Consolidated Financial Statements of

MULTI-MATERIALS STEWARDSHIP BOARD

Year ended March 31, 2018

KPMG LLP
TD Place
140 Water Street, Suite 1001
St. John's Newfoundland A1C 6H6
Canada
Telephone (709) 733-5000
Fax (709) 733-5050

INDEPENDENT AUDITORS' REPORT

To the Directors of Multi-Materials Stewardship Board

We have audited the accompanying consolidated financial statements of Multi-Materials Stewardship Board, which comprise the consolidated statement of financial position as at March 31, 2018, the consolidated statements of operations, changes in accumulated surplus, changes in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of Multi-Materials Stewardship Board as at March 31, 2018, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants
St. John's, Canada
July 24, 2018

MULTI-MATERIALS STEWARDSHIP BOARD

Consolidated Statement of Financial Position

March 31, 2018, with comparative information for 2017

		2018		2017
Financial assets:				
Cash and cash equivalents (note 5)	$	10,444,265	$	11,297,544
Accounts receivable net of allowance for doubtful accounts of $51,550 (2017 - $51,550)		2,840,426		2,983,169
HST receivable		247,201		285,304
Notes receivable at amortized cost of non-interest bearing notes, repayable over the next four years, utilizing an interest rate of prime plus 1%		29,331		30,376
Inventory for resale (note 6)		64,636		88,576
Investments		2,430,382		377,438
		16,056,241		15,062,407
Liabilities:				
Accounts payable		299,796		543,839
Other payables and accrued liabilities (note 7)		1,499,164		1,563,870
Grants payable		692,353		645,830
Unearned revenue (note 8)		2,441,664		2,434,995
Performance bonds payable		417,623		380,592
		5,350,600		5,569,126
Net financial assets		10,705,641		9,493,281
Non financial assets:				
Tangible capital assets (schedule 3)		1,635,816		1,804,473
Prepaid expenses		86,059		90,569
		1,721,875		1,895,042
Commitments (note 12)				
Accumulated surplus	$	12,427,516	$	11,388,323

See accompanying notes to consolidated financial statements.

On behalf of the Board:

_______________ Chairperson   Catherine Barrett Director

MULTI-MATERIALS STEWARDSHIP BOARD

Consolidated Statement of Operations

Year ended March 31, 2018, with comparative information for 2017

	2018 Actual	2018 Budget	2017 Actual
Revenue:			
Used beverage program deposits	$ 22,905,792	$ 22,729,546	$ 22,820,306
Used tire program deposits	3,037,023	2,943,617	2,935,753
Used beverage container by-product revenue	2,794,227	2,440,079	2,107,384
Milk packaging program	158,977	-	151,662
Provincial Solid Waste Management Strategy	140,453	-	55,236
Interest income	124,578	115,000	93,578
Handling fees	100,742	89,045	69,247
Miscellaneous income	43,431	90,000	2,699
Waste Management Trust Fund Program	9,626	-	4,565
	29,314,849	28,407,287	28,240,430
Expenses:			
Used beverage container program	21,933,193	21,143,929	20,848,277
Used tire program	2,656,214	2,912,093	2,236,917
Administrative expenses (schedule 1)	2,022,770	2,457,974	2,183,226
Grant disbursements	979,210	2,030,000	2,801,765
Public education expenses (schedule 2)	387,567	530,000	722,865
Program operations	155,995	280,000	1,061,540
Provincial Solid Waste Management Strategy	140,453	-	55,236
Other recycling programs	254	90,000	80
	28,275,656	29,443,996	29,909,906
Annual surplus (deficit)	$ 1,039,193	$ (1,036,709)	$ (1,669,476)

See accompanying notes to consolidated financial statements.

MULTI-MATERIALS STEWARDSHIP BOARD

Consolidated Statement of Changes in Accumulated Surplus

Year ended March 31, 2018, with comparative information for 2017

	Actual 2018	Budget 2018	Actual 2017
Accumulated surplus, beginning of year	$ 11,388,323	$ 11,388,323	$ 13,057,799
Annual surplus (deficit)	1,039,193	(1,036,709)	(1,669,476)
Accumulated surplus, end of year	$ 12,427,516	$ 10,351,614	$ 11,388,323

See accompanying notes to consolidated financial statements.

