

Annual Report 2015

ElectroRecycle
SMALL APPLIANCE & POWER TOOL RECYCLING PROGRAM

Message from the CESA chair

I have had the unique pleasure of sitting on the CESA Board of Directors since the organization was formed back in 2011. We have come a long way since then, as evidenced, in part, by the compelling numbers that are revealed in this report.

2015 was a year of significant activity amongst environmental regulatory bodies across Canada. The topic of small appliance and power tool stewardship surfaced on many occasions in several regions and I'm pleased to say that CESA was there to add its voice. We were able to provide insight and informed commentary in all of our engagement with regulators precisely because we had the benefit of our members' input at every stage. Organic, reciprocal channels of communication are paramount in our efforts to champion national harmonization of stewardship programs and I firmly believe that CESA has emerged as a leader in securing cohesive, participatory input from those most directly affected by recycling regulations.

On behalf of the Board of Directors, I extend thanks to CESA President Laura Selanders, who has been instrumental in creating a platform for open conversation. Her commitment to transparency and accountability continues to be a benchmark for leadership.

Naturally I am indebted to the other members of CESA's Board of Directors who continue to invest significant time and energy into guiding our organization and holding it to the highest standards of integrity and innovation. We remain grateful for the ongoing contributions of our industry partners at the Canadian Hardware & Housewares Manufacturers Association, the Retail Council of Canada, and the Association of Household Appliance Manufacturers, as well as to our colleagues at Product Care Association, who administer CESA's ElectroRecycle Program on our behalf.

As I look upon the rapidly advancing landscape of industry-led stewardship in Canada, I am confident that CESA is well positioned to represent the consolidated voice of our membership and offer informed recommendations that will help to achieve our shared objectives.

Sincerely,



David Bois
Chair, CESA

Message from the CESA President

Reading through the pages of this report, I feel an undeniable sense of gratitude as I consider how many people contributed to such a great year for CESA and the ElectroRecycle program. ElectroRecycle just wrapped its fifth year of operation and set new records (yet again!) across a number of key performance metrics. The program shows no signs of slowing down and continues to solidify its reputation as a strategic road map to the future of small appliance and power tool stewardship in Canada.

As with all claims of successful performance, however, the proof, as they say, is in the pudding. One of the clearest signs of the ElectroRecycle program's stability and maturity was evidenced in July when we were able to effect a reduction in environmental handling fees (EHFs) and a simplification in reporting through product category consolidation, this latter having been identified by CESA members, via consultation, as an area of particular significance. The positive shift was made possible through consistent operational and cost efficiencies that we were pleased to be able to pass down to our members.

Additionally, as collection volumes, program end-user accessibility and awareness performance all increase, our voice in the stewardship landscape resonates ever more deeply and carries greater influence. To that end, we supplied, on behalf of our membership, a detailed letter to the Ontario Minister of Environment and Climate Change (MOECC) that outlined our perspective on Bill 151, 2015's Waste Free Ontario Act. In our correspondence, we focussed on two key points that emerged as priority matters in our consultations with members: national harmonization of stewardship programs and adequate lead-time for new program implementation. I believe that armed with the input of our members, we put our best foot forward in ensuring that CESA has a voice in the development of future regulation across Canada. Ontario is just one example of an area in which we engaged in this sort of communication with regulators.

As always, it is my aim to represent and advocate for the interests of CESA's members in all conversations concerning new regulation. I'd like to take a moment to thank our membership, whose response to our ongoing consultation and dialogue efforts has informed the conversations that I have with key influencers. In addition to CESA's outreach to the MOECC in Ontario, in 2015 we also pro-actively engaged in communication with regulators in Alberta, Manitoba, the Northwest Territories and the Yukon, all regions with emerging stewardship ambitions.

Many thanks to our association partners, the Canadian Hardware & Housewares Manufacturers Association, the Retail Council of Canada, and the Association of Household Appliance Manufacturers, who continue to offer sound counsel that guides our efforts. Additionally, I am grateful for the support and direction of our Board of Directors and CESA staff, as well as for the ongoing experience and on-the-ground savvy of ElectroRecycle program administrators, Product Care Association.

I look forward to another busy and productive year in 2016, working alongside our invaluable partners and colleagues, without whom our successes would not be possible. I invite you to review this report at your leisure and, should you have any questions or comments that linger on beyond these pages, do not hesitate to contact me. I'd love to hear from you.

