Financial Statements of

THE CITY OF WINNIPEG - FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

Year ended December 31, 2010

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of The City of Winnipeg - Fleet Management - Special Operating Agency, which comprise the statement of financial position as at December 31, 2010 and the statements of operations and accumulated surplus, cash flows and change in net financial assets (liabilities) for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP, is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The City of Winnipeg - Fleet Management - Special Operating Agency as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other Matters

The financial statements of The City of Winnipeg - Fleet Management - Special Operating Agency for the year ended December 31, 2009 were audited by another auditor who expressed an unmodified opinion on these statements on March 16, 2010.

KPMG LLP

Chartered Accountants

May 13, 2011

Winnipeg, Canada

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

STATEMENT OF FINANCIAL POSITION

As at December 31
(in thousands of dollars)

	2010	Restated 2009 (Note 3)
FINANCIAL ASSETS		
Due from The City of Winnipeg - General Revenue Fund (Note 4)	**$ -**	$ 1,824
Accounts receivable	**198**	216
	198	2,040
LIABILITIES		
Due to The City of Winnipeg - General Revenue Fund (Note 4)	**8,792**	-
Accounts payable and accrued liabilities	**1,169**	2,404
Debt (Note 5)	**47,496**	54,627
Other liabilities (Note 6)	**522**	595
Retirement allowance, vacation and compensated absences (Note 7a)	**1,315**	1,254
	59,294	58,880
NET FINANCIAL LIABILITIES	**(59,096)**	(56,840)
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 8)	**73,968**	69,965
Inventories	**1,799**	2,164
Prepaid expenses	**656**	415
	76,423	72,544
ACCUMULATED SURPLUS	**$ 17,327**	$ 15,704

Commitments (Note 9)

See accompanying notes and schedules to the financial statements

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

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

	Budget 2010 (unaudited)	2010	Restated 2009 (Note 3)
REVENUES			
Fleet leases	**$ 24,325**	**$ 23,435**	$ 21,262
Services and parts revenue (Schedule 1)	**7,478**	**7,281**	7,894
Fuel sales	**8,610**	**6,964**	6,413
Rental income	**2,432**	**2,746**	2,861
Gain on sale of tangible capital assets	**100**	**145**	709
Total Revenues	**42,945**	**40,571**	39,139
EXPENSES			
Amortization	**11,563**	**10,943**	8,982
Supplies	**10,481**	**9,344**	8,616
Salaries and employee benefits	**7,990**	**8,074**	7,773
Services	**8,650**	**7,761**	10,176
Interest (Notes 4 and 5)	**3,171**	**2,137**	1,500
Other	**686**	**689**	729
Total Expenses	**42,541**	**38,948**	37,776
Excess Revenues Over Expenses	**404**	**1,623**	1,363
ACCUMULATED SURPLUS, BEGINNING OF YEAR			
As previously reported	**15,111**	**15,111**	13,515
Changes in accounting policies (Note 3)	**-**	**593**	826
As restated	**15,111**	**15,704**	14,341
ACCUMULATED SURPLUS, END OF YEAR	**$ 15,515**	**$ 17,327**	$ 15,704

See accompanying notes and schedules 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:	**2010**	Restated 2009 (Note 3)
OPERATING		
Excess Revenues Over Expenses	**$ 1,623**	$ 1,363
Non-cash charges to operations		
Amortization	**10,943**	8,982
Gain on sale of tangible capital assets	**(145)**	(709)
Retirement allowance and compensated absences	**33**	24
Accretion expense	**8**	8
	12,462	9,668
Net change in non-cash working capital related to operations	**(1,146)**	(1,028)
Cash provided by operating activities	**11,316**	8,640
CAPITAL		
Acquisition of tangible capital assets	**(15,742)**	(15,370)
Proceeds on disposal of tangible capital assets	**941**	1,046
Cash used in capital activities	**(14,801)**	(14,324)
FINANCING		
Change in due to/from The City of Winnipeg - General Revenue Fund	**10,616**	(21,565)
Proceeds from term loans	**-**	30,600
Repayment of term loans	**(7,108)**	(3,348)
Repayment of debt - The City of Winnipeg	**(23)**	(3)
Cash provided by financing activities	**3,485**	5,684
CASH, END OF YEAR	**$ -**	$ -

