
EASTERN REGIONAL SERVICE BOARD

Financial Statements

Year Ended December 31, 2013

HARRIS RYAN
Chartered Accountants

EASTERN REGIONAL SERVICE BOARD

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Year Ended December 31, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Members of Eastern Regional Service Board

We have audited the accompanying financial statements of Eastern Regional Service Board, which comprise the statements of financial position as at December 31, 2013 and December 31, 2012 and the statements of operations, changes in net financial assets and cash flows for the years ended December 31, 2013 and December 31, 2012, 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 generally accepted accounting principles, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditor's 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

(continues)

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

Basis for Qualified Opinion

Eastern Regional Service Board, derives revenue from waste management fees, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of Eastern Regional Service Board. Therefore, we were not able to determine whether any adjustments might be necessary to waste management fee revenue, annual deficiency, and cash flows from operations for the years ended December 31, 2013 and December 31, 2012, current assets and net assets as at December 31, 2013 and December 31, 2012.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Eastern Regional Service Board as at December 31, 2013 and December 31, 2012 and the results of its operations and its cash flows for the years then ended in accordance with Public Sector Accounting Standards.

St. John's, Newfoundland and Labrador
November 26, 2014


HARRIS RYAN
CHARTERED ACCOUNTANTS

EASTERN REGIONAL SERVICE BOARD

Statement of Financial Position

December 31, 2013

	<i>December 31</i> 2013	<i>December 31</i> 2012
FINANCIAL ASSETS		
Cash	\$ 3,671,483	\$ 3,326,359
Accounts receivable (Note 3)	252,485	345,647
Harmonized sales tax recoverable	454,019	269,070
	4,377,987	3,941,076
LIABILITIES		
Accounts payable (Note 5)	\$ 495,272	\$ 953,758
Obligations under capital lease (Note 6)	746,043	853,842
	1,241,315	1,807,600
NET FINANCIAL ASSETS	3,136,672	2,133,476
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 4)	866,250	796,272
Prepaid expenses	23,954	19,752
	890,204	816,024
NON-FINANCIAL LIABILITIES		
Deferred income (Note 7)	1,441,699	1,946,754
ACCUMULATED SURPLUS	\$ 2,585,177	\$ 1,002,746

ON BEHALF OF THE BOARD



Director



Director

See notes to financial statements

EASTERN REGIONAL SERVICE BOARD
Statement of Changes in Net Financial Assets
Year Ended December 31, 2013

	2013	2012
ANNUAL SURPLUS (DEFICIENCY)	\$ 1,582,431	\$ (791,176)
Acquisition of tangible capital assets	(361,735)	(919,864)
Amortization of tangible capital assets	291,757	144,412
Acquisition of prepaid expenses	(23,955)	(19,752)
Use of prepaid expenses	19,752	703
Acquisition of deferred income	852,453	1,946,754
Recognition of deferred income	(1,357,507)	-
INCREASE IN NET FINANCIAL ASSETS	1,003,196	361,077
NET FINANCIAL ASSETS – BEGINNING OF YEAR	2,133,476	1,772,399
NET FINANCIAL ASSETS – END OF YEAR	\$ 3,136,672	\$ 2,133,476

See notes to financial statements

EASTERN REGIONAL SERVICE BOARD

Statement of Operations

Year Ended December 31, 2013

	Budget 2013	2013	2012
REVENUE			
Government grants <i>(Note 7)</i>	\$ -	\$ 1,411,845	\$ 853,246
Tipping fees <i>(Note 8)</i>	3,204,906	3,204,906	1,936,831
Waste management fees	3,029,320	2,655,353	233,388
Metals recycling revenue	35,000	41,242	73,063
	6,269,226	7,313,346	3,096,528
EXPENSES			
Administrative expenses <i>(Schedule 1)</i>	953,495	1,199,590	798,072
Interest on obligations under capital lease	39,489	39,489	3,527
Transfer station - operating expenses	897,520	-	-
Waste management operating expenses	3,183,323	2,738,552	1,210,183
Waste recovery facilities - operating expenses <i>(Schedule 2)</i>	773,088	895,550	1,067,735
Waste recovery facilities - site development <i>(Note 7)</i>	-	826,005	605,557
Waste site closures <i>(Note 7)</i>	-	181,768	247,689
	5,846,915	5,880,954	3,932,763
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES FROM OPERATIONS	-	1,432,392	(836,235)
OTHER INCOME			
Interest income	-	98,049	30,818
Miscellaneous revenue	-	51,990	14,241
	-	150,039	45,059
ANNUAL SURPLUS (DEFICIENCY)	422,311	1,582,431	(791,176)
ACCUMULATED SURPLUS – BEGINNING OF YEAR	1,002,746	1,002,746	1,793,922
ACCUMULATED SURPLUS – END OF YEAR	\$ 1,425,057	\$ 2,585,177	\$ 1,002,746

