



EASTERN REGIONAL SERVICE BOARD
Financial Statements
Year Ended December 31, 2019



HARRIS RYAN



EASTERN REGIONAL SERVICE BOARD

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INDEPENDENT AUDITOR'S REPORT

To the Members of Eastern Regional Service Board

Qualified Opinion

We have audited the financial statements of Eastern Regional Service Board (the Organization), which comprise the statement of financial position as at December 31, 2019, and the statements of changes in accumulated surplus, operations, changes in net financial assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2019, and the results of its operations and cash flows for the year then ended in accordance with Canadian public sector accounting standards (PSAS).

Basis for Qualified Opinion

Eastern Regional Service Board derives revenue from waste management fees, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Organization and we were not able to determine whether any adjustments might be necessary to waste management revenue, annual surplus, and cash flows for the year ended December 31, 2019, or to current assets and net assets as at December 31, 2019. Our audit opinion on the financial statements for the year ended December 31, 2018 was modified accordingly because of the possible effects of this limitation of scope.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Organization in accordance with 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 qualified audit 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 PSAS, 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 Organization'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 Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting

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Independent Auditor's Report to the Members of Eastern Regional Service Board *(continued)*

process.

Auditor's 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 auditor's 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 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 Organization'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 Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 our auditor's report. However, future events or conditions may cause the Organization 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.



St. John's, Newfoundland and Labrador
May 5, 2020

CHARTERED PROFESSIONAL ACCOUNTANTS


EASTERN REGIONAL SERVICE BOARD**Statement of Financial Position****December 31, 2019**

	2019	2018
FINANCIAL ASSETS		
Cash and cash equivalents (Note 3)	\$ 5,467,408	\$ 5,787,889
Accounts receivable (Note 4)	985,197	1,098,759
Harmonized sales tax recoverable	549,793	286,870
	7,002,398	7,173,518
LIABILITIES		
Accounts payable (Note 6)	604,524	1,071,610
Employee deductions payable	18,366	22,995
Deferred revenue (Note 7)	925,000	854,268
Obligation under capital lease (Note 10)	-	120,052
Bid and performance bonds	293,609	254,293
	1,841,499	2,323,218
NET FINANCIAL ASSETS	5,160,899	4,850,300
NON-FINANCIAL ASSETS		
Prepaid expenses	110,389	101,901
Tangible capital assets (Note 5)	5,000,146	4,872,026
	5,110,535	4,973,927
ACCUMULATED SURPLUS	\$ 10,271,434	\$ 9,824,227


Commitments (Note 11)

Contingencies (Note 12)

ON BEHALF OF BOARD



Director



Director

EASTERN REGIONAL SERVICE BOARD
Statement of Changes in Net Financial Assets
Year Ended December 31, 2019

	2019	2018
ANNUAL SURPLUS	\$ 447,207	\$ 516,821
Amortization of tangible capital assets	574,461	775,207
Purchase of tangible capital assets	(735,642)	(920,587)
Loss on disposal of assets	33,061	-
Decrease (increase) in prepaid expenses	(8,488)	5,007
	(136,608)	(140,373)
INCREASE IN NET FINANCIAL ASSETS	310,599	376,448
NET FINANCIAL ASSETS - BEGINNING OF YEAR	4,850,300	4,473,852
NET FINANCIAL ASSETS - END OF YEAR	\$ 5,160,899	\$ 4,850,300

See notes to financial statements

EASTERN REGIONAL SERVICE BOARD
Statement of Changes in Accumulated Surplus
Year Ended December 31, 2019

	2019	2018
ACCUMULATED SURPLUS - BEGINNING OF YEAR	\$ 9,824,227	\$ 9,307,406
ANNUAL SURPLUS	447,207	516,821
ACCUMULATED SURPLUS - END OF YEAR	\$ 10,271,434	\$ 9,824,227

