Agenda – Council – July 21, 2010

Report – Alternate Service Delivery Committee – July 12, 2010

Item No. 5 Winnipeg Fleet Management SOA - 2010 Business Plan (Selection Report) – Operating Charter Amendments
eFile GL-5.6.1

STANDING COMMITTEE RECOMMENDATION:

On July 14, 2010, the Executive Policy Committee concurred in the recommendation of the Alternate Service Delivery Committee and submits the following to Council:

1. That the Winnipeg Fleet Management Agency's 2010 Business Plan (Selection Report) including the 2010 budget be approved, and the 2011 and 2012 financial projections, as outlined in Attachment 1 to the report of the Winnipeg Public Service dated July 7, 2010, be received as information.

2. That additional long-term borrowing of up to $6.0 million in 2010, in accordance with subsection 215 (4) of The City of Winnipeg Charter with respect to Special Service Units, and authorization be given to the Winnipeg Fleet Management Agency SOA to finance a portion of its operations through external sources, including from the City's bank, or from any other persons or corporations, including the City of Winnipeg Sinking Fund Trustees, be approved.

3. That the elimination of the temporary increase in the Winnipeg Fleet Management Agency's line of credit with the City of Winnipeg of $37.0 million, returning to $20.0 million, to allow for bridge financing between the time when cash is needed and term financing is arranged, and that the $20.0 million line of credit is included in the total cumulative borrowing authorization, be approved.

4. That revisions to the Winnipeg Fleet Management Agency's Operating Charter as tabled in Appendix 2 of Attachment 1, to the report of the Winnipeg Public Service dated July 7, 2010, be approved.

5. That the Proper Officers of the City of Winnipeg be authorized to do all things necessary to implement the intent of the foregoing.

Pursuant to the provisions of the Operating Charters of the Special Operating Agencies, changes to the Agencies Operating Charters requires approval of two-thirds of the members present at Council.

Report – Alternate Service Delivery Committee – July 12, 2010

DECISION MAKING HISTORY:

EXECUTIVE COMMITTEE RECOMMENDATION:

On July 14, 2010, the Executive Policy Committee concurred in the recommendation of the Alternate Service Delivery Committee and submitted the matter to Council:

COMMITTEE RECOMMENDATION:

On July 12, 2010, the Alternate Service Delivery Committee concurred in the recommendation of the Winnipeg Public Service and forwarded to the Executive Policy Committee and Council.

ADMINISTRATIVE REPORT

ISSUE: 2010 Business Plan (Selection Report) – Winnipeg Fleet Management Agency (Special Operating Agency)

Critical Path: Alternate Service Delivery Committee - EPC - Council

AUTHORIZATION

Author	Department Head	CFO	CAO
C Turman	H Hajer	M Ruta	A Robinson, Acting CAO

RECOMMENDATIONS

It is recommended that:

1. Council approve the Winnipeg Fleet Management Agency's 2010 Business Plan (Selection Report) including the 2010 budget, and receive the 2011 and 2012 financial projections as information, included as Attachment 1.
2. Council approve additional long-term borrowing of up to $6.0 million in 2010, in accordance with subsection 215 (4) of the City of Winnipeg Charter with respect to Special Service Units, and authorization be given to the Winnipeg Fleet Management Agency (SOA) to finance a portion of its operations through external sources, including from the City's bank, or from any other persons or corporations, including the City of Winnipeg Sinking Fund Trustees.
3. Council approve the elimination of the temporary increase in the Winnipeg Fleet Management Agency's line of credit with the City of Winnipeg of $37.0 million, returning to $20.0 million, to allow for bridge financing between the time when cash is needed and term financing is arranged, and that the $20.0 million line of credit is included in the total cumulative borrowing authorization.
4. Council approve revisions to the Winnipeg Fleet Management Agency's Operating Charter as tabled in Appendix 2 of Attachment 1.
5. The proper officers of the City of Winnipeg be authorized to do all things necessary to implement the intent of the foregoing, including the execution of any documents related thereto.

KEY IMPLICATIONS OF THE RECOMMENDATIONS

Key implications:

- The Agency requires $6.0 million in borrowing authority to finance a portion of its operations.
- In order to bring The City into compliance with Provincial regulations for storing petroleum fuel, the Agency will continue with the construction of new fuel sites, and remediation and closure of old fuel sites for all City fuel locations except for two under the Transit Department's control.
- Environmental liability exposure to The City will be greatly reduced by decreasing the number of fuel locations and by installing leak detection systems into the underground storage tanks at new City fuel sites.
- The Agency will continue to work with Winnipeg Police Service and Winnipeg Fire Paramedic Service to standardize fleet management reporting.
- The Agency will consider the possibility of a joint effort with Transit for efficiencies in fuel site management, automatic car washes, vehicle maintenance, purchasing, and Green Fleet Plan, as with all City departments.
- To promote the joint efforts with Transit and Winnipeg Police Service, the Agency will be using The City's Green Fleet Plan initiative as a catalyst to improve communication between the two departments and the Agency.
- The Agency will consider establishing a presence at the City's East Yards or alternate location.
- The Agency has determined that its black box recorders which are part of the Agency's fuel management system are non-functioning, and will begin the reconciliation process with its vendors.
- The Agency will review its tire service, light fleet maintenance contract and car wash service taking into consideration the productivity cost of affected employee work time, to determine if in-house service is more cost-effective than the current outsourced service.
- The Agency will determine a policy for personal use of City owned vehicles, including duty supervisor call-out requirements.
- The Agency will participate in the consolidation with Corporate HR, and will hold discussions with Public Works, as the current Public Works HR services will no longer be required or funded by the Agency.
- The Agency will review whether or not operator training services will be included as a condition of the Agency's equipment tenders, to be performed by the successful bidder, and the Agency will hold discussions with Public Works, as the current Public Works operator training services will no longer be required or funded by the Agency.
- The Agency will use the Autopac rebate to fund its safety training and accident program, including monitoring accident data and Autopac repair charges to determine the optimum cost of repairs ratio in relation to insurance premiums, and lifecycle cost management decision making.
- The Agency will conduct a full review of its power tools service provided to Public Works including inventory controls, service repairs and delivery.
- The Agency's master lease agreement review will be completed and presented to the Board of Directors for approval.
- Revisions to the Agency's Operating Charter are tabled in Appendix 2 of the Business Plan. Pursuant to the provisions of the Operating Charters of the Special Operating

Agencies, changes to the Operating Charter require approval of two-thirds of the members present at Council.

- The Agency's audited 2008 Financial Statements and Notes are attached as Appendix 3, and the audited 2009 Financial Statements and Notes are attached as Appendix 4 of the 2010 Business Plan.

HISTORY

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.

On May 28, 2003, Winnipeg Fleet Management Agency received Council approval to operate as a Special Operating Agency of the City of Winnipeg, effective January 1, 2003.

FINANCIAL IMPACT

Financial Impact Statement **Date:** July 7, 2010

Project Name: **First Year of Program** **2010**

2010 Business Plan (Selection Report) - Winnipeg Fleet Management Agency

	2010	2011	2012	2013	2014
Capital					
Capital Expenditures Required	$ -	$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs	-	-	-	-	-
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
Debt - External	-	-	-	-	-
Grants (Enter Description Here)	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other - Enter Description Here	-	-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ -	$ -	$ -	$ -	$ -
Less: Incremental Revenue/Recovery	-	-	-	-	-
Net Cost/(Benefit)	$ -	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts	-	-	-	-	-
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments: See Attachment 1 - 2010 Business Plan (Selection Report), Appendix 1 for the 2010 to 2012 Projected Financial Statements and Notes

original signed by
C. Turman, CA
Supervisor of Finance

CONSULTATION

In preparing this Report there was consultation with:
Winnipeg Fleet Management Agency Board of Directors

SUBMITTED BY

Department: Winnipeg Fleet Management Agency (Special Operating Agency)
Division:
Prepared by: Cheryl Turman, CA
Date: July 7, 2010
File No.

ATTACHMENT 1

2010 BUSINESS PLAN (SELECTION REPORT) – WINNIPEG FLEET MANAGEMENT AGENCY (SPECIAL OPERATING AGENCY)



2010 WFMA Business Plan

WINNIPEG FLEET MANAGEMENT AGENCY (Special Operating Agency) 2010 BUSINESS PLAN (Selection Report)

In accordance with the Winnipeg Fleet Management Agency's Operating Charter, a Business Plan (Selection Report) is to be submitted to Council.

RECOMMENDATIONS

It is recommended that:

1. Council approve the Winnipeg Fleet Management Agency's 2010 Business Plan (Selection Report) including the 2010 budget, and receive the 2011 and 2012 financial projections as information, attached as Appendix 1.
2. Council approve additional long-term borrowing of up to $6.0 million in 2010, in accordance with subsection 215 (4) of the City of Winnipeg Charter with respect to Special Service Units, and authorization be given to the Winnipeg Fleet Management Agency (SOA) to finance a portion of its operations through external sources, including from the City's bank, or from any other persons or corporations, including the City of Winnipeg Sinking Fund Trustees.
3. Council approve the elimination of the temporary increase in the Winnipeg Fleet Management Agency's line of credit with the City of Winnipeg of $37.0 million, returning to $20.0 million, to allow for bridge financing between the time when cash is needed and term financing is arranged, and that the $20.0 million line of credit is included in the total cumulative borrowing authorization.
4. Council approve revisions to the Winnipeg Fleet Management Agency's Operating Charter as tabled in Appendix 2 of Attachment 1.
5. The proper officers of the City of Winnipeg be authorized to do all things necessary to implement the intent of the foregoing, including the execution of any documents related thereto.

KEY IMPLICATIONS OF THE RECOMMENDATIONS

Key implications:

- The Agency requires $6.0 million in borrowing authority to finance a portion of its operations.
- In order to bring The City into compliance with Provincial regulations for storing petroleum fuel, the Agency will continue with the construction of new fuel sites, and remediation and closure of old fuel sites for all City fuel locations except for two under the Transit Department's control.
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- The Agency will continue to work with Winnipeg Police Service and Winnipeg Fire Paramedic Service to standardize fleet management reporting.
- The Agency will consider the possibility of a joint effort with Transit for efficiencies in fuel site management, automatic car washes, vehicle maintenance, purchasing, and Green Fleet Plan, as with all City departments.
- To promote the joint efforts with Transit and Winnipeg Police Service, the Agency will be using The City's Green Fleet Plan initiative as a catalyst to improve communication between the two departments and the Agency.
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- The Agency will conduct a full review of its power tools service provided to Public Works including inventory controls, service repairs and delivery.
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- Revisions to the Agency's Operating Charter are tabled in Appendix 2 of the Business Plan. Pursuant to the provisions of the Operating Charters of the Special Operating Agencies, changes to the Operating Charter require approval of two-thirds of the members present at Council.
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HISTORY

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.

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- 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.

On May 28, 2003, Winnipeg Fleet Management Agency received Council approval to operate as a Special Operating Agency of the City of Winnipeg, effective January 1, 2003.