MULTI-MATERIALS STEWARDSHIP BOARD

Consolidated Statement of Changes in Net Financial Assets

Year ended March 31, 2018, with comparative information for 2017

	Actual 2018	Budget 2018	Actual 2017
Annual surplus (deficit)	$ 1,039,193	$ (1,036,709)	$ (1,669,476)
Acquisition of tangible capital assets	(48,963)	(62,000)	(1,148,717)
Amortization of tangible capital assets	217,620	243,873	198,201
Loss on disposal of tangible capital assets	-	-	21,302
Decrease (increase) in prepaid expenses	4,510	(1,000)	(1,075)
Increase (decrease) in net assets	1,212,360	(855,836)	(2,599,765)
Net financial assets, beginning of year	9,493,281	9,493,281	12,093,046
Net financial assets, end of year	$ 10,705,641	$ 8,637,445	$ 9,493,281

See accompanying notes to consolidated financial statements.

MULTI-MATERIALS STEWARDSHIP BOARD

Consolidated Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operations:		
Annual surplus (deficit)	$ 1,039,193	$ (1,669,476)
Items not involving cash:		
Amortization	217,620	198,201
Loss on disposal of tangible capital assets	-	21,302
	1,256,813	(1,449,973)
Changes in non-cash operating working capital:		
Decrease in accounts receivable	142,743	238,538
Increase (decrease) in HST receivable	38,103	(36,260)
Decrease in notes receivable	1,045	9,244
Decrease (increase) in prepaid expenses	4,510	(1,075)
Decrease (increase) in inventory for resale	23,940	(9,229)
Decrease in accounts payable	(244,043)	(695)
Decrease in other payables and accrued liabilities	(64,706)	(153,569)
Increase (decrease) in grants payable	46,523	(229,210)
Increase (decrease) in unearned revenue	6,669	(119,331)
Increase (decrease) in performance bonds payable	37,031	(48,183)
	1,248,628	(1,799,743)
Capital:		
Tangible capital asset purchases	(48,963)	(1,148,717)
Investing:		
Purchase ofinvestments	(6,299,417)	48,184
Redemption of investments	4,246,473	-
Decrease in cash and cash equivalents	(853,279)	(2,900,276)
Cash and cash equivalents, beginning of year	11,297,544	14,197,820
Cash and cash equivalents, end of year	$ 10,444,265	$ 11,297,544

See accompanying notes to consolidated financial statements.

Multi-Materials Stewardship Board (the "Board") is a statutory corporation established pursuant to The Environmental Protection Act. The Board manages the Used Beverage Container Recycling Program, the Used Tire Management Program and the Newfoundland and Labrador Waste Management Trust Fund in the Province of Newfoundland and Labrador and is mandated to support and promote the protection, enhancement and wise use of the environment through waste management programs. The Board is a government organization and reports to the Minister of Municipal Affairs and Environment. The Board is exempt from income taxes under Section 149(1)(d) of the Canadian Income Tax Act.

1. Financial statements:

These consolidated financial statements include the accounts of the Multi-Materials Stewardship Board and the Newfoundland and Labrador Waste Management Trust Fund.

The Multi-Materials Stewardship Board Newfoundland and Labrador Waste Management Trust Fund is a restricted fund, managed by the Board, and its accounts have been grouped in these consolidated financial statements for consolidation purposes. Separate audited consolidated financial statements have been issued for this Trust Fund, with an audit report date of XXXXX

2. Significant accounting policies:

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles as recommended by the CPA, Canadian Public Sector Accounting Board (PSAB) and reflect the following significant accounting policies.

(a) Use of estimates:

In preparing the Board's consolidated financial statements in conformity with the Canadian public sector accounting standards, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. Items requiring the use of estimates include the accrual for deposits outstanding at year end, useful life of tangible capital assets, rates of amortization and impairment of long-lived assets, accrued stockpile costs, unearned revenue and accrued severance pay.

Estimates are based on the best information available at the time of preparation of the consolidated financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these consolidated financial statements. Actual results could differ from these estimates.

2. Significant accounting policies (continued):

(b) Foreign currency translation:

Transactions denominated in foreign currencies are recorded in Canadian dollars at exchange rates in effect at the related transaction dates. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect exchange rates at the year end date. Exchange gains and losses arising on the translation of monetary assets and liabilities are included in the determination of income.

