



Financial Statements

December 31, 2017



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Management's Responsibility For Financial Reporting

December 31, 2017

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.

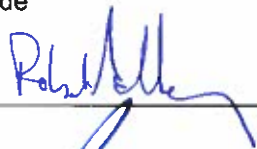
Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced. The internal controls are designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized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

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Mayor

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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, 2017, 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, 2017, 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, 2018

Chartered Professional Accountants



Consolidated Statement of Operations
Year Ended December 31

	2017 Budget (Note 9)	2017 Actual	2016 Actual
Revenue			
Property taxes (Note 6)	\$ 8,101,893	\$ 8,268,316	\$ 8,047,076
Government transfers			
Equalization	1,529,822	2,330,115	1,529,822
Municipal support	5,553,427	4,897,467	5,353,427
Infrastructure	1,704,872	8,623,931	5,374,682
Other	-	181,504	60,015
Sale of electricity	19,863,113	19,732,962	19,500,659
Sale of water & sewer services	5,018,100	5,169,172	4,935,907
Fines and costs	150,000	123,979	150,274
Gain (loss) on disposal of assets	-	62,915	(15,633)
Third party revenue	2,521,554	2,833,140	2,763,973
	<u>44,442,781</u>	<u>52,223,501</u>	<u>47,700,202</u>
Expenses			
General government	2,563,289	1,959,277	2,231,568
Recreation programs	8,249,034	9,018,370	8,716,496
Protective services	5,131,281	5,409,537	5,503,034
Transportation services	3,973,264	4,426,685	5,067,369
Electric utility	18,424,474	15,753,171	15,547,954
Water & sewer utility	5,369,585	4,986,396	4,827,728
	<u>43,710,927</u>	<u>41,553,436</u>	<u>41,894,149</u>
Annual surplus before undernoted	\$ <u>731,854</u>	10,670,065	5,806,053
Pension obligation		<u>1,000,000</u>	<u>659,101</u>
Annual surplus		<u>\$ 11,670,065</u>	<u>\$ 6,465,154</u>
Accumulated surplus, beginning of year		\$125,008,628	\$ 118,543,474
Annual surplus		<u>11,670,065</u>	<u>6,465,154</u>
Accumulated surplus, end of year		<u>\$136,678,693</u>	<u>\$ 125,008,628</u>



Consolidated Statement of Financial Position
December 31

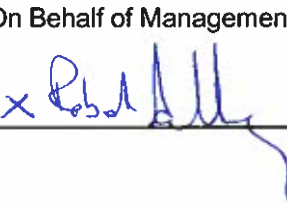
	2017	2016
Financial Assets		
Receivables	\$ 9,993,635	\$ 5,781,097
Restricted short term Investments	269,053	211,648
Sinking fund investments, at market value	2,219,859	2,076,115
	<u>12,482,547</u>	<u>8,068,860</u>
Liabilities		
Bank indebtedness (Note 2)	7,807,259	5,598,946
Payables and accruals		
Trade and customer deposits	8,004,201	5,953,881
Accrued interest	283,007	258,767
Long term debt (Note 3)	66,676,436	68,641,286
Sick leave (Note 4)	1,814,000	1,732,000
Pension benefit obligation (Note 5)	940,920	2,060,658
	<u>85,525,823</u>	<u>84,245,538</u>
NET FINANCIAL DEBT	<u>(73,043,276)</u>	<u>(76,176,678)</u>
Non-Financial Assets		
Tangible capital assets, net of amortization (Note 7)	207,939,740	199,613,120
Inventory of materials and supplies, at cost	1,782,229	1,572,186
	<u>209,721,969</u>	<u>201,185,306</u>
Accumulated surplus (Note 8)	<u>\$ 136,678,693</u>	<u>\$ 125,008,628</u>

Commitments and contingencies (Note 10)

On Behalf of the Council

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On Behalf of Management

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Consolidated Statement of Cash Flows
Year Ended December 31

