

Financial Statements of the

TOWN OF SIDNEY

Year ended December 31, 2016



TOWN OF SIDNEY

BRITISH COLUMBIA

TOWN OF SIDNEY

Financial Statements

Year ended December 31, 2016

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TOWN OF SIDNEY

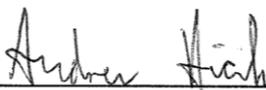
FINANCIAL REPORTING RESPONSIBILITY

The accompanying financial statements of the Town of Sidney (the “Town”) are the responsibility of management and have been prepared in compliance with legislation, and in accordance with public sector accounting standards for local governments, as established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. A summary of the significant accounting policies are described in note 1 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management’s judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Town’s management maintains a system of internal controls 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 financial statements. These systems are monitored and evaluated by management.

The Municipal Council, acting through its Standing Committees, meets with management and the external auditors to review the financial statements and discuss any significant reporting or internal control matters prior to their acceptance of the financial statements.

The financial statements have been audited by KPMG LLP, independent external auditors appointed by the Town. The accompanying Independent Auditors’ Report outlines their responsibilities, the scope of their examination, and their opinion on the Town’s financial statements.



Director of Corporate Services



KPMG LLP
St. Andrew's Square II
800-730 View Street
Victoria BC V8W 3Y7
Telephone 250-480-3500

INDEPENDENT AUDITORS' REPORT

To Mayor and Councillors of the Town of Sidney

We have audited the accompanying financial statements of Town of Sidney, which comprise the statement of financial position as at December 31, 2016, the statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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 our 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, we consider internal control relevant to the entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements present fairly, in all material respects, the financial position of the Town of Sidney as at December 31, 2016, and its results of operations, its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants
May 2, 2017
Victoria, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

TOWN OF SIDNEY

Statement of Financial Position December 31, 2016, with comparative figures for 2015

| | 2016 | 2015 |
|--|----------------------|----------------------|
| Financial assets: | | |
| Cash | \$ 2,878,558 | \$ 4,009,671 |
| Investments | 13,101,665 | 10,542,038 |
| Property taxes receivable | 512,210 | 491,790 |
| Accounts receivable | 1,600,145 | 1,449,475 |
| Restricted cash | 48,281 | 46,968 |
| | <u>18,140,859</u> | <u>16,539,942</u> |
| Liabilities: | | |
| Accounts payable and accrued liabilities | 1,600,729 | 1,449,801 |
| Deferred revenue and deposits (note 2) | 2,658,652 | 2,247,426 |
| Employee future benefit obligations (note 3) | 644,600 | 624,100 |
| Lease obligations (note 4) | - | 20,917 |
| Long-term debt (note 5) | 2,988,009 | 3,148,384 |
| | <u>7,891,990</u> | <u>7,490,628</u> |
| Net financial assets | 10,248,869 | 9,049,314 |
| Non-financial assets: | | |
| Tangible capital assets (note 6) | 80,213,943 | 79,608,895 |
| Inventory of supplies | 152,071 | 122,766 |
| Prepaid expenses | 148,659 | 83,163 |
| | <u>80,514,673</u> | <u>80,814,824</u> |
| Accumulated surplus (note 7) | <u>\$ 90,763,542</u> | <u>\$ 88,864,138</u> |

Commitments and contingent liabilities (note 13)

The accompanying notes are an integral part of these financial statements.

TOWN OF SIDNEY

Statement of Operations and Accumulated Surplus Year ended December 31, 2016, with comparative figures for 2015

| | <i>Budget</i> 2016 | Actual 2016 | Actual 2015 |
|---|-----------------------|----------------------|----------------------|
| | <i>(note 11)</i> | | |
| Revenue: | | | |
| Net taxes available for municipal purposes (note 8) | \$ 12,531,642 | \$ 12,493,456 | \$ 12,274,566 |
| Fees, rates and service charges | 5,383,610 | 6,077,070 | 5,765,649 |
| Government transfers (note 9) | 2,032,535 | 1,447,553 | 1,367,563 |
| Investment earnings | 185,000 | 224,094 | 207,978 |
| Gifts and contributions | 18,000 | 314,972 | 479,969 |
| Penalties and interest | 96,100 | 94,691 | 102,915 |
| Actuarial adjustment on debt | - | 11,520 | 25,497 |
| Other | 14,800 | 327,684 | 212,319 |
| Total revenue | 20,261,687 | 20,991,040 | 20,436,456 |
| Expenses: | | | |
| General government | 2,422,735 | 2,397,475 | 2,195,906 |
| Protective services | 4,638,272 | 4,386,178 | 4,170,584 |
| Transportation | 3,636,351 | 3,642,772 | 3,575,292 |
| Environmental health services | 695,165 | 716,194 | 692,105 |
| Environmental development | 590,780 | 503,502 | 375,017 |
| Leisure, parks and cultural | 2,845,334 | 2,846,955 | 2,767,498 |
| Water utility | 1,903,901 | 2,033,944 | 2,048,836 |
| Sewer utility | 2,001,237 | 1,995,254 | 1,938,618 |
| Other (note 10) | 679,774 | 569,362 | 629,125 |
| Total expenses | 19,413,549 | 19,091,636 | 18,392,981 |
| Annual surplus | 848,138 | 1,899,404 | 2,043,475 |
| Accumulated surplus, beginning of year | 88,864,138 | 88,864,138 | 86,820,663 |
| Accumulated surplus, end of year | \$ 89,712,276 | \$ 90,763,542 | \$ 88,864,138 |

The accompanying notes are an integral part of these financial statements.

