Financial Statements of

THE CITY OF WINNIPEG - FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

And Independent Auditors' Report thereon

Year ended December 31, 2020

KPMG LLP
1900 - 360 Main Street
Winnipeg MB
R3C 3Z3

Telephone (204) 957-1770
Fax (204) 957-0808
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of The City of Winnipeg - Fleet Management - Special Operating Agency (the "Entity"), which comprise the statement of financial position as at December 31, 2020, the statements of operations and accumulated surplus, cash flows and change in net financial liabilities for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2020, its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Chartered Professional Accountants

Winnipeg, Canada

May 5, 2021

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

STATEMENT OF FINANCIAL POSITION

As at December 31
(in thousands of dollars)

	2020	2019
FINANCIAL ASSETS		
Cash	**$ 1**	$ 1
Accounts receivable	**304**	279
	305	280
LIABILITIES		
Due to The City of Winnipeg - General Revenue Fund (Note 3)	**340**	2,028
Accounts payable and accrued liabilities	**3,145**	2,396
Debt (Note 4)	**47,061**	46,956
Accrued employee benefits (Note 5a)	**2,112**	2,037
	52,658	53,417
NET FINANCIAL LIABILITIES	**(52,353)**	(53,137)
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 6)	**73,609**	73,622
Inventories	**1,598**	1,786
Prepaid expenses	**615**	619
	75,822	76,027
ACCUMULATED SURPLUS (Note 7)	**$ 23,469**	$ 22,890

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 2020	Actual 2020	Actual 2019
REVENUES			
Fleet leases	**$ 27,907**	**$ 26,002**	$ 26,657
Services and parts revenue (Schedule 1)	**9,475**	**8,792**	9,970
Fuel sales	**8,160**	**6,290**	8,450
Rental income	**4,621**	**5,119**	3,928
Gain on sale of tangible capital assets	**800**	**1,287**	1,390
Transfer from The City of Winnipeg - Innovative Capital Fund (Note 8e)	**-**	**-**	96
Total Revenues (Note 8a)	**50,963**	**47,490**	50,491
EXPENSES			
Amortization	**15,528**	**15,368**	15,360
Salaries and employee benefits	**10,238**	**9,914**	10,284
Services	**9,924**	**9,827**	9,267
Supplies	**11,237**	**9,266**	11,502
Interest (Notes 3 and 4)	**1,615**	**1,224**	1,304
Other expenses	**1,220**	**1,220**	1,451
Total Expenses	**49,762**	**46,819**	49,168
Annual Surplus Before Other	**1,201**	**671**	1,323
OTHER			
Transfer to The City of Winnipeg - General Revenue Fund (Note 8d)	**92**	**92**	242
Annual Surplus	**$ 1,109**	**579**	1,081
ACCUMULATED SURPLUS, BEGINNING OF YEAR		**22,890**	21,809
ACCUMULATED SURPLUS, END OF YEAR		**$ 23,469**	$ 22,890

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)

	2020	2019
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Annual Surplus	**$ 579**	$ 1,081
Non-cash charges to operations		
Amortization	**15,368**	15,360
Gain on sale of tangible capital assets	**(1,287)**	(1,390)
	14,660	15,051
Net change in non-cash working capital balances related to operations	**991**	1,116
Cash provided by operating activities	**15,651**	16,167
CAPITAL		
Acquisition of tangible capital assets	**(15,880)**	(14,882)
Proceeds on disposal of tangible capital assets	**1,812**	1,861
Cash used in capital activities	**(14,068)**	(13,021)
FINANCING		
Change in due to The City of Winnipeg - General Revenue Fund	**(1,688)**	(12,737)
Proceeds from term loans	**10,000**	19,300
Repayment of term loans	**(9,895)**	(9,759)
Cash used in financing activities	**(1,583)**	(3,196)
Decrease in cash	**-**	(50)
CASH, BEGINNING OF YEAR	**1**	51
CASH, END OF YEAR	**$ 1**	$ 1

