



EASTERN REGIONAL SERVICE BOARD

Financial Statements

Year Ended December 31, 2017



HARRIS RYAN



EASTERN REGIONAL SERVICE BOARD
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Year Ended December 31, 2017

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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 statement of financial position as at December 31, 2017 and the statements of operations, changes in net financial assets, changes in accumulated surplus 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.

Auditor's 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 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 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 Eastern Regional Service Board as at December 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

St. John's, Newfoundland and Labrador
March 28, 2018


CHARTERED PROFESSIONAL ACCOUNTANTS

EASTERN REGIONAL SERVICE BOARD
Statement of Financial Position
December 31, 2017

FINANCIAL ASSETS

Cash and cash equivalents (Note 3)	\$ 1,445,379	\$ 414,721
Accounts receivable (Note 4)	971,258	850,485
Harmonized sales tax recoverable	86,734	321,003
Guaranteed investment certificates (Note 3)	4,367,242	4,333,024
	6,870,613	5,919,233

LIABILITIES

Accounts payable (Note 6)	578,228	569,152
Employee deductions payable	20,409	-
Deferred income (Note 7)	1,540,371	1,313,472
Obligations under capital lease (Note 10)	257,754	388,905
	2,396,762	2,271,529


NET FINANCIAL ASSETS	4,473,851	3,647,704
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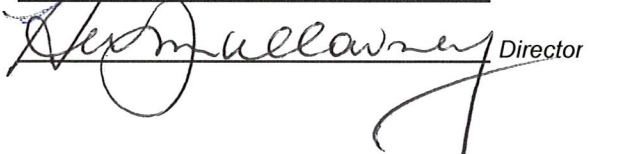
NON-FINANCIAL ASSETS

Prepaid expenses	106,908	89,449
Tangible capital assets (Note 5)	4,726,647	4,685,888
	4,833,555	4,775,337

ACCUMULATED SURPLUS	\$ 9,307,406	\$ 8,423,041
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ON BEHALF OF BOARD


 Director


 Director

EASTERN REGIONAL SERVICE BOARD
Statement of Changes in Net Financial Assets
Year Ended December 31, 2017

	2017	2016
ANNUAL SURPLUS	\$ 884,365	\$ 1,301,054
Amortization of tangible capital assets	932,244	935,312
Purchase of tangible capital assets	(973,006)	(991,871)
Increase in prepaid expenses	(17,459)	(16,788)
	(58,221)	(73,347)
INCREASE IN NET FINANCIAL ASSETS	826,144	1,227,707
NET FINANCIAL ASSETS - BEGINNING OF YEAR	3,647,706	2,419,999
NET FINANCIAL ASSETS - END OF YEAR	\$ 4,473,850	\$ 3,647,706

See notes to financial statements

EASTERN REGIONAL SERVICE BOARD
Statement of Changes in Accumulated Surplus
Year Ended December 31, 2017

	2017	2016
ACCUMULATED SURPLUS - BEGINNING OF YEAR	\$ 8,423,041	\$ 7,121,987
SURPLUS FOR THE YEAR	884,365	1,301,054
ACCUMULATED SURPLUS - END OF YEAR	\$ 9,307,406	\$ 8,423,041

See notes to financial statements

EASTERN REGIONAL SERVICE BOARD

Statement of Operations

Year Ended December 31, 2017

	Budget 2017	Total 2017	Total 2016
REVENUES			
Clarenville transfer station	\$ 634,500	\$ 373,019	\$ 480,098
Government grants	77,500	77,500	240,522
Tipping fees	3,343,752	3,395,752	3,367,536
Waste management fees	5,280,000	5,083,395	5,219,708
Metals recycling revenue	50,000	148,365	51,698
Capital government grants	-	609,950	489,520
	9,385,752	9,687,981	9,849,082
EXPENSES			
Advertising and promotion	75,000	74,113	139,472
Amortization	-	932,244	935,311
Bad debts	90,000	186,971	209,236
Business taxes, licenses and memberships	-	33,166	19,497
Directors fees	-	86,355	97,355
Insurance	85,000	106,215	86,824
Interest and bank charges	15,000	41,399	35,114
Interest on obligations under capital lease	-	16,137	22,250
Office	57,800	54,777	53,400
Regional waste management operations	439,090	359,671	176,889
Waste collection operations	4,268,432	3,155,927	3,357,931
Waste recovery facilities - site development	-	309,154	247,496
Professional fees	115,000	115,495	66,778
Rental	177,000	139,487	150,880
Repairs and maintenance	140,000	44,456	40,719
Salaries and wages	2,075,752	2,045,098	2,003,296
Telephone	44,500	40,590	37,455
Tipping Fees Clarenville	759,288	327,451	284,683
Training	32,904	28,690	57,545
Travel	50,000	48,851	72,544
Vehicle	708,132	1,017,129	836,514
	9,132,898	9,163,376	8,931,189
SURPLUS FROM OPERATIONS	252,854	524,605	917,893
OTHER INCOME			
Interest income	34,500	344,482	363,303
Miscellaneous revenue	1,000	15,278	19,858
	35,500	359,760	383,161
ANNUAL SURPLUS	\$ 288,354	\$ 884,365	\$ 1,301,054

