ANNUAL REPORT

Vehicle and Equipment Management Agency

An Agency of the Manitoba Government

VEMA

2019
2020

**MINISTER
OF CENTRAL SERVICES**

Room 343
Legislative Building
Winnipeg, Manitoba R3C 0V8
CANADA

Her Honour the Honourable Janice C. Filmon, C.M., O.M.
Lieutenant Governor of Manitoba
Room 235, Legislative Building
Winnipeg MB R3C 0V8

May it Please Your Honour:

It is my privilege to present for the information of Your Honour the Annual Report of the Vehicle and Equipment Management Agency (VEMA) for the year ended March 31, 2020.

I commend the management and staff at VEMA on the many successes that they have achieved during the past year.

Respectfully submitted,

Reg Helwer

Honourable Reg Helwer

Deputy Minister of Central Services
Room 349, Legislative Building
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Honourable Reg Helwer
Minister of Central Services
Room 343, Legislative Building
Winnipeg MB R3C 0V8

Dear Minister Helwer:

It is my pleasure to submit for your review and consideration the Annual Report of the Vehicle and Equipment Management Agency (VEMA) for the year ended March 31, 2020.

VEMA continues to manage the complete life cycle of its vehicles and equipment including selection and acquisition, financing, licensing, monitoring operating expenses, and re-marketing.

I look forward to continued work with VEMA in further reducing Provincial vehicle and equipment costs by pursuing additional fuel reduction and right-sizing opportunities.

I would like to thank VEMA's management and staff for the dedication and commitment to public service that they consistently demonstrate in performing their duties and responsibilities.

Respectfully submitted,

Scott Sinclair
Deputy Minister of Central Services

COO Message

To the Many Stakeholders of Vehicle and Equipment Management Agency (VEMA):

VEMA's mandate is to recover its costs of operation and break even or attain a modest net income each year. Actual operations will, of course, vary from projections and produce a relatively small net income or loss annually. VEMA has been in a state of transformation over the last three fiscal years, making a number of adjustments to operations and structural processes to achieve as close to break even as possible, providing overall savings to Government. The 2019/20 fiscal year was below that break even at a $1,319 loss. This loss was directly related to a write-down on the heavy-duty fleet attachments incurred in the 2019/20 year, to adjust to an accurate useful lifespan for those pieces of equipment. This write-down effectively netted to an additional amortization expense of $3.09, resulting in a net loss for the Agency.

Customer related changes to both the heavy and light fleets have reduced revenue by $10,011, and due to the flow through structure of VEMA, also reduces many of the related expenses. Notably, there has been a reduction in both the number of heavy and light units leased to customers, which has resulted in decreased rental and variable/utilization revenue. These fleet rationalizations have also effected the overall number of units purchased and disposed. Fewer disposals can be seen as a reduction in equipment gain identified within VEMA's other revenue, while fewer purchases has allowed VEMA to reduce new debt for loans and reduce related interest expense on existing loans, as they are paid off.

VEMA's management has taken the lean methodology to heart, continuing to improve processes and services wherever possible. It is my intention, and management's intention, to continue to scrutinize the way VEMA does business, and seek out cost saving opportunities on behalf of the Province. This thought process continues to be adopted by staff agency wide, and is resulting in savings throughout VEMA.

Looking ahead, heavy and light fleet capital asset purchases are projected to remain reduced as cradle to grave fleet utilization is being practiced by VEMA, maximizing return on all Government's assets. Heavy-duty vehicle and equipment replacements have been significant over the past ten years since amalgamation, though this now has also seen a cutback to only essential purchases or utilization of third-party rental agreements where ownership is not cost effective. This year saw an above average purchase of sixty-five ambulances, to replace units at end of life. This increase was the result of a previous deferral in the purchase cycle and expected to continue in the 2020/21 year with the addition of forty-three new units.

I would like to thank VEMA's management and staff for their hard work and dedication, and I would like to acknowledge the cooperation received from our numerous stakeholders, clients and partners. The combined efforts over the years have contributed to making VEMA the Agency it is today.

Sean Savage
A/Chief Operating Officer

Contents

Vehicle and Equipment Management Agency is an Agency of the Manitoba Government.

Profile of Vehicle and Equipment Management Agency

Vehicle and Equipment Management Agency (VEMA, or the Agency) provides acquisition, management and disposal services for both heavy duty and light duty vehicles and equipment. It has one of the larger fleets of vehicles and equipment in Manitoba and, as an Agency within the Department of Central Services, its main customers are the departments, agencies and Crown corporations of the provincial government.

VEMA's full service shop and stores facilities are located in Beausejour, Brandon, Dauphin, The Pas, Thompson and Winnipeg, with satellite shops in several other locations in the province. In addition, VEMA also provides services as required to Northern Airports and to Marine Operations locations throughout the province.

On March 31, 2020, the fleet totaled 4,838 units comprised of light duty vehicles (49%), heavy duty vehicles and equipment (43%), ambulances (5%), and miscellaneous units and attachments (3%).

Annual distance travelled by the owned and managed fleet currently approximates 60 million kilometres and fuel consumption for both heavy and light duty vehicles and equipment owned and managed by VEMA totals close to 16 million litres a year.

Radio Services is a division that rounds out the services offered by the Agency. The division's technicians are responsible for the servicing of existing radio base stations in areas where cellular phone service is not currently available, and for the evaluation, installation, repair and maintenance of two-way radios used by its provincial and other clients in those areas.

Mission Statement

To provide clients with superior vehicles, equipment, products and services that offer sustainable solutions that are financially and socially responsible.

Vision Statement

To be the recognized leading provider of asset management services to the broader public sector.