	2017	2016
Increase (decrease) in cash and cash equivalents		
Operating		
Annual surplus	\$ 11,670,065	\$ 6,465,154
Loss on sale of capital assets	66,673	15,633
Amortization	7,431,797	8,088,380
Change in non-cash operating working capital	(2,063,022)	623,933
Change in sick leave	82,000	3,000
Change in pension obligation	(1,119,738)	(716,866)
	<u>16,067,775</u>	<u>14,479,233</u>
Financing		
Repayment of long term debt	(8,260,470)	(8,415,399)
Issuance of long term debt	6,295,620	7,867,000
Increase in bank indebtedness	2,208,313	(421,813)
	<u>243,463</u>	<u>(970,212)</u>
Investing		
Change in short term investments	(57,406)	(82,638)
Change in sinking funds	(143,743)	(108,980)
	<u>(201,149)</u>	<u>(191,618)</u>
Capital		
Purchase of capital assets	(16,136,950)	(13,365,286)
Proceeds on sale of capital assets	26,861	47,882
	<u>(16,110,089)</u>	<u>(13,317,404)</u>
Net increase (decrease) in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	\$ <u>-</u>	\$ <u>-</u>



Consolidated Statement of Change in Net Debt
Year Ended December 31

	2017 Budget (Note 9)	2017 Actual	2016 Actual
Annual surplus	\$ 731,854	\$ 11,670,065	\$ 6,465,154
Change in intangibles	-	-	-
Change in inventory	(210,043)	(210,043)	(114,642)
Loss on sale of capital assets	-	232,673	15,633
Proceeds on sale of capital assets	-	311,860	47,881
Acquisition of tangible capital assets, net	(11,171,085)	(16,302,950)	(13,365,286)
Amortization of tangible capital assets	<u>7,431,797</u>	<u>7,431,797</u>	<u>8,088,380</u>
Decrease (increase) in net debt	(3,217,477)	3,133,402	1,137,120
Net debt, beginning of year	<u>(76,176,678)</u>	<u>(76,176,678)</u>	<u>(77,313,798)</u>
Net debt, end of year	\$ <u>(79,394,155)</u>	\$ <u>(73,043,276)</u>	\$ <u>(76,176,678)</u>



Notes to the Consolidated Financial Statements December 31, 2017

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, 2017

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, 2017

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 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. Significant estimates include pension amounts, severance amounts and the useful lives of tangible capital assets.

These estimates and assumptions are based on the City's best information and judgement and may differ significantly from actual results.

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, 2017

l) Interest rate swap arrangements

The City has entered into several interest rate swap arrangements with chartered banks to reduce interest rate exposure associated with certain long term debt obligations. The agreements have the effect of converting the floating rate of interest on certain debt to a fixed rate. It is the City's policy not to use derivative financial instruments for trading or speculative purposes.

m) Liability for contaminated sites

Contaminated sites are a result of contamination being introduced into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. The liability is recorded net of any expected recoveries. A liability for remediation of contaminated sites is recognized when all of the following criteria are met: i. an environmental standard exists; ii. Contamination exceeds the environmental standard; iii. the Municipality is directly responsible or accepts responsibility; and iv. a reasonable estimate of the amount can be made. Management has reviewed potential sites where they feel a material liability may exist and has concluded there is no known liability at this time.

2. Bank indebtedness

Bank indebtedness consists of a \$1,804,964 advance on the City's line of credit and \$1,002,295 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, \$3,224,240 was unused at December 31, 2017. The City has a capital line of credit of \$5,000,000, which was used as interim funding for 2017 capital expenditures. The interest rate is prime rate plus .25%.

At December 31, 2017 prime was 3.20%.