TOWN OF SIDNEY

Statement of Changes in Net Financial Assets Year ended December 31, 2016, with comparative figures for 2015

| | Budget 2016 | Actual 2016 | Actual 2015 |
|--|---------------------|----------------------|---------------------|
| | <i>(note 11)</i> | | |
| Annual surplus | \$ 848,138 | \$ 1,899,404 | \$ 2,043,475 |
| Acquisition of tangible capital assets | (7,357,225) | (3,074,162) | (3,473,284) |
| Amortization of tangible capital assets | 2,450,000 | 2,468,382 | 2,390,729 |
| Loss (gain) on disposal of tangible capital assets | | (281,590) | 23,437 |
| Proceeds on disposal of tangible capital assets | | 282,322 | 17,843 |
| | (4,059,087) | 1,294,356 | 1,002,200 |
| Acquisition of inventory of supplies | - | (152,071) | (122,766) |
| Acquisition of prepaid expense | - | (148,659) | (83,163) |
| Consumption of inventory of supplies | - | 122,766 | 104,271 |
| Use of prepaid expenses | - | 83,163 | 114,066 |
| Change in net financial assets | (4,059,087) | 1,199,555 | 1,014,608 |
| Net financial assets, beginning of year | 9,049,314 | 9,049,314 | 8,034,706 |
| Net financial assets, end of year | \$ 4,990,227 | \$ 10,248,869 | \$ 9,049,314 |

The accompanying notes are an integral part of these financial statements.

TOWN OF SIDNEY

Statement of Cash Flows

Year ended December 31, 2016, with comparative figures for 2015

| | 2016 | 2015 |
|---|---------------------|---------------------|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Annual surplus | \$ 1,899,404 | \$ 2,043,475 |
| Items not involving cash: | | |
| Amortization | 2,468,382 | 2,390,729 |
| Developer contribution of tangible capital assets | (263,361) | (273,334) |
| Change in employee benefits and other liabilities | 20,500 | (58,300) |
| Loss (gain) on disposal of tangible capital assets | (281,590) | 23,437 |
| Loss (gain) on leases | 708 | 25 |
| Actuarial adjustment on debt | (11,520) | (25,497) |
| Change in non-cash assets and liabilities: | | |
| Property taxes receivable | (20,420) | 7,381 |
| Accounts receivable | (150,670) | 155,660 |
| Accounts payable and accrued liabilities | 150,928 | 41,244 |
| Deferred revenue | 411,226 | 590,889 |
| Inventory of supplies | (29,305) | (18,495) |
| Prepaid expenses | (65,496) | 30,903 |
| Net change in cash from operating activities | 4,128,786 | 4,908,117 |
| Capital activities: | | |
| Proceeds on disposal of tangible capital assets | 282,322 | 17,843 |
| Cash used to acquire tangible capital assets | (2,810,801) | (3,199,950) |
| Net change in cash from capital activities | (2,528,479) | (3,182,107) |
| Investment activities: | | |
| Investments | (2,559,627) | (1,004,948) |
| Net change in cash from investing activities | (2,559,627) | (1,004,948) |
| Financing activities | | |
| Municipal Finance Authority debt reserve adjustment | (1,313) | (1,173) |
| Debt issued and assumed | - | 25,300 |
| Long-term debt repaid | (157,486) | (157,486) |
| Lease obligations and loan agreements repaid | (12,994) | (17,150) |
| Net change in cash from financing activities | (171,793) | (150,509) |
| Net change in cash and cash equivalents | (1,131,113) | 570,553 |
| Cash and cash equivalents, beginning of year | 4,009,671 | 3,439,118 |
| Cash and cash equivalents, end of year | \$ 2,878,558 | \$ 4,009,671 |
| Cash paid for interest | \$ 155,415 | \$ 155,941 |
| Cash received from interest | 318,785 | 310,893 |

The accompanying notes are an integral part of these financial statements.

TOWN OF SIDNEY

Notes to Financial Statements

Year ended December 31, 2016

The Town of Sidney (the "Town") is a municipality in the Province of British Columbia and operates under the provisions of the Local Government Act and Community Charter. Its principal activities are the provision of local government services to residents of the Town. These services include administrative, protective, transportation, environmental, recreational, water, sewer and fiscal services.

1. Significant accounting policies:

The financial statements of the Town are prepared by management in accordance with Canadian public sector accounting standards for local governments, as recommended by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada. Significant accounting policies adopted by the Town are as follows:

(a) Reporting entity:

The financial statements include a combination of the assets, liabilities, accumulated surplus, revenues and expenses of all of the Town's activities and funds. Inter-departmental balances and organizational transactions have been eliminated.

(b) Basis of accounting:

The Town follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

(c) Government transfers:

Government transfers are recognized in the financial statements as revenue in the period the transfers are authorized and any eligibility criteria have been met, except when, and to the extent that, the transfer gives rise to an obligation that meets the definition of a liability for the recipient government. Transfers received which meet the definition of a liability are included in deferred revenue.

(d) Property tax revenue:

Property tax revenue is recognized on an accrual basis using property assessment values established by BC Assessment for the current year and the tax rates established annually by Council. Tax revenues are recorded at the date property taxes are due. Assessments are subject to appeal and tax adjustments are recorded when the results of the appeals are known, and if required. An allowance for unresolved assessment appeals is also recorded.

(e) Deferred revenue:

Deferred revenue includes grants, contributions and other amounts received from third parties pursuant to legislation, regulation or agreement, which may only be used in certain programs, in the completion of specific work, or for the purchase of tangible capital assets. In addition, certain user charges and fees are collected for which the related services have yet to be performed. Revenue is recognized in the period when the related expenses are incurred, services are performed, or the tangible capital assets are acquired.

TOWN OF SIDNEY

Notes to Financial Statements

Year ended December 31, 2016

1. Significant accounting policies (continued):

(f) Investment income:

Investment income is reported as revenue in the period earned. When required by the funding government or related Act, investment income earned on deferred revenue is added to the deferred revenue balance.

(g) Employee future benefits:

The Town and its employees make contributions to the Municipal Pension Plan. These contributions are expensed as incurred.

Sick leave benefits and other retirement benefits are also available to the Town's employees. The costs of these benefits are actuarially determined based on service and best estimates of retirement ages and expected future salary and benefit increases. The obligation under this benefit plan is accrued based on projected benefits as the employees render services necessary to earn the future benefits.

