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FLAGSTAFF COUNTY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

FLAGSTAFF COUNTY
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2018

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INDEPENDENT AUDITORS' REPORT

TO: The Members
Flagstaff County

Opinion

We have audited the financial statements of Flagstaff County, which comprise the statement of financial position as at December 31, 2018 and the statements of operations, changes in net financial assets (debt) and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the county as at December 31, 2018, the results of its operations, change in accumulated surplus and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the county in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the ability of the county 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 county's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are 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 auditors' report that includes our 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, we exercise professional judgment and maintain professional skepticism throughout the audit. We 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 our 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 controls.
- 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 purposes of expressing an opinion on the effectiveness of the county'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 county's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditors' report. However, future events or conditions may cause the county 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.

We 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 we identify during our audit.

Stettler, Alberta

April 10, 2019

Gitzel & Company
CHARTERED PROFESSIONAL ACCOUNTANTS

FLAGSTAFF COUNTY

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2018

	2018	2017
FINANCIAL ASSETS		
Cash and short term investments (Note 3)	\$ 33,419,302	\$ 42,843,478
Taxes and grants in place of taxes receivable (Note 4)	1,146,515	916,452
Trade and other receivables	6,406,820	3,358,460
Note receivable (Note 5)	139,278	153,277
Inventory for resale	30,787	31,472
Long-term investments (Note 6)	<u>553,080</u>	<u>491,366</u>
	<u>41,695,782</u>	<u>47,794,505</u>
 LIABILITIES		
Accounts payable and accrued liabilities	807,314	1,398,521
Deposit liabilities	175,000	176,500
Employee future benefit obligation (Note 7)	418,797	456,050
Trust funds (Note 8)	55,481	54,642
Deferred revenue (Note 9)	7,455,417	8,275,253
Gravel reclamation liability (Note 10)	730,828	674,207
Capital lease obligation (Note 11)	60,946	109,825
Debenture term debt (Note 12)	<u>3,233,598</u>	<u>4,000,000</u>
	<u>12,937,381</u>	<u>15,144,998</u>
 NET FINANCIAL ASSETS (DEBT)	 <u>28,758,401</u>	 <u>32,649,507</u>
 NON-FINANCIAL ASSETS		
Tangible capital assets (Schedule 2)	88,133,229	84,885,704
Inventory of materials and supplies	22,326,908	15,541,825
Prepaid expenses	<u>298,651</u>	<u>458,308</u>
	<u>110,758,788</u>	<u>100,885,837</u>
 ACCUMULATED SURPLUS (Schedule 1)	 \$ <u>139,517,189</u>	 \$ <u>133,535,344</u>

Contingencies - See Note 19

APPROVED ON BEHALF OF THE COUNCIL:



FLAGSTAFF COUNTY

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2018

	Budget (Unaudited)	2018	2017
REVENUES			
Net municipal property taxes (Schedule 3)	\$ 22,146,168	\$ 22,062,334	\$ 21,291,436
Sales and user fees	836,060	1,060,438	968,375
Government transfers for operating (Schedule 4)	730,625	862,347	698,500
Investment income	192,500	512,522	338,807
Penalties and costs on taxes	200,000	328,421	300,417
Licenses and permits	29,000	68,466	115,816
Rentals	22,700	24,935	35,106
Gain on disposal of tangible capital assets	-	62,897	12,072
Fines and other	<u>118,050</u>	<u>167,684</u>	<u>182,485</u>
Total revenue	<u>24,275,103</u>	<u>25,150,044</u>	<u>23,943,014</u>
EXPENSES (Schedule 5)			
Legislative	416,450	395,364	411,612
Administration	3,154,875	3,176,841	2,770,902
Protective services	1,416,509	1,231,630	1,152,628
Public works and airport	13,998,920	13,729,293	13,244,919
Water and Waste management	806,261	811,328	719,779
Family, Community and Public Health	538,100	490,671	535,443
Ag services and development	1,920,788	1,790,738	1,671,377
Recreation, parks and culture	1,164,400	1,128,332	1,131,642
Gas production and distribution	15,960	40,744	88,530
Provision for uncollectable taxes	<u>500,000</u>	<u>795,640</u>	<u>277,006</u>
Total expenses	<u>23,932,263</u>	<u>23,590,581</u>	<u>22,003,838</u>
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES – BEFORE OTHER	342,840	1,559,463	1,939,176
OTHER			
Government transfers for capital (Schedule 4)	<u>5,392,783</u>	<u>4,422,382</u>	<u>5,459,352</u>
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES	\$ 5,735,623	5,981,845	7,398,528
ACCUMULATED SURPLUS – BEGINNING OF YEAR		133,535,344	126,136,816
ACCUMULATED SURPLUS – END OF YEAR		\$ <u>139,517,189</u>	\$ <u>133,535,344</u>