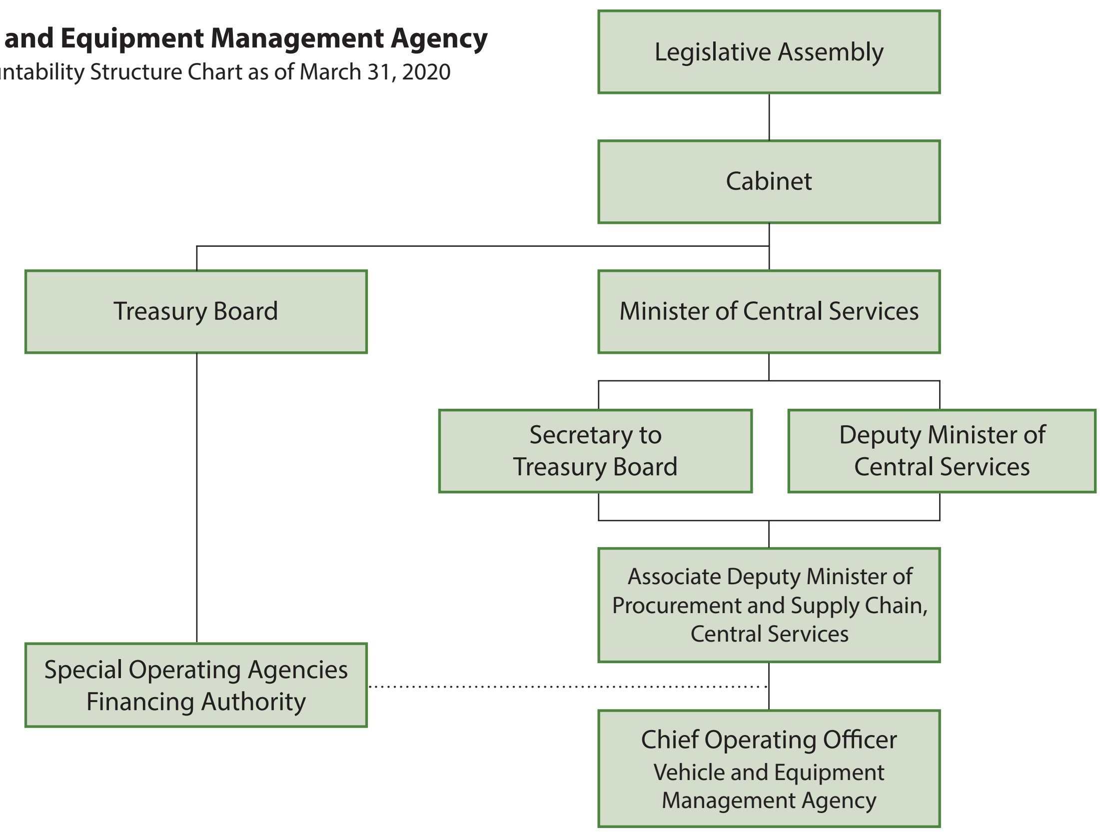
Structure for Operations

Accountability Structure

As a Special Operating Agency within Procurement and Supply Chain, Manitoba Central Services, VEMA reports directly to the Associate Deputy Minister of Procurement and Supply Chain, Central Services, and is held accountable to the Secretary of Treasury Board and the Minister of Central Services for operational and financial performance.

The Agency operates outside of the Consolidated Fund under the Special Operating Agencies Financing Authority (SOAFA), which holds title to the Agency's assets, provides financing for operations, and is responsible for its liabilities. Governance and accountability are substantiated by VEMA's compliance with its Operating Charter, Transfer Agreement, Management Agreement, applicable General Manual of Administration policies, and by *The Special Operating Agencies Financing Authority Act*. Financial and operational information and requirements are disseminated to and from Treasury Board through a SOA Coordinator at Treasury Board Secretariat.

Vehicle and Equipment Management Agency
Accountability Structure Chart as of March 31, 2020



Staff Complement at VEMA

VEMA has a total of 204 approved Full Time Employee (FTE) positions for the 2019/20 year. At the end of March 2020, VEMA had approximately 122 staff.

The Public Interest Disclosure (Whistleblower Protection) Act

The Public Interest Disclosure (Whistleblower Protection) Act came into effect in April 2007. This law gives employees a clear process for disclosing concerns about significant and serious matters (wrongdoing) in the Manitoba public service, and strengthens protection from reprisal. *The Act* builds on protections already in place under other statutes, as well as collective bargaining rights, policies, practices and processes in the Manitoba public service.

Wrongdoing under *the Act* may be: contravention of federal or provincial legislation; an act or omission that endangers public safety, public health or the environment; gross mismanagement; or, knowingly directing or counseling a person to commit a wrongdoing. *The Act* is not intended to deal with routine operational or administrative matters.

A disclosure made by an employee in good faith, in accordance with *the Act*, and with a reasonable belief that wrongdoing has been or is about to be committed is considered to be a disclosure under *the Act*, whether or not the subject matter constitutes wrongdoing. All disclosures receive careful and thorough review to determine if action is required under *the Act*, and must be reported in a department's annual report in accordance with Section 18 of *the Act.*

There were no disclosures of wrongdoing that were made to a supervisor or designated officer of the Department of Finance – Vehicle and Equipment Management Agency during the 2019/20 fiscal year. In connection with the information required annually, VEMA confirms the following:

Information Required Annually (by Section 18 of the Act)	**2019/20 Fiscal Year**
The number of disclosures received, and the number acted on and not acted on. *Subsection 18(2)(a)*	NIL
The number of investigations commenced as a result of a disclosure. *Subsection 18(2)(b)*	NIL
In the case of an investigation that results in a finding of wrongdoing, a description of the wrongdoing and any recommendations or corrective actions taken in relation to the wrongdoing, or the reasons why no corrective action was taken. *Subsection 18(2)(c)*	NIL

Financial Performance

The following financial review and analysis compare the actual results for the year ended March 31, 2020, to the projections for the same period and to the actual results for the year ended March 31, 2019. This review and analysis should be read in conjunction with VEMA's financial statements (pages 10 to 23) and the summarization of key elements from the statement of operations in Table 1 below.