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 2020	Actual 2020	Actual 2019
ANNUAL SURPLUS	**$ 1,109**	**$ 579**	$ 1,081
Amortization of tangible capital assets	**15,528**	**15,368**	15,360
Proceeds on disposal of tangible capital assets	**800**	**1,812**	1,861
Change in inventories and prepaid expenses	**153**	**192**	(88)
Gain on sale of tangible capital assets	**(800)**	**(1,287)**	(1,390)
Acquisition of tangible capital assets	**(16,082)**	**(15,880)**	(14,882)
DECREASE (INCREASE) IN NET FINANCIAL LIABILITIES	**708**	**784**	1,942
NET FINANCIAL LIABILITIES, BEGINNING OF YEAR	**(64,740)**	**(53,137)**	(55,079)
NET FINANCIAL LIABILITIES, END OF YEAR	**$ (64,032)**	**$ (52,353)**	$ (53,137)

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, 2020
(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 (the "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.

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This resulted in governments worldwide, including Canada's federal, provincial and local governments enacting emergency measures to combat the spread of the virus. These measures resulted in the temporary shutdown of various programs and services.

Management assessed the financial impact on the Agency and as at December 31, 2020, the Agency did not have significant accounting estimate adjustments to reflect the implications of COVID-19. Management believes it has sufficient liquidity to sustain operations.

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 surplus (deficit), 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.

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.

3. *Due to/from The City of Winnipeg - General Revenue Fund (continued)*

The December 31, 2020 effective interest rate was 0.20% (2019 - 1.60%). 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 $12 thousand (2019 - $170 thousand). Interest received from The City of Winnipeg - General Revenue Fund is $1 thousand (2019 - $2 thousand).

4. *Debt*

Lender	Maturity Date	Interest Rate	**2020**	2019
The Toronto-Dominion Bank (Note 4b)	2020 - 2035	1.48% - 4.14%	**$ 23,862**	$ 18,348
Bank of Montreal (Note 4b)	2020 - 2034	2.38% - 2.92%	**15,947**	18,474
Royal Bank of Canada (Note 4b)	2020 - 2025	2.66% - 3.19%	**7,074**	9,956
			46,883	46,778
The City of Winnipeg - non-interest bearing, no repayment schedule			**178**	178
			$ 47,061	$ 46,956

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

2021	$ 10,367
2022	9,445
2023	7,972
2024	6,048
2025	4,533
Thereafter	8,696
	$ 47,061

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, 2020, $46,883 thousand (2019 - $46,778 thousand) was outstanding under these facilities. The effective interest rate at December 31, 2020 was 2.59% (2019 - 2.70%).

c) Cash paid for interest during the year is $1,220 thousand (2019 - $1,088 thousand).

5. *Accrued Employee Benefits*

a) Retirement allowance, vacation and compensated absences

	2020	2019
Retirement allowance - accrued liability	**$ 960**	$ 951
Vacation	**740**	724
Compensated absences	**412**	362
	$ 2,112	$ 2,037

5. Accrued Employee Benefits (continued)

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 11.3 years (2019 - 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, 2020. The results of this valuation were extrapolated to the financial reporting date of December 31, 2020 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:

	2020		2019	
	Retirement allowance	**Compensated absences**	Retirement allowance	Compensated absences
Accrued benefit obligation:				
Balance, beginning of year	**$ 714**	**$ 556**	$ 673	$ 507
Current service cost	**48**	**64**	43	59
Interest cost	**19**	**15**	22	17
Benefit payments	**(42)**	**(55)**	(15)	(55)
Net actuarial (gain)/ loss	**(5)**	**(48)**	(9)	28
Balance, end of year	**734**	**532**	714	556
Unamortized net actuarial gain/(loss)	**226**	**(120)**	237	(194)
Accrued benefit liability	**$ 960**	**$ 412**	$ 951	$ 362
Benefit expense consists of the following:				
Current service cost	**$ 48**	**$ 64**	$ 43	$ 59
Interest cost	**19**	**15**	22	17
Amortization of net actuarial (gain)/loss	**(16)**	**26**	(14)	23
	$ 51	**$ 105**	$ 51	$ 99
Reconciliation of accrued benefit liability:				
Balance, beginning of year	**$ 951**	**$ 362**	$ 915	$ 318
Benefits expense	**51**	**105**	51	99
Benefits payments	**(42)**	**(55)**	(15)	(55)
Balance, end of year	**$ 960**	**$ 412**	$ 951	$ 362

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

	2020	2019
Valuation interest rate	**1.80%**	2.60%
General increases in pay	**2.50%**	2.50%

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.

