

TOWN OF
VERMILION
 ALBERTA

2017

MUNICIPAL FINANCIAL STATEMENT

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 STATEMENT**

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TOWN OF VERMILION
For the Year Ended
December 31, 2017



5021 - 49 Avenue
Vermilion, AB Canada T9X 1X1
www.vermilion.ca

MANAGEMENT REPORT

The accompanying financial statements and other information contained in the Financial Report are the responsibility of the management of the Town of Vermilion.

These financial statements have been prepared by management. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

The Town of Vermilion maintains systems of internal accounting and administrative controls that are designed to provide reasonable assurance that the financial information is relevant, reliable, and accurate and that the Town's assets are properly accounted for and adequately safeguarded.

The elected council of the Town of Vermilion is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. Council carries out its responsibility principally through the Finance and Administration Committee and Council as a whole.

The Mayor and Town Council meet annually with management and external auditors to discuss internal controls over the financial reporting issues, and to satisfy themselves that each party is properly discharging its responsibilities. The Finance and Administration Committee also considers, for approval by Council, the engagement or re-appointment of the external auditors. The Mayor and Town Council review the quarterly budget reports.

The financial statements have been audited by Donald L. Isaman Professional Corporation, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of Council, residents and ratepayers of the Town. Donald L. Isaman Professional Corporation has full and free access to the Finance and Administration Committee and Council as a whole.



Chief Administrative Officer
April 3, 2018



DONALD L. ISAMAN
PROFESSIONAL CORPORATION
Chartered Accountant

INDEPENDENT AUDITOR'S REPORT

To the Members of Council:

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the Town of Vermilion, which comprise the statement of financial position as at December 31, 2017, and the statements of operations and accumulated surplus, change in net financial assets, cash flows and supporting schedules for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with all 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 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Town of Vermilion as at December 31, 2017, the results of its operations and accumulated surplus, change in its net financial assets, cash flows and supporting schedules for the year then ended in accordance with Canadian public sector accounting standards.

Donald L. Isaman
Professional Corporation

Wainwright, Alberta
April 3, 2018

Chartered Accountant


**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017**

	2017	2016
ASSETS		
FINANCIAL ASSETS		
Cash and temporary investments (Note 2)	1,434,775	2,323,762
Taxes and grants in lieu receivable (Note 3)	117,822	63,286
Receivables from other governments	299,097	363,787
Trade and other receivables	3,699,215	3,911,824
Inventory held for resale	5,766,141	5,481,551
Debt charges recoverable (Note 4)	1,441,934	351,779
Investments (Note 5)	250,000	1,105,134
Other long-term assets	6,897	6,897
	<hr/>	<hr/>
Total financial assets	13,015,881	13,608,020
LIABILITIES		
Payable To Other Governments	76,099	94,192
Accounts payable and accrued liabilities	651,607	603,139
Deposit liabilities	11,410	12,679
Deferred revenue (Note 6)	119,251	96,414
Employee benefit obligations (Note 7)	266,713	246,669
Long term debt (Note 9)	9,784,236	9,570,291
	<hr/>	<hr/>
Total liabilities	10,909,316	10,623,384
	<hr/>	<hr/>
NET FINANCIAL ASSETS	2,106,565	2,984,636
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 11)	57,737,886	57,368,283
Inventory for consumption	113,235	140,572
Prepaid expenses	90,384	117,994
	<hr/>	<hr/>
	57,941,505	57,626,849
	<hr/>	<hr/>
ACCUMULATED SURPLUS (Note 13)	60,048,070	60,611,485
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SIGNED ON BEHALF OF COUNCIL:



MAYOR



DEPUTY MAYOR

TOWN OF VERMILION

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**CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budget (Unaudited)	2017	2016
REVENUE			
Net municipal taxes (Page 6)	4,957,562	4,951,408	4,959,023
Local improvements	92,808	85,419	142,327
Franchise and concession contracts	404,000	455,648	398,325
Gain on sale of tangible capital assets	37,250	54,635	107,403
User fees and sales of goods	4,666,657	4,004,860	4,286,182
Government transfers for operating (Page7)	890,799	942,039	861,187
Investment income	36,500	60,713	52,219
Penalties and costs of taxes	29,800	31,158	29,274
Contributed and donated assets	-	16,613	17,547
Licences and permits	78,300	94,280	90,470
Other	567,927	333,866	753,674
Total Revenue	<u>11,761,603</u>	<u>11,030,639</u>	<u>11,697,631</u>
EXPENSES			
Council and other legislative	225,050	246,904	198,367
General administration	1,279,143	1,210,348	1,221,781
Other general government	202,050	196,968	226,820
Police	34,950	36,543	33,845
Fire	232,220	225,729	217,159
Disaster and emergency measures	59,624	75,497	55,897
Bylaw enforcement	144,481	124,427	96,987
Common Services	143,259	81,355	81,629
Roads, streets, walks and lighting	1,293,502	1,401,328	1,152,541
Airport	26,204	19,414	17,203
Storm sewers and drainage	40,136	45,367	40,281
Water supply and distribution	2,987,200	3,013,813	2,008,659
Wastewater treatment and disposal	341,578	317,408	314,187
Waste management	601,189	740,408	701,603
Enviromental use and protection	4,900	7,318	(4,928)
Family and community support	192,869	196,125	211,095
Cemeteries and crematoriums	38,464	30,048	40,861
Public health and welfare	259,661	299,042	317,375
Land use planning, zoning and development	126,559	119,239	115,285
Economic development	285,550	255,052	248,205
Subdivision land & development	753,501	(91,512)	337,166
Land, housing and building rentals	5,800	10,346	4,413
Recreation board	213,099	219,174	189,212
Parks and recreation	1,261,479	1,183,952	1,089,960
Community Hall	219,624	225,649	229,732
Culture and library	299,568	312,165	298,584
Amortization	2,438,041	2,564,705	2,438,038
Total Expenses	<u>13,709,701</u>	<u>13,066,812</u>	<u>11,881,957</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES - BEFORE OTHER OTHER	(1,948,098)	(2,036,173)	(184,326)
Government transfers for capital (Page 7)	2,342,930	1,472,758	1,461,260
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	394,832	(563,415)	1,276,934
ACCUMULATED SURPLUS, BEGINNING OF YEAR	<u>59,334,551</u>	<u>60,611,485</u>	<u>59,334,551</u>
ACCUMULATED SURPLUS, END OF YEAR	<u>59,729,383</u>	<u>60,048,070</u>	<u>60,611,485</u>

TOWN OF VERMILION

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CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budget (Unaudited)	2017	2016
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	394,832	(563,415)	1,276,934
Acquisition of tangible capital assets	3,429,504	(3,170,206)	(2,835,030)
Tangible capital assets adjustments	-	-	-
Contributed tangible capital assets	-	(16,613)	(17,547)
Proceeds on disposal of tangible capital assets	-	294,941	119,362
Amortization on tangible capital assets	2,438,041	2,564,705	2,438,038
Gain on sale of tangible capital assets	37,250	(42,430)	(87,571)
	<u>5,904,795</u>	<u>(369,603)</u>	<u>(382,748)</u>
Change in inventory	-	27,337	(66,484)
Change in prepaid assets	-	27,610	(27,533)
	<u>-</u>	<u>54,947</u>	<u>(94,017)</u>
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	6,299,627	(878,071)	800,169
NET FINANCIAL ASSETS, BEGINNING OF YEAR	2,984,636	2,984,636	2,184,467
NET FINANCIAL ASSETS, END OF YEAR	<u>9,284,263</u>	<u>2,106,565</u>	<u>2,984,636</u>

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	2017	2016
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess (Deficiency) of revenue over expenses (Page 3)	(563,415)	1,276,934
Non-cash items included in excess of revenues over expenses:		
Contributed Assets	(16,613)	(17,547)
Amortization of tangible capital assets	2,564,705	2,438,038
Gain on disposal of tangible capital assets	(42,430)	(87,571)
Non-cash charges to operations (net change):		
Decrease (increase) in taxes and grants in lieu receivable	(54,536)	13,340
Decrease in receivables from other governments	64,690	924,977
(Increase) decrease in trade and other receivables	212,609	334,514
(Increase) in land inventory held for resale	(284,590)	(47,987)
(Increase) decrease in debt charges recoverable	(1,090,155)	106,248
(Increase) decrease in inventory for consumption	27,337	(66,484)
(Increase) decrease in prepaid expenses	27,610	(27,533)
(Increase) Decrease in other long-term assets	-	(66)
(Decrease) increase in accounts payable and accrued liabilities	30,375	(136,967)
Increase (decrease) in deposit liabilities	(1,269)	189
Increase in deferred revenue	22,837	(11,738)
Increase in employee benefit obligations	20,044	36,106
	<u>917,199</u>	<u>4,734,453</u>
Cash provided by operating transactions	917,199	4,734,453
CAPITAL		
Acquisition of tangible capital assets	(3,170,206)	(2,835,030)
Sale of tangible capital assets	294,941	119,362
	<u>(2,875,265)</u>	<u>(2,715,668)</u>
Cash applied to capital transactions	(2,875,265)	(2,715,668)
INVESTING		
(Increase) decrease in investments	855,134	(348,071)
(Increase) decrease in restricted cash or cash equivalents	51,353	(847)
	<u>906,487</u>	<u>(348,918)</u>
Cash provided by investing transactions	906,487	(348,918)
FINANCING		
Long term debt issued	108,428	93,375
Long term debt repaid	105,517	(1,039,904)
	<u>213,945</u>	<u>(946,529)</u>
Cash provided by financing transactions	213,945	(946,529)
CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(837,634)	723,338
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,272,409	1,549,071
CASH AND CASH EQUIVALENTS, END OF YEAR	1,434,775	2,272,409
Cash and cash equivalents is made up of:		
Cash and temporary investments (Note 2)	1,434,775	2,323,762
Less: restricted portion of cash and temporary investments	-	51,353
	<u>1,434,775</u>	<u>2,272,409</u>