(h) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities, and are held for use in the provision of services. They have useful lives extending beyond the current year, and are not intended for sale in the ordinary course of operations.

(i) Tangible capital assets

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The costs, less residual value, of the tangible capital assets, excluding land, are amortized on a straight line basis over their estimated useful lives as follows:

| Assets | Useful Life - Years |
|-------------------------------------|---------------------|
| Land improvements | 10 - 75 |
| Buildings and building improvements | 15 - 100 |
| Vehicle, machinery and equipment | 3 - 50 |
| Water and wastewater infrastructure | 12 - 75 |
| Road infrastructure | 25 - 100 |

Amortization is charged annually. Assets under construction are not amortized until the asset is available for productive use. Tangible capital assets are written down when conditions indicate that they no longer contribute to the Town's ability to provide services, or when the value of future economic benefits associated with the asset is less than the book value.

(ii) Contribution of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt, with the value of the contribution recorded as revenue.

(iii) Works of art and cultural and historic assets

Works of art and cultural and historic assets are not recorded as assets in these financial statements

TOWN OF SIDNEY

Notes to Financial Statements

Year ended December 31, 2016

1. Significant accounting policies (continued):

(iv) Interest capitalization

The Town does not capitalize interest costs associated with the acquisition or construction of tangible capital assets.

(v) Leased tangible capital assets

Leased assets which transfer substantially all the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

(i) Foreign currency:

Monetary items denominated in foreign currency are translated to Canadian dollars at exchange rates in effect at the reporting date, and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Gains or losses on foreign currency translations are included as revenues or expenses.

(j) Use of estimates:

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Significant estimates include assumptions used in estimating historical cost and useful lives of tangible capital assets, and estimating provisions for accrued liabilities, including employee future benefits, contaminated sites and contingent liabilities. Actual results could differ from these estimates.

(k) Contaminated Sites:

A liability for contaminated sites is recognized when a site is not in productive use and the following criteria are met:

- (i) An environmental standard exists;
- (ii) Contamination exceeds the environmental standard;
- (iii) The Town is directly responsible or accepts responsibility;
- (iv) It is expected that future economic benefits will be given up; and
- (v) A reasonable estimate of the amount can be made.

The liability is recognized as management's estimate of the cost of post-remediation including operation, maintenance and monitoring that are an integral part of the remediation strategy for a contaminated site.

TOWN OF SIDNEY

Notes to Financial Statements

Year ended December 31, 2016

2. Deferred revenue and deposits:

The deferred revenues and deposits reported on the statement of financial position are comprised of the following:

| | Balance at Dec 31, 2015 | Recognized as revenue | Interest earned | Current year deferred | Balance at Dec 31, 2016 |
|---|----------------------------|--------------------------|--------------------|--------------------------|----------------------------|
| Prepaid property taxes | \$ 1,242,846 | \$ (1,242,846) | \$ - | \$1,344,921 | \$ 1,344,921 |
| Prepaid fees and charges | 181,931 | (163,964) | - | 248,599 | 266,566 |
| Deferred developer contributions & deposits | 502,377 | (478,313) | 2,300 | 439,855 | 466,219 |
| Deposits on hold | 320,272 | (320,022) | - | 580,696 | 580,946 |
| | <u>\$ 2,247,426</u> | <u>\$ (2,205,145)</u> | <u>\$ 2,300</u> | <u>\$ 2,614,071</u> | <u>\$ 2,658,652</u> |

3. Employee future benefit obligations:

The Town provides sick leave and certain other benefits to its employees. Some employees of the Town are entitled to payments related to unused vacation, sick leave and other allowances upon resignation or retirement. These amounts and other employee related liabilities will require funding in future periods.

Information regarding the Town's obligations for employee future benefits is as follows:

| | 2016 | 2015 |
|---------------------------------------|-------------------|-------------------|
| Accrued employee benefit obligations: | | |
| Balance, beginning of year | \$ 785,300 | \$ 758,600 |
| Current service cost | 89,100 | 86,900 |
| Interest cost | 26,100 | 24,900 |
| Benefits paid | (115,700) | (182,300) |
| Actuarial adjustment | (9,100) | 97,200 |
| Balance, end of year | 775,700 | 785,300 |
| Unamortized net actuarial loss | (131,100) | (161,200) |
| Accrued employee benefit obligations | <u>\$ 644,600</u> | <u>\$ 624,100</u> |

Any actuarial gain or loss is amortized over a period equal to the employees' average remaining service lifetime, estimated to be 10 years (2015 – 11 years).

The amount recorded for these benefits is based on an actuarial valuation performed by an independent firm using a projected benefit actuarial valuation method pro-rated on services.

This valuation is reviewed on a periodic basis. The most recent actuarial valuation of the Town's employee future benefits was completed as at December 31, 2016.

TOWN OF SIDNEY

Notes to Financial Statements

Year ended December 31, 2016

3. Employee future benefit obligations (continued):

The significant actuarial assumptions adopted in measuring the Town's accrued benefit obligation are as follows:

| | 2016 | 2015 |
|------------------------------------|-------|-------|
| Discount rates | 3.30% | 3.10% |
| Expected wage and salary increases | 2.50% | 2.50% |

The Town funds the employee future benefits with the tax revenues from the general operating fund and from surplus amounts appropriated for this purpose. The total expense recorded in the financial statements in respect of obligations under this plan amounts to \$136,200 (2015 – 124,000).

Other pension plan:

The Town and its employees contribute to the Municipal Pension Plan (the Plan), a jointly trustee pension plan. The Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The Plan is a multi-employer contributory pension plan. Basic pension benefits provided are based on a formula. As at December 31, 2015, the Plan has about 189,000 active members and approximately 85,000 retired members. Active members include approximately 37,000 contributors from local governments.

