

TOWN OF VERMILION 2018

ALBERTA

MUNICIPAL FINANCIAL STATEMENT

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TOWN OF VERMILION
For the Year Ended
December 31, 2018



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 2, 2019

INDEPENDENT AUDITOR'S REPORT



DONALD L. ISAMAN
PROFESSIONAL CORPORATION
Chartered Accountant

To the Members of Council:

Opinion

I have audited the consolidated financial statements of the Town of Vermilion (the Entity), which comprise the consolidated statement of financial position as at December 31, 2018, and the statements of operations and accumulated surplus, change in net financial assets, cash flows and supporting schedules for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Town of Vermilion as at December 31, 2018, the results of its operations, change in its net financial assets, cash flows and supporting schedules for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of my report. I am independent of the Entity in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion of the financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

Report of Other Legal and Regulatory Requirements

- Debt Limit Regulations:
In accordance with Alberta Regulation 255/2000, I confirm that the municipality is in compliance with the Debt Limit Regulation. A detailed account of the Entity's debt limit can be found in note 10.
- Supplementary Accounting Principles and Standards Regulation:
In accordance with Alberta Regulation 313/2000, I confirm that the municipality is in compliance with the Supplementary Accounting Principles and Standards Regulation and note the information required can be found in note 1.

Ronald L. Seaman
Professional Corporation

Wainwright, Alberta
April 2, 2019

Chartered Accountant



CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018

	2018	2017
FINANCIAL ASSETS		
Cash and temporary investments (Note 2)	4,985,837	1,434,775
Taxes and grants in lieu receivable (Note 3)	142,085	117,822
Receivables from other governments	783,014	299,097
Trade and other receivables	3,406,058	3,699,215
Inventory held for resale	5,475,046	5,766,141
Debt charges recoverable (Note 4)	1,277,274	1,441,934
Investments (Note 5)	150,000	250,000
Other long-term assets	6,745	6,897
	<hr/>	<hr/>
Total financial assets	16,226,059	13,015,881
LIABILITIES		
Payable to other governments	68,628	76,099
Accounts payable and accrued liabilities	1,383,743	651,607
Deposit liabilities	10,940	11,410
Deferred revenue (Note 6)	135,094	119,251
Employee benefit obligations (Note 7)	245,615	266,713
Long term debt (Note 9)	8,699,991	9,784,236
	<hr/>	<hr/>
Total liabilities	10,544,011	10,909,316
	<hr/>	<hr/>
NET FINANCIAL ASSETS	5,682,048	2,106,565
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 11)	57,494,017	57,737,886
Inventory for consumption	191,378	113,235
Prepaid expenses	101,599	90,384
	<hr/>	<hr/>
	57,786,994	57,941,505
	<hr/>	<hr/>
ACCUMULATED SURPLUS (Note 13)	63,469,042	60,048,070
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SIGNED ON BEHALF OF COUNCIL:



 MAYOR



 DEPUTY MAYOR

**CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budget (Unaudited)	2018	2017
REVENUE			
Net municipal taxes (Page 7)	5,139,046	5,122,068	4,951,408
Local improvements	23,400	200,416	85,419
Franchise and concession contracts	445,000	422,096	455,648
Gain on sale of tangible capital assets	13,120	42,395	54,635
User fees and sales of goods	5,302,662	4,912,918	4,004,860
Government transfers for operating (Page8)	903,980	948,861	942,039
Investment income	52,750	110,982	60,713
Penalties and costs of taxes	32,900	36,777	31,158
Contributed and donated assets	-	118,666	16,613
Licences and permits	79,700	85,232	94,280
Other	453,869	821,567	333,866
Total Revenue	<u>12,446,427</u>	<u>12,821,978</u>	<u>11,030,639</u>
EXPENSES			
Council and other legislative	257,300	237,565	246,904
General administration	1,222,283	1,142,310	1,210,348
Other general government	190,500	146,154	196,968
Police	36,300	39,122	36,543
Fire	243,000	212,915	225,729
Disaster and emergency measures	44,934	80,264	75,497
Bylaw enforcement	152,482	145,505	124,427
Common Services	160,616	58,187	81,355
Roads, streets, walks and lighting	1,306,511	1,410,299	1,401,328
Airport	25,932	29,307	19,414
Storm sewers and drainage	41,893	52,442	45,367
Water supply and distribution	2,157,212	2,387,271	3,013,813
Wastewater treatment and disposal	333,001	355,601	317,408
Waste management	627,103	635,863	740,408
Enviromental use and protection	4,900	1,613	7,318
Family and community support	199,582	209,539	196,125
Cemeteries and crematoriums	39,205	34,833	30,048
Public health and welfare	314,150	275,230	299,042
Land use planning, zoning and development	143,512	126,112	119,239
Economic development	400,243	377,993	255,052
Subdivision land & development	372,653	868,277	(91,512)
Land, housing and building rentals	2,674	286,065	10,346
Recreation board	226,366	229,837	219,174
Parks and recreation	1,482,565	1,357,199	1,183,952
Community Hall	215,020	219,687	225,649
Culture and library	310,905	310,533	312,165
Amortization	2,438,041	2,581,080	2,564,705
Total Expenses	<u>12,948,883</u>	<u>13,810,803</u>	<u>13,066,812</u>
DEFICIENCY OF REVENUE OVER EXPENSES - BEFORE OTHER	<u>(502,456)</u>	<u>(988,825)</u>	<u>(2,036,173)</u>
OTHER			
Government transfers for capital (Page 8)	12,293,892	4,409,797	1,472,758
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	<u>11,791,436</u>	<u>3,420,972</u>	<u>(563,415)</u>
ACCUMULATED SURPLUS, BEGINNING OF YEAR	<u>59,334,551</u>	<u>60,048,070</u>	<u>60,611,485</u>
ACCUMULATED SURPLUS, END OF YEAR	<u><u>71,125,987</u></u>	<u><u>63,469,042</u></u>	<u><u>60,048,070</u></u>

CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Budget (Unaudited)	2018	2017
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	11,791,436	3,420,972	(563,415)
Acquisition of tangible capital assets	(18,511,257)	(2,285,101)	(3,170,206)
Tangible capital assets adjustments	-	-	-
Contributed tangible capital assets	-	(118,666)	(16,613)
Proceeds on disposal of tangible capital assets	-	62,615	294,941
Amortization on tangible capital assets	2,438,041	2,581,080	2,564,705
Gain on sale of tangible capital assets	13,120	3,941	(42,430)
	<u>(16,060,096)</u>	<u>243,869</u>	<u>(369,603)</u>
Change in inventory	-	(78,143)	27,337
Change in prepaid assets	-	(11,215)	27,610
	<u>-</u>	<u>(89,358)</u>	<u>54,947</u>
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	(4,268,660)	3,575,483	(878,071)
NET FINANCIAL ASSETS, BEGINNING OF YEAR	2,984,636	2,106,565	2,984,636
NET FINANCIAL ASSETS, END OF YEAR	<u>(1,284,024)</u>	<u>5,682,048</u>	<u>2,106,565</u>

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	2018	2017
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess (Deficiency) of revenue over expenses (Page 3)	3,420,972	(563,415)
Non-cash items included in excess of revenues over expenses:		
Contributed Assets	(118,666)	(16,613)
Amortization of tangible capital assets	2,581,080	2,564,705
Gain on disposal of tangible capital assets	3,941	(42,430)
Non-cash charges to operations (net change):		
Decrease (increase) in taxes and grants in lieu receivable	(24,263)	(54,536)
Decrease (increase) in receivables from other governments	(483,917)	64,690
Decrease (increase) in trade and other receivables	293,157	212,609
Decrease (increase) in land inventory held for resale	291,095	(284,590)
Decrease (increase) in debt charges recoverable	164,660	(1,090,155)
Decrease (increase) in inventory for consumption	(78,143)	27,337
Decrease (increase) in prepaid expenses	(11,215)	27,610
Decrease (increase) in other long-term assets	152	-
Increase (decrease) in accounts payable and accrued liabilities	724,665	30,375
Increase (decrease) in deposit liabilities	(470)	(1,269)
Increase (decrease) in deferred revenue	15,843	22,837
Increase (decrease) in employee benefit obligations	(21,098)	20,044
Cash provided by operating transactions	6,757,793	917,199
CAPITAL		
Acquisition of tangible capital assets	(2,285,101)	(3,170,206)
Sale of tangible capital assets	62,615	294,941
Cash applied to capital transactions	(2,222,486)	(2,875,265)
INVESTING		
Decrease (increase) in investments	100,000	855,134
Decrease (increase) in restricted cash or cash equivalents	-	51,353
Cash provided by investing transactions	100,000	906,487
FINANCING		
Long term debt issued	61,212	108,428
Long term debt repaid	(1,145,457)	105,517
Cash provided by financing transactions	(1,084,245)	213,945
CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	3,551,062	(837,634)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,434,775	2,272,409
CASH AND CASH EQUIVALENTS, END OF YEAR	4,985,837	1,434,775
Cash and cash equivalents is made up of:		
Cash and temporary investments (Note 2)	4,985,837	1,434,775
Less: restricted portion of cash and temporary investments	-	-
	4,985,837	1,434,775

