

TOWN OF STEPHENVILLE
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

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STATEMENT OF RESPONSIBILITY

The accompanying consolidated financial statements are the responsibility of the management of the Town of Stephenville and have been prepared in compliance with legislation, and in accordance with generally accepted accounting principles established by the Public Sector Accounting Board of The Canadian Professional Accountants of Canada.

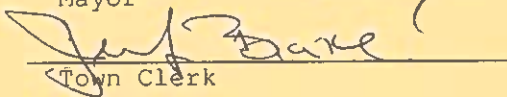
In carrying out its responsibilities, management maintains appropriate systems of internal and administrative controls designed to provide reasonable assurance that transactions are executed in accordance with proper authorization, that assets are properly accounted for and safeguarded, and that financial information produced is relevant and reliable.

The Council of the Municipality and management have reviewed a draft of the consolidated financial statements to discuss any significant financial reporting or internal control matters prior to their approval of the finalized financial statements.

Brian N. Hillier, CPA, CA, as the Municipality's appointed external auditor, has audited the consolidated financial statements. The Auditor's Report is addressed to the Mayor and members of Council and appears on the following page. His opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as he considers necessary to obtain reasonable assurance that the financial statements are free of material misstatement and present fairly the financial position and results of the Municipality in accordance with Canadian generally accepted accounting principles.



Mayor



Town Clerk

Brian N. Hillier

Chartered Professional Accountant

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INDEPENDENT AUDITOR'S REPORT

The Mayor and Councillors
Town of Stephenville
Stephenville, NL

I have audited the consolidated financial statements of the Town of Stephenville, which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of surplus, revenue and expenditures, changes in net financial statements (debt) and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

Opinion

In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Town as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Public Sector Accounting Standards.

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 Town's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Town or to cease operations, or has no realistic alternative but to do so.

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

..... Cont'd

INDEPENDENT AUDITOR'S REPORT (Cont'd)

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town'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 Town's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Town 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.

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

..... Cont'd

INDEPENDENT AUDITOR'S REPORT (Cont'd)

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

CORNER BROOK, NEWFOUNDLAND
NEWFOUNDLAND LABRADOR

4 June 2019

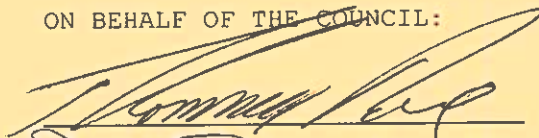


CHARTERED PROFESSIONAL ACCOUNTANT

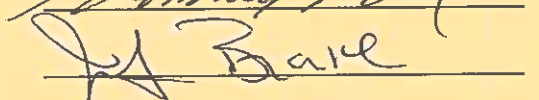
TOWN OF STEPHENVILLE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2018

	<u>2018</u>	<u>2017</u>
<u>FINANCIAL ASSETS</u>		
Cash and short-term investments (Note 3)	\$ 1,495,917	1,663,818
Accounts receivable (Note 4)	<u>1,472,953</u>	<u>1,160,216</u>
	<u>2,968,870</u>	<u>2,824,034</u>
<u>LIABILITIES</u>		
Due to bank (Note 5)	77,006	--
Accounts payable and accrued liabilities (Note 6)	1,427,861	910,511
Severance pay accrual	301,394	300,291
Long-term debt (Note 7)	319,641	777,132
NLHC land mortgage (Note 8)	<u>995,511</u>	<u>995,511</u>
	<u>3,121,413</u>	<u>2,983,445</u>
<u>NET FINANCIAL ASSETS (DEBT)</u>	<u>(152,543)</u>	<u>(159,411)</u>
<u>NON-FINANCIAL ASSETS</u>		
Tangible capital assets (Schedule I)	40,221,657	40,304,823
Prepaid expenses	74,705	74,705
Land for resale	<u>995,511</u>	<u>995,511</u>
	<u>41,291,873</u>	<u>41,375,039</u>
<u>ACCUMULATED EQUITY</u>	<u>\$41,139,330</u>	<u>41,215,628</u>
<u>CONTINGENCIES</u> (Note 9)		

ON BEHALF OF THE COUNCIL:



Mayor



Town Clerk

The accompanying notes are an integral part of this financial statement.