FLAGSTAFF COUNTY

STATEMENT OF CHANGES IN NET FINANCIAL ASSETS (DEBT)

FOR THE YEAR ENDED DECEMBER 31, 2018

	Budget (Unaudited)	2018	2017
EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES	\$ <u>5,735,623</u>	\$ <u>5,981,845</u>	\$ <u>7,398,528</u>
Acquisition of tangible capital assets	(10,580,578)	(8,772,364)	(9,877,572)
Proceeds on disposal of tangible capital assets	567,620	633,421	615,514
Amortization of tangible capital assets	4,530,000	4,838,025	4,585,239
Net (Gain) loss on sale of tangible capital assets	<u>-</u>	<u>53,392</u>	<u>8,397</u>
	<u>(5,482,958)</u>	<u>(3,247,526)</u>	<u>(4,668,422)</u>
Net use (acquisition) of supplies inventories	(498,903)	(6,785,082)	273,687
Net use (acquisition) of prepaid assets	<u>-</u>	<u>159,657</u>	<u>(274,457)</u>
	<u>(498,903)</u>	<u>(6,625,425)</u>	<u>(770)</u>
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	\$ (246,238)	(3,891,106)	2,729,336
NET FINANCIAL ASSETS (DEBT) - BEGINNING OF YEAR		<u>32,649,507</u>	<u>29,920,171</u>
NET FINANCIAL ASSETS (DEBT) - END OF YEAR		\$ <u>28,758,401</u>	\$ <u>32,649,507</u>

FLAGSTAFF COUNTY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
OPERATING ACTIVITIES		
Excess (shortfall) of revenues over expenses	\$ 5,981,845	\$ 7,398,528
Non-cash items included in excess (shortfall) of revenues over expenses:		
Amortization of tangible capital assets	4,838,025	4,585,239
Net (gain) loss on disposal of tangible capital assets	53,392	8,397
Non-cash changes to operations (net change):		
Taxes and receivables	(3,264,424)	(2,942,281)
Prepaid expenses	159,657	(274,457)
Inventory	(6,784,398)	283,331
Accounts payable and accrued liabilities	(629,960)	749,329
Trust funds	839	19,362
Deferred revenue	(819,836)	(2,483,624)
Gravel royalties payable	-	(400,786)
Gravel reclamation liability	56,621	106,045
Net cash provided by (used in) operating activities	<u>(408,239)</u>	<u>7,049,083</u>
CAPITAL ACTIVITIES		
Acquisition of tangible capital assets	(8,772,364)	(9,877,572)
Proceeds on sale of tangible capital assets	633,421	615,514
Cash applied to capital transactions	<u>(8,138,943)</u>	<u>(9,262,058)</u>
INVESTING ACTIVITIES		
Decrease (increase) in restricted cash or cash equivalents	4,111,061	5,329,473
Long term investments	(61,714)	(20,890)
Net cash provided by (used in) investing activities	<u>4,049,347</u>	<u>5,308,583</u>
FINANCING ACTIVITIES		
Issue of debenture debt	-	4,000,000
Repayment of debenture debt	(766,401)	-
Repayment of capital lease obligation	(48,879)	(48,880)
Net cash provided by (used in) financing activities	<u>(815,280)</u>	<u>3,951,120</u>
CHANGE IN CASH AND CASH EQUIVALENTS		
- DURING THE YEAR	(5,313,115)	7,046,728
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	37,509,743	30,463,015
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>32,196,628</u>	<u>37,509,743</u>
CASH AND CASH EQUIVALENTS IS MADE UP OF:		
Cash and short term investments (Note 3)	33,419,302	42,843,478
Less: Restricted portion of cash and short term investments (Note 3)	(1,222,674)	(5,333,735)
	<u>\$ 32,196,628</u>	<u>\$ 37,509,743</u>

