THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

Projected Financial Statements
Three Years Ending December 31, 2010

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 2008 financial projections represent the Agency's sixth 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)

	Actual 2006	Budget 2007	Forecast 2007	Variance 2007	2008	2009	2010
ASSETS							
Current							
Cash	$ 1	$ 1	$ 1	$ -	$ 1	$ 1	$ 1
Due from City of Winnipeg - General Revenue Fund (Note 3)	2,392	424	127	(297)	-	-	1,223
Trade receivables	123	151	81	(70)	83	84	86
Current portion of loan receivable	87	13	-	(13)	-	-	-
Inventory	1,388	1,327	1,610	283	1,642	1,676	1,708
Prepaid expenses	216	186	210	24	195	199	203
	4,207	2,102	2,029	(73)	1,921	1,960	3,221
Capital assets (Note 4)	38,960	55,842	56,654	812	69,140	74,451	75,854
	$ 43,167	$ 57,944	$ 58,683	$ 739	$ 71,061	$ 76,411	$ 79,075
LIABILITIES							
Current							
Accounts payable and accrued liabilities	$ 677	$ 474	$ 385	$ (89)	$ 393	$ 392	$ 392
Vacation payable	682	704	682	(22)	702	723	745
Current portion of long-term debt (Note 5)	23,028	14,579	14,672	93	8,919	8,697	10,072
	24,387	15,757	15,739	(18)	10,014	9,812	11,209
Term debt (Note 5)	11,045	36,192	35,676	(516)	46,850	51,677	52,120
Deferred revenue	3,319	2,556	2,276	(280)	1,562	1,033	705
Retirement allowance (Note 6a)	655	649	655	6	652	651	650
Environmental liability (Note 7)	420	420	420	-	420	420	420
	15,439	39,817	39,027	(790)	49,484	53,781	53,895
	39,826	55,574	54,766	(808)	59,498	63,593	65,104
Commitments (Note 8)							
SURPLUS							
Contributed surplus and equity	390	390	390	-	6,979	6,979	6,979
Retained earnings	2,951	1,980	3,527	1,547	4,584	5,839	6,992
	3,341	2,370	3,917	1,547	11,563	12,818	13,971
	$ 43,167	$ 57,944	$ 58,683	$ 739	$ 71,061	$ 76,411	$ 79,075

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)

	Restated Actual 2006	Budget 2007	Forecast 2007	Variance 2007	2008	2009	2010
REVENUES							
Fleet leases	$ 13,476	$ 16,993	$ 15,946	$ (1,047)	$ 19,951	$ 21,761	$ 22,868
Services and parts revenue (Schedule 1)	6,140	5,825	6,675	850	6,301	6,442	6,586
Fuel sales	5,734	6,049	6,023	(26)	6,144	6,266	6,392
Rental income	2,698	2,811	2,520	(291)	2,468	2,423	2,384
Amortization of deferred revenue	1,359	904	881	(23)	616	432	302
Gain on sale of capital assets	1,518	700	307	(393)	100	100	100
Total Revenues	30,925	33,282	32,352	(930)	35,580	37,424	38,632
EXPENSES							
Supplies	7,388	7,997	7,509	(488)	7,848	8,005	8,165
Salaries and employee benefits	7,012	7,508	7,385	(123)	7,643	7,660	7,851
Services	7,261	7,220	7,298	78	7,467	7,482	7,523
Amortization	5,372	7,217	6,640	(577)	8,448	9,412	10,036
Interest (Note 5)	84	1,405	1,054	(351)	2,469	3,141	3,427
Other	344	401	395	(6)	648	469	477
Total Expenses	27,461	31,748	30,281	(1,467)	34,523	36,169	37,479
Net income for the year	3,464	1,534	2,071	537	1,057	1,255	1,153
RETAINED EARNINGS, BEGINNING OF YEAR	1,349	1,941	2,951	1,010	3,527	4,584	5,839
Transfer to City of Winnipeg - General Revenue Fund (Note 9h)	1,862	1,495	1,495	-	-	-	-
RETAINED EARNINGS, END OF YEAR	$ 2,951	$ 1,980	$ 3,527	$ 1,547	$ 4,584	$ 5,839	$ 6,992