TOWN OF STEPHENVILLE
 CONSOLIDATED STATEMENT OF SURPLUS
 Year ended December 31, 2018

	<u>Budget</u>	<u>2018</u>	<u>2017</u>
<u>REVENUE</u>	\$ 9,356,912	9,522,441	11,391,492
<u>EXPENDITURES</u>	<u>9,001,688</u>	<u>9,513,183</u>	<u>8,328,008</u>
<u>ANNUAL SURPLUS (DEFICIT)</u>	<u>\$ 355,224</u>	9,258	3,063,484
<u>EQUITY</u> , beginning of year		<u>41,215,628</u>	<u>38,152,144</u>
		41,224,886	41,215,628
<u>ADD</u> : Capital asset disposition		<u>(85,556)</u>	<u>--</u>
<u>EQUITY</u> , end of year		<u>\$41,139,330</u>	<u>41,215,628</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF STEPHENVILLE
 CONSOLIDATED STATEMENT OF REVENUE AND EXPENDITURE - REVENUE
 Year ended December 31, 2018

REVENUE

	<u>Budget</u> (Schedule II)	<u>2018</u>	<u>2017</u>
<u>TAXATION</u>			
Property tax	\$3,667,329	3,625,850	3,635,030
Water and sewer tax	1,950,376	1,959,126	1,957,643
Poll tax	90,000	105,214	101,687
Business tax	1,517,968	1,496,080	1,519,872
Grants in lieu of taxes	<u>150,168</u>	<u>150,169</u>	<u>150,261</u>
	<u>7,375,841</u>	<u>7,336,439</u>	<u>7,364,493</u>
<u>GOVERNMENT CONTRIBUTIONS</u>			
Municipal assistance grants	414,520	414,520	414,520
Grants regarding debt	19,271	35,114	38,543
Gas tax	128,718	128,718	399,594
Municipal capital works	1,004,034	1,004,034	2,439,303
Provincial gas tax	<u>64,560</u>	<u>64,560</u>	<u>64,560</u>
	<u>1,631,103</u>	<u>1,646,946</u>	<u>3,356,520</u>
<u>OTHER</u>			
Licences and permits	20,500	10,264	18,053
Fines and meters	--	155	2,450
Interest and service charges	129,000	257,892	207,595
Water and sewerage - other	5,000	6,039	5,141
Land transactions	55,000	56,603	288,700
Service fees	68,160	76,857	56,700
Miscellaneous	<u>72,308</u>	<u>131,246</u>	<u>91,840</u>
	<u>349,968</u>	<u>539,056</u>	<u>670,479</u>
	<u>\$9,356,912</u>	<u>9,522,441</u>	<u>11,391,492</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF STEPHENVILLE
 CONSOLIDATED STATEMENT OF REVENUE AND EXPENDITURE - EXPENDITURE
 Year ended December 31, 2018

<u>EXPENDITURE</u>	<u>Budget</u> (Schedule II)	<u>2018</u>	<u>2017</u>
<u>GENERAL GOVERNMENT</u>			
Salaries and benefits	\$1,010,891	549,087	597,376
General office	248,000	370,194	321,714
Council	111,500	109,166	96,881
Insurance	115,000	121,977	129,289
Assessment services	92,000	88,830	91,999
Payroll burden	66,000	59,972	51,419
Tax allowance	--	140,000	120,000
Interest on long-term debt	1,782	13,069	37,393
Amortization	179,817	179,817	188,306
Reserve	50,000	256,500	--
	<u>1,874,990</u>	<u>1,888,612</u>	<u>1,634,377</u>
<u>PROTECTIVE SERVICES</u>			
Fire protection	1,272,615	1,261,469	1,084,525
Municipal enforcement	81,600	74,290	61,148
	<u>1,354,215</u>	<u>1,335,759</u>	<u>1,145,673</u>
<u>TRANSPORTATION SERVICES</u>			
Fleet maintenance	402,150	352,405	338,907
Maintenance	1,280,756	1,302,955	1,033,971
Snow clearing	399,500	330,899	307,917
Street lighting	160,000	160,177	138,448
Amortization	726,696	726,696	734,071
	<u>2,969,102</u>	<u>2,873,132</u>	<u>2,553,314</u>
<u>ENVIRONMENTAL SERVICES</u>			
Water supply	795,600	959,521	598,698
Sanitation	426,400	456,904	324,018
Amortization	653,393	653,393	653,393
	<u>1,875,393</u>	<u>2,069,818</u>	<u>1,576,109</u>
<u>COMMUNITY DEVELOPMENT</u>			
Grants and contributions	422,000	836,567	792,428
Port Harmon Facility	25,000	21,393	20,179
Amortization	229,388	229,388	229,388
	<u>676,388</u>	<u>1,087,348</u>	<u>1,041,995</u>
<u>RECREATION</u>			
Parks and recreation	87,600	92,906	103,040
Pool contribution	79,000	79,000	144,785
Stadium contribution	85,000	86,608	128,715
	<u>251,600</u>	<u>258,514</u>	<u>376,540</u>
	<u>\$9,001,688</u>	<u>9,513,183</u>	<u>8,328,008</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF STEPHENVILLE
 CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
 Year ended December 31, 2018

