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FLAGSTAFF COUNTY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

FLAGSTAFF COUNTY
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2017

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INDEPENDENT AUDITORS' REPORT

TO: The Reeve and Council

We have audited the accompanying financial statements of the Flagstaff County, which comprise the statement of financial position as at December 31, 2017, and the statements of operations, changes in net financial assets/debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

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 financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 Flagstaff County as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Emphasis of Matter

Significant areas requiring the use of management's estimates were the gravel inventory and the gravel reclamation valuation. Significant changes in the value of gravel and gravel reclamation costs could result in changes in inventory and liability amounts.

Stettler, Alberta

March 28, 2018

Gitzel & Company
CHARTERED PROFESSIONAL ACCOUNTANTS

FLAGSTAFF COUNTY

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2017

	2017	2016
FINANCIAL ASSETS		
Cash and short term investments (Note 3)	\$ 42,843,478	\$ 41,126,223
Taxes and grants in place of taxes receivable (Note 4)	916,452	753,206
Trade and other receivables	3,358,460	565,427
Note receivable (Note 5)	153,277	167,275
Inventory for resale	31,472	41,116
Long-term investments (Note 6)	<u>491,366</u>	<u>470,476</u>
	<u>47,794,505</u>	<u>43,123,723</u>
 LIABILITIES		
Accounts payable and accrued liabilities	1,398,521	729,138
Deposit liabilities	176,500	176,500
Employee future benefit obligation (Note 7)	456,050	376,104
Trust funds (Note 8)	54,642	35,280
Deferred revenue (Note 9)	8,275,253	10,758,877
Gravel royalties payable (Note 10)	-	400,786
Gravel reclamation liability (Note 11)	674,207	568,162
Capital lease obligation (Note 12)	109,825	158,705
Debenture term debt (Note 13)	<u>4,000,000</u>	<u>-</u>
	<u>15,144,998</u>	<u>13,203,552</u>
 NET FINANCIAL ASSETS (DEBT)	 <u>32,649,507</u>	 <u>29,920,171</u>
 NON-FINANCIAL ASSETS		
Tangible capital assets (Schedule 2)	84,885,704	80,217,282
Inventory of materials and supplies	15,541,825	15,815,512
Prepaid expenses	<u>458,308</u>	<u>183,851</u>
	<u>100,885,837</u>	<u>96,216,645</u>
 ACCUMULATED SURPLUS (Schedule 1)	 <u>\$ 133,535,344</u>	 <u>\$ 126,136,816</u>

Contingencies - See Note 20

APPROVED ON BEHALF OF THE COUNCIL:



FLAGSTAFF COUNTY

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2017

	Budget (Unaudited)	2017	2016
REVENUES			
Net municipal property taxes (Schedule 3)	\$ 21,354,753	\$ 21,291,436	\$ 22,506,073
Sales and user fees	946,968	968,375	932,093
Government transfers for operating (Schedule 4)	685,125	698,500	722,387
Investment income	192,500	338,807	209,843
Penalties and costs on taxes	200,000	300,417	256,231
Licenses and permits	81,000	115,816	42,628
Rentals	38,200	35,106	73,966
Gain on disposal of tangible capital assets	-	12,072	33,610
Fines and other	<u>85,850</u>	<u>182,485</u>	<u>141,650</u>
Total revenue	<u>23,584,396</u>	<u>23,943,014</u>	<u>24,918,481</u>
EXPENSES (Schedule 5)			
Legislative	408,100	411,612	350,086
Administration	3,094,400	2,770,902	2,825,955
Protective services	1,330,434	1,152,628	1,262,594
Public works and airport	13,318,250	13,244,919	12,529,127
Water and Waste management	771,000	719,779	709,885
Family, Community and Public Health	562,445	535,443	669,433
Ag services and development	1,869,343	1,671,377	1,697,969
Recreation, parks and culture	1,317,300	1,131,642	1,270,638
Gas production and distribution	103,200	88,530	80,010
Provision for uncollectable taxes	<u>500,000</u>	<u>277,006</u>	<u>632,077</u>
Total expenses	<u>23,274,472</u>	<u>22,003,838</u>	<u>22,027,774</u>
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES – BEFORE OTHER	<u>309,924</u>	<u>1,939,176</u>	<u>2,890,707</u>
OTHER			
Government transfers for capital (Schedule 4)	10,080,533	5,459,352	2,063,413
Donated capital assets	<u>-</u>	<u>-</u>	<u>192,458</u>
	<u>10,080,533</u>	<u>5,459,352</u>	<u>2,255,871</u>
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES	\$ 10,390,457	7,398,528	5,146,578
ACCUMULATED SURPLUS – BEGINNING OF YEAR		126,136,816	115,174,424
DISSOLUTION OF THE VILLAGES OF STROME AND GALAHAD INTO FLAGSTAFF COUNTY		<u>-</u>	<u>5,815,814</u>
ACCUMULATED SURPLUS – END OF YEAR		\$ <u>133,535,344</u>	\$ <u>126,136,816</u>

