EASTERN REGIONAL SERVICE BOARD Financial Statements Year Ended December 31, 2020

HARRIS RYAN

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Year Ended December 31, 2020

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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, 2020, 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, 2020, 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, 2020, or to current assets and net assets as at December 31, 2020. Our audit opinion on the financial statements for the year ended December 31, 2019 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 process.

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

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.

Harris Lyan Reference Capitation

St. John's, Newfoundland and Labrador April 1, 2021

CHARTERED PROFESSIONAL ACCOUNTANTS

EASTERN REGIONAL SERVICE BOARD Statement of Financial Position December 31, 2020

		2020		2019
FINANCIAL ASSETS				
	•	4 007 000	Φ.	F 407 400
Cash and cash equivalents (Note 3)	\$	4,867,903	\$	5,467,408
Accounts receivable (Note 4)		1,325,199		985,197
Harmonized sales tax recoverable		329,486		549,793
		6,522,588		7,002,398
LIABILITIES				
Accounts payable (Note 6)		992,695		604,524
Employee deductions payable		29,265		18,366
Deferred revenue (Note 7)		20,000		925,000
Bid and performance bonds		295,404		293,609
		1,337,364		1,841,499
NET FINANCIAL ASSETS		5,185,224		5,160,899
NON-FINANCIAL ASSETS				
Prepaid expenses		874,221		110,389
Tangible capital assets (Note 5)		4,945,901		5,000,146
		5,820,122		5,110,535
ACCUMULATED SURPLUS	\$	11,005,346	\$	10,271,434

COMMITMENTS (Note 10)

CONTINGENCIES (Note 11)

ON BEHALF OF THE BOARD

EASTERN REGIONAL SERVICE BOARD Statement of Changes in Net Financial Assets Year Ended December 31, 2020

	2020	2019
ANNUAL SURPLUS	\$ 733,912	\$ 447,207
Amortization of tangible capital assets	408,074	574,461
Purchase of tangible capital assets	(469,301)	(735,642)
Proceeds on disposal of tangible capital assets	142,450	22.064
Loss (gain) on disposal of assets Increase in prepaid expenses	(26,977) (763,832)	33,061 (8,488)
	(709,586)	(136,608)
INCREASE IN NET FINANCIAL ASSETS	24,326	310,599
NET FINANCIAL ASSETS - BEGINNING OF YEAR	5,160,899	4,850,300
NET FINANCIAL ASSETS - END OF YEAR	\$ 5,185,225	\$ 5,160,899

EASTERN REGIONAL SERVICE BOARD Statement of Changes in Accumulated Surplus Year Ended December 31, 2020

	2020	2019
ACCUMULATED SURPLUS - BEGINNING OF YEAR	\$ 10,271,434	\$ 9,824,227
ANNUAL SURPLUS	733,912	447,207
ACCUMULATED SURPLUS - END OF YEAR (Note 8)	\$ 11,005,346	\$ 10,271,434

EASTERN REGIONAL SERVICE BOARD Statement of Operations

Year Ended December 31, 2020

		Budget 2020		Total 2020		Total 2019
DEVENUES						
REVENUES	•	250,000	•	407.047	•	000 070
Clarenville transfer station	\$	250,000	\$	427,217	\$	266,878
Government grants		80,000		115,213		90,074
Tipping fees		3,300,000		3,300,331		3,339,572
Waste management fees		4,590,000		4,138,718		5,132,320
Metals recycling revenue		75,000		105,382		3,325
Capital government grants		300,000		399,770		-
Fire and emergency services revenue		19,200		28,847		22,768
		8,614,200		8,515,478		8,854,937
EXPENSES						
Advertising and promotion		120,000		78,404		84,844
Amortization		_		408,074		574,461
Bad debts		90,000		303,156		372,722
Business taxes, licenses and memberships		_		27,881		13,995
Directors fees		100,000		78,076		89,140
Insurance		135,000		117,086		127,304
Interest and bank charges		40,000		22,835		23,576
Interest on obligations under capital lease		=				2,939
Office		121,000		38,961		45,439
Outreach program		-		57		50
Professional fees		151,200		191,575		186,932
Regional waste management operations		413,500		342,166		381,830
Rental		86,000		80,313		102,004
Repairs and maintenance		35,000		60,774		51,920
Salaries and wages		1,794,357		1,620,770		1,938,588
Telephone		80,000		38,342		40,163
Tipping Fees Clarenville		400,000		358,363		406,835
Training		68,000		11,806		23,300
Travel		55,000		9,992		45,024
Vehicle		769,143		716,834		899,659
Waste collection operations		4,030,000		3,546,385		3,289,966
Waste recovery facilities - site development		-				8,341
		8,488,200		8,051,850		8,709,032
SURPLUS FROM OPERATIONS		126,000		463,628		145,905
OTHER INCOME						
Gain (loss) on disposal of tangible capital assets		_		26,977		(33,061
Interest income		60,000		221,516		329,044
Miscellaneous revenue		35,000		21,791		5,319
		95,000		270,284		301,302
ANNUAL SURPLUS	\$	221,000	\$	733,912	\$	447,207

