CANADIAN ELECTRICAL STEWARDSHIP ASSOCIATION

FINANCIAL STATEMENTS

31 DECEMBER 2013

ROLFE, BENSON LLP
CHARTERED ACCOUNTANTS

CANADIAN ELECTRICAL STEWARDSHIP ASSOCIATION
Financial Statements
For the year ended 31 December 2013

Contents

ROLFE, BENSON LLP

CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Members,
Canadian Electrical Stewardship Association

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 at 31 December 2013, 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 Associationas at 31 December 2013, 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.

Rolfe, Benson LLP

CHARTERED ACCOUNTANTS

Vancouver, Canada
22 May 2014

CANADIAN ELECTRICAL STEWARDSHIP ASSOCIATION
Statement of Financial Position
31 December 2013

	2013	2012 (Restated - Note 8)
Assets		
Current		
Cash	**$ 3,146,874**	$ 3,161,128
Accounts receivable	**1,584,570**	3,147,731
Prepaid expenses	**25,945**	25,568
	4,757,389	6,334,427
Capital assets (Note 3)	**-**	910
Internally restricted cash and investments (Note 4)	**10,352,961**	4,729,237
	$ 15,110,350	$ 11,064,574
Liabilities		
Current		
Accounts payable and accrued liabilities	**$ 779,554**	$ 813,701
GST/HST payable	**47,492**	351,658
	827,046	1,165,359
Commitments (Note 5)		
Net Assets		
Unrestricted	**3,930,343**	5,169,978
Internally restricted - Reserve Fund (Note 6)	**4,760,608**	4,729,237
Internally Restricted - Program Enhancement Fund (Note 7)	**5,592,353**	-
	14,283,304	9,899,215
	$ 15,110,350	$ 11,064,574

APPROVED BY THE DIRECTORS:

____________________ Director ____________________ Director

The accompanying notes are an integral part of these financial statements.

CANADIAN ELECTRICAL STEWARDSHIP ASSOCIATION
Statement of Changes in Net Assets
For the year ended 31 December 2013

	Unrestricted	Internally Restricted - Reserve Fund	Internally Restricted - Program Enhancement Fund	Total 2013	Total 2012 (Restated - Note 8)
Balance - beginning of year					
As previously reported	$ 5,278,914	$ 4,729,237	$ -	**$ 10,008,151**	$ 2,081,737
Prior period adjustment (Note 8)	(108,936)	-	-	**(108,936)**	-
As restated	5,169,978	4,729,237	-	**9,899,215**	2,081,737
Excess of revenues over expenses for the year	4,384,089	-	-	**4,384,089**	7,817,478
Funds transfer - Reserve Fund (Note 6)	(31,371)	31,371	-	-	-
Fund transfer - Program Enhancement Fund (Note 7)	(5,592,353)	-	5,592,353	-	-
Balance - end of year	**$ 3,930,343**	**$ 4,760,608**	**$ 5,592,353**	**$ 14,283,304**	$ 9,899,215

The accompanying notes are an integral part of these financial statements.

ROLFE, BENSON LLP
CHARTERED ACCOUNTANTS

CANADIAN ELECTRICAL STEWARDSHIP ASSOCIATION
Statement of Operations
For the year ended 31 December 2013

	2013	2012 (Restated - Note 8)
Revenues	**$ 8,833,374**	$ 11,284,559
Expenses		
Collection, transportation and processing	**3,029,414**	2,223,089
Communications and program administration	**1,450,878**	1,242,880
Amortization	**910**	1,112
	4,481,202	3,467,081
Excess of revenues over expenses from operations	**4,352,172**	7,817,478
Other income (expense)		
Investment income	**36,109**	-
Investment management fees	**(4,192)**	-
	31,917	-
Excess of revenues over expenses for the year	**$ 4,384,089**	$ 7,817,478

The accompanying notes are an integral part of these financial statements.

