THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

Projected Financial Statements
Three Years Ending December 31, 2009

On March 20, 1997, Council adopted a document entitled "Reshaping our Civic Government". The document identified the development of Special Operating Agencies ("SOA") as one of the five strategic initiatives needed to create a more affordable and fundamentally better civic government.

On September 24, 1997, Council adopted the strategic direction with regard to SOAs identified in the report entitled "Special Operating Agencies Initiative".

On March 25, 1998, Council adopted the Policy and Framework for Alternative Service Delivery (ASD), which recommended that certain services be studied as potential candidates for delivery outside of the departmental structure of government.

In 1999, Public Works Department conducted a feasibility study of alternative service delivery options for those services provided by Equipment and Material Services (EMS). The report was presented in June 2000 and it recommended that EMS become a Special Operating Agency.

On October 18, 2000, Council approved the Alternative Service Delivery Committee's feasibility study recommendation that administration produce a Business Plan and Operating Charter to convert EMS to an SOA. Further, Council approved that the Business Plan and Operating Charter be premised on the following principles:

- The SOA maintain the existing dedicated customer base for a period of three years;
- The SOA assume ownership of the fleet of its current customers;
- The SOA have the authority to access the Equipment Replacement Reserve as a financing source for the replacement of equipment; and
- The SOA have the authority to increase its customer base.

The Agency commenced operations on January 1, 2003. The 2007 financial projections represent the Agency's fifth year as a Special Operating Agency.

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

PROJECTED STATEMENT OF FINANCIAL POSITION

As at December 31
(in thousands of dollars)

	Forecast 2006	2007	2008	2009
ASSETS				
Current				
Cash	$ 1	$ 1	$ 1	$ 1
Due from City of Winnipeg - General Revenue Fund (Note 3)	362	424	-	1,739
Accounts receivable (Note 4a)	148	151	154	157
Current portion of loans receivable (Note 4b)	75	13	-	-
Inventory	1,300	1,327	1,352	1,380
Prepaid expenses	183	186	190	194
	2,069	2,102	1,697	3,471
Loans receivable (Note 4b)	13	-	-	-
Capital assets (Note 5)	41,601	55,842	68,595	67,339
	$ 43,683	$ 57,944	$ 70,292	$ 70,810
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$ 597	$ 474	$ 474	$ 474
Vacation payable	684	704	725	747
Debt (Note 6a)	17,582	14,579	4,667	7,439
	18,863	15,757	5,866	8,660
Deferred revenue	3,460	2,556	1,923	1,480
Retirement allowance (Note 7a)	652	649	648	647
Environmental liability (Note 8)	420	420	420	420
Term debt (Note 6b)	17,957	36,192	51,732	48,925
	22,489	39,817	54,723	51,472
	41,352	55,574	60,589	60,132
Commitments (Note 9)				
SURPLUS				
Contributed surplus and Equity	390	390	7,723	7,723
Retained earnings	1,941	1,980	1,980	2,955
	2,331	2,370	9,703	10,678
	$ 43,683	$ 57,944	$ 70,292	$ 70,810

See accompanying notes and schedule to projected financial statements

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

PROJECTED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the years ending December 31
(in thousands of dollars)

	Forecast 2006	2007	2008	2009
REVENUES				
Fleet leases	$ 13,579	$ 16,993	$ 19,433	$ 21,014
Services and parts revenue (Schedule 1)	5,896	5,825	5,956	6,091
Fuel sales	5,931	6,049	6,170	6,293
Rental income	2,882	2,811	2,746	2,689
Amortization of deferred revenue	1,385	904	633	443
Gain on sale of capital assets	1,112	700	500	300
Total Revenues	30,785	33,282	35,438	36,830
EXPENSES				
Supplies	7,927	7,997	8,092	8,211
Salaries and employee benefits	7,385	7,508	7,749	7,781
Services	7,739	7,220	7,096	7,091
Amortization	5,303	7,217	8,731	9,298
Other	393	401	409	417
Interest (Note 6)	89	1,405	2,449	3,057
Total Expenses	28,836	31,748	34,526	35,855
Net income from operations	1,949	1,534	912	975
Charges from City of Winnipeg - General Revenue Fund (Note 10f)	(1,357)	-	-	-
Net income for the year	592	1,534	912	975
RETAINED EARNINGS, BEGINNING OF YEAR	1,349	1,941	1,980	1,980
Transfer to City of Winnipeg - General Revenue Fund (Note 10f)	-	(1,495)	(912)	-
RETAINED EARNINGS, END OF YEAR	$ 1,941	$ 1,980	$ 1,980	$ 2,955