3. Long term debt

	2017	2016
Long term		
Loans repaid during year.	\$ -	\$ 3,610,360
Prime +.65% Royal Bank demand loan, interest payable monthly.	5,650,000	5,850,000
4.68% 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.	397,255	444,330



Notes to the Consolidated Financial Statements December 31, 2017

3. Long term debt (cont'd)	2017	2016
4.615% 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 .	\$ 175,525	\$ 186,215
4.468% 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.	1,657,529	1,853,951
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 .	487,129	599,655
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.	713,971	754,071
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.	784,235	828,304
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.	1,423,661	1,497,223
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.	690,675	726,362
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.	24,572	29,095
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.	570,363	675,373
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.	978,559	1,158,722
2.63% TD Canada Trust loan, payable in equal monthly instalments of \$11,038.64 including principal and interest, maturing in December 2023, amortized to December 2023.	734,472	846,024
2.63% TD Canada Trust loan, payable in equal monthly instalments of \$998.95 including principal and interest, maturing in December 2023, amortized to December 2023.	66,466	76,561
2.08% TD Canada Trust loan, payable in equal monthly instalments of \$2,211.23 including principal and interest, maturing in December 2018, amortized to December 2023.	26,235	51,993



Notes to the Consolidated Financial Statements December 31, 2017

3. Long term debt (cont'd)	2017	2016
2.97% TD Canada Trust loan, payable in equal monthly instalments of \$2,406.09 including principal and interest, maturing in December 2023, amortized to December 2033.	\$ 367,342	\$ 385,020
2.97% TD Canada Trust loan, payable in equal monthly instalments of \$3,764.56 including principal and interest, maturing in December 2023, amortized to December 2033.	574,742	602,401
2.63% TD Canada Trust loan, payable in equal monthly instalments of \$25,329.28 including principal and interest, maturing in December 2023, amortized to December 2023.	1,685,322	1,941,290
2.981% 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.	719,823	820,134
2.981% 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.	1,259,903	1,435,478
1.99% 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.	466,445	487,710
1.99% TD Canada Trust loan, payable in equal monthly instalments of \$986.74 including principal and interest, maturing in May 2024, amortized to May 2034.	151,063	157,952
2.19% TD Canada Trust loan, payable in equal monthly instalments of \$669.64 including principal and interest, maturing in May 2019, amortized to May 2019.	11,199	18,897
2.98% TD Canada Trust loan, payable in equal monthly instalments of \$348.50 including principal and interest, maturing in May 2024, amortized to May 2024.	24,396	27,795
3.01% TD Canada Trust loan, payable in equal monthly instalments of \$11,575.86 including principal and interest, maturing in May 2024, amortized to December 2028.	1,299,384	1,397,576
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.	18,561,406	19,970,013
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.	5,921,414	6,256,957
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.	4,142,298	4,308,477



Notes to the Consolidated Financial Statements
December 31, 2017

3. Long term debt (cont'd)	2017	2016
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.	1,388,118	1,541,936
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.	\$ 97,478	\$ 108,280
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.	471,990	490,925
2.10% CIBC loan, payable in equal annual instalments of \$9,435.61 including principal and interest, maturing in December 2035, amortized to December 2035.	1,537,710	1,599,399
of \$778.42 including principal and interest, maturing in December 2020, amortized to December 2020.	27,136	35,807
2.40% Royal Bank loan, principal of \$47,000 payable monthly, interest paid monthly, maturing in January 2027, amortized to January 2027.	7,293,000	7,867,000
2.321% TD Canada Trust loan, payable in equal monthly Instalments of \$26,254 including principal and interest, maturing in December 2028, amortized to December 2028	2,807,580	-
2.633% TD Canada Trust loan, payable in equal monthly Instalments of \$18,735 including principal and interest, maturing in December 2028, amortized to December 2038.	3,488,040	-
	<hr/>	<hr/>
Total long term debt	\$ 66,676,436	\$ 68,641,286

Prime rate at December 31, 2017 was 3.20 % (December 31, 2016 – 2.70%).

