



Financial Statements

December 31, 2014



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Management's Responsibility For Financial Reporting

December 31, 2014

The consolidated financial statements have been prepared by management in accordance with Canadian public sector accounting standards, and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all of the notes to the consolidated financial statements and schedules, and for ensuring that this information is consistent, where appropriate, with the information contained in the consolidated financial statements. A summary of the significant accounting policies are described in Note 1 to the consolidated financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current period cannot be finalized with certainty until future periods.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced. The internal controls are designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the consolidated financial statements.

The Council is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control, and exercises these responsibilities through the Council. The Council reviews internal financial statements on a monthly basis and external audited consolidated financial statements yearly. The Council also discusses any significant financial reporting or internal control matters prior to their approval of the consolidated financial statements.

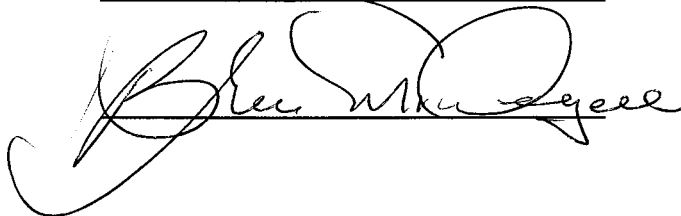
The external auditors, Grant Thornton LLP, conduct an independent examination, in accordance with Canadian auditing standards, and express their opinion on the consolidated financial statements. The external auditors have full and free access to financial management of the City of Summerside and meet when required. The accompanying Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the consolidated financial statements.

On behalf of the City of Summerside

CAO



Dep
Mayor





Independent Auditor's Report

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To His Worship the Mayor and
Members of the City Council

We have audited the accompanying consolidated financial statements of the City of Summerside, which comprise the consolidated statement of financial position as at December 31, 2014, the consolidated statements of operations, cash flows and changes in net debt for the year then ended, and 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 consolidated 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 consolidated 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 the 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the consolidated 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 City'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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the City of Summerside as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which explains that certain comparative information for the year ended December 31, 2013 has been restated.

Grant Thornton LLP

Summerside, Prince Edward Island

March 24, 2014

Chartered Accountants



Consolidated Statement of Operations
Year Ended December 31

	2014 Budget (Note 10)	2014 Actual	2013 Actual (Restated – Note 2)
Revenue			
Property taxes (Note 7)	\$ 7,631,732	\$ 7,732,629	\$ 7,579,488
Government transfers			
Equalization	1,503,363	1,518,396	1,503,363
Municipal support	5,260,840	5,313,448	5,260,840
Infrastructure	1,690,814	4,422,160	2,301,650
Other	-	49,320	52,200
Sale of electricity	17,916,922	18,009,076	17,260,255
Sale of water & sewer services	4,507,217	4,977,699	4,016,047
Internet services	554,704	622,716	557,830
Electro Thermal Storage Program sales	321,610	258,585	188,945
Fines and costs	125,000	105,829	122,644
Loss on sale	-	(22,982)	(40,184)
Third party revenue	2,126,418	2,606,860	2,446,835
	<u>41,638,620</u>	<u>45,593,736</u>	<u>41,249,913</u>
Expenses			
General government	4,913,658	2,191,973	1,745,399
Recreation programs	4,918,251	8,559,329	8,446,946
Protective services	4,467,768	4,977,814	5,198,398
Transportation services	3,701,442	5,141,009	4,959,448
Electric utility	16,547,961	14,448,740	14,049,997
Water & sewer utility	4,560,245	4,849,423	4,709,247
Internet services	555,648	672,417	605,497
Electro Thermal Storage Program	331,926	452,360	329,416
	<u>39,996,899</u>	<u>41,293,065</u>	<u>40,044,348</u>
Annual surplus before undernoted	\$ <u>1,641,721</u>	4,300,671	1,205,565
Pension obligation		<u>987,846</u>	<u>308,591</u>
Annual surplus		<u>\$ 5,288,517</u>	<u>\$ 1,514,156</u>
Accumulated surplus, beginning of year			
As previously stated		\$ 114,947,280	\$ 113,747,769
Prior period adjustment (Note 2)		<u>(4,880,832)</u>	<u>(5,195,477)</u>
As restated		110,066,448	108,552,292
Annual surplus		<u>5,288,517</u>	<u>1,514,156</u>
Accumulated surplus, end of year		<u>\$ 115,354,965</u>	<u>\$ 110,066,448</u>

See accompanying notes and schedules to the consolidated financial statements.