The most recent valuation, as at December 31, 2015, indicated a \$2,224 million funding surplus for basic pension benefits. The next valuation will be as at December 31, 2018, with results available in 2019. Employers participating in the Plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the Plan records accrued liabilities and accrued assets for the Plan in aggregate, with the result that there is no consistent and reliable basis for allocating the obligation, assets and costs to the individual employers participating in the Plan.

The Town paid \$567,728 for employer contributions (2015 - \$574,537) and Town employees paid \$481,370 for employee contributions (2015 - \$492,060) to the plan in fiscal 2016.

GVLRA – CUPE Long-Term Disability Trust

The Trust was established January 1, 1987 and its sole purpose is to provide a long-term disability income benefit plan for municipal employees in the Capital Region. The Town and its employees (CUPE & Exempt) each contribute equal amounts into the Trust. The total plan provision for approved and unreported claims was actuarially determined as of December 31, 2014. At December 31, 2015, the total plan provision for approved and unreported claims was \$19,101,700 with a net deficit of \$1,519,599. The actuary does not attribute portions of the unfunded liability to individual employers. The Town paid \$80,703 for employer contributions (2015 - \$79,959) and Town employees paid \$80,885 for employee contributions (2015 - \$80,369) to the plan in 2016.

TOWN OF SIDNEY

Notes to Financial Statements

Year ended December 31, 2016

4. Lease obligations:

Prior to 2016, the Town entered into capital lease agreements with the Municipal Finance Authority (MFA), for various office equipment and for terms ranging to five years. The MFA began winding down its leasing program in mid-2014 and developed a new program for the financing of equipment. To take advantage of lower interest rates and the ability to gain immediate ownership of the leased assets, the Town transferred its remaining 2 capital leases to the equipment financing program in 2016; accordingly, the Town maintains no year ending lease obligations.

| | 2016 | 2015 |
|---|------|-----------|
| 2016 | \$ - | \$ 8,145 |
| 2017 | - | 6,915 |
| 2018 | - | 5,696 |
| 2019 | - | 1,335 |
| 2020 | - | - |
| Total minimum lease payments | - | 22,091 |
| Less: amount representing interest (at prime less 1%) | - | (1,174) |
| Present value of net minimum capital lease payments | \$ - | \$ 20,917 |

Interest expense incurred during 2016 on lease obligations before transfer to the new equipment financing program amounted to \$386 (2015 - \$549).

5. Long-term debt:

(a) The Town issues debt instruments through the Municipal Finance Authority (MFA), pursuant to loan authorization and security issuing bylaws under authority of the Community Charter and the Local Government Act, to finance certain capital expenditures. Sinking fund contributions, managed by the MFA, are made annually. The related actuarial allocations in respect to the repayment structure are reflected as a reduction of the related long-term debt.

(b) Gross amount of debt and the amount of the actuarial allocation of assets available to retire the debt are as follows:

| | Gross debt | Actuarial allocation | Net debt 2016 | Net debt 2015 |
|---------------------------|--------------|----------------------|---------------|---------------|
| Short-Term and Other debt | \$ 75,299 | \$ - | \$ 75,299 | \$ 109,668 |
| Long-term Debt | 3,850,000 | 937,290 | 2,912,710 | 3,038,716 |
| | \$ 3,925,299 | \$ 937,290 | \$ 2,988,009 | \$ 3,148,384 |

TOWN OF SIDNEY

Notes to Financial Statements

Year ended December 31, 2016

5. Long-term debt (continued):

Under borrowing arrangements with the MFA, the Town is required to lodge security by means of demand notes and interest-bearing cash deposits based on the amount of the borrowing. As a condition of these borrowings, a portion of the debenture proceeds is withheld by the MFA as a debt reserve fund. These deposits are held by the MFA as security against the possibility of debt repayment default. If the debt is repaid without default, the deposits are refunded to the Town. At December 31, 2016 there were contingent demand notes of \$95,705 (2015 – \$95,705) and cash deposits of \$48,281 (2015 - \$46,968). The demand notes are not included in the financial statements of the Town; however, the cash deposits are included in the financial statements as restricted cash.

- (c) Long-term debt estimated principal repayments over the next five years:

| | | |
|------|----|---------|
| 2017 | \$ | 169,183 |
| 2018 | | 125,111 |
| 2019 | | 120,914 |
| 2020 | | 118,032 |
| 2021 | | 114,486 |

Scheduled debt repayments may be suspended should sinking fund accumulations exceed original estimates.

- (d) Total interest paid on long-term and short-term debt during the year was \$154,662 (2015 - \$155,394).
- (e) Existing long-term debt matures in annual amounts to the year 2037, and interest rates range from 2.4% to 4.65%. The weighted average interest rate for 2016 was 3.81% (2015 – 3.82%).
- (f) During 2016 the Town adopted the Community Safety Building Loan Authorization Bylaw No. 2111 which was approved by the Inspector of Municipalities and authorizes the Town to borrow \$10,000,000 through the MFA for construction of a new Community Safety Building. At December 31, 2016, the Town has not drawn upon these funds.
- (g) Included in other debt are Equipment Financing Loan Agreements with the Municipal Finance Authority totaling \$32,299 (2015 – 23,668) to finance the purchase of tangible capital assets.

The loans are repaid in monthly payments of \$1,006 with maturity dates ranging from 2018 to 2020. The loans are repayable on demand upon occurrence of any events of default. Interest is charged on a daily floating rate basis and compounded monthly. At year end, the current floating rate was 1.39% per annum. Interest paid during the year was \$367 (2015 - \$127) and has been included in expenses on the statement of operations. As a condition of borrowing, the Town has issued promissory notes in the value of \$41,068 to the MFA.