EASTERN REGIONAL SERVICE BOARD

Statement of Operations

Year Ended December 31, 2019

	Budget 2019	Total 2019	Total 2018
REVENUES			
Clarenville transfer station	\$ 225,000	\$ 266,878	\$ 276,180
Government grants	369,375	90,074	77,500
Tipping fees (Note 9)	3,339,572	3,339,572	3,349,346
Waste management fees	5,100,000	5,132,320	5,091,407
Metals recycling revenue	75,000	3,325	81,801
Capital government grants	300,000	-	684,151
Fire and emergency services revenue	19,200	22,768	21,180
	9,428,147	8,854,937	9,581,565
EXPENSES			
Advertising and promotion	121,900	84,844	191,236
Amortization	-	574,461	775,207
Bad debts	90,000	372,722	123,407
Business taxes, licenses and memberships	16,000	13,995	56,088
Directors fees	100,000	89,140	96,469
Insurance	135,000	127,304	142,516
Interest and bank charges	40,000	23,576	26,424
Interest on obligations under capital lease	9,615	2,939	9,587
Office	98,600	45,439	57,808
Outreach program	-	50	17,366
Professional fees	83,000	186,932	157,615
Regional waste management operations	378,500	381,830	575,866
Rental	116,000	102,004	144,188
Repairs and maintenance	31,400	51,920	94,784
Salaries and wages	2,116,649	1,938,588	2,176,224
Telephone	45,000	40,163	36,533
Tipping Fees Clarenville	400,000	406,835	354,142
Training	68,000	23,300	41,250
Travel	57,500	45,024	48,301
Vehicle	1,113,600	899,659	1,145,071
Waste collection operations	4,047,000	3,289,966	3,286,221
Waste recovery facilities - site development	-	8,341	7,162
	9,067,764	8,709,032	9,563,465
SURPLUS FROM OPERATIONS	360,383	145,905	18,100
OTHER INCOME (EXPENSES)			
Gain on disposal of tangible capital assets	-	(33,061)	-
Interest income	75,000	329,044	462,075
Miscellaneous revenue	25,000	5,319	36,646
	100,000	301,302	498,721
ANNUAL SURPLUS	\$ 460,383	\$ 447,207	\$ 516,821

See notes to financial statements

EASTERN REGIONAL SERVICE BOARD**Statement of Cash Flows****Year Ended December 31, 2019**

	2019	2018
OPERATING ACTIVITIES		
Annual Surplus	\$ 447,207	\$ 516,821
Items not affecting cash:		
Amortization of tangible capital assets	574,461	775,207
Loss on disposal of tangible capital assets	33,061	-
	1,054,729	1,292,028
Changes in non-cash working capital:		
Accounts receivable	113,562	(127,501)
Accounts payable	(467,086)	747,675
Deferred revenue	70,732	(686,103)
Prepaid expenses	(8,488)	5,007
Harmonized sales tax payable	(262,923)	(200,136)
Employee deductions payable	(4,629)	2,586
Bid and performance bonds	39,316	-
	(519,516)	(258,472)
Cash flow from operating activities	535,213	1,033,556
INVESTING ACTIVITY		
Purchase of tangible capital assets	(735,642)	(920,587)
Cash flow used by investing activity	(735,642)	(920,587)
FINANCING ACTIVITY		
Repayment of obligations under capital lease	(120,052)	(137,701)
Cash flow used by financing activity	(120,052)	(137,701)
DECREASE IN CASH FLOW	(320,481)	(24,732)
Cash - beginning of year	5,787,889	5,812,621
CASH - END OF YEAR (Note 3)	\$ 5,467,408	\$ 5,787,889
CASH FLOWS SUPPLEMENTARY INFORMATION		
Interest received	\$ (329,044)	\$ (462,075)
Interest paid	\$ 26,516	\$ 36,012

See notes to financial statements

EASTERN REGIONAL SERVICE BOARD

Notes to Financial Statements

Year Ended December 31, 2019

1. PURPOSE OF THE ORGANIZATION

The Eastern Regional Service Board (the "organization") was established in September of 2011 by the Province of Newfoundland under the authority of the Regional Services Board Act, 2012. The Board has been given the mandate to modernize the waste management system in the region, develop regional fire protection and work with several clusters of communities to improve drinking water and waste water treatment under the Community Sustainability Partnership.

