

# Annual Report 2016

Canadian Electrical Stewardship Association



[www.electrorecycle.ca](http://www.electrorecycle.ca)

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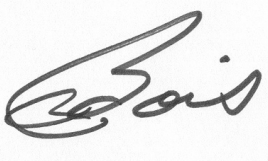
## A Message from the CESA Chair

**T**he past year marked CESA's sixth anniversary overseeing the stewardship of small appliances and power tools in British Columbia. The first six years have seen the organization grow into a mature and resilient organization. The ElectroRecycle Program continues to exceed its performance expectations due to the efforts and commitment of CESA President Laura Selanders and the many individuals and service providers that support the Program's daily operations.

On behalf of CESA's Board of Directors, I'm very proud of the leadership that CESA has provided for its members and across the stewardship community. The Board of Directors represent members across multiple manufacturing sectors as well as their retail partners, which opens up a platform for diverse experience and strengths to expand CESA as an organization. I am grateful to CESA's Board of Directors for their strategic oversight and contributions in setting the path forward for the association into its second mandate. Additionally, I am grateful for the continued support 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 of Canada, who manage the ElectroRecycle Program on CESA's behalf.

Our reputation as a leader in product stewardship and our continuous efforts to find innovative ways to improve on program delivery positions CESA and the ElectroRecycle program well to represent the industry as product stewardship continues to expand across Canada.

Sincerely,



**David Bois**  
Chair CESA

# A Message from the CESA President

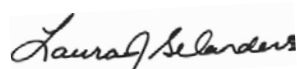
**W**hile 2016 was a year of significant global change, I'm proud of the positive growth demonstrated by CESA and the ElectroRecycle Program. Building on the significant developments in 2015, the past year was an opportunity for the Program to solidify some of its successes and focus on planning for the future. After six years of operation, the Program has established a mature and stable foundation in British Columbia, while continuing to seek out new opportunities to ensure continued awareness and end-user accessibility.

In 2016, the ElectroRecycle Program exceeded all of its performance targets, continuing to experience growth in all areas, including increased collection weights, higher consumer awareness levels and expanded accessibility. While the Program continued to outperform, CESA had its eyes to the future with the completion of ElectroRecycle's revised Program Plan, which charts the Program's course of continuous improvement and innovation through the next five years. I am very proud of the efforts that CESA made to consult widely with affected stakeholders and extremely grateful for the contributions and ongoing support provided by CESA members throughout this process. We also acknowledge the efforts of the Ministry in following up with companies that are out of compliance with the BC Recycling Regulation and their efficient oversight of the program plan renewal process.

On behalf of CESA, I extend my deep gratitude to CESA's Board of Directors, association partners and ElectroRecycle's program manager, Product Care Association of Canada, for their continued participation and commitment towards making CESA a leader in product stewardship.

As always, I welcome comments and questions on this annual report and look forward to continuing to represent and protect the interests of CESA's members in the ongoing dialogue with provincial regulators and stakeholders across Canada regarding the stewardship of small appliances and power tools.

Sincerely,



**Laura Selanders**  
President CESA





## Vision

- **Stakeholder relationships** – ensure good reputations with all regulators across Canada
- **Internal structure** – minimal internal structure with a dependence on outsourced expertise
- **Financial position** – drive down per tonne cost of recycling, providing increased efficiency and value
- **Awareness** – cost effective awareness program to increase materials collected
- **Product coverage** – add appliances within scope as they come to market
- **Geographical expansion** – become the favoured model in Canada and successful in more than one region

## 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.

# 2016 Snapshot

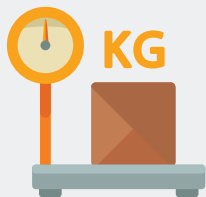
Key Stats From the Year



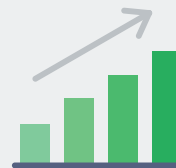
## 202

collection sites  
across BC

### COLLECTION



**4,544,860**  
total product  
collected



**7.5%**  
increase in  
collection since  
2015

### ACCESSIBILITY



**99.5%**  
accessibility  
across BC



**4.5%**  
above program  
target

### AWARENESS



**79%**  
program  
awareness



**16.5%**  
above program  
target

### FINANCIALS



**\$1.39/kg**  
overall program  
cost 2016



**3%**  
higher than  
2015

## What is CESA?

**The Canadian Electrical Stewardship Association (CESA) is a federally incorporated, not-for-profit organization incorporated 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.**