Consolidated Statement of Financial Position
December 31

	2014	2013 (Restated – Note 2)
Financial Assets		
Receivables	\$ 6,107,322	\$ 7,172,825
Restricted short term Investments	117,898	78,395
Sinking fund investments, at market value	<u>2,025,118</u>	<u>1,934,182</u>
	<u>8,250,338</u>	<u>9,185,402</u>
Liabilities		
Bank indebtedness (Note 3)	10,971,527	10,374,396
Payables and accruals		
Trade and customer deposits	7,693,678	5,263,248
Accrued interest	292,360	363,622
Deferred revenue	-	1,767,642
Long term debt (Note 4)	65,300,523	66,684,397
Sick leave (Note 5)	1,717,000	1,579,000
Pension benefit obligation (Note 6)	<u>3,925,304</u>	<u>4,979,091</u>
	<u>89,900,392</u>	<u>91,011,396</u>
NET FINANCIAL DEBT	<u>(81,650,054)</u>	<u>(81,825,994)</u>
Non-Financial Assets		
Tangible capital assets, net of amortization (Note 8)	195,370,357	190,503,409
Inventory of materials and supplies, at cost	<u>1,634,663</u>	<u>1,389,033</u>
	<u>197,005,020</u>	<u>191,892,442</u>
Accumulated surplus (Note 9)	<u>\$ 115,354,965</u>	<u>\$ 110,066,448</u>

Commitments and contingencies (Note 11)

On Behalf of the Council

On Behalf of Management



Consolidated Statement of Cash Flows
Year Ended December 31

	2014	2013 (Restated – Note 2)
Increase (decrease) in cash and cash equivalents		
Operating		
Annual surplus	\$ 5,288,517	\$ 1,514,157
Loss on sale of capital assets	22,982	40,184
Amortization	7,752,145	7,448,029
Change in non-cash operating working capital	1,411,410	(764,995)
Change in sick leave	138,000	45,548
Change in pension obligation	<u>(1,053,787)</u>	<u>(377,467)</u>
	<u>13,559,267</u>	<u>7,905,456</u>
Financing		
Change in long term debt	(1,383,874)	(3,134,757)
investing		
Change in short term investments	(39,503)	(16,907)
Change in sinking funds	<u>(90,936)</u>	<u>(126,390)</u>
	<u>(130,439)</u>	<u>(143,297)</u>
Capital		
Purchase of capital assets	(12,940,075)	(5,985,444)
Proceeds on sale of capital assets	<u>297,990</u>	<u>1,853</u>
	<u>(12,642,085)</u>	<u>(5,983,591)</u>
Net increase in bank indebtedness	(597,131)	(1,356,189)
Bank indebtedness, beginning of year	<u>(10,374,396)</u>	<u>(9,018,207)</u>
Bank indebtedness, end of year	<u>\$ (10,971,527)</u>	<u>\$ (10,374,396)</u>

See accompanying notes and schedules to the consolidated financial statements.



Consolidated Statement of Change in Net Debt
Year Ended December 31

	2014 Budget (Note 10)	2014 Actual	2013 Actual (Restated – Note 2)
Annual surplus (deficit)	\$ 1,641,721	\$ 5,288,517	\$ 1,514,157
Change in intangibles	-	-	3,473
Change in inventory	(245,622)	(245,624)	(76,574)
Loss on sale of capital assets	-	22,982	40,184
Proceeds on sale of capital assets	-	297,995	1,853
Acquisition of tangible capital assets, net	(12,507,843)	(12,940,075)	(5,985,448)
Amortization of tangible capital assets	<u>6,997,096</u>	<u>7,752,145</u>	<u>7,448,029</u>
(Decrease) increase in net debt	(4,114,648)	175,940	2,945,674
Net debt, beginning of year	<u>(81,825,994)</u>	<u>(81,825,994)</u>	<u>(84,771,668)</u>
Net debt, end of year	<u>\$ (85,940,642)</u>	<u>\$ (81,650,054)</u>	<u>\$ (81,825,994)</u>

See accompanying notes and schedules to the consolidated financial statements.



Notes to the Consolidated Financial Statements

December 31, 2014

1. Summary of significant accounting policies

The consolidated financial statements of the City of Summerside are prepared by management in accordance with Canadian Public Sector Accounting Standards of the Canadian Institute of Chartered Accountants. Significant aspects of the accounting policies adopted by the City are as follows:

a) Reporting entity

The consolidated financial statements reflect the assets, liabilities, revenues, expenses, and surplus of the reporting entity. The reporting entity is comprised of all organizations and committees that are accountable to the City for administration of their financial affairs and resources, and which are owned or controlled by the City.

b) Consolidated entities

In addition to the General Fund, the organizations included in the consolidated financial statements are as follows:

City of Summerside Electric Utility	City of Summerside Sewer Utility
City of Summerside Water Utility	Summerside Community Network
Electro Thermal Storage Program	

c) Basis of accounting

The accrual basis of accounting is used for all funds. The accrual basis of accounting recognizes revenues as they are earned and measurable; expenses are recognized as they are incurred and measurable as a result of legal obligation to pay.

d) Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with financial institutions. Bank borrowings are considered to be financing activities.

e) Revenues and expenditures

Major revenue and expenditure items are recorded on an accrual basis. Certain sources of revenue are recorded on a cash basis.

f) Investments

Short term investments consist of Guaranteed Investment Certificates and are recorded at quoted market value. Sinking fund investments consist of equity and fixed income investments and are recorded at quoted market value.



Notes to the Consolidated Financial Statements
December 31, 2014

1. Summary of significant accounting policies (cont'd)

g) 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 normal course of operations. The change in non-financial assets during the year, together with the excess of revenue over expenses, provides the consolidated change in net financial assets (net debt) for the year.

h) Tangible capital assets

Tangible capital assets and projects in progress are recorded at cost.