TOWN OF VERMILION

SCHEDULE OF PROPERTY TAXES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Budget (Unaudited)	2018	2017
TAXATION			
Property taxes			
- residential land and improvements	4,323,487	4,321,085	4,164,448
- non-residential land and improvements	2,150,903	2,137,002	2,094,374
- machinery and equipment	16,065	16,065	17,510
- linear property	274,360	274,362	266,321
- railway	6,766	6,766	1,293
- farmland	6,900	6,900	7,825
 Government grants in place of property taxes			
- federal	7,980	7,980	7,809
- provincial	52,400	52,400	50,460
	<u>6,838,861</u>	<u>6,822,560</u>	<u>6,610,040</u>
REQUISITIONS			
Alberta School Foundation Fund	1,456,870	1,456,871	1,429,208
East Central AB Catholic Separate Schools Regional Division No. 16	242,945	242,944	229,424
Designated industrial property	-	677	-
	<u>1,699,815</u>	<u>1,700,492</u>	<u>1,658,632</u>
 NET MUNICIPAL TAXES	<u>5,139,046</u>	<u>5,122,068</u>	<u>4,951,408</u>

TOWN OF VERMILION

SCHEDULE OF GOVERNMENT TRANSFERS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Budget (Unaudited)	2018	2017
TRANSFERS FOR OPERATING:			
Federal Government	3,000	14,730	11,320
Provincial Government	223,163	244,483	212,823
Other Local Governments and Agencies	677,817	689,648	717,896
	<u>903,980</u>	<u>948,861</u>	<u>942,039</u>
TRANSFERS FOR CAPITAL:			
Federal Government	8,246,168	567,372	245,835
Provincial Government	4,010,573	3,804,774	1,204,423
Other Local Governments and Agencies	37,151	37,651	22,500
	<u>12,293,892</u>	<u>4,409,797</u>	<u>1,472,758</u>
TOTAL GOVERNMENT TRANSFERS	<u>13,197,872</u>	<u>5,358,658</u>	<u>2,414,797</u>

TOWN OF VERMILION

SCHEDULE OF CONSOLIDATED EXPENSES BY OBJECT
FOR THE YEAR ENDED DECEMBER 31, 2018

	Budget (Unaudited)	2018	2017
Salaries, wages and benefits	4,025,250	3,927,906	3,761,096
Contracted and general services	3,188,829	4,061,108	4,214,358
Purchases from other governments	1,400	539	177
Materials, goods, supplies and utilities	1,694,388	1,868,144	1,087,210
Provision for allowances	-	(50)	-
Transfers to other governments	352,974	328,839	363,684
Transfers to individuals and organizations	576,821	326,560	326,108
Bank charges and short term interest	1,925	810	740
Interest on long term debt	285,034	315,713	305,757
Other expenditures	384,221	353,819	430,771
Amortization of tangible capital assets	2,438,041	2,581,080	2,564,705
Net gain on sale of tangible capital assets	-	46,335	12,206
	<u>12,948,883</u>	<u>13,810,803</u>	<u>13,066,812</u>