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

2018	\$ 5,204,830
2019	5,354,383
2020	5,538,330
2021	5,724,529
2022	5,794,683
	<hr/>
	\$ 27,616,755



Notes to the Consolidated Financial Statements
December 31, 2017

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, 2017. The principal long-term assumptions on which the valuation was based were;

	2017	2016
Discount rate	5.5%	5.5%
General pay increases	3.0%	3.0%
Terminations prior to eligibility	Based on Ontario Light Scale	
Accrued Liability	1,814,000	1,732,000
Sick leave sinking fund, market value	2,219,859	2,065,284



Notes to the Consolidated Financial Statements December 31, 2017

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 (\$140,917 compared to \$260,658 in 2016).

	2017	2016
Pension benefits paid	\$ 51,922	\$ 61,169
Net assets available for benefits	-	10,831
Accrued benefit obligation	140,920	260,658

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 131 active employees covered by the plan is 45. There are 4 former employees who are entitled to deferred pension benefits. At present, the plans provide benefits for 79 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 2017, total contributions for current year's service were \$1,726,088 (2016 - \$1,761,289). Total benefit payments to retirees during the year were \$2,776,618 (2016 - \$1,384,456). 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:

	2017	2016
Accrued benefit obligation	\$ 36,200,000	\$ 35,200,000
Actuarial value of assets	<u>(35,400,000)</u>	<u>(33,400,000)</u>
Pension plan deficit	\$ 800,000	1,800,000

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, 2016. The accrued benefit obligation shown for 2017 is based on an extrapolation of that 2016 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, 2017

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 (2.20 percent in the 2015 actuarial valuation) percent. The discount rate used to determine the accrued benefit obligation is 6.00 (6.00 percent in the 2015 actuarial valuation) percent.

Pension fund assets are valued at actuarially determined market values. The expected rate of return on plan assets is 7.86 percent. The actual return on plan assets was 6.37 percent in 2016. Plan assets include Canadian, US and International Equities and Fixed Income estimated market value of \$35,989,055 (2016 - \$34,857,728).

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.

	2016
Current year benefit cost	\$ 1,280,484
Interest on accrued benefit obligation	186,000
Actuarial gain	<u>(1,557,000)</u>
Employee future benefit expense (gain)	\$ <u>(90,516)</u>

6. Property taxes

	2017	2016
Commercial property tax	\$ 3,078,110	\$ 2,996,622
Non-commercial property tax	<u>5,190,206</u>	<u>5,050,454</u>
	\$ <u>8,268,316</u>	\$ <u>8,047,076</u>



Notes to the Consolidated Financial Statements December 31, 2017

7. Tangible capital assets

	2017									
	Beginning of Year	Cost			End of Year	Beginning of Year	Accumulated Amortization		End of Year	Net Book Value
		Additions	Disposals			Expenses	Adjustments			
Land	\$ 4,976,091	\$ 89,883	\$ (70,000)	\$ 4,995,974	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,995,974
Plants, Buildings and Structures	127,996,885	476,083	(657,398)	127,815,570	38,494,300	3,250,419	(214,264)	41,530,455	86,285,114	
Equipment and Vehicles	11,884,592	1,035,523	(166,598)	12,753,516	5,184,326	944,545	(135,196)	5,993,675	6,759,841	
Distribution and Collection Systems	51,719,695	7,215,170	(1,105,749)	57,829,116	16,167,064	906,333	(1,105,749)	15,967,648	41,861,468	
Streets	36,736,125	786,136	(193,344)	37,328,917	23,886,600	1,104,474	(193,344)	24,797,730	12,531,187	
Sidewalks	7,549,217	484,633	(210,746)	7,823,104	1,835,012	188,731	(210,747)	1,812,996.36	6,010,108	
Stormlines	24,756,864	4,445,829	(533,323)	28,669,370	4,884,536	302,460	(533,323)	4,653,672	24,015,699	
Wind Farm	29,432,360	-	(53,199)	29,379,161	5,062,755	734,835	-	5,797,589	23,581,572	
Deferred Contribution	-	-	-	-	-	-	-	-	-	
Work in Progress	75,885	1,827,892	(5,000)	1,898,777	-	-	-	-	1,898,777	
Deferred Contributions	-	-	-	-	-	-	-	-	-	
	<u>\$ 295,127,714</u>	<u>\$ 16,361,149</u>	<u>\$ (2,995,357)</u>	<u>\$ 308,493,506</u>	<u>\$ 95,514,592</u>	<u>\$ 7,431,797</u>	<u>\$ (2,392,623)</u>	<u>\$ 100,553,765</u>	<u>\$ 207,939,740</u>	