Best regards,



Laura Selanders
President, CESA

Vision

Internal Structure

Minimal internal structure with a dependence on outsourced expertise

Stakeholder Relationships

Ensure good reputations with all regulators across Canada

Awareness

Cost effective awareness program to increase materials collected

Financial Position

Drive down per ton cost of recycling providing increased efficiency and value

Geographical Position

Become the favoured model in Canada and successful in more than one region

Product Coverage

Add appliances within scope as they come to market

Mission

To assist manufacturers, brand owners and other legally obligated parties in discharging their obligation to establish end-of-life product collection and recycling programs under applicable provincial extended producer responsibility (EPR) legislation.



Mandate

To design, implement, operate, promote and report out on end-of-life recycling programs for electrical appliances and other electrical products.

Welcome

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Snapshot 2015

Collection

197
Total collection sites



10%
Above target

4,225,141 KG
Collected

15%
Increase in collections

Accessibility



99.5%
Accessibility across BC

4.5%
Above program target

Awareness

73%

Consumer awareness



10.5%
Above program target

Financials

\$1.35/KG
collected

1%
Lower than
2014





What is CESA?

The Canadian Electrical Stewardship Association (CESA) is a not-for-profit organization incorporated in 2010 to develop recycling programs to manage end-of-life products on behalf of our more than 400 members drawn from various sectors of the small household appliance and power tool industry.

Currently, CESA operates one program in Canada: ElectroRecycle, British Columbia's electrical small appliance and power tool recycling solution. More than 300 household products are managed under the ElectroRecycle program.

The program is a response to provincial Extended Producer Responsibility (EPR) regulations. EPR is a legislative framework for recycling in Canada where the responsibility for end-of-life product management belongs to those who manufacture, import for the first time, distribute or sell designated products. Instead of trying to go it alone, members of the small household appliance industry came together and formed CESA, tasking it to meet the specific mandates of the Regulation on their behalf.

While it is not our mandate to lobby for new regulations in other jurisdictions, we nevertheless remain proactive in our engagement with regulators so that the voice of our membership is heard when new programs are being discussed.

CESA has engaged Product Care Association (PCA) to act as Program Manager, overseeing the administration and day-to-day operations of the ElectroRecycle Program.

More information about CESA, its members and its collection facility locations can be found at www.electrorecycle.ca.

Governance

CESA is governed by a Board of Directors comprised of an equal number of representatives from manufacturers and retailers representing as many product categories as possible. Additionally, CESA works with manufacturer and retailer associations, who are observers to CESA's Board of Directors, including the Canadian Hardware and Housewares Manufacturers Association (CHHMA), the Association of Home Appliance Manufacturers (AHAM) and the Retail Council of Canada (RCC).



President	Laura Selanders	CESA
Chair	David Bois	Home Hardware Stores Limited
Vice Chair	David Williams	Hamilton Beach Brands Canada Inc.
Secretary / Treasurer	Peter Maddock	Panasonic Canada Inc
Director	Chantale Mantha	Costco Wholesale Canada Ltd
Director	Karl Herdman	Conair Consumer Products Inc
Director	Rob Felix	London Drugs Limited
Director	Stan Sauer	Makita Canada Inc
Director	Kimi Walker	Canadian Tire Corporation
Director	Peter Skubna	Hudson's Bay Company

Program Overview

The day-to-day business of recycling small appliances and power tools includes many elements

It starts with educating consumers about the existence of the ElectroRecycle program, setting up and maintaining a convenient collection network that is accessible to the public so they can recycle their products at end-of-life, organizing a safe and effective transportation system, and processing the recyclable products we collect so the materials they contain can be reused in the manufacturing of other products.



The Production & Sale of CESA Products

Small appliance producers continue to strive to reduce the environmental impacts associated with the production and use of small appliances through redesigning products, reducing packaging, increasing energy efficiency and other sustainability efforts.



In 2015
7,519,401
units of CESA products
were sold in British Columbia
(as reported by CESA members)

Sustainability

In August 2014, members of the Association of Home Appliance Manufacturers Canada (AHAM Canada) published the Sustainability Standard for household portable and floor care appliances, which provides meaningful environmental performance information to consumers about products, as well as criteria on pre-and post-consumer recycled content in products, reducing materials of concern, and material resource efficiency.