**C**urrently, CESA operates one program in Canada: ElectroRecycle, British Columbia's electrical small appliance and power tool recycling solution. Over 350 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 in 2011 when the BC Ministry of Environment expanded regulations to include small household electrical appliances and in 2012, added power tools, exercise equipment and

crafting machines, and formed CESA, tasking it to meet the specific mandates of the Regulation on their behalf.

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

CESA remains proactive in our engagement with regulators so that the voice of our membership is heard when new programs are being discussed.

More information about CESA, its members and its collection facility locations can be found at [www.electrorecycle.ca](http://www.electrorecycle.ca).

*Over 350 household products are managed under the ElectroRecycle Program.*

# Governance

**CESA is governed by a Board of Directors structured with the intent of allowing an even number of obligated 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).

## **Kimi Walker**

Director

*Canadian Tire Corporation Ltd.*

## **Karl Herdman**

Director

*Conair Consumer Products Inc.*

## **Milena Tolasi**

Compliance Officer

*Costco Wholesale Canada Ltd.*

## **David Williams**

Treasurer

*Hamilton Beach Brands Canada Inc.*

## **David Bois**

Chair

*Home Hardware Stores Ltd.*

## **Rob Felix**

Director

*London Drugs Ltd.*

## **Stan Sauer**

Director

*Makita Canada Inc.*

## **Peter Maddock**

Vice Chair

*Panasonic Canada Inc.*

## **Jeff Leung**

Secretary

*Staples Canada Inc.*



## Program Overview

**The day-to-day business of recycling small appliances and power tools includes many elements to ensure that these products are handled in an environmentally sound manner.**

It starts with educating consumers about the existence of the ElectroRecycle Program and the safe handling procedures of program products. A convenient collection network is set up to allow accessibility for the public so they can recycle their products at end-of-life, as well as organizing

a safe and effective transportation system. The recyclable products we collect are sent for processing so the materials they contain can be reused in the manufacturing of other products.



# Production & Sale of CESA Products

**Small appliance producers continue to seek approaches to reduce the environmental impacts associated with the production and use of small appliances and power tools by redesigning products, reducing packaging, increasing energy efficiency and other sustainability efforts.**

## Product Design and Reducing Packaging

Shifts in product design have resulted in a higher percentage of plastic in many small appliances. Small appliance producers have been actively working to maximize the use of pre-and/or post-consumer recycled materials where feasible, without impacting the integrity of the product and its packaging. Other trends include using fewer chemicals and using more environmentally friendly pigments in product manufacturing.

## 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, which contribute to a reduction in the amount of energy a typical small appliance consumes during use.

## Sustainability

Members of the Association of Home Appliance Manufacturers Canada (AHAM Canada) continue to engage with the retail sector on the sustainability of home appliances. In 2014, AHAM Canada published the “Sustainability Standard for Household Portable and Floor Care Appliances”, a comprehensive sustainability standard providing meaningful environmental performance information for over 80 different small appliances.

In 2016, CESA members  
reported the sale of  
**7,942,513**  
units of program  
products in BC





## Public Outreach & Awareness

**79%**

of British Columbians  
are aware of the  
**ElectroRecycle** Program



In 2016, the ElectroRecycle program expanded its reach in British Columbia, employing a series of community-based social marketing, traditional advertising and public education strategies. A dedicated, year-round ambassador team conducted outreach throughout the province, including several large-scale events.

### Consumer Awareness

CESA surveys consumers every two years to determine awareness levels of the program. In 2016, 79% of British Columbians said they were aware of the existence of a program that recycles electrically powered small appliances and power tools. This represents a 6% increase over results from 2014. Consumers said they were more likely to bring larger electrical appliances to a recycling

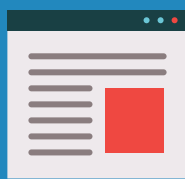
depot, particularly those found in the kitchen (e.g. blenders, toasters and coffee makers). Confusion still exists around recycling smaller items (e.g. hair straighteners and electric toothbrushes). Building on these findings, the Program will focus on raising awareness about recycling smaller appliances in 2017.