See accompanying notes and schedules to the financial statements

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

STATEMENT OF CHANGE IN NET FINANCIAL LIABILITIES

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

	Budget 2010 (unaudited)	2010	Restated 2009 (Note 3)
EXCESS REVENUES OVER EXPENSES	**$ 404**	**$ 1,623**	$ 1,363
Amortization of tangible capital assets	**11,563**	**10,943**	8,982
Proceeds on disposal of tangible capital assets	**100**	**941**	1,046
Gain on sale of tangible capital assets	**-100**	**(145)**	(709)
Change in inventories and prepaid expenses	**-550**	**124**	(598)
Acquisition of tangible capital assets	**-13,727**	**(15,742)**	(15,370)
INCREASE IN NET FINANCIAL LIABILITIES	**(2,310)**	**(2,256)**	(5,286)
NET FINANCIAL LIABILITIES, BEGINNING OF YEAR			
As previously reported	**-63,374**	**(57,433)**	(52,380)
Changes in accounting policies (Note 3)	**-**	**593**	826
As restated	**(63,374)**	**(56,840)**	(51,554)
NET FINANCIAL LIABILITIES, END OF YEAR	**$ (65,684)**	**$ (59,096)**	$ (56,840)

See accompanying notes and schedules to the financial statements

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010
(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 in support of their service delivery.

2. Significant Accounting Policies

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards (PSA). The significant accounting policies are summarized as follows:

a) Basis of accounting

The financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting records revenue as it is earned and measurable. Expenses are recognized as they are incurred and measurable based upon receipt of goods or services and/or the creation of a legal obligation to pay.

b) Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, provides the change in net financial liabilities for the year.

i) Tangible capital assets

Tangible capital assets, other than land and buildings, transferred from The City of Winnipeg on January 1, 2003 are recorded at their estimated fair value on that date. Subsequent acquisitions are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Land and buildings are stated at fair value as of January 1, 2003, which was determined by The City of Winnipeg Assessment and Taxation Department.

Tangible 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	1 to 15 years	Straight-line
Equipment	3% to 30%	Straight-line

Amortization begins once an asset is placed into service.

2. Significant Accounting Policies (continued)

ii) Inventories

Inventories held for consumption are recorded at the lower of cost and net realizable value.

c) 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.

d) Deferred revenue

Certain user charges and fees are collected for which the related services have yet to be performed. Revenue is recognized in the period when services are performed.

e) Government transfers

Government transfers are the transfer of assets from the senior levels of government that are not the result of an exchange transaction, are not expected to be repaid in the future or are the result of a direct financial return.

Government transfers are recognized in the financial statements as revenue in the financial period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met including performance and return requirements, and reasonable estimates of the amounts can be determined.

f) Employee benefit plan

The Winnipeg Civic Employees' Benefits Program is a multi-employer contributory defined benefit program and accordingly contributions are expensed as incurred. The costs of other retirement benefits have been accounted for based on actuarially determined amounts using the projected benefits method prorated on services and management's best estimate of retirement ages of employees, salary escalation and plan investment performance. Actuarial gains and losses are amortized on a straight-line basis over the average remaining service period. The liabilities are discounted using current interest rates on long-term bonds.

g) Use of 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.

