Financial Statements of

THE CITY OF WINNIPEG - FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

Year ended December 31, 2016

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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, 2016 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, 2016, 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 27, 2017

Winnipeg, Canada

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

STATEMENT OF FINANCIAL POSITION

As at December 31
(in thousands of dollars)

	2016	2015
FINANCIAL ASSETS		
Cash	**$ 37**	$ -
Accounts receivable	**125**	95
	162	95
LIABILITIES		
Due to The City of Winnipeg - General Revenue Fund (Note 3)	**9,922**	7,977
Accounts payable and accrued liabilities	**1,029**	1,740
Debt (Note 4)	**30,012**	30,489
Other liabilities (Note 5)	**410**	-
Accrued employee benefits (Note 6a)	**1,853**	1,742
	43,226	41,948
NET FINANCIAL LIABILITIES	**(43,064)**	(41,853)
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 7)	**62,353**	62,120
Inventories	**1,659**	1,736
Prepaid expenses	**603**	537
	64,615	64,393
ACCUMULATED SURPLUS	**$ 21,551**	$ 22,540

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 2016	Actual 2016	Actual 2015
REVENUES			
Fleet leases	**$ 28,229**	**$ 25,285**	$ 25,763
Services and parts revenue (Schedule 1)	**8,182**	**8,916**	8,021
Fuel sales	**10,078**	**6,355**	6,921
Rental income	**3,755**	**3,884**	3,492
Gain on sale of tangible capital assets	**300**	**1,721**	788
Transfer from The City of Winnipeg - Innovative Capital Fund (note 9f)	**-**	**371**	-
Total Revenues	**50,544**	**46,532**	44,985
EXPENSES			
Amortization	**14,756**	**14,028**	13,980
Salaries and employee benefits	**11,426**	**10,004**	9,333
Services	**7,776**	**9,910**	8,569
Supplies	**12,255**	**9,558**	9,652
Interest (Notes 3 and 4)	**1,429**	**1,040**	1,198
Other expenses	**1,642**	**1,489**	1,430
Total Expenses	**49,284**	**46,029**	44,162
Annual Surplus Before Other	**1,260**	**503**	823
OTHER			
Transfer to The City of Winnipeg - General Revenue Fund (Note 9e)	**1,492**	**1,492**	92
Annual (Deficit) Surplus	**$ (232)**	**(989)**	731
ACCUMULATED SURPLUS, BEGINNING OF YEAR		**22,540**	21,809
ACCUMULATED SURPLUS, END OF YEAR		**$ 21,551**	$ 22,540

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)

	2016	2015
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Annual (Deficit) Surplus	**$ (989)**	$ 731
Non-cash charges to operations		
Amortization	**14,028**	13,980
Gain on sale of tangible capital assets	**(1,721)**	(788)
	11,318	13,923
Net change in non-cash working capital balances related to operations	**(209)**	613
Cash provided by operating activities	**11,109**	14,536
CAPITAL		
Acquisition of tangible capital assets	**(14,769)**	(14,156)
Proceeds on disposal of tangible capital assets	**2,229**	1,231
Cash used in capital activities	**(12,540)**	(12,925)
FINANCING		
Change in due to/from The City of Winnipeg - General Revenue Fund	**1,945**	5,196
Proceeds from term loans	**9,700**	4,200
Repayment of term loans	**(10,177)**	(11,007)
Cash provided by (used in) financing activities	**1,468**	(1,611)
Increase in cash	**37**	-
CASH, BEGINNING OF YEAR	-	-
CASH, END OF YEAR	**$ 37**	$ -

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 2016	Actual 2016	Actual 2015
ANNUAL (DEFICIT) SURPLUS	**$ (232)**	**$ (989)**	$ 731
Amortization of tangible capital assets	**14,756**	**14,028**	13,980
Proceeds on disposal of tangible capital assets	**300**	**2,229**	1,231
Change in inventories and prepaid expenses	**(46)**	**11**	(2)
Gain on sale of tangible capital assets	**(300)**	**(1,721)**	(788)
Acquisition of tangible capital assets	**(26,215)**	**(14,769)**	(14,156)
(INCREASE) DECREASE IN NET FINANCIAL LIABILITIES	**(11,737)**	**(1,211)**	996
NET FINANCIAL LIABILITIES, BEGINNING OF YEAR	**(42,850)**	**(41,853)**	(42,849)
NET FINANCIAL LIABILITIES, END OF YEAR	**$ (54,587)**	**$ (43,064)**	$ (41,853)

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, 2016
(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, 2016 effective interest rate was 0.35% (2015 - 0.35%). As well, the Agency has negotiated an operating line of credit up to $20 million 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 $32 thousand (2015 - $9 thousand)
Interest received from The City of Winnipeg - General Revenue Fund is $nil (2015 - $2 thousand).

4. Debt

Lender	Maturity Date	Interest Rate	**2016**	2015
Royal Bank of Canada (Note 4b)	2017 - 2024	1.90% - 5.20%	**$ 9,225**	$ 13,250
The Toronto-Dominion Bank (Note 4b)	2017 - 2026	1.5% - 4.14%	**20,609**	17,061
			29,834	30,311
The City of Winnipeg - non-interest bearing, no repayment schedule			**178**	178
			$ 30,012	$ 30,489

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

2017	$ 9,023
2018	7,431
2019	4,838
2020	2,437
2021	1,893
Thereafter	4,212
	$ 29,834

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, 2016, $29,834 thousand (2015 - $30,311 thousand) was outstanding under these facilities. The effective interest rate at December 31, 2016 was 3.33% (2015 - 3.6%).

c) Cash paid for interest during the year is $1,020 thousand (2015 - $1,212 thousand).