	2016									
	Beginning of Year	Cost			End of Year	Beginning of Year	Accumulated Amortization		End of Year	Net Book Value
		Additions	Disposals			Expenses	Adjustments			
Land	\$ 4,936,091	\$ 40,000	\$ -	\$ 4,976,091	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,976,091
Plants, Buildings and Structures	124,768,712	3,250,054	(21,882)	127,996,884	35,285,130	3,209,170	(748,949)	38,494,300	89,502,584	
Equipment and Vehicles	10,888,951	1,786,222	(790,581)	11,884,592	5,098,355	834,920	(324,760)	5,184,326	6,700,266	
Distribution and Collection Systems	48,457,689	3,586,766	(324,760)	51,719,695	15,493,754	998,070	(364,848)	16,167,064	35,552,631	
Streets	35,582,031	1,518,942	(364,848)	36,736,125	22,384,629	1,866,819	(326,511)	23,886,600	12,849,525	
Sidewalks	7,529,479	346,249	(326,511)	7,549,217	1,987,343	174,181	(326,512)	1,835,012	5,714,204	
Stormlines	22,990,399	2,914,412	(1,147,947)	24,756,864	5,763,428	289,055	(1,147,947)	4,884,536	19,872,328	
Wind Farm	29,432,360	-	-	29,432,360	4,326,590	736,185	-	5,062,755	24,369,605	
Deferred Contribution	(88,389)	88,389	-	-	-	-	-	-	-	
Work in Progress	241,632	75,884	(241,631)	75,885	-	-	-	-	75,885	
	<u>\$ 284,738,955</u>	<u>\$ 13,606,917</u>	<u>\$ (3,218,160)</u>	<u>\$ 295,127,713</u>	<u>\$ 90,339,229</u>	<u>\$ 8,088,380</u>	<u>\$ (2,913,016)</u>	<u>\$ 95,514,593</u>	<u>\$ 199,613,120</u>	



Notes to the Consolidated Financial Statements
December 31, 2017

8. Accumulated surplus

The city aggregates its accumulated surplus in the following categories:

	2017	2016
Reserve funds	\$ 6,436,063	\$ 4,566,277
Operating funds	<u>130,242,630</u>	<u>120,442,351</u>
	<u>\$136,678,693</u>	<u>\$125,008,628</u>
 Reserve funds		
Balance, beginning of year	\$ 4,566,277	\$ 3,724,044
Allocations to reserves (net)	<u>1,869,786</u>	<u>842,233</u>
Balance, end of year	<u>\$ 6,436,063</u>	<u>\$ 4,566,277</u>
 Comprised of		
City		
World Softball	\$ 46,600	\$ 43,996
Land Bank	16,503	16,503
Summerside Raceway	338,489	276,993
54/56 Central	36,804	-
Economic Development	175,000	175,000
Parkland Dedication	80,170	78,950
Financial Reserve	1,027,500	609,499
Financial Reserve – Debt Reduction	753,230	753,230
Future spending – Public Works	240,000	100,000
Capital Campaign – Debt Reduction	108,631	57,156
Electric Utility		
Electric generator	50,000	50,000
Electric distribution	53,748	53,748
Future spending	2,133,107	1,591,207
Water & Sewer Utility		
Future spending	1,363,286	747,000
SCN Utility		
Debt reduction	<u>12,995</u>	<u>12,995</u>
	<u>\$ 6,436,063</u>	<u>\$ 4,566,277</u>