In compliance with Section 3150 the City records amortization of its assets over their estimated useful lives. The straight-line method of amortization is used. Amortization begins in the year following acquisition, except for major projects with revenue streams, for which amortization begins upon substantial completion.

Asset useful lives (in years)

Plants, Buildings, Structures	20-40
Equipment and Vehicles	
Engines – Generation	50
Internet/IT	5
Other Equipment and Vehicles	10-20
Electro Thermal Storage Equipment	10
Distribution and Collection Systems	
Electric	40
Water	83
Sewer	83
Summerside Community Network	7
Streets	
Local	25
Collector	10
Sidewalks	40
Storm lines	83
Wind Farm	25

i) Revenue recognition

a) Tax revenue is property tax billings which are received directly from the Province of Prince Edward Island. Taxes are billed based on the assessment rolls provided by the Province of Prince Edward Island at rates set by the City. Taxation revenue is recorded as it is received in monthly instalments from the Province of Prince Edward Island. Assessments and the related property taxes are subject to appeal to the Province of Prince Edward by residents. The City's revenue is adjusted for any of these appeals using a yearly statement.



Notes to the Consolidated Financial Statements

December 31, 2014

1. Summary of Significant Accounting Policies (cont'd)

Revenue recognition (cont'd)

- b) Government transfers are transfers of monetary assets or tangible assets from a government to an individual, an organization or another government that are not the result of an exchange transaction, expected to be repaid in the future or expected to produce a direct financial return. Government transfers received are recognized in the financial statements as revenue when the transfers are authorized and all eligibility criteria have been met except when there is a stipulation that gives rise to an obligation that meets the definition of a liability. In that case, the transfer is recorded as a liability and recognized as revenue as the stipulations are met.

Government transfers made to a recipient by the City are recorded as an expense when they are authorized and the recipient meets all eligibility criteria.

- c) Utility revenues are recorded when billed and receivable and collectability is reasonably assured.
- d) Other revenue is recorded when it is earned and collectability is reasonably assured.

j) Management estimates

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those reported. Significant estimates include pension amounts, severance amounts and the amortization of tangible capital assets.

k) Employee future benefits

The City accrues its obligations under employee future benefit plans and the related costs, net of plan assets. The costs of pensions earned by employees are actuarially determined using the accrued benefit method. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Past service costs from plan amendments are netted with outstanding unamortized actuarial gains/losses and recognized immediately. Current service costs are expensed during the year.

The excess of net actuarial gains/losses is amortized over the average remaining service period of active employees.



Notes to the Consolidated Financial Statements

December 31, 2014

2. Prior period adjustment

In previous periods, the City had reported their current service pension plan as a shared risk pension plan and accounted for it as a defined contribution plan in accordance with PSA Handbook Section PS 3250. The City has reassessed the plan attributes and considered evolving guidance in the area of shared risk plans and has determined that the City's plan has more attributes associated with a defined benefit plan than a defined contribution plan. Therefore, the City has changed its' accounting policy for the pension plan. Under PSA Handbook Section 3250 defined benefit pension plans, the Statement Financial Position should report the pension benefit liability and the Statement of Operations should report the expenses for retirement benefits. This change in accounting policy has been applied retroactively and the comparative financial statements presented have been restated as detailed in the table below.

The City also has a pension plan which covers employee service prior to November 1966. The City maintains a separate sinking fund from which all payments to retirees of the plan have been sourced. Prior to 2014 the City had recorded a liability equal to the balance of the sinking fund associated with the pension plan. As a result of management analysis and modelling the City has concluded that the balance of the sinking fund is not sufficient to fund the total of the expected future retiree payments. The pension obligation associated with the anticipated future payments, based on management estimates, has now been corrected with the amounts affecting prior years being adjusted on a retroactive basis.

The employee policies of the City allow for accumulation of other current and end of service payments. Adjustments have been made to the the following areas;

- a) Sick leave, that vests with the employee, has been previously recorded as a liability which equaled the sinking fund asset available to fund future payments. The City has adopted the recommendations of PSA Handbook Section 3255 Post-employment benefits, compensated absences and termination benefits and has recorded the liability to that determined by an actuarial report. This correction has been made retroactively and the comparative financial statements have been restated as detailed below.
- b) Accrued payroll and vacation pay, which were due to employees at the end of the year had not previously been recorded as a liability by the City. As a result of further consideration by management and changes in the balances payable during 2014 the City has chosen to record the liability. The impact of this correction has been applied retroactively and prior period balances have been restated.

The city has also restated prior periods to correctly record transactions associated with the reporting of naming rights and changes in reserves.