Product Design and Reducing Packaging

Smart design seeks to maximize the use of pre-and/or post-consumer recycled materials without impacting the integrity of the product and its packaging, and to ensure proper protection of the product and the safety associated with handling of the entire package. Current industry focus is on reducing packaging weight and volume, more efficient use of packaging materials, increasing the use of post-consumer recycled content and more recyclable materials, as well as using more environmentally friendly pigments and fewer chemicals.

Energy Efficiency

The home appliance industry has increased the energy efficiency of its products considerably over the past two decades. The reduction in standby energy usage has been a major focus as well as the development of timer features, new electronic display technologies and EnergyStar® features.

Awareness

In 2015, the ElectroRecycle program shifted gears in its communication tactics.

For the first time since the program began, a full-time ElectroRecycle Ambassador was dedicated towards executing outreach strategies and large-scale initiatives, as well as a series of pilot programs. Public education initiatives employed in 2015 included traditional advertising, community-based social marketing, and direct to consumer marketing.

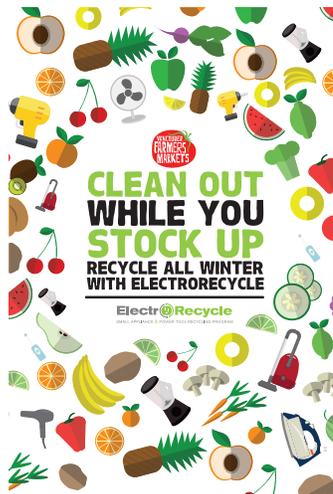


Collection Events

Collection events continued to allow for opportunity to expand partnerships with local community groups throughout B.C. focusing on under-performing remote, or under-served areas, including **Fort Nelson, Stewart and Haida Gwaii.**

Events were held in 16 regional districts generating more than 13,823kg worth of program products.

ElectroRecycle also sponsored two major initiatives in 2015: the BC Recycles Summer Ambassador Tour and the Kitsilano Farmer's Market



RECYCLE YOUR SMALL APPLIANCES AND POWER TOOLS THIS SUMMER AT THE KITSILANO FARMERS MARKET

- POWER TOOLS • KITCHEN COUNTERTOP
- PERSONAL CARE • SPORTS & LEISURE
- TIME MANAGEMENT • GARMENT CARE
- SEWING & TEXTILE • AIR TREATMENT
- WEIGHT MEASUREMENT • FLOOR CARE
- ARTS & CRAFTS • SMALL ITEMS.....

JUNE 21ST / JULY 19TH / AUGUST 16TH
SEPTEMBER 20TH / OCTOBER 18TH & 25TH

**OVER 300 PRODUCTS ACCEPTED
FOR MORE INFORMATION VISIT
ELECTRORECYCLE.CA**

ElectroRecycle  @ELECTRORECYCLE

Pilot Programs

In 2015, several pilot programs were launched to increase collection volumes at community events.



Kwantlen University Campuses.

The Program introduced branded collection boxes for university campus collections, offering extensive exposure for the program amongst the 20,000 students enrolled at the university.



Retail Events

The Program initiated a series of events at small appliance and power tool retailer locations across the province, including London Drugs, Home Hardware and Walmart. Seven events were held in total, which offered consumers an opportunity to learn more about the program at the time of purchase.



School Collection Challenge

Launched in the Delta School District, eight elementary schools in the area participated in a challenge to collect the largest amount of small appliances and power tools over one week. Over 2,257 students, staff and parents, participated, collecting 1,953kg of products with the results published in local media.

