Financial Statements of

THE CITY OF WINNIPEG - ANIMAL SERVICES - SPECIAL OPERATING AGENCY

Year ended December 31, 2015

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of The City of Winnipeg - Animal Services - Special Operating Agency, which comprise the statement of financial position as at December 31, 2015 and the statements of operations and accumulated surplus (deficit), cash flows and change in net financial liabilities for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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KPMG Canada provides services to KPMG LLP.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The City of Winnipeg - Animal Services - Special Operating Agency as at December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants

November 21, 2016

Winnipeg, Canada

THE CITY OF WINNIPEG
ANIMAL SERVICES - SPECIAL OPERATING AGENCY

STATEMENT OF FINANCIAL POSITION

As at December 31

	2015	2014
FINANCIAL ASSETS		
Cash	**$ 18,055**	$ 22,638
Accounts receivable (Note 3)	**79,741**	74,866
Due from the City of Winnipeg - General Revenue Fund (Note 4)	**891,879**	640,072
	989,675	737,576
LIABILITIES		
Accounts payable and accrued liabilities	**200,519**	80,535
Deferred revenue	**848,832**	724,344
Vacation and overtime payable	**86,958**	90,454
Retirement allowances and compensated absences (Note 5a)	**121,000**	107,000
	1,257,309	1,002,333
NET FINANCIAL LIABILITIES	**(267,634)**	(264,757)
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 6)	**72,073**	99,127
Inventories	**7,583**	13,101
Prepaid expenses	**88,090**	42,900
	167,746	155,128
ACCUMULATED SURPLUS (DEFICIT)	**$ (99,888)**	$ (109,629)

See accompanying notes and schedule to the financial statements

THE CITY OF WINNIPEG
ANIMAL SERVICES - SPECIAL OPERATING AGENCY

STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS (DEFICIT)

For the years ended December 31

	Budget 2015	Actual 2015	Actual 2014
REVENUES			
Regulation fees	**$ 2,151,001**	**$ 1,846,645**	$ 1,721,695
Transfer (Note 8)	**1,404,276**	**1,404,276**	1,404,276
Sales of goods and services	**96,188**	**69,770**	81,066
Other revenue	**30,690**	**55,297**	44,384
Government transfers	**26,166**	**29,254**	27,919
Total Revenues	**3,708,321**	**3,405,242**	3,279,340
EXPENSES			
Salaries and employee benefits	**1,756,519**	**1,659,290**	1,561,280
Grants, transfers and other	**621,285**	**691,178**	529,020
Services (Note 9)	**555,369**	**407,592**	368,365
Administrative expenses (Note 9)	**247,721**	**247,721**	160,218
Rent (Note 9)	**211,564**	**211,564**	211,564
Materials, parts and supplies	**132,196**	**106,974**	113,160
Debt and finance charges	**37,768**	**41,295**	22,564
Amortization	**25,654**	**27,054**	20,373
Assets and purchases	**3,306**	**2,833**	6,275
Interest (Note 4)	**176**	**-**	-
Recoveries	**-**	**-**	-
Total Expenses	**3,591,558**	**3,395,501**	2,992,819
Excess of Revenues Over Expenses	**116,763**	**9,741**	286,521
ACCUMULATED DEFICIT, BEGINNING OF YEAR	**(109,629)**	**(109,629)**	(396,150)
ACCUMULATED SURPLUS (DEFICIT), END OF YEAR (Note 7)	**$ 7,134**	**$ (99,888)**	$ (109,629)

See accompanying notes and schedule to the financial statements

THE CITY OF WINNIPEG
ANIMAL SERVICES - SPECIAL OPERATING AGENCY

STATEMENT OF CASH FLOWS

For the years ended December 31

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

	2015	2014
OPERATING		
Excess of revenues over expenses	**$ 9,741**	$ 286,521
Non-cash charges to operations		
Amortization	**27,054**	20,373
Retirement allowances and compensated absences	**14,000**	13,000
	50,795	319,894
Net change in non-cash working capital balances related to operations	**196,429**	(326,776)
Cash (used in) provided by operating activities	**247,224**	(6,882)
CAPITAL		
Acquisition of tangible capital assets	**-**	(68,973)
FINANCING		
Change in due from/to The City of Winnipeg - General Revenue Fund	**(251,807)**	94,065
Increase (decrease) in cash	**(4,583)**	18,210
CASH, BEGINNING OF YEAR	**22,638**	4,428
CASH, END OF YEAR	**$ 18,055**	$ 22,638