Notes to the Consolidated Financial Statements
December 31, 2014

2. Prior period adjustment (cont'd)

All of the above changes have been applied on a retroactive basis with an adjustment to prior periods. The impact on the consolidated financial statements is as follows

	Opening 2013 <u>Adjustment</u>	Impact on 2013 <u>Surplus</u>	Ending 2013 <u>Adjustment</u>
Accumulated surplus increase (decrease):			
Pension (current service) obligation	\$ (4,696,438)	\$ 308,591	\$ (4,387,847)
Pension (old plan) obligation	(385,780)		(385,780)
Sick Leave		149,717	149,717
Payroll accruals	(194,949)	(100,619)	(295,568)
Other matters	81,690	(43,044)	38,646
Surplus	<u>(5,195,477)</u>	<u>314,645</u>	<u>(4,880,832)</u>
	2013	2013	2013
	As reported	Adjustment	As restated
Statement of financial position:			
Payables and accruals	5,006,324	256,924	5,263,248
Sick Leave	1,728,717	(149,717)	1,579,000
Pension obligation	205,465	4,773,626	4,979,091

3. Bank indebtedness

Bank indebtedness consists of a \$3,213,955.24 advance on the City's line of credit and \$1,050,333.04 of outstanding deposits, transfers, cheques and other bank balances. The City has an authorized operating line of credit of \$6,000,000, with an interest rate of prime less .50%, of which, \$3,836,377.80 was unused at December 31, 2014. The City has a capital line of credit of \$11,500,000, which was used as interim funding for 2014 capital expenditures. The interest rate is prime less .50%.

At December 31, 2014 prime was 3.00%.



Notes to the Consolidated Financial Statements
December 31, 2014

4. Long term debt

	2014	2013
Long term		
Loans repaid during year.	\$ -	\$ 1,469,960
P-.65% Royal Bank demand loan, interest payable monthly .	6,450,000	6,450,000
P-.50% Metro Credit Union demand loan, interest payable monthly.	2,700,000	2,700,000
2.94% TD Canada Trust loan, payable in equal monthly instalments of \$1,127.10 including principal and interest, maturing in January 2015, amortized to January 2015.	169	13,479
3.41% TD Canada Trust loan, payable in equal monthly instalments of \$2,849.98 including principal and interest, maturing in December 2015, amortized to December 2025.	313,690	336,838
3.41% TD Canada Trust loan, payable in equal monthly instalments of \$1,069.27 including principal and interest, maturing in December 2015, amortized to December 2025.	117,703	126,388
3.41% TD Canada Trust loan, payable in equal monthly instalments of \$1,279.48 including principal and interest, maturing in December 2015, amortized to December 2025.	140,901	151,293
3.41% TD Canada Trust loan, payable in equal monthly instalments of \$3,716.92 including principal and interest, maturing in December 2015, amortized to December 2025 .	409,173	439,362
2.92% TD Canada Trust loan, payable in equal monthly instalments of \$2,244.34 including principal and interest, maturing in December 2015, amortized to December 2015.	26,569	52,361
3.44% TD Canada Trust loan, payable in equal monthly instalments of \$2,425.94 including principal and interest, maturing in December 2015, amortized to December 2030 .	358,467	375,022
3.44% TD Canada Trust loan, payable in equal monthly instalments of \$4,706.22 including principal and interest, maturing in December 2015, amortized to December 2030.	695,411	727,528
5.06% Bank of Montreal loan, principal of \$115,134.00 payable in three annual instalments, interest paid monthly, maturing in May 2016, amortized to December 2026.	2,672,294	3,017,696
3.47% TD Canada Trust loan, payable in equal monthly instalments of \$9,096.02, including principal and interest, maturing in December 2016, amortized to December 2016 .	212,903	312,855
4.92% Bank of Montreal loan, principal of \$32,858.33 payable in three annual instalments, interest paid monthly, maturing in December 2017, amortized to December 2027.	1,347,212	1,380,070



Notes to the Consolidated Financial Statements
December 31, 2014

4. Long term debt (cont'd)	2014	2013
2.17% TD Canada Trust loan, payable in equal monthly instalments of \$1,996.17 including principal and interest, maturing in December 2017, amortized to December 2017.	\$ 69,508	\$ 91,692
4.51% TD Canada Trust loan, payable in equal monthly instalments of \$5,468.86 including principal and interest, maturing in December 2019, amortized to December 2024.	531,692	572,566
4.66% TD Canada Trust loan, payable in equal monthly instalments of \$1,578.54 including principal and interest, maturing in December 2019, amortized to December 2029.	205,926	215,133
4.51% TD Canada Trust loan, payable in equal monthly instalments of \$22,818.61 including principal and interest, maturing in December 2019, amortized to December 2024.	2,218,465	2,389,011
3.13% Royal Bank loan, payable in equal monthly instalments of \$10,807.87 including principal and interest, maturing in December 2021, amortized to December 2021.	814,461	916,923
3.57% Royal Bank loan, payable in equal monthly instalments of \$5,415.78 including principal and interest, maturing in December 2021, amortized to December 2031.	827,453	862,233
3.57% Royal Bank loan, payable in equal monthly instalments of \$5,950.35 including principal and interest, maturing in December 2021, amortized to December 2031.	909,020	947,233
2.34% Royal Bank loan, payable in equal monthly instalments of \$2,054.14 including principal and interest, maturing in December 2016, amortized to December 2016.	48,119	71,348
3.08% TD Canada Trust loan, payable in equal monthly instalments of \$9,886.79 including principal and interest, maturing in December 2022, amortized to December 2032.	1,637,677	1,704,754
3.08% TD Canada Trust loan, payable in equal monthly instalments of \$4,796.47 including principal and interest, maturing in December 2022, amortized to December 2032.	794,502	827,043
2.74% TD Canada Trust loan, payable in equal monthly instalments of \$438.70 including principal and interest, maturing in December 2022, amortized to December 2022.	37,778	41,945
2.74% TD Canada Trust loan, payable in equal monthly instalments of \$10,183.55 including principal and interest, maturing in December 2022, amortized to December 2022.	876,945	973,678
2.74% TD Canada Trust loan, payable in equal monthly instalments of \$17,471.68, including principal and interest, maturing in December 2022, amortized to December 2022.	1,504,554	1,670,516



