Financial Statements of

THE CITY OF WINNIPEG - FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

Year ended December 31, 2014

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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, 2014 and the statements of operations and accumulated surplus, cash flows and change in net financial 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 public sector accounting standards, 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, 2014, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants

April 29, 2015

Winnipeg, Canada

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

STATEMENT OF FINANCIAL POSITION

As at December 31
(in thousands of dollars)

	2014	2013
FINANCIAL ASSETS		
Accounts receivable	**$ 98**	$ 83
LIABILITIES		
Due to The City of Winnipeg - General Revenue Fund (Note 3)	**2,781**	9,738
Accounts payable and accrued liabilities	**1,265**	1,350
Debt (Note 4)	**37,296**	37,032
Accrued employee benefits (Note 5a)	**1,605**	1,499
	42,947	49,619
NET FINANCIAL LIABILITIES	**(42,849)**	(49,536)
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 6)	**62,387**	69,649
Inventories	**1,758**	1,706
Prepaid expenses	**513**	511
	64,658	71,866
ACCUMULATED SURPLUS	**$ 21,809**	$ 22,330

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 2014	Actual 2014	Actual 2013
REVENUES			
Fleet leases	**$ 29,707**	**$ 27,000**	$ 26,030
Fuel sales	**9,144**	**9,639**	9,158
Services and parts revenue (Schedule 1)	**7,921**	**8,428**	7,791
Rental income	**2,612**	**3,592**	3,294
Gain on sale of tangible capital assets	**100**	**418**	129
Total Revenues	**49,484**	**49,077**	46,402
EXPENSES			
Amortization	**15,845**	**14,592**	13,566
Supplies	**11,620**	**12,210**	11,769
Services	**6,540**	**9,053**	8,003
Salaries and employee benefits	**10,034**	**8,997**	8,851
Interest (Notes 3 and 4)	**2,153**	**1,472**	1,647
Other expenses	**1,342**	**1,432**	1,173
Total Expenses	**47,534**	**47,756**	45,009
Annual Surplus Before Other	**1,950**	**1,321**	1,393
OTHER			
Transfer to The City of Winnipeg - General Revenue Fund (Note 8e)	**1,750**	**1,842**	2,750
Annual (Deficit) Surplus	**$ 200**	**(521)**	(1,357)
ACCUMULATED SURPLUS, BEGINNING OF YEAR		**22,330**	23,687
ACCUMULATED SURPLUS, END OF YEAR		**$ 21,809**	$ 22,330

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)

	2014	2013
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Annual (Deficit) Surplus	**$ (521)**	$ (1,357)
Non-cash charges to operations		
Amortization	**14,592**	13,566
Gain on sale of tangible capital assets	**(418)**	(129)
	13,653	12,080
Net change in non-cash working capital balances related to operations	**(48)**	128
Cash provided by operating activities	**13,605**	12,208
CAPITAL		
Acquisition of tangible capital assets	**(7,413)**	(13,989)
Proceeds on disposal of tangible capital assets	**501**	1,068
Cash used in capital activities	**(6,912)**	(12,921)
FINANCING		
Change in due to/from The City of Winnipeg - General Revenue Fund	**(6,957)**	10,932
Proceeds from term loans	**11,000**	-
Repayment of term loans	**(10,736)**	(10,219)
Cash provided by (used in) financing activities	**(6,693)**	713
CASH, BEGINNING OF YEAR	-	-
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 2014	Actual 2014	Actual 2013
ANNUAL (DEFICIT) SURPLUS	**$ 200**	**$ (521)**	$ (1,357)
Amortization of tangible capital assets	**15,845**	**14,592**	13,566
Proceeds on disposal of tangible capital assets	**100**	**501**	1,068
Change in inventories and prepaid expenses	**(56)**	**(54)**	14
Gain on sale of tangible capital assets	**(100)**	**(418)**	(129)
Acquisition of tangible capital assets	**(21,659)**	**(7,413)**	(13,989)
(INCREASE) DECREASE IN NET FINANCIAL LIABILITIES	**(5,670)**	**6,687**	(827)
NET FINANCIAL LIABILITIES, BEGINNING OF YEAR	**(58,347)**	**(49,536)**	(48,709)
NET FINANCIAL LIABILITIES, END OF YEAR	**$ (64,017)**	**$ (42,849)**	$ (49,536)

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, 2014
(all tabular amounts are in thousands of dollars, unless otherwise noted)

1. Status of the Winnipeg Fleet Management Agency

On May 28, 2003, City Council adopted the Winnipeg 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 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 pubic organizations, in support of their service delivery.

2. Significant Accounting Policies

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards. 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 annual (deficit) surplus, 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) 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 not the result of a direct financial return.

Government transfers are recognized in the financial statements as revenue or expense 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.

e) 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.

f) Estimates

The preparation of financial statements in conformity with Canadian public sector 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. 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, 2014 effective interest rate was 0.9% (2013 - 0.9%). 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 $39 thousand (2013 - $18 thousand). Interest received from The City of Winnipeg - General Revenue Fund was $6 thousand (2013 - $2 thousand).

4. Debt

Lender	Maturity Date	Interest Rate	2014	2013
Royal Bank of Canada (Note 4b)	2015 - 2020	1.9% - 5.20%	**$ 18,008**	$ 11,365
The Toronto-Dominion Bank (Note 4b)	2015 - 2021	2.17% - 4.14%	**19,110**	25,489
			37,118	36,854
The City of Winnipeg - non-interest bearing, no repayment schedule			**178**	178
			$ 37,296	$ 37,032

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

2015	$ 10,497
2016	8,599
2017	6,965
2018	5,332
2019	2,988
Thereafter	2,737
	$ 37,118

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, 2014, $37,118 thousand (2013 - $36,854 thousand) was outstanding under these facilities. The effective interest rate at December 31, 2014 was 3.9% (2013 - 3.9%).

c) Cash paid for interest during the year is $1,434 thousand (2013 - $1,650 thousand).