FLAGSTAFF COUNTY

STATEMENT OF CHANGES IN NET FINANCIAL ASSETS (DEBT)

FOR THE YEAR ENDED DECEMBER 31, 2017

	Budget (Unaudited)	2017	2016
EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES	\$ <u>10,390,457</u>	\$ <u>7,398,528</u>	\$ <u>5,146,578</u>
Acquisition of tangible capital assets	(17,025,787)	(9,877,572)	(5,985,879)
Proceeds on disposal of tangible capital assets	598,650	615,514	342,860
Amortization of tangible capital assets	4,450,579	4,585,239	4,489,957
Net (Gain) loss on sale of tangible capital assets	<u>-</u>	<u>8,397</u>	<u>33,882</u>
	<u>(11,976,558)</u>	<u>(4,668,422)</u>	<u>(1,119,180)</u>
Net use (acquisition) of supplies inventories	(941,000)	273,687	(2,261,519)
Net use (acquisition) of prepaid assets	<u>-</u>	<u>(274,457)</u>	<u>51,420</u>
	<u>(941,000)</u>	<u>(770)</u>	<u>(2,210,099)</u>
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	\$ (2,527,101)	2,729,336	1,817,299
NET FINANCIAL ASSETS (DEBT) - BEGINNING OF YEAR		<u>29,920,171</u>	<u>27,535,569</u>
DISSOLUTION OF THE VILLAGES OF STROME AND GALAHAD INTO FLAGSTAFF COUNTY		<u>-</u>	<u>567,303</u>
NET FINANCIAL ASSETS (DEBT) - END OF YEAR		\$ <u>32,649,507</u>	\$ <u>29,920,171</u>

FLAGSTAFF COUNTY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
OPERATING ACTIVITIES		
Excess (shortfall) of revenues over expenses	\$ 7,398,528	\$ 5,146,578
Non-cash items included in excess (shortfall) of revenues over expenses:		
Amortization of tangible capital assets	4,585,239	4,489,957
Net (gain) loss on disposal of tangible capital assets	8,397	33,882
Non-cash changes to operations (net change):		
Taxes and receivables	(2,942,281)	3,546,087
Prepaid expenses	(274,457)	51,420
Inventory	283,331	(2,302,635)
Accounts payable and accrued liabilities	749,329	(10,306)
Trust funds	19,362	2,677
Deferred revenue	(2,483,624)	4,376,444
Gravel royalties payable	(400,786)	145
Gravel reclamation liability	<u>106,045</u>	<u>(102,369)</u>
Net cash provided by (used in) operating activities	<u>7,049,083</u>	<u>15,231,880</u>
CAPITAL ACTIVITIES		
Acquisition of tangible capital assets	(9,877,572)	(5,985,879)
Proceeds on sale of tangible capital assets	<u>615,514</u>	<u>342,860</u>
Cash applied to capital transactions	<u>(9,262,058)</u>	<u>(5,643,019)</u>
INVESTING ACTIVITIES		
Decrease (increase) in restricted cash or cash equivalents	5,329,473	(8,275,769)
Acquisition of Village net financial assets and prepaid expenses	-	567,303
Long term investments	<u>(20,890)</u>	<u>(6,087)</u>
Net cash provided by (used in) investing activities	<u>5,308,583</u>	<u>(7,714,553)</u>
FINANCING ACTIVITIES		
Issue of debenture debt	4,000,000	-
Issue of capital lease obligation	-	185,906
Capital lease obligation repaid	<u>(48,880)</u>	<u>(56,148)</u>
Net cash provided by (used in) financing activities	<u>3,951,120</u>	<u>129,758</u>
CHANGE IN CASH AND CASH EQUIVALENTS - DURING THE YEAR	7,046,728	2,004,066
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>30,463,015</u>	<u>28,458,949</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>37,509,743</u>	<u>30,463,015</u>
CASH AND CASH EQUIVALENTS IS MADE UP OF:		
Cash and short term investments (Note 3)	42,843,478	41,126,223
Less: Restricted portion of cash and short term investments (Note 3)	<u>(5,333,735)</u>	<u>(10,663,208)</u>
	<u>\$ 37,509,743</u>	<u>\$ 30,463,015</u>

FLAGSTAFF COUNTY

SCHEDULE 1 - CHANGES IN ACCUMULATED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 2017

