Financial Statements of

THE CITY OF WINNIPEG - FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

Year ended December 31, 2015

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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, 2015 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, 2015, 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 Professional Accountants

April 29, 2016

Winnipeg, Canada

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

STATEMENT OF FINANCIAL POSITION

As at December 31
(in thousands of dollars)

	2015	2014
FINANCIAL ASSETS		
Accounts receivable	**$ 95**	$ 98
LIABILITIES		
Due to The City of Winnipeg - General Revenue Fund (Note 3)	**7,977**	2,781
Accounts payable and accrued liabilities	**1,740**	1,265
Debt (Note 4)	**30,489**	37,296
Accrued employee benefits (Note 5a)	**1,742**	1,605
	41,948	42,947
NET FINANCIAL LIABILITIES	**(41,853)**	(42,849)
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 6)	**62,120**	62,387
Inventories	**1,736**	1,758
Prepaid expenses	**537**	513
	64,393	64,658
ACCUMULATED SURPLUS	**$ 22,540**	$ 21,809

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 2015	Actual 2015	Actual 2014
REVENUES			
Fleet leases	**$ 29,637**	**$ 25,763**	$ 27,000
Fuel sales	**9,575**	**6,921**	9,639
Services and parts revenue (Schedule 1)	**8,140**	**8,021**	8,428
Rental income	**3,444**	**3,492**	3,592
Gain on sale of tangible capital assets	**100**	**788**	418
Total Revenues	**50,896**	**44,985**	49,077
EXPENSES			
Amortization	**16,683**	**13,980**	14,592
Supplies	**12,141**	**9,652**	12,210
Services	**7,504**	**8,569**	9,053
Salaries and employee benefits	**11,246**	**9,333**	8,997
Interest (Notes 3 and 4)	**1,778**	**1,198**	1,472
Other expenses	**1,621**	**1,430**	1,432
Total Expenses	**50,973**	**44,162**	47,756
Annual Surplus Before Other	**(77)**	**823**	1,321
OTHER			
Transfer to The City of Winnipeg - General Revenue Fund (Note 8e)	**92**	**92**	1,842
Annual (Deficit) Surplus	**$ (169)**	**731**	(521)
ACCUMULATED SURPLUS, BEGINNING OF YEAR		**21,809**	22,330
ACCUMULATED SURPLUS, END OF YEAR		**$ 22,540**	$ 21,809

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)

	2015	2014
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Annual (Deficit) Surplus	**$ 731**	$ (521)
Non-cash charges to operations		
Amortization	**13,980**	14,592
Gain on sale of tangible capital assets	**(788)**	(418)
	13,923	13,653
Net change in non-cash working capital balances related to operations	**613**	(48)
Cash provided by operating activities	**14,536**	13,605
CAPITAL		
Acquisition of tangible capital assets	**(14,156)**	(7,413)
Proceeds on disposal of tangible capital assets	**1,231**	501
Cash used in capital activities	**(12,925)**	(6,912)
FINANCING		
Change in due to/from The City of Winnipeg - General Revenue Fund	**5,196**	(6,957)
Proceeds from term loans	**4,200**	11,000
Repayment of term loans	**(11,007)**	(10,736)
Cash provided by (used in) financing activities	**(1,611)**	(6,693)
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 2015	Actual 2015	Actual 2014
ANNUAL (DEFICIT) SURPLUS	**$ (169)**	**$ 731**	$ (521)
Amortization of tangible capital assets	**16,683**	**13,980**	14,592
Proceeds on disposal of tangible capital assets	**100**	**1,231**	501
Change in inventories and prepaid expenses	**(45)**	**(2)**	(54)
Gain on sale of tangible capital assets	**(100)**	**(788)**	(418)
Acquisition of tangible capital assets	**(21,652)**	**(14,156)**	(7,413)
(INCREASE) DECREASE IN NET FINANCIAL LIABILITIES	**(5,183)**	**996**	6,687
NET FINANCIAL LIABILITIES, BEGINNING OF YEAR	**(52,547)**	**(42,849)**	(49,536)
NET FINANCIAL LIABILITIES, END OF YEAR	**$ (57,730)**	**$ (41,853)**	$ (42,849)

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, 2015
(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, 2015 effective interest rate was 0.35% (2014 - 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 $9 thousand (2014 - $39 thousand). Interest received from The City of Winnipeg - General Revenue Fund was $2 thousand (2014 - $6 thousand).