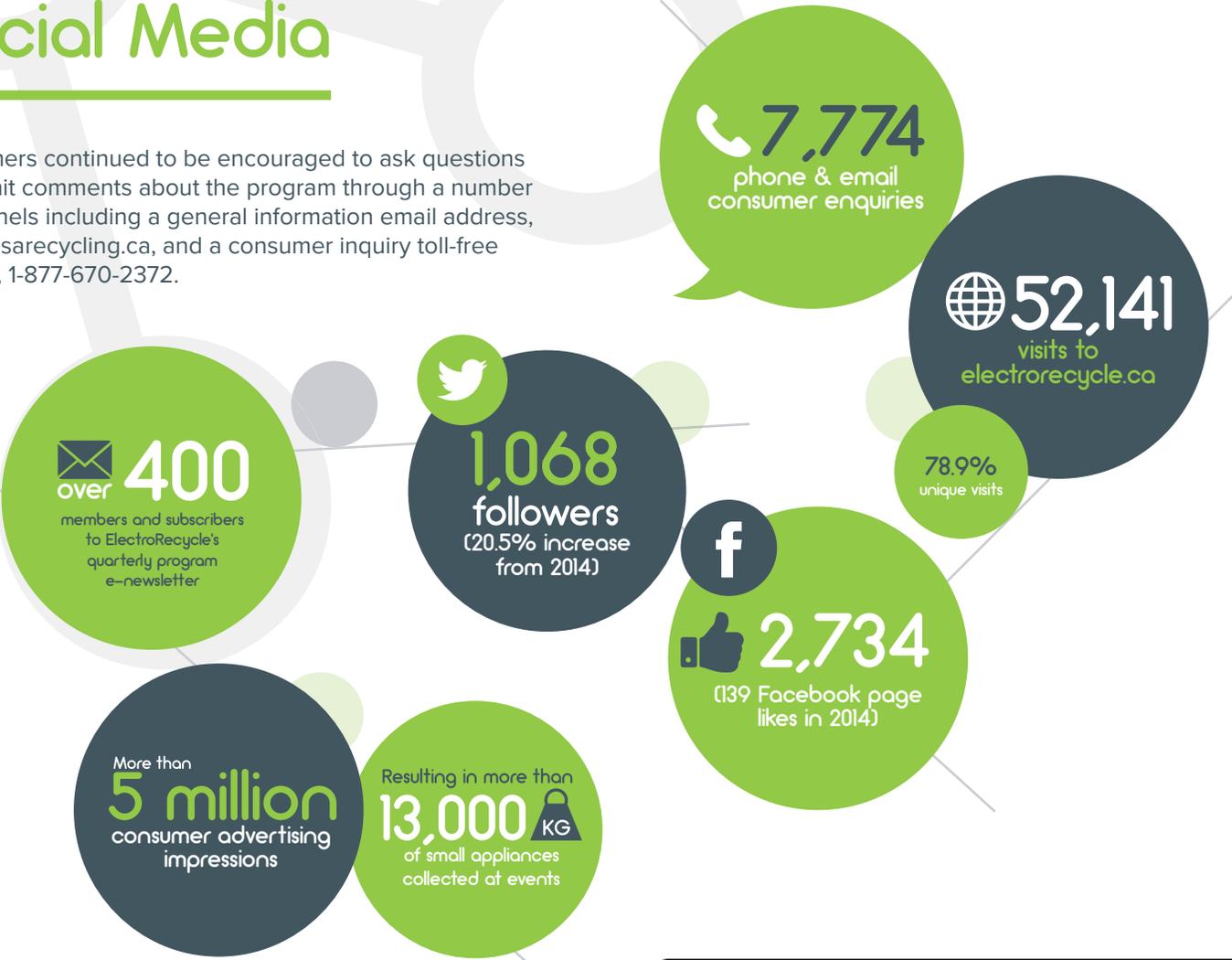


Stakeholder Relations

The addition of the full-time ElectroRecycle Ambassador encouraged ongoing feedback throughout the year with key stakeholders. Over the course of 2015, numerous meetings were held with depot operators, local municipalities, members and subscribers to receive valuable insight and suggestions on strategies to increase the program's success in the upcoming year.