FLAGSTAFF COUNTY

SCHEDULE 1 - CHANGES IN ACCUMULATED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 2018

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2018	2017
BALANCE - BEGINNING OF YEAR	\$ 17,744,491	\$ 31,014,974	\$ 84,775,879	\$ 133,535,344	\$ 126,136,816
Excess (deficiency) of revenues over expenses	5,981,845	-	-	5,981,845	7,398,528
Unrestricted funds designated for future use	(3,655,472)	3,655,472	-	-	-
Restricted funds used for operations	1,871,892	(1,871,892)	-	-	-
Restricted funds used for tangible capital assets	-	(633,421)	633,421	-	-
Current year funds used for tangible capital assets	(8,138,942)	-	8,138,942	-	-
Disposal of tangible capital assets	53,392	633,421	(686,813)	-	-
Annual amortization expense	4,838,025	-	(4,838,025)	-	-
Capital lease obligation repaid	<u>(48,879)</u>	<u>-</u>	<u>48,879</u>	<u>-</u>	<u>-</u>
Change in accumulated surplus	901,861	1,783,580	3,296,404	5,981,845	7,398,528
BALANCE - END OF YEAR	\$ 18,646,352	\$ 32,798,554	\$ 88,072,283	\$ 139,517,189	\$ 133,535,344

FLAGSTAFF COUNTY

SCHEDULE 2 – SCHEDULE OF TANGIBLE CAPITAL ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2018

	Land and Improvements	Buildings	Engineered Structures	Machinery and Equipment	Vehicles	2018	2017
COST:							
BALANCE - BEGINNING OF YEAR	\$ 1,612,386	\$ 14,640,329	\$ 134,093,707	\$ 17,378,165	\$ 4,864,291	\$ 172,588,878	\$ 164,273,864
Acquisition of tangible capital assets	187,548	5,380,094	806,320	2,256,102	142,300	8,772,364	9,877,572
Disposal of tangible capital assets	-	-	(132,874)	(1,306,522)	(53,795)	(1,493,191)	(1,562,558)
BALANCE - END OF YEAR	<u>1,799,934</u>	<u>20,020,423</u>	<u>134,767,153</u>	<u>18,327,745</u>	<u>4,952,796</u>	<u>179,868,051</u>	<u>172,588,878</u>
ACCUMULATED AMORTIZATION:							
BALANCE - BEGINNING OF YEAR	181,996	3,632,619	74,126,699	6,854,295	2,907,565	87,703,174	84,056,582
Annual amortization	18,987	273,939	2,663,299	1,597,624	284,176	4,838,025	4,585,239
Accumulated amortization on disposals	-	-	(108,088)	(644,494)	(53,795)	(806,377)	(938,647)
BALANCE - END OF YEAR	<u>200,983</u>	<u>3,906,558</u>	<u>76,681,910</u>	<u>7,807,425</u>	<u>3,137,946</u>	<u>91,734,822</u>	<u>87,703,174</u>
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	<u>1,598,951</u>	<u>16,113,865</u>	<u>58,085,243</u>	<u>10,520,320</u>	<u>1,814,850</u>	<u>88,133,229</u>	<u>\$ 84,885,704</u>
2019 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>	