## Consumer Engagement

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](mailto:info@cesarecycling.ca), and a consumer inquiry toll-free number, 1-877-670-2372.



**8,596** phone, email  
and app consumer  
inquiries



**55,477** visits to  
[electrorecycle.ca](http://electrorecycle.ca)  
(74.6% of which were unique visits)



**Over 400 members**  
and subscribers to  
ElectroRecycle's  
quarterly program  
**e-newsletter**  
(44% increase from 2015)



**1,310** Twitter  
followers  
(21% increase from 2015)



**3,945** Facebook  
page likes



**288** Instagram  
followers



More than **8 million** consumer advertising impressions resulting in more  
than **45,374 kg** of small appliances collected at events





## Collection Events

Collection events continued to allow for the opportunity to expand partnerships with local community groups, regional districts, municipalities and retailers throughout BC. There was also an increased focus on remote, or under-served areas, including Bella Coola, Tofino and Dawson Creek.


Events were held in collaboration with 54 communities in 22 regional districts collecting more than **45,374 kg** worth of program products.

ElectroRecycle also sponsored two major initiatives in 2016: the BC Recycles Summer Ambassador Tour and the Kitsilano Farmers Market.

ElectroRecycle engaged in **135 events** in 2016 surpassing the target of **80 events**







The program participated alongside the **City of Surrey** and **Salvation Army** in the city's "Pop-Up Junk Drop", yielding **31,568 kg** of program products over six events.

**DROP OFF  
YOUR SMALL  
APPLIANCES  
HERE**

## Expanded Program Reach

In 2016, the ElectroRecycle program further developed several pilot programs originally launched in 2015 to increase collection weights at events and to expand the program's reach into new communities. 2016 initiatives included:



- Increased participation in university campus round-ups with ElectroRecycle becoming a regular feature on many campuses including UNBC, UBC, Kwantlen Polytechnique University, Langara and Camosun College.



- Increased collaboration with CESA members hosting round-up and program awareness booths outside retailer locations.

## Collection & Accessibility

**CESA's collection network for the ElectroRecycle Program is primarily based on a free drop-off system for program products. This system is augmented through the participation in collection events, return to retail, and pick-up from locations which generate large volumes of product.**

Collection facilities are located province-wide, providing convenient access to British Columbians. The Program contracts with independent facilities, which include private drop-off centres, local government sites and service organizations. Very large products collected through the Program are managed as scrap metal by some contracted collection sites, independent of the Program.

Overall, the Program increased total weight collected by 7.5% from the previous year, 2.5%

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 (RCBC). 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 provided.



**135**  
collection events



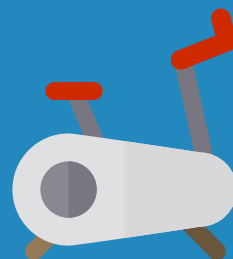
**4,544,860 kg**  
of regular products  
collected



**202** contracted  
collection facilities



**99.5%** of people have  
convenient access to a  
collection site



**2,539** pieces of large  
exercise equipment  
and **1,292** pieces of  
large power tools were  
collected\*

## Processing

### Whenever feasible, CESA encourages residents to find second homes for electrical products in good working order.

The Program itself focuses on ensuring that products that are broken or have otherwise reached their end-of-life are collected and shipped to processors where they are broken down into their component parts to be 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 requires that all processors submit to performance reviews by CESA or a third-party auditor as required.

Material Commodity	Reuse	Recycle	Recovery	Landfill	% of Total Volumes Processed	Downstream Flow
Ferrous Steel		X			51.5%	North America
Plastics		X			26.2%	North America
Aluminum		X			1.7%	North America
Wire, Cables and String Lights		X			3.8%	North America
Copper		X			2.1%	North America
Glass		X			3.8%	North America
Circuit Boards		X			2.7%	North America & Japan
Refuse				X	6.3%	North America
Rechargeable Batteries		X			1.1%	North America
Paper Based Materials		X			0.2%	North America
Non Rechargeable Batteries		X				North America
Heating Oil		X	X	X	0.4%	North America

# Consolidated Financials

## Report on the Financial Statements

We have audited the accompanying financial statements of Canadian Electrical Stewardship Association, which comprise the statement of financial position as of 31 December 2016, and the statements of changes in net assets, operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian 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 2016, 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.