Notes to the Consolidated Financial Statements December 31, 2017

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:	2017					
	Approved Budget	Less: Principal Debt Repayments	Add: Amortization	Add: Allocation of Long Term Debt Interest	Less: Eliminations	Budget per Financial Statements
Revenue						
Property Taxes	\$ 8,101,893	\$ -	\$ -	\$ -	\$ -	\$ 8,101,893
Government Transfers						
Equalization	1,529,822	-	-	-	-	1,529,822
Municipal Support Grant	5,553,427	-	-	-	-	5,553,427
Infrastructure	1,704,872	-	-	-	-	1,704,872
Wind Energy Sales	2,358,845	-	-	-	2,358,845	-
Sale of Electricity	21,500,808	-	-	-	1,770,499	19,730,309
Sale of Water & Sewer Services	5,543,896	-	-	-	525,796	5,018,100
ETS Program Sales	132,804	-	-	-	-	132,804
Fines and costs	150,000	-	-	-	-	150,000
Third Party Revenue	2,855,528	-	-	-	333,974	2,521,554
Total Revenue	\$ 49,431,895	\$ -	\$ -	\$ -	\$ 4,989,114	\$ 44,442,781
Expenses						
General Government	\$ 5,724,903	\$ 2,392,231	\$ 1,248,978	\$ (1,376,829)	\$ 641,532	\$ 2,563,289
Recreation programs	5,623,339	-	2,064,067	1,180,882	619,254	8,249,034
Protective services	4,902,509	-	277,782	22,828	71,838	5,131,281
Transportation Services	2,565,514	-	1,721,399	173,119	486,768	3,973,264
Electric Utility	21,621,866	1,383,420	894,402	-	2,708,374	18,424,474
Water & Sewer Utility	5,543,897	938,130	1,225,167	-	461,349	5,369,585
Total Expense	\$ 45,982,028	\$ 4,713,781	\$ 7,431,795	\$ -	\$ 4,989,115	\$ 43,710,927
Annual Surplus/(Deficit)	\$ 3,449,867					731,854
Capital Expenditures	(3,436,279)					
Approved Budget	13,587					

Statement of Changes in net debt:	Approved Fiscal Plan	Adjustments	Adjusted Plan
Annual Surplus	\$ 13,587	\$ 718,265	\$ 731,853
Change in Inventory		(210,043)	(210,043)
Acquisition of Tangible Capital Assets	(11,171,085)		(11,171,085)
Amortization of Tangible Capital Assets		7,431,795	7,431,795
Debt Principal Repayment	4,713,781	(4,713,781)	-
Change in Net Financial Debt	\$ (6,443,717)	\$ 3,226,236	\$ (3,217,481)



Notes to the Consolidated Financial Statements

December 31, 2017

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 2018 this fee will be \$104,686 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, 2017 was \$14,871.

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.

In 2017 the City entered into the PEI-NB Interconnection Facilities Debt Collection Agreement with the Province of Prince Edward Island, Prince Edward Island Energy Corporation and Maritime Electric. This agreement, with a term of March 1, 2017 to February 28, 2056 or until such time the debt has been paid in full, outlines the City's share of entitlement of available import capacity (10.1%) from NB to PEI over the Interconnection Facilities and the contributing payments towards the debt. From March 1, 2017 until the end of the first five years of this agreement the monthly payment will be \$30,123.41 plus HST. At the end of the first five year period and each subsequent five year period the debt collection rate will be adjusted based on the contribution ratio and interest rate available to the Energy Corporation.



Notes to the Consolidated Financial Statements

December 31, 2017

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 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

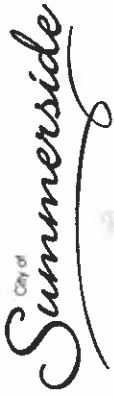
The City owns and operates its own electric utility, Summerville Electric. Operations include the purchase, sale, production, transmission and distribution of electricity to utility customers.

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.

12. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.