All dollar amounts in the review and analysis are in thousands of dollars.

Operating Results

- As indicated in Table 1, VEMA is reporting a net loss of $1,319 for the year ended March 31, 2020, compared to a projected net income of $2,417 for that same period, and to a net income of $3,140 for the year ended March 31, 2019.
- VEMA is mandated to be a break even or modest net income operation, and quarterly and annual projections are generally made with that mandate in mind. Actual operations will, of course, vary from projections, but should normally produce a relatively small net income or loss on an annual basis.

Table 1 *(in thousands of dollars)*	**Actual** Year ended Mar 31/20	**Projected** Year ended Mar 31/20	**Actual versus Projected** Increase/ decrease	**Actual** Year ended Mar 31/19	**Actual versus Actual** Increase/ decrease
Vehicle and equipment utilization	**$ 50,090**	$ 54,604	$ (4,514)	$ 54,045	$ (3,955)
Fuel billings	**17,123**	17,100	23	19,530	(2,407)
Insurance and other billings	**4,823**	5,500	910	7,229	(819)
Other revenue	**9,446**	10,458	(2,599)	10,689	(2,830)
Total revenues	**81,482**	**87,662**	**(6,180)**	**91,493**	**(10,011)**
Salaries and wages	**9,268**	9,000	268	9,903	(635)
Vehicle and equipment operating expenses	**66,563**	66,050	513	68,207	(1,644)
Administrative expenses	**3,758**	6,161	(2,403)	3,900	(142)
Community service	**0**	30	(30)	29	(29)
Interest expense	**3,212**	4,004	(792)	3,614	(402)
Total expenses	**82,801**	**85,245**	**(2,444)**	**85,653**	**(2,852)**
Income from operations	**(1,319)**	**2,417**	**(3,736)**	**5,840**	**(7,159)**
Transfers during the period to the Province of Manitoba	**0**	0	0	2,700	(2700)
Net income (loss)	**$ (1,319)**	**$ 2,417**	**$ (3,736)**	**$ 3,140**	**$ (4,459)**

- For the year of 19/20 there was no requirement for VEMA to make transfers to the Province of Manitoba. The previous amount submitted in 18/19 was $2,700.
- An adjustment was made in the form of a net write down of $2,569 to VEMA's Heavy Duty Fleet. This write down effected associated attachment pieces to more accurately reflect the useful life of the equipment. Additional amortization was also recorded and applied to units that were in the category that were reaching end of life in upcoming years. This was $521 for a total adjustment of $3,090.

- There have been a number of changes to VEMA's fleet including reductions in the number of units purchased and disposed in an attempt to cost efficiently utilize existing units longer. Due to the Light Duty Rationalization exercise through CORE departments last year, VEMA received a large number of units back, which were sold at auction increasing our gain on equipment in the 18/19 year. As the fleet has leveled out, VEMA's Light Duty fleet size has remained relatively the same throughout the year, as the last of the returned units were disposed in the 1st quarter of 19/20, and minimal new units were purchased.
- Under the flow through concept used by VEMA for invoicing fuel to customers, fuel expense essentially follows the pattern of fuel revenues quite closely. The result for the year ended March 31, 2020, portrays this picture, with fuel billings at $17,123 and fuel expense at $17,095.
- The net gain on disposal of tangible capital assets breaks down to $663 for light duty vehicles and equipment, $135 for heavy duty vehicles and equipment. Statistics relating to the number of vehicle and equipment units disposed during the year are included on page 22 of this Report.

Financial Position

- Vehicle and equipment units total 4,838 as of March 31, 2020. During the year then ended, VEMA received a total of 174 units and disposed of 230 units. Details are included in the VEMA Statistics on page 24. In the 19/20 year, Conservation and Climate transferred 103 units from their existing fleet at no cost to VEMA as part of centralizing Light Duty Fleet management initiatives. These are included in the total acquisitions numbers.
- The carrying, or net book value, of VEMA's tangible capital assets at March 31, 2020, of $84,810 represents a decrease of $17,115 from the position at March 31, 2019. The decreased carrying value trend is projected to continue into 2020/21.
- VEMA offers a 1% discount to customers who pay their monthly rental charges for the year up front on an annual basis in April each year. In April 2020, rental payments received in advance amounted to more than $13,281. This advance payment allows VEMA to utilize these funds for operations throughout the year, assisting in deferring draw downs from the Loan Act.

Ratio Analysis

- The non-financial assets to net debt ratio indicates the net book value of the assets available to pay out the net debt, primarily the borrowings from the Province of Manitoba.
- The net debt to accumulated surplus ratio is akin to the debt to equity ratio previously used by VEMA. It continues to portray the highly leveraged position from which the Agency operates.
- The days sales in receivables ratio suggests that at any point in time there is approximately one month's billings outstanding.

Table 2	**Year ended March 31 Actual**	
Ratio	**2020**	2019
Return on total revenues	**(1.62%)**	3.4%
Non-financial assets to net debt	**1.49 to 1**	1.40 to 1
Net debt to accumulated surplus	**2.03 to 1**	2.48 to 1
Days sales in receivables	**26.7 days**	22.9 days

Management's Responsibility for Financial Reporting

The Vehicle and Equipment Management Agency's (the Agency) management is responsible for preparing the financial statements and other financial information in the Annual Report. This responsibility includes maintaining the integrity and objectivity of financial data and the presentation of the Agency's financial position, results of operations, change in net debt, and cash flows, in compliance with legislation, and in accordance with generally accepted accounting principles established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. In management's opinion, the financial statements have been properly prepared, within reasonable limits of materiality, incorporating management's best judgment regarding all necessary estimates and all other data available through July 23, 2020.