TOWN OF SIDNEY

Notes to Financial Statements

Year ended December 31, 2016

6. Tangible capital assets:

| Cost | Balance at Dec 31, 2015 | Additions / Transfers | Disposals | Balance at Dec 31, 2016 |
|-------------------------------------|----------------------------|--------------------------|---------------------|----------------------------|
| Land | \$ 15,143,104 | \$ - | \$ (1,804) | \$ 15,141,300 |
| Land improvements | 12,867,170 | 17,637 | - | 12,884,807 |
| Building and building improvements | 14,966,333 | 8,073 | - | 14,974,406 |
| Vehicles, machinery and equipment | 9,803,252 | 1,078,077 | (167,961) | 10,713,368 |
| Water and wastewater infrastructure | 37,631,888 | 1,269,266 | - | 38,901,154 |
| Roads infrastructure | 27,496,981 | 572,180 | (14,475) | 28,054,686 |
| Assets under construction | 711,474 | 128,929 | (1,499) | 838,904 |
| Total | \$ 118,620,202 | \$ 3,074,162 | \$ (185,739) | \$ 121,508,626 |

| Accumulated Amortization | Balance at Dec 31, 2015 | Amortization Expense | Disposals | Balance at Dec 31, 2016 |
|-------------------------------------|----------------------------|-------------------------|---------------------|----------------------------|
| Land | \$ - | \$ - | \$ - | \$ - |
| Land improvements | 4,191,821 | 367,688 | - | 4,559,509 |
| Building and building improvements | 6,470,312 | 402,333 | (13,581) | 6,859,064 |
| Vehicles, machinery and equipment | 4,815,636 | 646,977 | (155,228) | 5,307,385 |
| Water and wastewater infrastructure | 14,263,963 | 545,630 | (1,723) | 14,807,870 |
| Roads infrastructure | 9,269,575 | 505,754 | (14,475) | 9,760,854 |
| Assets under construction | - | - | - | - |
| Total | \$ 39,011,307 | \$ 2,468,382 | \$ (185,007) | \$ 41,294,682 |

| Net Book Value | Balance at Dec 31, 2015 | Balance at Dec 31, 2016 |
|-------------------------------------|----------------------------|----------------------------|
| Land | \$ 15,143,104 | \$ 15,141,300 |
| Land improvements | 8,675,349 | 8,325,298 |
| Building and building improvements | 8,496,021 | 8,115,342 |
| Vehicles, machinery and equipment | 4,987,616 | 5,405,983 |
| Water and wastewater infrastructure | 23,367,925 | 24,093,284 |
| Roads infrastructure | 18,227,406 | 18,293,832 |
| Assets under construction | 711,474 | 838,904 |
| Total | \$ 79,608,895 | \$ 80,213,943 |

(a) Assets under construction

Assets under construction having a value of \$838,904 (2015 - \$711,474) have not been amortized. Amortization of these assets will commence when the assets are available for service.

TOWN OF SIDNEY

Notes to Financial Statements

Year ended December 31, 2016

6. Tangible capital assets (continued):

(b) Contributed tangible capital assets

Contributed capital assets are recognized at fair market value at the date of contribution and consist of water, wastewater and roads infrastructure. The value of contributed assets received during the year is \$263,361 (2015 - \$273,334).

(c) Works of art and historical cultural assets

The Town manages and controls a limited number of works of art and non-operational historical cultural assets including artifacts, paintings and sculptures located at Town sites and public display areas. These assets are not recorded as tangible capital assets and are not amortized.

7. Accumulated surplus:

Accumulated surplus consists of individual fund surpluses, reserves and reserve funds as follows:

| | 2016 | 2015 |
|---|----------------------|----------------------|
| Surplus: | | |
| Invested in tangible capital assets | \$ 77,308,674 | \$ 76,521,602 |
| Surplus from operations | 4,878,421 | 4,785,701 |
| Total surplus | 82,187,095 | 81,307,303 |
| Reserves set aside by Council: | | |
| Miscellaneous operating purposes | 497,510 | 504,780 |
| Miscellaneous capital purposes | 867,049 | 612,122 |
| Total reserves | 1,364,559 | 1,116,902 |
| Reserves funds set aside for specific purposes by Council: | | |
| Land sale proceeds | 281,752 | 16,452 |
| Parkland acquisition | 127,494 | 125,494 |
| Off-street parking | 86,686 | 80,586 |
| Computer replacement | 451,907 | 436,427 |
| General equipment replacement | 886,236 | 715,225 |
| Fire equipment replacement | 134,672 | 478,205 |
| Water capital | 351,975 | 346,475 |
| Sewer capital | 23,416 | 23,016 |
| Infrastructure replacement | 1,818,925 | 1,566,553 |
| Water rates stabilization | 247,955 | 244,055 |
| Amenities | 41,733 | 20,076 |
| Ferry terminal | 626,475 | 467,725 |
| Contingency | 77,033 | 69,933 |
| Agreements | 165,857 | 143,428 |
| Gas Tax - Community Works Fund | 1,841,491 | 1,659,315 |
| Total reserve funds | 7,163,607 | 6,392,965 |
| Restricted cash | 48,281 | 46,968 |
| | \$ 90,763,542 | \$ 88,864,138 |

TOWN OF SIDNEY

Notes to Financial Statements

Year ended December 31, 2016

7. Accumulated surplus (continued):

The Town periodically receives Gas Tax Agreement funds from the federal government. These funds, along with interest earned on the funds, are recorded as revenues and transferred to reserves until they are used to fund eligible expenditures under the Agreement.

| | 2016 | 2015 |
|--|--------------|--------------|
| Federal gas tax agreement funds | | |
| Gas tax agreement funds, beginning of year | \$ 1,659,315 | \$ 1,185,044 |
| Amounts received during the year | 524,040 | 506,971 |
| Interest earned restricted for projects | 26,400 | 19,300 |
| Expenditures | (368,264) | (52,000) |
| Gas tax agreements funds, end of year | \$ 1,841,491 | \$ 1,659,315 |

