



*Peggy Weinzierl, CPA, CA *Scott St. Arnaud, CPA, CA *Jolene P. Kobi, CPA, CA *Justin J. Tanner, CPA, CA
*Eric A. Peterson, CPA, CA (Associate) *Robert J. Krejci, CA (Associate) *Barry D. Gitzel, CPA, CA (Associate)

FLAGSTAFF COUNTY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

FLAGSTAFF COUNTY
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2015

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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, 2015, 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, 2015, 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 23, 2016

Gitzel & Company
CHARTERED PROFESSIONAL ACCOUNTANTS

FLAGSTAFF COUNTY

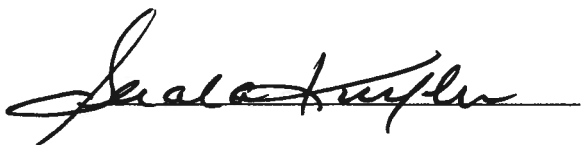
STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2015

	2015	2014
FINANCIAL ASSETS		
Cash and short term investments (Note 3)	\$ 30,846,388	\$ 26,373,942
Taxes and grants in place of taxes receivable (Note 4)	904,916	663,052
Trade and other receivables	3,945,807	3,026,895
Note receivable (Note 5)	181,272	195,270
Long-term investments (Note 6)	<u>464,389</u>	<u>451,481</u>
	<u>36,342,772</u>	<u>30,710,640</u>
LIABILITIES		
Accounts payable and accrued liabilities	730,267	1,266,784
Deposit liabilities	201,500	226,500
Employee benefit obligation (Note 9)	360,281	301,882
Trust funds (Note 7)	32,603	20,534
Deferred revenue (Note 8)	6,382,433	3,857,595
Gravel royalties payable (Note 11)	400,641	702,603
Gravel reclamation liability (Note 10)	670,531	469,814
Capital lease obligation (Note 12)	<u>28,947</u>	<u>47,566</u>
	<u>8,807,203</u>	<u>6,893,278</u>
NET FINANCIAL ASSETS (DEBT)	<u>27,535,569</u>	<u>23,817,362</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (Schedule 2)	73,849,591	75,322,991
Inventory of materials and supplies	13,553,993	12,073,279
Prepaid expenses	<u>235,271</u>	<u>153,663</u>
	<u>87,638,855</u>	<u>87,549,933</u>
ACCUMULATED SURPLUS (Schedule 1)	<u>\$ 115,174,424</u>	<u>\$ 111,367,295</u>

Contingencies - See Note 19

APPROVED ON BEHALF OF THE COUNCIL:



FLAGSTAFF COUNTY

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2015

	Budget (Unaudited)	2015	2014
REVENUES			
Net municipal property taxes (Schedule 3)	\$ 20,830,285	\$ 20,791,429	\$ 19,781,438
Sales and user fees	917,740	1,134,529	1,233,399
Government transfers for operating (Schedule 4)	710,350	805,072	599,420
Investment income	202,500	228,503	258,014
Penalties and costs on taxes	140,000	194,421	273,926
Licenses and permits	65,000	53,630	77,583
Rentals	59,600	63,592	44,698
Gain on disposal of tangible capital assets	-	19,767	43,262
Fines and other	<u>69,600</u>	<u>116,674</u>	<u>29,670</u>
Total revenue	<u>22,995,075</u>	<u>23,407,617</u>	<u>22,341,410</u>
EXPENSES (Schedule 5)			
Legislative	380,385	365,265	348,532
Administration	2,955,580	2,762,424	2,491,838
Protective services	1,090,817	918,766	933,913
Public works and airport	12,801,070	11,987,724	11,609,242
Water and Waste management	429,450	427,284	482,053
Family, Community and Public Health	522,530	483,540	432,160
Ag services and development	1,845,450	1,644,474	1,316,833
Recreation, parks and culture	1,134,750	1,045,512	1,071,543
Provision for uncollectable taxes	<u>250,000</u>	<u>133,326</u>	<u>647,038</u>
Total expenses	<u>21,410,032</u>	<u>19,768,315</u>	<u>19,333,152</u>
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES – BEFORE OTHER	1,585,043	3,639,302	3,008,258
OTHER			
Government transfers for capital (Schedule 4)	<u>1,481,962</u>	<u>167,827</u>	<u>817,271</u>
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSES	\$ 3,067,005	3,807,129	3,825,529
ACCUMULATED SURPLUS – BEGINNING OF YEAR		<u>111,367,295</u>	<u>107,541,766</u>
ACCUMULATED SURPLUS – END OF YEAR		\$ <u>115,174,424</u>	\$ <u>111,367,295</u>