	<u>2018</u>	<u>2017</u>
Annual surplus (deficit)	\$ 9,258	3,063,484
Acquisition of tangible capital assets	(1,791,684)	(3,122,034)
Amortization of tangible capital assets	<u>1,789,294</u>	<u>1,805,158</u>
<u>CHANGE IN NET FINANCIAL ASSETS</u>	6,868	1,746,608
<u>NET FINANCIAL ASSETS (DEBT), beginning of year</u>	<u>(159,411)</u>	<u>(1,906,019)</u>
<u>NET FINANCIAL ASSETS (DEBT), end of year</u>	<u>\$ (152,543)</u>	<u>(159,411)</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF STEPHENVILLE
 CONSOLIDATED STATEMENT OF CASH FLOW
 Year ended December 31, 2018

	<u>2018</u>	<u>2017</u>
<u>OPERATING TRANSACTIONS:</u>		
Annual surplus (deficit)	\$ 9,258	3,063,484
Change in non-cash items:		
Working capital	204,613	478,538
Amortization	1,789,294	1,805,158
Severance pay accrual	<u>1,103</u>	<u>(34,444)</u>
	<u>2,004,268</u>	<u>5,312,736</u>
 <u>CAPITAL TRANSACTIONS:</u>		
Acquisition of tangible capital assets	<u>(1,791,684)</u>	<u>(3,122,034)</u>
 <u>FINANCING TRANSACTIONS:</u>		
Repayment of long-term debt	<u>(457,491)</u>	<u>(1,203,528)</u>
	(244,907)	987,174
<u>INCREASE (DECREASE) IN CASH</u>	<u>1,663,818</u>	<u>676,644</u>
<u>CASH</u> , beginning of year	<u>1,663,818</u>	<u>676,644</u>
<u>CASH</u> , end of year	<u>\$ 1,418,911</u>	<u>1,663,818</u>
 <u>CASH</u> consists of:		
Cash and short-term investments	\$ 1,495,917	1,663,818
Due to bank	<u>(77,006)</u>	<u>--</u>
	<u>\$ 1,418,911</u>	<u>1,663,818</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF STEPHENVILLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

1. **BUSINESS OF THE TOWN**

The Town of Stephenville is a municipal government incorporated pursuant to the Province of Newfoundland Labrador's Municipalities Act. The Town provides and funds municipal services including fire, public works, recreation and other general government operations.

2. **SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles as recommended by the Public Sector Accounting Board of the Canadian Professional Accountants of Canada and reflect the following significant accounting policies:

(a) **Basis of Consolidation**

The consolidated financial statements include the assets, liabilities, revenue and expenses of the reporting entity. The net financial position of related entities is incorporated into the financial statements, where material, based upon amounts provided by the entities and reflected in their records. There are currently no related entities included in the financial statements.

(b) **Cash and temporary investments**

Cash includes cash balances, bank balances and short-term investments.

(c) **Tangible Capital Assets**

Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to the acquisition, construction, development or betterment of the asset. Assets under construction are not amortized until the asset is put in use. The cost of the tangible capital assets are amortized on a straight-line basis over their estimated useful life as follows:

Buildings	25-40 years
General equipment	4 years
Transportation infrastructure	15-45 years
Vehicles and equipment	10-15 years
Water and sewer infrastructure	40-60 years
Stadium assets - declining balance	3-20%

(d) **Revenue Recognition**

Revenues are recognized as earned and when collection is reasonably assured. Tax rates are approved annually by Council.

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TOWN OF STEPHENVILLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(e) Use of Estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles for the public sector requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(f) Comparative figures:

The comparative figures have been modified to conform to the current year presentation.

(g) Fidelity bond coverage in the amount of \$50,000 is carried on employees of the Town who are in a position of trust. The coverage is considered adequate.

(h) The Town is a non-profit entity not subject to federal or provincial income taxes.

(i) The manner in which the accounts have been kept and the safeguards against fraud are considered satisfactory.

