Financial Statements of

STUDENT TRANSPORTATION OF EASTERN ONTARIO

Year ended August 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Management Committee of Student Transportation of Eastern Ontario

We have audited the accompanying financial statements of Student Transportation of Eastern Ontario, which comprise the statement of financial position as at August, 31, 2018, the statements of operations and accumulated surplus, change in net debt 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 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.

Auditors' 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 our 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, we consider 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.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

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 Student Transportation of Eastern Ontario as at August 31, 2018, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

October 5, 2018

STUDENT TRANSPORTATION OF EASTERN ONTARIO

Statement of Financial Position

August 31, 2018, with comparative information for 2017

		2018		2017
Financial assets:				
Cash	$	2,737,569	$	2,504,952
Amounts receivable		1,827,413		35,799
Due from related parties (note 3)		15,174,791		285,951
		19,739,773		2,826,702
Liabilities:				
Accounts payable and accrued liabilities (note 8)		19,752,069		1,347,147
Due to related parties (note 3)		–		1,475,491
Deferred capital contributions (note 4)		271,475		349,300
Employee future benefits (note 5)		–		15,167
		20,023,544		3,187,105
Net debt		(283,771)		(360,403)
Non-financial assets:				
Tangible capital assets (note 4)		271,475		349,300
Prepaid expenses		12,296		11,103
		283,771		360,403
Economic dependence (note 2)				
Accumulated surplus	$	–	$	–

See accompanying notes to financial statements.

On behalf of the Board:

John M: Allston

Director

Ronald O'Kane

Director

STUDENT TRANSPORTATION OF EASTERN ONTARIO

Statement of Operations and Accumulated Surplus

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

	Budget 2018	Actual 2018	Actual 2017
Revenue:			
Recoveries (note 8)	$ 37,707,694	$ 53,339,029	$ 36,136,587
Amortization of deferred capital contributions	90,301	100,077	121,246
Other	20,000	45,564	27,117
Total revenues	37,817,995	53,484,670	36,284,950
Expenses:			
Transportation services (note 8)	34,605,783	50,742,570	33,275,464
Safety and training	369,777	335,285	316,250
Public transit	48,000	30,231	40,090
Salaries and benefits	1,575,547	1,596,567	1,644,338
Professional fees	370,426	132,833	283,867
Professional development	70,000	9,960	30,378
Communication	150,000	106,744	136,748
Insurance	12,541	12,762	9,843
Supplies and services	525,620	417,641	426,726
Amortization of tangible capital assets	90,301	100,077	121,246
Total expenses	37,817,995	53,484,670	36,284,950
Annual surplus	–	–	–
Accumulated surplus, beginning of year	–	–	–
Accumulated surplus, end of year	$ –	$ –	$ –

See accompanying notes to financial statements.

STUDENT TRANSPORTATION OF EASTERN ONTARIO

Statement of Change in Net Debt

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

	2018	2017
Annual surplus	$ –	$ –
Purchase of tangible capital assets	(22,252)	(57,967)
Amortization of tangible capital assets	100,077	121,246
	77,825	63,279
Other non-financial asset activity:		
Use of prepaid expenses	(1,193)	3,215
Change in net debt	76,632	66,494
Net debt, beginning of year	(360,403)	(426,897)
Net debt, end of year	$ (283,771)	$ (360,403)

See accompanying notes to financial statements.

STUDENT TRANSPORTATION OF EASTERN ONTARIO

Statement of Cash Flows

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

	2018	2017
Cash provided by (used in):		
Operating activities:		
Annual surplus	$ –	$ –
Items not involving cash:		
Amortization of tangible capital assets	100,077	121,246
Amortization of deferred capital contributions	(100,077)	(121,246)
Change in non-cash operating working capital:		
Accounts receivable	(1,791,614)	(31,102)
Due from related party	(14,888,840)	(285,951)
Accounts payable and accrued liabilities	18,404,922	1,130,101
Due to related party	(1,475,491)	(1,029,779)
Prepaid expenses	(1,193)	3,215
Employee Future Benefit	(15,167)	–
	232,617	(213,516)
Investing activities:		
Purchase of tangible capital assets	(22,252)	(57,967)
Financing activities:		
Increase in deferred capital contributions	22,252	57,967
Increase (decrease) in cash	232,617	(213,516)
Cash beginning of year	2,504,952	2,718,468
Cash, end of year	$ 2,737,569	$ 2,504,952
Cash consists of:		
Cash on deposit:	$ 2,737,569	$ 2,508,581
Outstanding cheques	–	(3,629)
	$ 2,737,569	$ 2,504,952

See accompanying notes to financial statements.

Student Transportation of Eastern Ontario ("STEO") was created to provide transportation services for students of the Upper Canada District School Board ("UCDSB") and the Catholic District School Board of Eastern Ontario ("CDSBEO").

Student Transportation of Eastern Ontario was incorporated on October 25, 2011 and commenced operations on February 1, 2012 under the Corporations Act of Ontario as a non-profit corporation without share capital and is exempt from income taxes.

1. Significant accounting policies:

The financial statements are prepared by management in accordance with Canadian public sector accounting standards.

(a) Basis of accounting:

Revenues and expenditures are reported on an accrual basis of accounting. The accrual basis of accounting recognizes revenues as they are earned and measurable; expenses are the cost of goods and services acquired in the period whether or not payment has been made or invoices received.