Notes to the Consolidated Financial Statements
December 31, 2014

4. Long term debt (cont'd)	2014	2013
2.63% TD Canada Trust loan, payable in equal monthly instalments of \$11,038.64 including principal and interest, maturing in May 2023, amortized to May 2023.	\$ 1,060,502	\$ 1,163,600
2.63% TD Canada Trust loan, payable in equal monthly instalments of \$998.95 including principal and interest, maturing in May 2023, amortized to May 2023.	95,970	105,300
2.63% TD Canada Trust loan, payable in equal monthly instalments of \$2,211.23 including principal and interest, maturing in May 2023, amortized to May 2023.	101,755	125,900
2.08% TD Canada Trust loan, payable in equal monthly instalments of \$2,406.09 including principal and interest, maturing in May 2023, amortized to May 2033.	418,827	435,000
2.97% TD Canada Trust loan, payable in equal monthly instalments of \$3,764.56 including principal and interest, maturing in May 2023, amortized to May 2033.	655,297	680,600
3.01% TD Canada Trust loan, payable in equal monthly instalments of \$11,575.86 including principal and interest, maturing in May 2023, amortized to May 2028.	1,585,276	1,675,000
2.63% TD Canada Trust loan, payable in equal monthly instalments of \$25,329.28 including principal and interest, maturing in May 2023, amortized to May 2023.	2,433,432	2,670,000
3.00% TD Canada Trust loan, payable in equal monthly instalments of \$10,282.84 including principal and interest, maturing in May 2024, amortized to May 2024.	1,012,000	-
3.00% TD Canada Trust loan, payable in equal monthly instalments of \$17,998.02 including principal and interest, maturing in May 2024, amortized to May 2024.	1,771,300	-
3.22% TD Canada Trust loan, payable in equal monthly instalments of \$3,046.78 including principal and interest, maturing in May 2024, amortized to May 2034.	528,400	-
3.22% TD Canada Trust loan, payable in equal monthly instalments of \$986.74 including principal and interest, maturing in May 2024, amortized to May 2034.	171,100	-
2.20% TD Canada Trust loan, payable in equal monthly instalments of \$669.64 including principal and interest, maturing in May 2019, amortized to May 2019.	33,800	-
3.00% TD Canada Trust loan, payable in equal monthly instalments of \$348.50 including principal and interest, maturing in May 2024, amortized to May 2024.	34,300	-



**Notes to the Consolidated Financial Statements
December 31, 2014**

4. Long term debt (cont'd)

	2014	2013
4.96% CIBC loan, total annual payment of \$2,399,120 with interest payable monthly and an annual principal payment, maturing in December 2027, amortized to December 2027.	\$ 22,590,677	\$ 23,808,877
4.28% CMHC loan, payable in equal annual instalments of \$603,341.07 including principal and interest, maturing in February 2030, amortized to February 2030.	<u>6,887,295</u>	<u>7,183,194</u>
Total long term debt	<u>\$ 65,300,523</u>	<u>\$ 66,684,397</u>

Prime rate at December 31, 2014 was 3.00 % (prime rate December 31, 2013 was 3.00%).

Scheduled principal repayments in each of the next five years are due as follows:

2015	\$ 4,139,990
2016	4,125,912
2017	4,129,962
2018	4,248,980
2019	<u>4,366,166</u>
	<u>\$ 21,022,010</u>

5. Sick leave

Employees of the City earn annual sick days that can accumulate to a maximum of 150 days during their employment. Employees are eligible for a pay-out of earned sick leave at their retirement. A maximum amount equal to 125 sick days is payable at the regular retirement date while a maximum pay-out based on 75 days is payable at early retirement. Amounts paid are calculated using the employee salary amounts at the time of retirement.

An actuarial valuation of the plan was prepared as of December 31, 2014. The principal long-term assumptions on which the valuation was based were;

	2014	2013
Discount rate	5.5%	5.5%
General pay increases	3.0%	3.0%
Terminations prior to eligibility	Based on Ontario Light Scale	
Accrued Liability	1,717,000	1,579,000
Sick leave sinking fund, market value	1,885,594	1,728,717



Notes to the Consolidated Financial Statements December 31, 2014

6. Pension plans

Pre 1966 service

The City maintains a non-contributory defined benefit final average pension plan, which covers employee services prior to November 1966. The plan provides pensions based on length of service and the final five-year average earnings. The most recent actuarial report was completed as of December 31, 1999. During the year management performed a sensitivity analysis on the remaining pensioners and determined the pension obligation was understated. Management increased the pension obligation in a prior period adjustment retrospectively in 2014 by \$385,780.

