances. The Advisory Board reviews and comments on Glacial Sand and Gravel's proposed agency plans, summary quarterly and annual reports, and charter revisions.

Operational Highlights

Glacial focused on many areas of its aggregate business.

Training



One of the most important areas is staff training. This year staff successfully completed an initial course in material quality control sponsored by Red River College. We hope to build upon and enhance this initial training to the benefit of Glacial and its employees, as they become a better-trained and more knowledgeable work force. Other areas of training included safety, foremanship, equipment, information technology, as well as cross-training in the traditional job skill sets. Feedback from staff on training has been positive, as the benefits of training are apparent both in Agency operations and in career advancement.

Equipment



Updating its equipment inventory has been a major challenge for the Agency. Given the high cost of acquiring equipment, it is essential to ensure that it receives sufficient hours of use to justify that cost.

One piece of equipment that Glacial can use on a continuous basis is a stacking conveyor. This piece of equipment allows for more efficient, enhanced stockpiling of material while eliminating the need, on a daily basis, for a costly hired loader. It was for this reason that a stacking conveyor was the first major purchase of the Agency.

Seeing that large portions of the Agency's sales were for screened stone, in 2003 the Agency evaluated a new high-production screening plant. Staff, working with Fleet Management Services of Public Works, defined the features and specifications that were desired in a screening plant, with the intention of acquiring one. The Agency did explore the marketing of crushed material with limited success. With this in mind, for 2003, the Agency's focus will be on screened products and acquiring screening equipment.

Operational Highlights

Information Technology



Working with the Public Works Information Technology Branch, the Agency was successful in implementing weigh scale automation software. This automation software streamlines the truck weighing operation, making it more responsive and efficient. The software also allows the retrieval of information in a more flexible and friendly manner. The software conforms to, and ensures the adherence to, proper financial controls and rules. Implementation of this software has been time consuming, as staff have been concerned to ensure that the software works as designed. For this reason, the second phase has not yet come to fruition.

The Public Works Timekeeping system was also modified to allow Glacial staff to input staff time, equipment, and production rates. This information assists with meeting payroll needs and future production costing needs. The Information Technology Branch has been engaged to ensure that all Glacial software is coordinated with or interfaces with the new Connexus software.

Financial Overview



In 2002, its second year of operation, Glacial Sand and Gravel projected a loss of $34,000. The actual results for the year were a loss of $103,000. This greater than budgeted loss was due to lower than anticipated material sales and higher than expected costs of sales.

Material volumes and resulting revenues initially budgeted from the Transcona Gravel Pit were not realized, due to delays in finalizing the sales contract. Costs of sales were higher, due to the leasing of production equipment and higher than budgeted contract labour costs.

Glacial Sand and Gravel have addressed the major issues that faced the Agency in 2002. This will result in cost saving and revenue growth potential of the Agency in 2003 and beyond.

Auditor's 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, 2002 and the statements of operations and retained earnings 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, 2002 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,
March 31, 2003.

Chartered Accountants

Statement of Financial Position

As at December 31 (in thousands of dollars)

	2002	2001
Assets		
Current		
Due from City of Winnipeg - General Revenue Fund (Note 3)	$ -	$ 148
Accounts receivable (Note 4)	246	271
Income taxes recoverable (Note 5)	61	-
Inventory	395	144
Prepaid expenses	-	83
	702	646
Capital assets (Note 6)	4,279	3,965
	$ 4,981	$ 4,611
Liabilities		
Current		
Due to City of Winnipeg - General Revenue Fund (Note 3)	$ 204	$ -
Accounts payable and accrued liabilities	547	312
Income taxes payable (Note 5)	-	26
Rehabilitation payable (Note 7)	81	82
Vacation (Note 8a)	40	30
Current portion of long-term debt (Note 9)	85	51
	957	501
Retirement allowance (Note 8b)	100	82
Long-term debt-City of Winnipeg (Note 9)	3,996	3,997
	5,053	4,580
Capital Deficiency / Retained Earnings		
(Deficit) / Retained Earnings	(72)	31
	$ 4,981	$ 4,611

See accompanying notes to the financial statements

Statement of Operations and Deficit

For the year ended December 31 (in thousands of dollars)

	2002	2001	Budget (unaudited) 2002
Revenues			
Sales of goods and services (Note 10)	$ 2,583	$ 2,667	$ 1,802
Expenses			
Administrative services	121	158	144
Amortization and depletion	111	126	222
Interest on long-term debt (Note 9)	261	265	333
Material, parts and supplies	474	552	439
Salaries and benefits	598	406	424
Services	1,208	1,103	303
	2,773	2,610	1,865
Net (loss) income before income taxes	(190)	57	(63)
Income tax recovery (charge) (Note 5)	87	(26)	29
Net (loss) income	(103)	31	(34)
Retained Earnings, Beginning of Year	31	-	31
(Deficit) / Retained Earnings, End of Year	$ (72)	$ 31	$ (3)