Town of Vermilion
Schedule of Accumulated Surplus
For the Year Ended December 31, 2018
Schedule 1

	2018	2017
	\$	\$
BALANCE, BEGINNING OF YEAR	60,048,070	60,611,485
Excess (deficiency) of revenues over expenses	3,420,972	(563,415)
Unrestricted funds designated for future use	(6,888,357)	-
Restricted funds used for operations	1,850,332	-
Restricted funds used for tangible capital assets	(2,127,240)	-
Current year funds used for tangible capital assets	(96,649)	96,649
Donated and Contributed TCA	(118,666)	118,666
Disposal of tangible capital assets	66,555	(66,555)
Annual amortization expense	2,581,080	(2,581,080)
Long term debt repaid	(710,717)	710,717
Change in accumulated surplus	2,910,785	405,637
BALANCE, END OF YEAR	63,469,042	60,048,070

Town of Vermilion
Schedule of Tangible Capital Assets
For the Year Ended December 31, 2018
Schedule 2

	Land	Land Improvements	Buildings	Engineered Structures	Machinery and Equipment	Vehicles	2018 \$	2017 \$
COST:								
BALANCE, BEGINNING 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
Acquisition of tangible capital assets	-	-	168,499	690,817	369,352	206,527	1,435,195	2,940,003
Construction-in-progress	-	-	-	968,572	-	-	968,572	246,816
Disposal of tangible capital assets	-	(40,575)	-	(165,949)	(181,008)	(165,481)	(553,013)	(861,156)
Write-down of tangible capital assets	-	-	-	-	-	-	-	(193,960)
BALANCE, END OF YEAR	2,280,116	5,051,183	13,573,566	71,651,758	5,427,154	2,401,674	100,385,451	98,534,697
ACCUMULATED AMORTIZATION:								
BALANCE, BEGINNING OF YEAR	-	1,868,069	2,896,077	32,286,687	2,587,825	1,158,153	40,796,811	39,034,711
Annual amortization	-	244,309	276,441	1,457,410	424,313	178,607	2,581,080	2,564,705
Accumulated amortization on disposals	-	(16,906)	-	(144,653)	(159,417)	(165,481)	(486,457)	(608,645)
Accumulated amortization on write-downs	-	-	-	-	-	-	-	(193,960)
BALANCE, END OF YEAR	-	2,095,472	3,172,518	33,599,444	2,852,721	1,171,279	42,891,434	40,796,811
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	2,280,116	2,955,711	10,401,048	38,052,314	2,574,433	1,230,395	57,494,017	57,737,886
2017 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	

Town of Vermilion
Schedule of Segmented Disclosure
For the Year Ended December 31, 2018
Schedule 3

	General Government	Protective Services	Transportation Services	Planning and Development	Recreation and Culture	Environmental Services	Other	Total
								\$
REVENUE								
Net municipal taxes	5,296,708							5,296,708
Government transfers	1,620,400	98,749	484,260	21,391	393,477	2,568,622	171,760	5,338,659
User fees and sales of goods	9,877	114,659	14,859	75,292	519,438	3,866,563	312,230	4,912,918
Investment income	109,682	-	-	-	-	-	1,300	110,982
Contributed assets	-	-	-	78,210	40,456	-	-	118,666
Other revenues	531,039	10,590	404,194	391,857	58,534	14,378	23,250	1,433,842
	7,567,706	223,998	903,313	566,750	1,011,905	6,449,563	508,540	17,231,775
EXPENSES								
Contract and general services	398,927	107,499	319,808	784,791	401,236	1,958,261	90,585	4,061,107
Salaries and wages	858,353	217,447	737,466	255,744	1,043,147	541,245	274,504	3,927,906
Goods and supplies	58,061	108,199	596,329	413,858	442,135	213,885	35,678	1,868,145
Transfers to other governments	-	-	-	-	-	328,839	-	328,839
Long-term debt interest	40,981	29,188	24,214	103,849	26,685	79,995	10,802	315,714
Other expenses	169,707	15,473	(127,582)	100,205	204,053	258,123	108,033	728,012
	1,526,029	477,806	1,550,235	1,658,447	2,117,256	3,380,348	519,602	11,229,723
NET REVENUE, BEFORE AMORTIZATION	6,041,677	(253,808)	(646,922)	(1,091,697)	(1,105,351)	3,069,215	(11,062)	6,002,052
Amortization expense	73,002	139,326	1,259,178	23,452	472,388	595,169	18,565	2,581,080
NET REVENUE	5,968,675	(393,134)	(1,906,100)	(1,115,149)	(1,577,739)	2,474,046	(29,627)	3,420,972

