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**FLAGSTAFF COUNTY**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**FLAGSTAFF COUNTY**  
**FINANCIAL STATEMENTS**  
**AS AT DECEMBER 31, 2016**

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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, 2016, 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, 2016, 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 29, 2017*

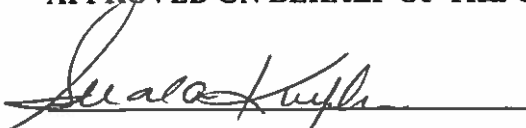
*Gitzel & Company*  
CHARTERED PROFESSIONAL ACCOUNTANTS

**FLAGSTAFF COUNTY**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2016**

	2016	2015
<b>FINANCIAL ASSETS</b>		
Cash and short term investments (Note 3)	\$ 41,126,223	\$ 30,846,388
Taxes and grants in place of taxes receivable (Note 4)	753,206	904,916
Trade and other receivables	565,427	3,945,807
Note receivable (Note 5)	167,275	181,272
Inventory for resale	41,116	-
Long-term investments (Note 6)	<u>470,476</u>	<u>464,389</u>
	<u>43,123,723</u>	<u>36,342,772</u>
 <b>LIABILITIES</b>		
Accounts payable and accrued liabilities	729,138	730,267
Deposit liabilities	176,500	201,500
Employee future benefit obligation (Note 9)	376,104	360,281
Trust funds (Note 7)	35,280	32,603
Deferred revenue (Note 8)	10,758,877	6,382,433
Gravel royalties payable (Note 11)	400,786	400,641
Gravel reclamation liability (Note 10)	568,162	670,531
Capital lease obligation (Note 12)	<u>158,705</u>	<u>28,947</u>
	<u>13,203,552</u>	<u>8,807,203</u>
 <b>NET FINANCIAL ASSETS (DEBT)</b>	 <u>29,920,171</u>	 <u>27,535,569</u>
 <b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets (Schedule 2)	80,217,282	73,849,591
Inventory of materials and supplies	15,815,512	13,553,993
Prepaid expenses	<u>183,851</u>	<u>235,271</u>
	<u>96,216,645</u>	<u>87,638,855</u>
 <b>ACCUMULATED SURPLUS (Schedule 1)</b>	 \$ <u>126,136,816</u>	 \$ <u>115,174,424</u>

Contingencies - See Note 19

**APPROVED ON BEHALF OF THE COUNCIL:**



# FLAGSTAFF COUNTY

## STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2016

	Budget (Unaudited)	2016	2015
<b>REVENUES</b>			
Net municipal property taxes (Schedule 3)	\$ 21,410,256	\$ 22,506,073	\$ 20,791,429
Sales and user fees	808,425	932,093	1,134,529
Government transfers for operating (Schedule 4)	730,241	722,387	805,072
Investment income	183,000	209,843	228,503
Penalties and costs on taxes	140,000	256,231	194,421
Licenses and permits	69,500	42,628	53,630
Rentals	64,680	73,966	63,592
Gain on disposal of tangible capital assets	-	33,610	19,767
Fines and other	55,400	141,650	116,674
<b>Total revenue</b>	<u>23,461,502</u>	<u>24,918,481</u>	<u>23,407,617</u>
<b>EXPENSES (Schedule 5)</b>			
Legislative	388,500	350,086	365,265
Administration	3,094,150	2,825,955	2,762,424
Protective services	1,367,900	1,262,594	918,766
Public works and airport	13,339,545	12,529,127	11,987,724
Water and Waste management	681,800	709,885	427,284
Family, Community and Public Health	639,931	669,433	483,540
Ag services and development	1,825,950	1,697,969	1,644,474
Recreation, parks and culture	1,295,400	1,270,638	1,045,512
Gas production and distribution	99,000	80,010	-
Provision for uncollectable taxes	200,000	632,077	133,326
<b>Total expenses</b>	<u>22,932,176</u>	<u>22,027,774</u>	<u>19,768,315</u>
<b>EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES – BEFORE OTHER</b>	<u>529,326</u>	<u>2,890,707</u>	<u>3,639,302</u>
<b>OTHER</b>			
Government transfers for capital (Schedule 4)	2,266,550	2,063,413	167,827
Donated capital assets	-	192,458	-
	<u>2,266,550</u>	<u>2,255,871</u>	<u>167,827</u>
<b>EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES</b>	<b>\$ 2,795,876</b>	<b>5,146,578</b>	<b>3,807,129</b>
<b>ACCUMULATED SURPLUS – BEGINNING OF YEAR</b>		115,174,424	111,367,295
<b>DISSOLUTION OF THE VILLAGES OF STROME AND GALAHAD INTO FLAGSTAFF COUNTY (Note 23)</b>		<u>5,815,814</u>	<u>-</u>
<b>ACCUMULATED SURPLUS – END OF YEAR</b>		<b>\$ <u>126,136,816</u></b>	<b>\$ <u>115,174,424</u></b>