Management maintains internal controls to properly safeguard the Agency's assets. These controls also provide reasonable assurance that the books and records from which the financial statements are derived accurately reflect all transactions in all material respects, and that established policies and procedures are followed.

The Agency's financial statements have been audited by MNP LLP, independent external auditors. The auditors' responsibility is to express an independent opinion on whether the financial statements of the Agency are presented fairly, in all material respects, in accordance with Canadian public sector accounting standards. The Auditors' Report outlines the scope of their audit examination and provides their audit opinion.

On behalf of the Agency's management,

Sean Savage
A/Chief Operating Officer

Leitta Beaudin
A/Manager, Finance and Administration

Winnipeg, Manitoba
July 23, 2020

Vehicle and Equipment Management Agency
Financial Statements

March 31, 2020

Independent Auditor's Report

To the Special Operating Agencies Financing Authority of Vehicle and Equipment Management Agency:

Opinion

We have audited the financial statements of Vehicle and Equipment Management Agency ("VEMA" or the "Agency"), which comprise the statement of financial position as at March 31, 2020, and the statements of operations, changes in net debt and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2020, and the results of its 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Agency in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical 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.

In preparing the financial statements, management is responsible for assessing the Agency'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 Agency or to cease operations, or has no realistic alternative but to do so.

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

Auditor's 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 auditor's 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 these 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 Agency'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 Agency's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Agency 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 represent the underlying transactions and events in a manner that achieves fair presentation.

We 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.

Winnipeg, Manitoba

July 23, 2020

MNP LLP

Chartered Professional Accountants

Financial Statements

Statement of Financial Position
March 31, 2020
(in thousands of dollars)

	March 31 2020	March 31 2019
Financial assets		
Cash and cash equivalents *(Note 5)*	$ 16,799	$ 17,309
Receivables *(Note 6)*	5,947	5,743
Portfolio investments *(Notes 7 and 10)*	1,433	1,433
Inventory for resale	4,754	5,044
	28,933	29,529
Liabilities		
Accounts payable and accrued liabilities	3,056	3,533
Unearned revenue	2,401	2,246
Severance pay liability *(Note 7)*	1,427	1,492
Borrowings from the Province of Manitoba *(Note 8)*	84,810	101,925
	91,694	109,196
Net debt	(62,761)	(79,667)
Non-financial assets		
Prepaid expenses	2,695	2,705
Tangible capital assets *(Note 9)*		
Vehicles and equipment	90,413	108,621
Office and shop equipment	295	273
Computer hardware and software	1	2
Leasehold improvements	173	201
	90,882	109,097
	93,577	111,802
Accumulated surplus	$ 30,816	$ 32,135

Designated assets *(Note 10)*
Commitments *(Note 11)*

See accompanying notes to financial statements.

Financial Statements

Statement of Operations
Year Ended March 31, 2020
(in thousands of dollars)

	2020 Projected	2020 Actual	2019 Actual *(Note 13)*
Revenues			
Vehicle and equipment utilization	$ 54,604	**$ 50,090**	$ 54,045
Fuel billings	17,100	**17,123**	19,529
Insurance and other billings	5,500	**4,823**	5,179
Other revenue	10,458	**9,446**	12,738
	87,662	**81,482**	91,491
Expenses			
Salaries and benefits	9,000	**9,268**	9,903
Vehicle and equipment operating expenses	66,050	**66,563**	68,208
Administrative expenses	6,161	**3,758**	3,901
Community service	30	**0**	29
Interest expense	4,004	**3,212**	3,614
	85,245	**82,801**	85,655
Income (loss) from operations	2,417	**(1,319)**	5,836
Transfers during the year to the Province of Manitoba	0	**0**	2,700
Net income (loss)	2,417	**(1,319)**	3,136
Accumulated surplus, beginning of year	32,135	**32,135**	28,999
Accumulated surplus, end of year	$ 34,552	**$ 30,816**	$ 32,135

See accompanying notes to financial statements.

Financial Statements

Statement of Change in Net Debt
Year Ended March 31, 2020
(in thousands of dollars)

	2020 Projected	2020 Actual	2019 Actual
Net income (loss)	$ 2,417	**$ (1,319)**	$ 3,136
Tangible capital assets			
Acquisition of tangible capital assets	(12,110)	**(10,663)**	(6,511)
Amortization of tangible capital assets	25,100	**25,217**	26,750
Write-down of tangible capital assets *(Note 9)*	0	**2,569**	0
Gain on disposal of tangible capital assets, net	(1,500)	**(827)**	(2,896)
Proceeds from disposal of tangible capital assets	2,550	**1,919**	6,491
Net acquisition of tangible capital assets	14,040	**18,215**	23,834
Decrease in prepaid expenses during the year	0	**10**	337
Decrease in net debt	16,457	**16,906**	27,307
Net debt, beginning of year	(79,667)	**(79,667)**	(106,974)
Net debt, end of year	$ (63,210)	**$ (62,761)**	$ (79,667)

See accompanying notes to financial statements.

Financial Statements

Statement of Cash Flows
Year Ended March 31, 2020
(in thousands of dollars)

Cash provided by (applied to):

	2020	2019
Operating activities		
Net income (loss)	**$ (1,319)**	$ 3,136
Amortization of tangible capital assets	**25,217**	26,750
Write-down of tangible capital assets	**2,569**	0
Gain on disposal of tangible capital assets, net	**(827)**	(2,896)
Increase in severance pay liability	**122**	122
Payment of severance pay benefits	**(187)**	(110)
	25,575	27,002
Change in:		
Receivables	**(204)**	1,433
Inventory for resale	**290**	493
Accounts payable and accrued liabilities	**(477)**	(234)
Unearned revenue	**155**	(477)
Prepaid expenses	**10**	337
Cash provided by operating activities	**25,349**	28,554
Capital activities		
Proceeds from disposal of tangible capital assets	**1,919**	6,491
Acquisition of vehicles and equipment	**(10,594)**	(6,511)
Acquisition of office and shop equipment	**(69)**	(0)
Cash applied to capital activities	**(8,744)**	(20)
Financing activities		
Borrowings from the Province of Manitoba	**6,000**	10,000
Debt repayments to the Province of Manitoba	**(23,115)**	(22,931)
Cash applied to financing activities	**(17,115)**	(12,931)
Increase (decrease) in cash	**(510)**	15,603
Cash and cash equivalents, beginning of year	**17,309**	1,706
Cash and cash equivalents, end of year	**$ 16,799**	$ 17,309

See accompanying notes to financial statements.