See notes to financial statements

EASTERN REGIONAL SERVICE BOARD**Statement of Cash Flows****Year Ended December 31, 2013**

	2013	2012
OPERATING ACTIVITIES		
Annual surplus (deficiency)	\$ 1,582,431	\$ (791,176)
Item not affecting cash:		
Amortization of tangible capital assets	291,757	144,412
	1,874,188	(646,764)
Changes in non-cash working capital:		
Accounts receivable	93,161	(338,919)
Accounts payable	(458,485)	805,382
Prepaid expenses	(4,202)	(19,049)
HST receivable	(184,949)	(234,513)
	(554,475)	212,901
Cash flow from operating activities	1,319,713	(433,863)
CAPITAL ACTIVITIES		
Purchase of property, plant and equipment	(361,735)	(45,001)
Deferred income	(505,054)	1,946,754
Cash flow from (used by) capital activities	(866,789)	1,901,753
FINANCING ACTIVITIES		
Net financial assets of sub-regions	-	1,671,586
Repayment of obligations under capital lease	(107,800)	(21,021)
Cash flow from (used by) financing activities	(107,800)	1,650,565
INCREASE IN CASH FLOW	345,124	3,118,455
Cash - beginning of year	3,326,359	207,904
CASH - END OF YEAR	\$ 3,671,483	\$ 3,326,359

See notes to financial statements

EASTERN REGIONAL SERVICE BOARD

Notes to Financial Statements

Year Ended December 31, 2013

1. DESCRIPTION OF OPERATIONS

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. Prior to its formal incorporation it operated as a Ministerial Committee in order to develop a regional plan and oversee the modernization of the solid waste management system for the eastern portion of the island. The authority of the Board covers the area from St. John's to Clarenville. As a committee Eastern Waste Management was not able to enter into contracts and carry out operations. In an effort to further the implementation of the Provincial Waste Management Strategy in the region it facilitated and guided the development of not for profit corporations that were comprised of the municipalities, local service districts and unincorporated areas in smaller geographic areas of the eastern region. Six not for profit corporations were established in order to be the contracting entity for the communities. Each operated as a separate entity with its own board of directors nominated by the member communities. Eastern Waste Management acted as the "Business Manager" for each of these entities. With the formal establishment of the Eastern Regional Service Board (ERSB) the not for profit corporations were not necessary. Starting in 2012 contracts for waste collection started to expire and were retendered and awarded by ERSB. Contracts that had not expired were transferred to the ERSB along with all remaining receivables and cash assets of the organizations as they ceased to operate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements were prepared in accordance with Canadian generally accepted accounting principles for government organizations as prescribed by the Public Sector Accounting Board (PSAB).

Revenue recognition

Government grants 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.

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

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 includes cash and cash equivalents. Cash equivalents are investments in guaranteed investment certificates and are valued at cost plus accrued interest.

EASTERN REGIONAL SERVICE BOARD

Notes to Financial Statements

Year Ended December 31, 2013

Tangible capital assets

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

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
Motor vehicles	30%	declining balance method

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

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.

Non-financial liabilities

Non-financial liabilities are comprised of the unspent portion of government grants designated for the construction and engineering of waste recovery facilities, as well as costs associated with the closure of various dump sites previously used in the eastern region. Due to the nature of this liability, these amounts will not be required to be repaid by the organization, but will be recognized into income as the funds are spent on approved projects.

Measurement uncertainty

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, 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, 2013

3. ACCOUNTS RECEIVABLE

	2013	2012
Waste management fees receivable	\$ 441,933	\$ 384,052
Government funding receivable	7,626	-
Allowance for doubtful accounts	(197,074)	(38,405)
	\$ 252,485	\$ 345,647

4. TANGIBLE CAPITAL ASSETS

	Cost	Accumulated amortization	2013 Net book value	2012 Net book value
Buildings	\$ 7,084	\$ 589	\$ 6,495	\$ 6,765
Computer equipment	22,967	16,395	6,573	7,107
Computer software	2,544	1,273	1,271	-
Furniture and equipment	47,993	12,782	35,211	16,548
Heavy equipment	1,189,104	408,121	780,982	765,852
Motor vehicles	42,021	6,303	35,718	-
	\$ 1,311,713	\$ 445,463	\$ 866,250	\$ 796,272

5. ACCOUNTS PAYABLE

	2013	2012
Trade payables	\$ 409,553	\$ 842,999
Other accruals	85,694	110,759
Employee deductions payable	25	-
	\$ 495,272	\$ 953,758

