



**Consolidated Financial Statements**

December 31, 2016



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## Management's Responsibility For Financial Reporting

December 31, 2016

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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 consolidated 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.

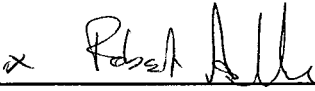
Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced. The internal controls are designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized 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

x   
\_\_\_\_\_

Mayor

x   
\_\_\_\_\_



# Independent Auditor's Report

Grant Thornton LLP  
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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, 2016, 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 consolidated 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 consolidated 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**

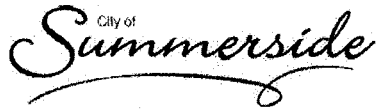
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the City of Summerside as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards.

*Grant Thornton LLP*

Summerside, Prince Edward Island

March 15, 2017

Chartered Professional Accountants



**Consolidated Statement of Operations**  
**Year Ended December 31**

	2016 Budget (Note 9)	2016 Actual	2015 Actual
<b>Revenue</b>			
Property taxes (Note 6)	\$ 7,836,701	\$ 8,047,076	\$ 7,936,764
Government transfers			
Equalization	1,503,363	1,529,822	1,518,396
Municipal support	5,260,840	5,353,427	5,313,448
Infrastructure	1,704,872	5,374,682	3,335,596
Other	-	60,015	52,020
Sale of electricity	19,726,397	19,500,659	19,272,262
Sale of water & sewer services	4,727,956	4,935,907	4,653,016
Fines and costs	140,000	150,274	135,985
Third party revenue	2,494,521	2,763,973	2,219,204
	<u>43,394,650</u>	<u>47,715,835</u>	<u>44,436,691</u>
<b>Expenses</b>			
General government	5,591,274	2,231,568	2,298,216
Recreation programs	4,993,716	8,716,496	8,335,515
Protective services	4,507,052	5,503,034	5,130,641
Transportation services	4,648,819	5,067,369	5,634,589
Electric utility	18,422,912	15,547,954	15,336,582
Water & sewer utility	5,042,847	4,827,728	4,915,606
Loss on sale	-	15,633	597,033
	<u>43,206,619</u>	<u>41,909,782</u>	<u>42,248,182</u>
Annual surplus before undernoted	\$ <u>188,031</u>	5,806,053	2,188,509
Pension obligation		<u>659,101</u>	<u>1,000,000</u>
Annual surplus		<u>\$ 6,465,154</u>	<u>\$ 3,188,509</u>
<hr/>			
Accumulated surplus, beginning of year		\$118,543,474	\$ 115,354,965
Annual surplus		<u>6,465,154</u>	<u>3,188,509</u>
Accumulated surplus, end of year		<u>\$ 125,008,628</u>	<u>\$ 118,543,474</u>



**Consolidated Statement of Financial Position**  
**December 31**

	2016	2015
<b>Financial Assets</b>		
Receivables	\$ 5,781,097	\$ 5,213,239
Restricted short term Investments	211,648	129,010
Sinking fund investments, at market value	<u>2,076,115</u>	<u>1,967,135</u>
	<b>8,068,860</b>	<b>7,309,384</b>
<b>Liabilities</b>		
Bank indebtedness (Note 2)	5,598,946	6,020,758
Payables and accruals		
Trade and customer deposits	5,953,881	4,628,284
Accrued interest	258,767	277,932
Long term debt (Note 3)	68,641,286	69,189,685
Sick leave (Note 4)	1,732,000	1,729,000
Pension benefit obligation (Note 5)	<u>2,060,658</u>	<u>2,777,524</u>
	<b>84,245,538</b>	<b>84,623,182</b>
<b>NET FINANCIAL DEBT</b>	<b><u>(76,176,678)</u></b>	<b><u>(77,313,798)</u></b>
<b>Non-Financial Assets</b>		
Tangible capital assets, net of amortization (Note 7)	199,613,120	194,399,728
Inventory of materials and supplies, at cost	<u>1,572,186</u>	<u>1,457,544</u>
	<b>201,185,306</b>	<b>195,857,272</b>
<b>Accumulated surplus (Note 8)</b>	<b>\$ <u>125,008,628</u></b>	<b>\$ <u>118,543,474</u></b>

Commitments and contingencies (Note 10)