SERVICE OVERVIEW

Service Description

Agency services are provided to most City of Winnipeg departments including Community Services, Fire Paramedic Services, Planning, Property and Development, Winnipeg Police Service, Public Works, Assessment and Taxation, Corporate Support Services and Water and Waste, for direct service delivery to the Citizens of Winnipeg.

The Agency offers the following services:

- Vehicle, equipment and other asset lifecycle cost management
- Vehicle and equipment acquisition, leasing and disposal
- Fuel supply and management

- Vehicle and equipment repair and maintenance
- Vehicle and equipment insurance, licensing and registration
- Vehicle and equipment manufacturing and fabrication
- Safety training and fleet accident management
- Vehicle and equipment rentals

Key Goals

The Agency's goals are as follows:

1. Present planned and demanded vehicles and equipment to ensure City departments' operational performance requirements and safety legislative requirements are met.

2. Maintain fleet service centres which provide superior customer service and administrative support to The City's geographically dispersed and varying fleet, while ensuring reliability and safety.

3. Manage The City's fuel distribution system on a day to day and emergency basis, providing customers with a safe, dependable and convenient fuel supply, while ensuring compliance with legislation.

4. Encourage fleet greenhouse gas emission awareness through research, testing, and offering environmentally friendly vehicles and equipment, and alternative fuels.

5. Expand fleet management services to new customers within The City and offer services to external public sector markets.

Service Statistics

Description	2005	2006	2007	2008
Number of vehicle and equipment bid opportunities completed	55	89	87	84
Number of vehicle and equipment units acquired	175	148	171	252
Number of insurance and license registrations completed	1,642	1,620	1,598	1,589
Number of service repairs, by work order lines completed	37,765	36,901	40,689	43,147
Number of service labour hours completed	42,349	33,637	41,084	40,022
Number of parts transactions	31,748	26,119	31,810	34,251
Number of fuel fill-up transactions and odometer readings verified	109,536	99,208	105,089	109,832
Litres of unleaded gasoline, clear diesel, marked diesel and biodiesel provided	7,471,431	6,711,018	7,184,035	7,398,191
Number of vehicle and equipment motor pool rental days provided	n/a	76,676	72,550	67,284
Number of vehicle and equipment units disposed	185	150	174	148
Number of fleet units managed	1,584	1,530	1,564	1,668

1.1.1 STRATEGIC DIRECTION

The Agency's strategic direction, as set out by its Operating Charter, Selection Report (Business Plan summary) and Annual Report, places emphasis on managing for results, bottom-line accountability, cost-savings, customer satisfaction, and full disclosure.

Mission

To provide economical, state-of-the-art, safe and eco-friendly fleet vehicle, equipment and other asset management services to The City of Winnipeg and other public sector organizations, in support of their service delivery.

Vision

To become the best public sector fleet services provider in North America.

Values

Accountability
Commitment to Excellence
Fairness
Respect
Trust

Guiding Principles

- Quality service to City of Winnipeg and other public sector customers
- Safety for employees and customers of our fleet management services
- Financial accountability and sustainability

Link to Plan Winnipeg

Plan Winnipeg's vision of providing the Citizens of Winnipeg with affordable, responsive, and innovative public service, is linked to the Agency through the following:

- 2B-02 Commit to the Reduction of Greenhouse Gas Emissions
- 2B-03 Commit to Responsive Government
- 2B-04 Provide Sound Municipal Management
- 2B-05 Meet High Standards of Service Delivery

Policy Direction

Winnipeg Fleet Management Agency is a Special Operating Agency (SOA) of the City of Winnipeg, with its own Operating Charter approved by Council. The Agency abides by The City's collective agreements and by-laws. The Agency also follows provincial regulations such as the Environment Act, the Contaminated Sites Remediation Act, Workplace Safety and Health Act, the Employment Standards Code.

Key Factors Influencing Service Delivery

1.1.1.1.1

1. Best Business Practices
The Agency has been recognized as "a leader in the future of fleet operations throughout North America" by the American Public Works Association (APWA), and is APWA accredited.

2. Fuel Regulations
New fuel legislation prescribes upgrades or closures to all City fuel facilities.

3. Safety Regulations
The Health and Safety Act amended the criminal liability of organizations to make safety a priority.

4. Vehicle and Equipment Rentals
North American automakers have reduced sales to vehicle rental companies, resulting in increased rental prices and shortages in available rental units.

5. Labour Shortages
Nation-wide skilled labour shortages, particularly in certified heavy duty mechanics increased the challenge of staffing front-line positions within the Agency.

Summary of Goals and Strategies

1. Present planned and demanded vehicles and equipment to ensure City departments' operational performance requirements and safety legislative requirements are met:

- Evaluate vehicles and equipment and prepare specifications for quality units that accommodate customer requirements by involving customers in buying decisions
- Enhance lifecycle cost management analysis and replacement planning
- Develop sound and innovative contractual and partnering agreements including contracting for repeat purchases
- Provide and install fire equipment and safety kits according to safety legislation
- Provide accident reporting kits and implement an accident call centre system
- Evaluate an automated technology to assist with pre-trip and post-trip safety inspections and data reporting

2. Maintain fleet service centres which provide superior customer service and administrative support to the City's geographically dispersed and varying fleet, while ensuring reliability and safety:

- Enhance repair services through the implementation of state-of-the-art shop improvement initiatives
- Evaluate ways to standardize The City's fleet to reduce parts wait time
- Implement an improved shift schedule to increase shop productivity and enhance maintenance services
- Measure and evaluate customer surveys and comment cards to provide the Agency with a direct means to tailor services provided
- Maintain communications through regular customer meetings, customer bulletins, customer newsletter, satisfaction survey, and a customer website

3. Manage the City's fuel distribution system on a day to day and emergency basis, providing customers with a safe, cost-effective, dependable and convenient fuel supply, while ensuring compliance with legislation:

- Provide competitively priced re-fuelling for vehicles and equipment at fuel sites strategically located across The City
- Automate fuel service and ensure all fuel is managed by a single standard fuel reporting system
- Manage fuel station upgrade costs required under new fuel legislation, and eliminate a number of under-used fuel sites within The City
- Implement a fuel management system

4. Encourage fleet greenhouse gas emission awareness through research, education, testing, and offering environmentally friendly vehicles and equipment, and alternative fuels:

- Investigate and implement alternative fuel and advanced vehicle options while maintaining the operational integrity of the vehicles and equipment and their intended use
- Evaluate plug-in hybrid and electric vehicle opportunities
- Assist in the development and deployment of a city-wide Green Vehicle Plan aimed at reducing city-wide fuel use
- Evaluate technologies to reduce vehicle idling for City vehicles that require heating, cooling and battery power while at work sites

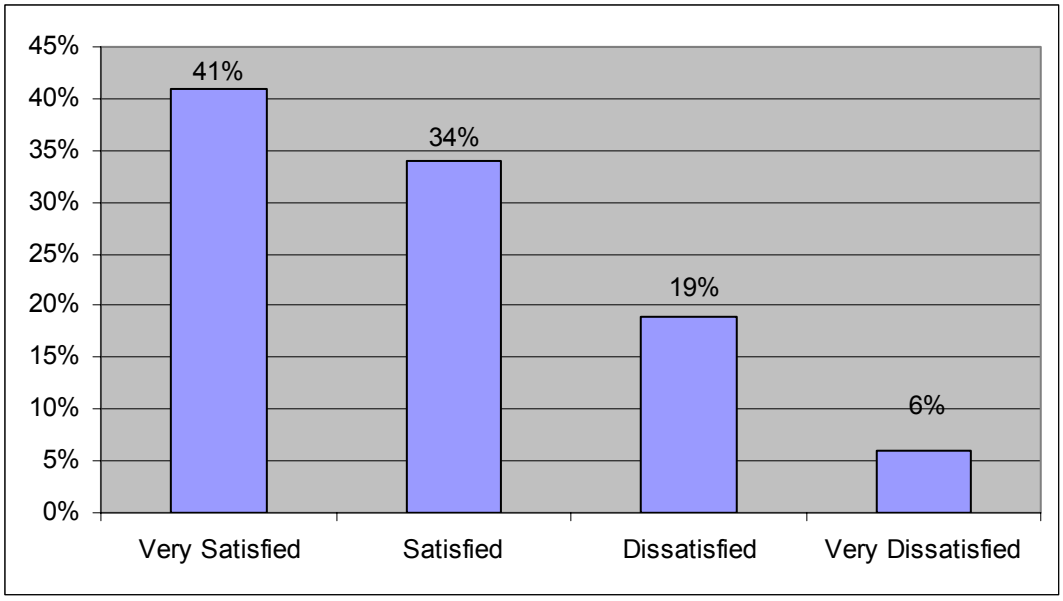
5. Expand fleet management services to new customers within the City and offer services to external public sector markets:

- Review possibilities for implementation of a fleet management system in Winnipeg Police Services and Winnipeg Transit, and to external public sector markets within the City.

1.1.2 PERFORMANCE INFORMATION

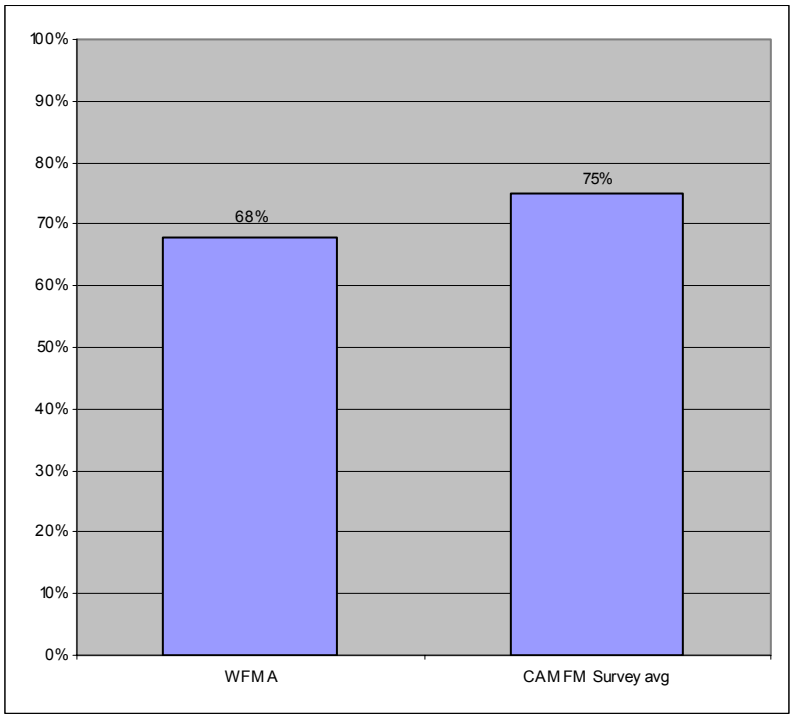
Effectiveness measurements are represented by customer satisfaction, and mechanic utilization/productivity. Efficiency measurements include shop rate and fuel efficiency comparisons.