See accompanying notes and schedule to projected financial statements

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

PROJECTED STATEMENT OF CASH FLOWS

For the years ending December 31
(in thousands of dollars)

NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:	**Forecast 2006**	**2007**	**2008**	**2009**
OPERATING				
Net income for the year	$ 592	$ 1,534	$ 912	$ 975
Non-cash items related to operations				
Amortization	5,303	7,217	8,731	9,298
Amortization of deferred revenue	(1,385)	(904)	(633)	(443)
Gain on sale of capital assets	(1,112)	(700)	(500)	(300)
Retirement allowance	(29)	(3)	(1)	(1)
Working capital from operations	3,369	7,144	8,509	9,529
Net change in working capital	(94)	(74)	2	(13)
	3,275	7,070	8,511	9,516
FINANCING				
Decrease (Increase) in Due from City - General Revenue Fund	629	(62)	424	(1,739)
Increase in debt	10,976	15,232	5,628	(35)
Transfer debt to equity	-	-	7,333	-
Increase in transfers to the City of Winnipeg - General Rev Fund	-	(1,495)	(912)	-
	11,605	13,675	12,473	(1,774)
INVESTING				
Purchase of capital assets	(16,116)	(21,458)	(21,484)	(8,042)
Decrease in loans receivable	74	13	-	-
Proceeds from sale of capital assets	1,112	700	500	300
	(14,930)	(20,745)	(20,984)	(7,742)
NET DECREASE IN CASH	(50)	-	-	-
CASH POSITION, BEGINNING OF YEAR	51	1	1	1
CASH POSITION, END OF YEAR	$ 1	$ 1	$ 1	$ 1

See accompanying notes and schedule to projected financial statements

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

NOTES TO THE PROJECTED FINANCIAL STATEMENTS

For the three years ending December 31, 2009
(in thousands of dollars)

1. Commencement of Operations

On May 28, 2003, Council adopted the Fleet Management Agency Selection Report, that recommended the Equipment and Material Services operation of the Public Works Department commence operations as a Special Operating Agency (SOA) effective January 1, 2003.

The Agency offers a complete range of fleet management services to The City of Winnipeg, its main customer, and provides light vehicles, heavy and specialty equipment, using life cycle cost management principles.

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 projected financial statements have been prepared by management within reasonable limits of materiality and within the framework of accounting policies summarized below.

The projected 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, other than land and buildings, transferred from The City of Winnipeg on January 1, 2003, are recorded at their estimated net realizable value on that date. Subsequent acquisitions are recorded at cost. Land and buildings are stated at assessed values as of January 1, 2003 which were determined by The City of Winnipeg Property Assessment Department.

Capital assets are amortized on the basis of their cost less approximate residual value over the estimated useful life using the following rates and methods:

Buildings	4%	Straight-line
Fleet assets		
Acquired at start-up	30%	Declining balance
Purchased	Lease term	Straight-line
Equipment	10% to 30%	Straight-line

Amortization begins once an asset is placed in service.

2. Summary of Significant Accounting Policies (continued)

Revenue recognition

The Agency enters into operating lease agreements to supply and maintain vehicles and equipment to lessees for specified lease periods. The Agency recognizes the monthly lease payments from the lessees as income each month. Services and parts revenue, including insurance and fuel sales, are recognized upon the completion of the work or transfer of the goods or service. Revenue from short-term rentals of vehicles or equipment is recognized as income evenly over the rental period.

Deferred revenue

Deferred revenue represents the value of fleet assets acquired from the City of Winnipeg at start-up. This amount is recognized as income at the same rate that the related assets are being amortized.

In addition, certain user charges and fees are collected for which the related services have yet to be performed. These amounts are recognized as revenue in the fiscal year in which the related expenses are incurred or services performed.

Financial instruments

Financial instruments include due from City of Winnipeg - General Revenue Fund, accounts receivable, loans receivable, accounts payable and accrued liabilities, vacation payable, and 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.

3. Due from 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 (to)/from" account when they are processed through the bank. 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 up to $300 thousand, and a line of credit up to $10,000 thousand for short-term financing, from The City of Winnipeg at the City's borrowing rate.