See notes to financial statements

EASTERN REGIONAL SERVICE BOARD**Statement of Cash Flows****Year Ended December 31, 2017**

	2017	2016
OPERATING ACTIVITIES		
Surplus	\$ 884,365	\$ 1,301,054
Item not affecting cash:		
Amortization of tangible capital assets	932,244	935,311
	1,816,609	2,236,365
Changes in non-cash working capital:		
Accounts receivable	(120,773)	(190,620)
Accounts payable	9,080	(261,565)
Deferred income	226,899	(1,231,286)
Prepaid expenses	(17,459)	(16,787)
Harmonized sales tax payable	234,269	(151,185)
Employee deductions payable	20,409	(32,761)
	352,425	(1,884,204)
Cash flow from operating activities	2,169,034	352,161
INVESTING ACTIVITIES		
Purchase of tangible capital assets	(973,006)	(991,871)
Purchase of guaranteed investment certificates	(34,218)	(248,517)
Cash flow used by investing activities	(1,007,224)	(1,240,388)
FINANCING ACTIVITY		
Repayment of obligations under capital lease	(131,152)	(125,039)
Cash flow used by financing activity	(131,152)	(125,039)
INCREASE (DECREASE) IN CASH FLOW	1,030,658	(1,013,266)
Cash - beginning of year	414,721	1,427,987
CASH - END OF YEAR	1,445,379	414,721
CASH FLOWS SUPPLEMENTARY INFORMATION		
Interest received	\$ (344,482)	\$ (363,303)
Interest paid	\$ 57,537	\$ 57,365

See notes to financial statements

EASTERN REGIONAL SERVICE BOARD

Notes to Financial Statements

Year Ended December 31, 2017

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 Clarenville, ten waste recovery facilities (including one at the Clarenville 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 income.

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.

Guaranteed investment certificates

Guaranteed investment certificates include those certificates which are locked in and have maturities beyond one year. These investments are carried at cost plus accrued interest.

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EASTERN REGIONAL SERVICE BOARD

Notes to Financial Statements

Year Ended December 31, 2017

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

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:

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 income

Deferred income is comprised of the unspent portions of government grants designated for the construction and engineering of the Clarendville waste transfer station, 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 be recognized into income as the funds are spent on approved projects.

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, 2017

3. CASH AND CASH EQUIVALENTS

	2017	2016
Capital reserve - Regional	\$ 856,234	\$ 536,234
Capital reserve - Curbside	280,000	130,000
Operational reserve	1,319,200	969,200
Unrestricted cash	3,357,187	3,112,311
	\$ 5,812,621	\$ 4,747,745

4. ACCOUNTS RECEIVABLE

	2017	2016
Waste management fees receivable	\$ 1,647,341	\$ 1,339,596
Allowance for doubtful accounts	(676,082)	(489,111)
	\$ 971,259	\$ 850,485

5. TANGIBLE CAPITAL ASSETS

	Cost	Accumulated amortization	2017 Net book value	2016 Net book value
Land	\$ 1,014,669	\$ -	\$ 1,014,669	\$ 724,417
Buildings	1,427,037	111,188	1,315,849	1,370,676
Computer equipment	34,669	32,716	1,953	2,651
Computer software	5,544	5,544	-	528
Furniture and equipment	87,835	44,271	43,564	33,812
Heavy equipment	4,381,634	2,245,419	2,136,215	2,247,301
Heavy equipment under capital lease	874,864	749,881	124,983	178,547
Leasehold improvements	3,106	2,174	932	1,553
Motor vehicles	268,649	180,167	88,482	126,403
	\$ 8,098,007	\$ 3,371,360	\$ 4,726,647	\$ 4,685,888