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:	**Restated Actual 2006**	**Budget 2007**	**Forecast 2007**	**Variance 2007**	**2008**	**2009**	**2010**
OPERATING							
Net income for the year	$ 3,464	$ 1,534	$ 2,071	$ 537	$ 1,057	$ 1,255	$ 1,153
Non-cash items related to operations				-			
Amortization	5,372	7,217	6,640	(577)	8,448	9,412	10,036
Amortization of deferred revenue	(1,359)	(904)	(881)	23	(616)	(432)	(302)
Gain on sale of capital assets	(1,518)	(700)	(307)	393	(100)	(100)	(100)
Retirement allowance	(26)	(3)	-	3	(3)	(1)	(1)
Working capital from operations	5,933	7,144	7,523	379	8,786	10,134	10,786
Net change in working capital	(107)	(74)	(379)	(305)	9	(19)	(16)
	5,826	7,070	7,144	74	8,795	10,115	10,770
FINANCING							
Decrease (Increase) in Due from City - General Revenue Fund	(1,401)	(62)	2,265	2,327	127	-	(1,223)
Increase in debt	9,343	15,232	16,113	881	5,323	4,508	1,792
Transfer debt to equity	-	-	-	-	6,589	-	-
Transfer to City of Winnipeg - General Revenue Fund	(1,862)	(1,495)	(1,495)	-	-	-	-
	6,080	13,675	16,883	3,208	12,039	4,508	569
INVESTING							
Purchase of capital assets	(15,117)	(21,458)	(24,334)	(2,876)	(20,934)	(14,723)	(11,439)
Decrease in loan receivable	70	13	-	(13)	-	-	-
Proceeds from sale of capital assets	3,091	700	307	(393)	100	100	100
	(11,956)	(20,745)	(24,027)	(3,282)	(20,834)	(14,623)	(11,339)
NET DECREASE IN CASH	(50)	-	-	-	-	-	-
CASH POSITION, BEGINNING OF YEAR	51	1	1	-	1	1	1
CASH POSITION, END OF YEAR	$ 1	$ 1	$ 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, 2010
(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, 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 cost of funds, which is a function of the Bank of Canada rate. As well, 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.

4. Capital Assets

	Net Book Value			
	Forecast 2007	2008	2009	2010
Land	$ 390	$ 390	$ 390	$ 390
Building	2,648	6,139	8,382	8,104
Fleet assets				
Acquired at start-up	2,055	1,438	1,007	705
Fleet purchased	50,895	59,671	62,448	64,313
Equipment	666	1,502	2,224	2,342
	$ 56,654	$ 69,140	$ 74,451	$ 75,854

5. *Debt*

	Forecast 2007	2008	2009	2010
City of Winnipeg Equipment and Material Services - non-interest bearing, no repayment schedule (see below a)	$ 1,148	$ -	$ -	$ -
City of Winnipeg - line of credit	-	3,950	2,620	-
City of Winnipeg (see below b)	9,887	-	-	-
Term debt - current portion (see below c)	3,637	4,969	6,077	10,072
Total debt	14,672	8,919	8,697	10,072
Term debt (see below c)	35,676	46,850	51,677	52,120
	$ 50,348	$ 55,769	$ 60,374	$ 62,192

a) The loan balance will be converted to equity at January 1, 2008.

b) 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 during the year by repayments. The balance net of the 2008 repayment of $4,446 thousand will be converted to equity at January 1, 2008.

c) The Agency has a revolving facility by way of a series of term loans in the amount of $35,000 thousand. The term loans bear a fixed rate of interest quoted by the bank at the time of each borrowing. The Agency will negotiate with the City and/or the City's bank for additional amounts.

6. *Employee Benefits*

a) Retirement allowance

Forecast 2007	2008	2009	2010
$ 655	$ 652	$ 651	$ 650

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, 2006.

6. Employee Benefits (continued)

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 indicates an actuarial surplus.

	Forecast 2007	2008	2009	2010
Pension costs allocated to the Agency	$ 396	$ 429	$ 426	$ 431

7. 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.