FLAGSTAFF COUNTY

STATEMENT OF CHANGES IN NET FINANCIAL ASSETS (DEBT)

FOR THE YEAR ENDED DECEMBER 31, 2015

	Budget (Unaudited)	2015	2014
EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES	\$ <u>3,067,005</u>	\$ <u>3,807,129</u>	\$ <u>3,825,529</u>
Acquisition of tangible capital assets	(4,420,834)	(3,264,405)	(5,816,018)
Proceeds on disposal of tangible capital assets	637,000	666,393	747,915
Amortization of tangible capital assets	4,033,000	3,939,597	3,891,314
Net (Gain) loss on sale of tangible capital assets	<u>-</u>	<u>131,816</u>	<u>(43,262)</u>
	<u>249,166</u>	<u>1,473,401</u>	<u>(1,220,051)</u>
Net use (acquisition) of supplies inventories	(1,300,883)	(1,480,715)	(946,293)
Net use (acquisition) of prepaid assets	<u>-</u>	<u>(81,608)</u>	<u>(157)</u>
	<u>(1,300,883)</u>	<u>(1,562,323)</u>	<u>(946,450)</u>
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	\$ 2,015,288	3,718,207	1,659,028
NET FINANCIAL ASSETS (DEBT) BEGINNING OF YEAR		<u>23,817,362</u>	<u>22,158,334</u>
NET FINANCIAL ASSETS (DEBT) - END OF YEAR		\$ <u><u>27,535,569</u></u>	\$ <u><u>23,817,362</u></u>

FLAGSTAFF COUNTY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2015

	2015	Restated 2014
OPERATING ACTIVITIES		
Excess (shortfall) of revenues over expenses	\$ 3,807,129	\$ 3,825,529
Non-cash items included in excess (shortfall) of revenues over expenses:		
Amortization of tangible capital assets	3,939,597	3,891,314
Net (gain) loss on disposal of tangible capital assets	131,816	(43,262)
Non-cash changes to operations (net change):		
Taxes and trade receivables	(1,146,778)	(1,289,622)
Prepaid expenses	(81,608)	(157)
Inventory	(1,480,715)	(946,293)
Accounts payable and accrued liabilities	(503,118)	355,200
Trust funds	12,069	1,661
Deferred revenue	2,524,838	1,670,289
Gravel royalties payable	(301,962)	(233,535)
Gravel reclamation liability	<u>200,717</u>	<u>(49,110)</u>
Net cash provided by (used in) operating activities	<u>7,101,985</u>	<u>7,182,014</u>
CAPITAL ACTIVITIES		
Acquisition of tangible capital assets	(3,264,405)	(5,816,018)
Proceeds on sale of tangible capital assets	<u>666,393</u>	<u>747,915</u>
Cash applied to capital transactions	<u>(2,598,012)</u>	<u>(5,068,103)</u>
INVESTING ACTIVITIES		
Decrease (increase) in restricted cash or cash equivalents	(1,148,271)	805,481
Long term investments	<u>(12,908)</u>	<u>(6,781)</u>
Net cash provided by (used in) investing activities	<u>(1,161,179)</u>	<u>798,700</u>
FINANCING ACTIVITIES		
Capital lease obligation repaid	<u>(18,619)</u>	<u>(17,734)</u>
Net cash provided by (used in) financing activities	<u>(18,619)</u>	<u>(17,734)</u>
CHANGE IN CASH AND CASH EQUIVALENTS - DURING THE YEAR	3,324,175	2,894,877
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>25,134,774</u>	<u>22,239,897</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>28,458,949</u>	<u>25,134,774</u>
CASH AND CASH EQUIVALENTS IS MADE UP OF:		
Cash and short term investments (Note 3)	30,846,388	26,373,942
Less: Restricted portion of cash and short term investments (Note 3)	<u>(2,387,439)</u>	<u>(1,239,168)</u>
	<u>\$ 28,458,949</u>	<u>\$ 25,134,774</u>