Overall Customer Satisfaction



Winnipeg Fleet Management Agency conducted a customer survey in 2009, and 75% of the customers were satisfied or very satisfied with 2008 fleet management services.

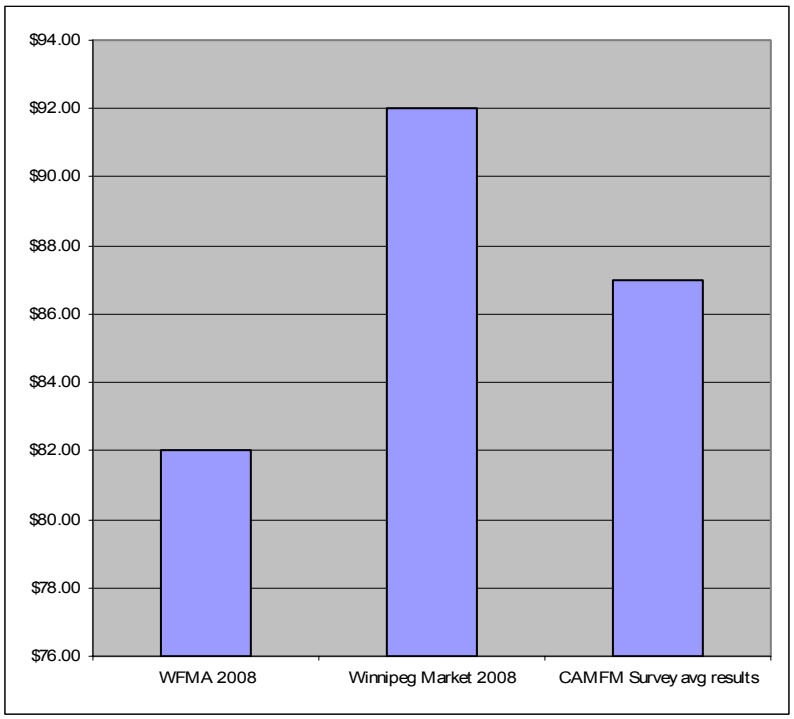
Mechanic Utilization/Productivity



The Agency's mechanic utilization is slightly lower than the Canadian Automotive Municipal Fleet Managers (CAMFM) survey average, as certain Agency practices including ordering parts after initial mechanic inspection as required, and capturing a significant level of work detail, are more time consuming as compared to other municipalities. In addition, there are physical restrictions to work flow and scheduling due to the Agency's aging repair facilities.

The Agency's mechanic utilization statistics are based on adjusted figures, calculated as total work order hours divided by adjusted hours. Adjusted hours include overall annual hours less holiday hours, sick hours, training hours and other hours. Canadian Automotive Municipal Fleet Managers Survey (CAMFM) average results are reported from a 2008 CAMFM survey.

Shop Rate Comparison

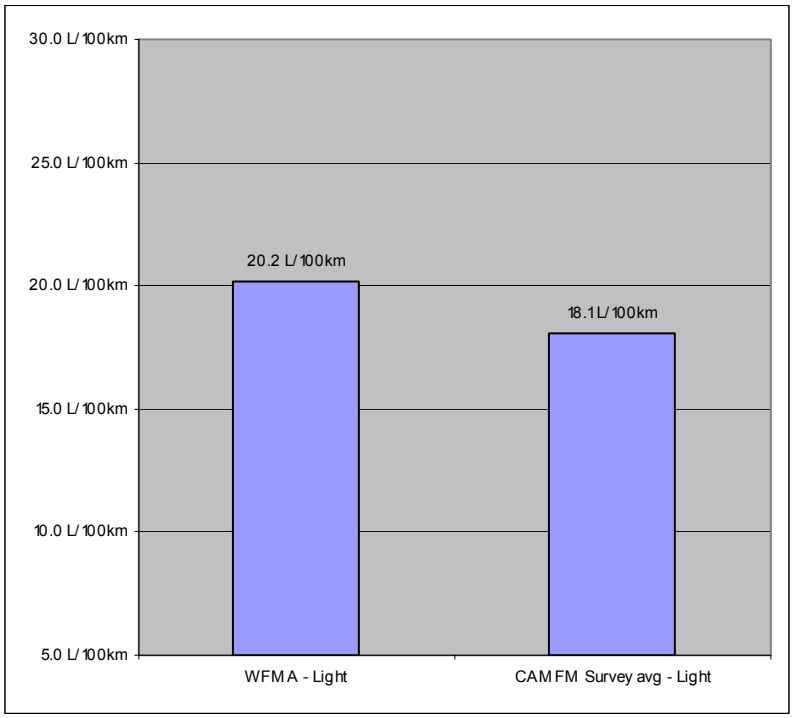


Winnipeg Market 2008 rates are reported and averaged on an annual basis from approximately 15 different local vendors. CAMFM survey average results are reported from a 2008 CAMFM survey.

Winnipeg Fleet Management Agency's shop labour rate trend:

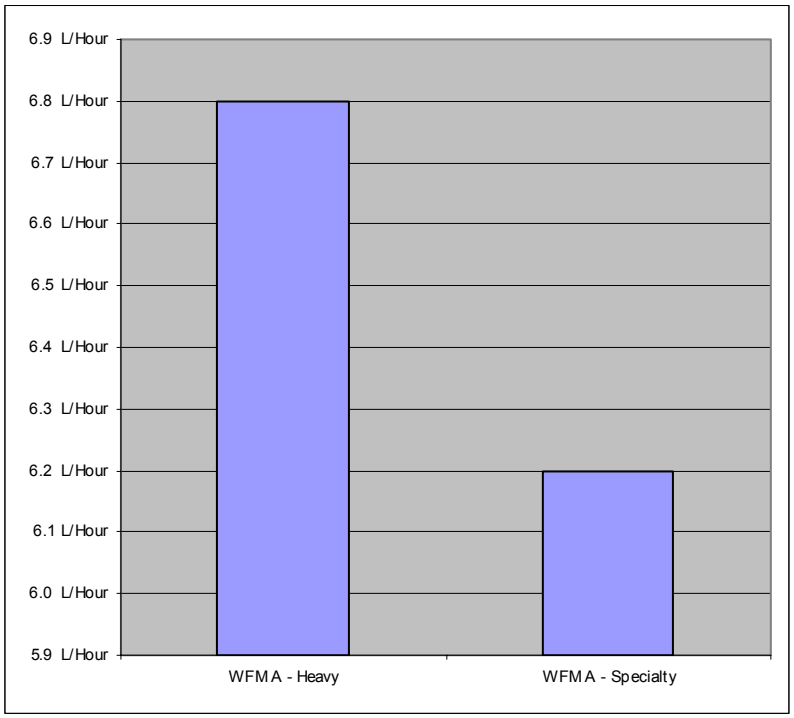
2004	2005	2006	2007	2008
$68.00	$73.00	$78.00	$80.00	$82.00

Fuel Efficiency by Category - Light Fleet per 100 Kilometres



Light fleet average fuel efficiency is based on data gathered from January 1, 2006 to December 31, 2008. CAMFM survey averages are based on a 2008 CAMFM survey of multiple cities in various geographical locations. The Agency was only able to compare light fleet units to the CAMFM survey, as the CAMFM survey publishes litres per 100 kilometres for its heavy and specialty equipment, while the Agency reports on hours per litre for its heavy and specialty equipment. The Agency will be implementing both measurement systems to compare its heavy and specialty equipment with other City fleets.

Fuel Efficiency by Category - Heavy and Specialty Fleet per Hour



Heavy and specialty fleet average fuel efficiency is based on data gathered from January 1, 2006 to December 31, 2008.

1.1.3 FINANCIAL INFORMATION

Financial Performance

See Appendix 1 for 2010 to 2012 Projected Financial Statements and Notes.

Assumptions to the Projected Financial Statements

For the three years ending December 31, 2012
(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, 2012.

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 forecast and 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.

The Agency's 2009 Business Plan (Selection Report) including budget was adopted by Council on March 25, 2009.

1.1.3.1.1.1.1.1 Revenue Assumptions

1.1.3.1.1.1.1.2

Fleet Leases

Fleet leases revenue is determined based on the number and types of units assigned to customers, and the Agency's May 2009 fleet replacement plan, along with projected changes to Winnipeg Fire Paramedic Service fleet replacements. 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 two percent increase per year on the April 1st renewal date, applying the Agency's insurance mark-up.

Other revenue reflects the elimination of the 2008 insurance premium refund of $112 thousand, and the 2008 extended hours' service agreement of $110 thousand.

1.1.3.1.1.1.1.3 Rental Income

External rental revenue is based on 2008 amounts with a two percent reduction per year applying the Agency's external rental mark-up.

Amortization of Deferred Revenue

1.1.3.1.1.1.1.4

1.1.3.1.1.1.1.5 ***Projections are based on 30 percent declining balance for the start-up fleet, and on lease terms****.*

1.1.3.1.1.1.1.6

1.1.3.1.1.1.1.7 Gain on Sale of Capital Assets

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

1.1.3.1.1.1.1.8

1.1.3.1.1.1.1.9 Expense Assumptions

1.1.3.1.1.1.1.10 Supplies

Parts supplies expense includes a two percent reduction for 2010 and 2011 due to planned outsourcing changes for light fleet maintenance, and changes to heavy and specialty fleet in-house maintenance.

Fuel supplies expense is based on the Agency's fuel revenue, applying the Agency's fuel mark-up.

1.1.3.1.1.1.1.11

1.1.3.1.1.1.1.12 Salaries and Benefits

Salaries and benefits are based on the estimated collective agreements for the proposed organization chart with 109 filled positions comprised of 1 WAPSO exempt, 28 WAPSO and 80 CUPE employees.

1.1.3.1.1.1.1.13 Services

Professional services expense is based on estimates for planned Agency projects, and agreements for operator training and human resource services.

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.

Vendor repairs expense includes a two percent reduction for 2010 and 2011 due to planned outsourcing changes for light fleet maintenance, and changes to heavy and specialty fleet in-house maintenance.

Long term lease costs are based on commitments.

External rental costs are based on a two percent reduction per year.

Training and development costs are based on estimates of future requirements.

1.1.3.1.1.1.1.14 Other

Waverly facility lease costs for office and garage space are based on information supplied by Civic Accommodations. Other facility lease costs of $200 thousand per year represent the all-inclusive costs of establishing a presence at the City's East Yards or alternate location starting in 2011.

Fuel site upgrade expense continues with $223 thousand projected for 2010 and $25 thousand projected for 2011.

Other expenses reflect the elimination of $100 thousand for the 2008 insurance rebate.

1.1.3.1.1.1.1.15 Interest

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

1.1.3.1.1.1.1.16 Asset and Liability Assumptions

Capital Assets

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

Capital Assets	2010	2011	2012
Fleet Assets	12,800	13,800	14,600
Equipment & Building	2,000	3,400	500
Total	**14,800**	**17,200**	**15,100**

Fleet asset acquisitions are based on the May 2009 fleet replacement plan, along with projected changes in Winnipeg Fire Paramedic Service fleet replacements. Replacements are on a one-for-one basis based on discussions with customers, and on lifecycle cost management principles. Additional fleet asset acquisitions for Winnipeg Police Services are estimated at $1,000 thousand, for units transitioning to the Agency and not yet included in replacement planning.