## Statement of Financial Position

### Assets

	2016	2015
Current		
<b>Cash</b>	\$ 6,791,069	\$ 5,122,404
<b>Accounts receivable</b>	1,366,088	1,699,770
<b>Prepaid expenses</b>	36,042	25,859
	<b>\$ 8,321,345</b>	<b>\$ 6,848,033</b>
Internally restricted cash and investments (Note 3)	11,270,750	11,021,779
	<b>\$ 19,592,095</b>	<b>\$ 17,869,812</b>

### Liability

Current		
<b>Accounts payable and accrued liabilities</b>	\$ 1,076,826	\$ 972,629

### Net Assets

Current		
<b>Unrestricted</b>	\$ 7,348,716	\$ 7,348,716
<b>Internally Restricted - Reserve Fund</b>	11,459,561	11,138,712
	<b>18,851,356</b>	<b>18,487,428</b>
	<b>\$ 19,928,182</b>	<b>\$ 19,460,057</b>



## Statement of Changes in Net Assets

	Unrestricted	Internally Restricted Reserve Fund	Total 2016	Total 2015
Balance -beginning of year				
As previously reported	\$ 7,348,716	\$ 11,270,750	\$ 18,619,466	\$ 16,996,443
Prior period adjustment		(132,038)	(132,038)	(132,256)
<b>As restated</b>	7,348,716	11,138,712	18,487,428	16,864,187
Excess of revenues over expenses for the year	363,928		363,928	1,623,241
Fund transfer - Reserve Fund (Note 7)	(320,849)	320,849		
<b>Balance End of Year</b>	<b>\$ 7,391,795</b>	<b>\$ 11,459,561</b>	<b>\$ 18,851,356</b>	<b>\$ 18,487,428</b>

## Statement of Operations

	2016	2015
<b>Revenues</b>	<b>\$ 6,377,255</b>	<b>\$ 7,058,602</b>
<b>Expenses</b>		
Collection, transportation and processing	4,628,728	3,965,446
Administration	1,113,653	1,092,138
Communications	596,924	632,009
	<b>6,339,305</b>	<b>5,689,593</b>
<b>Excess of revenues over expenses from operations</b>	<b>37,950</b>	<b>1,369,009</b>
<b>Other income (expense)</b>		
Investment income	192,468	292,809
Unrealized gain on market value of investments	172,966	218
Investment management fees	(39,456)	(38,795)
	<b>325,978</b>	<b>254,232</b>
<b>Excess of revenues over expenses for the year</b>	<b>\$ 363,928</b>	<b>\$ 1,623,241</b>

## Statement of Cash Flows

	2016	2015
<b>Cash provided by (used in) Operating Activities</b>		
Excess of revenues over expenses for the year	\$ 363,928	\$ 1,623,241
Item not involving cash		
Unrealized gain on market value of investments	(172,966)	(218)
	<b>190,962</b>	<b>1,623,023</b>
<b>Changes in non-cash working capital balances</b>		
Accounts receivable	83,659	363,682
GST/HST	4,751	(201,316)
Prepaid expenses	10,590	(10,183)
Accounts payable and accrued liabilities	104,197	142,430
	<b>394,159</b>	<b>1,917,636</b>
<b>Investing activity</b>		
Transfer to Reserve Fund	(147,883)	(248,971)
<b>Net increase in cash</b>	<b>246,276</b>	<b>1,668,665</b>
<b>Cash - beginning of year</b>	<b>6,791,069</b>	<b>5,122,404</b>
<b>Cash - end of year</b>	<b>\$ 7,037,345</b>	<b>\$ 6,791,069</b>