	2014	2013
Pension benefits paid	\$ 83,591	\$ 89,598
Net assets available for benefits	139,524	205,465
Accrued benefit obligation	525,304	591,246

Post 1966 service

The City maintains a separate contributory defined benefit career average pension plan which covers employee service after November 1966. The plan provides pensions based on a specific percentage of an individual's salary during all years of service. The average age of the 120 active employees covered by the plans is 46. There are 3 former employees who are entitled to deferred pension benefits. At present, the plans provide benefits for 67 retirees.

Effective September 1, 2013 both the City and plan members agreed to increase contributions from 9% to 12% of pensionable earnings. Future contribution rates will be subject to an annual review. In 2014, total contributions for current year's service were \$1,687,781 (2013 - \$1,658,219). Total benefit payments to retirees during the year were \$1,629,942 (2013 - \$1,525,730). A separate pension fund is maintained. Pension fund assets are invested primarily in marketable investments of organizations external to the government reporting entity, with some invested in fixed income instruments. The pension liability at December 31 includes the following components:

	2014	2013
Accrued benefit obligation	\$ 30,400,000	\$ 29,030,667
Actuarial value of assets	(27,000,000)	(24,642,821)
Pension plan deficit	3,400,000	4,387,846

Actuarial valuations for accounting purposes are performed annually using the accrued benefits actuarial cost method. The most recent actuarial report was prepared at December 31, 2013. The accrued benefit obligation shown for 2014 is based on an extrapolation of that 2013 valuation. There is a net unamortized actuarial loss to be amortized on a straight-line basis over the expected average remaining service life of the related employee groups (15 years).



Notes to the Consolidated Financial Statements
December 31, 2014

6. Pension plans (cont'd)

The actuarial valuation was based on a number of assumptions about future events, such as inflation rates, interest rates, wage and salary increases and employee turnover and mortality. The assumptions used reflect the City's best estimates. The expected inflation rate is 2.15 percent. The discount rate used to determine the accrued benefit obligation is 6.15 percent.

Pension fund assets are valued at actuarially determined market values. The expected rate of return on plan assets is 8.2%. The actual return on plan assets was 17.82 percent in 2013. Plan assets include Canadian, US and International Equities and Fixed Income estimated market value of \$29,711,199 (2013 — \$26,665,796).

The superannuation plan is a registered pension plan which allows employee contributions to be tax deductible by the employee and investment earnings in the trust funds to be tax sheltered. In order to maintain their registered status, the pension administrators must agree to administer the plan in accordance with certain rules set forth by Canada Revenue Agency.

	2013
Current year benefit cost	\$ 1,146,961
Interest on accrued benefit obligation	293,527
Actuarial gain	<u>(742,000)</u>
Employee future benefit expense	<u>\$ 698,488</u>

7. Property taxes	2014	2013
Commercial property tax	\$ 2,898,526	\$ 2,832,820
Non-commercial property tax	<u>4,834,103</u>	<u>4,746,668</u>
	<u>\$ 7,732,629</u>	<u>\$ 7,579,488</u>



Notes to the Consolidated Financial Statements
December 31, 2014

9. Accumulated surplus

The city aggregates its accumulated surplus in the following categories:

	2014	2013 (Restated – Note 2)
Reserve funds	\$ 2,142,801	\$ 878,970
Operating funds	<u>113,212,164</u>	<u>109,187,478</u>
	<u>\$115,354,965</u>	<u>\$110,066,448</u>
Reserve funds		
Balance, beginning of year	\$ 878,970	\$ 829,905
Allocations to reserves (net)	<u>1,263,831</u>	<u>49,065</u>
Balance, end of year	<u>\$ 2,142,801</u>	<u>\$ 878,970</u>
Comprised of		
City		
World Softball	\$ 36,467	\$ 37,216
Summerville raceway	193,963	136,401
Economic Development	175,000	175,000
Parkland Dedication	23,219	21,308
Financial reserve	753,230	-
Electric Utility		
Electric generator	50,000	50,000
Electric distribution	53,748	53,748
Future spending	392,302	392,302
Water & Sewer Utility		
Financial reserve	451,877	-
SCU Utility		
Debt reduction	<u>12,995</u>	<u>12,995</u>
	<u>\$ 2,142,801</u>	<u>\$ 878,970</u>



Notes to the Consolidated Financial Statements
December 31, 2014

10. Budget

Public Sector Accounting Standards require a comparison of the results for the period with those originally planned on the same basis as that used for actual results. The fiscal plan in the statement of operations and statement of changes in net debt has been adjusted to be presented on a consistent basis as actual results. Below is a reconciliation of the figures from the approved fiscal plan to the consolidated financial statements:

Statement of operations:

	Approved Budget	Less: Principal Debt Repayments	Add: Amortization	Less: Eliminations	Budget per Consolidated Financial Statements
Revenue	\$ 46,820,686	\$ -	\$ -	\$ 5,182,066	\$ 41,638,620
Expenses:					
General Government	6,026,560	(167,109)	117,630	1,063,423	4,913,658
Recreation programs	5,078,557	(1,556,261)	2,074,404	678,448	4,918,251
Protective services	4,384,307	(79,325)	233,824	71,039	4,467,768
Transportation services	2,857,935	(1,172,565)	2,517,504	501,432	3,701,442
Electric Utility	19,031,576	(941,000)	830,770	2,373,386	16,547,961
Water & Sewer Utility Summerville Community Network	4,846,695	(895,700)	1,085,932	476,682	4,560,245
Electro Thermal Storage Program	579,391	(119,300)	113,214	17,657	555,648
	321,609	(13,500)	23,817	-	331,926
	<u>43,126,630</u>	<u>\$ (4,944,760)</u>	<u>\$ 6,997,096</u>	<u>5,182,066</u>	<u>39,996,899</u>
Annual Surplus	3,694,056			\$ -	\$ 1,641,721
Capital Expenditures	(2,328,144)				
Approved Budget	<u>\$ 1,365,912</u>				

**Statement of changes
in net debt:**

	Approved Fiscal Plan	Adjustments	Adjusted Fiscal Plan
Annual Surplus	\$ 1,365,912	\$ 275,809	\$ 1,641,721
Change in Inventory	-	(245,622)	(245,622)
Acquisition of Tangible Capital Assets	(12,507,843)	-	(12,507,843)
Amortization of Tangible Capital Assets	-	6,997,096	6,997,096
Debt Principal Repayments	4,944,760	(4,944,760)	-
Change in Net Financial Debt	<u>\$ (6,197,170)</u>	<u>\$ 2,082,523</u>	<u>\$ (4,114,648)</u>



Notes to the Consolidated Financial Statements

December 31, 2014

11. Commitments and contingencies

The City has been named as defendant in several legal actions and is subject to various risks and contingencies arising in the normal course of business. The City is defending itself against these legal actions. The likelihood of any liability is not determinable at this time.

Two agreements for the purchase of power have been signed. The first agreement, which terminates in October 2028, is with West Cape Wind Energy Inc. for the purchase of wind generation power. The second agreement, which is with NB Power will terminate August 31, 2019.

The City has a maintenance agreement with Vestas–Canadian Wind Technology, Inc. Under the terms of the agreement the City is committed to an annual fee of \$99,637 per turbine until December 2024.

The City has provided a \$240,000 loan guarantee to a lender in support of a loan obtained by Downtown Summerside Inc. The principal balance of the loan at December 31, 2014 was \$90,000.

The City has agreed to pay Slemon Park Corporation \$85,000 annually until 2029 in connection with the development and operation of the wind farm.

During 2014, the City sold its internet service utility (SCN) to a third party. Under the terms of the agreement the City will receive a base price for the customer base and the operational assets. If the utility reaches certain future operational benchmarks additional consideration could be received by the City. The City has recorded the base proceeds in 2014. Any additional revenues will be recognized when the City is entitled to future payment.



Notes to the Consolidated Financial Statements

December 31, 2014

12. Segmented Reporting

The City is a diversified municipal unit that provides a wide range of services to its citizens. For management reporting purposes the City's operations and activities are organized and reported by fund. Funds were created for the purpose of recording specific activities to attain certain objectives in accordance with special regulations, restrictions or limitations. City services are provided by departments and their activity is reported in these funds. The services provided by these departments are as follows:

General Government

This segment includes departments that are responsible for the overall financial and local government administration. The tasks include, but are not limited to, daily accounting functions, preparation and coordination of the annual audited financial statements, coordination of the development of the annual budget, human resource functions for the entire municipal unit, economic development initiatives and maintenance of bylaws and policies. This would also include administrative and policy support for the Mayor and all members of City Council.

Recreation Programs

This segment is responsible for providing sports, recreation, cultural and leisure opportunities to the City's residents.

Protective Services

The city is responsible for providing police and fire protection for its residents. Other protective services provided include animal control.

Transportation Planning and Engineering

Services provided by our Public Works and Technical Services department are included in this segment. The following tasks are delivered by these departments: street maintenance, snow removal, planning and engineering services in the areas of land use and development and infrastructure.

Electric Utility

The city owns and operates its own electric utility, Summerville Electric. Operations include the purchase, sale, production, transmission and distribution of electricity to utility customers.

Water and Sewer Utilities

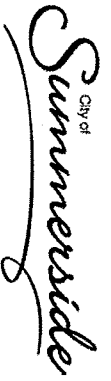
The city owns and operates its own water and sewer utilities. Operations of these two utilities include: provision of potable water to residents, maintenance and operation of the wastewater treatment plant, lagoons and sewer lift stations.

Internet Services

The Summerville Community Network department provides maintenance and operation to the municipality's computer systems (which include enterprise software solutions for the financial system, utility billing, software security, email, etc.) and provides internet services to customers that are located within the service coverage area.

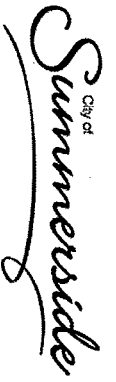
Electro Thermal Storage Program

This department offers water, space heating and furnace units capable of short term storage of heat energy. These units are available on a sale, lease or rental basis. Customers of Summerville Electric are eligible for discounted electrical rates which vary based on the specific unit(s) installed.