# FLAGSTAFF COUNTY

## STATEMENT OF CHANGES IN NET FINANCIAL ASSETS (DEBT)

FOR THE YEAR ENDED DECEMBER 31, 2016

	Budget (Unaudited)	2016	2015
<b>EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES</b>	\$ <u>2,795,876</u>	\$ <u>5,146,578</u>	\$ <u>3,807,129</u>
Acquisition of tangible capital assets	(6,563,860)	(5,985,879)	(3,264,405)
Proceeds on disposal of tangible capital assets	307,500	342,860	666,393
Amortization of tangible capital assets	4,086,900	4,489,957	3,939,597
Net (Gain) loss on sale of tangible capital assets	<u>          -</u>	<u>      33,882</u>	<u>      131,816</u>
	<u>(2,169,460)</u>	<u>(1,119,180)</u>	<u>      1,473,401</u>
Net use (acquisition) of supplies inventories	(1,240,000)	(2,261,519)	(1,480,715)
Net use (acquisition) of prepaid assets	<u>          -</u>	<u>      51,420</u>	<u>      (81,608)</u>
	<u>(1,240,000)</u>	<u>(2,210,099)</u>	<u>(1,562,323)</u>
<b>INCREASE (DECREASE) IN NET FINANCIAL ASSETS</b>	\$ (613,584)	1,817,299	3,718,207
<b>NET FINANCIAL ASSETS (DEBT) - BEGINNING OF YEAR</b>		<u>27,535,569</u>	<u>23,817,362</u>
<b>DISSOLUTION OF THE VILLAGES OF STROME AND GALAHAD INTO FLAGSTAFF COUNTY (Note 23)</b>		<u>567,303</u>	<u>          -</u>
<b>NET FINANCIAL ASSETS (DEBT) - END OF YEAR</b>		\$ <u>29,920,171</u>	\$ <u>27,535,569</u>

# FLAGSTAFF COUNTY

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016

	2016	2015
<b>OPERATING ACTIVITIES</b>		
Excess (shortfall) of revenues over expenses	\$ 5,146,578	\$ 3,807,129
Non-cash items included in excess (shortfall) of revenues over expenses:		
Amortization of tangible capital assets	4,489,957	3,939,597
Net (gain) loss on disposal of tangible capital assets	33,882	131,816
Non-cash changes to operations (net change):		
Taxes and receivables	3,546,087	(1,146,778)
Prepaid expenses	51,420	(81,608)
Inventory	(2,302,635)	(1,480,715)
Accounts payable and accrued liabilities	(10,306)	(503,118)
Trust funds	2,677	12,069
Deferred revenue	4,376,444	2,524,838
Gravel royalties payable	145	(301,962)
Gravel reclamation liability	<u>(102,369)</u>	<u>200,717</u>
Net cash provided by (used in) operating activities	<u>15,231,880</u>	<u>7,101,985</u>
<b>CAPITAL ACTIVITIES</b>		
Acquisition of tangible capital assets	(5,985,879)	(3,264,405)
Proceeds on sale of tangible capital assets	<u>342,860</u>	<u>666,393</u>
Cash applied to capital transactions	<u>(5,643,019)</u>	<u>(2,598,012)</u>
<b>INVESTING ACTIVITIES</b>		
Decrease (increase) in restricted cash or cash equivalents	(8,275,769)	(1,148,271)
Acquisition of Village net financial assets and prepaid expenses (Note 23)	567,303	-
Long term investments	<u>(6,087)</u>	<u>(12,908)</u>
Net cash provided by (used in) investing activities	<u>(7,714,553)</u>	<u>(1,161,179)</u>
<b>FINANCING ACTIVITIES</b>		
Issue of capital lease obligation	185,906	-
Capital lease obligation repaid	<u>(56,148)</u>	<u>(18,619)</u>
Net cash provided by (used in) financing activities	<u>129,758</u>	<u>(18,619)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS - DURING THE YEAR</b>	<b>2,004,066</b>	<b>3,324,175</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u><b>28,458,949</b></u>	<u><b>25,134,774</b></u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u><b>30,463,015</b></u></u>	<u><u><b>28,458,949</b></u></u>
<b>CASH AND CASH EQUIVALENTS IS MADE UP OF:</b>		
Cash and short term investments (Note 3)	41,126,223	30,846,388
Less: Restricted portion of cash and short term investments (Note 3)	<u>(10,663,208)</u>	<u>(2,387,439)</u>
	<u><u><b>\$ 30,463,015</b></u></u>	<u><u><b>\$ 28,458,949</b></u></u>