See accompanying notes and schedule to the financial statements

THE CITY OF WINNIPEG
ANIMAL SERVICES - SPECIAL OPERATING AGENCY

STATEMENT OF CHANGE IN NET FINANCIAL LIABILITIES

For the years ended December 31

	Budget 2015	Actual 2015	Actual 2014
Excess of Revenues Over Expenses	**$ 116,763**	**$ 9,741**	$ 286,521
Amortization of tangible capital assets	**25,654**	**27,054**	20,373
Change in inventories and prepaid expenses	**(11,000)**	**(39,672)**	(12,354)
Acquisition of tangible capital assets	**-**	**-**	(68,973)
INCREASE (DECREASE) IN NET FINANCIAL LIABILITIES	**131,417**	**(2,877)**	225,567
NET FINANCIAL LIABILITIES, BEGINNING OF YEAR	**(264,757)**	**(264,757)**	(490,324)
NET FINANCIAL LIABILITIES, END OF YEAR	**$ (133,340)**	**$ (267,634)**	$ (264,757)

See accompanying notes and schedule to the financial statements

THE CITY OF WINNIPEG
ANIMAL SERVICES - SPECIAL OPERATING AGENCY

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

1. Description of Business

Animal Services - Special Operating Agency (the "Agency") commenced operations on January 1, 2000. Goals since the establishment of the Agency have been to become financially self-sustaining to the greatest degree possible and to improve both the services provided to the public and the public's perception of Animal Services.

2. Significant Accounting Policies

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards. The significant accounting policies are summarized as follows:

Basis of accounting

The financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting records revenue in the period of which it is earned provided it is measurable and collection is reasonably certain. Expenses are recognized as they are incurred and measurable based upon receipt of goods or services and/or the creation of a legal obligation to pay.

Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, provides the change in net financial liabilities for the year.

i) Tangible capital assets

Tangible capital assets are recorded at cost and are amortized on a straight-line basis over their estimated useful lives using the following annual rates:

Computer equipment	25%
Furniture and other equipment	20%
Communication radios	20%
Computer Software	20%

ii) Inventories

Inventories held for consumption are recorded at the lower of cost and net realizable value.

2. *Significant Accounting Policies (continued)*

Employee benefit plan

The Winnipeg Civic Employees' Benefits Program is a multi-employer contributory defined benefit program and accordingly contributions are expensed as incurred. The costs of other retirement benefits have been accounted for based on actuarially determined amounts using the projected benefits method prorated on services and management's best estimate of retirement ages of employees, salary escalation and plan investment performance. Actuarial gains and losses are amortized on a straight-line basis over the average remaining service period. The liabilities are discounted using current interest rates on long-term bonds.

Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions are based on the Agency's best information and judgment and may differ from actual results.

3. *Accounts Receivable*

	2015	2014
Trade accounts receivable	**$ 61,407**	$ 50,879
Allowance for doubtful accounts	**(10,546)**	(3,475)
	50,861	47,404
Province of Manitoba	**28,880**	27,462
	$ 79,741	$ 74,866

4. *Due from The 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. Bank transactions are credited or charged to the "Due from/to" account when they are processed through the bank. Interest is charged based on The City of Winnipeg's average short-term cost of funds, which is a function of the Bank of Canada rate. The December 31, 2015 interest rate was 0.35% (2014 - 0.9%). The 2015 budget approved by City Council includes an operating line of credit of $1,100,000.

During the year, the Agency paid $nil (2014 - $nil) in interest costs.

5. *Employee Benefits*

a) Retirement allowances and compensated absences

	2015	2014
Retirement allowances - accrued benefit liability	**$ 83,000**	$ 75,000
Compensated absences	**38,000**	32,000
	$ 121,000	$ 107,000

5. Employee Benefits (continued)

Qualifying City of Winnipeg employees are entitled to a cash payment upon retirement, death or termination of service under certain conditions (not resignation). These 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 experienced gains and losses are amortized on a straight-line basis over 17.2 years. This 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 liability as at December 31 of each year. An actuarial valuation of the liability was calculated as of July 31, 2014. The results of this valuation were extrapolated to the financial reporting date of December 31, 2015 using year-end assumptions.

Compensated absences represent benefits expected to be paid during future employee absences in respect of sick leave days earned in previous years.