TOWN OF VERMILION

SCHEDULE OF PROPERTY TAXES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budget (Unaudited)	2017	2016
TAXATION			
Property taxes			
- residential land and improvements	4,164,089	4,164,448	4,119,363
- non-residential land and improvements	2,101,096	2,094,374	2,004,103
- machinery and equipment	17,511	17,510	15,740
- linear property	266,110	266,321	273,826
- railway	1,293	1,293	1,273
- farmland	7,825	7,825	8,308
Government grants in place of property taxes			
- federal	7,809	7,809	7,679
- provincial	50,460	50,460	51,626
	<u>6,616,193</u>	<u>6,610,040</u>	<u>6,481,918</u>
REQUISITIONS			
Alberta School Foundation Fund	1,429,208	1,429,208	1,309,194
East Central AB Catholic Separate Schools Regional Division No. 16	229,423	229,424	213,701
	<u>1,658,631</u>	<u>1,658,632</u>	<u>1,522,895</u>
NET MUNICIPAL TAXES	<u>4,957,562</u>	<u>4,951,408</u>	<u>4,959,023</u>

TOWN OF VERMILION

SCHEDULE OF GOVERNMENT TRANSFERS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budget (Unaudited)	2017	2016
TRANSFERS FOR OPERATING:			
Federal Government	3,000	11,320	11,736
Provincial Government	212,673	212,823	211,150
Other Local Governments and Agencies	675,126	717,896	638,301
	890,799	942,039	861,187
TRANSFERS FOR CAPITAL:			
Federal Government	1,046,168	245,835	245,035
Provincial Government	1,274,262	1,204,423	1,066,225
Other Local Governments and Agencies	22,500	22,500	150,000
	2,342,930	1,472,758	1,461,260
TOTAL GOVERNMENT TRANSFERS	3,233,729	2,414,797	2,322,447

TOWN OF VERMILION

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SCHEDULE OF CONSOLIDATED EXPENSES BY OBJECT
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budget (Unaudited)	2017	2016
Salaries, wages and benefits	3,830,728	3,761,096	3,608,574
Contracted and general services	3,938,139	4,214,358	3,504,757
Purchases from other governments	1,400	177	626
Materials, goods, supplies and utilities	1,907,846	1,087,210	888,129
Transfers to other governments	375,100	363,684	358,468
Transfers to individuals and organizations	474,106	326,108	295,959
Bank charges and short term interest	1,925	740	876
Interest on long term debt	302,111	305,757	318,857
Other expenditures	453,025	430,771	447,841
Amortization of tangible capital assets	2,438,041	2,564,705	2,438,038
Net gain on sale of tangible capital assets	-	12,206	19,832
	<u>13,722,421</u>	<u>13,066,812</u>	<u>11,881,957</u>

Town of Vermont
Schedule of Accumulated Surplus
For the Year Ended December 31, 2017
Schedule 1

	2017	2016
	\$	\$
BALANCE, BEGINNING OF YEAR	60,611,485	59,334,551
Excess (deficiency) of revenues over expenses	-	-
Unrestricted funds designated for future use	2,881,860	1,276,934
Restricted funds used for operations	(1,408,300)	-
Restricted funds used for tangible capital assets	(2,919,508)	-
Current year funds used for tangible capital assets	142,270	-
Donated and Contributed TCA	16,613	-
Disposal of tangible capital assets	(252,512)	-
Annual amortization expense	(2,564,705)	-
Long term debt repaid	722,330	-
Change in accumulated surplus	(563,415)	1,276,934
BALANCE, END OF YEAR	60,048,070	60,611,485

Unrestricted Surplus	7,330,673	51,157,678
Restricted Surplus	-	-
Equity in Tangible Capital Assets	-	-