Equipment acquisitions include shop, office and computer equipment, power tools, fuel pumps and equipment, fuel management equipment, and building and leasehold improvements. Fuel site costs are projected at $664 thousand for 2010.

1.1.3.1.1.1.1.17 Vacation Payable

Vacation payable is based on 2008 amounts with a three percent increase per year.

1.1.3.1.1.1.1.18 Long-term Debt

Interest rates used in the projections are based on the Agency's estimated long-term borrowing rates. Existing debt repayment terms range from three to 12 years, and new debt repayment terms are to a maximum of 10 years, reflecting current market offerings.

Long-term debt balances as at December 31st is projected as follows (in thousands of dollars):

Long-term Debt	2010	2011	2012	2013	2014
Due to The City of Winnipeg	400	400	400	400	400
External debt:					
Opening balance	54,200	60,800	64,900	64,600	60,200
New term debt	16,300	13,400	10,200	7,800	10,500
Less term debt repayment	(9,700)	(9,300)	(10,500)	(12,200)	(13,300)
Total external debt	60,800	64,900	64,600	60,200	57,400

Total Long-term Debt	**61,200**	**65,300**	**65,000**	**60,600**	**57,800**

The Due to The City of Winnipeg debt represents funds held by the Agency on behalf of departments for their future communication equipment purchases.

External debt is projected to increase annually with a maximum balance of $65,300 thousand at December 31st 2011.

Outstanding borrowing authority is projected as follows (in thousands of dollars):

Outstanding Borrowing Authority	**2010**	**2011**	**2012**	**2013**	**2014**
Opening balance	16,400	6,100	4,700	4,500	4,500
New borrowing authority request	6,000	12,000	10,000	7,800	10,500
Less new term debt	(16,300)	(13,400)	(10,200)	(7,800)	(10,500)
Outstanding Borrowing Authority	**6,100**	**4,700**	**4,500**	**4,500**	**4,500**

The balance of the outstanding borrowing authority is based on the Agency's requirements for unpredictable fleet acquisitions for changing department needs, conversion of external rentals, green fleet plan decisions, and changing lifecycle cost management decisions.

The Long-term Debt and the Outstanding Borrowing Authority tables above reflect actual 2010 opening balances, and revisions to term debt borrowing and repayments due to timing changes for the receipt and payment of new fleet units carried-forward from 2009 to 2010, along with projected changes in Winnipeg Fire Paramedic Service fleet replacements.

Debt/worth ratio is projected as follows:

Debt/Worth	**2010**	**2011**	**2012**	**2013**	**2014**
Ratio	4.2	4.3	4.3	4.2	4.1

APPENDIX 1 – PROJECTED FINANCIAL STATEMENTS AND NOTES 2010 - 2012



2010-2012 Projected
Statements & Notes

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

PROJECTED STATEMENT OF FINANCIAL POSITION

As at December 31
(in thousands of dollars)

	Actual 2008	Budget 2009	Actual 2009	Variance 2009	2010	2011	2012
ASSETS							
Current							
Due from (to) City - General Revenue Fund (Note 5)	$ (19,741)	$ (262)	$ 1,824	$ 2,086	$ 1,550	$ 2,031	$ 840
Accounts receivables	282	143	216	73	142	146	149
Inventory	1,736	1,675	2,164	489	1,709	1,743	1,778
Prepaid expenses	245	196	415	219	196	200	204
	(17,478)	1,752	4,619	2,867	3,597	4,120	2,971
Capital assets (Note 6)	63,914	64,358	69,965	5,607	76,584	80,298	81,147
	$ 46,436	$ 66,110	$ 74,584	$ 8,474	$ 80,181	$ 84,418	$ 84,118
LIABILITIES							
Current							
Accounts payable and accrued liabilities	$ 2,535	$ 489	$ 2,375	$ 1,886	$ 489	$ 490	$ 490
Vacation payable	542	608	564	(44)	608	625	645
Current portion of long-term debt (Note 7)	3,403	5,097	7,108	2,011	7,076	8,771	9,884
	6,480	6,194	10,047	3,853	8,173	9,886	11,019
Term debt (Note 7)	23,975	46,459	47,519	1,060	54,123	56,487	55,090
Deferred revenue	1,292	969	716	(253)	1,125	931	818
Retirement allowance (Note 8a)	572	633	596	(37)	633	632	631
Environmental liability (Note 9)	420	420	420	-	420	420	420
Asset retirement obligations (Note 2)	182	196	175	(21)	192	198	204
	26,441	48,677	49,426	749	56,493	58,668	57,163
	32,921	54,871	59,473	4,602	64,666	68,554	68,182
Commitments (Note 10)							
SURPLUS							
Contributed surplus (Note 11)	11,425	11,425	11,425	-	11,425	11,425	11,425
Retained earnings	2,090	(186)	3,686	3,872	4,090	4,439	$ 4,511
	13,515	11,239	15,111	3,872	15,515	15,864	15,936
	$ 46,436	$ 66,110	$ 74,584	$ 8,474	$ 80,181	$ 84,418	$ 84,118

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)

	Actual 2008	Budget 2009	Actual 2009	Variance 2009	2010	2011	2012
REVENUES							
Fleet leases	$ 17,954	$ 21,391	$ 21,167	$ (224)	$ 24,095	$ 25,051	$ 25,640
Fuel sales	8,276	8,640	6,413	(2,227)	8,610	8,783	8,958
Services and parts revenue (Schedule 1)	7,371	8,062	7,894	(168)	7,478	7,630	7,785
Rental income	2,507	2,517	2,861	344	2,432	2,409	2,387
Amortization of deferred revenue	540	387	328	(59)	230	161	113
Gain on sale of capital assets	736	100	709	609	100	100	100
Total Revenues	37,384	41,097	39,372	(1,725)	42,945	44,134	44,983
EXPENSES							
Amortization	6,979	9,018	8,982	(36)	11,563	12,440	13,175
Supplies	10,029	10,865	8,616	(2,249)	10,481	10,604	10,817
Services	9,155	9,256	10,176	920	8,650	8,473	8,575
Salaries and employee benefits	7,374	7,774	7,773	(1)	7,990	8,194	8,430
Interest (Note 7)	1,468	2,388	1,500	(888)	3,171	3,379	3,210
Other	771	1,198	729	(469)	686	695	704
Total Expenses	35,776	40,499	37,776	(2,723)	42,541	43,785	44,911
Net income from operations	1,608	598	1,596	998	404	349	72
Loss on sale of land and buildings	-	(2,390)	-	2,390	-	-	-
Net income (loss) for the year	1,608	(1,792)	1,596	3,388	404	349	72
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	3,602	1,606	2,090	484	3,686	4,090	4,439
Transfer to City of Winnipeg - General Revenue Fund	3,120	-	-	-	-	-	-
RETAINED EARNINGS (DEFICIT), END OF YEAR	$ 2,090	$ (186)	$ 3,686	$ 3,872	$ 4,090	$ 4,439	$ 4,511

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:	Actual 2008	Budget 2009	Actual 2009	Variance 2009	2010	2011	2012
OPERATING							
Net income (loss) for the year	$ 1,608	$ (1,792)	$ 1,596	$ 3,388	$ 404	$ 349	$ 72
Non-cash items related to operations							
Amortization	6,979	9,018	8,982	(36)	11,563	12,440	13,175
Amortization of deferred revenue	(540)	(387)	(328)	59	(230)	(161)	(113)
Gain/loss on sale of capital assets	(736)	2,290	(709)	(2,999)	(100)	(100)	(100)
Retirement allowance	(61)	(3)	24	27	(3)	(1)	(1)
Accretion expense	6	10	8	(2)	6	6	6
Working capital from operations	7,256	9,136	9,573	437	11,640	12,533	13,039
Net change in working capital	1,341	(75)	(933)	(858)	(77)	(57)	(22)
	8,597	9,061	8,640	(421)	11,563	12,476	13,017
FINANCING							
Decrease (Increase) in Due from City - General Revenue Fund	20,030	(422)	(21,565)	(21,143)	(4,509)	(481)	1,191
Proceeds from term loans	-	13,900	30,600	16,700	16,300	13,430	10,200
Repayment of term loans	(2,883)	(5,097)	(3,348)	1,749	(9,727)	(9,371)	(10,484)
Repayment of debt - City of Winnipeg	(110)	-	(3)	(3)	-	-	-
Transfer to City of Winnipeg - General Revenue Fund	(3,120)	-	-	-	-	-	-
	13,917	8,381	5,684	(2,697)	2,064	3,578	907
INVESTING							
Purchase of capital assets	(23,579)	(18,292)	(15,370)	2,922	(13,727)	(16,154)	(14,024)
Proceeds from sale of capital assets	1,065	850	1,046	196	100	100	100
	(22,514)	(17,442)	(14,324)	3,118	(13,627)	(16,054)	(13,924)
CASH POSITION, END OF YEAR	$ -	$ -	$ -	$ -	$ -	$ -	$ -

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

NOTES TO THE PROJECTED FINANCIAL STATEMENTS

For the three years ending December 31, 2012
(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 economical, state-of-the-art, safe and eco-friendly fleet vehicle, equipment and other asset management services to The City of Winnipeg and other public sector organizations, in support of their service delivery.

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.

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.

2. *Summary of Significant Accounting Policies (continued)*

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.

Asset retirement obligations

Asset retirement obligations are measured initially at fair value in the period in which the obligations are incurred, provided that a reasonable estimate of the fair value can be made. The retirement cost is added to the carrying amount of the related asset. In subsequent periods, the retirement cost is amortized over the useful life of the asset and the carrying value of the liability is increased to recognize increases in the liability's present value with the passage of time.

Future accounting policy changes

The Canadian Institute of Chartered Accountants ("CICA") has issued two new standards, CICA 3862, Financial Instruments - Disclosures and CICA 3863, Financial Instruments - Presentation, which enhance the abilities of users of financial statements to evaluate the significance of financial instruments to an entity, related exposures and management of these risks.

The CICA has also issued a new accounting standard, CICA 1535, Capital Disclosures, which requires the disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and procedures for managing capital.

These changes in accounting policies, which will be adopted effective January 1, 2008, will only require additional disclosures in the financial statements.

3. *Changes in Accounting Policies*

On January 1, 2007, the Agency retroactively adopted, without restatement of prior periods, the CICA Handbook Sections 3855, Financial Instruments - Recognition and Measurement; Section 3861, Financial Instruments - Disclosure and Presentation; and Section 1530 Comprehensive Income.