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2017	2016
BALANCE - BEGINNING OF YEAR	\$ 16,128,790	\$ 29,949,449	\$ 80,058,577	\$ 126,136,816	\$ 115,174,424
DISSOLUTION OF THE VILLAGES OF STROME AND GALAHAD INTO FLAGSTAFF COUNTY					
Excess (deficiency) of revenues over expenses	7,398,528	-	-	7,398,528	5,146,578
Unrestricted funds designated for future use	(1,523,050)	1,523,050	-	-	-
Restricted funds used for operations	457,525	(457,525)	-	-	-
Restricted funds used for tangible capital assets	-	(615,514)	615,514	-	-
Current year funds used for tangible capital assets	(9,262,058)	-	9,262,058	-	-
Disposal of tangible capital assets	8,397	615,514	(623,911)	-	-
Annual amortization expense	4,585,239	-	(4,585,239)	-	-
Capital lease obligation repaid	(48,880)	-	48,880	-	-
Change in accumulated surplus	<u>1,615,701</u>	<u>1,065,525</u>	<u>4,717,302</u>	<u>7,398,528</u>	<u>10,962,392</u>
BALANCE - END OF YEAR	\$ 17,744,491	\$ 31,014,974	\$ 84,775,879	\$ 133,535,344	\$ 126,136,816

FLAGSTAFF COUNTY

SCHEDULE 2 – SCHEDULE OF TANGIBLE CAPITAL ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2017

	Land and Improvements	Buildings	Engineered Structures	Machinery and Equipment	Vehicles	2017	2016
COST:							
BALANCE - BEGINNING OF YEAR	\$ 1,192,864	\$ 12,450,429	\$ 128,916,561	\$ 16,902,043	\$ 4,811,967	\$ 164,273,864	\$ 149,446,878
DISSOLUTION OF THE VILLAGES OF STROME AND GALAHAD INTO FLAGSTAFF COUNTY	-	-	-	-	-	-	9,972,627
Acquisition of tangible capital assets	419,525	2,189,900	5,408,725	1,735,632	123,790	9,877,572	5,985,879
Disposal of tangible capital assets	<u>(3)</u>	<u>-</u>	<u>(231,579)</u>	<u>(1,259,510)</u>	<u>(71,466)</u>	<u>(1,562,558)</u>	<u>(1,131,520)</u>
BALANCE - END OF YEAR	<u>1,612,386</u>	<u>14,640,329</u>	<u>134,093,707</u>	<u>17,378,165</u>	<u>4,864,291</u>	<u>172,588,878</u>	<u>164,273,864</u>
ACCUMULATED AMORTIZATION:							
BALANCE - BEGINNING OF YEAR	164,939	3,358,680	71,802,830	6,032,495	2,697,638	84,056,582	75,597,287
DISSOLUTION OF THE VILLAGES OF STROME AND GALAHAD INTO FLAGSTAFF COUNTY	-	-	-	-	-	-	4,724,116
Annual amortization	17,057	273,939	2,555,448	1,458,190	280,605	4,585,239	4,489,957
Accumulated amortization on disposals	<u>-</u>	<u>-</u>	<u>(231,579)</u>	<u>(636,390)</u>	<u>(70,678)</u>	<u>(938,647)</u>	<u>(754,778)</u>
BALANCE - END OF YEAR	<u>181,996</u>	<u>3,632,619</u>	<u>74,126,699</u>	<u>6,854,295</u>	<u>2,907,565</u>	<u>87,703,174</u>	<u>84,056,582</u>
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	<u>1,430,390</u>	<u>11,007,710</u>	<u>59,967,008</u>	<u>10,523,870</u>	<u>1,956,726</u>	<u>84,885,704</u>	<u>\$ 80,217,282</u>
2016 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	<u>\$ 1,027,925</u>	<u>\$ 9,091,749</u>	<u>\$ 57,113,731</u>	<u>\$ 10,869,548</u>	<u>\$ 2,114,329</u>	<u>\$ 80,217,282</u>	

FLAGSTAFF COUNTY

SCHEDULE 3 – PROPERTY AND OTHER TAXES

FOR THE YEAR ENDED DECEMBER 31, 2017

	Budget (Unaudited)	2017	2016
TAXATION			
Real property taxes	\$ 13,640,578	\$ 13,646,079	\$ 13,515,043
Linear property taxes	11,863,981	11,791,454	13,264,962
Government grants in place of property taxes	<u>210</u>	<u>211</u>	<u>207</u>
	<u>25,504,769</u>	<u>25,437,744</u>	<u>26,780,212</u>
REQUISITIONS			
Flagstaff Foundation	229,506	229,506	340,604
Alberta Education Funds	<u>3,920,510</u>	<u>3,916,802</u>	<u>3,933,535</u>
	<u>4,150,016</u>	<u>4,146,308</u>	<u>4,274,139</u>
NET MUNICIPAL PROPERTY TAXES	<u>\$ 21,354,753</u>	<u>\$ 21,291,436</u>	<u>\$ 22,506,073</u>