EASTERN REGIONAL SERVICE BOARD

Notes to Financial Statements

Year Ended December 31, 2013

6. OBLIGATIONS UNDER CAPITAL LEASE

	2013	2012
TD Equipment Finance		
TD Equipment Finance lease bearing interest at 4.778% per annum, repayable in monthly blended payments of \$12,274. The lease matures on November 1, 2019 and is secured by equipment.	\$ 746,043	\$ 853,842
Amounts payable within one year	<u>(147,289)</u>	<u>(147,289)</u>
	<u>\$ 598,754</u>	<u>\$ 706,553</u>

Future minimum capital lease payments are approximately:

2014	\$ 147,289
2015	147,289
2016	147,289
2017	147,289
2018	147,289
Thereafter	<u>122,989</u>
Total minimum lease payments	859,434
Less: amount representing interest at various rates	<u>(113,391)</u>
	<u>\$ 746,043</u>

EASTERN REGIONAL SERVICE BOARD

Notes to Financial Statements

Year Ended December 31, 2013

7. DEFERRED INCOME

In 2012, the organization received government funding in the amount of \$2,800,000 designated for the construction and engineering of waste recovery facilities, as well as costs associated with the closure of various dump sites previously used in the eastern region. At December 31, 2013, a portion of this funding remained unspent and has been classified as deferred income. This deferred income will be recognized as revenue when spent on approved projects.

Deferred income has also been recognized with respect to tipping fee revenue described in Note 8. Funding received from the City of St. John's in 2013 exceeded the amount determined by the organization's annual budget. The excess has been included in deferred revenue at December 31, 2013.

	2013
Deferred income - beginning of year	\$ 1,946,754
Prior year spending with government approval in 2013	(349,735)
Waste recovery facilities - site development	(826,005)
Waste site closures	(181,768)
Funding overpayment from City of St. John's	852,453
	<hr/>
Deferred income	\$ 1,441,699

8. 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.

EASTERN REGIONAL SERVICE BOARD

Notes to Financial Statements

Year Ended December 31, 2013

9. LEASE COMMITMENTS

The company has a long term lease with respect to its premises, which expires April 1, 2017. Future minimum lease payments as at December 31, 2013, are as follows:

2014	\$	59,500
2015		59,500
2016		59,500
2017		<u>14,875</u>
	\$	<u>193,375</u>

10. FINANCIAL INSTRUMENTS

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The company is exposed to credit risk from customers. In order to reduce its credit risk, the company 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 company has a significant number of customers which minimizes concentration of credit risk.

Fair value

The company's carrying value of cash and cash equivalents, accounts receivable, and accounts payable approximates its fair value due to the immediate or short term maturity of these instruments.

The carrying value of the capital lease obligation approximates the fair value as the interest rates are consistent with the current rates offered to the company for debt with similar terms.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the company manages exposure through its normal operating and financing activities. The company is exposed to interest rate risk primarily through its investment in guaranteed investment certificates.

EASTERN REGIONAL SERVICE BOARD

Notes to Financial Statements

Year Ended December 31, 2013

11. EXPENSES BY OBJECT

	2013	2012
Advertising and promotion	\$ 127,355	\$ 96,314
Amortization	291,757	144,412
Bad debts	158,564	43,898
Business taxes, licenses and memberships	25,936	13,933
Directors fees	77,930	38,710
Insurance	27,088	8,094
Interest and bank charges	12,099	6,439
Interest on obligations under capital lease	39,489	3,527
Office	30,299	38,387
Professional fees	105,014	71,196
Rental	64,434	58,166
Repairs and maintenance	32,383	7,942
Salaries and wages	682,710	378,194
Telephone	19,158	14,330
Travel	72,991	49,618
Vehicle	185,577	-
Waste management operations	2,738,552	1,210,183
Waste recovery facilities - operations	181,845	896,174
Waste recovery facilities - site development	826,005	605,557
Waste site closures	181,768	247,689
	\$ 5,880,954	\$ 3,932,763

EASTERN REGIONAL SERVICE BOARD**Administrative expenses****(Schedule 1)****Year Ended December 31, 2013**

	2013	2012
Advertising and promotion	\$ 127,355	\$ 96,314
Amortization	12,483	9,033
Bad debts	158,564	43,898
Business taxes, licenses and memberships	25,936	13,933
Directors fees	77,930	38,710
Insurance	27,088	8,094
Interest and bank charges	12,099	6,439
Office	30,299	38,387
Professional fees	105,014	71,196
Rental	64,434	58,166
Repairs and maintenance	8,776	7,942
Salaries and wages	457,463	342,012
Telephone	19,158	14,330
Travel	72,991	49,618
	\$ 1,199,590	\$ 798,072

EASTERN REGIONAL SERVICE BOARD

Waste recovery facilities – operating expenses

(Schedule 2)

Year Ended December 31, 2013

	2013	2012
Amortization	\$ 279,274	\$ 135,379
Contractor costs	181,845	896,174
Repairs and maintenance	23,607	-
Salaries and wages	225,247	36,182
Vehicle	185,577	-
	\$ 895,550	\$ 1,067,735



OVERVIEW RESERVE ACCOUNTS ESTABLISHED BY THE EASTERN REGIONAL SERVICE BOARD

INTRODUCTION

The Eastern Regional Service Board (ERSB) was formally established through the *Regional Service Board Act* in 2011. The Board is tasked with the implementation and delivery of regional municipal services in the eastern region of Newfoundland and Labrador.