Town of Vermilion
Schedule of Tangible Capital Assets
For the Year Ended December 31, 2017

	Land	Land Improvements	Buildings	Engineered Structures	Machinery and Equipment	Vehicles	2017 \$	2016 \$
COST:								
BALANCE, BEGINNING OF YEAR	2,280,116	4,835,550	12,403,277	69,288,739	5,122,417	2,472,895	96,402,994	94,307,068
Acquisition of tangible capital assets	-	256,208	1,001,790	819,815	424,507	437,683	2,940,003	2,339,524
Construction-in-progress	-	-	-	246,816	-	-	246,816	513,053
Disposal of tangible capital assets	-	-	-	(197,052)	(114,154)	(549,950)	(861,156)	(756,651)
Write down of tangible capital assets	-	-	-	-	(193,960)	-	(193,960)	-
BALANCE, END OF YEAR	2,280,116	5,091,758	13,405,067	70,158,318	5,238,810	2,360,628	98,534,697	96,402,994
ACCUMULATED AMORTIZATION:								
BALANCE, BEGINNING OF YEAR	-	1,604,696	2,644,018	31,041,584	2,499,227	1,245,186	39,034,711	37,321,533
Annual amortization	-	263,373	252,059	1,440,126	396,396	212,751	2,564,705	2,438,038
Accumulated amortization on disposals	-	-	-	(195,023)	(113,838)	(299,784)	(608,645)	(724,860)
Accumulated amortization on write-downs	-	-	-	-	(193,960)	-	(193,960)	-
BALANCE, END OF YEAR	-	1,868,069	2,896,077	32,286,687	2,587,825	1,158,153	40,796,811	39,034,711
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	2,280,116	3,223,689	10,508,990	37,871,631	2,650,985	1,202,475	57,737,886	57,368,283
2016 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	2,280,116	3,230,854	9,759,259	38,247,155	2,623,190	1,227,709	57,368,283	

Town of Vermilion
Schedule of Segmented Disclosure
For the Year Ended December 31, 2017
Schedule 3

	General	Protective	Transportation	Planning &	Recreation	Environmental	Other	Total
	Government	Services	Services	Development	& Culture	Services		\$
REVENUE								
Net municipal taxes	4,951,408							4,951,408
Government transfers	1,351,728	95,446	400,348	11,786	375,909	6,046	173,533	2,414,796
User fees and sales of goods	14,132	104,527	18,282	(391,796)	393,945	3,529,351	336,419	4,004,860
Investment income	58,063	-	114	-	1,213	-	1,323	60,713
Contributed assets	-	-	-	-	16,613	-	-	16,613
Other revenues	577,874	51,562	94,076	179,278	52,865	65,699	33,653	1,055,007
	6,953,205	251,535	512,820	(200,732)	840,545	3,601,096	544,928	12,503,397
EXPENSES								
Contract & general services	371,900	100,781	253,806	321,804	417,244	2,647,871	100,952	4,214,358
Salaries & wages	878,058	203,202	762,745	223,353	900,410	513,502	279,826	3,761,096
Goods & supplies	64,770	117,179	585,167	(405,069)	458,514	228,696	37,953	1,087,210
Transfers to other governments	-	-	-	-	-	363,684	-	363,684
Long-term debt interest	32,466	31,196	28,701	113,046	32,259	55,278	12,811	305,757
Other expenses	307,026	9,838	(82,955)	39,991	132,513	269,916	93,673	770,002
	1,654,220	462,196	1,547,464	293,125	1,940,940	4,078,947	525,215	10,502,107
NET REVENUE, BEFORE AMORTIZATION								
	5,298,985	(210,661)	(1,034,644)	(493,857)	(1,100,395)	(477,851)	19,713	2,001,290
Amortization expense	81,804	135,615	1,246,815	64,338	452,194	567,111	16,828	2,564,705
NET REVENUE	5,217,181	(346,276)	(2,281,459)	(558,195)	(1,552,589)	(1,044,962)	2,885	(563,415)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Town of Vermilion are the representations of management prepared in accordance with local government accounting standards established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Significant aspects of these accounting policies are as follows:

Reporting Entity

The consolidated financial statements reflect the assets, liabilities, revenue and expenditures, changes in fund balances and change in financial position of the reporting entity. This entity is comprised of the municipal operations plus all the organizations that are owned or controlled by the Town and are therefore accountable to the Town Council for the administration of their financial affairs and resources. Included with the municipality is the following:

Vermilion Public Library
Family Counseling and Social Services

The schedule of taxes levied also includes requisitions for education, health care, social and other external organizations that are not part of the municipal entity.