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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, 2018

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, 2018

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>2018</u>	<u>2017</u>
Cash	810,837	576,645
Temporary investments	<u>4,175,000</u>	<u>858,130</u>
	<u>4,985,837</u>	<u>1,434,775</u>

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

Included in cash and temporary investments are restricted funds totaling \$33,501 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, 2018

3. TAXES AND GRANTS IN LIEU RECEIVABLES

	<u>2018</u>	<u>2017</u>
Current taxes and grants in lieu	112,815	89,703
Tax arrears and grants in lieu	<u>34,270</u>	<u>33,119</u>
	147,085	122,822
Less: allowance for doubtful accounts	<u>(5,000)</u>	<u>(5,000)</u>
	<u>142,085</u>	<u>117,822</u>

During the current and prior year no impairments were recorded.

4. DEBT CHARGES RECOVERABLE

	<u>2018</u>	<u>2017</u>
Current debt charges recoverable	171,828	164,659
Non-current debt charges recoverable	<u>1,105,446</u>	<u>1,277,275</u>
	<u>1,277,274</u>	<u>1,441,934</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>
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	54,338	25,414	79,752
2024 and subsequent	<u>896,604</u>	<u>180,054</u>	<u>1,076,658</u>
	<u>1,277,274</u>	<u>325,770</u>	<u>1,603,044</u>

5. INVESTMENTS

Investments consist of term deposits bearing interest at rates ranging from 2.40% to 2.60% per annum, with maturity dates between 2020 and 2021.

6. DEFERRED REVENUE

	<u>2018</u>	<u>2017</u>
Land Leases	10,025	4,675
Advertising leases	4,210	3,795
Airport Leases	1,895	466
Regional Centre Rent	38	-
FCSS Grant	4,752	7,000
VRRA Grant	-	17,500
Prepaid Business Licenses	21,850	-
Prepaid Local Improvements	6,508	-
Prepaid Land Development	<u>85,816</u>	<u>85,815</u>
	<u>135,094</u>	<u>119,251</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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>2018</u>	<u>2017</u>
Accrued employee vacation	226,495	248,477
Accrued overtime	<u>19,120</u>	<u>18,236</u>
	<u>245,615</u>	<u>266,713</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 2018 cost of \$16,933.

9. LONG-TERM DEBT

	<u>2018</u>	<u>2017</u>
Tax supported debentures	<u>8,699,991</u>	<u>9,784,236</u>

The current portion of the long-term debt amounts to \$1,175,169 (2017 - \$1,142,790).

Principal and interest repayments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	1,175,169	253,098	1,428,267
2020	1,033,107	215,609	1,248,716
2021	1,018,599	184,141	1,202,740
2022	883,328	152,916	1,036,244
2023	637,694	129,168	766,862
2024 and subsequent	<u>3,952,094</u>	<u>449,624</u>	<u>4,401,718</u>
	<u>8,699,991</u>	<u>1,384,556</u>	<u>10,084,547</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 2019 through 2037. The average annual interest rate is 2.92% for 2018 (2017 – 3.05%).

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

The Town's total cash payment for interest in 2018 was \$285,490 (2017 - \$305,757).