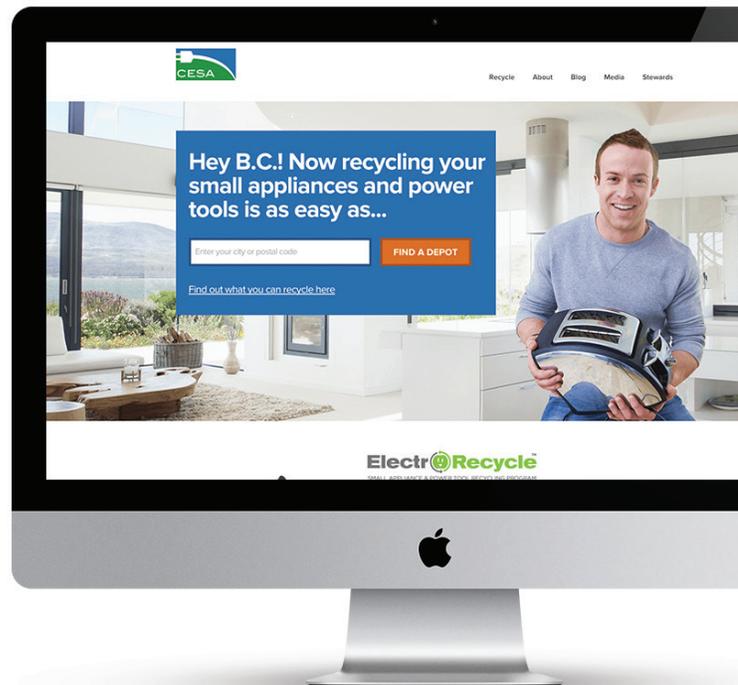
Social Media

Consumers continued to be encouraged to ask questions or submit comments about the program through a number of channels including a general information email address, info@cesarecycling.ca, and a consumer inquiry toll-free number, 1-877-670-2372.



New Website

ElectroRecycle.ca re-launched into cyberspace in May 2015, bringing together both member and consumer platforms under a single URL. The new website design was based on extensive dialogue with CESA's membership to create a whole new user experience, including a dedicated Member section designed with ease of use in mind.



Collection & Accessibility

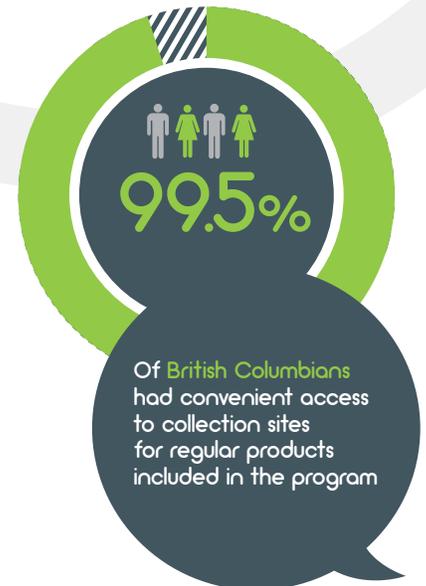
CESA's collection network for the ElectroRecycle Program is primarily based on a drop-off system for program products. Collection facilities are located province-wide, providing convenient access to British Columbians.

Facilities are independently contracted by the program and include private drop-off centres, local government sites and service organizations. Very large products collected through the program are managed as scrap metal by each contracted collection site individually, independent of the program.

This system is augmented through the participation in one-day collection events. In both cases, there is no charge to drop-off program products. Overall, the program increased total

volumes collected by 15% from the previous year, 10% higher than the program's target of 5%.

Map-based "depot finders" are available online at ElectroRecycle's website and Recyclepedia – the recycling information portal maintained by the Recycling Council of BC. Consumers can search by city or postal code for their nearest collection facility to drop off their regular and large item CESA products. Hours of operation, directions and contact information are also included.



*Unlike regular CESA products, these very large products are not managed through the program's recycling process.