**FLAGSTAFF COUNTY**

**SCHEDULE 1 - CHANGES IN ACCUMULATED SURPLUS**

**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2016	2015
<b>BALANCE - BEGINNING OF YEAR</b>	\$ <u>12,648,427</u>	\$ <u>28,705,353</u>	\$ <u>73,820,644</u>	\$ <u>115,174,424</u>	\$ <u>111,367,295</u>
<b>DISSOLUTION OF THE VILLAGES OF STROME AND GALAHAD INTO FLAGSTAFF COUNTY (Note 23)</b>	163,613	403,690	5,248,511	5,815,814	-
Excess (deficiency) of revenues over expenses	5,146,578	-	-	5,146,578	3,807,129
Unrestricted funds designated for future use	(1,610,821)	1,610,821	-	-	-
Restricted funds used for operations	770,415	(770,415)	-	-	-
Restricted funds used for tangible capital assets	-	(342,860)	342,860	-	-
Current year funds used for tangible capital assets	(5,457,113)	-	5,457,113	-	-
Disposal of tangible capital assets	33,882	342,860	(376,742)	-	-
Annual amortization expense	4,489,957	-	(4,489,957)	-	-
Capital lease obligation repaid	<u>(56,148)</u>	<u>-</u>	<u>56,148</u>	<u>-</u>	<u>-</u>
Change in accumulated surplus	<u>3,480,363</u>	<u>1,244,096</u>	<u>6,237,933</u>	<u>10,962,392</u>	<u>3,807,129</u>
<b>BALANCE - END OF YEAR</b>	\$ <u>16,128,790</u>	\$ <u>29,949,449</u>	\$ <u>80,058,577</u>	\$ <u>126,136,816</u>	\$ <u>115,174,424</u>



**FLAGSTAFF COUNTY**

**SCHEDULE 2 – SCHEDULE OF TANGIBLE CAPITAL ASSETS**

**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Land and Improvements	Buildings	Engineered Structures	Machinery and Equipment	Vehicles	2016	2015
<b>COST:</b>							
BALANCE - BEGINNING OF YEAR	\$ 927,517	\$ 9,273,866	\$ 119,398,994	\$ 15,413,555	\$ 4,432,946	\$ 149,446,878	\$ 148,056,660
DISSOLUTION OF THE VILLAGES OF STROME AND GALAHAD INTO FLAGSTAFF COUNTY (Note 23)	249,194	2,969,714	6,405,236	336,283	12,200	9,972,627	-
Acquisition of tangible capital assets	16,153	206,849	3,333,038	1,942,568	487,271	5,985,879	3,264,405
Disposal of tangible capital assets	-	-	(220,707)	(790,363)	(120,450)	(1,131,520)	(1,874,187)
<b>BALANCE - END OF YEAR</b>	<u>1,192,864</u>	<u>12,450,429</u>	<u>128,916,561</u>	<u>16,902,043</u>	<u>4,811,967</u>	<u>164,273,864</u>	<u>149,446,878</u>
<b>ACCUMULATED AMORTIZATION:</b>							
BALANCE - BEGINNING OF YEAR	20,413	1,478,987	66,693,676	4,883,641	2,520,570	75,597,287	72,733,669
DISSOLUTION OF THE VILLAGES OF STROME AND GALAHAD INTO FLAGSTAFF COUNTY (Note 23)	128,933	1,615,997	2,742,323	230,783	6,080	4,724,116	-
Annual amortization	15,593	263,696	2,568,589	1,350,641	291,438	4,489,957	3,939,597
Accumulated amortization on disposals	-	-	(201,758)	(432,570)	(120,450)	(754,778)	(1,075,979)
<b>BALANCE - END OF YEAR</b>	<u>164,939</u>	<u>3,358,680</u>	<u>71,802,830</u>	<u>6,032,495</u>	<u>2,697,638</u>	<u>84,056,582</u>	<u>75,597,287</u>
<b>NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS</b>	<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>	<u>73,849,591</u>
2015 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$ <u>907,104</u>	\$ <u>7,794,879</u>	\$ <u>52,705,318</u>	\$ <u>10,529,914</u>	\$ <u>1,912,376</u>	\$ <u>73,849,591</u>	