Statement of Cash Flows

Year Ended December 31, 2020

		2020		2019
OPERATING ACTIVITIES	\$	733,912	\$	447,207
Annual surplus Items not affecting cash:	Φ	733,912	φ	447,207
Amortization of tangible capital assets		408,074		574,461
Loss (gain) on disposal of tangible capital assets		(26,977)		33,061
2000 (gam) on anopolar or tan grade calpital accord		(==;=:-)		
		1,115,009		1,054,729
Changes in non-cash working capital:				
Accounts receivable		(340,002)		113,562
Accounts payable		388,170		(467,086)
Deferred revenue		(905,000)		70,732
Prepaid expenses		(763,832)		(8,488)
Harmonized sales tax payable		220,307		(262,923)
Employee deductions payable		10,899		(4,629)
Bid and performance bonds		1,795		39,316
		(1,387,663)		(519,516)
Cash flow from (used by) operating activities		(272,654)		535,213
INVESTING ACTIVITIES				
Purchase of tangible capital assets		(469,301)		(735,642)
Proceeds on disposal of tangible capital assets		142,450		(
Cash flow used by investing activities		(326,851)		(735,642)
		(,,		()
FINANCING ACTIVITY				(400.050)
Repayment of obligations under capital lease				(120,052)
Cash flow from (used by) financing activity				(120,052)
DECREASE IN CASH FLOW		(599,505)		(320,481)
Cash - beginning of year		5,467,408		5,787,889
	\$		\$	
CASH - END OF YEAR (Note 3) CASH FLOWS SUPPLEMENTARY INFORMATION	Ф	4,867,903	Ψ	5,467,408
	\$	(224 E46)	\$	(330.044)
Interest received		(221,516)		(329,044)
Interest paid	\$	22,837	\$	26,516

Notes to Financial Statements

Year Ended December 31, 2020

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 (GAAP).

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.

(continues)

Notes to Financial Statements

Year Ended December 31, 2020

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.

Notes to Financial Statements

Year Ended December 31, 2020

CASH AND CASH EQUIVALENTS		
	 2020	 2019
Cash in bank Guaranteed investment certificates	\$ 929,775 3,938,128	\$ 1,384,802 4,082,606
	\$ 4,867,903	\$ 5,467,408
Cash and cash equivalents are internally restricted to:		
Capital reserve - Regional Capital reserve - Curbside	\$ 2,376,234 430,000	1,176,234 430,000
Operational reserve Unrestricted balance	1,740,000 321,669	1,319,200 2,541,974
	\$ 4,867,903	5,467,408
ACCOUNTS RECEIVABLE		
	 2020	 2019
Waste management fees receivable Allowance for doubtful accounts Capital funding receivable	\$ 2,400,796 (1,475,367) 399,770	\$ 2,157,408 (1,172,211
	\$ 1,325,199	\$ 985,197

5. TANGIBLE CAPITAL ASSETS

	Cost	2.00	ccumulated mortization	1	2020 Net book value	2019 Net book value
Land	\$ 2,296,419	\$	-	\$	2,296,419	\$ 1,884,517
Buildings	2,157,624		305,212		1,852,412	1,906,251
Computer equipment	60,738		53,348		7,390	11,431
Computer software	5,544		5,544		-	-
Furniture and equipment	122,360		64,808		57,552	36,577
Heavy equipment	4,601,399		3,907,314		694,085	1,089,433
Leasehold improvements	3,106		3,106		¥	·
Motor vehicles	 169,604		131,561		38,043	71,937
	\$ 9,416,794	\$	4,470,893	\$	4,945,901	\$ 5,000,146

Notes to Financial Statements

Year Ended December 31, 2020

6.	ACCOUNTS PAYABLE		
		2020	2019
	Trade payables Other accruals	\$ 415,639 577,056	\$ 402,455 202,069
		\$ 992,695	\$ 604,524
7.	DEFERRED REVENUE		
		2020	2019
	Tipping fees from City of St. John's Regional Water/Wastewater Operator Program	\$ - 20,000	\$ 825,000 100,000
		\$ 20,000	\$ 925,000

The organization receives tipping fees from the City of St. John's quarterly in advance. At December 31, 2020 the organization received \$ nil for the first quarter of 2021 (2019 - \$825,000 for the first quarter of 2020).

In 2019, the organization received \$160,000 from the Provincial government to fund a Regional Water/Wastewater Operator Pilot Program. At December 31, 2020, \$20,000 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.

	2020	2019
The accumulated surplus consists of the following:		
Invested in tangible capital assets	\$ 4,945,901	\$ 5,000,146
Capital reserve - Regional	2,376,234	1,176,234
Capital reserve - Curbside	430,000	430,000
Operational reserve	1,740,000	1,319,200
Unappropriated surplus	 1,513,142	 2,345,854
	\$ 11,005,277	\$ 10,271,434

Notes to Financial Statements

Year Ended December 31, 2020

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. 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, 2020, are as follows:

2021	\$ 77,012
2022	19,253

11. 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 took place in 2020 but the matter remains unsettled and the resolution is not determinable at this time.

Notes to Financial Statements

Year Ended December 31, 2020

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, 2020.

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.

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.

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. OTHER MATTER

In March 2020, the World Health Organization declared a global pandemic due to the novel coronavirus (COVID-19). The situation is constantly evolving, and the measures put in place are having multiple impacts on local, provincial, national and global economies.

The services provided by the organization are considered essential and as such the organization continues to provide these services.

It is the opinion of management that this event will not have a significant impact to the organization.