Basis of Accounting

Revenues are accounted for in the period in which the transactions or events occurred that gave rise to the revenues.

Funds from external parties and earnings thereon restricted by agreement or legislation are accounted for as deferred revenue until used for the purpose specified.

Government transfers are recognized in the financial statements as revenues in the period that the events giving rise to the transfer occurred, providing the transfers are authorized, the municipality has met any eligibility criteria, and reasonable estimates of the amounts can be made.

Expenditures are recognized in the period the goods and services are acquired and a liability is incurred or transfers are due.

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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Where measurement uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. Actual results could differ from those estimates.

Fund Accounting

Management funds consist of the operating, capital and reserve funds. Transfers between funds are recorded as adjustments to the appropriate equity account.

Government Transfers

Government transfers are the transfer of assets from senior levels of government that are not the result of an exchange transaction, are not expected to be repaid in the future, or the result of a direct financial return.

Government transfers are recognized in the financial statements as revenue in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be determined.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

1. SIGNIFICANT ACCOUNTING POLICIES - continued

Requisition Over-levy and Under-levy

Over-levies and under-levies arise from the difference between the actual property tax levy made to cover each requisition and the actual amount requisitioned. If the actual levy exceeds the requisition, the over-levy is accrued as a liability and property tax revenue is reduced. Where the actual levy is less than the requisition amount, the under-levy is accrued as a receivable and as property tax revenue. Requisition tax rates in the subsequent year are adjusted for any over-levies or under-levies of the prior year.

Financial Instruments

The Municipality initially measures all of its financial assets and liabilities at fair value. The Municipality subsequently measures all of its financial assets and liabilities at amortized cost. Financial assets measured at amortized cost include accounts receivables. Financial Liabilities measured at amortized cost include bank loans, accounts payable and accrued liabilities. Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in the excess of revenue over expenses. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of reversal is recognized in the excess of revenue over expenses.

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 for the year.

Tangible Capital Assets

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

Land Improvements	5-25
Buildings	25-50
Engineered structures	5-75
Machinery and equipment	5-40
Vehicles	7-25

No amortization is charged in the year of acquisition and the full year of amortization is charged in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

Contribution of Tangible Capital Assets

Tangible capital assets received as contributions are recorded at fair value at the date of receipt and also are recorded as revenue.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

1. SIGNIFICANT ACCOUNTING POLICIES - continued

Inventories

Inventories of materials and supplies for consumption are valued at the lower of cost and net realizable value.

Land inventory held for resale is recorded at the lower of cost or net realizable value. Cost includes costs for land acquisition and improvements required to prepare the land for servicing such as clearing, stripping and leveling charges. Related development costs incurred to provide infrastructure such as water and wastewater services, roads, sidewalks and street lighting are recorded as capital assets under their respective function.

Investments

Investments are recorded at cost. When there has been a loss in value that is other than a temporary decline, the respective investment is written down to recognize the loss.

Debt Charges Recoverable

Debt charges recoverable consist of amounts that are recoverable from municipal agencies or other local governments with respect to outstanding debentures or other long-term debt pursuant to annexation orders or joint capital undertakings. These recoveries are recorded at a value that equals the offsetting portion of the unmatured long-term debt, less actuarial requirements for the retirement of any sinking fund debentures.

Prepaid Local Improvement Charges

Construction and borrowing costs associated with local improvement projects are recovered through annual special assessments during the period of the related borrowings. These levies are collectable from property owners for work performed by the municipality. Where a taxpayer has elected to prepay the outstanding local improvement charges, such amounts are recorded as deferred revenue. Deferred revenue is amortized to revenue on a straight-line basis over the remaining term of the related borrowings. In the event that the prepaid amounts are applied against the related borrowings, the deferred revenue is amortized to revenue by an amount equal to the debt repayment.

Landfill Closure and Post-Closure Liability

Pursuant to the Alberta Environmental Protection and Enhancement Act, the town is required to fund the closure of its landfill site and provide for post-closure care of the facility. Closure and post-closure activities included the final clay cover, landscaping, as well as surface and ground water monitoring, leachate control, and visual inspection. The requirement is being provided for over the estimated remaining life of the landfill site based on usage.

2. CASH AND TEMPORARY INVESTMENTS

	<u>2017</u>	<u>2016</u>
Cash	576,645	1,668,393
Temporary investments	<u>858,130</u>	<u>655,379</u>
	<u>1,434,775</u>	<u>2,323,762</u>

Temporary investments consist of term deposits with maturities of twelve months or less.

Included in cash and temporary investments are restricted funds totaling \$59,706 held on behalf of the Vermilion River Regional Alliance, a group which the Town of Vermilion took over financial management of in 2017. The liability associated with the funds being held is included in accounts payable and accrued liabilities.