SCHEDULE 4 – GOVERNMENT TRANSFERS

FOR THE YEAR ENDED DECEMBER 31, 2017

	Budget (Unaudited)	2017	2016
TRANSFERS FOR OPERATING:			
Provincial government	\$ 676,125	\$ 687,691	\$ 711,738
Other local government	<u>9,000</u>	<u>10,809</u>	<u>10,649</u>
	<u>685,125</u>	<u>698,500</u>	<u>722,387</u>
TRANSFERS FOR CAPITAL			
Provincial government	10,080,533	5,459,352	2,063,413
Federal government	<u>-</u>	<u>-</u>	<u>-</u>
	<u>10,080,533</u>	<u>5,459,352</u>	<u>2,063,413</u>
TOTAL GOVERNMENT TRANSFERS	<u>\$ 10,765,658</u>	<u>\$ 6,157,852</u>	<u>\$ 2,785,800</u>

FLAGSTAFF COUNTY

SCHEDULE 5 –EXPENSES BY OBJECT

FOR THE YEAR ENDED DECEMBER 31, 2017

	Budget (Unaudited)	2017	2016
EXPENSES BY OBJECT			
Salaries, wages and benefits	\$ 7,833,650	\$ 7,551,655	\$ 7,400,485
Contracted and general services	3,204,250	2,780,774	3,180,773
Materials, goods, supplies and utilities	5,284,800	4,899,797	3,946,777
Provision for (recovery of) allowances	500,500	282,170	643,120
Transfers to other governments, local boards and individuals	2,001,595	1,879,339	2,298,611
Bank charges and short-term interest	600	653	497
Interest on long-term debt	-	3,742	62
Amortization of tangible capital assets	4,449,077	4,585,239	4,489,957
Loss on disposal of tangible capital assets	<u>-</u>	<u>20,469</u>	<u>67,492</u>
	\$ <u>23,274,472</u>	\$ <u>22,003,838</u>	\$ <u>22,027,774</u>

FLAGSTAFF COUNTY

SCHEDULE 6 - SEGMENTED DISCLOSURE

FOR THE YEAR ENDED

	General Government	Protective Services	Transportation Management	Water & Waste Management	Family, Community & Public Health	Ag Service & Development	Recreation & Parks	Gas Distribution	Total
REVENUE									
Net municipal taxes	\$ 21,291,436	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,291,436
Sales and user fees	15,334	120,585	276,987	330,159	-	72,601	46,382	106,327	968,375
Government transfers	-	10,809	3,590,650	2,054,527	289,084	212,782	-	-	6,157,852
Investment income	338,807	-	-	-	-	-	-	-	338,807
Other revenues	468,719	83,738	12,605	-	-	68,762	-	-	633,824
	<u>22,114,296</u>	<u>215,132</u>	<u>3,880,242</u>	<u>2,384,686</u>	<u>289,084</u>	<u>354,145</u>	<u>46,382</u>	<u>106,327</u>	<u>29,390,294</u>
EXPENSES									
Salaries, wages and benefits	1,671,545	463,242	4,356,605	90,728	-	883,624	85,911	-	7,551,655
Contract and general services	1,075,604	471,973	683,252	57,149	20,993	432,390	32,155	7,258	2,780,774
Materials, goods, supplies and Utilities	147,438	94,638	4,270,648	40,876	-	226,958	38,368	80,871	4,899,797
Transfers	-	-	16,697	437,909	514,450	12,909	897,374	-	1,879,339
Provision for allowances	282,170	-	-	-	-	-	-	-	282,170
Other expenses	653	-	3,742	-	-	-	-	-	4,395
	<u>3,177,410</u>	<u>1,029,853</u>	<u>9,330,944</u>	<u>626,662</u>	<u>535,443</u>	<u>1,555,881</u>	<u>1,053,808</u>	<u>88,129</u>	<u>17,398,130</u>
NET REVENUE, BEFORE AMORTIZATION & GAINS OR LOSSES	18,936,886	(814,721)	(5,450,702)	1,758,024	(246,359)	(1,201,736)	(1,007,426)	18,198	11,992,164
Gain on disposal of capital assets	-	-	8,572	-	-	3,500	-	-	12,072
(Loss) on disposal of capital assets	-	-	(20,469)	-	-	-	-	-	(20,469)
Amortization expense	(282,110)	(122,775)	(3,893,506)	(93,117)	-	(115,496)	(77,834)	(401)	(4,585,239)
EXCESS OF REVENUE OVER EXPENSES	\$ 18,654,776	\$ (937,496)	\$ (9,356,105)	\$ 1,664,907	\$ (246,359)	\$ (1,313,732)	\$ (1,085,260)	\$ 17,797	\$ 7,398,528



FLAGSTAFF COUNTY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are the representations of management prepared in accordance with generally accepted accounting principles for local governments established by the Public Sector Accounting and Auditing Board of the Chartered Professional Accountants of Canada.