8. Net taxes available for municipal purposes:

| | 2016 | 2015 |
|--|---------------|---------------|
| Taxes: | | |
| Property taxes | \$ 22,682,526 | \$ 22,369,590 |
| Revenue in lieu of taxes | 237,207 | 217,674 |
| Other | 851,163 | 1,108,836 |
| | 23,770,896 | 23,696,100 |
| Less taxes on behalf of: | | |
| Provincial Government School Authorities | 6,385,190 | 6,581,187 |
| Capital Regional District | 2,267,047 | 2,206,380 |
| Capital Regional Hospital District | 1,026,703 | 1,022,555 |
| BC Transit | 1,129,590 | 1,136,257 |
| BC Assessment Authority | 202,309 | 211,814 |
| Municipal Finance Authority | 710 | 685 |
| Business Improvement Area | 265,891 | 262,656 |
| | 11,277,440 | 11,421,534 |
| Net taxes available for municipal purposes | \$ 12,493,456 | \$ 12,274,566 |

TOWN OF SIDNEY

Notes to Financial Statements

Year ended December 31, 2016

9. Government transfers:

Government transfers are recognized in the financial statements as revenue in the period the transfers are authorized and any eligibility criteria have been met. The government transfers reported on the statement of operations are:

| | 2016 | 2015 |
|--|--------------|--------------|
| Federal grants: | | |
| Gas Tax - Community Works Funding | \$ 524,040 | \$ 506,971 |
| | 524,040 | 506,971 |
| Provincial grants: | | |
| Federal / provincial capital grant programs | - | 15,518 |
| Small community protection grant | 338,942 | 349,363 |
| Traffic fine revenue sharing | 115,480 | 130,384 |
| Other provincial grants | 898 | 120 |
| | 455,320 | 495,385 |
| Regional and other local government transfers: | | |
| Policing | 294,880 | 279,653 |
| Recreation | 49,669 | 64,441 |
| Other | 123,644 | 21,113 |
| | 468,193 | 365,207 |
| Total government transfer revenue | \$ 1,447,553 | \$ 1,367,563 |

10. Other expenses:

| | 2016 | 2015 |
|---|------------|------------|
| Grants to non-government organizations: | | |
| Sidney and North Saanich Memorial Park Society | \$ 263,836 | \$ 255,527 |
| Saanich Peninsula Chamber of Commerce | 60,150 | 60,000 |
| New Marine Centre Society | 65,000 | 65,000 |
| Sidney Business Improvement Area Society | 33,825 | 24,000 |
| Peninsula Celebrations Society | 12,000 | 12,000 |
| Other | 44,599 | 32,303 |
| | 479,410 | 448,830 |
| Interest on prepaid taxes | 2,820 | 3,908 |
| Amortization and net loss on miscellaneous assets | 15,785 | 69,997 |
| Other | 71,347 | 106,390 |
| | \$ 569,362 | \$ 629,125 |

TOWN OF SIDNEY

Notes to Financial Statements

Year ended December 31, 2016

11. Budget data:

The budget data presented in these financial statements is based upon the 2016-2020 Financial Plan adopted by Council on May 9, 2016. The table below reconciles the approved budget to the budget figures reported in these financial statements.

| | Budget Amount |
|--|-------------------|
| Revenues: | |
| Financial Plan | \$ 19,852,048 |
| Add: | |
| Vancouver Island Regional Library Levy | 675,530 |
| Less: | |
| Sidney Business Improvement Area Levy | (265,891) |
| Total revenue | 20,261,687 |
| Expenses: | |
| Financial Plan | 19,003,910 |
| Add: | |
| Vancouver Island Regional Library Levy | 675,530 |
| Less: | |
| Sidney Business Improvement Area Levy | (265,891) |
| Total Expenses | 19,413,549 |
| Annual surplus | \$ 848,138 |

12. Segmented information:

The Town of Sidney is a diversified organization that provides a wide range of services. These services have been captured in specific functions that have been separately disclosed in the segmented information as follows:

(i) General Government:

The General Government function is comprised of Legislative Services (Council and Committees) and General Administration, which includes Financial Management, Driver Services, Computer Services, Common Services, and other administrative activities related to the management of the Town.

(ii) Protective Services:

The Protective Services function is comprised of five core services: Emergency Measures, Fire Protection, Police Protection, Court House, and Building & Bylaw Enforcement.

Emergency Measures captures the Town's emergency preparedness programs that ensure the Town is prepared and able to respond to the devastating effects of a disaster or major catastrophic event.

Fire Protection services are carried out by the Town's Fire Department, whose mandate is to provide critical, life-saving services in preventing or minimizing the loss of life and property from fire and natural or man-made emergencies.

Police Protection services are performed under contract by the RCMP, who ensure the safety of lives and property in the Town through law enforcement, the maintenance of law and order, and the prevention of crime.

TOWN OF SIDNEY

Notes to Financial Statements

Year ended December 31, 2016

12. Segmented information (continued):

Building and Bylaw Enforcement promotes, facilitates and enforces general compliance with the provisions of bylaws that pertain to the health, safety and welfare of the community.

(iii) Transportation Services:

The Transportation Services function is responsible for a wide variety of transportation services including Roads, Storm Drainage, Dock & Port Facilities, and Hydrants.

The Roads function's principal activity is the development and maintenance of the Town's roadway systems through the Public Works department. The main services include Traffic Services consisting of street sign, street painting and traffic light control maintenance; Street Lighting; Road, Curb, Sidewalk and Cul-de-sac repairs and maintenance; Boulevard Trees; and Street Sweeping.

The Storm Drains service performs preventative maintenance and repairs to the Town's storm drain system, maintains and repairs storm drain ditches, and cleans catch basins.

Dock & Ports Facilities captures maintenance of the Town's docks and port infrastructure.

Hydrant services pertain to the maintenance of existing and installation of new fire hydrants.

(iv) Environmental Health Services:

Environmental Health Services provides garbage, organics and compost collection and disposal services to residents and businesses through the Town's designated contractors.

(v) Environmental Development Services:

Environmental Development Services administers zoning and related bylaws, and provides long range planning and policy services, as well as providing administrative support to Building and Bylaw Enforcement functions.

(vi) Leisure, Parks and Cultural Services:

Leisure, Parks & Cultural Services is comprised of four different functions: Parks, Library, Senior's Centre and Museums.