TOWN OF VERMILION

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

3. TAXES AND GRANTS IN LIEU RECEIVABLES

	<u>2017</u>	<u>2016</u>
Current taxes and grants in lieu	89,703	52,647
Tax arrears and grants in lieu	<u>33,119</u>	<u>15,639</u>
	122,822	68,286
Less: allowance for doubtful accounts	<u>(5,000)</u>	<u>(5,000)</u>
	<u>117,822</u>	<u>63,286</u>

During the current and prior year no impairments were recorded.

4. DEBT CHARGES RECOVERABLE

	<u>2017</u>	<u>2016</u>
Current debt charges recoverable	164,659	111,574
Non-current debt charges recoverable	<u>1,277,275</u>	<u>240,205</u>
	<u>1,441,934</u>	<u>351,779</u>

The Town of Vermilion has undertaken a joint development project with the Vermilion and District Housing Foundation. The Town assumed long-term financing totaling \$1,340,000 in 2004; however, a total of the \$1,340,000 plus interest at rate of 4.951% per annum will be recovered from the Vermilion and District Housing Foundation with respect to this financing. Amounts are recoverable in blended semi-annual installments of \$63,813.08 including interest, and matures in 2019. A second joint development project for \$1,225,000 was commenced in 2017; at a rate of 2.711%. Amounts are recoverable in blended semiannual installments of \$39,876 including interest, and matures in 2037.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	164,659	42,719	207,378
2019	171,828	35,550	207,378
2020	50,121	29,631	79,752
2021	51,489	28,263	79,752
2022	52,894	26,858	79,752
2023 and subsequent	<u>950,943</u>	<u>205,468</u>	<u>1,156,411</u>
	<u>1,441,934</u>	<u>368,489</u>	<u>1,810,423</u>

5. INVESTMENTS

Investments consist of term deposits bearing interest at rates ranging from 1.94% to 5.35% per annum, with maturity dates between 2018 and 2021.

6. DEFERRED REVENUE

	<u>2017</u>	<u>2016</u>
Land Leases	4,675	7,333
Advertising leases	3,795	2,800
Airport Leases	466	466
Recreation Grant	7,000	-
VRRA Grant	17,500	-
Prepaid Land Development	<u>85,815</u>	<u>85,815</u>
	<u>119,251</u>	<u>96,414</u>

TOWN OF VERMILION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

7. EMPLOYEE BENEFIT OBLIGATIONS

The Town of Vermilion employee benefit obligations liability is comprised of vacation, sickness and overtime that employees are deferring to the future year.

	<u>2017</u>	<u>2016</u>
Accrued employee vacation	248,477	226,568
Accrued overtime	<u>18,236</u>	<u>20,101</u>
	<u>266,713</u>	<u>246,669</u>

8. LANDFILL CLOSURE

During the year 2003, the Town of Vermilion closed its landfill site. Post-closure procedures, including site clean up and cell capping, took place during the year 2004. Landscaping and reclamation took place in 2005, at cost of \$5,421. Engineered monitoring of the site takes place annually with the 2017 cost of \$10,529.

9. LONG-TERM DEBT

	<u>2017</u>	<u>2016</u>
Tax supported debentures	<u>9,784,236</u>	<u>9,570,291</u>

The current portion of the long-term debt amounts to \$1,142,790 (2016 - \$1,065,226).

Principal and interest repayments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	1,142,790	289,450	1,432,240
2019	1,169,721	251,469	1,421,190
2020	1,027,502	214,137	1,241,639
2021	1,012,833	182,829	1,195,662
2022	877,397	151,770	1,029,167
2023 and subsequent	<u>4,553,993</u>	<u>575,664</u>	<u>5,129,657</u>
	<u>9,784,236</u>	<u>1,665,319</u>	<u>11,449,555</u>

Debenture debt is repayable to Alberta Capital Finance Authority, bears interest at rates ranging from 1.779% to 4.971% per annum, and matures in periods 2017 through 2037. The average annual interest rate is 3.05% for 2017 (2016 – 3.142%).

Debenture debt is issued on the credit and security of the Town at large.

The Town's total cash payment for interest in 2017 was \$305,757 (2016 - \$318,857).

