Financial Statements of

THE CITY OF WINNIPEG - ANIMAL SERVICES - SPECIAL OPERATING AGENCY

Year ended December 31, 2018

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of The City of Winnipeg - Animal Services - Special Operating Agency (the Entity), which comprise the statement of financial position as at December 31, 2018, the statement of operations and accumulated surplus for the year then ended, the statement of cash flows for the year then ended and the statement of change in net financial assets for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Winnipeg, Canada

May 16, 2019

THE CITY OF WINNIPEG
ANIMAL SERVICES - SPECIAL OPERATING AGENCY

STATEMENT OF FINANCIAL POSITION

As at December 31

	2018	2017
FINANCIAL ASSETS		
Cash	**$ 8,466**	$ 28,069
Accounts receivable	**246**	319
Due from the City of Winnipeg - General Revenue Fund (Note 3)	**2,922,215**	2,325,519
	2,930,927	2,353,907
LIABILITIES		
Accounts payable and accrued liabilities	**347,889**	391,814
Deferred revenue	**1,273,318**	1,254,782
Vacation and overtime payable	**76,133**	85,753
Retirement allowances and compensated absences (Note 4a)	**129,000**	127,000
	1,826,340	1,859,349
NET FINANCIAL ASSETS	**1,104,587**	494,558
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 5)	**25,174**	44,702
ACCUMULATED SURPLUS (Note 6)	**$ 1,129,761**	$ 539,260

Commitments (Note 7)

See accompanying notes and schedule to the financial statements

THE CITY OF WINNIPEG
ANIMAL SERVICES - SPECIAL OPERATING AGENCY

STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

For the years ended December 31

	Budget 2018	Actual 2018	Actual 2017
REVENUES			
Regulation fees	**$ 2,351,650**	**$ 2,454,573**	$ 2,482,791
Transfer (Note 8)	**1,295,396**	**1,295,396**	1,319,574
Sales of goods and services	**71,297**	**71,425**	63,172
Government transfers	**27,557**	**26,961**	27,557
Other revenue	**40,000**	**169,691**	64,913
Total Revenues	**3,785,900**	**4,018,046**	3,958,007
EXPENSES			
Salaries and employee benefits	**1,828,833**	**1,586,802**	1,591,382
Grants, transfers and other	**866,601**	**865,852**	893,008
Services (Note 9)	**402,756**	**276,580**	356,464
Administrative expenses (Note 9)	**255,586**	**255,646**	255,289
Rent (Note 9)	**215,254**	**215,254**	212,405
Materials, parts and supplies	**153,598**	**138,076**	204,319
Debt and finance charges	**41,000**	**37,851**	39,353
Assets and purchases	**8,708**	**31,956**	19,248
Amortization	**32,000**	**19,528**	27,713
Interest (Note 3)	**186**	**-**	-
Total Expenses	**3,804,522**	**3,427,545**	3,599,181
Excess (deficiency) of Revenues Over Expenses	**(18,622)**	**590,501**	358,826
ACCUMULATED SURPLUS, BEGINNING OF YEAR	**539,260**	**539,260**	180,434
ACCUMULATED SURPLUS, END OF YEAR (Note 6)	**$ 520,638**	**$ 1,129,761**	$ 539,260

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:

	2018	2017
OPERATING		
Excess of revenues over expenses	**$ 590,501**	$ 358,826
Non-cash charges to operations		
Amortization	**19,528**	27,713
Retirement allowances and compensated absences	**2,000**	12,000
	612,029	398,539
Net change in non-cash working capital balances related to operations	**(34,936)**	100,834
Cash provided by operating activities	**577,093**	499,373
CAPITAL		
Acquisition of tangible capital assets	**-**	(27,396)
FINANCING		
Change in due from The City of Winnipeg - General Revenue Fund	**(596,696)**	(473,369)
Decrease in cash	**(19,603)**	(1,392)
CASH, BEGINNING OF YEAR	**28,069**	29,461
CASH, END OF YEAR	**$ 8,466**	$ 28,069

See accompanying notes and schedule to the financial statements

THE CITY OF WINNIPEG
ANIMAL SERVICES - SPECIAL OPERATING AGENCY

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

For the years ended December 31

	Budget 2018	Actual 2018	Actual 2017
Excess of Revenues Over Expenses	**$ (18,622)**	**$ 590,501**	$ 358,826
Amortization of tangible capital assets	**32,000**	**19,528**	27,713
Change in inventories and prepaid expenses	**-**	**-**	74,119
Acquisition of tangible capital assets	**-**	**-**	(27,396)
INCREASE IN NET FINANCIAL ASSETS	**13,378**	**610,029**	433,262
NET FINANCIAL ASSETS, BEGINNING OF YEAR	**494,558**	**494,558**	61,296
NET FINANCIAL ASSETS, END OF YEAR	**$ 507,936**	**$ 1,104,587**	$ 494,558

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, 2018

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.

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%

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.

2. *Significant Accounting Policies (continued)*

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.

Accounting policy changes

The Public Sector Accounting Board issued new standards, PS 2200 Related party disclosures and PS 3420 Inter-entity transactions. The new standards apply to the Agency for the fiscal year beginning January 1, 2018. As a result of this adoption, no material impact on the consolidated financial statements occurred.