FLAGSTAFF COUNTY

SCHEDULE 3 – PROPERTY AND OTHER TAXES

FOR THE YEAR ENDED DECEMBER 31, 2018

	Budget (Unaudited)	2018	2017
TAXATION			
Real property taxes	\$ 14,571,504	\$ 14,517,841	\$ 13,646,079
Linear property taxes	11,601,855	11,556,645	11,791,454
Government grants in place of property taxes	<u>250</u>	<u>249</u>	<u>211</u>
	<u>26,173,609</u>	<u>26,074,735</u>	<u>25,437,744</u>
REQUISITIONS			
Flagstaff Foundation	227,894	227,894	229,506
Alberta Education Funds	<u>3,799,547</u>	<u>3,784,507</u>	<u>3,916,802</u>
	<u>4,027,441</u>	<u>4,012,401</u>	<u>4,146,308</u>
NET MUNICIPAL PROPERTY TAXES	<u>\$ 22,146,168</u>	<u>\$ 22,062,334</u>	<u>\$ 21,291,436</u>

SCHEDULE 4 – GOVERNMENT TRANSFERS

FOR THE YEAR ENDED DECEMBER 31, 2018

	Budget (Unaudited)	2018	2017
TRANSFERS FOR OPERATING:			
Provincial government	\$ 726,125	\$ 856,339	\$ 687,691
Other local government	<u>4,500</u>	<u>6,008</u>	<u>10,809</u>
	<u>730,625</u>	<u>862,347</u>	<u>698,500</u>
TRANSFERS FOR CAPITAL			
Provincial government	5,392,783	4,422,382	5,459,352
Federal government	<u>-</u>	<u>-</u>	<u>-</u>
	<u>5,392,783</u>	<u>4,422,382</u>	<u>5,459,352</u>
TOTAL GOVERNMENT TRANSFERS	<u>\$ 6,123,408</u>	<u>\$ 5,284,729</u>	<u>\$ 6,157,852</u>

FLAGSTAFF COUNTY

SCHEDULE 5 –EXPENSES BY OBJECT

FOR THE YEAR ENDED DECEMBER 31, 2018

	Budget (Unaudited)	2018	2017
EXPENSES BY OBJECT			
Salaries, wages and benefits	\$ 8,025,820	\$ 7,548,642	\$ 7,551,655
Contracted and general services	3,416,395	3,181,668	2,780,774
Materials, goods, supplies and utilities	5,411,360	5,206,040	4,899,797
Provision for (recovery of) allowances	500,500	795,640	282,170
Transfers to other governments, local boards and individuals	1,870,541	1,825,443	1,879,339
Bank charges and short-term interest	1,000	1,283	653
Interest on long-term debt	81,300	77,551	3,742
Amortization of tangible capital assets	4,625,347	4,838,025	4,585,239
Loss on disposal of tangible capital assets	<u>-</u>	<u>116,289</u>	<u>20,469</u>
	\$ <u>23,932,263</u>	\$ <u>23,590,581</u>	\$ <u>22,003,838</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	Gas Distribution	Total
REVENUE									
Net municipal taxes	\$ 22,062,334	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,062,334
Sales and user fees	92,738	111,260	375,194	359,181	-	68,466	39,206	14,393	1,060,438
Government transfers	7,805	11,008	4,327,854	384,711	289,084	264,267	-	-	5,284,729
Investment income	512,522	-	-	-	-	-	-	-	512,522
Other revenues	442,943	108,853	9,036	-	-	27,674	-	-	589,506
	<u>23,118,342</u>	<u>231,121</u>	<u>4,712,084</u>	<u>743,892</u>	<u>289,084</u>	<u>361,407</u>	<u>39,206</u>	<u>14,393</u>	<u>29,509,529</u>
EXPENSES									
Salaries, wages and benefits	1,593,395	497,638	4,393,531	74,205	-	902,884	86,989	-	7,548,642
Contract and general services	1,403,619	509,941	584,826	109,500	23,334	507,318	39,380	3,750	3,181,668
Materials, goods, supplies and Utilities	138,567	99,068	4,626,337	38,886	-	252,961	38,013	12,208	5,206,040
Transfers	-	-	-	463,660	467,337	13,167	881,279	-	1,825,443
Provision for allowances	795,640	-	-	-	-	-	-	-	795,640
Other expenses	1,283	-	77,551	-	-	-	-	-	78,834
	<u>3,932,504</u>	<u>1,106,647</u>	<u>9,682,245</u>	<u>686,251</u>	<u>490,671</u>	<u>1,676,330</u>	<u>1,045,661</u>	<u>15,958</u>	<u>18,636,267</u>
NET REVENUE, BEFORE AMORTIZATION & GAINS OR LOSSES	19,185,838	(875,526)	(4,970,161)	57,641	(201,587)	(1,314,923)	(1,006,455)	(1,565)	10,873,262
Gain on disposal of capital assets	-	25,287	36,760	-	-	850	-	-	62,897
(Loss) on disposal of capital assets	(1,000)	-	(86,605)	-	-	(3,898)	-	(24,786)	(116,289)
Amortization expense	(434,340)	(124,983)	(3,960,443)	(125,076)	-	(110,511)	(82,672)	-	(4,838,025)
EXCESS OF REVENUE OR EXPENSES	\$ 18,750,498	\$ (975,222)	\$ (8,980,449)	\$ (67,435)	\$ (201,587)	\$ (1,428,482)	\$ (1,089,127)	\$ (26,351)	\$ 5,981,845