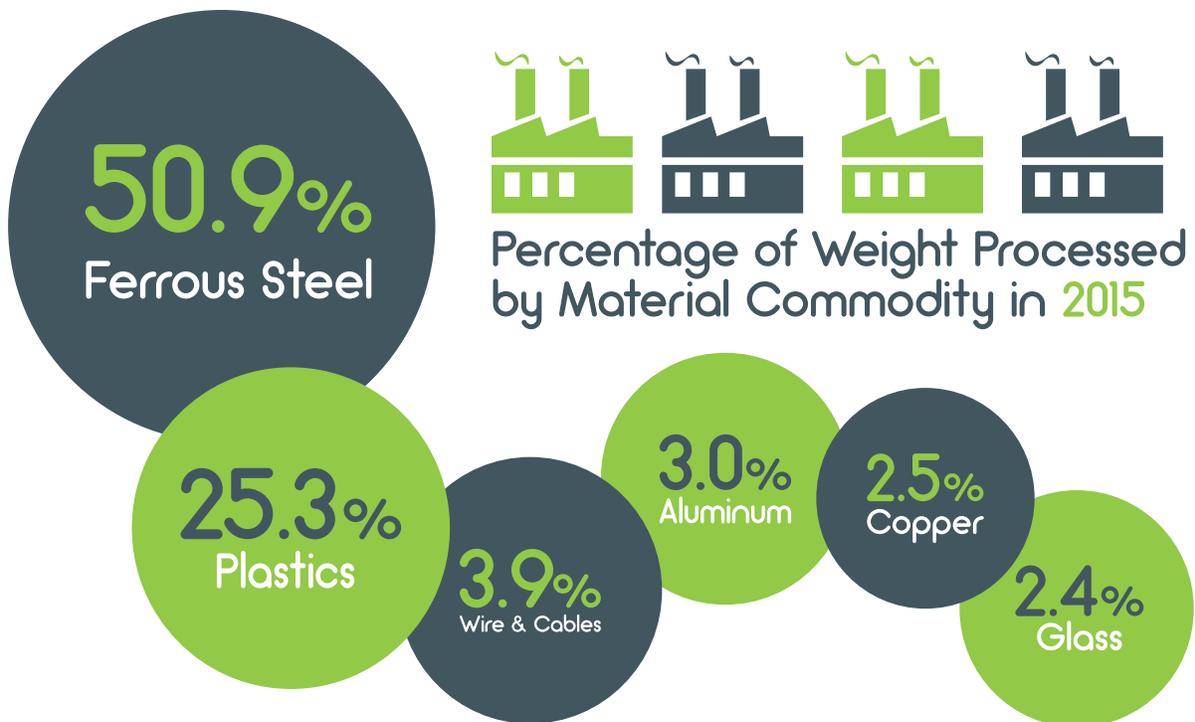
Processing

CESA encourages residents to find second homes for electrical products in good working order. However, any broken and end-of-life products collected by the program are shipped to processors where they are broken down into their component parts and recycled/recovered.

The Program Manager contracts on behalf of CESA with all processors and recyclers, who handle CESA's collected material. The processors are required to conform to the Electronics Product Stewardship Canada (EPSC) Electronic Recycling Standard. The EPSC Electronic Recycling Standard defines the minimum requirements for handling end-of-life electronics and contains many requirements with

which the processor must comply, such as environmental, occupational health and safety, and material handling requirements.

CESA also contractually requires that all processors submit to performance reviews by CESA or a third-party auditor as required.



Independent Auditors Report

Report on the Financial Statements

Canadian Electrical Stewardship Association (the “Association”) was incorporated under the Canada Corporations Act on 8 March 2010 and commenced operations on 1 October 2011. The Association was issued a certificate of continuance under the Canada Not-for-Profit Corporations Act on 2 August 2012. The Association is a not-for-profit organization and it is not subject to income taxes.

The Association is a Product Stewardship Agency of manufacturers, brand owners and retailers of electrical small appliances, power tools, sewing machines, exercise, sports and leisure equipment, and arts, crafts and hobby devices. The Association’s purpose is to assist manufacturers, brand owners and other legally obligated parties (e.g. retailers, importers or distributors) in discharging their obligation to establish end-of-life product collection and recycling programs under the British Columbia Recycling Regulation (Reg. 449/2004, O.C. 995/2004) (the “Regulation”).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, 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 the auditors’ 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 auditors consider internal control relevant to the association’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 association’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 Canadian Electrical Stewardship Association as at 31 December 2015, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Chartered Professional Accountants

Vancouver, Canada

Consolidated Financials

Statement of Financial Position

	2015	2014
Assets		
Current		
Cash	\$ 6,791,069	\$ 5,122,404
Accounts receivable	1,366,088	1,699,770
Prepaid expenses	36,042	25,859
	\$ 8,321,345	\$ 6,848,033
Internally restricted cash and investments (Note 3)	11,270,750	11,021,779
	\$ 19,592,095	\$ 17,869,812

Liabilities

Current		
Accounts payable and accrued liabilities	\$ 972,629	\$ 830,199
GST/HST payable	-	43,170
	972,629	873,369
Commitments (Note 4)		
Net Assets		
Unrestricted	7,348,716	5,974,664
Internally restricted - Reserve Fund (Note 5)	11,270,750	5,378,036
Internally Restricted - Program Enhancement Fund (Note 6)	-	5,643,743
	18,619,466	16,966,443
	\$ 19,592,095	\$ 17,869,812

