

Annual Report 2019



electrorecycle.ca



Contents

Mission Statement	3
Board of Directors	3
2019 Summary Statistics	4
Program Overview	5
Public Outreach & Awareness	6
Expanded Program Reach	7
Focus on Repair	8
Small Item Mail-In Project	8
Collection Network & Accessibility	9
Collection & Events Highlights	10
Processing	11
Consolidated Financials	12





Mission Statement

VISION

To be the preferred service provider in provinces with a regulation in place for small appliances, striving for optimal cost effectiveness and efficiency for our members.

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.



Board of Directors

David Bois **CHAIR**

Home Hardware Stores Limited Retailer

Peter Maddock **VICE CHAIR**

Panasonic Canada Inc. Manufacturer

David Williams **SECRETARY/TREASURER**

Hamilton Beach Manufacturer

Kimi Walker **COMPLIANCE OFFICER**

Canadian Tire Corporation Retailer

Stan Sauer **DIRECTOR**

Makita Canada Manufacturer

Milena Tolasi **DIRECTOR**

Costco Retailer

Theo Horsdal **DIRECTOR**

London Drugs Retailer

Craig Emerson **DIRECTOR**

Bissell Canada Corporation Manufacturer

Marie-Anne Champoux **DIRECTOR**

Keurig/Dr.Pepper Canada Manufacturer



2019 Summary Statistics

COLLECTION

235 COLLECTION SITES
ACROSS BC

7% INCREASE IN PRODUCT COLLECTED
FROM LAST YEAR



5,449,641kg TOTAL PRODUCT
COLLECTED

ACCESSIBILITY

99.5% Accessibility across BC.

AWARENESS

88% CONSUMER
AWARENESS

88% VS. 2019



FINANCIALS

\$1.31/kg COLLECTED

2% Higher VS. 2019**



* Consumer Awareness Survey was conducted in 2018. Surveys are conducted once every two years.

**The slight increase in program cost is reflective of an increase in collection, transport and processing expenses. Please see Financial Statements for further detail.

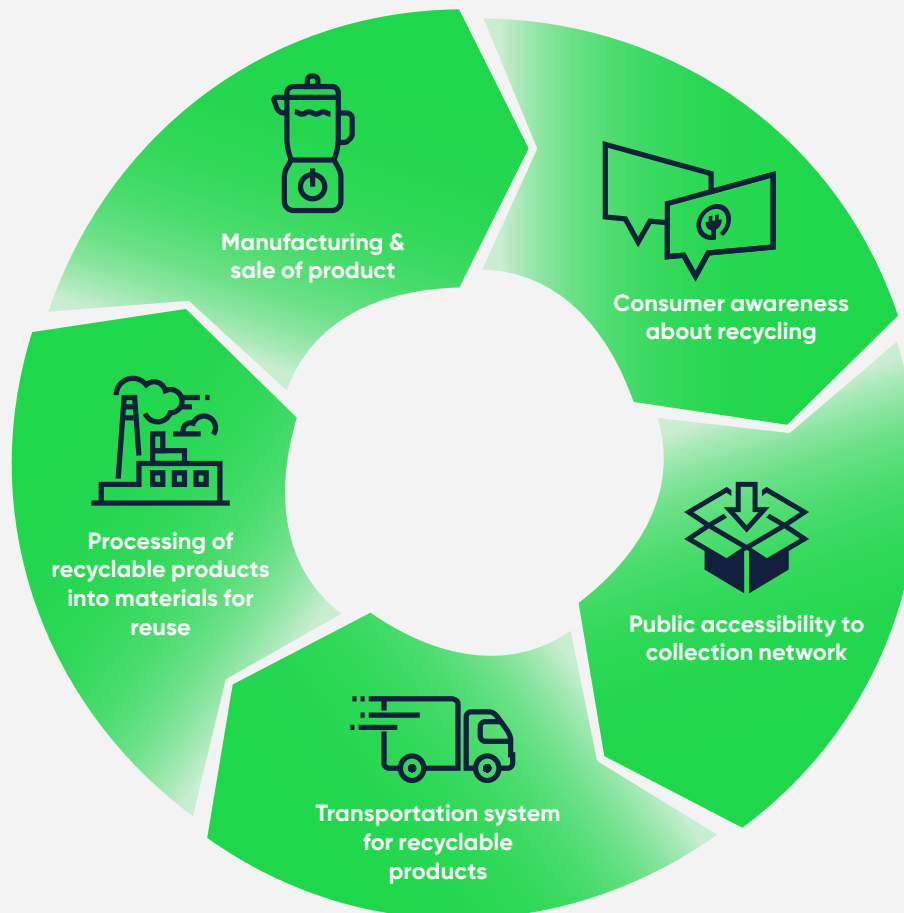


Program Overview

The day-to-day business of recycling small appliances and power tools includes many steps, which collectively ensure that Program Products are handled in an environmentally responsible manner.