3. *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. Consequently, the Agency does not have a bank account. Bank transactions are credited or charged to the "Due from" account when they are processed through the bank. Interest is charged or credited based on the City's average short-term earnings (cost of funds) on the single bank account. The December 31, 2018 effective interest rate was 1.60% (2017 - 0.85%).

4. *Employee Benefits*

a) Retirement allowances and compensated absences

	2018	2017
Retirement allowances - accrued benefit liability	**$ 77,000**	$ 80,000
Compensated absences	**52,000**	47,000
	$ 129,000	$ 127,000

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 18.6 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 December 31, 2017. The results of this valuation were extrapolated to the financial reporting date of December 31, 2018 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.

4. Employee Benefits (continued)

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

	2018		2017	
	Retirement allowances	**Compensated absences**	Retirement allowances	Compensated absences
Accrued benefit liability:				
Balance, beginning of year	**$ 47,000**	**$ 60,000**	$ 83,000	$ 73,000
Current service cost	**5,000**	**10,000**	6,000	9,000
Interest cost	**2,000**	**2,000**	3,000	2,000
Benefit payments	**(8,000)**	**(7,000)**	-	(8,000)
Net actuarial (gain)/loss	**2,000**	**(1,000)**	(45,000)	(16,000)
Balance, end of year	**48,000**	**64,000**	47,000	60,000
Unamortized net actuarial (gain)/loss	**29,000**	**(12,000)**	33,000	(13,000)
Accrued benefit liability	**$ 77,000**	**$ 52,000**	$ 80,000	$ 47,000
Benefit expenses:				
Current service cost	**$ 5,000**	**$ 10,000**	$ 6,000	$ 9,000
Interest cost	**2,000**	**2,000**	3,000	2,000
Amortization of net actuarial (gain)/loss	**(2,000)**	**-**	-	-
	$ 5,000	**$ 12,000**	$ 9,000	$ 11,000
Reconciliation of accrued benefit liability:				
Balance, beginning of year	**$ 80,000**	**$ 47,000**	$ 71,000	$ 44,000
Benefit expense	**5,000**	**12,000**	9,000	11,000
Benefit payments	**(8,000)**	**(7,000)**	-	(8,000)
Balance, end of year	**$ 77,000**	**$ 52,000**	$ 80,000	$ 47,000

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

	2018	2017
Valuation interest rate	**3.25%**	3.00%
General increases in pay	**2.50%**	2.50%
Expected average remaining service life	**18.6 years**	18.6 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, $122,430 (2017 - $122,497) of pension costs were allocated to the Agency. An actuarial valuation for the Winnipeg Civic Employees' Benefits Program was made as of December 31, 2017 and it has an actuarial surplus.

5. *Tangible Capital Assets*

	Net Book Value 2018	2017
Computer equipment	**$ 18,493**	$ 24,657
Computer Software	**6,681**	20,045
	$ 25,174	$ 44,702

For additional information, see Schedule of Tangible Capital Assets.

6. *Accumulated Surplus*

	Actual 2018	Actual 2017
Invested in tangible capital assets	**$ 25,174**	$ 44,702
Operating	**1,104,587**	494,558
	$ 1,129,761	$ 539,260

7. *Commitments*

The Agency and the Winnipeg Humane Society will enter into a contract effective January 1, 2019 to December 31, 2021. Subject to the Winnipeg Humane Society complying with the terms of the agreement, the Agency agreed to pay the Winnipeg Humane Society the sum of $652,273 per year.

8. *Transfer from The City of Winnipeg*

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

2014	$ 1,404,276
2015	1,404,276
2016	1,378,836
2017	1,319,574
2018	1,295,396

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 $215,254 (2017 - $212,405) and a transfer to The City of Winnipeg - General Revenue Fund for administrative services of $176,860 (2017 - $176,860). Also included are lease costs of $111,351 (2017 - $110,306) to The City of Winnipeg Fleet Management - Special Operating Agency and $78,786 (2017 - $78,429) 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	2018 Total	2017 Total
Cost						
Balance, Beginning of year	**$ 176,850**	**$ 121,375**	**$ 52,911**	**$ 66,818**	**$ 417,954**	$ 390,558
Add:						
Additions during the year	**-**	**-**	**-**	**-**	**-**	27,396
Less:						
Disposals during the year	**-**	**-**	**-**	**-**	**-**	-
Balance, end of year	**176,850**	**121,375**	**52,911**	**66,818**	**417,954**	417,954
Accumulated amortization						
Balance, Beginning of year	**152,193**	**121,375**	**52,911**	**46,773**	**373,252**	345,539
Add:						
Amortization	**6,164**	**-**	**-**	**13,364**	**19,528**	27,713
Less:						
Accumulated amortization on disposals	**-**	**-**	**-**	**-**	**-**	-
Balance, end of year	**158,357**	**121,375**	**52,911**	**60,137**	**392,780**	373,252
Net Book Value of Tangible Capital Assets	**$ 18,493**	**$ -**	**$ -**	**$ 6,681**	**$ 25,174**	$ 44,702