4. Receivables

	Forecast 2006	2007	2008	2009
a) Accounts receivable				
Trade receivables	$ 148	$ 151	$ 154	$ 157
b) Loans receivable				
City of Winnipeg Glacial Sand and Gravel				
Equipment financing program loan, interest at 6.5%, payment of $6.5 thousand monthly, due February 2007	$ 88	$ 13	$ -	$ -
Current portion	(75)	(13)	-	-
	$ 13	$ -	$ -	$ -

5. *Capital Assets*

	Net Book Value			
	Forecast 2006	2007	2008	2009
Land	$ 390	$ 390	$ 390	$ 390
Building	2,142	5,049	8,794	10,710
Fleet assets				
Acquired at start-up	3,014	2,110	1,477	1,034
Fleet purchased	35,288	46,720	55,552	53,194
Equipment	767	1,573	2,382	2,011
	$ 41,601	$ 55,842	$ 68,595	$ 67,339

6. *Debt*

	Forecast 2006	2007	2008	2009
City of Winnipeg Equipment and Material Services - non-interest bearing, no repayment schedule	$ 1,230	$ 1,230	$ -	$ -
City of Winnipeg - line of credit	-	-	356	-
City of Winnipeg (see below a)	15,050	10,550	-	-
Term debt - current portion (see below b)	1,302	2,799	4,311	7,439
Total debt	17,582	14,579	4,667	7,439
Term debt (see below b)	17,957	36,192	51,732	48,925
	$ 35,539	$ 50,771	$ 56,399	$ 56,364

a) On May 28, 2003, Council approved the transfer of the Equipment Replacement Reserve Fund balance at January 1, 2003 to the Agency, to be used as a source of financing for fleet replacement, thereby resulting in the termination of the Fund at January 1, 2003. During 2005, interest charges ceased. The balance decreases by $7,696 in 2006, $4,500 thousand in 2007 and $4,446 thousand in 2008 due to repayments to the General Revenue fund. The remaining $6,103 thousand along with the $1,230 for the City of Winnipeg Equipment and Material Services will be transferred to Contributed Surplus and Equity.

b) During 2006, the Agency has negotiated with the City and/or the City's bank for term debt.

7. Employee Benefits

a) Retirement allowance

	Forecast 2006	2007	2008	2009
	$ 652	$ 649	$ 648	$ 647

Under the retirement allowance plan, qualifying employees become entitled to a cash payment upon retirement, death or termination of service under certain conditions (not resignation). The 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 services. In addition, adjustments arising from plan amendment, changes in assumptions, and experience gains and losses are amortized on a straight-line basis over 10.4 years, which 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 retirment allowance obligation as at December 31 of each year. The most recent actuarial valuation report was at December 31, 2005.

b) Pension

The Agency's employees are eligible for pensions under the Winnipeg Civic Employees' Benefits Program. The Plan is a defined benefit plan. The City of Winnipeg allocates its pension costs to various departments. An actuarial valuation for the Winnipeg Civic Employees' Benefits Program was made as of December 31, 2005 and has an actuarial surplus.

	Forecast 2006	2007	2008	2009
Pension costs allocated to the agency	$ 430	$ 429	$ 443	$ 445

8. Environmental Liability

The Agency has included an estimate of the cost to remediate fuel sites. A third party has estimated the cost at $420 thousand.

9. Commitments

The Agency has entered into lease agreements mainly for the lease of fleet equipment. Future minimum lease payments are as follows:

	Forecast 2006	2007	2008	2009
Operating leases	$ 621	$ 621	$ 621	$ 621

10. Related Party Transactions

In addition to those disclosed elsewhere in the projected financial statements, included in the Agency's projected revenues/expenses are the following transactions which occurr in the normal course of operations and are recorded at the exchange amount.

The Agency is economically dependent on The City of Winnipeg, as it derives most of its revenue from the City.