It starts with set up and maintenance of a far-reaching collection network that is accessible to the public, making it convenient to recycle their post-consumer products. We then educate consumers about the existence of the ElectroRecycle Program, ensuring they know which products we collect, where they are accepted, and why it's important to recycle.

Once products are collected, the Program proceeds with appropriate handling procedures, organizing a safe and effective transportation system, and processing the recyclable products we collect so the materials can be reused in various applications, including the manufacturing of other products.





Public Outreach & Awareness

In 2019, ElectroRecycle continued to expand its public education and outreach efforts across British Columbia by implementing a multi-channel suite of marketing and communications tactics including community outreach, enhanced digital marketing efforts, traditional advertising (TV, radio, print), events and public education activities.

THESE TACTICS GARNERED MORE THAN



10.3 million
impressions

ACROSS THE PROVINCE

In November 2019, the Program introduced a refreshed brand and new website with enhanced features including an updated collection site locator tool and accepted products list, improving the overall user experience for both consumers and members.

ElectroRecycle delivered on its core communications objectives to:

- Continue to be a leader in EPR for small appliances and power tools
- Ensure an extensive geographical reach in the province by using a variety of media platforms to speak to various audiences
- Maintain 79% consumer awareness of program and shift marketing messaging away from awareness-building to a call to recycle

The Program's 2019 communications strategies were developed in accordance with the objectives noted above, and contributed to strong results in terms of collection tonnage per event, and digital marketing reach.

Expanded Program Reach

ElectroRecycle continued its legacy Ambassador program, supported by one permanent full-time employee and two co-op students who travelled the province as program ambassadors during the summer months.

In 2019, the Ambassador program collaborated with **52 communities** in **22 regional districts**, resulting in the collection of **28,790 kg of Program Products** at events.

These initiatives supported CESA's objective to educate consumers, as well as to expand partnerships with local community groups, regional districts, municipalities and retailers throughout BC. (Continued)





Expanded Program Reach

ElectroRecycle continued its legacy Ambassador program, supported by one permanent full-time employee and two co-op students who travelled the province as program ambassadors during the summer months.

In 2019, the Ambassador program collaborated with **52 communities in 22 regional districts**, resulting in the collection of **28,790 kg of Program Products at events**. These initiatives supported CESA's objective to educate consumers, as well as to expand partnerships with local community groups, regional districts, municipalities and retailers throughout BC. ElectroRecycle participated in **115 community events** across the province, including several remote communities, resulting in over 1.4 million impressions. These events were organized in collaboration with community partnerships, many of which were established during previous years, and strengthened over the course of 2019.



The three-person ambassador team collaborated with community partners at several types of events to promote collection of Program Products, including

community festivals, municipal round-ups, farmers' markets and school and university partnerships as well as organizing and hosting independent, remote events. Each event focused on public engagement and increasing collection tonnage.

Additionally, ElectroRecycle hosted its fifth annual RecycleFest event at Trout Lake Park in Vancouver, resulting in the collection of approximately 555 kgs of Program Product. This signature event was built on the success of the previous four years, working in partnership with the City of Vancouver, Vancouver Zero Waste Reuse & Recycle and the Trout Lake Community Centre Youth Group.

The advertising reach from this event exceeded 400,000 impressions with a "live on location" broadcast by The Peak Radio, as well as extensive support from local community groups and promotion from online blogs and community calendars. The primary focus for this year's Recyclefest was to encourage reuse and repair as the first steps in waste management. This was done in collaboration with Repair Matters, a Vancouver-based organization providing free repair workshops, as well as Free Geek, an organization that focuses on the reuse of electrical and electronic products and accessories.

In 2019, ElectroRecycle continued to expand its outreach in remote communities throughout BC including Fort Nelson, Nakusp, Clearwater and Lasqueti Island, as well as communities in northern BC through partnerships with the Peace River and Northern Rockies Regional Districts.