See accompanying notes to the financial statements

Statement of Cash Flows

For the year ended December 31 (in thousands of dollars)

Net Inflow (Outflow) of Cash Related to the Following Activities:

	2002	2001
Operating		
Net (loss) income for the year	$ (103)	$ 31
Non-cash items related to operations		
Amortization and depletion	109	126
Retirement allowance	18	82
Working capital from operations	24	239
Net change in working capital	14	(48)
	38	191
Financing		
Due to (from) City of Winnipeg - General Revenue Fund	352	(148)
Long-term debt - City of Winnipeg	33	4,048
	385	3,900
Investing		
Purchase of capital assets	(423)	(4,091)
Cash Position, End of Year	$ -	$ -

See accompanying notes to the financial statements

Notes to the Financial Statements

As at December 31, 2002 (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, sale of the gravel pit aggregate, limestone, and treated sand were 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
Building	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.

Financial Instruments

Financial instruments include accounts receivable, income taxes recoverable, inventory, due to City of Winnipeg - General Revenue Fund, accounts payable and accrued liabilities, rehabilitation payable, 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. Unless otherwise stated, the book value of the Agency's financial assets and liabilities approximates their fair value.

3. *Due from (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. Cash transactions are credited or charged to the "Due (to) / from" account. Interest is credited or charged based on the City's average short-term earnings (cost of funds) on the single bank account.

The Agency has negotiated an operating line of credit of up to $400 thousand from The City of Winnipeg - Idea Bank Reserve, at a rate of 6.5%.

4. *Accounts Receivable*

	2002	2001
Trade accounts receivable	$ 269	$ 287
Government of Canada	2	6
Allowance for doubtful accounts	(25)	(22)
	$ 246	$ 271

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.

6. ***Capital Assets***

	Cost	Accumulated Amortization/ Depletion	Net Book Value 2002	Net Book Value 2001
Gravel pit	$ 3,800	$ 158	$ 3,642	$ 3,702
Machinery	578	67	511	238
Building	19	1	18	14
Building under capital lease	51	1	50	-
Land clearing	28	-	28	-
Computer equipment	34	8	26	11
Office equipment	4	-	4	-
	$ 4,514	$ 235	$ 4,279	$ 3,965

7. ***Rehabilitation Payable***

The Agency is required to pay rehabilitation fees for future restoration of the land and surrounding infrastructure when the gravel pit has been depleted. These fees are assessed as follows:

Province of Manitoba - rehabilitation fee of 10 cents per tonne sold
RM of Springfield - mining fee of 4.4 cents per tonnes sold
RM of Springfield - road maintenance levy of 2.4 cents per tonne sold

8. ***Employee Benefits***

a) Vacation
The Agency's employees accrue vacation credits, which together with unused holidays from previous years generally become a charge to operations in the year they are earned.

b) Retirement allowance
Under various union agreements, unused sick leave credits accumulate and employees with specified minimum service requirements become entitled to a cash payment upon retirement, death or termination of service under certain conditions (excluding resignation). An actuarial valuation has estimated the retirement allowance liability as at December 31, 2002, at $100 thousand (2001 - $82 thousand)..

c) Pension
The Agency's employees are eligible for pensions under The City of Winnipeg, Civic Employees' Pension Plan. The Plan is a defined benefit plan. The City of Winnipeg allocates its pension costs to various departments. During the year, $32 thousand (2001 - $15 thousand) of pension costs were allocated to the Agency. An actuarial valuation for The City of Winnipeg, Civic Employees' Pension Plan was made as of December 31, 2001 and has an actuarial surplus.

9. ***Long-term Debt***

	2002	2001
City of Winnipeg Equipment and Materials Services:		
Equipment financing program loan, interest at 6.5%, payment of $5 hundred monthly, due January 2005	$ 16	$ -
Equipment replacement loan, interest at 6.5%, payment of $5 thousand monthly, due January 2005	65	-
Equipment loan, interest at 6.5% payment of $5 thousand monthly, due January, 2006	158	248
Gravel pit loan, interest at 6.5%, no repayment Schedule	3,800	3,800
Capital lease obligation interest at 7.6% monthly payments of $9 hundred, due April 2004.	42	-
	4,081	4,048
Current portion of long-term debt	(85)	(51)
	$ 3,996	$ 3,997

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

2003	$ 85
2004	90
2005	89
2006	8
2007	9

9. ***Long-term Debt (continued)***

b) Interest on the equipment loans during the year was $14 thousand (2001 - $18 thousand) and has been paid to The City of Winnipeg - Equipment and Material Services; and

The interest payable on the gravel pit loan during the year of $247 thousand (2001 - $247 thousand) is to be directed to infrastructure renewal in The City of Winnipeg.

c) Cash paid for interest during the year was $14 thousand (2001 - $18 thousand).