The ERSB publishes a budget and financial statements annually per its legislative requirements as an arms-length agency of the Government of Newfoundland and Labrador. Since 2015, the ERSB has worked diligently in creating a strong financial position for itself by utilizing operational surpluses to fund capital and operational reserve accounts. These accounts are categorized as a Capital Reserve and an Operational Reserve. Under the Capital Reserve, funding is allocated for Regional Operations and Curbside Operations.

Why are reserves required? Well, the answer is simple. The ERSB must ensure it can continue to operate in the event of unforeseen circumstances. You can't simply stop delivering municipal services. To appreciate the scope of the day to day cost of the delivery of these services, note that ERSB requires over \$800,000 a month to operate (pay contractors and staff, maintain equipment, tipping fees at the Regional Waste Management Facility at Robin Hood Bay, etc.). Without a reserve fund, the ERSB would have much more risk in the event of an emergency or impact to its revenue stream.

WHAT DO THESE RESERVES COVER

The capital and operational reserves of the ERSB may contribute to the following purposes (if required based on the purpose of reserve accounts outlined above):

1. **Regional Capital Reserve (for regional waste recovery facilities):** Building replacements (operational buildings such as transfer station attendant hut and sheds); Equipment replacements (grapple trucks, walking floor trailers, floats, backhoes, pick-up trucks, shipping containers) and future site closures.

Curbside Capital Reserve (for curbside waste collection): Garbage trucks, as well as pick-up trucks and trailers related to curbside waste collection activities.
2. **Operational Reserve:** year-to-year operational funding for use if cost of delivering regional waste management services is higher than the fees collected from property owners.

Currently the Board has tangible capital assets (land, buildings, heavy equipment, computer equipment, etc...) with an invested cost of \$8,098,007. Heavy equipment represents \$5,256,498 of the total invested in assets. Each year this equipment depreciates in value and at the end of 2017 had a value of \$4,726,647. At the end of 2018 ERSB will have sufficient reserve funds to replace up to 30% of its current assets or invest in new assets.

WHY IS IT DIFFICULT TO SEE THE RESERVES ON THE ERSB FINANCIAL STATEMENTS

Unfortunately, the ERSB's current and historical financial statements do not capture the balance of its reserves clearly or effectively. Financial statements are not the tool many portray them to be, primarily because they are difficult to interpret effectively unless you know how each account connects to the day-to-day operation of the organization. For example, the ERSB financial statements regularly show a cash surplus, when in fact this "surplus" is (in part) the reserves the ERSB has established as well as the value of the property and equipment held by the Board.

So why do the financial statements not portray the ERSB reserve accounts in a way that the general public can understand. The reason is that ERSB must, as an arms-length government agency, follow the Public Sector Accounting Board (PSAB) accounting standards for the public sector. These independently set financial reporting standards are critical to promoting confidence in public sector entities. High-quality accounting standards contribute to transparent and accountable information that is made available to the public, as well as quality financial information to support decision making.

WHAT IS THE CURRENT VALUE OF THE ERSB'S RESERVE ACCOUNTS

The following chart outlines the annual operating and capital budget of the ERSB since capital and operating reserves were implemented.

Year	Operating Budget	Capital Budget	Contribution to Capital Reserve (Regional)	Contribution to Capital Reserve (Curbside)	Contribution to Operational Reserve	Total Contribution (by year)
2015	6,994,546.92	4,204,643.63	366,233.74			366,234
2016	9,609,547.32		170,000.00	130,000	390,000.00	690,000
2017	9,609,251.73	3,004,000.00	320,000.00	150,000	350,000.00	820,000
2018 (Budgeted)	9,079,894.70	1,950,000.00	320,000.00	150,000		470,000
Total Contribution (by account)						2,346,234

WHO CAN I CONTACT IF I HAVE QUESTIONS ABOUT RESERVES

The Manager of Corporate Services and Chief Administrative Officer are responsible for all financial matters related to the operation of the ERSB. Please call 709-579-7960, or e-mail info@ersbnl.ca, if you have questions.