8. Commitments

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

	Forecast 2007	2008	2009	2010
Lease payments	$ 756	$ 841	$ 841	$ 841

9. 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 2007	2008	2009	2010
a) Sales of goods and services to the City	$ 29,473	$ 33,661	$ 35,665	$ 36,978
b) Civic Accommodations Fund- rental of office space	$ 180	$ 183	$ 187	$ 191
c) Public Works Dept - Human resource services	$ 81	$ -	$ -	$ -
d) Public Works Dept - BSD - Accident reporting	$ 4	$ 5	$ 5	$ 5
e) Public Works Department - Operator training	$ 250	$ 250	$ 250	$ 250
f) Corporate Finance - Corporate services	$ 137*	$ 137	$ 137	$ 137
g) City of Winnipeg debt repayment	$ 5,339	$ 4,446	$ -	$ -
h) Transfers from Retained Earnings to City of Winnipeg - General Revenue Fund	$ 1,495	$ -	$ -	$ -

* for comparative purposes only; amount is included with the $1,495 retained earnings transfer of 2007, and as an expense transfer effective 2008.

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)

	Actual 2006	Budget 2007	Forecast 2007	Variance 2007	2008	2009	2010
Consumables and corrective maintenance	$ 2,465	$ 2,322	$ 2,590	$ 268	$ 2,642	$ 2,694	$ 2,748
Insurance revenue	1,458	1,505	1,456	(49)	1,500	1,545	1,591
Other	253	77	787	710	302	307	314
Power tools	653	667	665	(2)	678	692	705
Manufacturing sales	791	736	660	(76)	673	687	700
Autopac rebate	377	385	370	(15)	377	385	393
Provincial support grant	132	133	127	(6)	129	132	135
Interest	11	-	20	20	-	-	-
	$ 6,140	**$ 5,825**	**$ 6,675**	**$ 850**	**$ 6,301**	**$ 6,442**	**$ 6,586**

THE CITY OF WINNIPEG
FLEET MANAGEMENT – SPECIAL OPERATING AGENCY

ASSUMPTIONS TO THE PROJECTED FINANCIAL STATEMENTS

For the three years ending December 31, 2010
(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, 2010.

Management's judgment has been used in the assumptions and the most probable set of economic conditions. 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 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.

For comparative purposes, 2006 Charges from City of Winnipeg – General Revenue Fund were restated to Transfer to City of Winnipeg – General Revenue Fund. The Agency's 2007 budget was approved by Council on March 21, 2007.

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 (MPI) rates, with a three percent increase per year on the April 1st renewal date, applying the Agency's insurance mark-up.

Other revenue in 2008 reflects the elimination of the 2007 MPI rebate one-time revenue recognition, and premium refund.

Fuel Sales

Fuel sales are based on two percent increases, with fuel costs based on the Agency's fuel revenue mark-up. Fuel costs are included in supplies expense.

Rental Income

External rental revenue is based on 2007 amounts with a five percent reduction per year. Internal rental revenue is based on 2007 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

Salaries and Benefits

Salaries and benefits are based on the estimated collective agreements for the proposed organization chart with 106 positions comprised of 1 WAPSO exempt, 29 WAPSO and 76 CUPE employees. Benefits are based on assumptions used in the PeopleSoft Budget System.

Services

Equipment rental costs are based on external rental revenue assumptions applying the Agency's mark-up.

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 and units used by the Agency.

Training and development is based on an increase of 27 percent in 2008 due to reorganization, a decrease of eight percent in 2009 and an increase of two percent in 2010.

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):

Capital Assets	2008	2009	2010
Buildings	3,707	2,585	118
Fleet Assets	16,080	10,903	10,515
Equipment	1,146	1,235	805
Total	**20,933**	**14,723**	**11,438**

Building acquisitions represent building improvements to existing property.

Fleet asset acquisitions assume replacement of units on a one for one basis, based on discussions with customers and 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 2007 amounts with a three percent increase per year.

Term Debt

The Agency may 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):

Term Debt	2008	2009	2010
Repayment of debt due to City	4,446	-	-
Fleet acquisitions	16,080	10,903	10,515
Total	**20,526**	**10,903**	**10,515**

Interest rates used for these projections are based on the Agency's long-term borrowing rates. Term debt repayment terms range from four to 12 years.

At January 1 2008, City of Winnipeg debt, net of 2008 repayment and excluding line of credit debt, will be converted to equity.

Debt to Worth Ratio

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

Debt to Worth (Equity)	2008	2009	2010
Ratio	**5.2**	**5.0**	**4.7**

Distributions from retained earnings beginning in 2009 and forward may occur when the debt to worth (equity) ratio is maintained at the industry average of 4.1 or better.