3. CASH

	<u>2018</u>	<u>2017</u>
Municipal funds	\$ 596,307	536,587
Gas tax funds	<u>822,604</u>	<u>1,127,231</u>
	<u>\$1,418,911</u>	<u>1,663,818</u>

4. ACCOUNTS RECEIVABLE

	<u>2018</u>	<u>2017</u>
Stephenville Airport Corporation taxes	\$5,634,910	4,801,271
Taxes and rates receivable	1,848,170	1,557,806
Goods and services tax	102,477	59,996
Fuel tax rebate	10,728	10,693
Project funding	214,690	61,606
Advance - Stephenville Airport	83,890	102,895
Other	<u>9,149</u>	<u>35,518</u>
	7,904,014	6,629,785
Allowance for doubtful accounts	<u>6,431,061</u>	<u>5,469,569</u>
	<u>\$1,472,953</u>	<u>1,160,216</u>

TOWN OF STEPHENVILLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

5.	DUE TO BANK	<u>2018</u>	<u>2017</u>
	Current account overdraft	\$ <u>77,006</u>	<u>---</u>
6.	ACCOUNTS PAYABLE	<u>2018</u>	<u>2017</u>
	Accounts payable - trade	\$ 961,551	419,889
	Payroll liabilities	412,108	387,777
	Security deposit	50,800	50,800
	Deferred funding	<u>3,402</u>	<u>52,045</u>
		<u>\$1,427,861</u>	<u>910,511</u>
7.	LONG-TERM DEBT	<u>2018</u>	<u>2017</u>
	<u>Newfoundland Municipal Financing Corporation</u>		
	Various debentures with interest rates ranging from 6.375% to 14.5%, maturing between 2018 and 2018, repayable in semi-annual installments of principal and interest totalling \$3,314	\$ --	3,206
	<u>Bank loans</u>		
	2.097% loan, maturing in 2018, payable in monthly installments of principal and interest of \$75,958	--	151,357
	5.53% government guaranteed loan, payable in semi-annual blended installments of \$15,842, maturing in 2020	45,755	74,804
	<u>Federation of Canadian Municipalities</u>		
	2.38% loan, repayable in annual installments of \$273,879 plus interest, maturing in 2019	<u>273,886</u>	<u>547,765</u>
		<u>\$ 319,641</u>	<u>777,132</u>

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TOWN OF STEPHENVILLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018

7. **LONG-TERM DEBT** (Cont'd)

Principal payments required for the next two years on the long-term debt are as follows:

2019	\$304,117
2020	15,524

The government guaranteed Bank of Montreal loan and the Newfoundland Municipal Financing Corporation loans described above are being repaid with contributions from the Province of Newfoundland Labrador.

8. **NLHC LAND MORTGAGE**

During 2001 the Town acquired property from the Newfoundland and Labrador Housing Corporation in exchange for a mortgage issued in the amount of \$1,244,395. The mortgage is repayable as the Town disposes of the land in accordance with an agreement with Newfoundland and Labrador Housing Corporation. The land and mortgage balance at December 31, 2018 amounted to \$995,511.

9. **CONTINGENCIES**

The Town is a member of the Newfoundland and Labrador Municipal Employee Benefits Inc. Pension Plan and participates in a defined benefit pension plan for its employees; pension costs and obligations are accounted for as incurred and billed by the plan administrator. The last actuarial valuation was performed as at December 31, 2010, identifying a deficiency of \$6,949,000 on a going concern basis and \$53,708,000 on a hypothetical wind-up basis. The Town is responsible for funding a portion of any deficiency. As a result of this deficiency the Town is required to make an additional annual payment of \$48,084. The Town has expended and funded the pension plan for 2018 in the amount of \$189,933 while employees have contributed \$140,177.

10. **FINANCIAL INSTRUMENTS**

The Town, as part of its operations, carries a number of financial instruments. It is management's opinion the Town is not exposed to significant interest, currency or credit risk arising from these financial instruments, except as otherwise disclosed. Unless otherwise noted, the fair market value of these financial instruments approximates their carrying values.

TOWN OF STEPHENVILLE
RECONCILIATION OF THE FINANCIAL PLAN TO THE BUDGET
Year ended December 31, 2018

	<u>2018</u>	<u>2017</u>
Revenue per Municipal Budget	\$ 8,224,160	8,200,971
Revisions:		
Capital funding	<u>1,132,752</u>	<u>2,838,897</u>
Revenue per PSAB Budget	<u>9,356,912</u>	<u>11,039,868</u>
Expenditures per Municipal Budget	8,224,160	8,200,971
Revisions:		
Capital out of revenue	(552,839)	(620,189)
Amortization of tangible capital assets	1,789,294	1,805,158
Debt charges - principal	<u>(458,927)</u>	<u>(1,203,528)</u>
Expenditures per PSAB Budget	<u>9,001,688</u>	<u>8,182,412</u>
Surplus (Deficit)	<u>\$ 355,224</u>	<u>2,857,456</u>