On Behalf of the Council

On Behalf of Management



**Consolidated Statement of Cash Flows**  
**Year Ended December 31**

	2016	2015
Increase (decrease) in cash and cash equivalents		
<b>Operating</b>		
Annual surplus	\$ 6,465,154	\$ 3,188,509
Loss on sale of capital assets	15,633	597,033
Amortization	8,088,380	7,994,601
Change in non-cash operating working capital	623,933	(2,008,624)
Change in sick leave	3,000	12,000
Change in pension obligation	(716,866)	(1,147,780)
	<u>14,479,233</u>	<u>8,635,740</u>
<b>Financing</b>		
Change in long term debt	(548,399)	3,889,162
<b>investing</b>		
Change in short term investments	(82,638)	(11,112)
Change in sinking funds	(108,980)	57,983
	<u>(191,618)</u>	<u>46,871</u>
<b>Capital</b>		
Purchase of capital assets	(13,365,286)	(7,824,300)
Proceeds on sale of capital assets	47,882	203,296
	<u>(13,317,404)</u>	<u>(7,621,004)</u>
Net decrease in bank indebtedness	421,812	4,950,769
Bank indebtedness, beginning of year	(6,020,758)	(10,971,527)
Bank indebtedness, end of year	\$ <u>(5,598,946)</u>	\$ <u>(6,020,758)</u>





**Consolidated Statement of Change in Net Debt**  
**Year Ended December 31**

	<b>2016 Budget (Note 9)</b>	<b>2016 Actual</b>	<b>2015 Actual</b>
Annual surplus (deficit)	\$ 188,031	\$ 6,465,154	\$ 3,188,509
Change in intangibles	-	-	-
Change in inventory	(114,642)	(114,642)	177,117
Loss on sale of capital assets	-	15,633	597,033
Proceeds on sale of capital assets	-	47,882	203,296
Acquisition of tangible capital assets, net	(11,409,626)	(13,365,286)	(7,824,300)
Amortization of tangible capital assets	<u>8,088,380</u>	<u>8,088,380</u>	<u>7,994,601</u>
Decrease (increase) in net debt	(3,247,857)	1,137,119	4,336,256
Net debt, beginning of year	<u>(77,313,798)</u>	<u>(77,313,798)</u>	<u>(81,650,054)</u>
Net debt, end of year	\$ <u>(80,561,655)</u>	\$ <u>(76,176,678)</u>	\$ <u>(77,313,798)</u>



## **Notes to the Consolidated Financial Statements**

### **December 31, 2016**

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#### **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	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, 2016**

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**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 Island 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, 2016**

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#### **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 consolidated 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 consolidated 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.

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## Notes to the Consolidated Financial Statements December 31, 2016

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### 2. Bank indebtedness

Bank indebtedness consists of a \$3,939,396.85 advance on the City's line of credit and \$797,262.03 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, \$2,857,865.18 was unused at December 31, 2016. The City has a capital line of credit of \$2,500,000, which was used as interim funding for 2016 capital expenditures. The interest rate is prime rate.

At December 31, 2016 prime was 2.70%.

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### 3. Long term debt

	2016	2015
Long term		
Loans repaid during year.	\$ -	\$ 4,261,282
P-.65% Royal Bank demand loan, interest payable monthly.	5,850,000	6,050,000
P-.50% Metro Credit Union demand loan, interest payable monthly.	2,500,000	2,500,000
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.	2,395	109,453
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.	1,084,345	1,182,920
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.	23,670	46,836
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.	444,330	488,954
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.	186,215	196,285
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.	1,853,951	2,040,142
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.	599,665	708,670
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.	754,071	791,336



## Notes to the Consolidated Financial Statements December 31, 2016

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3. Long term debt (cont'd)	2016	2015
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.	\$ 828,304	\$ 869,336
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.	1,497,223	1,568,498
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.	726,362	760,941
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.	29,095	33,495
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.	675,373	777,523
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.	1,158,722	1,333,978
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.	846,024	954,654
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.	76,561	86,391
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.	51,933	77,101
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.	385,020	402,166
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.	602,401	629,229
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.	1,397,576	1,492,807
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.	1,941,290	2,190,552