# Notes in the Financial Statements

## 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. Change in accounting policy

Previously, the Association recorded its internally restricted investments, which are comprised of fixed income securities and mutual funds using the cost method. During the year, the Association acquired various equity instruments that are quoted in an active market. The CPA Canada Handbook Accounting Part II, Section 3856, Financial Instruments, requires these equity investments to be measured at fair value. As such, management has irrevocably elected under Section 3856 to change the method of accounting for all investments to the fair value method. The effect of this change in accounting policy has been applied retroactively and results in the following changes to the comparative financial information:

	As previously reported	Adjustment	Restated
Internally restricted investments, 31 Dec 2015	\$ 11,270,750	\$ (132,038)	\$ 11,138,712
Unrealized gain on fair value of investment		\$ 218	\$ 218
Net assets, 1 January 2015	\$ 16,996,443	\$ (132,256)	\$ 16,864,187
Net assets, 31 December 2015	\$ 18,619,466	\$ (132,038)	\$ 18,487,428

### 3. 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 dividend and interest income, and realized and unrealized investment gains and losses. Investment income is recognized as revenue when earned. Unrealized gains and losses on investments are recognized in the statement of operations.

#### (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

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.

##### (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 liabilities measured at amortized cost include accounts payable and accrued liabilities..

Financial assets measured at fair value include internally restricted investments.

##### (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.



### 3. Summary of significant accounting policies (continued)

#### (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. Key areas where management has made estimates and assumptions include recognition of accrued liabilities, revenue recognition of EHF and provisions for allowance for doubtful accounts related to accounts receivable. Actual results could differ from these estimates.

### 4. Account Receivable

	2016	2015
Accounts receivable	\$ 1,272,029	\$ 1,336,088
Allowance for doubtful accounts	\$ (19,600)	-
	<b>\$ 1,252,429</b>	<b>\$ 1,336,088</b>

During the year, the Association recorded bad debt expense of \$24,548 (2015 - \$34,442) that have been included in communications and program administration expense.

### 5. Internally restricted investments

Internally restricted investments are comprised of assets which have been internally restricted by the Association's board of directors related to the Reserve Fund (Note 7):

	2016 Market	2016 Cost	2015 Market	2015 Cost
Cash equivalents	\$ 1,030,353	\$ 1,030,353	\$ 9,650,937	\$ 1,619,813
Fixed Income	\$ 7,674,845	\$ 7,755,873-	\$ 9,518,899	\$ 9,650,937-
Equity	\$ 2,754,363	\$ 2,551,031-		-
	<b>\$ 11,459,561</b>	<b>\$ 11,337,257</b>	<b>\$ 11,138,712</b>	<b>\$ 11,270,750</b>

## 6. Commitments

The Association has a lease agreement for its office premises that will expire on 31 March 2018. The minimum annual payments required by the lease are as follows:

<b>2017</b>	<b>\$ 28,458</b>
<b>2018</b>	<b>\$ 7,317</b>
	<b>\$ 35,775</b>

## 7. 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 investments which have been internally restricted by the Association's Board of Directors (Note 5).

The assets in the Reserve Fund consist of investments in cash equivalents, fixed income investments, mutual funds, and equity securities and is independently managed (Note 5). 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, \$320,849 (2015 - \$249,189) was transferred from the unrestricted fund to the Reserve Fund.

## 8. 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 2016.

### (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 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.

### (d) Currency risk

Currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Approximately 7% (2015 - Nil%) of the Association's investments are denominated in foreign currency. Consequently, some assets are exposed to foreign exchange fluctuations.

### (e) 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.

## 8. Financial Instruments (continued)

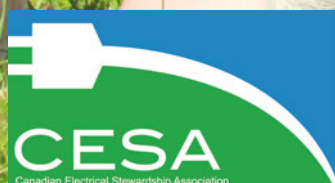
### (f) Other price risk

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 internally restricted investments, which are held in professionally administered funds. These funds are subject to fluctuating returns based on the market and exposed to the risk of market volatility. Risk has been assessed by management and an investment policy adopted to mitigate such market risk.

## 9. Comparative Figures

Certain comparative figures have been reclassified from those previously presented to conform to the presentation of the 2016 financial statements.





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