5. Accrued Employee Benefits

a) Retirement allowance, vacation and compensated absences

	2014	2013
Vacation	**$ 633**	$ 641
Retirement allowance - accrued liability	**825**	725
Compensated absences	**147**	133
	$ 1,605	$ 1,499

Under the retirement allowance program, 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 13.2 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 calculated as of July 31, 2014. The results of this valuation were extrapolated to the financial reporting date of December 31, 2014 using year-end assumptions.

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

5. Accrued Employee Benefits (continued)

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

	2014		2013	
	Retirement allowance	**Compensated absences**	Retirement allowance	Compensated absences
Accrued benefit obligation:				
Balance, beginning of year	**$ 895**	**$ 214**	$ 840	$ 217
Current service cost	**49**	**16**	53	16
Interest cost	**34**	**8**	32	8
Benefit payments	**-**	**(18)**	(3)	(20)
Amortization of net actuarial loss	**(255)**	**224**	(27)	(7)
Balance, end of year	**723**	**444**	895	214
Unamortized net actuarial gain/loss	**102**	**(297)**	(170)	(81)
Accrued benefit liability	**$ 825**	**$ 147**	$ 725	$ 133
Benefit expense consists of the following:				
Current service cost	**$ 49**	**$ 16**	$ 53	$ 16
Interest cost	**34**	**8**	32	8
Amortization of net actuarial loss	**17**	**8**	20	9
	$ 100	**$ 32**	$ 105	$ 33
Reconciliation of accrued benefit liability:				
Balance, beginning of year	**$ 725**	**$ 133**	$ 623	$ 120
Benefits expense	**100**	**32**	105	33
Benefits payments	**-**	**(18)**	(3)	(20)
Balance, end of year	**$ 825**	**$ 147**	$ 725	$ 133

The significant actuarial assumptions adopted in measuring the retirement allowance and compensated absences obligations for the year ended December 31 are as follows:

	2014	2013
Valuation interest rate	2.9%	3.7%
General increases in pay	2.5%	3.5%

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, $727 thousand (2013 - $671 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, 2013 and it has an actuarial surplus.

6. Tangible Capital Assets

	Net Book Value	
	2014	2013
Land	**$ 390**	$ 390
Buildings	**2,263**	2,383
Fleet assets	**56,272**	63,293
Equipment	**3,462**	3,583
	$ 62,387	$ 69,649

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

The net book value of fleet assets not yet in service is $2,254 thousand (2013 - $3,895 thousand), and equipment not yet in service is $nil (2013 - $nil).

Fleet assets written off during the year is $nil (2013 - $nil). Interest capitalized during 2014 is $nil (2013 - $nil).

7. Accumulated Surplus

	2014	2013
Contributed surplus	**$ 11,425**	$ 11,425
Surplus	**10,384**	10,905
	$ 21,809	$ 22,330

8. 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 $46,971 and (2013 - $44,657 thousand) to The City of Winnipeg.

b) An amount of $1,219 thousand (2013 - $1,083 thousand) has been transferred to the General Revenue Fund for operator training and miscellaneous services.

c) An amount of $894 thousand (2013 - $556 thousand) has been transferred to the Municipal Accommodations Fund for the rental of office and garage space, and miscellaneous services.

d) An amount of $2 thousand (2013 - $2 thousand) has been transferred to the Parking Services Agency for miscellaneous services.

e) An amount of $1,842 thousand (2013 - $2,750 thousand) has been transferred to the General Revenue Fund as a return on investment.

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 2014 (Unaudited)	Actual 2014	Actual 2013
Consumables and corrective maintenance	**$ 4,095**	**$ 3,955**	$ 3,753
Insurance revenue	**1,766**	**1,794**	1,703
Power tools	**772**	**772**	757
Manufacturing sales	**457**	**928**	690
Autopac rebate	**472**	**592**	581
Other	**203**	**228**	155
Provincial support grant	**156**	**159**	152
	$ 7,921	**$ 8,428**	$ 7,791

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	Buildings	Fleet Assets	Equipment	Total 2014	Total 2013
Cost						
Balance, beginning of year	**$ 390**	**$ 3,710**	**$ 135,868**	**$ 6,763**	**$ 146,731**	$ 135,156
Add:						
Additions during the year	**-**	**46**	**7,152**	**215**	**7,413**	13,989
Less:						
Disposals during the year	**-**	**-**	**(2,162)**	**-**	**(2,162)**	(2,414)
Balance, end of year	**390**	**3,756**	**140,858**	**6,978**	**151,982**	146,731
Accumulated amortization						
Balance, beginning of year	**-**	**1,327**	**72,576**	**3,179**	**77,082**	64,991
Add:						
Amortization	**-**	**166**	**14,089**	**337**	**14,592**	13,566
Less:						
Accumulated amortization on disposals	**-**	**-**	**(2,079)**	**-**	**(2,079)**	(1,475)
Balance, end of year	**-**	**1,493**	**84,586**	**3,516**	**89,595**	77,082
Net Book Value of Tangible Capital Assets	**$ 390**	**$ 2,263**	**$ 56,272**	**$ 3,462**	**$ 62,387**	$ 69,649