According to Section 3855, all financial instruments are classified into one of the following five categories: held-for-trading, loans and receivables, held-to-maturity, available-for-sale or other liabilities. Initial measurement of financial instruments is at fair value; subsequent measurement and recognition of changes in fair value of financial instruments depends on their initial classification. The Agency's due from The City of Winnipeg - General Revenue Fund and accounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities, vacation payable and long-term debt have been classified as other liabilities. Financial assets and liabilities classified as loans and receivables and other liabilities are measured at amortized cost. The Agency will recognize changes in the fair value of loans and receivables only if realized, or impairment in the value of an asset occurs. The Agency has not classified any financial instrument as held-for-trading, held-to-maturity or available-for-sale. The adoption of the new standard had no impact on the Agency's financial position or on the results of its operations.

3. *Changes in Accounting Policies (continued)*

Section 1530 provides guidance on the reporting and presentation of comprehensive income. Comprehensive income is the change in the retained earnings of the Agency during a period from transactions and other events and circumstances from sources other than from the City. It includes all changes in retained earnings during a period except those resulting from investments by the City and distributions to the City. Other comprehensive income comprises revenues, expenses, gains and losses that, in accordance with primary sources of GAAP, are recognized in comprehensive income, but are excluded from net income. The adoption of this standard had no impact on the Agency's retained earnings.

Effective January 1, 2007, the Agency also adopted CICA Section 1506, Accounting Changes. The new standard allows for voluntary changes in an accounting policy only when the changes result in the financial statements providing reliable and more relevant information, requires a change in accounting policy to be applied retroactively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. It includes the disclosure, on an annual basis, of a description and the impact on the Agency's financial results of any new primary source of GAAP that has been issued but is not yet effective. The adoption of the new standard did not have an impact on the Agency's financial position or on the results of its operations.

4. *Financial Instruments*

It is management's opinion that the Agency is not exposed to significant interest, currency or credit risks arising from its financial instruments. The book value of the Agency's financial assets and liabilities approximates their fair value.

5. *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 $20,000 thousand for short-term financing, from The City of Winnipeg.

6. *Capital Assets*

	Net Book Value			
	Actual 2009	2010	2011	2012
Land	$ 390	$ 390	$ 390	$ 390
Building	2,827	3,310	5,901	5,923
Fleet assets				
Acquired at start-up	687	538	376	263
Fleet purchased	63,185	67,247	68,649	70,038
Equipment	2,876	5,099	4,982	4,533
	$ 69,965	$ 76,584	$ 80,298	$ 81,147

7. *Debt*

	Actual 2009	2010	2011	2012
Long-term debt (see below a)	$ 54,627	$ 61,199	$ 65,258	$ 64,974
Current portion of long-term debt	(7,108)	(7,076)	(8,771)	(9,884)
	$ 47,519	$ 68,275	$ 74,029	$ 55,090

a) The Agency has credit facilities by way of series of term loans.
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.

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. The balance was converted to contributed surplus at January 1, 2008.

8. *Employee Benefits*

a) Retirement allowance

	Actual 2009	2010	2011	2012
	$ 596	$ 633	$ 632	$ 631

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. An actuarial valuation report of the obligation was prepared effective December 31, 2005. The results of this valuation were extrapolated to December 31, 2008.

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, 2007 and indicates an actuarial surplus.

9. *Environmental Liability*

The Agency has included an estimate in the amount of $420 thousand for the cost to remediate its fuel site.

10. Commitments

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

	Actual 2009	2010	2011	2012
Lease payments	$ 906	$ 672	$ 692	$ 706

11. Contributed Surplus

At January 1 2008, the long-term debt due to The City of Winnipeg balance of $11,035 thousand was converted to contributed surplus.

12. 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 occur 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.

	Actual 2009	2010	2011	2012
a) Sales of goods and services to the City	$ 36,374	$ 41,446	$ 43,408	$ 44,618
b) Civic Accommodations Fund - Rental of space	$ 206	$ 218	$ 411	$ 411
c) Public Works Dept - Human resource services	$ 94	$ 94	$ -	$ -
c) Corp Support Services - Human resource services	$ -	$ -	$ 94	$ 94
d) Building Services Fund - Accident Reporting	$ 5	$ 5	$ 5	$ 5
e) Public Works Dept - Operator training service	$ 624	$ 636	$ 649	$ 662
f) Corporate Support Services - BTS	$ 75	$ 75	$ 75	$ 75

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 2008	Budget 2009	Actual 2009	Variance 2009	2010	2011	2012
Consumables and corrective maintenance	$ 3,840	$ 4,834	$ 4,448	$ (386)	$ 3,996	$ 4,076	$ 4,157
Insurance revenue	1,553	1,547	1,478	(69)	1,698	1,734	1,771
Power tools	672	699	693	(6)	713	727	742
Manufacturing sales	435	381	423	42	453	462	471
Autopac rebate	381	388	406	18	395	404	412
Provincial support grant	130	133	142	9	136	138	141
Other	353	74	304	230	87	89	91
Interest	7	6	-	(6)	-	-	-
	$ 7,371	**$ 8,062**	**$ 7,894**	**$ (168)**	**$ 7,478**	**$ 7,630**	**$ 7,785**

APPENDIX 2 – OPERATING CHARTER REVISIONS

Recommended Changes to Delegations and Exemptions

The following table illustrates delegations under Administrative Standard No. FM-002 Materials Management Policy, Appendix 7 Contract Over-Expenditures, and the corresponding recommended Agency Operating Charter delegations, with respect to the Materials Management Policy. Pursuant to section B4.3 of Administrative Standard No FM-002, the Chief Operating Officers of the City's Special Operating Agencies have specified award authority as set out in their Operating Charters.

ADMINISTRATIVE STANDARD FM-002, MATERIALS MANAGEMENT POLICY, APPENDIX 7 CONTRACT OVER-EXPENDITURES	RECOMMENDED WINNIPEG FLEET MANAGEMENT AGENCY OPERATING CHARTER DELEGATIONS
2. The Chief Financial Officer hereby delegates to the Department Heads his/her delegated authority under Appendix 7 of the Directive where: a) the accumulated Amount of the contract, including over-expenditures, does not result in a revised total contract price exceeding five thousand dollars ($5,000); or b) the accumulated Amount of the contract for Consultant Services awarded pursuant to B1.2, including the over-expenditures, does not result in a revised total contract price exceeding one hundred thousand dollars ($100,000); and c) providing monies are available within the applicable capital or operating budget as approved by Council.	2. The Chief Financial Officer hereby delegates to the ***Chief Operating Officer of Winnipeg Fleet Management Agency*** his/her delegated authority under Appendix 7 of the Directive where: a) the accumulated Amount of the contract, including over-expenditures, does not result in a revised total contract price exceeding five thousand dollars ($5,000); or b) the accumulated Amount of the contract for Consultant Services awarded pursuant to B1.2, including the over-expenditures, does not result in a revised total contract price exceeding one hundred thousand dollars ($100,000); and c) providing monies are available within the applicable capital or operating budget as approved by Council.
3. The Chief Financial Officer hereby delegates to the Department Heads of Planning, Property and Development, Public Works, and Transit, his/her delegated authority under Appendix 7 of the Directive where: a) the accumulated Amount of the contract, including the over-expenditures, does not result in a revised total contract price exceeding one hundred thousand dollars ($100,000); or	3. The Chief Financial Officer hereby delegates to the ***Chief Operating Officer of Winnipeg Fleet Management Agency***, his/her delegated authority under Appendix 7 of the Directive**, with the exception of sole source contracts,** where: a) the accumulated Amount of the contract, including the over-expenditures, does not result in a revised total contract price exceeding one hundred thousand dollars ($100,000); or

ADMINISTRATIVE STANDARD FM-002, MATERIALS MANAGEMENT POLICY, APPENDIX 7 CONTRACT OVER-EXPENDITURES	RECOMMENDED WINNIPEG FLEET MANAGEMENT AGENCY OPERATING CHARTER DELEGATIONS
b) the contract value is more than one hundred thousand dollars ($100,000), the accumulated Amount of the over-expenditures does not exceed 20% of the original contract value, to a maximum of two hundred and fifty thousand dollars ($250,000); and c) providing monies are available within the applicable capital or operating budget as approved by Council. 5. The Chief Financial Officer hereby delegates to the Manager of Materials his/her delegated authority under Appendix 7 of the Directive for all departments except Planning, Property and Development, Public Works, Transit, and Water and Waste where: a) the accumulated Amount of the contract, including the over-expenditures, does not result in a revised total contract price exceeding one hundred thousand dollars ($100,000); and b) providing monies are available within the applicable capital or operating budget as approved by Council. 6. The Department Heads of Public Works and Water and Waste may, in writing, further delegate their authority under Appendix 7 to their Managers of Engineering. **Report on Contract Over-Expenditures:** 8. Department Heads shall, on request of the Chief Financial Officer, submit a report detailing use of the authority exercised pursuant to Appendix 7.	b) the contract value is more than one hundred thousand dollars ($100,000), the accumulated Amount of the over-expenditures does not exceed 20% of the original contract value, to a maximum of two hundred and fifty thousand dollars ($250,000); and c) providing monies are available within the applicable capital or operating budget as approved by Council. 5. The Chief Financial Officer hereby delegates to the Manager of Materials his/her delegated authority under Appendix 7 of the Directive for all departments except Planning, Property and Development, Public Works, Transit, Water and Waste, ***and the Winnipeg Fleet Management Agency*** where: a) the accumulated Amount of the contract, including the over-expenditures, does not result in a revised total contract price exceeding one hundred thousand dollars ($100,000); and b) providing monies are available within the applicable capital or operating budget as approved by Council. 6. The ***Chief Operating Officer of Winnipeg Fleet Management Agency*** may, in writing, further delegate their authority under Appendix 7 to ***his designates.*** **Report on Contract Over-Expenditures:** 8. The ***Chief Operating Officer of Winnipeg Fleet Management Agency*** shall, on request of the Chief Financial Officer, submit a report detailing use of the authority exercised pursuant to Appendix 7.

ADMINISTRATIVE STANDARD FM-002, MATERIALS MANAGEMENT POLICY, APPENDIX 7 CONTRACT OVER-EXPENDITURES	RECOMMENDED WINNIPEG FLEET MANAGEMENT AGENCY OPERATING CHARTER DELEGATIONS
9. Those who are delegated this authority by the Department Heads Public Works and Water and Waste shall submit a report to their Department Head, at least annually, detailing use of the authority exercised pursuant to Appendix 7.	9. Those who are delegated this authority by the ***Chief Operating Officer of Winnipeg Fleet Management Agency*** shall submit a report to the ***Chief Operating Officer***, at least annually, detailing use of the authority exercised pursuant to Appendix 7.

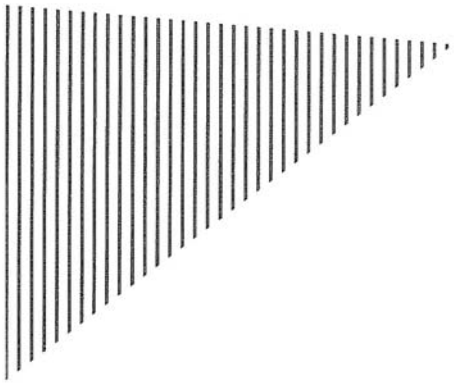
APPENDIX 3 – 2008 AUDITORS' REPORT, FINANCIAL STATEMENTS AND NOTES



2008 Auditors'
Report & Statements

Financial Statements

The City of Winnipeg
Fleet Management – Special Operating Agency
December 31, 2008



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Quality In Everything We Do

AUDITORS' REPORT

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

We have audited the statement of financial position of **The City of Winnipeg Fleet Management - Special Operating Agency** as at December 31, 2008 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Winnipeg, Canada,
April 24, 2009.