# FLAGSTAFF COUNTY

## SCHEDULE 3 – PROPERTY AND OTHER TAXES

FOR THE YEAR ENDED DECEMBER 31, 2016

	Budget (Unaudited)	2016	2015
<b>TAXATION</b>			
Real property taxes	\$ 12,419,235	\$ 13,515,043	\$ 11,235,543
Linear property taxes	13,264,960	13,264,962	13,755,386
Government grants in place of property taxes	<u>205</u>	<u>207</u>	<u>203</u>
	<u>25,684,400</u>	<u>26,780,212</u>	<u>24,991,132</u>
<b>REQUISITIONS</b>			
Flagstaff Foundation	340,604	340,604	340,457
Alberta Education Funds	<u>3,933,540</u>	<u>3,933,535</u>	<u>3,859,246</u>
	<u>4,274,144</u>	<u>4,274,139</u>	<u>4,199,703</u>
<b>NET MUNICIPAL PROPERTY TAXES</b>	<u>\$ 21,410,256</u>	<u>\$ 22,506,073</u>	<u>\$ 20,791,429</u>

## SCHEDULE 4 – GOVERNMENT TRANSFERS

FOR THE YEAR ENDED DECEMBER 31, 2016

	Budget (Unaudited)	2016	2015
<b>TRANSFERS FOR OPERATING:</b>			
Provincial government	\$ 721,241	\$ 711,738	\$ 786,723
Other local government	<u>9,000</u>	<u>10,649</u>	<u>18,349</u>
	<u>730,241</u>	<u>722,387</u>	<u>805,072</u>
<b>TRANSFERS FOR CAPITAL</b>			
Provincial government	2,266,550	2,063,413	147,827
Federal government	<u>-</u>	<u>-</u>	<u>20,000</u>
	<u>2,266,550</u>	<u>2,063,413</u>	<u>167,827</u>
<b>TOTAL GOVERNMENT TRANSFERS</b>	<u>\$ 2,996,791</u>	<u>\$ 2,785,800</u>	<u>\$ 972,899</u>

# FLAGSTAFF COUNTY

## SCHEDULE 5 –EXPENSES BY OBJECT

FOR THE YEAR ENDED DECEMBER 31, 2016

	Budget (Unaudited)	2016	2015
<b>EXPENSES BY OBJECT</b>			
Salaries, wages and benefits	\$ 7,897,950	\$ 7,400,485	\$ 7,127,661
Contracted and general services	3,550,035	3,180,773	2,606,964
Materials, goods, supplies and utilities	5,115,100	3,946,777	4,085,268
Provision for (recovery of) allowances	202,700	643,120	133,415
Transfers to other governments, local boards and individuals	2,078,781	2,298,611	1,722,646
Bank charges and short-term interest	650	497	348
Interest on long-term debt	60	62	833
Amortization of tangible capital assets	4,086,900	4,489,957	3,939,597
Loss on disposal of tangible capital assets	-	67,492	151,583
	<u>\$ 22,932,176</u>	<u>\$ 22,027,774</u>	<u>\$ 19,768,315</u>