Statement of Changes in Net Assets

	Unrestricted	Internally Restricted - Reserve Fund	Internally Restricted - Program Enhancement Fund	Total 2015	Total 2014
Balance - beginning of year	\$ 5,974,664	\$ 5,378,063	\$ 5,643,743	\$ 16,996,443	\$ 14,283,304
Excess of revenues over ex- penses for the year	1,623,023	-	-	2,713,139	2,713,139
Fund transfer - Reserve Fund (Note 5)	(248,971)	248,971	-	-	
Fund transfer - Program Enhancement Fund (Note 6)		5,643,743	(5,643,743)	-	
Balance - end of year	\$ 7,348,716	\$ 11,270,750	-	\$ 18,619,466	\$ 16,996,443

Statement of Operations

	2015	2014
Revenues	\$ 7,058,602	\$ 7,547,360
Expenses		
Collection, transportation and processing	3,965,446	3,638,161
Communications and program administration	1,724,147	1,368,640
	5,689,593	5,006,801
Excess of revenues over expenses from operations	1,369,009	2,540,559
Other Income (expense)		
Investment Income	292,809	201,516
Investment management fees	(38,795)	(28,936)
	254,014	172,590
Excess of revenues over expenses for the year	\$ 1,623,023	\$ 2,713,139

Statement of Cash Flows

	2015	2014
Cash provided by (used in):		
Operating activities		
Excess of revenues over expenses for the year	\$ 1,623,023	\$ 2,713,139
Changes in non-cash working capital balances		
Account receivable	363,682	(115,200)
Prepaid expenses	(10,183)	86
Accounts payable and accrued liabilities	142,430	50,645
GST/HST payable	(201,316)	(4,322)
	\$ 1,917,636	\$ 2,644,348
Investing activities		
Transfer to Reserve Fund	(248,971)	(617,428)
Transfer to Program Enhancement Fund	(248,971)	(51,390)
	(248,971)	(688,818)
Net increase in cash	1,668,665	1,975,530
Cash - beginning of year	5,122,404	3,146,874
Cash - end of year	\$ 6,791,069	\$ 5,122,404

Notes to the Financial Statements

For the year ended 31 December 2015

1. Incorporation

Canadian Electrical Stewardship Association (the “Association”) was incorporated under the Canada Corporations Act on 8 March 2010 and commenced operations on 1 October 2011. The Association was issued a certificate of continuance under the Canada Not-for-Profit Corporations Act on 2 August 2012. The Association is a not-for-profit organization and it is not subject to income taxes.

The Association is a Product Stewardship Agency of manufacturers, brand owners and retailers of electrical small appliances, power tools, sewing machines, exercise, sports and leisure equipment, and arts, crafts and hobby devices. The Association’s purpose is to assist manufacturers, brand owners and other legally obligated parties (e.g. retailers, importers or distributors) in discharging their obligation to establish end-of-life product collection and recycling programs under the British Columbia Recycling Regulation (Reg. 449/2004, O.C. 995/2004) (the “Regulation”).

2. Summary of significant accounting policies

These financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations. The significant policies are detailed as follows:

(a) Revenue recognition

Revenue from environmental handling fees (“EHF”) is recognized at the time a EHF applicable product is sold by a member of the Association, and the EHF becomes due and payable. EHF are received from registered members which participate in the Association’s program. The Association recognizes these fees as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. EHF revenues are recognized as members report and remit them as required by applicable provincial environmental legislation. Investment income includes interest income and realized investment gains and losses. Investment income is recognized as revenue when earned.

(b) Cash and cash equivalents

The Association’s policy is to disclose bank balances under cash and cash equivalents, including bank overdrafts with balances that fluctuate frequently from being positive to overdrawn and term deposits with a maturity period of three months or less from the date of acquisition.

(c) Financial instruments

(i) Measurement of financial instruments

The Association initially measures its financial assets and liabilities at fair value and subsequently measures all of its financial assets and financial liabilities at amortized cost.

Financial assets measured at amortized cost include cash, accounts receivable and internally restricted cash and investments. Financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

2. Summary of significant accounting policies (continued)

(ii) Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in the statement of operations.

The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in the statement of operations.

(iii) Transaction costs

The Association recognizes its transaction costs in the statement of operations in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

(d) Use of estimates

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations 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 amount of revenues and expenses during the reported period. Actual results could differ from these estimates.