Chartered Accountants

ERNST & YOUNG
A member firm of Ernst & Young Global Limited

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

STATEMENT OF FINANCIAL POSITION

As at December 31
(in thousands of dollars)

	2008	2007
ASSETS		
Current		
Due from The City of Winnipeg - General Revenue Fund (Note 6)	$ -	$ 289
Accounts receivable	282	149
Inventory (Note 7)	1,736	1,511
Prepaid expenses	245	243
	2,263	2,192
Capital assets (Note 8)	63,914	47,643
	$ 66,177	$ 49,835
LIABILITIES		
Current		
Due to The City of Winnipeg - General Revenue Fund (Note 6)	$ 19,741	$ -
Accounts payable and accrued liabilities	2,535	482
Vacation payable	542	591
Current portion of long-term debt (Note 9)	3,403	14,406
	26,221	15,479
Long-term debt (Note 9)	23,975	27,000
Deferred revenue	1,292	2,135
Retirement allowance (Note 10a)	572	633
Environmental liability (Note 11)	420	420
Asset retirement obligations (Note 12)	182	176
	26,441	30,364
	52,662	45,843
Commitments (Note 13)		
SURPLUS		
Contributed surplus (Note 14e)	11,425	390
Retained earnings	2,090	3,602
	13,515	3,992
	$ 66,177	$ 49,835

See accompanying notes and schedule to the financial statements

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

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

	2008	2007
REVENUES		
Fleet leases	**$ 17,954**	$ 15,475
Fuel sales	**8,276**	6,542
Services and parts revenue (Schedule 1)	**7,371**	7,308
Rental income	**2,507**	2,715
Gain on sale of capital assets	**736**	465
Amortization of deferred revenue	**540**	870
Total Revenues	**37,384**	33,375
EXPENSES		
Supplies	**10,029**	8,076
Services	**9,155**	8,216
Salaries and employee benefits	**7,374**	7,012
Amortization (Note 15)	**6,979**	6,500
Interest (Note 9)		
Short-term	**105**	72
Long-term	**1,363**	802
Other	**771**	552
Total Expenses	**35,776**	31,230
Net income and comprehensive income for the year	**1,608**	2,145
RETAINED EARNINGS, BEGINNING OF YEAR	**3,602**	2,951
Transfer to The City of Winnipeg - General Revenue Fund (Note 14g)	**(3,120)**	(1,494)
RETAINED EARNINGS, END OF YEAR	**$ 2,090**	$ 3,602

See accompanying notes and schedule to the financial statements

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

STATEMENT OF CASH FLOWS

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

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

	2008	2007
OPERATING		
Net income for the year	**$ 1,608**	$ 2,145
Non-cash items related to operations		
Amortization	**6,979**	6,500
Amortization of deferred revenue	**(540)**	(870)
Gain on sale of capital assets	**(736)**	(465)
Retirement allowance	**(61)**	(22)
Accretion expense	**6**	7
Working capital from operations	**7,256**	7,295
Net change in working capital	**1,341**	(462)
	8,597	6,833
FINANCING		
Increase in Due to/from The City of Winnipeg - General Revenue Fund	**20,030**	2,103
Proceeds from term loans	**-**	13,500
Repayment of term loans	**(2,883)**	(1,316)
Repayment of debt - The City of Winnipeg	**(110)**	(5,165)
Transfer to The City of Winnipeg - General Revenue Fund	**(3,120)**	(1,494)
	13,917	7,628
INVESTING		
Purchase of capital assets	**(23,579)**	(15,429)
Decrease in loan receivable	**-**	87
Proceeds from sale of capital assets	**1,065**	880
	(22,514)	(14,462)
Increase (decrease) in cash	**-**	(1)
CASH, BEGINNING OF YEAR	**-**	1
CASH, END OF YEAR	**$ -**	$ -

See accompanying notes and schedule to the financial statements

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008
(all tabular amounts are in thousands of dollars, unless otherwise noted)

1. *Commencement of Operations*

On May 28, 2003, City 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 (the "Agency") effective January 1, 2003.

The Agency provides economical, state-of-the-art, safe and eco-friendly fleet vehicle, equipment and other asset management services to The City of Winnipeg and other public sector organizations, in support of their service delivery.

2. *Significant Accounting Policies*

The financial statements have been prepared on the basis of Canadian generally accepted accounting principles and include the following significant accounting policies:

Estimates

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

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 Assessment and Taxation Department.

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

Buildings	4% to 8%	Straight-line
Fleet assets		
Acquired at start-up	30%	Declining balance
Purchased	Lease term	Straight-line
Equipment	3% to 30%	Straight-line

Amortization begins once an asset is placed into service.

2. *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 services are performed.

Asset retirement obligations

Asset retirement obligations are measured initially at fair value in the period in which the obligations are incurred, provided that a reasonable estimate of the fair value can be made. The retirement cost is added to the carrying amount of the related asset. In subsequent periods, the retirement cost is amortized over the useful life of the asset and the carrying value of the liability is increased to recognize increases in the liability's present value with the passage of time.

3. *Changes in Accounting Policies*

On January 1, 2008, the Agency retroactively adopted, without restatement of prior periods, the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 3862, Financial Instruments – Disclosures; 3863, Financial Instruments – Presentation; and 1535, Capital Disclosures. The Agency has also adopted CICA Handbook Section 3031, Inventory.

The adoption of Sections 3862, Financial Instruments – Disclosures and 3863, Financial Instruments – Presentation is designed to enable users of financial statements to evaluate the significance of financial instruments to an entity's financial position, performance and cash flows, as well as the nature and extent of risks arising from financial instruments to which an entity is exposed and how those risks are managed.

Section 1535, Capital Disclosures, requires entities to disclose qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and procedures for managing its capital.

Section 3031, Inventories, provides guidance on measurement and disclosure requirements for inventories.

The adoption of these new recommendations had no impact on the Agency's financial statements.

4. *Financial Instruments*

The Agency's financial assets and liabilities are comprised of accounts receivable, due to The City of Winnipeg - General Revenue Fund, accounts payable and accrued liabilities, vacation payable and long-term debt. The Agency is exposed to financial risks arising from its financial assets and liabilities.

4. *Financial Instruments (continued)*

Financial instruments are classified into one of the following five categories: held-for-trading, loans and receivables, held-to-maturity, available-for-sale or other liabilities. Initial measurement of financial instruments is at fair value; subsequent measurement and recognition of changes in fair value of financial instruments depends on their initial classification. The Agency's accounts receivable are classified as loans and receivables. Due to The City of Winnipeg - General Revenue Fund, accounts payable and accrued liabilities, vacation payable and long-term debt have been classified as other liabilities.

Financial assets and liabilities classified as loans and receivables and other liabilities are measured at amortized cost. The Agency will recognize changes in the fair value of loans and receivables only if realized, or impairment in the value of an asset occurs. The Agency has not classified any financial instrument as held-for-trading, held-to-maturity or available-for-sale. The book value of the Agency's financial assets and liabilities approximates their fair value.

Credit Risk

Credit risk is the risk a customer will fail to perform an obligation or fail to pay amounts due causing a financial loss to the Agency. The financial instrument affected the most by credit risk are accounts receivable.

The Agency does not have significant exposure to credit risk given it does not have a significant amount of accounts receivable. A reasonable allowance for noncollectible amounts is established, which is netted against accounts receivable on the Statement of Financial Position. The Agency does not hold collateral as security for these balances.

Liquidity Risk

Liquidity risk is the risk the Agency will encounter difficulty in meeting obligations associated with financial liabilities. Due to the Agency's relationship with The City of Winnipeg, it can rely upon sufficient financial resources from that source in the event internally generated cash flows or cash flows accessible through external sources are insufficient. Amounts due to The City of Winnipeg - General Revenue Fund are treated as subordinate to other obligations and have no fixed terms of repayment. The Agency's most recent business plan indicates that cash resources will be sufficient to meet its obligations.

Market Risk

Market risk is the risk the Agency is exposed to concerning the fair value of future cash flows of a financial instrument fluctuating because of changes in market price. For the Agency, the most significant aspect of market risk would be interest rate risk. Financial instruments affected the most by interest rate risk are long-term debt and due to The City of Winnipeg - General Revenue Fund.

As the Agency's long-term debt is comprised entirely of fixed rate instruments, the Agency is not exposed to this risk. The Agency's due to The City of Winnipeg - General Revenue Fund is subject to floating interest rates and is used for short term financing, which limits the Agency's exposure to this risk.

5. *Capital Management*

On January 1, 2008, the Agency adopted the CICA Handbook Section 1535, Capital Disclosures, which requires entities to disclose qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and procedures for managing its capital. There is no financial impact to previously reported financial statements as a result of the implementation of this new accounting standard.

The Agency does not have any externally imposed capital requirements requiring compliance.

6. *Due to/from The City of Winnipeg - General Revenue Fund*

The City of Winnipeg operates a centralized treasury function with a single operating bank account in the General Revenue Fund. Consequently, the Agency does not have a bank account. Bank transactions are credited or charged to the "Due (to)/from" account when they are processed through the bank. Interest is credited or charged based on The City of Winnipeg's average short-term cost of funds, which is a function of the Bank of Canada rate. The December 31, 2008 effective interest rate was 1.5% (2007 - 4.3%). As well, the Agency has negotiated an operating line of credit up to $300 thousand and a line of credit for short-term financing from The City of Winnipeg.

Funds were advanced during the year as short-term bridge financing between the time when cash is needed and term financing is arranged for capital acquisitions.

Interest paid to The City of Winnipeg - General Revenue Fund was $106 thousand (2007 - $72 thousand)

7. *Inventory*

The amount of inventory expensed during the year was $8,177 thousand. Inventory totalling $63 thousand was also written off during the year.

8. *Capital Assets*

	Cost	Accumulated Amortization	Net Book Value 2008	2007
Land	$ 390	$ -	$ 390	$ 390
Buildings	3,413	541	2,872	2,979
Fleet assets				
Acquired at start-up	9,932	8,763	1,169	1,914
Purchased	75,541	18,659	56,882	41,298
Equipment	4,093	1,492	2,601	1,062
	$ 93,369	$ 29,455	$ 63,914	$ 47,643

The net book value of fleet assets not yet in service is $3,513 thousand (2007 - $1,619 thousand), and equipment not yet in service is $1,570 thousand (2007 - $nil).