FLAGSTAFF COUNTY

SCHEDULE 1 - CHANGES IN ACCUMULATED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 2015

	Unrestricted Surplus	Restricted Surplus	Equity in Tangible Capital Assets	2015	2014
BALANCE - BEGINNING OF YEAR	\$ 11,193,990	\$ 24,897,880	\$ 75,275,425	\$ 111,367,295	\$ 107,541,766
Excess (deficiency) of revenues over expenses	3,807,129	-	-	3,807,129	3,825,529
Unrestricted funds designated for future use	(3,977,586)	3,977,586	-	-	-
Restricted funds used for operations	170,113	(170,113)	-	-	-
Restricted funds used for tangible capital assets	-	(666,393)	666,393	-	-
Current year funds used for tangible capital assets	(2,598,013)	-	2,598,013	-	-
Disposal of tangible capital assets	131,816	666,393	(798,209)	-	-
Annual amortization expense	3,939,597	-	(3,939,597)	-	-
Capital lease obligation issued	-	-	-	-	-
Capital lease obligation repaid	(18,619)	-	18,619	-	-
Change in accumulated surplus	<u>1,454,437</u>	<u>3,807,473</u>	<u>(1,454,781)</u>	<u>3,807,129</u>	<u>3,825,529</u>
BALANCE - END OF YEAR	<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>

FLAGSTAFF COUNTY

SCHEDULE 2 – SCHEDULE OF TANGIBLE CAPITAL ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2015

	Land and Improvements	Buildings	Engineered Structures	Machinery and Equipment	Vehicles	2015	2014
COST:							
BALANCE - BEGINNING OF YEAR	\$ 906,778	\$ 9,125,091	\$ 119,170,944	\$ 14,592,629	\$ 4,261,218	\$ 148,056,660	\$ 143,952,497
Acquisition of tangible capital assets	20,739	148,775	431,560	2,316,147	347,184	3,264,405	5,816,018
Disposal of tangible capital assets	-	-	(203,510)	(1,495,221)	(175,456)	(1,874,187)	(1,711,855)
BALANCE - END OF YEAR	<u>927,517</u>	<u>9,273,866</u>	<u>119,398,994</u>	<u>15,413,555</u>	<u>4,432,946</u>	<u>149,446,878</u>	<u>148,056,660</u>
ACCUMULATED AMORTIZATION:							
BALANCE - BEGINNING OF YEAR	10,817	1,278,584	64,495,510	4,508,350	2,440,408	72,733,669	69,849,557
Annual amortization	9,596	200,403	2,324,060	1,159,920	245,618	3,939,597	3,891,314
Accumulated amortization on disposals	-	-	(125,894)	(784,629)	(165,456)	(1,075,979)	(1,007,202)
BALANCE - END OF YEAR	<u>20,413</u>	<u>1,478,987</u>	<u>66,693,676</u>	<u>4,883,641</u>	<u>2,520,570</u>	<u>75,597,287</u>	<u>72,733,669</u>
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>	<u>75,322,991</u>
2014 NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	\$ <u>895,961</u>	\$ <u>7,846,507</u>	\$ <u>54,675,434</u>	\$ <u>10,084,279</u>	\$ <u>1,820,810</u>	\$ <u>75,322,991</u>	

FLAGSTAFF COUNTY

SCHEDULE 3 – PROPERTY AND OTHER TAXES

FOR THE YEAR ENDED DECEMBER 31, 2015

	Budget (Unaudited)	2015	2014
TAXATION			
Real property taxes	\$ 11,265,848	\$ 11,235,543	\$ 10,683,449
Linear property taxes	13,755,400	13,755,386	13,197,775
Government grants in place of property taxes	<u>1,775</u>	<u>203</u>	<u>2,823</u>
	<u>25,023,023</u>	<u>24,991,132</u>	<u>23,884,047</u>
REQUISITIONS			
Flagstaff Foundation	340,500	340,457	341,671
Alberta Education Funds	<u>3,852,238</u>	<u>3,859,246</u>	<u>3,760,938</u>
	<u>4,192,738</u>	<u>4,199,703</u>	<u>4,102,609</u>
NET MUNICIPAL PROPERTY TAXES	\$ <u>20,830,285</u>	\$ <u>20,791,429</u>	\$ <u>19,781,438</u>