Financial Statements

Notes to Financial Statements
Year Ended March 31, 2020
(in thousands of dollars)

1. Nature of organization

In 1934, Fleet Vehicles was created as a branch of the Manitoba provincial government to provide a centralized fleet management program. On April 1, 1992, the branch was approved as a special operating agency, the first such agency at the provincial level in Canada. Since inception, Fleet Vehicles Agency primarily provided light duty vehicles and equipment services, with ambulances becoming a part of the fleet starting in 2001/02. On April 1, 2003, the Agency assumed responsibility for Radio Services, a division that evaluates and supplies the fixed and mobile radio requirements of its provincial and other clients.

Following the advent of engineering-based highway management in the 1960s, the Province established a highways department. The Mechanical Equipment Services branch emerged as an integral and important part of the department, primarily providing heavy duty vehicles and equipment, as well as warehousing services. The provided services support the safe and efficient delivery of the department's construction, maintenance and preservation programs, and its remote airport programs, in a manner that incorporates the principles of sustainable development and environmental awareness.

Effective April 1, 2009, Fleet Vehicles Agency and the Mechanical Equipment Services branch were amalgamated into a new special operating agency named Vehicle and Equipment Management Agency ("VEMA", or the "Agency"). VEMA combines the acquisition, management and disposal of both light duty and heavy duty vehicles and equipment under common management.

VEMA was a part of the Department of Infrastructure and Transportation through March 31, 2015, under the general direction of the Assistant Deputy Minister, Supply and Services Division, and ultimately the policy direction of the Deputy Minister and the Minister. As of April 1, 2015, the Agency was transitioned to the Department of Finance. In October 2019 the Department of Central Services was created with the Agency now under the direction of the Assistant Deputy Minister of the Procurement and Supply Chain, Central Services, and ultimately the policy direction of the Minister of Central Services.

The Agency is financed through the Special Operating Agencies Financing Authority (SOAFA). SOAFA has the mandate to hold and acquire assets required for and resulting from Agency operations. It finances the Agency through repayable loans and working capital advances. This financial framework enables VEMA to operate in a business-like manner according to public policy expectations.

A Management Agreement assigns responsibility to VEMA to manage and account for the Agency-related assets and operations on behalf of SOAFA.

The Agency remains bound by relevant legislation and regulations. It is also bound by administrative policy except where specific exemptions have been provided in its charter in order to meet business objectives.

2. Basis of accounting

The Agency's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards as recommended by the Public Sector Accounting Board.

3. *Summary of significant accounting policies*

Revenues

Fixed rate lease revenue is recognized on a straight-line basis over the term of the lease. Variable rate lease revenue is recognized monthly based on equipment usage. Service revenue is recognized when the services have been performed. All revenues are recorded on an accrual basis.

Expenses

All expenses incurred for goods and services are recognized at the gross amount on an accrual basis. Government transfers are recognized as expenses in the period in which the transfers are authorized and all eligibility criteria have been met.

Financial assets

(i) Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks. Bank overdrafts and bank borrowings are considered to be financing activities.

(ii) Receivables

Receivables are recorded at the lower of cost and net realizable value. Amounts doubtful of collection are recorded when there is uncertainty that the amounts will be realized.

(iii) Portfolio investments

Portfolio investments are short-term deposits with original maturities of more than three months. These investments are recognized at cost.

(iv) Inventory for resale

Inventories for resale are valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis.

Liabilities

Liabilities are present obligations as a result of transactions and events occurring prior to the end of the fiscal year. The settlement of the liabilities will result in the future transfer or use of assets or other form of settlement. Liabilities are recorded in the financial statements when there is an appropriate basis of measurement and a reasonable estimate can be made of the amounts involved.

Non-financial assets

Non-financial assets do not normally provide resources to discharge liabilities of the Agency. These assets are normally employed to provide future services.

Financial Statements

Notes to Financial Statements
Year Ended March 31, 2020
(in thousands of dollars)

3. *Summary of significant accounting policies* (continued)

(i) Prepaid expenses

Prepaid expenses are payments for goods or services that will provide economic benefit in future periods. The prepaid amount is recognized as an expense in the year that the goods or services are consumed.

(ii) Tangible capital assets

Tangible capital assets are recognized at cost. Cost includes the purchase price as well as other acquisition costs such as freight charges, transportation, insurance costs and duties. Modifications or additions to the original asset are capitalized and recognized at cost.

The values of tangible capital assets are written down when conditions indicate that the values of the future economic benefits associated with the tangible capital assets are less than their book values.

The costs of tangible capital assets, less their estimated residual values, are amortized over their useful lives in the following manner:

Vehicles and equipment	30%, declining balance method
Vehicles and equipment (signed lease agreement)	Straight-line over term of lease
Vehicles and equipment (attachments)	Straight-line over 11 years
Office and shop equipment	20%, declining balance method
Computer hardware and software	20%, straight-line method
Leasehold improvements	10%, straight-line method

Measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Judgment is required in determining the future economic benefit of all non-financial assets, especially in the estimation of the useful lives of tangible capital assets. Actual results could differ from these estimates.