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of significant accounting policies adopted as follows:

(a) Reporting Entity

The financial statements reflect the assets, liabilities, revenues and expenditures, and changes in financial position of the reporting entity which comprises all the organizations that are accountable for the administration of their financial affairs and resources to the council and are owned or controlled by the municipality.

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

The statements exclude trust assets that are administered for the benefit of external parties. Interdepartmental and organizational transactions and balances are eliminated.

(b) Basis of Accounting

The basis of accounting followed in the financial statement presentation includes revenues in the period in which the transactions or events occurred that gave rise to the revenues and expenditures in the period the goods and services are acquired and a liability is incurred with the exception of pension expenditures as disclosed in Note 1.h.

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, contributions and other amounts are received from third parties pursuant to legislation, regulation or agreement and may only be used for 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 performed or the tangible capital assets are acquired.

(c) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditure 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.

FLAGSTAFF COUNTY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

1. SIGNIFICANT ACCOUNTING POLICIES – Continued

(c) Use of Estimates - Continued

Amortization is based on the estimated useful lives of property and equipment. These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Significant areas requiring the use of management's estimates were the gravel inventory and the gravel reclamation valuations. Significant changes in the value of gravel and gravel reclamation costs could result in large changes in inventory and liability amounts.

(d) Tax Revenue

Tax revenues are recognized when the tax has been authorized by bylaw and the taxable event has occurred.

Requisitions operate as a flow through and are excluded from municipal revenue.

(e) Contaminated Sites Liability

Contaminated sites are a result of contamination being introduced into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. The liability is recorded net of any expected recoveries. A liability for remediation of a contaminated site is recognized when a site is not in productive use and is management's estimate of the cost of post – remediation including operation, maintenance and monitoring.

(f) 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 revenues in the period that the events giving rise to the transfer occurred, providing the transfers are authorized, any eligibility criteria have been met by the municipality, and reasonable estimates of the amounts can be determined.

(g) Interest on Long-Term Debt

Interest on long-term debt is recorded as an expenditure as payment is made and is accrued for long-term debt interest payable at the end of the year.

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

1. SIGNIFICANT ACCOUNTING POLICIES – Continued

(h) Pension Expenditure

The county participates in a multi-employer defined benefit pension plan. The plan is accounted for as a defined contribution plan.

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

(i) Taxes and Grants in Place of Taxes Receivables

Current and arrears taxes and grants in place of taxes receivables consist of current tax levies and tax levies of prior years which remain outstanding at December 31st.

(j) Investments

Investments are recorded at cost. Investment premiums and discounts are amortized proportionately over the term of the respective investments. Where there has been a loss in value that is other than a temporary decline, the respective investment is written down to recognize the loss.

(k) Inventories of Materials and Supplies

Inventories of materials and supplies are valued at the lower of cost and replacement cost with cost determined by the average cost method.

(l) Allowances for Operating Assets

Allowances for asset valuations are netted against the related asset. Increases in allowances are recorded as an expenditure while decreases in allowances are recorded as a revenue in the operating fund.

(m) Gravel Reclamation Liability

Pursuant to the Alberta Environmental Protection and Enhancement Act, the County is required to fund the reclamation of its gravel pits. Closure and post-closure activities include the final clay cover, landscaping and visual inspection. The requirement is being accrued based on the usable tonnes of gravel as it is crushed at these sites and is reduced by reclamation work performed during the year.

(n) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, accounts with banks and short-term, highly liquid investments.

FLAGSTAFF COUNTY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

1. SIGNIFICANT ACCOUNTING POLICIES – Continued

(o) Requisition Over-levies and Under-levies

Over-levies and under-levies arise from the difference between the actual 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. When the actual levy is less than the requisition amount, the under-levy is accrued as a receivable and as property taxes. Requisition tax rates in the subsequent year are adjusted for any over-levies or under-levies of the prior year.

(p) 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 revenues over expenses, provides the Change in Net Financial Assets (Debt) for the year.

(i) 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 the tangible capital assets is amortized on a straight-line basis over the estimated useful life as follows:

	YEARS
Buildings	25 - 50
Engineered structures	
Roads	40
Bridges	Variable
Machinery and equipment	5 – 15
Vehicles	10 – 25

The annual amortization charge in the year of acquisition is pro-rated based on the number of months that the asset was owned during the year. Assets under construction are not amortized until the asset is available for productive use. Assets are not amortized in the year of disposal.

(ii) Contributions 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.

(iii) Leases

Leases are classified as capital or operating leases. Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as capital leases. All other leases are accounted for as operating leases and the related lease payments are charged to expenses as incurred.

FLAGSTAFF COUNTY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

2. RECENT ACCOUNTING PRONOUNCEMENTS PUBLISHED BUT NOT YET ADOPTED

The following accounting standards have been issued by the Chartered Professional Accountants of Canada but are not yet effective. The County is currently evaluating the effect of adopting these standards on their financial statements.