SCHEDULE 4 – GOVERNMENT TRANSFERS

FOR THE YEAR ENDED DECEMBER 31, 2015

	Budget (Unaudited)	2015	2014
TRANSFERS FOR OPERATING:			
Provincial government	\$ 697,350	\$ 786,723	\$ 586,904
Other local government	<u>13,000</u>	<u>18,349</u>	<u>12,516</u>
	<u>710,350</u>	<u>805,072</u>	<u>599,420</u>
TRANSFERS FOR CAPITAL			
Provincial government	1,481,962	147,827	817,271
Federal government	<u>-</u>	<u>20,000</u>	<u>-</u>
	<u>1,481,962</u>	<u>167,827</u>	<u>817,271</u>
TOTAL GOVERNMENT TRANSFERS	\$ <u>2,192,312</u>	\$ <u>972,899</u>	\$ <u>1,416,691</u>

FLAGSTAFF COUNTY

SCHEDULE 5 –EXPENSES BY OBJECT

FOR THE YEAR ENDED DECEMBER 31, 2015

	Budget (Unaudited)	2015	2014
EXPENSES BY OBJECT			
Salaries, wages and benefits	\$ 7,679,045	\$ 7,127,661	\$ 6,995,044
Contracted and general services	3,098,607	2,606,964	2,322,649
Materials, goods, supplies and utilities	4,614,050	4,085,268	4,021,020
Provision for (recovery of) allowances	252,200	133,415	649,272
Transfers to other governments, local boards and individuals	1,731,830	1,722,646	1,451,790
Bank charges and short-term interest	500	348	345
Interest on long-term debt	800	833	1,718
Amortization of tangible capital assets	4,033,000	3,939,597	3,891,314
Loss on disposal of tangible capital assets	-	151,583	-
	<u>\$ 21,410,032</u>	<u>\$ 19,768,315</u>	<u>\$ 19,333,152</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
REVENUE								
Net municipal taxes	\$ 20,791,429	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,791,429
Sales and user fees	227,884	173,679	620,880	-	-	81,027	31,059	1,134,529
Government transfers	50,000	18,349	420,850	-	258,970	224,730	-	972,899
Investment income	228,503	-	-	-	-	-	-	228,503
Other revenues	310,302	50,920	-	-	1,700	65,395	-	428,317
	<u>21,608,118</u>	<u>242,948</u>	<u>1,041,730</u>	<u>-</u>	<u>260,670</u>	<u>371,152</u>	<u>31,059</u>	<u>23,555,677</u>
EXPENSES								
Salaries, wages and benefits	1,564,401	375,067	4,228,137	-	-	890,899	69,157	7,127,661
Contract and general services	1,130,509	373,243	619,020	-	77,036	382,676	24,480	2,606,964
Materials, goods, supplies and								
Utilities	143,053	72,539	3,583,304	-	3,298	256,586	26,488	4,085,268
Transfers	-	19,464	-	384,828	399,549	14,744	904,061	1,722,646
Provision for allowances	133,326	89	-	-	-	-	-	133,415
Other expenses	1,181	-	-	-	-	-	-	1,181
	<u>2,972,470</u>	<u>840,402</u>	<u>8,430,461</u>	<u>384,828</u>	<u>479,883</u>	<u>1,544,905</u>	<u>1,024,186</u>	<u>15,677,135</u>
NET REVENUE, BEFORE AMORTIZATION & GAINS OR LOSSES	18,635,648	(597,454)	(7,388,731)	(384,828)	(219,213)	(1,173,753)	(993,127)	7,878,542
Gain on disposal of capital assets	-	-	14,200	-	-	5,567	-	19,767
(Loss) on disposal of capital assets	(16,922)	-	(126,257)	-	-	(8,404)	-	(151,583)
Amortization expense	(271,623)	(78,364)	(3,431,006)	(42,456)	(3,657)	(91,165)	(21,326)	(3,939,597)
EXCESS OF REVENUE OVER EXPENSES	<u>\$ 18,347,103</u>	<u>\$ (675,818)</u>	<u>\$ (10,931,794)</u>	<u>\$ (427,284)</u>	<u>\$ (222,870)</u>	<u>\$ (1,267,755)</u>	<u>\$ (1,014,453)</u>	<u>\$ 3,807,129</u>

FLAGSTAFF COUNTY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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, 2015

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, 2015

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, 2015

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:

	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, 2015

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 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 2016 fiscal year.