10. DEBT LIMITS

Section 276(2) of the Municipal Government Act requires that debt and debt limits as defined by Alberta Regulation 255/00 for the Town of Vermilion be disclosed as follows:

	<u>2017</u>	<u>2016</u>
Total debt limit	16,554,789	17,410,797
Total guaranteed loans (Note 17)	212,821	228,481
Total debt outstanding	<u>9,784,236</u>	<u>9,570,291</u>
Amount of debt limit unused	<u>6,557,733</u>	<u>7,612,025</u>

TOWN OF VERMILION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

10. DEBT LIMITS - continued

Debt servicing limit	2,759,132	2,901,800
Debt servicing	<u>1,432,240</u>	<u>1,343,376</u>
Amount of debt servicing limit unused	<u>1,326,892</u>	<u>1,558,424</u>

The debt limit is calculated at 1.5 times revenue of the municipality (as defined in Alberta Regulation 255/00) and the debt service limit is calculated at 0.25 times such revenue. Incurring debt beyond these limitations requires approval by the Minister of Municipal Affairs. These thresholds are guidelines used by Alberta Municipal Affairs to identify municipalities at financial risk if further debt is acquired. The calculation taken alone does not represent the financial stability of the municipality. Rather, the financial statements must be interpreted as a whole.

11. TANGIBLE CAPITAL ASSETS

Net Book Value	<u>2017</u>	<u>2016</u>
Land	2,280,116	2,280,116
Land Improvements	3,223,689	2,943,344
Land Improvements-construction in progress	-	287,510
Buildings	10,508,990	9,541,933
Buildings-construction in progress	-	217,326
Engineering Structures		
Roadway system	17,033,230	17,286,348
Roadway System-construction in progress	-	75,614
Water distribution system	13,281,671	13,410,273
Water distribution system-construction in progress	-	14,487
Wastewater treatment system	4,332,165	4,428,287
Wastewater treatment system-construction in progress	246,817	4,087
Storm System	2,977,749	3,028,059
Machinery, equipment and furnishings	2,650,984	2,575,896
Machinery, equipment and furnishings-construction in progress	-	47,294
Vehicles	<u>1,202,475</u>	<u>1,227,709</u>
	<u>57,737,886</u>	<u>57,368,283</u>

12. EQUITY IN TANGIBLE CAPITAL ASSETS

	<u>2017</u>	<u>2016</u>
Tangible capital assets (Schedule 2)	98,534,697	96,402,994
Accumulated amortization (Schedule 2)	(40,796,811)	(39,034,711)
Long-term debt	<u>(5,596,704)</u>	<u>(6,210,605)</u>
	<u>52,141,182</u>	<u>51,157,678</u>

13. ACCUMULATED SURPLUS

Accumulated surplus consists of restricted and unrestricted amounts and equity in tangible capital assets as follows:

	<u>2017</u>	<u>2016</u>
Unrestricted surplus	2,022,163	2,123,134
Restricted	5,884,725	7,330,673
Equity in tangible capital assets	<u>52,141,182</u>	<u>51,157,678</u>
	<u>60,048,070</u>	<u>60,611,485</u>

TOWN OF VERMILION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

14. SEGMENTED DISCLOSURE

The Town of Vermilion provides a range of services to its ratepayers. For each reported segment, revenues and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. The accounting policies used in these segments are consistent with those followed in the preparation of the financial statements as disclosed in Note 1. Refer to the Schedule of Segmented Disclosure (Schedule 3).

15. SALARIES AND BENEFITS DISCLOSURE

Disclosure of salaries and benefits for municipal officials, the chief administrative officer and designated officers, as required by Alberta Regulation 313/2000 is as follows:

	2017			2016
	Salary/ Fee	Benefits and Allowances	Total	Total
Mayor				
Bruce MacDuff	30,270	-	30,270	34,250
Caroline McAuley	8,500	-	8,500	-
Councilors				
Greg Barr	20,800	-	20,800	18,200
Tannis Henderson	5,400	-	5,400	-
Harp Khela	16,600	-	16,600	16,800
Clinton McCullough	18,300	-	18,300	19,600
Caroline McAuley	22,675	-	22,675	23,700
Robert Pulyk	24,800	-	24,800	22,550
Justin Thompson	5,200	-	5,200	-
Richard Yaceyko	19,850	-	19,850	18,150
Town Manager				
Dion Pollard	59,779	7,835	67,614	166,444
George Rogers	35,000	5,652	40,652	-
Director Fin & Admin				
Denise MacDonald	125,513	23,313	148,826	135,033
Director of Transportation				
Derek Young	105,095	19,961	125,056	115,757
Director Community Services				
Shawn Bell	118,218	18,687	136,905	91,877

- (a) Salary/fee includes regular base pay, bonuses, overtime, lump sum payments, gross honoraria and any other direct cash remuneration.
- (b) Employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, vision coverage, group life insurance, accidental disability and dismemberment insurance, long and short term disability plans, professional memberships and tuition.
- (c) Benefits and allowances figures also include the employer's share of the costs of additional taxable benefits including special leave with pay, financial planning services, retirement planning services, concessionary loans, travel allowances, car allowances and club memberships.
- (d) An automobile is provided to the Director of Engineering and Public Works for Town business use only and no amount is included in the benefits and allowances figure.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

16. LOCAL AUTHORITIES PENSION PLAN

Employees of the Town of Vermilion participate in the Local Authorities Pension Plan (LAPP), which is one of the plans covered by the Alberta Public Sector Pension Plans Act. The LAPP serves about 253,862 people and 417 employers. The LAPP is financed by employer and employee contributions and by investment earnings of the LAPP Fund.