Parks is responsible for the maintenance, planning and development of Town park facilities such as ornamental gardens, natural ecosystems, playgrounds for recreational and cultural enjoyment in a beautiful and safe environment. It also preserves and enhances green spaces on public lands.

Library services are specific to maintenance of the Town owned library building, and funding to Vancouver Island Regional Library to operate and manage the library.

The Town owned Shoal Activity Centre is operated by Beacon Community Services, who receive funding from the Town to provide senior related programs.

Museum services include providing space and funding to the Saanich Peninsula Museum Society to manage and operate the Town's Historical Museum and Archives. The Town also provides space to the New Marine Centre Society for the operation of the Shaw Centre for the Salish Sea.

(vii) Sewer and Water Utilities:

The Sewer Utility protects the environment and human health from the impacts of liquid waste generated as a result of human occupation and development in the Town. The Town operates a collection system, which transfers wastewater to a sub-regional treatment facility.

The Water Utility delivers clean, safe and aesthetically pleasing potable water, in accordance with the Provincial Drinking Water Protection Act, to the residents of the Town. The water is for

TOWN OF SIDNEY

Notes to Financial Statements

Year ended December 31, 2016

12. Segmented information (continued):

the purpose of domestic consumption, irrigation and firefighting. The Town operates a water distribution system only, using treated water purchased in bulk from the Regional District.

(viii) Other:

Other includes all revenues and expenses not captured in the other segmentation categories.

Other revenues include municipal taxes, provincial and federal government grants, traffic fine revenues, investment income, developer contributions and other miscellaneous sources of revenue.

Other expenses include community support funding and grants, economic development, contingencies and other miscellaneous expenses.

The resulting annual surplus is primarily used for budgeted transfers to reserves and debt principal repayments.

Certain allocation methodologies have been employed in the preparation of the segmented financial information. Property taxation and revenue in-lieu of taxes are apportioned to the functions based on year end operating results and funding of capital expenditures.

The accounting policies used in these segments are consistent with those followed in the preparation of the financial statements, as disclosed in note 1.

TOWN OF SIDNEY

Notes to Financial Statements

Year ended December 31, 2016

12. Segmented information (continued):

| | General Government | Protective Services | Transportation | Environmental Health Services | Environmental Development | Leisure, Parks and Cultural | Water Utility | Sewer Utility | Other | 2016 |
|---------------------------------|-----------------------|------------------------|---------------------|-------------------------------------|------------------------------|-----------------------------------|------------------|-------------------|---------------------|---------------------|
| Revenue: | | | | | | | | | | |
| Taxes for municipal purposes | \$ 1,774,494 | \$ 3,320,351 | \$ 1,758,855 | \$ 154,242 | \$ 367,173 | \$ 2,074,235 | \$ 350,640 | \$ 500,343 | \$ 2,193,123 | \$ 12,493,456 |
| Fees, rates and service charges | 399,336 | 619,076 | 787,433 | 571,063 | 41,895 | 193,511 | 1,734,745 | 1,717,450 | 12,561 | 6,077,070 |
| Government transfers | - | 408,524 | 898 | - | - | 49,669 | - | - | 988,462 | 1,447,553 |
| Investment earnings | - | - | - | - | - | - | - | - | 224,094 | 224,094 |
| Gifts and contributions | - | 3,933 | 281,039 | - | - | - | - | - | 30,000 | 314,972 |
| Penalties and interest | - | - | - | 2,244 | - | - | 5,351 | 5,938 | 81,158 | 94,691 |
| Actuarial adjustment on debt | - | - | - | - | - | - | - | - | 11,520 | 11,520 |
| Other | 30,524 | - | - | - | - | - | - | - | 297,160 | 327,684 |
| Total revenue | 2,204,354 | 4,351,884 | 2,828,225 | 727,549 | 409,068 | 2,317,415 | 2,090,736 | 2,223,731 | 3,838,078 | 20,991,040 |
| Expenses: | | | | | | | | | | |
| Salaries, wages and benefits | 1,491,785 | 1,849,168 | 1,607,906 | 112,643 | 338,791 | 969,858 | 365,527 | 248,550 | 6,866 | 6,991,094 |
| Contracted services | 589,869 | 2,108,045 | 400,125 | 564,895 | 160,157 | 1,016,283 | 51,467 | 1,445,371 | 376,599 | 6,712,811 |
| Supplies and equipment | 95,112 | 190,899 | 408,005 | 38,656 | 4,554 | 304,388 | 1,417,294 | 138,837 | - | 2,597,745 |
| Debt interest | 532 | - | 35,609 | - | - | 115,146 | - | - | - | 151,287 |
| Other | 8,306 | (13,721) | - | - | - | - | (520) | - | 176,252 | 170,317 |
| Amortization | 211,871 | 251,787 | 1,191,127 | - | - | 441,280 | 200,176 | 162,496 | 9,645 | 2,468,382 |
| Total expenses | 2,397,475 | 4,386,178 | 3,642,772 | 716,194 | 503,502 | 2,846,955 | 2,033,944 | 1,995,254 | 569,362 | 19,091,636 |
| Annual surplus | \$ (193,121) | \$ (34,294) | \$ (814,547) | \$ 11,355 | \$ (94,434) | \$ (529,540) | \$ 56,792 | \$ 228,477 | \$ 3,268,716 | \$ 1,899,404 |