(b) 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 the 2016 fiscal year.

3. CASH AND SHORT TERM INVESTMENTS

	2015	2014
Cash	\$ <u>30,846,388</u>	\$ <u>26,373,942</u>

Included in cash are the following restricted amounts:

Restricted to cover trust liabilities	32,603	20,534
Received from Provincial grants and held exclusively for Capital projects (Note 8)	<u>2,354,836</u>	<u>1,218,634</u>
	\$ <u>2,387,439</u>	\$ <u>1,239,168</u>

4. TAXES RECEIVABLE

	2015	2014
Current	\$ 733,329	\$ 637,565
Arrears	236,587	326,205
Allowance for doubtful accounts	<u>(65,000)</u>	<u>(300,718)</u>
	\$ <u>904,916</u>	\$ <u>663,052</u>

During the year bad debts expense in the amount of \$133,326 has been recorded relating to management estimates of uncollectable taxes.

FLAGSTAFF COUNTY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

5. NOTE RECEIVABLE

	2015	2014
Receivable regarding communications tower	\$ <u>181,272</u>	\$ <u>195,270</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

	2015	2014
Vision Credit Union - patronage shares	\$ 439,497	\$ 436,215
Alberta Municipal Finance Corporation - shares, at cost	140	140
United Farms of Alberta - co-operative equity	3,153	3,140
AAMD&C - dividend reserve	-	1,439
Sedgewick Co-operative - patronage equity	<u>21,599</u>	<u>10,547</u>
	\$ <u>464,389</u>	\$ <u>451,481</u>

7. TRUST FUNDS

The Flagstaff County administers the following trust:

	2015	2014
Community Reserve	\$ <u>32,603</u>	\$ <u>20,534</u>

8. DEFERRED REVENUE

	2015	2014
Historical Sites	\$ 1,473	\$ 1,473
Rescue Unit	107,978	92,446
Grazing program	5,516	6,029
Community Resource Officer	39,317	46,000
Municipal Sustainability Initiative - Operating	277,898	99,081
Municipal Sustainability Initiative – Capital	<u>5,950,251</u>	<u>3,612,566</u>
	\$ <u>6,382,433</u>	\$ <u>3,857,595</u>

Funding in the amount of \$5,950,251 (2014 - \$3,612,566) 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 2016. Unexpended funds related to the advance are supported by cash of \$2,354,836 (2014 - \$1,218,634) and accounts receivable of \$3,595,415 (2014 - 2,393,932) held exclusively for these projects (Note 3).

FLAGSTAFF COUNTY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

9. EMPLOYEE BENEFIT OBLIGATION

	2015	2014
Early retirement incentive	\$ 65,569	\$ -
Vacation	<u>294,712</u>	<u>301,882</u>
	<u>\$ 360,281</u>	<u>\$ 301,882</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. LONG-TERM GRAVEL ROYALTY PAYABLE

	2015	2014
Gravel royalty agreement is due as follows:	\$ <u>400,641</u>	\$ <u>702,603</u>

Gravel royalty repayments are due as follows:

2016	-	\$ 200,000
2017	-	<u>200,641</u>
		<u>\$ 400,641</u>

This payable is unsecured and non-interest bearing.

FLAGSTAFF COUNTY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

12. CAPITAL LEASE OBLIGATION

	2015	2014
Capital lease obligations	\$ <u>28,947</u>	\$ <u>47,566</u>

Principal and interest repayments are due as follows:

	Principal	Interest
2016	\$ 13,198	\$ 62
2017	10,500	-
2018	<u>5,249</u>	<u>-</u>
	<u>\$ 28,947</u>	<u>\$ 62</u>

The long term debt was borrowed for capital purposes. Capital leases, bear interest at rates ranging from 0% to 11.6% per annum, and mature 2018. They are secured by equipment with a carrying value of \$23,099.