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

	2015		2014	
	Retirement allowances	**Compensated absences**	Retirement allowance	Compensated absences
Accrued benefit liability:				
Balance, beginning of year	**$ 78,000**	**67,000**	$ 74,000	$ 30,000
Current service cost	**6,000**	**9,000**	5,000	2,000
Interest cost	**2,000**	**2,000**	3,000	1,000
Benefit payments	**-**	**(7,000)**	-	(1,000)
Net actuarial (gain)/loss	**(3,000)**	**1,000**	(4,000)	35,000
Balance, end of year	**83,000**	**72,000**	78,000	67,000
Unamortized net actuarial (gain)/loss	**-**	**(34,000)**	(3,000)	(35,000)
Accrued benefit liability	**$ 83,000**	**$ 38,000**	$ 75,000	$ 32,000
Benefit expenses:				
Current service cost	**$ 6,000**	**9,000**	$ 5,000	$ 2,000
Interest cost	**2,000**	**2,000**	3,000	1,000
Amortization of net actuarial (gain)/loss	**-**	**2,000**	3,000	-
	$ 8,000	**$ 13,000**	$ 11,000	$ 3,000
Reconciliation of accrued benefit liability:				
Balance, beginning of year	**$ 75,000**	**$ 32,000**	$ 64,000	$ 30,000
Benefit expense	**8,000**	**13,000**	11,000	3,000
Benefit payments	**-**	**(7,000)**	-	(1,000)
Balance, end of year	**$ 83,000**	**$ 38,000**	$ 75,000	$ 32,000

5. Employee Benefits (continued)

The significant actuarial assumptions adopted in measuring the accrued benefit liability for the year ended December 31 are as follows:

	2015	2014
Valuation interest rate	**2.80%**	2.90%
General increases in pay	**2.50%**	2.50%
Expected average remaining service life	**17.2 years**	17.2 years

b) Pensions

The Agency's employees are eligible for pension under the Winnipeg Civic Employees' Benefits Program. The City of Winnipeg allocates its pension costs to various departments. During the year, $125,464 (2014 - $123,235) of pension costs were allocated to the Agency. An actuarial valuation for the Winnipeg Civic Employees' Benefits Program was made as of December 31, 2014 and it has an actuarial surplus.

6. Tangible Capital Assets

	Net Book Value	
	2015	2014
Computer equipment	**$ 2,756**	$ 4,775
Furniture and other equipment	**12,839**	21,430
Communication radios	**9,705**	12,786
Computer Software	**46,773**	60,136
	$ 72,073	$ 99,127

For additional information, see Schedule of Tangible Capital Assets.

7. Accumulated Surplus/(Deficit)

	Actual 2015	Actual 2014
Invested in tangible capital assets	**$ 72,073**	$ 99,127
Operating	**(171,961)**	(208,756)
	$ (99,888)	$ (109,629)

8. Transfer from The City of Winnipeg

In 2013 the transfer from The City of Winnipeg was increased by $101,772 to $1,404,276 for the purpose of reducing the Agency's deficit. It is planned that the additional funding will be provided each year for 10 years, at which point the deficit will be eliminated.

The transfers from the City of Winnipeg over the past five years are as follows:

2011	$	1,334,276
2012		1,302,504
2013		1,404,276
2014		1,404,276
2015		1,404,276

9. 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:

Included in the Agency's expenditures is a transfer to The City of Winnipeg Municipal Accommodations Fund for rent of $211,564 (2014 - $211,564) and a transfer to The City of Winnipeg - General Revenue Fund for administrative services of $170,000 (2014 - $83,338). Also included are lease costs of $114,744 (2014 - $118,472) to The City of Winnipeg Fleet Management - Special Operating Agency and $77,721 (2014 - $76,830) for general government charges that have been paid 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.

THE CITY OF WINNIPEG
ANIMAL SERVICES - SPECIAL OPERATING AGENCY

Schedule 1

SCHEDULE OF TANGIBLE CAPITAL ASSETS

As at December 31

	Computer Equipment	Furniture and Other Equipment	Communication Radios	Computer Software	2015 Total	2014 Total
Cost						
Balance, Beginning of year	**$ 149,454**	**$ 121,375**	**$ 52,911**	**$ 66,818**	**$ 390,558**	$ 321,585
Add:						
Additions during the year	-	-	-	-	-	68,973
Less:						
Disposals during the year	-	-	-	-	-	-
Balance, end of year	**149,454**	**121,375**	**52,911**	**66,818**	**390,558**	390,558
Accumulated amortization						
Balance, Beginning of year	**144,679**	**99,945**	**40,125**	**6,682**	**291,431**	271,058
Add:						
Amortization	**2,019**	**8,591**	**3,081**	**13,363**	**27,054**	20,373
Less:						
Accumulated amortization on disposals	-	-	-	-	-	-
Balance, end of year	**146,698**	**108,536**	**43,206**	**20,045**	**318,485**	291,431
Net Book Value of Tangible Capital Assets	**$ 2,756**	**$ 12,839**	**$ 9,705**	**$ 46,773**	**$ 72,073**	$ 99,127