(a) Section PS 1201 - Financial Statement Presentation

This revised standard is effective in 2019, when sections PS 2601 and PS 3450 are adopted.

(b) Section PS 2601 - Foreign Currency Translation

This section establishes standards on how to account for and report transactions that are denominated in foreign currency in government financial statement and is effective for fiscal years beginning on or after April 1, 2019.

(c) Section PS 3041 - Portfolio Investments

This new section establishes standards on how to account for and report portfolio investments in government financial statements. This standard is effective for the 2019 fiscal year.

(d) Section PS 3450 – Financial Instruments

This section establishes recognition, measurement and disclosure requirements for derivative and non-derivative financial instruments, effective for the 2019 fiscal year.

(e) Section PS 3280 – Asset Retirement Obligations

This section establishes standards on how to account for Asset Retirement Obligations and will apply in years beginning on or after April 1, 2021.

3. CASH AND SHORT TERM INVESTMENTS

	2017	2016
Cash	\$ <u>42,843,478</u>	\$ <u>41,126,223</u>

Included in cash are the following restricted amounts:

Restricted to cover trust liabilities	54,642	35,280
Received from Provincial grants and held exclusively for Capital projects (Note 9)	<u>5,279,093</u>	<u>10,627,928</u>
	\$ <u>5,333,735</u>	\$ <u>10,663,208</u>

FLAGSTAFF COUNTY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

4. TAXES RECEIVABLE

	2017	2016
Current	\$ 751,433	\$ 831,795
Arrears	315,019	628,823
Allowance for doubtful accounts	<u>(150,000)</u>	<u>(707,412)</u>
	\$ <u>916,452</u>	\$ <u>753,206</u>

During the year bad debts expense in the amount of \$277,006 has been recorded relating to management estimates of uncollectable taxes.

5. NOTE RECEIVABLE

	2017	2016
Receivable regarding communications tower	\$ <u>153,277</u>	\$ <u>167,275</u>

Principal payments are due in equal annual instalments of \$13,998 annually over 15 years. There is no interest on the Note. Ownership of the site remains with the County until the Note is paid in full.

6. LONG-TERM INVESTMENTS

	2017	2016
Vision Credit Union - patronage shares	\$ 461,474	\$ 440,584
Alberta Municipal Finance Corporation - shares, at cost	140	140
United Farms of Alberta - co-operative equity	3,153	3,153
Battle River Railway	5,000	5,000
Sedgewick Co-operative - patronage equity	<u>21,599</u>	<u>21,599</u>
	\$ <u>491,366</u>	\$ <u>470,476</u>

7. EMPLOYEE BENEFIT OBLIGATION

	2017	2016
Long term incentive program	\$ 114,227	\$ 65,569
Vacation	<u>341,823</u>	<u>310,535</u>
	\$ <u>456,050</u>	\$ <u>376,104</u>

The vacation liability is comprised of the vacation that employees are deferring to future years. Employees have earned the benefits and are entitled to these benefits within the next budgetary year.

An early retirement incentive has been extended to an employee under the County's early retirement incentive policy. All liabilities under this incentive are recognized at the date of innovation.

FLAGSTAFF COUNTY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

8. TRUST FUNDS

The Flagstaff County administers the following trust:

	2017	2016
Community Reserve	\$ <u>54,642</u>	\$ <u>35,280</u>

9. DEFERRED REVENUE

	2017	2016
Historical Sites	\$ 1,473	\$ 1,473
Rescue Unit	147,909	119,476
Donation for emergency equipment	17,200	10,000
Gas Tax Fund grant	510,215	685,323
Municipal Sustainability Initiative - Operating	46,546	-
Municipal Sustainability Initiative – Capital	7,551,910	7,939,976
Municipal Restructuring grant	<u>-</u>	<u>2,002,629</u>
	\$ <u>8,275,253</u>	\$ <u>10,758,877</u>

Funding in the amount of \$8,062,125 (2016 - \$10,627,928) is from capital grants. The use of these funds is restricted to eligible capital projects, as approved under the funding agreement, which are scheduled for completion in 2018. Unexpended funds related to the advance are supported by cash of \$5,279,093 (2016 - \$10,627,928) and accounts receivable of \$2,783,032 (2016 - \$ NIL) held exclusively for these projects (Note3).

10. GRAVEL ROYALTY PAYABLE

	2017	2016
Gravel royalty payable	\$ <u>-</u>	\$ <u>400,786</u>

11. GRAVEL RECLAMATION LIABILITY

The accrued liability has been estimated for the closure and post-closure of two gravel sites. This cost has been allocated over the usable tons of gravel at these sites and is being accrued at the rate of \$0.75 per tonne and is reduced by reclamation work performed during the year.