3. Internally restricted cash and investments

Internally restricted cash and investments are comprised of the assets which have been internally restricted by the Association's board of directors related to the Reserve Fund (Note 5) and the Program Enhancement Fund (Note 5):

	Cost	2015 Market	Cost	2014 Market
Investments	\$ 9,650,937	9,518,899	\$ 10,779,015	\$ 10,646,759
Cash	1,619,813	1,619,813,	242,764	242,764
	\$ 11,270,750	\$ 11,138,712	\$ 11,021,779	\$ 10,889,523

4. Commitments

The Association has a lease agreement for its office premises that will expire on 31 March 2016. Assuming the lease will be renewed with similar terms for 12 more months at the end of the current lease, the minimum annual payments required by the lease are as follows:

2016	\$ 24,348
2017	6,087
	<hr/>
	\$ 30,435
	<hr/>

5. Reserve Fund

During the year, the Association's Board of Directors combined the Program Enhancement Fund (Note 6) with the Reserve Fund to establish a new Reserve Fund. As a result, \$5,643,743 was transferred from the Program Enhancement Fund to the Reserve Fund.

The Reserve Fund has the following purposes:

- To manage the year to year cost of fluctuations in volumes and costs and thereby stabilize recycling fees;
- To cover the costs of winding up the Association by the decision of the members or as a consequence of regulatory change;
- To cover any claims against the Association, its staff or Board of Directors in excess of the Association's insurance coverage;
- To enable the Association to reduce its insurance costs for the management of environmental risk, or any other risk;
- To cover any unusual or extraordinary costs not accounted for in the operating budget;
- To be used in the event that unexpected expenses to drive program collection, awareness or expansion are determined necessary to maintain operations; and
- To meet recovery targets in British Columbia or any other province in which the Association may operate in the future.

The Reserve Fund is internally restricted and transfers to the Reserve Fund are at the discretion of the Board of Directors up to a maximum amount, which is the greater of the cumulative forecasted expenses for the following fiscal year and the cumulative prior year expenses, plus other amounts deemed necessary by the Board of Directors. The Reserve Fund is funded by cash and investments which have been internally restricted by the Association's Board of Directors (Note 3).

The assets in the Reserve Fund consist of cash, investments in fixed income and mutual funds and are independently managed (Note 3). All income earned and expenses paid on those investments are initially reported in the unrestricted fund and then transferred to the Reserve Fund. During the year, \$248,971 (2014 - \$617,428) was transferred from the unrestricted fund to the Reserve Fund.

6. Program Enhancement Fund

The Association's Board of Directors has established the Program Enhancement Fund which is to be used in the event that unexpected expenses to drive program collection, awareness or expansion are determined necessary to maintain operations and meet recovery targets in B.C., or any other province in which CESA may operate in the future.

The Program Enhancement Fund is internally restricted and transfers to the Program Enhancement Fund are at the discretion of the Board of Directors. The Program Enhancement Fund is funded by cash and investments which have been internally restricted by the Association's Board of Directors (Note 3).

The assets in the Program Enhancement Fund consist of cash, investments in fixed income and mutual funds and are independently managed (Note 3). All income earned and expenses paid on those investments are initially reported in the unrestricted fund and then transferred to the Program Enhancement Fund. During the year, \$51,390 (2013 - \$5,592,353) was transferred from the unrestricted fund to the Program Enhancement Fund.

7. Financial instruments

The Association is exposed to various risks through its financial instruments. The following analysis provides a measure of the Association's risk exposure and concentrations at the statement of financial position date, 31 December 2015.

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Association's main credit risks relate to its cash and accounts receivable. Cash is in place with major financial institutions. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of members. The Association has evaluation and monitoring processes in place and writes off accounts when they are determined to be uncollectible.

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Association is exposed to this risk mainly in respect of its accounts payable and accrued liabilities. The Association is not exposed to this risk due to its strong working capital position.

(c) Market risk

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 risk, interest rate risk and other price risk. The Association is mainly exposed to interest rate risk and other price risk

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Association is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed-rate instruments subject the Association to a fair value risk while the floating-rate instruments subject it to a cash flow risk. The Association does not use financial instruments to reduce its risk exposure.

(e) Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in 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 market. The Association is exposed to other price risk through its investments.



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