9. *Long-term Debt*

Lender	Maturity Dates	Interest Rate	2008	2007
Royal Bank of Canada (Note 9b)	2011 - 2019	4.53% - 5.20%	$ 27,000	$ 29,883
The City of Winnipeg Equipment and Material Services - non-interest bearing, no repayment schedule (Note 14e)			-	1,148
The City of Winnipeg - non-interest bearing, no repayment schedule (Notes 9c and 14e)			378	10,375
			27,378	41,406
Current portion of long-term debt			(3,403)	(14,406)
			$ 23,975	$ 27,000

9. Long-term Debt (continued)

a) Principal repayments due within the next five years and thereafter are as follows:

2009	$ 3,403
2010	3,173
2011	3,327
2012	3,038
2013	3,072
Thereafter	11,365
	$ 27,378

b) 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. As at December 31, 2008, $27,000 thousand (2007 - $29,883 thousand) was outstanding under this facility. The effective interest rate at December 31, 2008 was 5.0% (2007 - 4.6%).

c) On May 28, 2003, City 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. On January 1, 2008 the Agency's long-term debt due to The City of Winnipeg, excluding funds specified for communications equipment, was transferred to contributed surplus (Note 14e).

d) Cash paid for interest during the year is $1,471 thousand (2007 - $786 thousand).

10. Employee Benefits

a) Retirement allowance

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 service. 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 retirement allowance obligation as at December 31 of each year. An actuarial valuation report of the obligation was prepared effective December 31, 2005. The results of this valuation were extrapolated to December 31, 2008.

10. Employee Benefits (continued)

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

	2008	2007
Retirement allowance - accrued obligation:		
Balance, beginning of year	**$ 618**	$ 652
Current service cost	**33**	31
Interest cost	**27**	28
Net actuarial gain	**(3)**	(12)
Benefit payments	**(120)**	(81)
Balance, end of year	**555**	618
Unamortized net actuarial gain	**17**	15
Retirement allowance - accrued liability	**$ 572**	$ 633

Retirement allowance expense consists of the following:

	2008	2007
Current service cost	**$ 33**	$ 31
Interest cost	**27**	28
Amortization of net actuarial gain	**(1)**	-
	$ 59	$ 59

The significant actuarial assumptions adopted in measuring the retirement allowance obligation for the year ended December 31 are as follows:

	2008	2007
Valuation interest rate	**4.80%**	4.70%
General increases in pay	**3.00%**	3.00%

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. During the year, $425 thousand (2007 - $397 thousand) of pension costs were allocated to the Agency. An actuarial valuation for the Winnipeg Civic Employees' Benefits Program was made as of December 31, 2007 and has an actuarial surplus.

11. 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 (2007 - $420 thousand).

12. Asset Retirement Obligations

Asset retirement obligations have been recognized for the decommissioning of the Agency's petroleum storage tank systems. The Agency estimated the amount to settle the asset retirement obligations which will be incurred prior to December 31, 2009 for decommissioning seven petroleum tank systems. The estimates are based on a third party engineering firm valuation. Funds have not been set aside to settle the asset retirement obligations.

12. *Asset Retirement Obligations (continued)*

Asset retirement obligations are as follows:

	2008	2007
Balance, beginning of year	**$ 176**	$ 169
Accretion expense	**6**	7
Balance, end of year	**$ 182**	$ 176

13. *Commitments*

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

	Operating Leases
2009	$ 878
2010	688
2011	484
2012	111
2013	-
	$ 2,161

14. *Related Party Transactions*

The Agency is wholly-owned by The City of Winnipeg. Transactions between the Agency and The City of Winnipeg are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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

In addition to those disclosed elsewhere in the financial statements, the transactions that occurred are as follows:

a) Revenues include sales of goods and services of $34,217 thousand (2007 - $30,039 thousand) to The City of Winnipeg.

b) An amount of $215 thousand (2007 - $179 thousand) has been transferred to the Civic Accommodations Fund for the rental of office and garage space.

c) An amount of $369 thousand (2007 - $325 thousand) has been transferred to the Public Works Department - General Revenue Fund for operator training services.

d) During the year, transfers were made to The City of Winnipeg Funds for miscellaneous services as follows:

	2008	2007
General Revenue Fund	**$ 147**	$ 251
Winnipeg Parking Authority - Special Operating Agency	**-**	1
	$ 147	$ 252

14. Related Party Transactions (continued)

e) During the year, changes to The City of Winnipeg loans were due to the following:

	2008	2007
Transfers to/from:		
General Revenue Fund	**$ (110)**	$ 4,836
Building Services Fund	**-**	8
Animal Services - Special Operating Agency	**-**	6
	(110)	4,850
Transfers to contributed surplus:		
The City of Winnipeg Equipment and Material Services	**(1,148)**	-
The City of Winnipeg	**(9,887)**	-
	$ (11,145)	$ 4,850

On November 21, 2007, City Council adopted the Agency's 2008 Selection Report (Business Plan Summary) thereby approving the transfer of the Agency's long-term debt due to The City of Winnipeg to contributed surplus.

f) During the year, transfers were made to The City of Winnipeg Funds for insurance rebates as follows:

	2008	2007
General Revenue Fund	**$ 75**	$ -
Waterworks System	**6**	-
Sewage Disposal System	**6**	-
Building Services Fund	**3**	-
Transit System	**3**	-
Animal Services - Special Operating Agency	**1**	-
Winnipeg Parking Authority - Special Operating Agency	**1**	-
Solid Waste Disposal	**1**	-
	$ 96	$ -

g) Transfer to The City of Winnipeg - General Revenue Fund

An amount of $3,120 thousand (2007 - $1,494 thousand) was transferred to The City of Winnipeg - General Revenue Fund as a return on investment.

15. Change in Accounting Estimate

As of January 1, 2008, the Agency revised the estimated useful lives and residual values of fleet assets on a prospective basis. This change resulted in a decrease of $851 thousand to amortization expense in the current year as estimated useful lives were extended from an average of five years to seven years.

THE CITY OF WINNIPEG **Schedule 1**
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

SCHEDULE OF SERVICES AND PARTS REVENUE

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

	2008	2007
Consumables and corrective maintenance	**$ 3,840**	$ 3,333
Insurance revenue	**1,553**	1,488
Power tools	**672**	656
Manufacturing sales	**435**	544
Autopac rebate	**381**	370
Other	**353**	761
Provincial support grant	**130**	132
Interest	**7**	24
	$ 7,371	$ 7,308

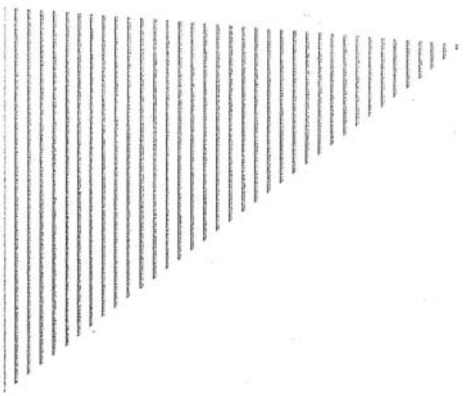
APPENDIX 4 – 2009 AUDITORS' REPORT, FINANCIAL STATEMENTS AND NOTES



2009 Auditors'
Report & Statements

Financial Statements

The City of Winnipeg
Fleet Management – Special Operating Agency
December 31, 2009



Ernst & Young
Quality In Everything We Do

AUDITORS' REPORT

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

We have audited the statement of financial position of **The City of Winnipeg Fleet Management - Special Operating Agency** as at December 31, 2009 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Winnipeg, Canada,
March 16, 2010.

Chartered Accountants

ERNST & YOUNG
A member firm of Ernst & Young Global Limited

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

STATEMENT OF FINANCIAL POSITION

As at December 31
(in thousands of dollars)

	2009	2008
ASSETS		
Current		
Due from The City of Winnipeg - General Revenue Fund (Note 6)	$ 1,824	$ -
Accounts receivable	216	282
Inventory (Note 7)	2,164	1,736
Prepaid expenses	415	245
	4,619	2,263
Capital assets (Note 8)	69,965	63,914
	$ 74,584	$ 66,177
LIABILITIES		
Current		
Due to The City of Winnipeg - General Revenue Fund (Note 6)	$ -	$ 19,741
Accounts payable and accrued liabilities	2,375	2,535
Vacation payable	564	542
Current portion of long-term debt (Note 9)	7,108	3,403
	10,047	26,221
Long-term debt (Note 9)	47,519	23,975
Deferred revenue	716	1,292
Retirement allowance (Note 10a)	596	572
Environmental liability (Notes 3 and 11)	420	420
Asset retirement obligations (Note 12)	175	182
	49,426	26,441
	59,473	52,662
Commitments (Note 13)		
SURPLUS		
Contributed surplus	11,425	11,425
Retained earnings	3,686	2,090
	15,111	13,515
	$ 74,584	$ 66,177

See accompanying notes and schedule to the financial statements

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

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

	2009	2008
REVENUES		
Fleet leases	$ 21,167	$ 17,954
Services and parts revenue (Schedule 1)	7,894	7,371
Fuel sales	6,413	8,276
Rental income	2,861	2,507
Gain on sale of capital assets	709	736
Amortization of deferred revenue	328	540
Total Revenues	39,372	37,384
EXPENSES		
Services	10,176	9,155
Amortization	8,982	6,979
Supplies	8,616	10,029
Salaries and employee benefits	7,773	7,374
Interest (Note 9)		
Short-term	98	105
Long-term	1,402	1,363
Other	729	771
Total Expenses	37,776	35,776
Net income and comprehensive income for the year	1,596	1,608
RETAINED EARNINGS, BEGINNING OF YEAR	2,090	3,602
Transfer to The City of Winnipeg - General Revenue Fund	-	(3,120)
RETAINED EARNINGS, END OF YEAR	$ 3,686	$ 2,090

See accompanying notes and schedule to the financial statements

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

STATEMENT OF CASH FLOWS

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

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

	2009	2008
OPERATING		
Net income for the year	$ 1,596	$ 1,608
Non-cash items related to operations		
Amortization	8,982	6,979
Amortization of deferred revenue	(328)	(540)
Gain on sale of capital assets	(709)	(736)
Retirement allowance	24	(61)
Accretion expense	8	6
Working capital from operations	9,573	7,256
Net change in working capital	(933)	1,341
	8,640	8,597
FINANCING		
Change in Due from/to The City of Winnipeg - General Revenue Fund	(21,565)	20,030
Proceeds from term loans	30,600	-
Repayment of term loans	(3,348)	(2,883)
Repayment of debt - The City of Winnipeg	(3)	(110)
Transfer to The City of Winnipeg - General Revenue Fund	-	(3,120)
	5,684	13,917
INVESTING		
Purchase of capital assets	(15,370)	(23,579)
Proceeds from sale of capital assets	1,046	1,065
	(14,324)	(22,514)
CASH, END OF YEAR	$ -	$ -

See accompanying notes and schedule to the financial statements

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009
(all tabular amounts are in thousands of dollars, unless otherwise noted)

1. *Commencement of Operations*

On May 28, 2003, City 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 (the "Agency") effective January 1, 2003.

