# THE CITY OF WINNIPEG
# FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

**Projected Financial Statements**
**Three Years Ending December 31, 2013**

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

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

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

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

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

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

The Agency commenced operations on January 1, 2003. The 2010 financial projections represent the Agency's eighth year as a Special Operating Agency.

# THE CITY OF WINNIPEG
# FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

## PROJECTED STATEMENT OF FINANCIAL POSITION

*As at December 31*
*(in thousands of dollars)*

| | Actual 2009 | Budget 2010 | Forecast 2010 | Variance 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|
| ***ASSETS*** | | | | | | | |
| Current | | | | | | | |
| Due from The City - General Revenue Fund (Note 5) | $ 1,824 | $ 1,550 | $ - | $ - | $ - | $ - | $ - |
| Accounts receivable | 216 | 142 | 221 | 77 | 226 | 230 | 235 |
| Inventory | 2,164 | 1,709 | 1,957 | 248 | 2,207 | 2,251 | 2,296 |
| Prepaid expenses | 415 | 196 | 429 | 234 | 437 | 446 | 455 |
| | 4,619 | 3,597 | 2,607 | 559 | 2,870 | 2,927 | 2,986 |
| Capital assets (Note 6) | 69,965 | 76,584 | 79,404 | (3,180) | 82,540 | 82,892 | 78,625 |
| | $ 74,584 | $ 80,181 | $ 82,011 | $ (2,621) | $ 85,410 | $ 85,819 | $ 81,611 |
| ***LIABILITIES*** | | | | | | | |
| Current | | | | | | | |
| Due to The City - General Revenue Fund (Note 5) | $ - | $ - | $ 13,671 | $ 14,035 | $ 10,392 | $ 8,223 | $ 3,972 |
| Accounts payable and accrued liabilities | 2,375 | 489 | 2,423 | 1,933 | 2,471 | 2,521 | 2,571 |
| Vacation payable | 564 | 608 | 581 | (27) | 598 | 616 | 635 |
| Current portion of long-term debt (Note 7) | 3,349 | 7,076 | 7,408 | (268) | 8,281 | 9,169 | 9,754 |
| | 6,288 | 8,173 | 24,083 | 15,673 | 21,742 | 20,529 | 16,932 |
| Term debt (Note 7) | 51,278 | 54,123 | 40,036 | (19,487) | 44,882 | 45,525 | 43,687 |
| Deferred revenue | 716 | 1,125 | 510 | (615) | 268 | 134 | 63 |
| Retirement allowance (Note 8a) | 596 | 633 | 614 | (19) | 632 | 651 | 671 |
| Environmental liability (Note 9) | 420 | 420 | 420 | - | 420 | 420 | 420 |
| Asset retirement obligations (Note 2) | 175 | 192 | 85 | (107) | - | - | - |
| | 53,185 | 56,493 | 41,665 | (20,228) | 46,202 | 46,730 | 44,841 |
| | 59,473 | 64,666 | 65,748 | (4,555) | 67,944 | 67,259 | 61,773 |
| Commitments (Note 10) | | | | | | | |
| ***SURPLUS*** | | | | | | | |
| Contributed surplus | 11,425 | 11,425 | 11,425 | - | 11,425 | 11,425 | 11,425 |
| Retained earnings | 3,686 | 4,090 | 4,838 | 1,934 | 6,041 | 7,135 | 8,414 |
| | 15,111 | 15,515 | 16,263 | 1,934 | 17,466 | 18,560 | 19,839 |
| | $ 74,584 | $ 80,181 | $ 82,011 | $ (2,621) | $ 85,410 | $ 85,819 | $ 81,612 |