4. *Financial instruments and financial risk management*

Measurement

Financial instruments are classified into one of the two measurement categories: (a) fair value; or (b) cost or amortized cost.

The Agency records its financial assets at cost. Financial assets include cash and cash equivalents, receivables and portfolio investments. The Agency also records its financial liabilities at cost. Financial liabilities include accounts payable and accrued liabilities, and borrowings from the Province of Manitoba.

Gains and losses on financial instruments measured at fair value are recorded in accumulated surplus as re-measurement gains and losses until realized. Upon disposition of the financial instruments, the cumulative

Financial Statements

Notes to Financial Statements
Year Ended March 31, 2020
(in thousands of dollars)

4. *Financial instruments and financial risk management* (continued)

re-measurement gains and losses are reclassified to the statement of operations. Gains and losses on financial instruments measured at cost or amortized cost are recognized in the statement of operations in the period the gain or loss occurs.

As the Agency has no financial instruments measured at fair value, it did not incur any re-measurement gains and losses during the year ended March 31, 2020 (2019 - $nil).

Financial risk management – overview

The Agency has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; market risk; and interest rate risk.

Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the Agency to credit risk consist principally of cash and cash equivalents, receivables and portfolio investments.

The maximum exposure of the Agency to credit risk as of March 31, 2020, is:

	2020	2019
Cash and cash equivalents	**$ 16,799**	$ 17,309
Receivables	**5,947**	5,743
Portfolio investments	**1,433**	1,433
	$ 24,179	$ 24,485

Cash and cash equivalents, and portfolio investments: The Agency is not exposed to significant credit risk as these amounts are primarily held by the Province of Manitoba.

Receivables: The Agency is not exposed to significant credit risk since the receivables are with departments, agencies and Crown corporations with the Manitoba provincial government, or are with organizations within the broader public sector that are funded in part by the provincial or federal governments. The receivable balances are from a large client base, and payment in full is typically collected when it is due. An allowance for doubtful accounts was not recorded as of March 31, 2020 (2019 - $nil).

Liquidity risk

Liquidity risk is the risk that the Agency will not be able to meet its financial obligations as they come due.

The Agency manages liquidity risk by balancing its cash flow requirements with draw downs from its available working capital advances and its other borrowings from the Province of Manitoba. Regular determinations of the Agency's working capital advances limit and its other debt requirements are reviewed by the Province of Manitoba to ensure that adequate funding is available as required to enable the Agency to meet its obligations as they come due. The contractual maturities of the Agency's borrowings from the Province of Manitoba are included in note 8. Working capital advances are due on demand.

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Notes to Financial Statements
Year Ended March 31, 2020
(in thousands of dollars)

4. *Financial instruments and financial risk management* (continued)

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Agency's income from operations or the fair values of its financial instruments.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure relates to cash and cash equivalents, portfolio investments, working capital advances, and to other borrowings.

The interest rate risk on cash and cash equivalents and working capital advances is considered to be low because of their short term nature. The interest rate risk on portfolio investments is considered low as the original deposits are reinvested at rates for investments with similar terms and conditions.

The Agency manages its interest rate risk on long term borrowings through the exclusive use of fixed rate terms on each amount borrowed.

5. *Cash and cash equivalents*

	March 31 2020	March 31 2019
Cash	**$ 1,621**	$ 12,284
Short term investments	**15,178**	5,025
	$ 16,799	$ 17,309

6. *Receivables*

	March 31 2020	March 31 2019
Trade	**$ 2,976**	$ 2,413
Accrued trade	**2,346**	2,580
Insurance rebate receivable	**625**	750
	$ 5,947	$ 5,743

7. *Severance pay liability*

The Agency records accumulated severance pay benefits for its employees. Severance pay is determined by multiplying years of service, to a maximum of 15 years, by the weekly salary at date of retirement, provided the employee has reached nine years of service and retires from the Province. There is also additional severance pay for employees with 20 or more years of accumulated service. The estimate is based upon the method of calculation set by the Province of Manitoba.

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Notes to Financial Statements
Year Ended March 31, 2020
(in thousands of dollars)

7. Severance pay liability (continued)

The Province has accepted responsibility for the severance benefits accumulated by the Agency's employees through specific dates. For the Fleet Vehicles Agency employees, that responsibility is reflected through the payment by the Province of $270 on March 31, 2009. For the Mechanical Equipment Services employees, that responsibility is reflected through the payment by the Province of $1,163 on July 31, 2010. The $1,433 in combined payments is held in an interest bearing trust account until the cash is required to discharge the related liability.

An actuarial valuation report was completed for the severance pay liability as of April 1, 2017. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the Agency's liability is recalculated annually, with payments to retiring employees no longer with the Agency or the Province charged against the liability.

Significant long-term actuarial assumptions used in the April 1, 2017 valuation, and in the determination of the March 31, 2020 present value of the accrued severance benefit obligations were:

Annual rate of return	
Inflation component	2.00%
Real rate of return	4.00%
	6.00%
Assumed salary increase rates	
Annual productivity increase	1.00%
Annual general salary increase	2.00%
	3.00%

Actuarial valuation report updates are prepared every three years. Actuarial adjustments that result from the updates are absorbed by VEMA as a part of the benefits and interest accrued during the year in which the adjustment amounts are known.

The severance pay liability as of March 31 included the following components:

	2020	2019
Severance pay liability, beginning of year	**$ 1,492**	$ 1,480
Benefits and interest accrued during the year	**122**	122
Severance benefits paid during the year	**(187)**	(110)
	$ 1,427	$ 1,492

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Notes to Financial Statements
Year Ended March 31, 2020
(in thousands of dollars)

8. Borrowings from the Province of Manitoba

By virtue of the Management Agreement, the Agency is responsible for the repayment of debts assumed by the Special Operating Agencies Financing Authority (SOAFA) on its behalf. SOAFA holds the debt instruments listed in this Note on behalf of Vehicle and Equipment Management Agency.