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>2018</u>	<u>2017</u>
Total debt limit	19,081,445	16,554,789
Total guaranteed loans (Note 17)	197,209	212,821
Total debt outstanding	<u>8,699,991</u>	<u>9,784,236</u>
Amount of debt limit unused	<u>10,184,245</u>	<u>6,557,733</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

10. DEBT LIMITS - continued

Debt servicing limit	3,180,241	2,759,132
Debt servicing	<u>1,428,267</u>	<u>1,432,240</u>
Amount of debt servicing limit unused	<u>1,751,974</u>	<u>1,326,892</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>2018</u>	<u>2017</u>
Land	2,280,116	2,280,116
Land Improvements	2,955,711	3,223,689
Land Improvements-construction in progress	-	-
Buildings	10,401,048	10,508,990
Buildings-construction in progress	-	-
Engineering Structures		
Roadway system	16,547,071	17,033,230
Roadway System-construction in progress	31,528	-
Water distribution system	13,130,517	13,281,671
Water distribution system-construction in progress	25,758	-
Wastewater treatment system	4,231,899	4,332,165
Wastewater treatment system-construction in progress	1,136,153	246,817
Storm System	2,927,438	2,977,749
Ice Plant-construction in progress	21,950	-
Machinery, equipment and furnishings	2,574,433	2,650,984
Machinery, equipment and furnishings-construction in progress	-	-
Vehicles	<u>1,230,395</u>	<u>1,202,475</u>
	<u>57,494,017</u>	<u>57,737,886</u>

12. EQUITY IN TANGIBLE CAPITAL ASSETS

	<u>2018</u>	<u>2017</u>
Tangible capital assets (Schedule 2)	100,385,451	98,534,697
Accumulated amortization (Schedule 2)	(42,891,434)	(40,796,811)
Long-term debt	<u>(4,947,198)</u>	<u>(5,596,704)</u>
	<u>52,546,819</u>	<u>52,141,182</u>

13. ACCUMULATED SURPLUS

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

	<u>2018</u>	<u>2017</u>
Unrestricted surplus	2,126,713	2,022,163
Restricted	8,795,510	5,884,725
Equity in tangible capital assets	<u>52,546,819</u>	<u>52,141,182</u>
	<u>63,469,042</u>	<u>60,048,070</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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:

	2018			2017
	Salary/ Fee	Benefits and Allowances	Total	Total
Mayor				
Bruce MacDuff	-	-	-	30,270
Caroline McAuley	40,500	-	40,500	8,500
Councilors				
Greg Barr	20,400	-	20,400	20,800
Tannis Henderson	25,700	-	25,700	5,400
Harp Khela	-	-	-	16,600
Clinton McCullough	21,100	-	21,100	18,300
Caroline McAuley	-	-	-	22,675
Robert Pulyk	26,900	-	26,900	24,800
Justin Thompson	24,500	-	24,500	5,200
Richard Yaceyko	21,300	-	21,300	19,850
Chief Administrative Officer				
Dion Pollard	-	-	-	67,614
George Rogers	142,800	21,623	164,423	40,652
Director Finance & Admin				
Denise MacDonald	60,402	7,290	67,692	148,826
Jason Warawa	15,392	593	15,985	-
Director of Transportation				
Derek Young	109,492	19,689	129,181	125,056
Director Community Services				
Shawn Bell	118,427	17,838	136,265	136,905

- (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 Transportation 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, 2018

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 259,714 people and 420 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 10.39% (2017– 11.39%) of pensionable earnings up to the year’s maximum pensionable earnings under the Canada Pension Plan and 14.84% (2017 – 15.84%) on pensionable earnings above this amount. Employees of the Town are required to make current service contributions of 9.39% (2017 – 10.39%) of pensionable salary up to the year’s maximum pensionable salary and 13.84% (2017 – 14.84%) on pensionable salary above this amount.

Total current service contributions by the Town of Vermilion to the LAPP in 2018 were \$283,406 (2017 - \$293,998). Total current service contributions by the employees of the Town of Vermilion to the LAPP in 2018 were \$258,807 (2017 - \$270,430).

At December 31, 2017, the LAPP disclosed an actuarial surplus of \$4.84 billion.

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, 2018 is \$394,418. The loan is in good standing as at December 31, 2018.

The Town of Vermilion was 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. A resolution to this legal matter has been reached however the terms of the settlement cannot be disclosed due to a confidentiality clause contained within the settlement agreement.

18. COMMITMENTS

The municipality is a partner in the Alberta Central East Water Corporation's (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
Stage 6	\$325,926

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

18. COMMITMENTS - continued

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.

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 (2017 - \$120,000).

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.