*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 2009 | Budget 2010 | Forecast 2010 | Variance 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|
| ***REVENUES*** | | | | | | | |
| Fleet leases | $ 21,167 | $ 24,095 | $ 24,478 | $ 383 | $ 25,871 | $ 27,139 | $ 28,267 |
| Services and parts revenue (Schedule 1) | 7,894 | 7,478 | 7,723 | 245 | 7,647 | 7,811 | 7,979 |
| Fuel sales | 6,413 | 8,610 | 6,468 | (2,142) | 6,403 | 6,339 | 6,276 |
| Rental income | 2,861 | 2,432 | 2,912 | 480 | 2,884 | 2,945 | 3,006 |
| Amortization of deferred revenue | 328 | 230 | 206 | (24) | 144 | 101 | 71 |
| Gain on sale of capital assets | 709 | 100 | 500 | 400 | 100 | 100 | 100 |
| Total Revenues | 39,372 | 42,945 | 42,287 | (658) | 43,049 | 44,435 | 45,699 |
| ***EXPENSES*** | | | | | | | |
| Amortization | 8,982 | 11,563 | 11,063 | (500) | 12,174 | 13,304 | 13,905 |
| Services | 10,176 | 8,650 | 9,668 | 1,018 | 9,171 | 9,106 | 9,292 |
| Supplies | 8,616 | 10,481 | 8,911 | (1,570) | 8,780 | 8,784 | 8,790 |
| Salaries and employee benefits | 7,773 | 7,990 | 8,149 | 159 | 8,258 | 8,488 | 8,687 |
| Interest (Note 7) | 1,500 | 3,171 | 2,285 | (886) | 2,502 | 2,807 | 2,885 |
| Other | 729 | 686 | 1,060 | 374 | 961 | 852 | 861 |
| Total Expenses | 37,776 | 42,541 | 41,136 | (1,405) | 41,846 | 43,341 | 44,420 |
| Net income and comprehensive income for the year | 1,596 | 404 | 1,151 | 747 | 1,203 | 1,094 | 1,279 |
| ***RETAINED EARNINGS, BEGINNING OF YEAR*** | 2,090 | 3,686 | 3,687 | 1,187 | 4,838 | 6,041 | 7,135 |
| ***RETAINED EARNINGS, END OF YEAR*** | $ 3,686 | $ 4,090 | $ 4,838 | $ 1,934 | $ 6,041 | $ 7,135 | $ 8,414 |

*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 2009** | **Budget 2010** | **Forecast 2010** | **Variance 2010** | **2011** | **2012** | **2013** |
|---|---|---|---|---|---|---|---|
| ***OPERATING*** | | | | | | | |
| Net income for the year | $ 1,596 | $ 404 | $ 1,151 | $ 747 | $ 1,203 | $ 1,094 | $ 1,279 |
| Non-cash items related to operations | | | | | | | |
| Amortization | 8,982 | 11,563 | 11,063 | (500) | 12,174 | 13,304 | 13,905 |
| Amortization of deferred revenue | (328) | (230) | (206) | 24 | (144) | (101) | (71) |
| Gain/loss on sale of capital assets | (709) | (100) | (500) | (400) | (100) | (100) | (100) |
| Retirement allowance | 24 | (3) | 18 | 21 | 18 | 19 | 20 |
| Accretion expense | 8 | 6 | 8 | 2 | - | - | - |
| Working capital from operations | 9,573 | 11,640 | 11,534 | (106) | 13,151 | 14,216 | 15,033 |
| Net change in working capital | (933) | (77) | 254 | 331 | (297) | (22) | 10 |
| | 8,640 | 11,563 | 11,788 | 225 | 12,854 | 14,194 | 15,043 |
| ***FINANCING*** | | | | | | | |
| Change in Due from/to The City - General Revenue Fund | (21,565) | (4,509) | 15,322 | 15,682 | (3,364) | (2,169) | (4,251) |
| Proceeds from term loans | 30,600 | 16,300 | - | (16,100) | 13,700 | 10,400 | 8,200 |
| Repayment of term loans | (3,348) | (9,727) | (7,108) | 568 | (7,981) | (8,869) | (9,454) |
| Repayment of debt - The City of Winnipeg | (3) | - | - | - | - | - | - |
| | 5,684 | 2,064 | 8,214 | 150 | 2,355 | (638) | (5,505) |
| ***INVESTING*** | | | | | | | |
| Purchase of capital assets | (15,370) | (13,727) | (20,502) | (775) | (15,309) | (13,656) | (9,638) |
| Proceeds from sale of capital assets | 1,046 | 100 | 500 | 400 | 100 | 100 | 100 |
| | (14,324) | (13,627) | (20,002) | (375) | (15,209) | (13,556) | (9,538) |
| ***CASH, 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, 2013*
*(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.