10. ***Related Party Transactions***

Included in the Agency's revenues/expenses are:

a) Sales of goods and services of $972 thousand (2001 - $784 thousand) to The City of Winnipeg for treated sand; and

b) General government charges in the amount of $58 thousand (2001 - $109 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.

11. ***Comparative Figures***

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

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Advisory Board Members

Chair **Jim Thomson**, P.Eng.
Director of Public Works

David Jackson, CET
Chief Operating Officer
Glacial Sand and Gravel

Bruce McPhail, P.Eng.
Manager of Streets
Maintenance Division

Jeff Laurent
Staff Representative
Glacial Sand and Gravel

James Husiak, CA
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Local 500 Representative

Ed Brunning
Professor, University of Manitoba

Bob Okabe
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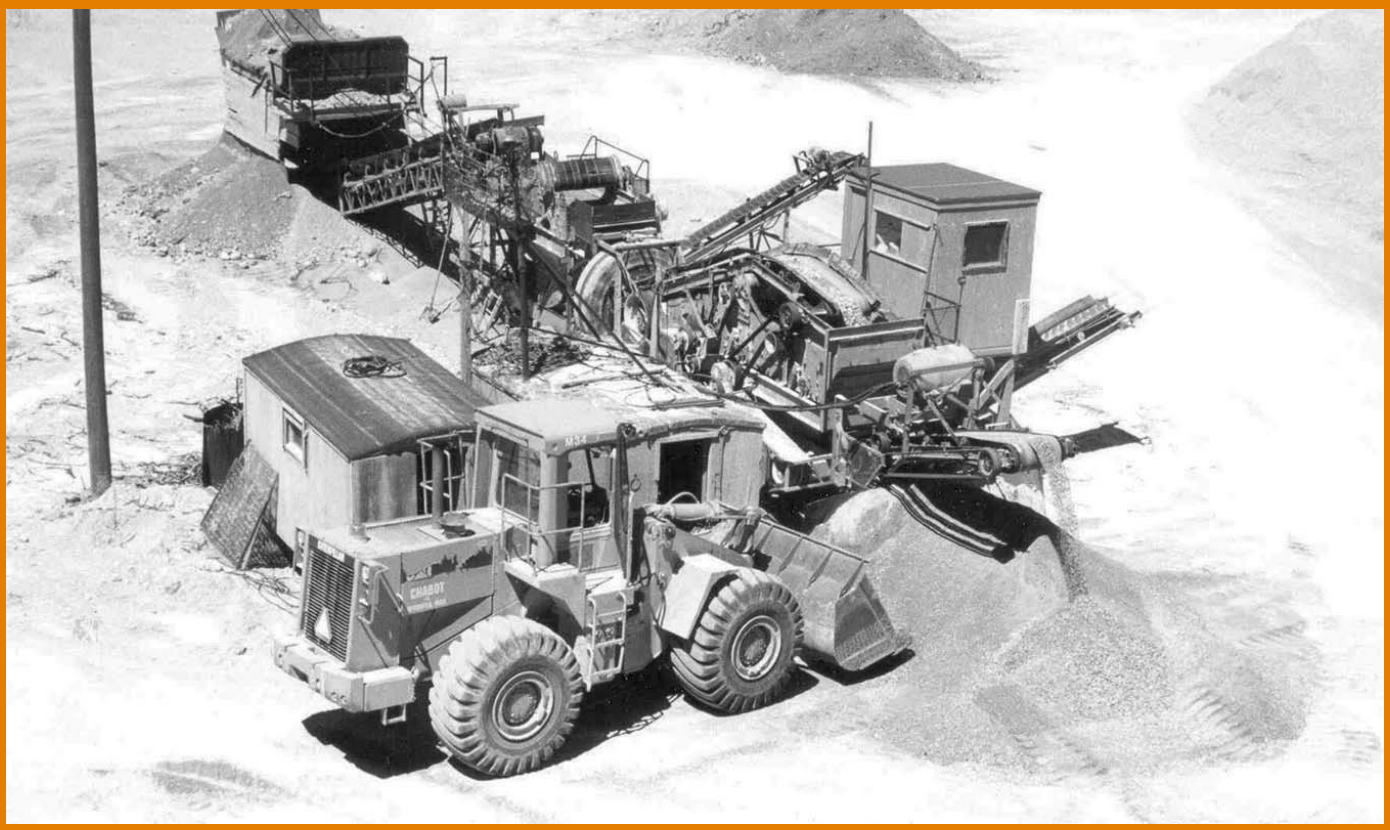
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Glacial Sand and Gravel

Special Operating Agency

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