To strengthen its relationships with Indigenous communities, ElectroRecycle held two signature events in remote communities:

- **The Program returned to Ahousaht for a second year in a row to offer a continued collection opportunity and strengthen its partnership with the Ahousaht First Nation. Only accessible by water taxi, this event continues to be the most remote collection event attended by ElectroRecycle.**
- **The second remote signature event took place in Powell River, in collaboration with the Tla'amin Nation, which is a new partnership for the Program.**



ElectroRecycle participated in **115 community events across the province, including several remote communities, resulting in over 1.4 million impressions.**





Focus on Repair

In 2019, ElectroRecycle focused on reducing waste by collaborating with British Columbia's repair community. Events were organized in partnership with province-wide repair groups, including Repair Matters, Metro Vancouver, Port-Coquitlam, Pemberton, Kelowna and Langley Repair Cafés, and continued collaborative efforts with the Central Kootenay's Steam Truck (a mobile repair organization).

Repair Cafés provide opportunities for community members to learn how to fix broken items including clothing and textiles, bicycles, jewelry, and small appliances and power tools. Any Program Products that were found to be beyond repair were recycled through CESA. Throughout the year, ElectroRecycle attended 14 repair events in four regional districts, resulting in the collection of more than 385 kg of broken small appliances and power tools that were beyond repair.



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**14 repair events in four
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that were beyond repair.**

Small Item Mail-In Project

In an effort to increase collection of small Program Products in rural communities without permanent access to drop off locations, CESA launched the Mail-In Recycler pilot project.

The pilot—initially released in Invermere in January 2019—was also designed to promote awareness of lesser-known items such as electric razors, air fresheners and glue guns. Participating community members were asked to send their broken, small electrical items back to CESA for recycling via a prepaid envelope.

The pilot project was not as successful as we had hoped, but nothing ventured, nothing gained. The Program has elected not to continue the Mail-In Recycler in 2020, however CESA is committed to continuing to explore innovative ways to increase participation in hard to reach communities, as well as increasing awareness for lesser known product categories.



Collection Network & Accessibility

At the end of 2019, CESA's collection network consisted of 235 ElectroRecycle drop off locations across the province.

Map of ElectroRecycle Collection Sites in BC



Through this network, British Columbians can drop off Program Products—for free—at permanent sites throughout BC including depots, private drop-off centres, municipal collection sites, service organizations, and return-to-retail locations. The permanent network is augmented by a robust collection event program across the province, as well as a direct pick-up program for large volume generators of Program Product.

The Program does not directly own or manage these collection facilities, but rather contracts with organizations that can provide a collection location. CESA is reliant upon the collaborative nature of its collection network, working to offer consumers one-stop-drop locations by collecting products from multiple stewardship agencies. This model benefits all parties, offering convenience to consumers, enhanced accessibility, and providing additional revenue to depot operators.

An enhanced location-based "depot finder" is available on ElectroRecycle's new website, [ElectroRecycle.ca](https://www.electrorecycle.ca). In addition to this website, British Columbians can obtain Program recycling information through 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.



Collection & Events Highlights

COLLECTION

235

COLLECTION SITES
ACROSS BC

5,449,641kg

TOTAL PRODUCT
COLLECTED

7%

INCREASE IN PRODUCT COLLECTED
FROM 2018

3,175

PIECES OF LARGE EXERCISE
EQUIPMENT COLLECTED

1,177

PIECES OF POWER TOOLS
COLLECTED¹

99.5%

OF BRITISH COLUMBIANS HAD CONVENIENT ACCESS
TO A COLLECTION SITE FOR REGULAR PRODUCTS²

EVENTS

115

EVENTS,
ACROSS

22

REGIONAL
DISTRICTS

14

REPAIR EVENTS,
ACROSS

4

REGIONAL
DISTRICTS

28,790kg

COLLECTED
AT EVENTS

¹Unlike regular products, these very large products are not managed through the Program's recycling process, but are managed as scrap metal by a number of contracted collection sites.

²Defined as a 30-minute drive or less for urban areas with a population greater than 4,000 and a 45-minute drive or less for those in rural areas of the province with a population greater than 4,000.



Processing

1

Collect

ElectroRecycle collects broken small appliances and power tools at more than 200 collection sites in British Columbia.



2

Transport

The items collected are transported to processing facilities in Canada.