Schedule of Segmented Disclosure December 31, 2014

	General Government	Recreation Programs	Protective Services	Transportation Planning & Engineering	Electric Utility	Water & Sewer Utility	Internet Services	Electro Thermal Storage Program	Elimination	Consolidated 2014
Revenues										
Property taxes	\$ 7,732,629	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,732,629
Government transfers	1,518,396	-	-	-	-	-	-	-	-	1,518,396
Equalization	5,313,448	-	-	-	-	-	-	-	-	5,313,448
Municipal Support Grant	31,000	512,333	-	1,619,582	498,266	1,760,979	-	-	-	4,422,160
Infrastructure	-	49,320	-	-	-	-	-	-	-	49,320
Other	-	-	-	-	-	-	-	-	-	-
Wind Energy sales	2,835,167	-	-	-	-	-	-	-	(2,835,167)	-
Sale of Electricity	-	-	-	-	19,733,504	5,014,076	-	-	(1,724,428)	18,009,076
Sale of Water & Sewer Services	-	-	-	-	-	-	647,404	-	(36,377)	4,977,699
Internet Services	-	-	-	-	-	-	-	326,409	(24,688)	622,716
Electro Thermal Storage Program Sales	-	-	-	-	-	-	-	-	(67,824)	258,585
Fines and costs	-	-	105,829	-	-	-	-	-	-	105,829
Gain on sale	(116,287)	-	-	-	1,500	2,280	97,044	(7,519)	-	(22,982)
Third party revenue	430,023	1,963,496	112,665	100,676	-	-	-	-	-	2,606,860
	17,744,376	2,525,149	218,494	1,720,258	20,233,270	6,777,335	744,448	318,890	(4,688,484)	45,593,736
Expenditures										
Salaries & Benefits	1,547,250	2,474,162	3,549,745	775,450	1,998,347	1,271,278	194,718	112,475	-	11,923,425
Goods & Services	1,044,489	2,666,528	1,109,530	1,783,210	13,733,220	1,883,334	349,643	309,670	(4,688,484)	18,191,140
Amortization	861,003	2,074,404	233,824	2,517,504	830,770	1,097,609	113,214	23,817	-	7,752,145
Interest	290,174	1,344,234	84,716	64,846	669,119	582,213	14,843	6,397	-	3,056,542
Other	302,373	-	-	-	52,451	14,989	-	-	-	369,813
	4,045,289	8,559,328	4,977,815	5,141,010	17,283,907	4,849,423	672,418	452,359	(4,688,484)	41,293,065
Annual surplus (deficit)	\$ 13,699,087	\$ (6,034,179)	\$ (4,759,321)	\$ (3,420,752)	\$ 2,949,363	\$ 1,927,912	\$ 72,030	\$ (133,469)	\$ -	\$ 4,300,671



Schedule of Segmented Disclosure December 31, 2013

	General Government	Recreation Programs	Protective Services	Transportation Planning & Engineering	Electric Utility	Water & Sewer Utility	Internet Services	Electro Thermal Storage Program	Elimination	Consolidated 2013
Revenues	7,579,488									7,579,488
Property taxes										
Government transfers										
Equalization	1,503,363	-	-	-	-	-	-	-	-	1,503,363
Municipal Support Grant	5,260,840	-	-	-	-	-	-	-	-	5,260,840
Infrastructure	-	148,113	-	1,690,814	-	462,723	-	-	-	2,301,650
Other	-	52,200	-	-	-	-	-	-	-	52,200
Wind Energy sales	2,749,072	-	-	-	-	-	-	-	(2,749,072)	-
Sale of Electricity	-	-	-	-	18,979,763	-	-	-	(1,719,508)	17,260,255
Sale of Water & Sewer Services	-	-	-	-	-	4,532,033	580,615	-	(515,986)	4,016,047
Internet Services	-	-	-	-	-	-	580,615	-	(22,785)	557,830
Electro Thermal Storage Program Sales	-	-	-	-	-	-	-	246,005	(57,060)	188,945
Fines and costs	(40,184)	-	122,644	-	-	-	-	-	-	122,644
Gain on sale	-	-	-	-	-	-	-	-	-	(40,184)
Third party revenue	463,123	1,777,748	110,136	95,828	-	-	-	-	-	2,446,835
	17,515,702	1,978,061	232,780	1,786,642	18,979,763	4,994,756	580,615	246,005	(5,064,411)	41,249,913
Expenditures										
Salaries & Benefits	1,541,050	2,428,492	3,770,611	658,120	1,865,065	1,219,992	206,002	104,947	-	11,794,279
Goods & Services	1,112,884	2,555,293	1,176,048	1,761,060	13,422,259	1,829,866	264,787	205,217	(5,064,411)	17,263,003
Amortization	848,170	1,990,425	193,629	2,463,690	739,845	1,083,230	117,382	15,131	-	7,451,502
Interest	289,951	1,472,736	58,110	76,578	691,922	574,113	17,326	4,121	-	3,181,857
Other	268,684	-	-	-	79,979	5,046	-	-	-	353,709
	4,060,739	8,446,946	5,198,398	4,959,448	16,799,070	4,709,247	605,497	329,416	(5,064,411)	40,044,350
Annual surplus (deficit)	\$ 13,454,963	\$ (6,468,885)	\$ (4,965,618)	\$ (3,172,806)	\$ 2,180,693	\$ 285,509	(24,882)	(83,411)	-	\$ 1,205,563