Schedule of Segmented Disclosure December 31, 2017

	General Government	Recreation Programs	Protective Services	Transportation Planning & Engineering	Electric Utility	Water & Sewer Utility	Elimination	Consolidated 2017
Revenues								
Property taxes	\$ 8,268,316	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,268,316
Government transfers								
Equalization	2,330,115	-	-	-	-	-	-	2,330,115
Municipal Support Grant	4,897,467	-	-	-	-	-	-	4,897,467
Infrastructure	26,890	14,000	17,700	4,223,258	1,500,000	2,842,083	-	8,623,931
Other	-	61,504	-	-	120,000	-	-	181,504
Wind Energy sales	3,141,282	-	-	-	-	-	(3,141,282)	-
Sale of Electricity	-	-	-	-	21,492,579	-	(1,825,839)	19,666,739
Sale of Water & Sewer Services	-	-	-	-	-	5,701,885	(532,713)	5,169,172
Electro Thermal Storage Program Sales	-	-	-	-	85,137	-	(18,914)	66,223
Fines and costs	-	-	123,979	-	-	-	-	123,979
Gain (loss) on Disposal of Assets	316,264	(240,380)	-	-	(15,869)	2,900	-	62,915
Third party revenue	758,849	1,857,832	100,303	219,197	-	-	(103,042)	2,833,139
	<u>19,739,183</u>	<u>1,692,956</u>	<u>241,982</u>	<u>4,442,455</u>	<u>23,181,847</u>	<u>8,546,867</u>	<u>(5,621,790)</u>	<u>52,223,501</u>
Expenditures								
Salaries & Benefits	1,774,335	2,535,856	3,917,104	683,438	2,541,563	1,282,432	-	12,734,728
Goods & Services	1,173,882	2,853,392	1,191,717	1,781,918	14,818,577	1,906,090	(5,621,790)	18,103,786
Amortization	1,248,978	2,064,067	277,782	1,721,399	894,402	1,225,167	-	7,431,795
Interest	301,259	1,206,943	22,934	239,930	565,681	563,530	-	2,900,277
Other	299,442	-	-	-	74,229	9,179	-	382,850
	<u>4,797,896</u>	<u>8,660,258</u>	<u>5,409,537</u>	<u>4,426,687</u>	<u>18,894,452</u>	<u>4,986,399</u>	<u>(5,621,790)</u>	<u>41,553,436</u>
Annual surplus (deficit)	<u>\$ 14,941,287</u>	<u>\$ (6,967,302)</u>	<u>\$ (5,167,555)</u>	<u>\$ 15,768</u>	<u>\$ 4,287,394</u>	<u>\$ 3,560,470</u>	<u>\$ -</u>	<u>\$ 10,670,065</u>



Schedule of Segmented Disclosure

December 31, 2016

Revenues	General Government	Recreation Programs	Protective Services	Transportation 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)	2,763,373
	<u>19,654,414</u>	<u>2,099,434</u>	<u>262,230</u>	<u>2,834,478</u>	<u>21,318,547</u>	<u>6,927,123</u>	<u>(5,380,392)</u>	<u>47,715,835</u>
Expenditures								
Salaries & Benefits	1,569,770	2,611,674	4,083,676	719,279	2,540,087	1,284,035	-	12,808,520
Goods & Services	1,295,754	2,824,186	1,165,588	1,762,616	13,787,507	1,764,051	(5,380,392)	17,219,312
Amortization	1,188,436	2,019,870	227,740	2,401,804	1,062,598	1,187,931	-	8,088,379
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	-	15,634
Other	317,048	-	-	-	520,435	38,604	-	876,087
	<u>4,682,822</u>	<u>8,724,867</u>	<u>5,471,704</u>	<u>5,067,368</u>	<u>18,477,043</u>	<u>4,866,369</u>	<u>(5,380,392)</u>	<u>41,909,781</u>
Annual surplus (deficit)	\$ 14,971,592	\$ (6,625,433)	\$ (5,209,474)	\$ (2,232,890)	\$ 2,841,504	\$ 2,060,755	\$ -	\$ 5,806,053