Financial Statements of

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

Year ended December 31, 2017

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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, 2017 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.

*Auditors' 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, 2017, 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

May 18, 2018

Winnipeg, Canada

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

## STATEMENT OF FINANCIAL POSITION

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

| | **2017** | 2016 |
|---|---|---|
| ***FINANCIAL ASSETS*** | | |
| Cash | **$ 1** | $ 37 |
| Accounts receivable | **199** | 125 |
| | **200** | 162 |
| ***LIABILITIES*** | | |
| Due to The City of Winnipeg - General Revenue Fund (Note 3) | **15,446** | 9,922 |
| Accounts payable and accrued liabilities | **1,726** | 1,029 |
| Debt (Note 4) | **30,995** | 30,012 |
| Other liabilities (Note 5) | **81** | 410 |
| Accrued employee benefits (Note 6a) | **2,026** | 1,853 |
| | **50,274** | 43,226 |
| ***NET FINANCIAL LIABILITIES*** | **(50,074)** | (43,064) |
| ***NON-FINANCIAL ASSETS*** | | |
| Tangible capital assets (Note 7) | **69,307** | 62,353 |
| Inventories | **1,694** | 1,659 |
| Prepaid expenses | **618** | 603 |
| | **71,619** | 64,615 |
| ***ACCUMULATED SURPLUS*** | **$ 21,545** | $ 21,551 |

*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 2017 | Actual 2017 | Actual 2016 |
|---|---|---|---|
| ***REVENUES*** | | | |
| Fleet leases | **$ 28,068** | **$ 24,884** | $ 25,285 |
| Services and parts revenue (Schedule 1) | **7,655** | **8,416** | 8,916 |
| Fuel sales | **7,236** | **7,005** | 6,355 |
| Rental income | **3,651** | **3,868** | 3,884 |
| Gain on sale of tangible capital assets | **400** | **1,461** | 1,721 |
| Transfer from The City of Winnipeg - Innovative Capital Fund (Note 9f) | **-** | **-** | 371 |
| Total Revenues | **47,010** | **45,634** | 46,532 |
| ***EXPENSES*** | | | |
| Amortization | **14,743** | **14,052** | 14,028 |
| Salaries and employee benefits | **11,461** | **10,052** | 10,004 |
| Supplies | **10,076** | **9,575** | 9,558 |
| Services | **8,275** | **9,481** | 9,910 |
| Interest (Notes 3 and 4) | **1,154** | **1,003** | 1,040 |
| Other expenses | **1,575** | **1,385** | 1,489 |
| Total Expenses | **47,284** | **45,548** | 46,029 |
| Annual Surplus Before Other | **(274)** | **86** | 503 |
| ***OTHER*** | | | |
| Transfer to The City of Winnipeg - General Revenue Fund (Note 9e) | **92** | **92** | 1,492 |
| Annual (Deficit) Surplus | **$ (366)** | **(6)** | (989) |
| ***ACCUMULATED SURPLUS, BEGINNING OF YEAR*** | | **21,551** | 22,540 |
| ***ACCUMULATED SURPLUS, END OF YEAR*** | | **$ 21,545** | $ 21,551 |

*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)*

| | **2017** | 2016 |
|---|---|---|
| ***NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:*** | | |
| ***OPERATING*** | | |
| Annual (Deficit) Surplus | **$ (6)** | $ (989) |
| Non-cash charges to operations | | |
| Amortization | **14,052** | 14,028 |
| Gain on sale of tangible capital assets | **(1,461)** | (1,721) |
| | **12,585** | 11,318 |
| Net change in non-cash working capital balances related to operations | **417** | (209) |
| Cash provided by operating activities | **13,002** | 11,109 |
| ***CAPITAL*** | | |
| Acquisition of tangible capital assets | **(22,055)** | (14,769) |
| Proceeds on disposal of tangible capital assets | **2,510** | 2,229 |
| Cash used in capital activities | **(19,545)** | (12,540) |
| ***FINANCING*** | | |
| Change in due to The City of Winnipeg - General Revenue Fund | **5,524** | 1,945 |
| Proceeds from term loans | **10,900** | 9,700 |
| Repayment of term loans | **(9,917)** | (10,177) |
| Cash provided by (used in) financing activities | **6,507** | 1,468 |
| Increase/(Decrease) in cash | **(36)** | 37 |
| ***CASH, BEGINNING OF YEAR*** | 37 | - |
| ***CASH, END OF YEAR*** | **$ 1** | $ 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 2017 | Actual 2017 | Actual 2016 |
|---|---|---|---|
| ***ANNUAL (DEFICIT) SURPLUS*** | **$ (366)** | **$ (6)** | $ (989) |
| Amortization of tangible capital assets | **14,743** | **14,052** | 14,028 |
| Proceeds on disposal of tangible capital assets | **400** | **2,510** | 2,229 |
| Change in inventories and prepaid expenses | **(47)** | **(50)** | 11 |
| Gain on sale of tangible capital assets | **(400)** | **(1,461)** | (1,721) |
| Acquisition of tangible capital assets | **(20,253)** | **(22,055)** | (14,769) |
| ***(INCREASE) DECREASE IN NET FINANCIAL LIABILITIES*** | **(5,923)** | **(7,010)** | (1,211) |
| ***NET FINANCIAL LIABILITIES, BEGINNING OF YEAR*** | **(46,615)** | **(43,064)** | (41,853) |
| ***NET FINANCIAL LIABILITIES, END OF YEAR*** | **$ (52,538)** | **$ (50,074)** | $ (43,064) |