**Notes to the Consolidated Financial Statements**  
**December 31, 2016**

3. Long term debt (cont'd)	2016	2015
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.	\$ 820,134	\$ 917,499
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.	1,435,478	1,605,895
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.	487,710	508,311
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.	157,952	164,623
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.	18,897	26,429
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.	27,795	31,095
4.96% CIBC loan, total annual payment of \$2,399,120 with interest payable monthly, maturing in December 2027, amortized to December 2027.	19,970,013	21,312,055
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.	6,256,957	6,578,729
3.28% CIBC loan, payable in equal annual instalments of \$25,417.75 including principal and interest, maturing in December 2035, amortized to December 2035.	4,308,477	4,469,300
2.64% CIBC loan, payable in equal annual instalments of \$16,056.04 including principal and interest, maturing in December 2025, amortized to December 2025.	1,541,936	1,691,750
2.64% CIBC loan, payable in equal annual instalments of \$1,127.51 including principal and interest, maturing in December 2025, amortized to December 2025.	108,280	118,800
3.28% CIBC loan, payable in equal annual instalments of \$2,896.20 including principal and interest, maturing in December 2035, amortized to December 2035.	490,925	509,250
3.28% CIBC loan, payable in equal annual instalments of \$9,435.61 including principal and interest, maturing in December 2035, amortized to December 2035.	1,599,399	1,659,100



**Notes to the Consolidated Financial Statements**  
**December 31, 2016**

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3. Long term debt (cont'd)	2016	2015
2.10% CIBC loan, payable in equal annual instalments of \$778.42 including principal and interest, maturing in December 2020, amortized to December 2020.	\$ 35,807	\$ 44,300
2.88% Royal Bank loan, principal of \$47,000 payable monthly, interest paid monthly, maturing in January 2027, amortized to January 2027.	7,867,000	-
Total long term debt	<u>\$ 68,641,286</u>	<u>\$ 69,189,685</u>

Prime rate at December 31, 2016 was 2.70 % (December 31, 2015 – 2.70%).

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

2017	\$ 4,778,181
2018	4,917,057
2019	5,057,070
2020	5,231,243
2021	5,407,444
	<u>\$ 25,390,995</u>

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## Notes to the Consolidated Financial Statements December 31, 2016

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### 4. 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, 2016. The principal long-term assumptions on which the valuation was based were:

	2016	2015
Discount rate	5.5%	5.5%
General pay increases	3.0%	3.0%
Terminations prior to eligibility	Based on Ontario Light Scale	
Accrued Liability	1,732,000	1,729,000
Sick leave sinking fund, market value	2,065,284	1,898,539

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## Notes to the Consolidated Financial Statements December 31, 2016

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### 5. 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 adjusted the pension obligation based on the results of this analysis (\$260,658 compared to \$377,524 in 2015).

	2016	2015
Pension benefits paid	\$ 61,169	\$ 73,260
Net assets available for benefits	10,831	68,596
Accrued benefit obligation	260,658	377,524

#### 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 129 active employees covered by the plan is 46. There are 4 former employees who are entitled to deferred pension benefits. At present, the plans provide benefits for 74 retirees.

Effective January 1, 2015 both the City and plan members agreed to decrease contributions from 12% to 11% of pensionable earnings. Future contribution rates will be subject to an annual review. In 2016, total contributions for current year's service were \$1,761,289 (2015 - \$1,685,371). Total benefit payments to retirees during the year were \$1,384,456 (2015 - \$1,238,567). 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:

	2016	2015
Accrued benefit obligation	\$ 35,200,000	\$ 32,400,000
Actuarial value of assets	(33,400,000)	(30,000,000)
Pension plan deficit	1,800,000	2,400,000

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, 2015. The accrued benefit obligation shown for 2016 is based on an extrapolation of that 2015 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, 2016

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### 5. 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 2.20 (2.30 percent in 2014 actuarial valuation) percent. The discount rate used to determine the accrued benefit obligation is 6.00 (6.30 percent in 2014 actuarial valuation) percent.

Pension fund assets are valued at actuarially determined market values. The expected rate of return on plan assets is 8.1%. The actual return on plan assets was 7.51 percent in 2015. Plan assets include Canadian, US and International Equities and Fixed Income estimated market value of \$34,857,728 (2015 - \$32,404,928).

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.

	2015
Current year benefit cost	\$ 1,333,451
Interest on accrued benefit obligation	210,000
Actuarial gain	<u>(441,000)</u>
Employee future benefit expense	<u>\$ 1,102,451</u>

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### 6. Property taxes

	2016	2015
Commercial property tax	\$ 2,996,622	\$ 2,931,391
Non-commercial property tax	<u>5,050,454</u>	<u>5,005,373</u>
	<u>\$ 8,047,076</u>	<u>\$ 7,936,764</u>

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**Notes to the Consolidated Financial Statements**  
**December 31, 2016**

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**8. Accumulated surplus**

The city aggregates its accumulated surplus in the following categories:

	2016	2015
Reserve funds	\$ 4,566,277	\$ 3,724,044
Operating funds	<u>120,442,351</u>	<u>114,819,430</u>
	<u>\$125,008,628</u>	<u>\$118,543,474</u>
<b>Reserve funds</b>		
Balance, beginning of year	\$ 3,724,044	\$ 2,142,801
Allocations to reserves (net)	<u>842,233</u>	<u>1,581,243</u>
Balance, end of year	<u>\$ 4,566,277</u>	<u>\$ 3,724,044</u>
Comprised of		
City		
World Softball	\$ 43,996	\$ 41,811
Land Bank	16,503	16,503
Summerside Raceway	276,993	247,605
Economic Development	175,000	175,000
Parkland Dedication	78,950	23,805
Financial Reserve	609,499	1,415,877
Financial Reserve – Debt Reduction	753,230	753,230
Future spending – Public Works	100,000	-
Capital Campaign – Debt Reduction	57,156	-
Electric Utility		
Electric generator	50,000	50,000
Electric distribution	53,748	53,748
Future spending	1,591,207	892,302
Water & Sewer Utility		
Future spending	747,000	41,169
SCN Utility		
Debt reduction	<u>12,995</u>	<u>12,995</u>
	<u>\$ 4,566,277</u>	<u>\$ 3,724,044</u>

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## Notes to the Consolidated Financial Statements December 31, 2016

### 9. 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	\$ 48,412,930	\$ -	\$ -	\$ (5,018,280)	\$ 43,394,650
Expenses:					
General Government	5,282,252	(274,915)	1,188,437	(604,500)	5,591,274
Recreation programs	5,313,948	(1,706,125)	2,019,870	(633,977)	4,993,716
Protective services	4,446,858	(97,296)	227,740	(70,250)	4,507,052
Transportation services	2,977,924	(253,518)	2,401,804	(477,392)	4,648,818
Electric Utility	21,399,210	(1,272,700)	1,062,598	(2,766,196)	18,422,912
Water & Sewer Utility	5,250,332	(929,451)	1,187,931	(465,965)	5,042,847
	<u>44,670,524</u>	<u>\$ (4,534,005)</u>	<u>\$ 8,088,380</u>	<u>(5,018,280)</u>	<u>43,206,619</u>
Annual Surplus	3,742,406			\$ -	\$ 188,031
Capital Expenditures	<u>(3,667,983)</u>				
Approved Budget	<u>\$ 74,423</u>				

#### Statement of changes in net debt:

	Approved Fiscal Plan	Adjustments	Adjusted Fiscal Plan
Annual Surplus	\$ 74,423	\$ 113,608	\$ 188,031
Change in Inventory	-	(114,642)	(114,642)
Acquisition of Tangible Capital Assets	(11,409,626)	-	(11,409,626)
Amortization of Tangible Capital Assets	-	8,088,380	8,088,380
Debt Principal Repayments	4,534,004	(4,534,004)	-
Change in Net Financial Debt	<u>\$ (6,801,199)</u>	<u>\$ 3,553,342</u>	<u>\$ (3,247,857)</u>



## **Notes to the Consolidated Financial Statements**

### **December 31, 2016**

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#### **10. 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 annual fee shall be adjusted annually using the CPI index. In 2017 this fee will be \$102,713 per turbine.

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, 2016 was \$40,000.

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.

The City has provided a \$900,000 loan guarantee to a lender in support of a loan obtained by Shizhong Holdings Inc. The principal balance of the loan at December 31, 2016 was \$900,000. Subsequent to December 31, 2016 this loan has been repaid in full and the City has been released of its' obligation.

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## **Notes to the Consolidated Financial Statements**

### **December 31, 2016**

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#### **11. 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 consolidated 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, Summerside 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.