5. Other liability

	2016	2015
Environmental liability	**$ 410**	$ -

The agency has estimated an environmental liability for its former fuel site that has been decomissioned containing soil contamination with petrol hydro carbon products. There was an environmental assessment that stated contamination levels above the Canadian Council of Ministers of the Environment (CCME) criteria.

6. Accrued Employee Benefits

a) Retirement allowance, vacation and compensated absences

	2016	2015
Retirement allowance - accrued liability	**$ 937**	$ 886
Vacation	**686**	668
Compensated absences	**230**	188
	$ 1,853	$ 1,742

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.

6. Accrued Employee Benefits (continued)

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, 2016 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.

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

	2016		2015	
	Retirement allowance	**Compensated absences**	Retirement allowance	Compensated absences
Accrued benefit obligation:				
Balance, beginning of year	**$ 734**	**463**	$ 723	$ 444
Current service cost	**44**	**50**	42	48
Interest cost	**21**	**14**	21	14
Benefit payments	**(8)**	**(48)**	-	(46)
Amortization of net actuarial (gain)/loss	**(60)**	**(4)**	(52)	3
Balance, end of year	**731**	**475**	734	463
Unamortized net actuarial gain/(loss)	**206**	**(245)**	152	(275)
Accrued benefit liability	**$ 937**	**$ 230**	$ 886	$ 188
Benefit expense consists of the following:				
Current service cost	**$ 44**	**$ 50**	$ 42	$ 48
Interest cost	**21**	**14**	21	14
Amortization of net actuarial (gain)/loss	**(6)**	**26**	(2)	25
	$ 59	**$ 90**	$ 61	$ 87
Reconciliation of accrued benefit liability:				
Balance, beginning of year	**$ 886**	**$ 188**	$ 825	$ 147
Benefits expense	**59**	**90**	61	87
Benefits payments	**(8)**	**(48)**	-	(46)
Balance, end of year	**$ 937**	**$ 230**	$ 886	$ 188

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

	2016	2015
Valuation interest rate	**3.0%**	2.8%
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.

6. Accrued Employee Benefits (continued)

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, $810 thousand (2015 - $759 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, 2015 and it has an actuarial surplus.

7. Tangible Capital Assets

	Net Book Value	
	2016	2015
Fleet assets	**$ 56,138**	$ 55,969
Equipment	**3,773**	3,656
Buildings	**2,052**	2,105
Land	**390**	390
	$ 62,353	$ 62,120

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 $3,531 thousand (2015 - $5,218 thousand), and equipment not yet in service is nil (2015 - $nil).

8. Accumulated Surplus

	Budget 2016	Actual 2016	Actual 2015
Contributed surplus	**$ 11,425**	**$ 11,425**	$ 11,425
Invested in tangible capital assets	**45,131**	**32,519**	31,809
Operating	**(33,521)**	**(22,393)**	(20,694)
	$ 23,035	**$ 21,551**	$ 22,540

9. 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 $43,595 thousand and (2015 - $42,671 thousand) to The City of Winnipeg.

b) An amount of $457 thousand (2015 - $1,152 thousand) has been transferred to the General Revenue Fund for miscellaneous services.

c) An amount of $1,078 thousand (2015 - $900 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 (2015 - $1 thousand) has been transferred to the Parking Services Agency for miscellaneous services.

e) An amount of $1,492 thousand (2015 - $92 thousand) has been transferred to the General Revenue Fund as a return on investment.

f) An amount of $371 thousand (2015 - $nil) has been transferred to Fleet Management Agency from Innovative Capital Fund.

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 2016 (Unaudited)	Actual 2016	Actual 2015
Consumables and corrective maintenance	**$ 4,134**	**$ 5,200**	$ 3,736
Insurance revenue	**1,876**	**1,937**	1,824
Power tools	**803**	**803**	787
Manufacturing sales	**971**	**590**	718
Autopac rebate	**-**	**-**	611
Other	**232**	**222**	186
Provincial support grant	**166**	**164**	159
	$ 8,182	**$ 8,916**	$ 8,021

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 2016	Total 2015
Cost						
Balance, beginning of year	**$ 390**	**$ 3,764**	**$ 147,557**	**$ 7,459**	**$ 159,170**	$ 151,982
Add:						
Additions during the year	**-**	**171**	**13,880**	**718**	**14,769**	14,156
Less:						
Disposals during the year	**-**	**(54)**	**(11,885)**	**(218)**	**(12,157)**	(6,968)
Balance, end of year	**390**	**3,881**	**149,552**	**7,959**	**161,782**	159,170
Accumulated amortization						
Balance, beginning of year	**-**	**1,659**	**91,588**	**3,803**	**97,050**	89,595
Add:						
Amortization	**-**	**170**	**13,407**	**451**	**14,028**	13,979
Less:						
Accumulated amortization on disposals	**-**	**-**	**(11,581)**	**(68)**	**(11,649)**	(6,524)
Balance, end of year	**-**	**1,829**	**93,414**	**4,186**	**99,429**	97,050
Net Book Value of Tangible Capital Assets	**$ 390**	**$ 2,052**	**$ 56,138**	**$ 3,773**	**$ 62,353**	$ 62,120