In order to fulfill these mandates the Board has completed a network of infrastructure for the waste management system including a transfer station in Clarendville, ten waste recovery facilities (including one at the Clarendville site), and developed a fleet of vehicles and hired staff for a curbside collection program. To assist communities with drinking water and waste water treatment the Board has hired an engineer to provide advice to communities. As a service provider for fire protection the Board has contracted with one municipality to provide services through their volunteer fire department in the unincorporated area adjacent to the municipality. This model of service delivery was expanded in 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements were prepared in accordance with Canadian public sector accounting standards (PSAS).

Revenue recognition

Government transfers with stipulations restricting their use are recognized as revenue when the transfer is authorized and the eligibility criteria are met, except when and to the extent the transfer gives rise to an obligation that constitutes a liability. When the transfer gives rise to an obligation that constitutes a liability, the transfer is recognized in revenue when the liability is settled.

Government transfers received with associated stipulations relating to the purchase of capital assets, are recognized as revenue when the related assets are acquired.

Tipping fee revenues are provided to the extent required in the organization's annual budget and are recognized as revenue when received. Tipping fees received in advance are recorded as deferred revenue.

Waste management fee revenues are invoiced annually and are recognized as revenue when invoiced to customers. Metals recycling revenues are also recognized as revenue when invoiced.

Cash and cash equivalents

Cash and cash equivalents include balances with the bank and investments held in cashable guaranteed investment certificates. Cashable guaranteed investment certificates are valued at cost plus accrued interest.

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EASTERN REGIONAL SERVICE BOARD

Notes to Financial Statements

Year Ended December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Tangible capital assets

Tangible capital assets are stated at cost or deemed cost less accumulated amortization and are amortized over their estimated useful lives on a declining balance basis at the following rates and methods:

Land		non-depreciable
Buildings	4%	declining balance method
Furniture and equipment	20%	declining balance method
Computer equipment	55%	declining balance method
Computer software	100%	declining balance method
Heavy equipment	30%	declining balance method
Heavy equipment under capital lease	30%	declining balance method
Leasehold improvements	5 years	straight-line method
Motor vehicles	30%	declining balance method

The organization regularly reviews its tangible capital assets to eliminate obsolete items.

Tangible capital assets acquired during the year but not placed into use are not amortized until they are placed into use.

Leases

Leases are classified as either capital or operating leases. A lease that transfers substantially all of the benefits and risks of ownership is classified as a capital lease. At the inception of a capital lease, an asset is recorded with its related long-term obligation to reflect the acquisition and financing. All other leases are accounted for as operating leases and rental payments are expensed as incurred.

Non-financial assets

Non-financial assets include all assets of a fixed or permanent nature, claims to goods and services, and consumable goods.

Deferred revenue

Deferred revenue is comprised of revenue amounts that are received in advance.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

EASTERN REGIONAL SERVICE BOARD

Notes to Financial Statements

Year Ended December 31, 2019

3. CASH AND CASH EQUIVALENTS

	2019	2018
Cash in bank	\$ 1,384,802	\$ 2,423,533
Guaranteed investment certificates	4,082,606	3,364,356
	\$ 5,467,408	\$ 5,787,889

Cash and cash equivalents are internally restricted to:

Capital reserve - Regional	\$ 1,176,234	1,176,234
Capital reserve - Curbside	430,000	430,000
Operational reserve	1,319,200	1,319,200
Unrestricted balance	2,541,974	2,862,455
	\$ 5,467,408	5,787,889

4. ACCOUNTS RECEIVABLE

	2019	2018
Waste management fees receivable	\$ 2,157,408	\$ 1,898,248
Allowance for doubtful accounts	(1,172,211)	(799,489)
	\$ 985,197	\$ 1,098,759

5. TANGIBLE CAPITAL ASSETS

	Cost	Accumulated amortization	2019 Net book value	2018 Net book value
Land	\$ 1,884,517	\$ -	\$ 1,884,517	\$ 1,901,175
Buildings	2,134,756	228,505	1,906,251	1,263,215
Computer equipment	57,641	46,210	11,431	16,838
Computer software	5,544	5,544	-	-
Furniture and equipment	90,926	54,349	36,577	45,712
Heavy equipment	5,165,587	4,076,154	1,089,433	1,495,350
Heavy equipment under capital lease	-	-	-	87,488
Leasehold improvements	3,106	3,106	-	311
Motor vehicles	292,728	220,791	71,937	61,937
	\$ 9,634,805	\$ 4,634,659	\$ 5,000,146	\$ 4,872,026