# FLAGSTAFF COUNTY

## SCHEDULE 6 - SEGMENTED DISCLOSURE

### FOR THE YEAR ENDED

	General Government	Protective Services	Transportation	Water & Waste Management	Family, Community & Public Health	Ag Service & Development	Recreation & Parks	Other	Total
<b>REVENUE</b>									
Net municipal taxes	\$ 22,506,073	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,506,073
Sales and user fees	14,092	110,103	254,311	297,469	-	124,798	42,464	88,856	932,093
Government transfers	250,000	10,649	1,892,247	158,407	289,084	185,413	-	-	2,785,800
Donated capital	-	192,458	-	-	-	-	-	-	192,458
Investment income	209,843	-	-	-	-	-	-	-	209,843
Other revenues	<u>356,294</u>	<u>109,291</u>	<u>7,608</u>	<u>-</u>	<u>10,200</u>	<u>31,082</u>	<u>-</u>	<u>-</u>	<u>514,475</u>
	<u>23,336,302</u>	<u>422,501</u>	<u>2,154,166</u>	<u>455,876</u>	<u>299,284</u>	<u>341,293</u>	<u>42,464</u>	<u>88,856</u>	<u>27,140,742</u>
<b>EXPENSES</b>									
Salaries, wages and benefits	1,573,484	417,288	4,347,085	99,593	-	876,056	86,979	-	7,400,485
Contract and general services	1,129,557	597,261	914,736	27,139	47,463	399,727	53,529	11,361	3,180,773
Materials, goods, supplies and Utilities	156,726	119,844	3,215,504	36,166	656	288,763	60,870	68,248	3,946,777
Transfers	-	5,387	200,563	459,515	621,314	16,533	995,299	-	2,298,611
Provision for allowances	643,120	-	-	-	-	-	-	-	643,120
Other expenses	<u>559</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>559</u>
	<u>3,503,446</u>	<u>1,139,780</u>	<u>8,677,888</u>	<u>622,413</u>	<u>669,433</u>	<u>1,581,079</u>	<u>1,196,677</u>	<u>79,609</u>	<u>17,470,325</u>
<b>NET REVENUE, BEFORE AMORTIZATION &amp; GAINS OR LOSSES</b>	19,832,856	(717,279)	(6,523,722)	(166,537)	(370,149)	(1,239,786)	(1,154,213)	9,247	9,670,417
Gain on disposal of capital assets	20,999	-	8,240	-	-	4,371	-	-	33,610
(Loss) on disposal of capital assets	(23,099)	(13,261)	(31,132)	-	-	-	-	-	(67,492)
Amortization expense	<u>(281,573)</u>	<u>(109,553)</u>	<u>(3,820,107)</u>	<u>(87,472)</u>	<u>-</u>	<u>(116,890)</u>	<u>(73,961)</u>	<u>(401)</u>	<u>(4,489,957)</u>
<b>EXCESS OF REVENUE OVER EXPENSES</b>	\$ <u>19,549,183</u>	\$ <u>(840,093)</u>	\$ <u>(10,366,721)</u>	\$ <u>(254,009)</u>	\$ <u>(370,149)</u>	\$ <u>(1,352,305)</u>	\$ <u>(1,228,174)</u>	\$ <u>8,846</u>	\$ <u>5,146,578</u>

# FLAGSTAFF COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

### 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, 2016

### 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.

#### (h) Pension Expenditure

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

**FLAGSTAFF COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**1. SIGNIFICANT ACCOUNTING POLICIES – Continued**

(h) Pension Expenditure - Continued

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.

(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.

**FLAGSTAFF COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**1. SIGNIFICANT ACCOUNTING POLICIES – Continued**

**(o) Requisition Over-levies and Under-levies – Continued**

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:

	<b>YEARS</b>
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, 2016

### 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 standards on how to account for and report all types of financial instruments including derivatives. This standard is effective for fiscal years beginning on or after April 1, 2019.

### 3. CASH AND SHORT TERM INVESTMENTS

	2016	2015
Cash	\$ <u>41,126,223</u>	\$ <u>30,846,388</u>

Included in cash are the following restricted amounts:

Restricted to cover trust liabilities	35,280	32,603
Received from Provincial grants and held exclusively for Capital projects (Note 8)	<u>10,627,928</u>	<u>2,354,836</u>
	\$ <u>10,663,208</u>	\$ <u>2,387,439</u>

### 4. TAXES RECEIVABLE

	2016	2015
Current	\$ 831,795	\$ 733,329
Arrears	628,823	236,587
Allowance for doubtful accounts	<u>(707,412)</u>	<u>(65,000)</u>
	\$ <u>753,206</u>	\$ <u>904,916</u>

During the year bad debts expense in the amount of \$632,077 has been recorded relating to management estimates of uncollectable taxes.