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:

	2015	2014
Total debt limit	\$ 35,111,426	\$ 33,512,115
Total debt	<u>28,947</u>	<u>47,566</u>
Amount total debt limit unused	<u>35,082,479</u>	<u>33,464,549</u>
Service on debt limit	5,851,904	5,585,353
Service on debt	<u>13,260</u>	<u>19,452</u>
Amount service on debt limit unused	<u>\$ 5,838,644</u>	<u>\$ 5,565,901</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, 2015

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, 2015

15. RESERVES

Reserves for operating and capital activities changed as follows:

	2014	Increases	Decreases	2015
Operating reserves:				
General	\$ 12,039,979	\$ -	\$ -	\$ 12,039,979
Administration	407,026	50,000	-	457,026
Special projects	1,723,678	286,251	-	2,009,929
Fire	30,000	-	-	30,000
Ambulance	25,723	-	-	25,723
Emergency road repair	40,000	-	-	40,000
Public works - gravel	1,887,868	40,000	-	1,927,868
Airport	157,500	-	49,613	107,887
Agriculture	495,769	-	-	495,769
Economic development	331,267	-	-	331,267
Recreation	539,326	92,335	-	631,661
Cemetery grants	<u>68,666</u>	<u>-</u>	<u>12,500</u>	<u>56,166</u>
	<u>17,746,802</u>	<u>468,586</u>	<u>62,113</u>	<u>18,153,275</u>
Capital reserves:				
General equipment	1,797,912	-	-	1,797,912
Public works	3,099,379	2,359,000	-	5,458,379
Bridges	-	400,000	-	400,000
Shop/grader shed	1,812,875	550,000	-	2,362,875
Fire	440,912	-	108,000	332,912
Office building	<u>-</u>	<u>200,000</u>	<u>-</u>	<u>200,000</u>
	<u>7,151,078</u>	<u>3,509,000</u>	<u>108,000</u>	<u>10,552,078</u>
Total	\$ <u>24,897,880</u>	\$ <u>3,977,586</u>	\$ <u>170,113</u>	\$ <u>28,705,353</u>

16. EQUITY IN TANGIBLE CAPITAL ASSETS

	2015	2014
Tangible capital assets (Schedule 2)	\$ 149,446,878	\$ 148,056,660
Accumulated amortization (Schedule 2)	(75,597,287)	(72,733,669)
Capital long term debt (Note 12)	<u>(28,947)</u>	<u>(47,566)</u>
	<u>\$ 73,820,644</u>	<u>\$ 75,275,425</u>

FLAGSTAFF COUNTY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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:

	2015			2014
	Salary(1)	Benefits Allowances(2&3)	Total	
Councillor Division 1	\$ 36,813	\$ 4,880	\$ 41,693	\$ 40,103
Councillor Division 2	40,495	6,602	47,097	45,451
Councillor Division 3	36,813	6,048	42,861	41,316
Councillor Division 4	36,813	6,048	42,861	41,316
Councillor Division 5	36,813	6,048	42,861	41,316
Councillor Division 6	36,813	6,048	42,861	41,316
Councillor Division 7	36,813	6,048	42,861	41,316
Chief Administrative Officer	174,873	32,720	207,593	202,703
Designated Officer (1 position)	\$ 126,874	\$ 27,300	\$ 154,174	\$ 144,300

- (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 237,612 people and 423 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 2015 were \$526,526 (2014 - \$508,841). Total current and past service contributions by the employees of the Flagstaff County to the Local Authorities Pension Plan in 2015 were \$486,046 (2014 - \$469,595).

At December 31, 2014 the Plan disclosed an actuarial deficiency of \$2.5 billion.

FLAGSTAFF COUNTY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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	\$ 1,497,832
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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, 2015 were approved by Council on May 20, 2015 and are for information purposes. These amounts have not been audited.

FLAGSTAFF COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

23. SUBSEQUENT EVENTS

Subsequent to year end the Villages of Galahad and Strome have dissolved into Flagstaff County as hamlets.

24. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified in order to conform with the current year's financial statement presentation.