4. Debt

Lender	Maturity Date	Interest Rate	2015	2014
Royal Bank of Canada (Note 4b)	2016 - 2020	1.49% - 5.20%	**$ 13,250**	$ 18,008
The Toronto-Dominion Bank (Note 4b)	2016 - 2024	2.17% - 4.14%	**17,061**	19,110
			30,311	37,118
The City of Winnipeg - non-interest bearing, no repayment schedule			**178**	178
			$ 30,489	$ 37,296

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

2016	$ 9,289
2017	7,668
2018	6,046
2019	3,424
2020	1,392
Thereafter	2,492
	$ 30,311

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, 2015, 30,311 thousand (2014 - $37,118 thousand) was outstanding under these facilities. The effective interest rate at December 31, 2015 was 3.6% (2014 - 3.9%).

c) Cash paid for interest during the year is $1,212 thousand (2014 - $1,434 thousand).

5. Accrued Employee Benefits

a) Retirement allowance, vacation and compensated absences

	2015	2014
Vacation	**$ 668**	$ 633
Retirement allowance - accrued liability	**886**	825
Compensated absences	**188**	147
	$ 1,742	$ 1,605

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 December 31, 2014. The results of this valuation were extrapolated to the financial reporting date of December 31, 2015 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:

	2015		2014	
	Retirement allowance	**Compensated absences**	Retirement allowance	Compensated absences
Accrued benefit obligation:				
Balance, beginning of year	**$ 723**	**$ 444**	$ 895	$ 214
Current service cost	**42**	**48**	49	16
Interest cost	**21**	**14**	34	8
Benefit payments	**-**	**(46)**	-	(18)
Amortization of net actuarial loss	**(52)**	**3**	(255)	224
Balance, end of year	**734**	**463**	723	444
Unamortized net actuarial gain/loss	**152**	**(275)**	102	(297)
Accrued benefit liability	**$ 886**	**$ 188**	$ 825	$ 147
Benefit expense consists of the following:				
Current service cost	**$ 42**	**$ 48**	$ 49	$ 16
Interest cost	**21**	**14**	34	8
Amortization of net actuarial loss	**(2)**	**25**	17	8
	$ 61	**$ 87**	$ 100	$ 32
Reconciliation of accrued benefit liability:				
Balance, beginning of year	**$ 825**	**$ 147**	$ 725	$ 133
Benefits expense	**61**	**87**	100	32
Benefits payments	**-**	**(46)**	-	(18)
Balance, end of year	**$ 886**	**$ 188**	$ 825	$ 147

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

	2015	2014
Valuation interest rate	2.8%	2.9%
General increases in pay	2.5%	2.5%

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, $759 thousand (2014 - $727 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, 2014 and it has an actuarial surplus.

6. Tangible Capital Assets

	Net Book Value 2015	2014
Land	**$ 390**	$ 390
Buildings	**2,105**	2,263
Fleet assets	**55,969**	56,272
Equipment	**3,656**	3,462
	$ 62,120	$ 62,387

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

The net book value of fleet assets and property not yet in service is $5,218 thousand (2014 - $2,254 thousand), and equipment not yet in service is $nil thousand (2014 - $nil).

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

7. Accumulated Surplus

	Budget 2015	Actual 2015	Actual 2014
Contributed surplus	**11,425**	**$ 11,425**	$ 11,425
Invested in tangible capital assets	**37,779**	**31,809**	25,269
Operating	**(28,347)**	**(20,694)**	(14,885)
	20,857	**$ 22,540**	$ 21,809

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 $42,671 thousand and (2014 - $46,971 thousand) to The City of Winnipeg.

b) An amount of $1,152 thousand (2014 - $1,219 thousand) has been transferred to the General Revenue Fund for operator training and miscellaneous services.

c) An amount of $900 thousand (2014 - $894 thousand) has been transferred to the Municipal Accommodations Fund for the rental of office and garage space, and miscellaneous services.

d) An amount of $1 thousand (2014 - $2 thousand) has been transferred to the Parking Services Agency for miscellaneous services.

e) An amount of $92 thousand (2014 - $1,842 thousand) has been transferred to the General Revenue Fund as a return on investment.

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 2015	Total 2014
Cost						
Balance, beginning of year	**$ 390**	**$ 3,756**	**$ 140,858**	**$ 6,978**	**$ 151,982**	$ 146,731
Add:						
Additions during the year	**-**	**8**	**13,614**	**534**	**14,156**	7,413
Less:						
Disposals during the year	**-**	**-**	**(6,915)**	**(53)**	**(6,968)**	(2,162)
Balance, end of year	**390**	**3,764**	**147,557**	**7,459**	**159,170**	151,982
Accumulated amortization						
Balance, beginning of year	**-**	**1,493**	**84,586**	**3,516**	**89,595**	77,082
Add:						
Amortization	**-**	**166**	**13,474**	**339**	**13,979**	14,592
Less:						
Accumulated amortization on disposals	**-**	**-**	**(6,472)**	**(52)**	**(6,524)**	(2,079)
Balance, end of year	**-**	**1,659**	**91,588**	**3,803**	**97,050**	89,595
Net Book Value of Tangible Capital Assets	**$ 390**	**$ 2,105**	**$ 55,969**	**$ 3,656**	**$ 62,120**	$ 62,387