(c) Cash and cash equivalents:

Cash and cash equivalents include cash on hand, balances with banks and short term deposits with original maturities of three months or less. Cash and cash equivalents also include a balance of $5,654 and $237,535 (2017 - $3,154 and $350,273) in restricted cash related to the performance bonds payable and funds received for the Provincial Waste Management Strategy respectively.

(d) Investments:

At March 31, 2018, $411,969 (2017 - $377,438) of these investments are restricted to repay performance bonds at the end of the contracts if all conditions have been met by the parties involved.

Included in the investments balance is $2,018,413 (2017-$0) invested by the board in a GIC maturing September 2018. The rate of return on this investment is 1.60% per annum. The remaining balance is invested in GICs for purposes of satisfying performance security requirements with respect to contracts the board has entered into. These investments are due to mature at varying dates ranging from July 2018 to January 2023 at rates of return ranging from 0.50% to 2.20% per annum.

(e) Inventories for sale:

Inventories, which are comprised of aluminium beverage containers and PET beverage containers, are valued at the lower of cost and net realizable value, with net realizable value being current market prices.

(f) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives generally extending beyond the current year and are not intended for sale in the ordinary course of operations.

2. Significant accounting policies (continued):

(g) Tangible capital assets:

Tangible capital assets are stated at cost, less accumulated amortization. Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Used beverage equipment	Declining balance	30%
Office furniture and equipment	Declining balance	20%
Leasehold improvements	Straight line	5 years
Computer hardware	Declining balance	30%
Computer software	Declining balance	30%
CRM software and development	Declining balance	10%
MIS software	Declining balance	30%
Bags and tubs	Declining balance	30%
Infrastructure assets	Straight line	20 years

(h) Impairment of long-lived assets:

When a tangible capital asset no longer has any long-term service potential to the Board, the excess of its net carrying amount over any residual is recognized as an expense in the consolidated statement of operations.

(i) Unearned revenue:

Unearned revenue consists of deposits on containers yet to be returned for redemption and recycling. The amount recorded by the Board as unearned revenue consists of sixty days of deposits received from distributors, adjusted by an estimated recovery rate of 67% (2017 - 64%).

Unearned revenue also includes funds received in relation to the Provincial Waste Management Strategy related to expenditures for strategic communications development, the Green Depot Management Information System (MIS) related to customization, installation, training, licences and support for the system, and restricted grant contributions. The funding is recognized as revenue as the expenditures are incurred and repayable if not fully spent on the projects.

(j) Accrued severance pay:

Severance pay is accounted for on an accrual basis and is recognized when an employee joins the Board, and is calculated based upon years of service, current salary levels and assumptions with respect to retention. Severance pay is payable when the employee ceases employment with the Board and has achieved nine years of continual service.

2. Significant accounting policies (continued):

(k) Revenue recognition:

Deposit revenue (both beverage and tire) is recognized when remittances are collected plus an estimated accrual based on subsequent receipts, as well as historical data.

By-product revenue is recognized upon shipment and when all significant contractual obligations have been satisfied and collection is reasonably assured.

Other income is recognized as earned.

(l) Expenses:

The Board recognizes expenses on an accrual basis. The cost of all goods consumed and services received during the period is expensed. Grant disbursements to third parties are accounted for as government transfers. Grant disbursements that are financing arrangements are recorded as expenses when they are approved by the Minister. Grant disbursements that are reimbursement arrangements are recorded as expenses when the expenditures have been incurred by the recipient and the eligibility criteria have been met.

(m) Financial instruments:

The Board considers any contract creating a financial asset, liability or equity instrument as a financial instrument, except in certain limited circumstances. The Board accounts for the following as financial instruments: cash and cash equivalents, receivables, notes receivable, investments, payables and accruals, grants payable and performance bonds payable.

A financial asset or liability is recognized when the Board becomes party to contractual provisions of the instrument.

The Board initially measures its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument.

The Board subsequently measures its financial assets and financial liabilities at cost or amortized cost, except for derivatives and equity securities quoted in an active market, which are subsequently measured at fair value. Changes in fair value are recognized in annual deficit.

Financial assets measured at fair value include cash and cash equivalents and investments; financial assets measured at cost include receivables; and financial assets measured at amortized cost include notes receivable.

2. Significant accounting policies (continued):

(m) Financial instruments (continued):

Financial liabilities measured at cost include payables and accruals, grants payable and performance bonds payable.

The Board removes financial liabilities, or a portion of, when the obligation is discharged, cancelled or expires.