	Forecast 2006	2007	2008	2009
a) Sales of goods and services to the City	$ 27,130	$ 30,698	$ 33,307	$ 35,068
b) Civic Accommodations Fund- rental of office space	$ 134	$ 137	$ 140	$ 142
c) Public Works Department - Human resource services	$ 79	$ 81	$ -	$ -
d) Public Works Department - Operator training	$ 377	$ 250	$ 250	$ 250
e) City of Winnipeg debt repayment	$ 7,697	$ 4,500	$ 4,446	$ -
f) Charges from City of Winnipeg				
- General Revenue Fund (see below)	$ 1,357	$ -	$ -	$ -
GST equivalency	$ 580	$ -	$ -	$ -
Interest equivalency	400	-	-	-
General government charges	421	-	-	-
Income tax equivalency (recovery)	(110)	-	-	-
Peoplesoft savings equivalency	66	-	-	-

Goods and Services Tax (GST) equivalency

As part of the municipal government, the Agency pays 7% GST on its purchases. In 2004 the Agency received a 4% input tax credit with the remaining 3% input tax credit retained by the City of Winnipeg. Beginning in 2005, the Agency receives the full 7% input tax credit and is charged by the City a GST equivalency representing the 3% input tax credit retained by the City in 2004. The amount is reduced by 9 % in 2005 and 12% thereafter due to the City's contracting out of the garbage collection fleet. This will become part of the transfer policy beginning in 2007.

Interest equivalency

During 2004 the Agency paid interest on long-term debt. In 2005, interest on long-term debt has ceased and the Agency is charged by the City of Winnipeg an interest equivalency, representing interest on long-term debt. This will become part of the transfer policy beginning in 2007.

General government charges

The Agency is charged by the City of Winnipeg general government charges, as determined by the Corporate Finance Department. This will become part of the transfer policy beginning in 2007.

Grant - Autopac rebate to Public Works Department

A grant has been made to the Public Works Department, representing the amount of Autopac Rebate received by the Agency. In 2007 and onward WFMA will transfer $250 thousand to cover the cost of operator training.

10. Related Party Transactions (continued)

Income tax equivalency (recovery)

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 which is payable to (recoverable from) The City of Winnipeg based on the following rates:

Small business rate on the first $300 thousand of net income	18.12%
Manitoba Small Business Rate ($300 to $400 thousand)	27.12%
Regular corporate rate on the balance	37.12%

The gain on sale of fleet assets acquired at inception is excluded from net income for the purpose of the tax calculation. This is being eliminated in 2007 as part of the transfer policy.

PeopleSoft savings equivalency

The City of Winnipeg operates a central finance function and charges the Agency a fee representing purchasing savings equivalency, as determined by the Corporate Finance Department. This will become part of the transfer policy beginning in 2007.

	Forecast 2006	2007	2008	2009
Transfer to City of Winnipeg - General Revenue Fund	$ -	$ 1,495	$ 912	$ -

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

SCHEDULE 1 - PROJECTED SCHEDULE OF SERVICES AND PARTS REVENUE

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

	Forecast 2006	2007	2008	2009
Consumables and corrective maintenance	$ 2,277	$ 2,322	$ 2,368	$ 2,418
Insurance revenue	1,461	1,505	1,550	1,596
Manufacturing sales	721	736	750	765
Power tools	654	667	680	694
Autopac rebate	377	385	393	400
Other	266	77	79	80
Interest	10	-	-	-
Provincial support grant	130	133	136	138
	$ 5,896	**$ 5,825**	**$ 5,956**	**$ 6,091**

THE CITY OF WINNIPEG
FLEET MANAGEMENT – SPECIAL OPERATING AGENCY

ASSUMPTIONS TO THE PROJECTED FINANCIAL STATEMENTS

For the three years ending December 31, 2009
(In thousands of dollars)

The projected financial statements include management's best estimates of future financial performance and incorporate the financial implications of the Agency's goals and strategies. The financial projections are estimates of the financial position, results of operations and retained earnings and cash flows, using management's assumptions that reflect the Agency's planned course of action for the three years ending December 31, 2009.

Management's judgment has been used in the assumptions and the most probable set of economic conditions, together with the hypotheses stated below. The hypotheses are consistent with the purpose of this information. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur subsequent to the date of this projection. Therefore, the actual results achieved during the projected period will vary from the projections and the variations may be material. The financial projections have been prepared based on the following hypotheses:

- That Council will authorize additional borrowing authority for 2007 in the amount of $21,500 thousand.
- That the City of Winnipeg, or external sources, will extend long-term funding for operations, with long-term interest rates and repayment terms to be negotiated by the City, or external sources and the Agency during 2007.
- That the Agency's customers will sign Agency lease agreements, including agreements with terms of over five years, for fleet management services.
- That the Agency's current customers will continue all services with the Agency, and that the City of Winnipeg, in working with the Agency, will determine the process, conditions, timing and approvals that will allow departments the option of using an alternate fleet management service provider.
- That Council will authorize a revision to the Agency's Operating Charter, that establishes a Transfer Policy outlining expense transfers and retained earnings transfers to the City, and repayment of debt - due to the City transfers, and conversion of debt - due to the City to equity.
- That in 2007, the City will authorize the Agency to repay a portion of its debt - due to the City of Winnipeg in the amount of $4,500 thousand.