## 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 year prior 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 remeditation.

## 4. *Financial Instruments*

The Agency’s financial assets and liabilities are comprised of accounts receivable, due from/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.

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/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 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.

## *4. Financial Instruments (continued)*

**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/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 from/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 from/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. 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'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 for short-term financing, from The City of Winnipeg.

## *6. Capital Assets*

| | Net Book Value | | | |
|---|---|---|---|---|
| | Forecast 2010 | 2011 | 2012 | 2013 |
| Land | $ 390 | $ 390 | $ 390 | $ 390 |
| Building | 3,199 | 5,680 | 5,532 | 5,246 |
| Fleet assets | | | | |
| Acquired at start-up | 481 | 337 | 236 | 165 |
| Fleet purchased | 71,266 | 71,693 | 72,335 | 68,468 |
| Equipment | 4,068 | 4,440 | 4,399 | 4,356 |
| | $ 79,404 | $ 82,540 | $ 82,892 | $ 78,625 |

## *7. Debt*

| | Forecast 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| RBC/TD (Note 7a) | $ 47,144 | $ 52,863 | $ 54,394 | $ 53,141 |
| The City of Winnipeg (Note 7b) | 300 | 300 | 300 | 300 |
| Current portion of long-term debt | (7,408) | (8,281) | (9,169) | (9,754) |
| | $ 40,036 | $ 44,882 | $ 45,525 | $ 43,687 |

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. 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.

## *8. Employee Benefits*

### a) Retirement allowance

| | Forecast 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| | $ 614 | $ 632 | $ 651 | $ 671 |

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 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 retirment 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.

### 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, 2008 and indicates an actuarial surplus.

| | Forecast 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| Pension costs allocated to the Agency | $ 535 | $ 542 | $ 557 | $ 571 |

## *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:

| | Forecast 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| Lease payments | $ 561 | $ 435 | $ 191 | $ 191 |

### *11. 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.

| | Forecast 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| a) Sales of goods and services to The City | $ 39,563 | $ 40,886 | $ 42,291 | $ 43,560 |
| b) Civic Accommodations Fund - Rental of space | $ 218 | $ 384 | $ 384 | $ 384 |
| c) Public Works - HR services | $ 94 | $ - | $ - | $ - |
| d) Building Services Fund - Call answer service | $ 5 | $ 5 | $ 5 | $ 5 |
| e) Public Works - Operator training service | $ 636 | $ 649 | $ 662 | $ 675 |
| f) Corporate Support Services - Business tech service | $ 75 | $ 75 | $ 75 | $ 77 |
| g) Corporate Support Service - HR services | $ - | $ 94 | $ 94 | $ 94 |
| h) Corporate Support Service - Misc charges | $ 10 | $ 19 | $ 22 | $ 22 |

# 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 2009 | Budget 2010 | Forecast 2010 | Variance 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|
| Consumables and corrective maintenance | $ 4,449 | $ 3,996 | $ 4,189 | $ 193 | $ 4,134 | $ 4,220 | $ 4,309 |
| Insurance revenue | 1,478 | 1,698 | 1,510 | (188) | 1,552 | 1,589 | 1,627 |
| Power tools | 693 | 713 | 713 | - | 727 | 742 | 757 |
| Manufacturing sales | 423 | 453 | 431 | (22) | 442 | 451 | 461 |
| Autopac rebate | 406 | 395 | 413 | 18 | 423 | 433 | 442 |
| Other | 303 | 87 | 323 | 236 | 221 | 225 | 229 |
| Provincial support grant | 142 | 136 | 144 | 8 | 148 | 151 | 154 |
| | **$ 7,894** | **$ 7,478** | **$ 7,723** | **$ 245** | **$ 7,647** | **$ 7,811** | **$ 7,979** |