Financial assets measured at cost or amortized cost are tested for impairment when there are indicators of impairment. Previously recognized impairment losses are reversed to the extent of the improvement provided the asset is not carried at an amount, at the date of the reversal, greater than the amount that would have been the carrying amount had no impairment loss been recognized previously. The amounts of any write-downs or reversals are recognized in net annual surplus.

3. Adoption of accounting policies:

On April 1, 2017, the Board adopted Canadian public sector accounting standards PS 2200 Related party disclosures, PS 3420 Inter-entity transactions, PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual rights. The adoption of these standards did not result in an accounting policy change for the entity, and did not result in any adjustments to the financial statements as at April 1, 2017.

4. Future adoption of accounting policies:

Restructuring Transactions

This new section establishes standards on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities. This Section applies to restructuring transactions occurring in fiscal years beginning on or after April 1, 2018. Earlier adoption is permitted. The entity does not anticipated that the adoption of this section will have a material impact on the financial statements.

It is not anticipated that any material changes will result from the adoption of these standards.

5. Cash and cash equivalents:

	2018	2017
Cash and cash equivalents	$ 10,201,076	$ 10,944,117
Restricted cash deposits	243,189	353,427
	$ 10,444,265	$ 11,297,544

6. Inventory for resale:

	2018	2017
Aluminium beverage containers	$ 59,456	$ 58,999
PET beverage containers	5,180	29,577
	$ 64,636	$ 88,576

7. Other payables and accrued liabilities:

	2018	2017
Accrued liabilities	$ 823,150	$ 729,413
Tire stockpile accrual	200,000	225,000
Wages and benefits	230,779	263,479
MIS deferred handling fee	245,235	345,978
	$ 1,499,164	$ 1,563,870

8. Unearned revenue:

	2018	2017
Provincial Solid Waste Management Strategy	$ 212,209	$ 349,818
Used beverage container deposits	2,209,081	2,055,177
Grant contributions	20,374	30,000
	$ 2,441,664	$ 2,434,995

9. Related party transactions:

The Board is related to the Newfoundland and Labrador Liquor Corporation (NLC) as both organizations are Government Reporting Entities established by the Provincial Government of Newfoundland and Labrador.

The NLC collects and remits Used Beverage Program deposits to the Board. Included in Used Beverage Program deposits for 2018 is $2,841,835 (2017-$2,974,088) from the NLC. The organizations enter into transactions in the normal course of business and on normal trade terms. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

10. Stockpile costs:

In the 2017 fiscal year, the Board implemented a new contingency plan for the management of used tires. A decision was made to store a portion of collected tires in an efforts to undertake a Tire Derived Aggregate (TDA) Demonstration Project. As at March 31, 2018, total expected costs relating to the tires stored for purposes of undertaking the TDA Demonstration Project were $200,000.

11. Employee future benefits:

The Board participates in the Government Money Purchase Pension Plan which is a defined contribution pension plan. The plan is mandatory for all employees, with the exception of the CEO, from date of employment. Employees contribute 5% of regular earnings and the Board matches these contributions. Contributions made prior to January 1, 1997 are fully vested and locked-in after the completion of 10 years of continuous service and the employee has attained the age of 45 or after the completion of 5 years of plan participation. Contributions made on or after January 1, 1997 are fully vested and locked-in after the completion of 2 years of plan participation. Contributions paid and expensed by the Board during the year totaled $59,247 (2017 - $62,584).

12. Commitments:

The Board is committed to minimum annual lease payments for property, equipment and service agreements for the next three years as follows: 2019 - $215,401; 2020 - $34,275; and 2021 - $7,521.

The Board is also committed to funding the following Waste Management Trust Fund projects for the next two years as follows: 2019 - $1,250,000; and 2020- $256,197.

The Board has entered into the following agreements:

(i) processing and transportation of beverage containers up to July, 2019;

(ii) collection of used tires in Labrador West area to April, 2020;

(iii) collection and transportation of used tires in the island portion of Newfoundland and Labrador and the Labrador Straits to February, 2018;

(iv) collection of used tires in Happy Valley-Goose Bay area to February, 2020; and

(v) transportation of used tires collected in Labrador to May, 2020.

13. Financial risks:

(a) Market risk:

Market risk is the risk that the fair value of marketable securities or investments will change as a result of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk. The Board is mainly exposed to currency risk and other price risk.