3. Adoption of Public Sector Accounting Standards

During fiscal 2010, the Agency adopted PSA on a retroactive basis resulting in the following changes to excess revenues over expenses for the year ended December 31, 2009:

	2009
Adjustments to excess revenues over expenses	
Excess revenues over expenses as previously reported	$ 1,596
Less decrease in amortization of deferred revenue	(233)
Excess revenues over expenses as restated	$ 1,363

3. Adoption of Public Sector Accounting Standards (continued)

In accordance with PSA, revenues from transfers relating to capital acquisitions are required to be included in income when the capital acquisition occurs, and expenses for employee benefits expected to be paid during future employee absences in respect of sick leave days earned in previous years are to be recorded.

The following is the impact from the adoption of PSA to the opening accumulated surplus:

	2010	2009
Accumulated surplus as previously stated	**$ 15,111**	$ 13,515
Adjustments for		
Compensated absences recorded	**(94)**	(94)
Amortization of deferred revenue recorded	**687**	920
	593	826
Revised accumulated surplus	**$ 15,704**	$ 14,341

4. 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, 2010 effective interest rate was 0.9% (2009 - 0.2%). 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 $31 thousand (2009 - $99 thousand).

5. Debt

Lender	**Maturity Dates**	**Interest Rate**	**2010**	2009
Royal Bank of Canada (Note 5b)	2011 - 2019	4.53% - 5.20%	**$ 20,803**	$ 23,975
The Toronto-Dominion Bank (Note 5b)	2012 - 2019	2.61% - 4.14%	**26,341**	30,277
			47,144	54,252
The City of Winnipeg - non-interest bearing, no repayment schedule (Notes 5c and 10e)			**352**	375
			$ 47,496	$ 54,627

5. Debt (continued)

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

2011	$ 7,750
2012	7,205
2013	6,882
2014	6,695
2015	6,056
Thereafter	12,908
	$ 47,496

b) The Agency has credit facilities by way of series of unsecured 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, 2010, $47,144 thousand (2009 - $54,252 thousand) was outstanding under these facilities. The effective interest rate at December 31, 2010 was 3.3% (2009 - 3.5%).

c) Cash paid for interest during the year is $2,152 thousand (2009 - $1,414 thousand).

6. Other Liabilities

	2010	2009
Environmental liability	**$ 420**	$ 420
Other liabilities	**102**	175
	$ 522	$ 595

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 prior years 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.

Other liabilities have been recognized for the decommissioning of the Agency's petroleum storage tank systems. The Agency estimated the amount to settle the other liabilities which will be incurred prior to June 20, 2012 for decommissioning three petroleum tank systems. The estimates are based on a third-party engineering firm valuation. Funds have not been set aside to settle the other liabilities.

7. Employee Benefits

a) Retirement allowance, vacation and compensated absences

	2010	Restated 2009
Retirement allowance - accrued liability	**$ 625**	$ 596
Vacation	**592**	564
Compensated absences	**98**	94
	$ 1,315	$ 1,254

7. Employee Benefits (continued)

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). 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, 2010.

Compensated absences represent benefits expected to be paid during future employee absences in respect of sick leave days earned in previous years.

Information about the Agency's retirement allowance benefit plan and compensated absences are as follows:

	2010		2009	
	Post-employment benefits	**Compensated absences**	Post-employment benefits	Compensated absences
Accrued benefit obligation:				
Balance, beginning of year	**$ 618**	**$ 89**	$ 555	$ 81
Current service cost	**32**	**-**	31	(1)
Interest cost	**27**	**4**	27	4
Benefit payments	**(32)**	**-**	(34)	-
Amortization of net actuarial loss	**23**	**1**	39	5
Balance, end of year	**668**	**94**	618	89
Unamortized net actuarial (loss)/gain	**(43)**	**4**	(22)	5
Accrued benefit liability	**$ 625**	**$ 98**	$ 596	$ 94
Benefit expense consists of the following:				
Current service cost	**$ 32**	**$ -**	$ 31	$ (1)
Interest cost	**27**	**4**	27	4
Amortization of net actuarial loss/(gain)	**2**	**-**	-	(3)
	$ 61	**$ 4**	$ 58	$ -
Reconciliation of accrued benefit liability:				
Balance, beginning of year	**$ 596**	**$ 94**	$ 572	$ 94
Benefits expense	**61**	**4**	58	-
Benefits payments	**(32)**	**-**	(34)	-
Balance, end of year	**$ 625**	**$ 98**	$ 596	$ 94