## Schedule of Segmented Disclosure

December 31, 2016

Revenues	General Government	Recreation Programs	Protective Services	Planning & Engineering	Electric Utility	Water & Sewer Utility	Elimination	Consolidated 2016
Property taxes	\$ 8,047,076	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,047,076
Government transfers								
Equalization	1,529,822	-	-	-	-	-	-	1,529,822
Municipal Support Grant	5,353,427	-	-	-	-	-	-	5,353,427
Infrastructure	1,126,279	249,341	14,604	2,677,018	-	1,307,440	-	5,374,682
Other	-	60,015	-	-	-	-	-	60,015
Wind Energy sales	2,929,137	-	-	-	-	-	(2,929,137)	-
Sale of Electricity	-	-	-	-	21,199,603	-	(1,798,322)	19,401,281
Sale of Water & Sewer Services	-	-	-	-	-	5,466,231	(530,324)	4,935,907
Electro Thermal Storage Program Sales	-	-	-	-	118,944	-	(19,566)	99,378
Fines and costs	-	-	150,274	-	-	-	-	150,274
Third party revenue	668,673	1,790,078	97,352	157,460	-	153,452	(103,042)	2,763,973
	<u>19,654,415</u>	<u>2,099,434</u>	<u>262,230</u>	<u>2,834,478</u>	<u>21,318,547</u>	<u>6,927,122</u>	<u>(5,380,392)</u>	<u>47,715,835</u>
<b>Expenditures</b>								
Salaries & Benefits	1,569,770	2,611,674	4,083,676	719,279	2,540,087	1,284,035	-	12,808,521
Goods & Services	1,295,754	2,824,186	1,165,588	1,762,616	13,787,508	1,764,051	(5,380,392)	17,219,311
Amortization	1,188,437	2,019,870	227,740	2,401,804	1,062,598	1,187,931	-	8,088,380
Interest	311,814	1,260,768	26,029	183,669	566,463	553,106	-	2,901,849
Loss on Sale	-	8,369	(31,330)	-	(47)	38,642	-	15,633
Other	317,048	-	-	-	520,435	38,604	-	876,088
	<u>4,682,822</u>	<u>8,724,865</u>	<u>5,471,704</u>	<u>5,067,369</u>	<u>18,477,044</u>	<u>4,866,370</u>	<u>(5,380,392)</u>	<u>41,909,782</u>
<b>Annual surplus (deficit)</b>	<b>\$ 14,971,592</b>	<b>\$ (6,625,431)</b>	<b>\$ (5,209,474)</b>	<b>\$ (2,232,891)</b>	<b>\$ 2,841,503</b>	<b>\$ 2,060,753</b>	<b>\$ -</b>	<b>\$ 5,806,053</b>



## Schedule of Segmented Disclosure

December 31, 2015

Revenues	General Government	Recreation Programs	Protective Services	Planning & Engineering	Electric Utility	Water & Sewer Utility	Elimination	Consolidated 2015
Property taxes	\$ 7,936,764	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,936,764
Government transfers								
Equalization	1,518,396	-	-	-	-	-	-	1,518,396
Municipal Support Grant	5,313,448	-	-	-	-	-	-	5,313,448
Infrastructure	56,979	105,232	-	2,264,582	355,083	553,720	-	3,335,596
Other	-	52,020	-	-	-	-	-	52,020
Wind Energy sales	2,968,669	-	-	-	-	-	(2,968,669)	-
Sale of Electricity	-	-	-	-	20,837,430	-	(1,754,259)	19,083,165
Sale of Water & Sewer Services	-	-	-	-	-	5,177,543	(524,527)	4,653,016
Electro Thermal Storage Program Sales	-	-	-	-	254,887	-	(65,789)	189,098
Fines and costs	-	-	135,985	-	-	-	-	135,985
Third party revenue	546,305	1,863,515	117,487	194,552	-	-	(502,656)	2,219,204
	<u>18,340,560</u>	<u>2,020,766</u>	<u>253,472</u>	<u>2,459,134</u>	<u>21,447,401</u>	<u>5,731,263</u>	<u>(5,815,899)</u>	<u>44,436,692</u>
<b>Expenditures</b>								
Salaries & Benefits	1,733,559	2,463,104	3,698,381	860,566	2,337,403	1,279,142	-	12,372,154
Goods & Services	1,411,221	2,617,015	1,166,176	1,965,055	14,124,441	1,860,390	(5,815,899)	17,328,398
Amortization	1,139,314	1,952,471	237,207	2,616,157	912,132	1,137,320	-	7,994,601
Interest	275,132	1,302,926	28,877	192,811	635,930	574,850	-	3,010,526
Loss on Sale	(14,518)	-	-	-	(398)	611,950	-	597,034
Other	586,222	-	-	-	295,344	63,904	-	945,470
	<u>5,130,930</u>	<u>8,335,515</u>	<u>5,130,641</u>	<u>5,634,589</u>	<u>18,304,852</u>	<u>5,527,556</u>	<u>(5,815,899)</u>	<u>42,248,183</u>
<b>Annual surplus (deficit)</b>	<u>\$ 13,209,630</u>	<u>\$ (6,314,750)</u>	<u>\$ (4,877,169)</u>	<u>\$ (3,175,455)</u>	<u>\$ 3,142,549</u>	<u>\$ 203,706</u>	<u>\$ -</u>	<u>\$ 2,188,509</u>