6. ACCOUNTS PAYABLE

	2017	2016
Trade payables	\$ 351,215	\$ 400,311
Other accruals	227,013	168,841
	\$ 578,228	\$ 569,152

EASTERN REGIONAL SERVICE BOARD

Notes to Financial Statements

Year Ended December 31, 2017

7. DEFERRED REVENUE

	2017	2016
Deferred income - beginning of year	\$ 1,313,472	\$ 2,544,758
2018 Tipping fees from City of St. John's	836,849	-
Revenue recognized for government funded capital assets	(609,950)	(489,520)
Funding overpayment from City of St. John's - prior year	-	(715,941)
Regional Water/Wastewater Operator	-	19,375
Regional Water/Wastewater Operator prior year	-	(45,200)
	\$ 1,540,371	\$ 1,313,472

In 2015, the organization received government funding in the amount of \$1,794,915 for the construction and engineering of waste recovery facilities, costs associated with the closure of various dump sites previously used in the eastern region, construction and engineering of the Clarendville Transfer Station, and the purchase of land in Whitbourne where the organization is planning to build a depot for its trucks near the Whitbourne waste recovery facility. This deferred income will be recognized as revenue when spent on approved projects.

During the year, the organization also received \$77,500 from the Provincial government to fund a Regional Water/Wastewater Operator Pilot Program. At December 31, 2017, \$19,375 of this funding remained unspent and is included in the opening balance of \$1,313,472.

8. ACCUMULATED SURPLUS

	2017	2016
<u>The accumulated surplus consists of fund surplus and reserves as follows:</u>		
Invested in tangible capital assets	\$ 4,726,647	\$ 4,685,888
Capital reserve - Regional	856,234	536,234
Capital reserve - Curbside	280,000	130,000
Operational reserve	1,319,200	969,200
Unappropriated surplus	2,125,324	2,101,718
	\$ 9,307,405	\$ 8,423,040

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.

EASTERN REGIONAL SERVICE BOARD

Notes to Financial Statements

Year Ended December 31, 2017

10. OBLIGATIONS UNDER CAPITAL LEASE

	2017	2016
TD Equipment Finance lease bearing interest at 4.78% per annum, repayable in monthly blended payments of \$12,274. The lease matures on November 1, 2019 and is secured by equipment.	\$ 257,754	\$ 388,905

Future minimum capital lease payments are approximately:

2018	\$ 147,289
2019	110,465
Total minimum lease payments	<u>\$ 257,754</u>

11. LEASE COMMITMENTS

The organization has a long term lease with respect to its premises, which expired April 1, 2017. A new 5 year lease was then signed which expires March 31, 2022. Future minimum lease payments, excluding HST, as at December 31, 2017, are as follows:

2018	\$ 77,012
2019	77,012
2020	77,012
2021	77,012
2022	\$ 77,012

12. FINANCIAL INSTRUMENTS

The organization is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the organization's risk exposure and concentration as of December 31, 2017.

(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.

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EASTERN REGIONAL SERVICE BOARD

Notes to Financial Statements

Year Ended December 31, 2017

12. FINANCIAL INSTRUMENTS *(continued)*

(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.

13. EXPENSES BY OBJECT

	2017	2016
Advertising and promotion	\$ 74,113	\$ 139,472
Amortization	932,244	935,311
Bad debts	186,971	209,236
Business taxes, licenses and memberships	33,166	19,497
Directors fees	86,355	97,355
Insurance	106,215	86,824
Interest and bank charges	41,399	35,115
Interest on obligations under capital lease	16,137	22,250
Office	54,777	53,400
Professional fees	115,495	66,778
Regional travel and professional development	48,851	72,544
Regional waste management operations	359,671	176,889
Rental	139,487	150,880
Repairs and maintenance	44,456	40,719
Salaries and wages	2,045,098	2,003,296
Telephone	40,590	37,455
Training	28,690	57,545
Tipping fees	327,451	284,683
Vehicle	1,017,129	836,514
Waste collection operations	3,155,927	3,357,931
Waste recovery facilities - site development	309,154	247,496
	\$ 9,163,376	\$ 8,931,190

14. COMPARATIVE FIGURES

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