The significant actuarial assumptions adopted in measuring the accrued benefit obligation for the post-employment benefits year ended December 31 are as follows:

	2010	2009
Valuation interest rate	**3.9%**	4.4%
General increases in pay	**3.0%**	3.0%

7. Employee Benefits (continued)

Demographic assumptions such as utilization of sick leave credits, salary increases as a result of increments and promotion, continuation of employment and the probability of retirement or death in future years are based on employment experience.

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, $560 thousand (2009 - $437 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, 2009 and it has an actuarial surplus.

8. Tangible Capital Assets

	Net Book Value	
	2010	2009
Land	**$ 390**	$ 390
Buildings	**2,727**	2,827
Fleet assets	**67,936**	63,872
Equipment	**2,915**	2,876
	$ 73,968	$ 69,965

For additional information, see the Schedule of Tangible Capital Assets (Schedule 2).

The net book value of fleet assets not yet in service is $3,593 thousand (2009 - $3,372 thousand), and equipment not yet in service is $9 thousand (2009 - $105 thousand).

During the year, $129 thousand of fleet asset (2009 - $nil) were written off. Interest capitalized during 2010 was $nil (2009 - $nil).

9. 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
2011	$ 191
2012	191
2013	191
2014	191
	$ 764

10. 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.

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 $38,716 thousand (2009 - $36,374 thousand) to The City of Winnipeg.

b) An amount of $190 thousand (2009 - $206 thousand) has been transferred to the Civic Accommodations Fund for the rental of office and garage space.

c) An amount of $636 thousand (2009 - $624 thousand) has been transferred to the Public Works Department - General Revenue Fund for operator training services.

d) An amount of $175 thousand (2009 - $191 thousand) has been transferred to the General Revenue Fund for miscellaneous services.

e) An amount of $23 thousand (2009 - $3 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)

	Budget 2010 (unaudited)	2010	2009
Consumables and corrective maintenance	$ **3,996**	**$ 3,705**	$ 4,448
Insurance revenue	**1,698**	**1,693**	1,478
Power tools	**713**	**670**	693
Autopac rebate	**395**	**435**	406
Manufacturing sales	**453**	**325**	423
Other	**87**	**303**	304
Provincial support grant	**136**	**150**	142
	$ 7,478	**$ 7,281**	$ 7,894

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

Schedule 2

SCHEDULE OF TANGIBLE CAPITAL ASSETS

As at December 31
(in thousands of dollars)

	Land	Building	Fleet Assets	Equipment	Total 2010	Total 2009
Cost						
Balance, beginning of year	**$ 390**	**$ 3,511**	**$ 98,147**	**$ 4,724**	**$ 106,772**	$ 91,800
Add:						
Additions during the year	**-**	**50**	**15,143**	**549**	**15,742**	16,940
Less:						
Disposals during the year	**-**	**-**	**(4,109)**	**(151)**	**(4,260)**	(1,968)
Balance, end of year	**390**	**3,561**	**109,181**	**5,122**	**118,254**	106,772
Accumulated amortization						
Balance, beginning of year	**-**	**684**	**34,275**	**1,848**	**36,807**	29,456
Add:						
Amortization	**-**	**150**	**10,283**	**510**	**10,943**	8,982
Less:						
Accumulated amortization on disposals	**-**	**-**	**(3,313)**	**(151)**	**(3,464)**	(1,631)
Balance, end of year	**-**	**834**	**41,245**	**2,207**	**44,286**	36,807
Net Book Value of Tangible Capital Assets	**$ 390**	**$ 2,727**	**$ 67,936**	**$ 2,915**	**$ 73,968**	$ 69,965