FLAGSTAFF COUNTY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

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, 2018

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, 2018

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, 2018

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, 2018

2. 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. Management is currently evaluating the effect of adopting these standards on the financial statements.

(a) Section PS 1201 - Financial Statement Presentation

This section provides guidance on general reporting principles and disclosure of information in financial statements. Effective April 1, 2021.

(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. Effective April 1, 2021.

(c) Section PS 3041 - Portfolio Investments

This section establishes standards on how to account for and report portfolio investments in government financial statements. Effective April 1, 2021.

(d) Section PS 3450 – Financial Instruments

This section establishes guidance on the recognition, measurement and disclosure requirements for financial instruments. Effective April 1, 2021.

(e) Section PS 3280 – Asset Retirement Obligations

This section establishes standards on how to account for a liability for retirement of a tangible capital asset and will apply in years beginning on or after April 1, 2021.

(f) Section PS 3430 – Restructuring Transactions

This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities. Effective for fiscal periods beginning on or after April 1, 2018

(g) Section PS 3400 – Revenue (effective April 1, 2022)

Effective April 1, 2022, this new section establishes standards on how to account for and report on revenue. Specifically, it differentiates between revenue arising from transactions that include performance obligations and transactions that do not have performance obligations.

3. CASH AND SHORT TERM INVESTMENTS

	2018	2017
Cash	\$ <u>33,419,302</u>	\$ <u>42,843,478</u>
Included in cash are the following restricted amounts:		
Restricted to cover trust liabilities	55,481	54,642
Received from Provincial grants and held exclusively for Capital projects (Note 9)	<u>1,167,193</u>	<u>5,279,093</u>
	\$ <u>1,222,674</u>	\$ <u>5,333,735</u>

FLAGSTAFF COUNTY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

4. TAXES RECEIVABLE

	2018	2017
Current	\$ 1,528,773	\$ 751,433
Arrears	569,492	315,019
Allowance for doubtful accounts	<u>(951,750)</u>	<u>(150,000)</u>
	<u>\$ 1,146,515</u>	<u>\$ 916,452</u>

During the year bad debts expense in the amount of \$795,640 has been recorded relating to management estimates of uncollectable taxes.