*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, 2017*
*(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.

## *2. Significant Accounting Policies (continued)*

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.

**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.

## 2. *Significant Accounting Policies (continued)*

### 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.

### g) Accounting policy changes

The Public Sector Accounting Board issued updated standards, PS 3210 Asset, PS 3320 Contingent Assets and PS 3390 Contractual Rights. The new standards apply to the Agency for the fiscal year beginning January 1, 2018. As permitted in the standards, the Agency adopted these standards for the year ended December 31, 2017 and thus, they have been utilized for the preparation of these consolidated financial statements. As a result of this adoption, other than the addition of note 10, no material impacts on the consolidated financial statements occurred.

## 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, 2017 effective interest rate was 0.85% (2016 - 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 $68 thousand (2016 - $32 thousand)

## 4. *Debt*

| Lender | Maturity Date | Interest Rate | 2017 | 2016 |
|---|---|---|---|---|
| Royal Bank of Canada (Note 4b) | 2018 - 2024 | 1.90% - 5.20% | **$ 6,057** | $ 9,225 |
| The Toronto-Dominion Bank (Note 4b) | 2018 - 2026 | 1.5% - 4.14% | **24,760** | 20,609 |
| | | | **30,817** | 29,834 |
| The City of Winnipeg - non-interest bearing, no repayment schedule | | | **178** | 178 |
| | | | **$ 30,995** | $ 30,012 |

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

| | |
|---|---|
| 2018 | $ 8,948 |
| 2019 | 6,329 |
| 2020 | 3,961 |
| 2021 | 3,313 |
| 2022 | 2,847 |
| Thereafter | 5,419 |
| | $ 30,817 |

***4. Debt (continued)***

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, 2017, $30,817 thousand (2016 - $29,834 thousand) was outstanding under these facilities. The effective interest rate at December 31, 2017 was 3.08% (2016 - 3.33%).

c) Cash paid for interest during the year is $927 thousand (2016 - $1,020 thousand).

***5. Other liability***

| | **2017** | 2016 |
|---|---|---|
| **Environmental liability** | **$ 81** | $ 410 |

The agency has estimated an environmental liability for its former fuel site that has been decommissioned 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**

| | **2017** | 2016 |
|---|---|---|
| Retirement allowance - accrued liability | **$ 983** | $ 937 |
| Vacation | **771** | 686 |
| Compensated absences | **272** | 230 |
| | **$ 2,026** | $ 1,853 |

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 13.3 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, 2017. The results of this valuation were extrapolated to the financial reporting date of December 31, 2017 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.

## 6. *Accrued Employee Benefits (continued)*

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

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Retirement allowance** | **Compensated absences** | Retirement allowance | Compensated absences |
| Accrued benefit obligation: | | | | |
| Balance, beginning of year | **$ 731** | **$ 475** | $ 734 | $ 463 |
| Current service cost | **44** | **50** | 44 | 50 |
| Interest cost | **22** | **15** | 21 | 14 |
| Benefit payments | **(11)** | **(48)** | (8) | (48) |
| Amortization of net actuarial (gain)/loss | **(93)** | **4** | (60) | (4) |
| Balance, end of year | **693** | **496** | 731 | 475 |
| Unamortized net actuarial gain/(loss) | **290** | **(224)** | 206 | (245) |
| Accrued benefit liability | **$ 983** | **$ 272** | $ 937 | $ 230 |
| Benefit expense consists of the following: | | | | |
| Current service cost | **$ 44** | **$ 50** | $ 44 | $ 50 |
| Interest cost | **22** | **15** | 21 | 14 |
| Amortization of net actuarial (gain)/loss | **(9)** | **25** | (6) | 26 |
| | **$ 57** | **$ 90** | $ 59 | $ 90 |
| Reconciliation of accrued benefit liability: | | | | |
| Balance, beginning of year | **$ 937** | **$ 230** | $ 886 | $ 188 |
| Benefits expense | **57** | **90** | 59 | 90 |
| Benefits payments | **(11)** | **(48)** | (8) | (48) |
| Balance, end of year | **$ 983** | **$ 272** | $ 937 | $ 230 |

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

| | **2017** | 2016 |
|---|---|---|
| Valuation interest rate | **3.0%** | 3.0% |
| 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, $819 thousand (2016 - $810 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, 2016 and it has an actuarial surplus.