The Agency provides economical, state-of-the-art, safe and eco-friendly fleet vehicle, equipment and other asset management services to The City of Winnipeg and other public sector organizations, in support of their service delivery.

2. *Significant Accounting Policies*

The financial statements have been prepared on the basis of Canadian generally accepted accounting principles and include the following significant accounting policies:

Estimates

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

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 Assessment and Taxation Department.

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

Buildings	4% to 8%	Straight-line
Fleet assets		
Acquired at start-up	30%	Declining balance
Purchased	Lease term	Straight-line
Equipment	3% to 30%	Straight-line

Amortization begins once an asset is placed into service.

2. *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 at which 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 services are performed.

Asset retirement obligations

Asset retirement obligations are measured initially at fair value in the period in which the obligations are incurred, provided that a reasonable estimate of the fair value can be made. The retirement cost is added to the carrying amount of the related asset. In subsequent periods, the retirement cost is amortized over the useful life of the asset and the carrying value of the liability is increased to recognize increases in the liability's present value with the passage of time.

3. *Measurement Uncertainty*

The Agency manages The City of Winnipeg's fuel sites excluding the Transit Department's fuel sites, each containing between one and four underground petroleum storage tanks. Remediation costs incurred during the prior year for certain City fuel sites ranged between $10 thousand and $111 thousand per site. The Agency has estimated an amount for environmental liability for the remediation of its fuel site, containing six underground petroleum storage tanks. The degree of remediation of the Agency's fuel site is uncertain, as it is dependent on the extent of soil contamination found upon remediation.

4. *Financial Instruments*

The Agency's financial assets and liabilities are comprised of accounts receivable, due from The City of Winnipeg - General Revenue Fund, accounts payable and accrued liabilities, vacation payable and long-term debt. The Agency is exposed to financial risks arising from its financial assets and liabilities.

Financial instruments are classified into one of the following five categories: held-for-trading, loans and receivables, held-to-maturity, available-for-sale or other liabilities. Initial measurement of financial instruments is at fair value; subsequent measurement and recognition of changes in fair value of financial instruments depends on their initial classification. The Agency's accounts receivable are classified as loans and receivables. Due from The City of Winnipeg - General Revenue Fund, accounts payable and accrued liabilities, vacation payable and long-term debt have been classified as other liabilities.

Financial assets and liabilities classified as loans and receivables and other liabilities are measured at amortized cost. The Agency will recognize changes in the fair value of loans and receivables only if realized, or impairment in the value of an asset occurs. The Agency has not classified any financial instrument as held-for-trading, held-to-maturity or available-for-sale. The book value of the Agency's financial assets and liabilities approximates their fair value.

4. *Financial Instruments (continued)*

Credit Risk

Credit risk is the risk a customer will fail to perform an obligation or fail to pay amounts due causing a financial loss to the Agency. The financial instrument affected the most by credit risk are accounts receivable.

The Agency does not have significant exposure to credit risk given it does not have a significant amount of accounts receivable. A reasonable allowance for non-collectible amounts is established, which is netted against accounts receivable on the Statement of Financial Position. The Agency does not hold collateral as security for these balances.

Liquidity Risk

Liquidity risk is the risk the Agency will encounter difficulty in meeting obligations associated with financial liabilities. Due to the Agency's relationship with The City of Winnipeg, it can rely upon sufficient financial resources from that source in the event internally generated cash flows or cash flows accessible through external sources are insufficient. Amounts due from The City of Winnipeg - General Revenue Fund are treated as subordinate to other obligations and have no fixed terms of repayment. The Agency's most recent business plan indicates that cash resources will be sufficient to meet its obligations.

Market Risk

Market risk is the risk the Agency is exposed to concerning the fair value of future cash flows of a financial instrument fluctuating because of changes in market price. For the Agency, the most significant aspect of market risk would be interest rate risk. Financial instruments affected the most by interest rate risk are long-term debt and due from The City of Winnipeg - General Revenue Fund.

As the Agency's long-term debt is comprised entirely of fixed rate instruments, the Agency is not exposed to this risk. The Agency's due from The City of Winnipeg - General Revenue Fund is subject to floating interest rates and is used for short-term financing, which limits the Agency's exposure to this risk.

5. *Capital Management*

The Agency does not have any externally imposed capital requirements requiring compliance.

6. *Due from/to The City of Winnipeg - General Revenue Fund*

The City of Winnipeg operates a centralized treasury function with a single operating bank account in the General Revenue Fund. Consequently, the Agency does not have a bank account. Bank transactions are credited or charged to the "Due from/to" account when they are processed through the bank. Interest is credited or charged based on The City of Winnipeg's average short-term cost of funds, which is a function of the Bank of Canada rate. The December 31, 2009 effective interest rate was 0.2% (2008 - 1.5%). As well, the Agency has negotiated an operating line of credit up to $300 thousand and a line of credit for short-term financing from The City of Winnipeg.

Funds were advanced during the year as short-term bridge financing between the time when cash is needed and term financing is arranged for capital acquisitions.

Interest paid to The City of Winnipeg - General Revenue Fund was $99 thousand (2008 - $106 thousand).

7. *Inventory*

The amount of inventory expensed during the year was $7,021 thousand (2008 - $8,177 thousand). Inventory totalling $78 thousand (2008 - $63 thousand) was also written off during the year.

8. *Capital Assets*

	Cost	Accumulated Amortization	Net Book Value 2009	2008
Land	$ 390	$ -	$ 390	$ 390
Buildings	3,511	684	2,827	2,872
Fleet assets				
Acquired at start-up	8,347	7,660	687	1,169
Purchased	89,800	26,615	63,185	56,882
Equipment	4,724	1,848	2,876	2,601
	$ 106,772	$ 36,807	$ 69,965	$ 63,914

The net book value of fleet assets not yet in service is $3,372 thousand (2008 - $3,513 thousand), and equipment not yet in service is $105 thousand (2008 - $1,570 thousand).

9. *Long-term Debt*

Lender	Maturity Dates	Interest Rate	2009	2008
Royal Bank of Canada (Note 9b)	2011 - 2019	4.53% - 5.20%	$ 23,975	$ 27,000
The Toronto-Dominion Bank (Note 9b)	2012 - 2019	2.61% - 4.14%	30,277	-
			54,252	27,000
The City of Winnipeg - non-interest bearing, no repayment schedule (Notes 9c and 14e)			375	378
			54,627	27,378
Current portion of long-term debt			(7,108)	(3,403)
			$ 47,519	$ 23,975

a) Principal repayments due within the next five years and thereafter are as follows:

2010	$ 7,108
2011	7,398
2012	7,208
2013	6,882
2014	6,696
Thereafter	19,335
	$ 54,627

9. Long-term Debt (continued)

b) The Agency has credit facilities by way of series of term loans. The term loans bear a fixed rate of interest quoted by the bank at the time of each borrowing. As at December 31, 2009, $54,252 thousand (2008 - $27,000 thousand) was outstanding under these facilities. The effective interest rate at December 31, 2009 was 3.5% (2008 - 5.0%).

c) On May 28, 2003, City 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. On January 1, 2008, the Agency's long-term debt due to The City of Winnipeg, excluding funds specified for communications equipment, was transferred to contributed surplus.

d) Cash paid for interest during the year is $1,414 thousand (2008 - $1,471 thousand).

10. Employee Benefits

a) Retirement allowance

Under the retirement allowance benefit plan, qualifying employees become entitled to a cash retirement, death or termination of service under certain conditions (not resignation). The costs are payment upon actuarially determined using the projected benefit valuation method pro-rated on services and reflects management's best estimate of retirement ages of employees, salary escalation and length of service. In addition, adjustments arising from plan amendment, changes in assumptions and experience gains and losses are amortized on a straight-line basis over 12.2 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 retirement allowance obligation as at December 31 of each year. An actuarial valuation report of the obligation was prepared effective December 31, 2008. The results of this valuation were extrapolated to December 31, 2009.

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

	2009	2008
Retirement allowance - accrued obligation:		
Balance, beginning of year	$ 555	$ 618
Current service cost	31	33
Interest cost	27	27
Benefit payments	(34)	(120)
Net actuarial loss (gain)	39	(3)
Balance, end of year	618	555
Unamortized net actuarial (loss) gain	(22)	17
Retirement allowance - accrued liability	$ 596	$ 572

Retirement allowance expense consists of the following:

	2009	2008
Current service cost	$ 31	$ 33
Interest cost	27	27
Amortization of net actuarial gain	-	(1)
	$ 58	$ 59

10. Employee Benefits (continued)

The significant actuarial assumptions adopted in measuring the accrued retirement allowance obligation for the year ended December 31 are as follows:

	2009	2008
Valuation interest rate	**4.40%**	4.80%
General increases in pay	**3.00%**	3.00%

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. During the year, $437 thousand (2008 - $425 thousand) of pension costs were allocated to the Agency. An actuarial valuation for the Winnipeg Civic Employees' Benefits Program was made as of December 31, 2008 and has an actuarial surplus.

11. Environmental Liability

The Agency has included an estimate in the amount of $420 thousand for the cost to remediate its fuel site (2008 - $420 thousand).

12. Asset Retirement Obligations

Asset retirement obligations have been recognized for the decommissioning of the Agency's petroleum storage tank systems. The Agency estimated the amount to settle the asset retirement obligations which will be incurred prior to December 31, 2010 for decommissioning seven petroleum tank systems. The estimates are based on a third-party engineering firm valuation. Funds have not been set aside to settle the asset retirement obligations.

Asset retirement obligations are as follows:

	2009	2008
Balance, beginning of year	$ **182**	$ 176
Liability settled	**(15)**	-
Accretion expense	**8**	6
Balance, end of year	$ **175**	$ 182

13. Commitments

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

	Operating Leases
2010	$ 520
2011	317
2012	69
2013	-
2014	-
	$ 906

14. Related Party Transactions

The Agency is wholly owned by The City of Winnipeg. Transactions between the Agency and The City of Winnipeg are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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

In addition to those disclosed elsewhere in the financial statements, the related party transactions that occurred are as follows:

a) Revenues include sales of goods and services of $36,374 thousand (2008 - $34,217 thousand) to The City of Winnipeg.

b) An amount of $206 thousand (2008 - $215 thousand) has been transferred to the Civic Accommodations Fund for the rental of office and garage space.

c) An amount of $624 thousand (2008 - $369 thousand) has been transferred to the Public Works Department - General Revenue Fund for operator training services.

d) An amount of $191 thousand (2008 - $147 thousand) has been transferred to the General Revenue Fund for miscellaneous services.

e) An amount of $3 thousand (2008 - $110 thousand) has been transferred to the General Revenue Fund as repayment of The City of Winnipeg debt.

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

Schedule 1

SCHEDULE OF SERVICES AND PARTS REVENUE

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

	2009	2008
Consumables and corrective maintenance	$ 4,448	$ 3,840
Insurance revenue	1,478	1,553
Power tools	693	672
Manufacturing sales	423	435
Autopac rebate	406	381
Other	304	353
Provincial support grant	142	130
Interest	-	7
	$ 7,894	$ 7,371