Other price risk is the risk that the fair value or future cash flows if a financial instrument will fluctuate because of changes in the market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Investments are not subject to interest rate risk as they are at fixed interest rates risk.

The Board is exposed to other price risk through its sale of by-products.

(b) Credit risk:

Credit risk is the risk of loss if a customer or counterparty cannot meet its contractual obligations. The carrying amount of financial assets represents the maximum credit exposure. The Board's credit risk is attributable to receivables and cash. The accounts receivable represent a large number of small balances owed by its customers, and no one customer or group of customers represents a significant risk. Management reviews receivables on a case by case basis to determine if an allowance is necessary to reflect impairment in collectability.

(c) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Board is exposed to this risk mainly in respect of its payables and accruals. The Board reduces its exposure to liquidity risk by monitoring its cash flows and ensuring that is has sufficient cash available to meet its obligations and liabilities. In the opinion of management the liquidity risk exposure to the Board is low.

There is minimal liquidity risk associated with the bonds payable as they are held in guaranteed investment certificates with a stated interest rate.

MULTI-MATERIALS STEWARDSHIP BOARD

Schedule 1 - Consolidated Administrative Expenses

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Wages and benefits	$ 1,501,109	$ 1,639,070
Rent	148,295	151,420
Professional fees	68,364	76,591
Staff travel	54,672	51,500
Amortization	50,263	57,228
Software support	48,976	48,032
Telecommunications	43,041	41,120
Board member expenses	25,280	51,624
Vehicle expenses	22,675	24,079
Office supplies	12,613	12,730
Training	11,990	228
Insurance	9,391	9,153
Bank charges	9,353	9,008
Subscriptions, memberships and conferences	6,241	888
Equipment lease and support	4,158	4,708
Postage and courier	3,486	4,604
Miscellaneous	2,863	1,243
	$ 2,022,770	$ 2,183,226

MULTI-MATERIALS STEWARDSHIP BOARD

Schedule 2 - Consolidated Public Education Expenses

Year ended March 31, 2018, with comparative information for 2017

		2018		2017
Campaigns:				
Used beverage container program	$	164,876	$	287,906
Indiscriminate dumping		33,550		53,901
Used tire program		25,235		44,768
HHW		50,601		24,400
Total campaigns		274,262		410,975
Corporate:				
Owned Media		17,280		41,553
Media monitoring		20,540		30,733
Account management and miscellaneous		2,376		-
Total corporate		40,196		72,286
Public Education Programs		73,109		239,604
Total public education	$	387,567	$	722,865

Multi-Materials Stewardship Board
Schedule 3 - Consolidated Schedule of Tangible Capital Assets
Year ended March 31, 2018 with comparative information for 2017

	Used beverage equipment	Office furniture and equipment	Leasehold improvements	Computer hardware	Computer software	CRM software and development	MIS software	Bags and tubs	Infrastructure assets	2018	2017
Cost											
Cost beginning of year	$ 186,671	$ 168,306	$ 8,913	$ 177,098	$ 325,570	$ 445,488	$ 768,215	$ 328,924	$ 998,382	$ 3,407,567	$ 2,408,423
Additions during the year	7,309	1,299	-	-	-	-	31,113	-	9,232	48,953	1,148,717
Disposals during the year	-	-	-	-	-	-	-	-	-	-	(149,573)
Cost, end of year	$ 193,980	$ 169,605	$ 8,913	$ 177,098	$ 325,570	$ 445,488	$ 799,328	$ 328,924	$ 1,007,614	$ 3,456,520	$ 3,407,567
Accumulated amortization											
Accumulated amortization, beginning of year	$ 158,636	$ 130,136	$ 7,712	$ 141,313	$ 299,608	$ 177,608	$ 361,128	$ 318,623	$ 8,320	$ 1,603,084	$ 1,533,164
Amortization	8,288	7,440	219	8,916	6,802	26,886	106,104	2,699	50,266	217,620	198,201
Reversal of accumulated amortization relating to disposals	-	-	-	-	-	-	-	-	-	-	(128,271)
Accumulated amortization, end of year	166,924	137,576	7,931	150,229	306,410	204,494	467,232	321,322	58,586	1,820,704	1,603,094
Net book value of tangible capital assets	$ 27,056	$ 32,029	$ 982	$ 26,869	$ 19,160	$ 240,994	$ 332,096	$ 7,602	$ 949,028	$ 1,635,816	$ 1,804,473