FLAGSTAFF COUNTY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

12. CAPITAL LEASE OBLIGATION

	2017	2016
Capital lease obligations	\$ <u>109,825</u>	\$ <u>158,705</u>

Principal repayments are due as follows:

	Principal	
2018	48,880	
2019	29,455	
2020	15,746	
2021	<u>15,744</u>	
	\$ <u>109,825</u>	

The long term debt was borrowed for capital purposes. Capital leases, bear interest at 0% and mature 2021. They are secured by equipment with a carrying value of \$161,786.

13. DEBENTURE TERM DEBT

	2017	2016
Debentures held for gravel purchases	\$ <u>4,000,000</u>	\$ <u>0</u>

Principal and interest repayments are due as follows:

	Principal	Interest	Total	
2018	\$ 766,402	\$ 81,293	\$ 847,695	
2019	782,845	64,850	847,695	
2020	799,640	48,055	847,695	
2021	816,795	30,900	847,695	
2022	<u>834,318</u>	<u>13,377</u>	<u>847,695</u>	
	\$ <u>4,000,000</u>	\$ <u>238,475</u>	\$ <u>4,238,475</u>	

The debenture term debt was borrowed for the purpose of purchasing gravel reserves.

Debenture debt is repayable to Alberta Capital Finance Authority and bears interest at 2.134% per annum, and matures in 2022. The average annual interest rate is 2.134% for 2017. Debenture debt is issued on the credit and security of the municipality.

Interest on debenture term debt amounted to \$3,742 (2016 - \$ NIL).

FLAGSTAFF COUNTY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

14. DEBT LIMITS

Section 276(2) of the Municipal Government Act requires that debt and debt limits as defined by regulation for the municipality be disclosed as follows:

	2017	2016
Total debt limit	\$ 35,914,521	\$ 37,378,081
Total debt	<u>4,109,825</u>	<u>158,705</u>
Amount total debt limit unused	<u>31,804,696</u>	<u>37,219,376</u>
Service on debt limit	5,985,754	6,229,680
Service on debt	<u>896,575</u>	<u>48,115</u>
Amount service on debt limit unused	\$ <u>5,089,179</u>	\$ <u>6,181,565</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 guideline used by Alberta Municipal Affairs to identify municipalities that could be 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.

FLAGSTAFF COUNTY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

15. FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party.

The county's financial instruments consist of cash, receivables, long term investments, accounts payable, deposit liabilities, royalties payable, reclamation liabilities, and capital lease obligation. In management's opinion these financial instruments are not exposed to significant interest rate or currency risks.

The county is exposed to various risks through its financial instruments. The following analysis provides a measure of the county's risk exposure and concentrations at the balance sheet date.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. It is management's opinion that the county is not exposed to significant currency or other price risk.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The county is subject to credit risk with respect to taxes and grants in place of taxes receivables and trade and other receivables. Credit risk arises from the possibility that taxpayers and entities to which the county 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 carrying value of accounts receivable reflects management's assessment of credit risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The county has floating rate investments which are subject to interest rate risk, as the rates will fluctuate as a result of changes in market rates.

The county has fixed rate debt which is subject to fair value risk, as the value will fluctuate as a result of changes in market rates.

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

FLAGSTAFF COUNTY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

16. RESERVES

Reserves for operating and capital activities changed as follows:

	2016	Increases	Decreases	2017
Operating reserves:				
General	\$ 12,039,979	\$ 260,000	\$ -	\$ 12,299,979
Mill rate stabilization	800,000	645,400	-	1,445,400
Administration	457,026	288,700	-	745,726
Special projects	1,902,929	18,600	-	1,921,529
Fire	30,000	100,000	-	130,000
Ambulance	25,723	-	-	25,723
Emergency road repair	40,000	-	-	40,000
Public works – gravel	1,483,953	-	-	1,483,953
Airport	107,887	-	-	107,887
Agriculture	510,769	-	38,500	472,269
Economic development	388,267	120,000	-	508,267
Recreation	429,661	-	-	429,661
Cemetery grants	38,666	-	19,930	18,736
Gas distribution	30,405	-	-	30,405
	<u>18,285,265</u>	<u>1,432,700</u>	<u>58,430</u>	<u>19,659,535</u>
Capital reserves:				
General equipment	1,797,912	-	-	1,797,912
Office Building	500,000	-	-	500,000
Fire Capital	332,912	-	-	332,912
Public works	5,682,379	-	399,095	5,283,284
Bridges	538,000	-	-	538,000
Shop/grader shed	2,362,875	-	-	2,362,875
Infrastructure	450,106	90,350	-	540,456
	<u>11,664,184</u>	<u>90,350</u>	<u>399,095</u>	<u>11,355,439</u>
Total	\$ <u>29,949,449</u>	\$ <u>1,523,050</u>	\$ <u>457,525</u>	\$ <u>31,014,974</u>