# FLAGSTAFF COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

### 5. NOTE RECEIVABLE

	2016	2015
Receivable regarding communications tower	\$ <u>167,275</u>	\$ <u>181,272</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

	2016	2015
Vision Credit Union - patronage shares	\$ 440,584	\$ 439,497
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	-
Sedgewick Co-operative - patronage equity	<u>21,599</u>	<u>21,599</u>
	\$ <u>470,476</u>	\$ <u>464,389</u>

### 7. TRUST FUNDS

The Flagstaff County administers the following trust:

	2016	2015
Community Reserve	\$ <u>35,280</u>	\$ <u>32,603</u>

### 8. DEFERRED REVENUE

	2016	2015
Historical Sites	\$ 1,473	\$ 1,473
Rescue Unit	119,476	107,978
Grazing program	-	5,516
Community Resource Officer	-	39,317
Donation for emergency equipment	10,000	-
Gas Tax Fund grant	685,323	-
Municipal Sustainability Initiative - Operating	-	277,898
Municipal Sustainability Initiative – Capital	7,939,976	5,950,251
Municipal Restructuring grant	<u>2,002,629</u>	<u>-</u>
	\$ <u>10,758,877</u>	\$ <u>6,382,433</u>

Funding in the amount of \$10,627,928 (2015 - \$5,950,251) 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 2017. Unexpended funds related to the advance are supported by cash of \$10,627,928 (2015 - \$2,354,836) and accounts receivable of \$NIL (2015 - \$3,595,415) held exclusively for these projects (Note 3).

**FLAGSTAFF COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2016**

**9. EMPLOYEE BENEFIT OBLIGATION**

	2016	2015
Early retirement incentive	\$ 65,569	\$ 65,569
Vacation	<u>310,535</u>	<u>294,712</u>
	<u>\$ 376,104</u>	<u>\$ 360,281</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.

**10. 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.

**11. GRAVEL ROYALTY PAYABLE**

	2016	2015
Gravel royalty payable	\$ <u>400,786</u>	\$ <u>400,641</u>

**12. CAPITAL LEASE OBLIGATION**

	2016	2015
Capital lease obligations	\$ <u>158,705</u>	\$ <u>28,947</u>

Principal repayments are due as follows:

	<b>Principal</b>
2017	\$ 48,115
2018	48,115
2019	30,983
2020	15,746
2021	<u>15,746</u>
	\$ <u>158,705</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.

# FLAGSTAFF COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

### 13. 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:

	2016	2015
Total debt limit	\$ 37,378,081	\$ 35,111,426
Total debt	<u>158,705</u>	<u>28,947</u>
Amount total debt limit unused	<u>37,219,376</u>	<u>35,082,479</u>
Service on debt limit	6,229,680	5,851,904
Service on debt	<u>48,115</u>	<u>13,260</u>
Amount service on debt limit unused	\$ <u>6,181,565</u>	\$ <u>5,838,644</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.

### 14. 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.

**FLAGSTAFF COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**14. FINANCIAL INSTRUMENTS - Continued**

**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, 2016

### 15. RESERVES

Reserves for operating and capital activities changed as follows:

		Reserves from Villages of Strome & Galahad				
	2015			Increases	Decreases	2016
<b>Operating reserves:</b>						
General	\$ 12,039,979	\$ -	\$ -	\$ -	\$ -	\$ 12,039,979
Mill rate stabilization	-	-	800,000	-	-	800,000
Administration	457,026	-	-	-	-	457,026
Special projects	2,009,929	-	-	-	107,000	1,902,929
Fire	30,000	-	-	-	-	30,000
Ambulance	25,723	-	-	-	-	25,723
Emergency road repair	40,000	-	-	-	-	40,000
Public works – gravel	1,927,868	-	-	-	443,915	1,483,953
Airport	107,887	-	-	-	-	107,887
Agriculture	495,769	-	15,000	-	-	510,769
Economic development	331,267	-	57,000	-	-	388,267
Recreation	631,661	-	-	-	202,000	429,661
Cemetery grants	56,166	-	-	-	17,500	38,666
Gas distribution	-	21,560	8,845	-	-	30,405
	<u>18,153,275</u>	<u>21,560</u>	<u>880,845</u>	<u>770,415</u>	<u>770,415</u>	<u>18,285,265</u>
<b>Capital reserves:</b>						
General equipment	1,797,912	-	-	-	-	1,797,912
Public works	5,458,379	-	224,000	-	-	5,682,379
Bridges	400,000	-	138,000	-	-	538,000
Shop/grader shed	2,362,875	-	-	-	-	2,362,875
Infrastructure	-	382,131	67,975	-	-	450,106
Fire	332,912	-	-	-	-	332,912
Office building	200,000	-	300,000	-	-	500,000
	<u>10,552,078</u>	<u>382,131</u>	<u>729,975</u>	<u>729,975</u>	<u>770,415</u>	<u>11,664,184</u>
<b>Total</b>	<b>\$ <u>28,705,353</u></b>	<b>\$ <u>403,691</u></b>	<b>\$ <u>1,610,820</u></b>	<b>\$ <u>770,415</u></b>	<b>\$ <u>770,415</u></b>	<b>\$ <u>29,949,449</u></b>