5. *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, $815 thousand (2019 - $835 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, 2019 and it has an actuarial surplus.

6. *Tangible Capital Assets*

	Net Book Value	
	2020	2019
Fleet assets	**$ 67,204**	$ 66,737
Equipment	**3,501**	3,896
Buildings	**2,514**	2,599
Land	**390**	390
	$ 73,609	$ 73,622

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 $4,677 thousand (2019 - $4,610 thousand) which is included above.

7. *Accumulated Surplus*

	Budget 2020	**Actual 2020**	Actual 2019
Contributed surplus	**$ 11,425**	**$ 11,425**	$ 11,425
Invested in tangible capital assets	**23,521**	**26,386**	24,816
Operating	**(12,434)**	**(14,342)**	(13,351)
	$ 22,512	**$ 23,469**	$ 22,890

Invested in tangible capital assets represents equity in non-financial assets. The amount is determined based on tangible capital assets less debt. Debt for the calculation includes long-term balances as well as amounts included in the due to City of Winnipeg balance which were used to finance the purchase of tangible capital assets and will be converted to long-term debt in the future.

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 $44,254 thousand and (2019 - $47,616 thousand) to The City of Winnipeg.

b) An amount of $302 thousand (2019 - $507 thousand) has been transferred to the General Revenue Fund for miscellaneous services.

c) An amount of $847 thousand (2019 - $1,019 thousand) has been transferred to the Municipal Accommodations Fund for the rental of office and garage space, building and leasehold improvements, and miscellaneous services.

8. Related Party Transactions (continued)

d) An amount of $92 thousand (2019 - $242 thousand) has been transferred to the General Revenue Fund as a return on investment.

e) An amount of nil (2019 - $96 thousand) has been transferred to Fleet Management Agency from the Innovative Capital Fund.

9. 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 and thereafter are as follows:

2021	$ 15,772
2022	13,607
2023	10,516
2024	8,342
2025	6,035
Thereafter	12,099
	$ 66,371

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 2020	Actual 2020	Actual 2019
Consumables and corrective maintenance	**$ 5,356**	**$ 4,802**	$ 5,732
Insurance revenue	**2,101**	**1,941**	2,133
Manufacturing sales	**811**	**1,048**	979
Power tools	**688**	**688**	704
Other	**345**	**145**	251
Provincial support grant	**174**	**168**	171
	$ 9,475	**$ 8,792**	$ 9,970

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 2020	Total 2019
Cost						
Balance, beginning of year	**$ 390**	**$ 4,926**	**$ 168,547**	**$ 9,962**	**$ 183,825**	$ 182,277
Add:						
Additions during the year	**-**	**189**	**15,446**	**245**	**15,880**	14,882
Less:						
Disposals during the year	**-**	**(108)**	**(9,733)**	**(302)**	**(10,143)**	(13,334)
Balance, end of year	**390**	**5,007**	**174,260**	**9,905**	**189,562**	183,825
Accumulated amortization						
Balance, beginning of year	**-**	**2,327**	**101,810**	**6,066**	**110,203**	107,706
Add:						
Amortization	**-**	**198**	**14,559**	**611**	**15,368**	15,360
Less:						
Accumulated amortization on disposals	**-**	**(32)**	**(9,313)**	**(273)**	**(9,618)**	(12,863)
Balance, end of year	**-**	**2,493**	**107,056**	**6,404**	**115,953**	110,203
Net Book Value of Tangible Capital Assets	**$ 390**	**$ 2,514**	**$ 67,204**	**$ 3,501**	**$ 73,609**	$ 73,622