ROLFE, BENSON LLP
CHARTERED ACCOUNTANTS

CANADIAN ELECTRICAL STEWARDSHIP ASSOCIATION
Statement of Cash Flows
For the year ended 31 December 2013

	2013	2012 (Restated - Note 8)
Cash provided by (used in):		
Operating activities		
Excess of revenues over expenses for the year	$ 4,384,089	$ 7,817,478
Item not involving cash		
Amortization	910	1,112
	4,384,999	7,818,590
Changes in non-cash working capital balances		
Accounts receivable	1,563,161	(134,178)
Prepaid expenses	(377)	(3,622)
Accounts payable and accrued liabilities	(34,147)	(257,700)
GST/HST	(304,166)	99,689
	5,609,470	7,522,779
Investing activities		
Purchase of capital assets	-	(2,022)
Transfer to Reserve Fund	(31,371)	(4,729,237)
Transfer to Program Enhancement Fund	(5,592,353)	-
	(5,623,724)	(4,731,259)
Net increase (decrease) in cash	(14,254)	2,791,520
Cash - beginning of year	3,161,128	369,608
Cash - end of year	$ 3,146,874	$ 3,161,128

The accompanying notes are an integral part of these financial statements.

ROLFE, BENSON LLP
CHARTERED ACCOUNTANTS

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"). On 1 July 2012, in response to Phase 5 of the Regulation, the following product categories were added to the ElectroRecycle program operated by the Association: power tools, exercise machines, sewing and textile products, sports and leisure products.

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 recycling fees is recognized at the time a recycling fee applicable product is sold by a member of the Association, and the recycling fee becomes due and payable.

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) Capital assets

Capital assets are recorded at cost. The Association provides for amortization using the straight-line method at rates designed to amortize the cost of the capital assets over their estimated useful lives. The annual amortization rates are as follows:

Computers and peripherals	2 years

2. Summary of significant accounting policies - Continued

(d) 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.

(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.

(e) 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. Capital assets

	Cost	Accumulated Amortization	2013 Net	2012 Net
Computers and peripherals	$ 2,021	$ 2,021	$ -	$ 910

4. 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 6) and the Program Enhancement Fund (Note 7):

	2013 Cost	2013 Market	2012 Cost	2012 Market
Investments	$ 4,760,608	$ 4,756,401	$ -	$ -
Cash	5,592,353	5,592,353	4,729,237	4,729,237
	$ 10,352,961	$ 10,348,754	$ 4,729,237	$ 4,729,237

5. Commitments

The Association is committed to annual payments under various operating leases for premises and a virtual office that expire during the Association's 2014 and 2015 fiscal years as follows:

2014	$ 26,754
2015	6,146
	$ 32,900

6. Reserve Fund

The Association's Board of Directors has established a Reserve Fund for the following purposes: (1) to manage the year to year cost of fluctuations in volumes and costs and thereby stabilize recycling fees, (2) to cover the costs of winding up the Association by the decision of the members or as a consequence of regulatory change, (3) to cover any claims against the Association, its staff or Board of Directors in excess of the Association's insurance coverage, (4) to enable the Association to reduce its insurance costs for the management of environmental risk, or any other risk, and (5) to cover any unusual or extraordinary costs not accounted for in the operating budget.

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.

The assets in the Reserve Fund consist of cash, investments in fixed income and mutual funds and are 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, $31,171 (2012 - $4,729,237) was transferred from the unrestricted fund to the Reserve Fund.

7. Program Enhancement Fund

During the year, the Association's Board of Directors 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 BC, 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 amounts which have been internally restricted by the Association's Board of Directors (Note 4). During the year, $5,592,353 was transferred from the unrestricted fund to the Program Enhancement Fund.

8. Prior period adjustment

During the year, the Association determined that $108,936 of communication and program administration expenses related to 2012 were not recorded in the prior year. This error has been recorded as a prior period adjustment with a restatement of prior years financial statements. As a result, the communications and program administration expense for the year ended 31 December 2012 have increased by $108,936, accounts payable as at 31 December 2012 have increased by $108,936 and net assets as at 1 January 2013 has decreased by $108,936.

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 2013.

(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. 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.