3

Recycle

Small appliances and power tools are broken down into their component parts including glass, metal, plastic and precious metals. Each individual material is sent for recycling and repurposed to create new items.



Glass



Precious Metals



Metal



Plastic



CESA's committed to ensuring that end-of-life products are managed responsibly through collection and shipment to processors where they are broken down into their component parts for recycling and/or recovery.

To ensure collected products are responsibly managed, CESA's processors must adhere to the Electronics Product Stewardship Canada (EPSC) Electronic Recycling Standard, the industry standard for like-products (e.g. electrical, electronic and battery-operated). The EPSC Electronic Recycling Standard defines the minimum requirements for handling end-of-life electronics and contains mandatory environmental, occupational health and safety, as well as material handling requirements. Given that CESA accepts a wide variety of more than 400 products, materials are reported out by commodity only, and not by product type or component.

In 2019, CESA contracted two processors to process collected materials – more than 90% of materials were recycled, repurposed to create new items.



Consolidated Financials

Opinion

We have audited the financial statements of Canadian Electrical Stewardship Association (the "Association"), which comprise the statement of financial position as at 31 December 2019, and the statements of changes in net assets, operations and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as at 31 December 2019, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Association's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.



Consolidated Financials

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Association to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Statement of Financial Position

Assets

	2019	2018
Current		
Cash	\$1,484,899	\$1,468,058
Accounts receivable (Note 3)	\$1,080,680	\$1,211,905
GST/HST receivable	\$204,865	\$138,238
Prepaid expenses	\$25,776	\$23,598
	\$2,796,220	\$2,841,799
Internally restricted investments (Note 4)	\$13,139,594	\$12,036,990
Long-term investments (Note 5)	\$5,697,938	\$6,165,836
	\$21,633,752	\$21,044,625

Liability

	2019	2018
Current		
Accounts payable and accrued liabilities	\$1,262,097	\$1,183,876
Commitments (Note 6)		

Net assets

	2019	2018
Unrestricted	\$7,232,061	\$7,823,759
Internally restricted – Reserve Fund (Note 8)	\$13,139,594	\$12,036,990
	20,371,655	\$19,860,749
	\$21,633,752	\$21,044,625



Statement of Changes in Net Assets

	Unrestricted	Internally Restricted - Reserve Fund	Total 2019	Total 2018
Balance - Beginning of Year	\$7,823,759	\$12,036,990	\$19,860,749	\$19,883,381
Excess (deficiency) of revenues over expenses for the year	\$510,906	-	\$510,906	(\$22,632)
Fund transfer - Reserve Fund (Note 8)	(\$1,102,604)	\$1,102,604	-	-
Balance - End of Year	\$7,232,061	\$13,139,594	\$20,371,655	\$19,860,749

Statement of Operations

	2019	2018
Revenues (Note 7)v	\$5,993,653	\$6,499,595
Expenses		
Collection, transportation and processing	\$5,308,766	\$4,910,421
Administration	\$1,321,768	\$1,169,086
Communications	\$495,717	\$473,584
	\$7,126,251	\$6,553,091
Deficiency of revenues over expenses from operations	(\$1,132,598)	(\$53,496)
Other income (expenses)		
Unrealized gain (loss) on market value of investments	\$1,027,799	(\$529,612)
Investment income	\$683,170	\$625,031
Investment management fees	(\$67,465)	(\$64,555)
	\$1,643,504	\$30,864
Excess (deficiency) of revenues over expenses for the year	\$510,906	(\$22,632)



Statement of Cash Flows

	2019	2018
Cash provided by (used in):		
Operating activities		
Excess (deficiency) of revenues over expenses for the year	\$510,906	(\$22,632)
Item not involving cash		
Unrealized (gain) loss on market value of investments	(\$1,027,799)	\$529,612
	\$516,893	\$506,980
Changes in non-cash working capital balances		
Accounts receivable	\$131,225	\$555,053
GST/HST receivable	(\$66,627)	(\$26,638)
Prepaid expenses	(\$2,178)	\$10,223
Accounts payable and accrued liabilities	\$78,221	(\$44,159)
	(\$376,252)	\$1,001,459
Investing activities		
Purchase of long-term investments - net	\$816,997	(\$123,727)
Transfer to Reserve Fund	(\$423,904)	(\$428,357)
	\$393,093	(\$552,084)
Net increase in cash	\$16,841	\$449,375
Cash - beginning of year	\$1,468,058	\$1,018,683
Cash - end of year	\$1,484,899	\$1,468,058



Notes to 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 providing certain requirements are met.