Borrowings obtained through the use of available Loan Act authority are repayable in semi-annual instalments of principal and interest, as follows:

Interest rate	Semi-annual payment ($)	Maturity date	2020	2019
2.50%	535	September 30, 2019	**0**	528
2.50%	482	September 30, 2019	**0**	476
2.63%	272	March 31, 2020	**0**	533
1.88%	631	September 30, 2020	**626**	1,859
1.81%	265	March 31, 2021	**523**	1,036
2.13%	530	March 31, 2021	**1,043**	2,064
2.0%	267	September 30, 2021	**784**	1,294
2.31%	269	September 30, 2021	**789**	1,301
1.875%	789	September 30, 2021	**2,324**	3,838
2.25%	478	March 31, 2022	**1,861**	2,760
2.80%	526	September 30, 2022	**2,525**	3,487
2.63%	569	September 30, 2022	**2,736**	3,782
2.44%	338	March 31, 2023	**1,943**	2,560
2.88%	540	March 31, 2023	**3,085**	4,056
4.88%	237	September 30, 2023	**1,508**	1,894
3.4%	102	September 30, 2023	**669**	846
2.63%	488	September 30, 2023	**3,243**	4,116
2.75%	246	September 30, 2023	**1,629**	2,066
2.63%	349	March 31, 2024	**2,630**	3,246
2.75%	539	March 31, 2024	**4,054**	5,000
5.0%	334	March 31, 2024	**2,398**	2,927
4.88%	192	March 31, 2024	**1,380**	1,686
4.5%	162	September 30, 2024	**1,304**	1,560
2.3%	516	September 30, 2024	**4,387**	5,302
2.75%	263	March 31, 2025	**2,439**	2,888
4.0%	201	September 30, 2025	**1,966**	2,280
3.9%	158	September 30, 2025	**1,548**	1,796
4.55%	162	March 31, 2026	**1,687**	1,927
3.21%	357	March 31, 2026	**3,867**	4,442
1.70%	528	March 31, 2026	**6,000**	0
3.0%	354	March 31, 2027	**4,438**	5,000
3.3%	213	September 30, 2027	**2,805**	3,130
			66,191	79,680

Financial Statements

Notes to Financial Statements
Year Ended March 31, 2020
(in thousands of dollars)

8. *Borrowings from the Province of Manitoba* (continued)

Amount of debt owing in connection with the transfer of Mechanical Equipment Services branch net assets on April 1, 2009

Interest rate	Semi-annual payment ($)	Maturity date	**2020**	2019
3.25%	127	September 30, 2027	**1,681**	1,875
3.38%	86	March 31, 2028	**1,190**	1,318
5.0%	80	March 31, 2030	**1,242**	1,336
4.875%	2,018	March 31, 2024	**14,506**	17,716
Amount of borrowings owing to the Province of Manitoba at year-end			**$ 84,810**	$ 101,925

Loan Authority of $6,000 designated for Loan Act 2020 was drawn down March 31, 2020. Unused loan authority available as of March 31, 2020 is $0.

All borrowings from the Province of Manitoba are payable in instalments of principal and interest on March 31 and September 30 each year. Interest cost is measured using the effective interest method.

As of March 31, 2020, principal repayments in each of the next five years on the combined outstanding balances owing to the Province of Manitoba are as follows:

2021	20,063
2022	17,137
2023	14,327
2024	12,362
2025	10,414

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Notes to Financial Statements
Year Ended March 31, 2020
(in thousands of dollars)

9. Tangible capital assets

		2020		
Cost	Opening balance	Additions	Disposals & write-downs	**Closing balance**
Vehicles and equipment	$ 265,699	$ 10,594	$ (12,710)	**$ 263,583**
Office and shop equipment	1,678	69	(4)	**1,743**
Computer hardware and software	52	0	(13)	**39**
Leasehold improvements	1,034	0	0	**1,034**
	268,463	10,663	(12,727)	**266,399**
Accumulated amortization				
Vehicles and equipment	157,078	25,140	(9,048)	**173,170**
Office and shop equipment	1,405	48	(5)	**1,448**
Computer hardware and software	50	1	(13)	**38**
Leasehold improvements	833	28	0	**861**
	159,366	25,217	(9,066)	**175,517**
Net book value	$ 109,097	$ (17,123)	$ (1,092)	**$ 90,882**

		2019		
Cost	Opening balance	Additions	Disposals	Closing balance
Vehicles and equipment	$ 280,859	6,511	$ (21,671)	$ 265,699
Office and shop equipment	1,726	0	(48)	1,678
Computer hardware and software	394	0	(342)	52
Leasehold improvements	1,007	0	(37)	1,034
	284,050	6,511	(22,098)	268,463
Accumulated amortization				
Vehicles and equipment	148,524	26,660	(18,106)	157,078
Office and shop equipment	1,393	59	(47)	1,405
Computer hardware and software	391	1	(342)	50
Leasehold improvements	811	30	(8)	833
	151,119	26,750	(18,503)	159,366
Net book value	132,931	$ (20,239)	$ (3,595)	$ 109,097

During the year, the Agency recognized a write-down of $2,569 on vehicles and equipment, which is included in vehicle and equipment operating expenses in the statement of operations.

Financial Statements

Notes to Financial Statements
Year Ended March 31, 2020
(in thousands of dollars)

10. *Designated assets*

The Agency has allocated $1,433 (2019 - $1,433) of its portfolio investments as designated assets for its severance pay liability.

11. *Commitments*

VEMA has arrangements with the Government of Manitoba for the rental of facilities in Beausejour, Brandon, Dauphin, The Pas, Thompson and Winnipeg, Manitoba. Occupancy charges for each fiscal year including 2020/21 are established annually based on the approved budget for the Accommodation Services division of Central Services, Finance. Occupancy charges for 2020/21 are estimated at $2,500 for the year, to be paid in quarterly instalments during 2020/21.