(b) Tangible capital assets:

Tangible capital assets are recorded at historical cost less accumulated amortization. Historical cost includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset, as well as interest related to financing during construction.

Tangible capital assets, except land, are amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Estimated useful life
Computer software	5 years
Computer hardware	5 years
Furniture and equipment	10 years
Leasehold improvements	Over the term of the lease

1. Significant accounting policies (continued):

(c) Government transfers:

Government transfers, which include legislative grants, are recognized in the financial statements in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amount can be made.

Government transfers for capital that meet the definition of a liability are referred to as deferred capital contributions (DCC). Amounts are recognized into revenue as the liability is extinguished over the useful life of the asset.

(d) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has not elected to record its financial instruments at fair value.

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations.

1. Significant accounting policies (continued):

(d) Financial instruments (continued):

The Standards require an organization to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

- Level 1 – Unadjusted quoted market prices in active markets for identical assets or liabilities;
- Level 2 – Observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

A statement of remeasurement gains and losses was not included as there were no items to disclose.

(e) Budget figures:

Budget figures have been provided for comparison purposes and have been approved by the Board of the Student Transportation of Eastern Ontario. Budget figures were approved on March 24, 2017. The figures have been reported for the purposes of these statements to comply with public sector accounting standards. Budget figures are excluded from the Statement of Net Debt as these amounts are not included in management's budgeted figures.

(f) Use of estimates:

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management 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 financial statements, and the reported amounts of revenues and expenditures during the year. Actual results could differ from these estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

2. Economic dependence:

The Student Transportation of Eastern Ontario operations consist exclusively of supplying services to the Catholic District School Board of Eastern Ontario and the Upper Canada District School Board. Student Transportation of Eastern Ontario is economically dependent on these boards for its revenues.

3. Related party transactions:

(a) Recoveries:

The UCDSB and CDSBEO provide the revenues required to fund STEO's expenses on the basis of approximately 67% from UCDSB and approximately 33% from CDSBEO.

(b) Due from/to related parties:

Related party amounts consist of $8,542,063 due from UCDSB (2017 - $1,475,491 due to UCDSB) and $6,632,728 due from CDSBEO (2017 - $285,951 due from CDSBEO).

Amounts due from/to related parties are non-interest bearing and are expected to be repaid within the next fiscal year.

4. Tangible capital assets and deferred capital contributions:

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
Computer software	$ 318,309	$ 161,060	$ 157,249	$ 220,911
Computer hardware	28,380	8,215	20,165	31,065
Furniture	72,112	45,428	26,684	33,889
Equipment	107,274	39,897	67,377	63,435
	$ 526,075	$ 254,600	$ 271,475	$ 349,300

Cost and accumulated amortization as at August 31, 2017 amounted to $548,895 and $199,595, respectively.

During 2018, $45,071 of fully-amortized computer hardware (2017 - $Nil) were removed from cost and accumulated amortization balances.

STEO received contributions from the member school boards for the capital assets above in the amount of $22,252 (2017 - $57,967) which are recorded as deferred capital contributions on the statement of financial position. The deferred capital contributions are being recognized as revenue on the statement of operations on the same basis as the corresponding tangible capital assets presented above.

5. Employee future benefits:

Effective July 2018, STEO no longer provides retirement gratuities to certain groups of eligible employees. There are no benefit costs or liabilities related to this plan included in STEO's financial statements.

6. Lease commitments:

The Student Transportation of Eastern Ontario leases office premises with terms to November 30, 2021. The minimum annual rent payment under this agreement is as follows:

Fiscal year ending August 31:

2019	$ 29,153
2020	29,153
2021	29,153
2022	7,288
	$ 94,747

7. Financial risks and concentration of credit risk:

(a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. STEO is exposed to this risk relating to its cash and accounts receivable. STEO holds its cash accounts with federally regulated chartered banks who are insured by the Canadian Deposit Insurance Corporation.

STEO's receivables are with school board authorities and governments. STEO believes that these receivables do not have significant credit risk in excess of allowances for doubtful accounts that have been established. STEO's has not created an allowance for any amounts included in accounts receivable as at August 31, 2018.

(b) Interest rate, market and liquidity risk:

STEO believes it is not subject to significant interest rate, market or liquidity risk arising from its financial instruments.

8. Arbitration Settlement

During the year ended August 31, 2018, an arbitration proceeding occurred between STEO and a group of school bus operators/service providers. A final and binding arbitration decision was imposed in August 2018, which resulted in estimated liabilities of $7,466,961 and $9,227,514 for fiscal 2017 and 2018, respectively. These amounts have been accrued on the statement of financial position and the statement of operations for the year ended August 31, 2018. The estimated liability utilized the arbitrator's decision and advance payments made in the amount of $1,388,000 as well as past credits. This amount may be further adjusted upon final settlement which is expected to occur in the year ended August 31 2019.

The arbitrator's decision will also impact rates paid for transportation provided in fiscal 2019, however, no accrual has yet been made in these financial statements as payments to the school bus operators/service providers are due as the transportation services are provided. It is also expected that student transportation costs will increase further in fiscal 2019 based on the newly imposed arbitrated rate schedule, and rate harmonization, both of which are not determinable at this time and will be finalized in fiscal 2019.