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 meeting regulatory requirements 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.

Members who join the program after the program's start date are obligated to remit EHF back fees for all products sold from the earlier of the program's start date or the date on which the member started selling designated products. The back fees are recognized as revenue when the amounts are determinable by the Association.

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

(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 and accounts receivable.



Financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

Financial assets measured at fair value include long-term investments and 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.

(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.

3. Accounts receivable

	2019	2018
Accounts receivable	\$1,114,909	\$1,242,849
Allowance for doubtful accounts	(\$34,229)	(\$30,944)
	\$1,080,680	\$1,211,905

During the year, the Association recorded bad debt expense of \$5,930 (2018 - \$67,127) that have been included in administration expense.



4. 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 8):

	2019 Market	2019 Cost	2018 Market	2018 Cost
Cash equivalents	\$691,575	\$691,575	\$1,085,855	\$1,085,855
Fixed income	\$9,098,969	\$9,070,972	\$7,378,496	\$7,491,691
Equity	\$3,349,050	\$2,700,667	\$3,572,639	\$3,384,948
	\$13,139,594	\$12,463,214	\$12,036,990	\$11,962,494

5. Long-term investments

	2019 Market	2019 Cost	2018 Market	2018 Cost
Cash equivalents	\$303,796	\$303,796	\$439,814	\$439,814
Fixed income	\$4,185,650	\$4,159,982	\$4,095,988	\$4,182,625
Equity	\$1,208,492	\$1,004,033	\$1,630,034	\$1,605,003
	\$5,697,938	\$5,467,811	\$6,165,836	\$6,227,442

6. Commitments

The Association has a lease agreement for its office premises that will expire on 1 April 2021. The minimum annual payments required by the lease are as follows:

2020	\$27,600
2021	\$6,900
	\$34,500



7. Revenues

Revenues from EHF are comprised of the following amounts:

	2019	2018
EHF revenue – current year	\$5,900,454	\$6,492,224
EHF revenue – back fees	\$93,199	\$7,371
	\$5,993,653	\$6,499,595

8. Reserve Fund

The Reserve Fund has the following purposes:

- (a) To manage the year to year cost of fluctuations in volumes and costs and thereby stabilize recycling fees;
- (b) To cover the costs of winding up the Association by the decision of the members or as a consequence of regulatory change;
- (c) To cover any claims against the Association, its staff or Board of Directors in excess of the Association's insurance coverage;
- (d) To enable the Association to reduce its insurance costs for the management of environmental risk, or any other risk;
- (e) To cover any unusual or extraordinary costs not accounted for in the operating budget;
- (f) To be used in the event that unexpected expenses to drive program collection, awareness or expansion are determined necessary to maintain operations; and
- (g) 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 4).

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 4). 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, \$1,102,604 (2018 – \$15,442) was transferred from the unrestricted fund to the Reserve Fund.

9. 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 2019.

(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. There has been no change to this risk exposure from the prior year.

(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. There has been no change to this risk exposure from the prior year.

(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% (2017 – 8%) of the Association's investments are denominated in foreign currency. Consequently, some assets are exposed to foreign exchange fluctuations. There has been no change to this risk exposure from the prior year.

(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. There has been no change to this risk exposure from the prior year.

(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 long-term and 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. There has been no change to this risk exposure from the prior year.

(g) Subsequent event

Subsequent to the year end, in January 2020, the World Health Organization declared the COVID-19 outbreak to be a public health emergency. This pandemic has caused an increase in economic uncertainty that has led to volatility in international markets and disrupted business operations around the world. The Association's primary source of revenue is derived from Environmental Handling Fees charged by its members on the sale of approved program products which are dependent on the members' ongoing business operations. Additionally, the Association's operating expenses are largely comprised of the costs of collection, transportation and processing of program products as these are returned to the Association for recycling and proper disposal. At the date of the independent auditors' report, the Association's management has estimated that the current social distancing guidelines will result in reduced revenues of up to 30% and a reduction in total tonnage collected for recycling of approximately 15% as consumers have less access to storefronts and recycling depots. The Association has also taken measures to reduce operating costs during this period. The Association's management anticipates that the impact on year over year revenues, expenses and operations will be minimal once social distancing restrictions are lifted.