17. EQUITY IN TANGIBLE CAPITAL ASSETS

	2017	2016
Tangible capital assets (Schedule 2)	\$ 172,588,878	\$ 164,273,864
Accumulated amortization (Schedule 2)	(87,703,174)	(84,056,582)
Capital long term debt (Note 12)	<u>(109,825)</u>	<u>(158,705)</u>
	<u>\$ 84,775,879</u>	<u>\$ 80,058,577</u>

FLAGSTAFF COUNTY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

18. SALARY & BENEFITS DISCLOSURE

Disclosure of salaries and benefits for elected municipal officials, the chief administrative officer and designated officers as required by provincial regulation is as follows:

	2017			2016
	Salary(1)	Benefits Allowances(2&3)	Total	
Councillor Division 1	\$ 37,689	\$ 4,628	\$ 42,317	\$ 41,693
Councillor Division 2	34,530	4,102	38,632	47,097
Councillor Division 2	7,314	1,068	8,382	-
Councillor Division 3	31,391	4,751	36,141	42,861
Councillor Division 3	7,314	1,068	8,382	-
Councillor Division 4	31,391	4,754	36,144	42,861
Councillor Division 4	7,314	833	8,147	-
Councillor Division 5	31,391	4,754	36,144	42,861
Councillor Division 5	8,045	1,178	9,224	-
Councillor Division 6	31,391	4,754	36,144	42,861
Councillor Division 6	7,314	1,068	8,382	-
Councillor Division 7	31,391	4,754	36,144	42,861
Councillor Division 7	7,314	1,068	8,382	-
Chief Administrative Officer	191,466	32,720	224,186	202,704
Designated Officer (1 position)	\$ 134,042	\$ 27,300	\$ 161,342	\$ 144,299

- (a) Salary includes regular base pay and gross honoraria. Where two Councillor positions are listed for a Division there was a change of representative after the October election.
- (b) Benefits and allowances figures for the Chief Administrative and Designated officers include the employer's share of Canada pension, employment insurance, Local Authorities pension, health care, dental coverage, dependent life insurance, accidental disability and dismemberment insurance, and long term disability insurance.
- (c) Benefits and allowances figures for the councilors include the employer's share of Canada pension, WCB and the additional taxable benefit of group life insurance paid for by the employer as well as the RRSP Contribution County portion.

19. LOCAL AUTHORITIES PENSION PLAN

Employees of the Flagstaff County participate in the Local Authorities Pension Plan (L.A.P.P.), which is covered by the Public Sector Pension Plans Act. The plan serves about 253,862 people and 417 employers. It is financed by employer and employee contributions and investment earnings of the L.A.P.P. Fund.

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

FLAGSTAFF COUNTY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

19. LOCAL AUTHORITIES PENSION PLAN - Continued

The Flagstaff County is required to make current service contributions to the Plan of 11.39% of pensionable earnings up to the CPP maximum reasonable earnings and 15.84% of any excess earnings. Employees of the Flagstaff County are required to make current service contributions of 10.39% of pensionable salary up to the year's maximum pensionable salary and 14.84% on pensionable salary above this amount.

Total current and past service contributions by the Flagstaff County to the Local Authorities Pension Plan in 2017 were \$555,522 (2016 - \$551,124). Total current and past service contributions by the employees of the Flagstaff County to the Local Authorities Pension Plan in 2017 were \$515,559 (2016 - \$508,631).

At December 31, 2016 the Plan disclosed an actuarial deficiency of \$637 million.

20. CONTINGENCIES

The County is a member of the Genesis Reciprocal Insurance Exchange. Under the terms of membership, the County 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.

21. COMMITMENTS

The County is committed to the following payments subsequent to year end:

Capital equipment	\$ 1,575,000
Balance of land purchase	\$ 6,845,000
Building contracts	\$ 5,148,985
Gravel products	\$ 360,000

The County, and all other incorporated municipalities within the geographical boundaries of the County provide funds for the operation of the Waste Management Authority. The Authority is accumulating reserves to fund any future site cleanup obligations. The member municipalities may be liable for future costs in excess of the reserves.

The County through joint agreement provides funds for the operation of the Family and Community Support services. The amounts presented in this financial statement represent only the County portion of contributions made to F.C.S.S.

The County, along with other municipalities in the geographical area, receives requisitions from the Flagstaff Housing Authority. The Authority unilaterally determines these amounts and they may vary dependent upon projected funding requirements.

The County has an agreement with other municipalities in its geographical area to assist with firefighting equipment and operations.

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

22. APPROVAL OF FINANCIAL STATEMENTS

Council and Management have approved these financial statements.

23. BUDGET AMOUNTS

Budget figures for the year ended December 31, 2017 were approved by Council on April 26, 2017 and are for information purposes. These amounts have not been audited.