The financial projections are based on current service levels, with a two percent inflationary increase, except where otherwise described in the notes to projected financial statements, or as noted in the assumptions below.

REVENUE ASSUMPTIONS

Fleet Leases

Fleet leases revenue is determined based on the number and types of units assigned to customers, and the Agency's fleet replacement plan. Fleet leases revenue includes an operating component and a capital component for full service customers, and a capital component for non-maintenance customers. Interest is based on the Agency's long-term borrowing rate, and lease terms are set based on lifecycle cost management principles.

Services and Parts Revenue

- Insurance revenue is based on current Manitoba Public Insurance rates, with a three percent increase per year on the April 1st renewal date, applying the Agency's insurance mark-up.
- Other revenue reflects a reduction in 2007 due to the completion of RTA implementation service to Fire Paramedic Services during 2006, and elimination of a one-time MPI refund obtained in 2006.

Fuel Sales

Fuel sales are based fuel costs, applying the Agency's fuel mark-up.

Rental Income

- External rental revenue is based on 2006 amounts with a five percent reduction per year.
- Internal rental revenue is based on 2006 amounts with a five percent increase per year.

Gain on Sale

The gain on sale of vehicles and equipment is based on the Agency's fleet replacement plan and estimated market pricing.

EXPENSE ASSUMPTIONS

Supplies

Parts costs are based on a decrease of two percent in 2007, a decrease of one percent in 2007, with no change in 2008.

Salaries and Benefits

Salaries and benefits are based on the collective agreements for 112 approved positions comprised of 1 WAPSO exempt, 19 WAPSO and 92 CUPE employees.

Services

- Equipment rental costs are based on external rental revenue assumptions applying the Agency's mark-up.
- Vendor repairs are based on a decrease of two percent in 2007, an increase of one percent in 2008, with no change in 2009.
- Insurance expense is based on insurance revenue assumptions, applying the Agency's insurance mark-up, with the addition of insurance costs on internal rental units.
- Training and development is based on an increase of 1.5 percent in 2007, a decrease of 12 percent in 2008 and an increase of two percent in 2009.

Other

- Facility rent is based on information supplied by Civic Accommodations.

Interest

Interest is based on the Agency's long-term borrowing rates.

ASSET AND LIABILITY ASSUMPTIONS

Capital asset acquisitions are based on the following amounts (in thousands of dollars):

	2007	2008	2009
Buildings	3,112	4,109	2,387
Fleet Assets	17,020	15,870	5,215
Equipment	1,326	1,505	440
Total	21,458	21,484	8,042

Building acquisitions represent building improvements and consolidation of the Agency's maintenance operations to its major repair facility at Tecumseh Street, during 2007 to 2009.

Fleet asset acquisitions assume replacement of units on a one for one basis, with no increase or decrease to customers' current assigned fleet. Replacement is based on the Agency's replacement plan which allows for replacement of fleet assets past their recommended lifecycle, by the end of 2011 based on lifecycle cost management principles.

Equipment acquisitions include shop equipment, power tools, fuel pumps and fuel equipment, and vehicle tracking equipment.

Vacation Payable

Vacation payable is based on 2006 amounts with a three percent increase per year.

Term Debt

The Agency will obtain term debt financing from both the City of Winnipeg and the City's bank to finance a portion of its operations including the following (in thousands of dollars):

	2006	2007	2008	2009
Repayment of debt - due to City	7,700	4,500	4,446	-
Fleet acquisitions	16,100	17,000	15,900	5,200
Total	23,800	21,500	20,400	5,200

Interest rates used for these projections are based on the Agency's long-term borrowing rates. Term debt repayment terms range from four to 20 years.

Debt to worth (equity) ratio is targeted at industry average of 4.1, and is projected as follows:

	2006	2007	2008	2009
Ratio	17.7	23.5	6.3	5.6

During 2008, City of Winnipeg debt except for line of credit debt will be converted to equity.