### 16. EQUITY IN TANGIBLE CAPITAL ASSETS

	2016	2015
Tangible capital assets (Schedule 2)	\$ 164,273,864	\$ 149,446,878
Accumulated amortization (Schedule 2)	(84,056,582)	(75,597,287)
Capital long term debt (Note 12)	(158,705)	(28,947)
	<u>\$ 80,058,577</u>	<u>\$ 73,820,644</u>

# FLAGSTAFF COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

### 17. 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:

	2016			2015
	Salary(1)	Benefits Allowances(2&3)	Total	Total
Councillor Division 1	\$ 37,255	\$ 4,804	\$ 42,059	\$ 41,693
Councillor Division 2	40,981	5,352	46,333	47,097
Councillor Division 3	37,255	6,012	43,267	42,861
Councillor Division 4	37,255	6,012	43,267	42,861
Councillor Division 5	37,255	6,012	43,267	42,861
Councillor Division 6	37,255	6,012	43,267	42,861
Councillor Division 7	37,255	6,012	43,267	42,861
Chief Administrative Officer	176,971	33,503	210,474	207,593
Designated Officer (1 position)	\$ 132,249	\$ 28,515	\$ 160,764	\$ 154,174

- (1) Salary includes regular base pay, bonuses, overtime, lump sum payments, gross honoraria and any other direct cash remuneration.
- (2) 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.
- (3) 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.

### 18. 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 244,621 people and 426 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.

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 2016 were \$551,124 (2015 - \$526,526). Total current and past service contributions by the employees of the Flagstaff County to the Local Authorities Pension Plan in 2016 were \$508,631 (2015 - \$486,046).

At December 31, 2015 the Plan disclosed an actuarial deficiency of \$923 million.

# FLAGSTAFF COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

### 19. 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.

### 20. COMMITMENTS

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

Capital equipment	\$ 1,605,885
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Communication systems agreement to June 2016 at \$7,800 per annum.

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.

### 21. APPROVAL OF FINANCIAL STATEMENTS

Council and Management have approved these financial statements.

### 22. BUDGET AMOUNTS

Budget figures for the year ended December 31, 2016 were approved by Council on May 11, 2016 and are for information purposes. These amounts have not been audited.



# FLAGSTAFF COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

### 23. ACQUISITION OF VILLAGES

During the year the Villages of Strome and Galahad dissolved into the County.

	Village of Strome	Village of Galahad	Total
Accumulated surplus acquired:			
Unrestricted surplus	\$ 249,017	\$ (85,404)	\$ 163,613
Restricted surplus	142,905	260,785	403,690
Equity in TCA	<u>2,924,486</u>	<u>2,324,025</u>	<u>5,248,511</u>
Total	<u>3,316,408</u>	<u>2,499,406</u>	<u>5,815,814</u>
Net Financial assets and prepaid expenses:			
Net Financial assets acquired	391,922	174,058	565,980
Prepaid expenses acquired	<u>-</u>	<u>1,323</u>	<u>1,323</u>
Total	<u>391,922</u>	<u>175,381</u>	<u>567,303</u>
Tangible Capital Assets acquired:			
Cost	5,668,405	4,304,222	9,972,627
Accumulated amortization	<u>(2,743,919)</u>	<u>(1,980,197)</u>	<u>(4,724,116)</u>
Net book value	\$ <u>2,924,486</u>	\$ <u>2,324,025</u>	\$ <u>5,248,511</u>