12. *Pension benefits*

Employees of VEMA are eligible for pension benefits in accordance with the provisions of the Civil Service Superannuation Act (CSSA), administered by the Civil Service Superannuation Board. The CSSA established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the provincial government, including the Agency, through the Civil Service Superannuation Fund.

The pension liability related to the CSSA's defined benefit plan is included in the Province of Manitoba's financial statements. Accordingly, no provision is required in the Agency's financial statements relating to the effects of participation in the plan by the Agency and its employees.

The Agency is regularly required to pay to the Province an amount equal to the current pension contributions paid by its employees. The amount paid for 2020 was $599 (2019 - $651).

13. *Comparative financial statements*

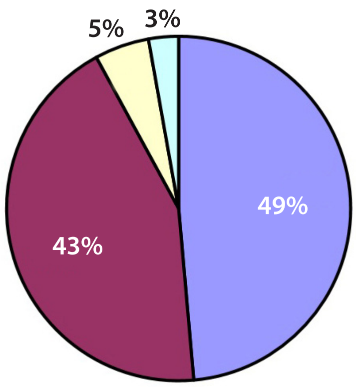
Certain reclassifications have been made in the financial statements for the year ended March 31, 2019, to make their presentation comparable to that in the actual financial statements for the year ended March 31, 2020.

VEMA Statistics

	For the Year ended March 31			
		2020 Actual		2019 Actual
Vehicles and equipment				
Light duty		**2,348**		2,380
Heavy duty		**2,103**		2,188
Ambulances		**248**		185
Primary care buses		**3**		3
Miscellaneous *(including prisoner containment units, ATVs and truck boxes)*		**136**		138
Number of units in the fleet *(including replaced units being prepared for disposal)*		**4,838**		4,894
Acquisitions – light duty		**107**		110
Acquisitions – heavy duty		**0**		34
Acquisitions – ambulances		**65**		0
Acquisitions – primary care buses		**0**		0
Acquisitions – miscellaneous units		**2**		2
Average purchase price – light duty	**$**	**53.4**	$	33.0
Average purchase price – heavy duty	**$**	**0**	$	66.0
Average purchase price – ambulances	**$**	**155.2**	$	N/A
Average purchase price – primary care buses	**$**	**N/A**	$	N/A
Average purchase price – miscellaneous units	**$**	**36.6**	$	42.0
Disposals – light duty		**139**		649
Disposals – heavy duty		**85**		16
Disposals – ambulances		**2**		6
Disposals – miscellaneous units		**4**		7
Average disposal proceeds – light duty	**$**	**10.1**	$	8.9
Average disposal proceeds – heavy duty	**$**	**9.9**	$	27.7
Average disposal proceeds – ambulances	**$**	**.1**	$	54.2
Fuel				
Consumption in litres for owned and managed vehicles and equipment (000s)		**15,641**		17,688
Fuel cost for light duty vehicles ($000s)	**$**	**9,781**	$	12,892
Fuel cost for heavy duty vehicles and equipment ($000s)	**$**	**4,705**	$	3,563
Utilization				
Kilometres driven on owned and managed metered units (000s)		**59,771**		66,543
Machine hours for owned heavy duty equipment		**191,803**		224,000
Days utilized for owned heavy duty equipment		**483**		536
Years utilized for owned heavy duty equipment (# units)		**111**		122

VEMA Statistics

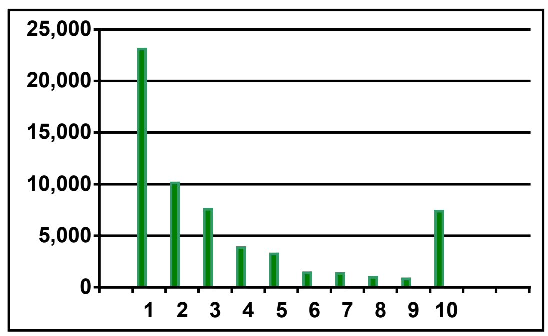
Vehicle and Equipment Type as of March 31, 2020 *(in units)*



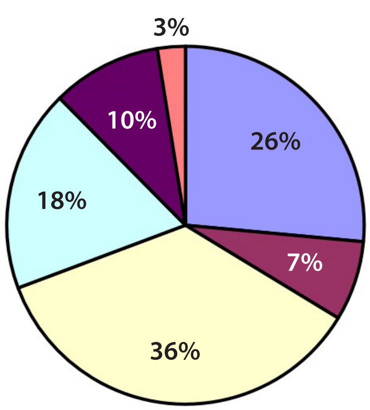
- Light duty vehicles and equipment (2,348)
- Heavy duty vehicles and equipment (2,103)
- Ambulances and primary care buses (251)
- Miscellaneous (including prisoner containment units, ATVs and truck boxes (136)

Vehicle Distance by Department in 2019/20 *(in thousands of kilometers)*

1.	Infrastructure	23,121
2.	Health – Emergency Services	10,115
3.	Sustainable Development	7,565
4.	Justice	3,853
5.	Regional Health Authority	3,216
6.	Housing	1,410
7.	Families	1,339
8.	Agriculture	972
9.	Office of the Fire Commissioner	807
10.	All other customers	7,373
	Total distance in 2019/20	59,771



Breakdown of $50,090 in Vehicle and Equipment Utilization Revenue in 2019/20
(in thousands of dollars)



- Light duty lease revenue (13,261)
- Light duty variable revenue (3,612)
- Heavy duty utilization revenue (17,838)
- Heavy duty variable revenue (9,154)
- Ambulance lease revenue (4,961)
- Ambulance variable revenue (1,264)

Vehicle and Equipment Management Agency

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VEMA

Manitoba