TOWN OF SIDNEY

Notes to Financial Statements

Year ended December 31, 2016

12. Segmented information (continued):

| | General Government | Protective Services | Transportation | Environmental Health Services | Environmental Development | Leisure, Parks and Cultural | Water Utility | Sewer Utility | Other | 2015 |
|---------------------------------|-----------------------|------------------------|-----------------------|-------------------------------------|------------------------------|-----------------------------------|------------------|-------------------|---------------------|---------------------|
| Revenue: | | | | | | | | | | |
| Taxes for municipal purposes | \$ 1,669,495 | \$ 3,412,764 | \$ 1,695,252 | \$ 142,471 | \$ 332,059 | \$ 2,058,427 | \$ 356,141 | \$ 501,000 | \$ 2,106,957 | \$ 12,274,566 |
| Fees, rates and service charges | 383,987 | 493,148 | 694,444 | 569,566 | 42,958 | 186,192 | 1,689,236 | 1,702,701 | 3,417 | 5,765,649 |
| Government transfers | - | 303,700 | 12,707 | - | - | 64,441 | - | - | 986,715 | 1,367,563 |
| Investment earnings | - | - | - | - | - | - | - | - | 207,978 | 207,978 |
| Gifts and contributions | - | 1,760 | 149,984 | - | - | 5,000 | 33,000 | 90,350 | 199,875 | 479,969 |
| Penalties and interest | - | - | - | 2,175 | - | - | 5,354 | 6,169 | 89,217 | 102,915 |
| Actuarial adjustment on debt | - | - | - | - | - | - | - | - | 25,497 | 25,497 |
| Other | - | - | - | - | - | - | - | - | 212,319 | 212,319 |
| Total revenue | 2,053,482 | 4,211,372 | 2,552,387 | 714,212 | 375,017 | 2,314,060 | 2,083,731 | 2,300,220 | 3,831,975 | 20,436,456 |
| Expenses: | | | | | | | | | | |
| Salaries, wages and benefits | 1,404,646 | 1,650,965 | 1,661,080 | 104,408 | 342,463 | 916,421 | 411,682 | 265,526 | 15,186 | 6,772,377 |
| Contracted services | 557,569 | 2,147,357 | 350,159 | 546,881 | 26,469 | 1,073,764 | 36,857 | 1,370,205 | 355,102 | 6,464,363 |
| Supplies and equipment | 51,755 | 125,149 | 353,197 | 40,816 | 6,085 | 224,290 | 1,373,169 | 141,604 | 55 | 2,316,120 |
| Debt interest | 407 | 14 | 36,222 | - | - | 119,299 | - | - | - | 155,942 |
| Other | 4,590 | 9,256 | 7,750 | - | - | - | 31,803 | - | 240,051 | 293,450 |
| Amortization | 176,939 | 237,843 | 1,166,884 | - | - | 433,724 | 195,325 | 161,283 | 18,731 | 2,390,729 |
| Total expenses | 2,195,906 | 4,170,584 | 3,575,292 | 692,105 | 375,017 | 2,767,498 | 2,048,836 | 1,938,618 | 629,125 | 18,392,981 |
| Annual surplus | \$ (142,424) | \$ 40,788 | \$ (1,022,905) | \$ 22,107 | \$ - | \$ (453,438) | \$ 34,895 | \$ 361,602 | \$ 3,202,850 | \$ 2,043,475 |

TOWN OF SIDNEY

Notes to Financial Statements

Year ended December 31, 2016

13. Commitments and contingent liabilities:

- (a) Under Section 836 of the Local Government Act, all member municipalities are jointly and severally liable for the indebtedness of the Capital Regional District in the event of default by the Regional District.
- (b) The Town is a participant in the Municipal Insurance Association of British Columbia (MIABC). Should the MIABC pay out claims in excess of premiums received, it is possible that the Town, along with other participants, would be required to contribute towards the deficit. Management does not consider external payment under this contingency to be likely and therefore, no amounts have been accrued.
- (c) The Town is a shareholder and member of Capital Regional Emergency Service Telecommunications (CREST) Incorporated, which provides centralized emergency communications and related public safety information services to municipalities, regional districts, the provincial and federal governments and their agencies, and emergency service organizations throughout the Greater Victoria region and the Gulf Islands. Members' obligations to share in funding ongoing operations and any additional costs relating to capital assets are to be contributed pursuant to a Members' Agreement.
- (d) The Town has an RCMP Premises Agreement with the District of North Saanich for the provision of accommodations for a joint RCMP detachment. The parties jointly own the building occupied by the policing detachment, in proportion to their relative contributions to the principal repayment of the debt incurred in order to construct the building. North Saanich's proportionate share is approximately 36%. The Agreement requires the Town to pay to North Saanich their proportionate share of the fair market value of the building should the parties eventually decide to terminate their agreement to provide joint accommodations.

A market value study commissioned in 2011 places North Saanich's share at approximately \$615,000. The Town has in place a temporary borrowing bylaw to cover any potential payout should the agreement be terminated; however, there is no intention at this time to contemplate termination of the agreement.

- (e) The Town has entered into a Memorandum of Understanding (MOU) with the Memorial Park Society (MPS) for the use of part of their lands for two specific purposes: an easement access to the Town's future Community Safety Building just south of MPS lands; and the future construction of a parking lot. The MOU commits the Town to two separate payment streams, neither of which is considered a liability at Dec 31, 2016. Under the terms of the MOU, which is to be replaced with a formal agreement in 2017, the Town will make payments to MPS as follows:

For the easement access: a total of \$400,000, payable over a five-year term. The payment shall be \$80,000 per calendar year, pro-rated in the first and last year to reflect the actual start date of the agreement.

For the lands to be used as a public parking lot: the Town shall pay the equivalent of 0.5% of the previous year's municipal property tax revenues, for as long as the parking agreement continues to be in place. This amount is estimated at \$55,000 for 2017 (to be pro-rated based on starting date of agreement); future year payments are estimated to increase by 2.5% annually.

TOWN OF SIDNEY

Notes to Financial Statements

Year ended December 31, 2016

13. Commitments and contingent liabilities (continued):

The Town has also committed to assuming responsibility for grounds maintenance at the Mary Winspear Centre (the local theatre and conference facility owned and operated by MPS) beginning in 2017. An annual limit of \$25,000 has been set for ground maintenance, with an annual inflation factor being applied starting in the sixth year.

14. Comparative information:

Certain comparative information has been reclassified to conform to the presentation adopted in the current year.