5. NOTE RECEIVABLE

	2018	2017
Receivable regarding communications tower	\$ <u>139,278</u>	\$ <u>153,277</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

	2018	2017
Vision Credit Union - patronage shares	\$ 513,827	\$ 461,474
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>30,960</u>	<u>21,599</u>
	<u>\$ 553,080</u>	<u>\$ 491,366</u>

7. EMPLOYEE BENEFIT OBLIGATION

	2018	2017
Long term incentive program	\$ 83,586	\$ 114,227
Vacation	<u>335,211</u>	<u>341,823</u>
	<u>\$ 418,797</u>	<u>\$ 456,050</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, 2018

8. TRUST FUNDS

The Flagstaff County administers the following trust:

	2018	2017
Community Reserve	\$ <u>55,481</u>	\$ <u>54,642</u>

9. DEFERRED REVENUE

	2018	2017
Historical Sites	\$ 1,473	\$ 1,473
Rescue Unit	167,623	147,909
Donation for emergency equipment	1,717	17,200
Economic development grant	68,125	-
Alternative land use	569	-
Gas Tax Fund grant	800,659	510,215
Municipal Sustainability Initiative - Operating	-	46,546
Municipal Sustainability Initiative – Capital	<u>6,415,251</u>	<u>7,551,910</u>
	\$ <u>7,455,417</u>	\$ <u>8,275,253</u>

Funding in the amount of \$7,215,910 (2017 - \$8,062,125) 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 \$1,167,193 (2017 - \$5,279,093) and accounts receivable of \$6,048,717 (2017 – \$2,783,032) held exclusively for these projects (Note3).

10. GRAVEL RECLAMATION LIABILITY

The accrued liability has been estimated for the closure and post-closure of gravel sites. This cost has been allocated over the usable tons of gravel at these sites and is being accrued at rates of \$0.75 to \$1.50 per tonne and is reduced by reclamation work performed during the year.

11. CAPITAL LEASE OBLIGATION

	2018	2017
Capital lease obligations	\$ <u>60,946</u>	\$ <u>109,825</u>

Principal repayments are due as follows:

Principal	
2019	29,455
2020	15,746
2021	<u>15,745</u>
	\$ <u>60,946</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 \$113,544.

FLAGSTAFF COUNTY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

12. DEBENTURE TERM DEBT

	2018	2017
Debentures held for gravel purchases	\$ <u>3,233,598</u>	\$ <u>4,000,000</u>

Principal and interest repayments are due as follows:

	Principal	Interest	Total
2019	\$ 782,845	\$ 64,851	\$ 847,696
2020	799,640	48,056	847,696
2021	816,795	30,900	847,695
2022	<u>834,318</u>	<u>13,376</u>	<u>847,694</u>
	\$ <u>3,233,598</u>	\$ <u>157,183</u>	\$ <u>3,390,781</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 2018. Debenture debt is issued on the credit and security of the municipality.

Interest on debenture term debt amounted to \$77,551 (2017 - \$ 3,742).

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:

	2018	2017
Total debt limit	\$ 37,725,066	\$ 35,914,521
Total debt	<u>3,294,544</u>	<u>4,109,825</u>
Amount total debt limit unused	<u>34,430,522</u>	<u>31,804,696</u>
Service on debt limit	6,287,511	5,985,754
Service on debt	<u>877,151</u>	<u>896,575</u>
Amount service on debt limit unused	\$ <u>5,410,360</u>	\$ <u>5,089,179</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, 2018

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.

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, 2018

15. RESERVES

Reserves for operating and capital activities changed as follows:

	2017	Increases	Decreases	2018
Operating reserves:				
General	\$ 12,299,979	\$ 320,000	\$ -	\$ 12,619,979
Mill rate stabilization	1,445,400	400,000	-	1,845,400
Administration	745,726	220,000	(150,000)	815,726
Special projects	1,921,529	96,723	(37,770)	1,980,482
Fire	130,000	86,000	-	216,000
Ambulance	25,723	-	(25,723)	-
Public Works Projects	40,000	353,000	-	393,000
Public Works (Gravel)	1,483,953	176,800	-	1,660,753
Airport	107,887	-	(19,200)	88,687
Hamlet Water and Sewer	-	37,905	-	37,905
Agriculture	472,269	-	-	472,269
Economic Development	508,267	84,000	-	592,267
Recreation / Parks	429,661	-	-	429,661
Cemetery Grants	18,736	35,000	-	53,736
Gas distribution (Galahad)	30,405	-	(30,405)	-
	<u>19,659,535</u>	<u>1,809,428</u>	<u>(263,098)</u>	<u>21,205,865</u>
Capital reserves:				
General equipment	1,797,912	-	-	1,767,912
Office Building	500,000	-	-	500,000
Fire Capital	332,912	-	-	332,912
Public works	5,283,284	1,364,045	(34,000)	6,613,329
Bridges	538,000	-	(4,800)	533,200
Shop/grader shed	2,362,875	376,834	(1,569,994)	1,169,715
Infrastructure Reserve (Hamlets)	540,456	105,165	-	645,621
	<u>11,355,439</u>	<u>1,846,044</u>	<u>(1,608,794)</u>	<u>11,592,689</u>
Total	<u>\$ 31,014,974</u>	<u>\$ 3,655,472</u>	<u>\$ (1,871,892)</u>	<u>\$ 32,798,554</u>

16. EQUITY IN TANGIBLE CAPITAL ASSETS

	2018	2017
Tangible capital assets (Schedule 2)	\$ 179,868,051	\$ 172,588,878
Accumulated amortization (Schedule 2)	(91,734,822)	(87,703,174)
Capital long term debt (Note 11)	(60,946)	(109,825)
	<u>\$ 88,072,283</u>	<u>\$ 84,775,879</u>

FLAGSTAFF COUNTY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

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:

	2018			2017
	Salary(1)	Benefits Allowances(2&3)	Total	Total
Councillor Division 1	\$ 38,219	\$ 3,809	\$ 42,028	\$ 42,317
Councillor Division 2	-	-	-	38,632
Councillor Division 2	38,219	5,424	43,643	8,382
Councillor Division 3	-	-	-	36,141
Councillor Division 3	38,219	5,424	43,643	8,382
Councillor Division 4	-	-	-	36,144
Councillor Division 4	38,219	4,140	42,359	8,147
Councillor Division 5	-	-	-	36,144
Councillor Division 5	42,040	5,967	48,007	9,224
Councillor Division 6	-	-	-	36,144
Councillor Division 6	38,219	5,424	43,643	8,382
Councillor Division 7	-	-	-	36,144
Councillor Division 7	38,219	5,424	43,643	8,382
Chief Administrative Officer	196,524	32,061	228,585	224,186
Designated Officer (1 position)	\$ 137,587	\$ 27,907	\$ 165,494	\$ 161,342

- (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 2017 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.

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 259,714 people and 420 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, 2018

18. LOCAL AUTHORITIES PENSION PLAN - Continued

The Flagstaff County is required to make current service contributions to the Plan of 10.39% of pensionable earnings up to the CPP maximum reasonable earnings and 14.84% of any excess earnings. Employees of the Flagstaff County are required to make current service contributions of 9.39% of pensionable salary up to the year's maximum pensionable salary and 13.84% on pensionable salary above this amount.

Total current and past service contributions by the Flagstaff County to the Local Authorities Pension Plan in 2018 were \$534,698 (2017 - \$555,522). Total current and past service contributions by the employees of the Flagstaff County to the Local Authorities Pension Plan in 2018 were \$490,680 (2017 - \$515,559).

At December 31, 2017 the Plan disclosed an actuarial surplus of \$4.835 billion (2016 - a deficiency of \$637 million).

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	\$	1,950,600
Gravel products	\$	1,322,900
Computer services contract	\$	80,350
Assessment, Engineering and maintenance contracts	\$	113,313

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 County 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 County 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, 2018

21. APPROVAL OF FINANCIAL STATEMENTS

Council and Management have approved these financial statements.

22. BUDGET AMOUNTS

Budget figures for the year ended December 31, 2018 were approved by Council on May 9, 2018 and are for information purposes. These amounts have not been audited.