Contributions for current service are recorded as expenditures in the year in which they become due.

The Town of Vermilion is required to make current service contributions to the LAPP of 11.39% (2016– 11.39%) of pensionable earnings up to the year's maximum pensionable earnings under the Canada Pension Plan and 15.84% (2016 – 15.84%) on pensionable earnings above this amount. Employees of the Town are required to make current service contributions of 10.39% (2016 – 10.39%) of pensionable salary up to the year's maximum pensionable salary and 14.84% (2016 – 14.84%) on pensionable salary above this amount.

Total current service contributions by the Town of Vermilion to the LAPP in 2017 were \$293,998 (2016 - \$283,697). Total current service contributions by the employees of the Town of Vermilion to the LAPP in 2017 were \$270,430 (2016 - \$260,849).

At December 31, 2016, the LAPP disclosed an actuarial deficiency of \$637,357 (thousands).

17. CONTINGENCIES

The Town of Vermilion is a member of the Alberta Municipal Insurance Exchange(MUNIX). Under the terms of membership, the Town of Vermilion could become liable for its proportionate share of any claim losses in excess of the funds held by the exchange. Any liability incurred would be accounted for as a current transaction in the year the losses are determined.

The Town of Vermilion has a contingent liability to the Vermilion Credit Union Ltd. as a guarantor for a loan to the Vermilion & District Housing Foundation. The loan is secured by the Town of Vermilion and The County of Vermilion River and the outstanding balance as of December 31, 2017 is \$425,642. The loan is in good standing as at December 31, 2016.

The Town of Vermilion has been named as a defendant in a legal hearing to recover funds for unfair compensation and loss of revenue for development on land that was expropriated by the Town. The legal hearing is still pending and as litigation is subject to many uncertainties, it is not possible to predict the outcome of the legal hearings or estimate the loss, if any, which may result.

18. COMMITMENTS

The municipality is a partner in the Alberta Central East Water Corporation (ACE) regional Water system project to design and construct a water transfer and pump station, 3 fill stations, a truck fill station and 246 kilometers of pipeline. The Provincial government is committed to fund approximately 90% of the estimated project costs as part of the Alberta Water for Life program. The remaining 10% of costs will be distributed between the municipal partners. The Municipal costs to date have been as follows:

Stage 1	\$2,162,380
Stage 2	\$5,514,519
Stage 3	\$1,294,758
Stage 4 &5	\$3,012,245

The Town of Vermilion has 25% of the voting shares and is responsible for 35.88% of all costs estimated to total \$16,646,779. As the Regional Water System is not a Town owned asset, none of the related liabilities, funding or expenditures are reflected in the Town's Financial Statement except for the town's portion and consumption costs.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

18. COMMITMENTS - continued

The Town of Vermilion is committed to pay fifty percent of the annual deficit incurred in operating the Lakeland College swimming pool or such other amount that the Town may authorize by resolution of Town of Vermilion for a period of twenty years, expiring in 2027. The current allocation is \$120,000 (2016 - \$110,000).

19. FINANCIAL INSTRUMENTS

The Town's financial instruments consist of cash, accounts receivable, investments, debt charges recoverable, accounts payable and accrued liabilities, deposit liabilities, employee benefit obligations and long-term debt. It is management's opinion that the Town is not exposed to significant interest or currency risks arising from these financial instruments.

The Town is subject to credit risk with respect to taxes and grants in lieu receivables and trade and other receivables. Credit risk arises from the possibility that taxpayers and entities to which the Town provides services may experience financial difficulty and be unable to fulfill their obligations. The large number and diversity of taxpayers and customers minimizes the credit risk.

The Town is subject to Liquidity risk with respect to obligations associated with financial liabilities. The Town is exposed to this risk mainly in respect of its long-term debt and accounts payable.

Unless otherwise noted, the carrying value of the financial instrument approximates fair value.

20. COMPARATIVE FIGURES

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

21. APPROVAL OF FINANCIAL STATEMENTS

Council and Management have approved these financial statements.