## 7. *Tangible Capital Assets*

| | Net Book Value 2017 | 2016 |
|---|---|---|
| Fleet assets | **$ 63,210** | $ 56,138 |
| Equipment | **3,541** | 3,773 |
| Buildings | **2,166** | 2,052 |
| Land | **390** | 390 |
| | **$ 69,307** | $ 62,353 |

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 $3,769 thousand (2016 - $3,531 thousand).

## 8. *Accumulated Surplus*

| | Budget 2017 | Actual 2017 | Actual 2016 |
|---|---|---|---|
| Contributed surplus | **$ 11,425** | **$ 11,425** | $ 11,425 |
| Invested in tangible capital assets | **37,510** | **38,490** | 32,519 |
| Operating | **(28,291)** | **(28,370)** | (22,393) |
| | **$ 20,644** | **$ 21,545** | $ 21,551 |

## 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 $43,161 thousand and (2016 - $43,595 thousand) to The City of Winnipeg.

b) An amount of $396 thousand (2016 - $457 thousand) has been transferred to the General Revenue Fund for miscellaneous services.

c) An amount of $1,385 thousand (2016 - $1,078 thousand) has been transferred to the Municipal Accommodations Fund for the rental of office and garage space, building and leasehold improvements, and miscellaneous services.

d) An amount of $nil thousand (2016 - $1 thousand) has been transferred to the Parking Services Agency for miscellaneous services.

e) An amount of $92 thousand (2016 - $1,492 thousand) has been transferred to the General Revenue Fund as a return on investment.

f) An amount of $nil thousand (2016 - $371) has been transferred to Fleet Management Agency from Innovative Capital Fund.

## *10. Contractual Rights*

The Agency enters into capital lease agreement with City departments and other SOAs which are rights to economic resources that result in capital lease revenue in the future.

Future capital lease revenue from contractual rights for the next five years are as follows:

| | | |
|---|---|---|
| 2018 | $ | 15,116 |
| 2019 | | 13,099 |
| 2020 | | 10,722 |
| 2021 | | 8,211 |
| 2022 | | 6,209 |
| Thereafter | | 10,280 |
| | $ | 63,637 |

# 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 2017 (Unaudited)** | **Actual 2017** | Actual 2016 |
|---|---|---|---|
| Consumables and corrective maintenance | **$ 3,906** | **$ 4,636** | $ 5,200 |
| Insurance revenue | **1,907** | **1,935** | 1,937 |
| Power tools | **795** | **795** | 803 |
| Manufacturing sales | **750** | **564** | 590 |
| Other | **130** | **314** | 222 |
| Provincial support grant | **167** | **172** | 164 |
| | **$ 7,655** | **$ 8,416** | $ 8,916 |

# 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 2017 | Total 2016 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance, beginning of year | **$ 390** | **$ 3,881** | **$ 149,552** | **$ 7,959** | **$ 161,782** | $ 159,170 |
| Add: | | | | | | |
| Additions during the year | **-** | **295** | **21,397** | **363** | **22,055** | 14,769 |
| Less: | | | | | | |
| Disposals during the year | **-** | **-** | **(11,875)** | **(11)** | **(11,886)** | (12,157) |
| Balance, end of year | **390** | **4,176** | **159,074** | **8,311** | **171,951** | 161,782 |
| **Accumulated amortization** | | | | | | |
| Balance, beginning of year | **-** | **1,829** | **93,414** | **4,186** | **99,429** | 97,050 |
| Add: | | | | | | |
| Amortization | **-** | **181** | **13,276** | **595** | **14,052** | 14,028 |
| Less: | | | | | | |
| Accumulated amortization on disposals | **-** | **-** | **(10,826)** | **(11)** | **(10,837)** | (11,649) |
| Balance, end of year | **-** | **2,010** | **95,864** | **4,770** | **102,644** | 99,429 |
| **Net Book Value of Tangible Capital Assets** | **$ 390** | **$ 2,166** | **$ 63,210** | **$ 3,541** | **$ 69,307** | $ 62,353 |