EASTERN REGIONAL SERVICE BOARD

Notes to Financial Statements

Year Ended December 31, 2019

6. ACCOUNTS PAYABLE

	2019	2018
Trade payables	\$ 402,455	\$ 619,869
Other accruals	202,069	451,741
	\$ 604,524	\$ 1,071,610

7. DEFERRED REVENUE

	2019	2018
Tipping fees from City of St. John's	\$ 825,000	\$ 834,893
Regional Water/Wastewater Operator Program	100,000	19,375
	\$ 925,000	\$ 854,268

The organization receives tipping fees from the City of St. John's quarterly in advance. At December 31, 2019 the organization received \$825,000 for the first quarter of 2020.

During the year, the organization received \$160,000 from the Provincial government to fund a Regional Water/Wastewater Operator Pilot Program. At December 31, 2019, \$100,000 of this funding remained unspent.

8. ACCUMULATED SURPLUS

In addition to investments in tangible capital assets, the board has set up reserves from the accumulated surplus to ensure future obligations of the organization can be met. These reserves are internally restricted by the board to be used only for the purpose for which they are set up. The board allocates funds to these reserves as deemed necessary.

	2019	2018
The accumulated surplus consists of the following:		
Invested in tangible capital assets	\$ 5,000,146	\$ 4,872,026
Capital reserve - Regional	1,176,234	1,176,234
Capital reserve - Curbside	430,000	430,000
Operational reserve	1,319,200	1,319,200
Unappropriated surplus	2,345,854	2,026,767
	\$ 10,271,434	\$ 9,824,227

EASTERN REGIONAL SERVICE BOARD

Notes to Financial Statements

Year Ended December 31, 2019

9. TIPPING FEES

The Government of Newfoundland and Labrador has officially designated the Robin Hood Bay Waste Management Facility, which is owned and operated by the City of St. John's, as the site for the Eastern Region's Integrated Waste Management Facility. Eastern Regional Service Board contracts with the City of St. John's to provide waste disposal services for other municipalities in the Eastern Region.

Tipping fees charged per tonne at the Robin Hood Bay Waste Management Facility are determined annually by Eastern Regional Service Board based on estimated tonnage and budgeted costs to operate both Eastern Regional Service Board and the Robin Hood Bay Waste Management Facility. Operational funding is provided to Eastern Regional Service Board from tipping fees collected from facility users to the extent required in its annual budget.

10. OBLIGATION UNDER CAPITAL LEASE

	2019	2018
TD Equipment Finance lease matured on November 1, 2019.	\$ -	\$ 120,052

11. COMMITMENTS

The organization has a long term lease with respect to its premises, which expires March 31, 2022. Future minimum lease payments, excluding HST, as at December 31, 2019, are as follows:

2020	\$ 77,012
2021	77,012
2022	19,253

12. CONTINGENCIES

Two claims have been filed against the organization by a contractor in relation to contract issues as a result of early contract termination. The first action is alleging breach of contract and the second action is alleging loss of future revenues. The aggregate claim for damages is \$2,000,000. A mediation is scheduled for 2020 and the resolution is not determinable at this time.

EASTERN REGIONAL SERVICE BOARD

Notes to Financial Statements

Year Ended December 31, 2019

13. FINANCIAL INSTRUMENTS

(a) Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The organization is exposed to credit risk from customers. In order to reduce its credit risk, the organization reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The organization has a significant number of customers which minimizes concentration of credit risk.

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The organization is exposed to this risk mainly in respect of its receipt of funds from its customers and other related sources, long-term debt, obligations under capital leases, contributions to the pension plan, and accounts payable.

(c) 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 rate risk, interest rate risk and other price risk.

Unless otherwise noted, it is management's opinion that the organization is not exposed to significant other price risks arising from these financial instruments.

14. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to the current year's presentation.
