

**CANADIAN ELECTRICAL
STEWARDSHIP ASSOCIATION**

FINANCIAL STATEMENTS

31 DECEMBER 2014

CANADIAN ELECTRICAL STEWARDSHIP ASSOCIATION

Financial Statements

For the year ended 31 December 2014

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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 2014, 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.





INDEPENDENT AUDITORS' REPORT - Continued

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 2014, 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
28 May 2015



CANADIAN ELECTRICAL STEWARDSHIP ASSOCIATION
Statement of Financial Position
31 December 2014

	2014	2013
Assets		
Current		
Cash	\$ 5,122,404	\$ 3,146,874
Accounts receivable	1,699,770	1,584,570
Prepaid expenses	<u>25,859</u>	<u>25,945</u>
	6,848,033	4,757,389
Internally restricted cash and investments (Note 3)	<u>11,021,779</u>	<u>10,352,961</u>
	\$ 17,869,812	\$ 15,110,350
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 830,199	\$ 779,554
GST/HST payable	<u>43,170</u>	<u>47,492</u>
	873,369	827,046
Commitments (Note 4)		
Net Assets		
Unrestricted	5,974,664	3,930,343
Internally restricted - Reserve Fund (Note 5)	5,378,036	4,760,608
Internally Restricted - Program Enhancement Fund (Note 6)	<u>5,643,743</u>	<u>5,592,353</u>
	16,996,443	14,283,304
	\$ 17,869,812	\$ 15,110,350

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 2014

	Unrestricted	Internally Restricted - Reserve Fund	Internally Restricted - Program Enhancement Fund	Total 2014	Total 2013
Balance - beginning of year	\$ 3,930,343	\$ 4,760,608	\$ 5,592,353	\$ 14,283,304	\$ 9,899,215
Excess of revenues over expenses for the year	2,713,139	-	-	2,713,139	4,384,089
Fund transfer - Reserve Fund (Note 5)	(617,428)	617,428	-	-	-
Fund transfer - Program Enhancement Fund (Note 6)	(51,390)	-	51,390	-	-
Balance - end of year	\$ 5,974,664	\$ 5,378,036	\$ 5,643,743	\$ 16,996,443	\$ 14,283,304

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

CANADIAN ELECTRICAL STEWARDSHIP ASSOCIATION
Statement of Operations
For the year ended 31 December 2014

	2014	2013
Revenues	\$ 7,547,360	\$ 8,833,374
Expenses		
Collection, transportation and processing	3,638,161	3,029,414
Communications and program administration	1,368,640	1,450,878
Amortization	-	910
	5,006,801	4,481,202
Excess of revenues over expenses from operations	2,540,559	4,352,172
Other income (expense)		
Investment income	201,516	36,109
Investment management fees	(28,936)	(4,192)
	172,580	31,917
Excess of revenues over expenses for the year	\$ 2,713,139	\$ 4,384,089

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

CANADIAN ELECTRICAL STEWARDSHIP ASSOCIATION

Statement of Cash Flows For the year ended 31 December 2014

	2014	2013
Cash provided by (used in):		
Operating activities		
Excess of revenues over expenses for the year	\$ 2,713,139	\$ 4,384,089
Item not involving cash		
Amortization	-	910
	<u>2,713,139</u>	<u>4,384,999</u>
Changes in non-cash working capital balances		
Accounts receivable	(115,200)	1,563,161
Prepaid expenses	86	(377)
Accounts payable and accrued liabilities	50,645	(34,147)
GST/HST payable	(4,322)	(304,166)
	<u>2,644,348</u>	<u>5,609,470</u>
Investing activities		
Transfer to Reserve Fund	(617,428)	(31,371)
Transfer to Program Enhancement Fund	(51,390)	(5,592,353)
	<u>(668,818)</u>	<u>(5,623,724)</u>
Net increase (decrease) in cash	1,975,530	(14,254)
Cash - beginning of year	<u>3,146,874</u>	<u>3,161,128</u>
Cash - end of year	<u>\$ 5,122,404</u>	<u>\$ 3,146,874</u>

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

CANADIAN ELECTRICAL STEWARDSHIP ASSOCIATION
Notes to the Financial Statements
For the year ended 31 December 2014

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 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.

CANADIAN ELECTRICAL STEWARDSHIP ASSOCIATION
Notes to the Financial Statements
For the year ended 31 December 2014

2. Summary of significant accounting policies - Continued

(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.

(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.

CANADIAN ELECTRICAL STEWARDSHIP ASSOCIATION
Notes to the Financial Statements
For the year ended 31 December 2014

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 6):

	Cost	2014 Market	Cost	2013 Market
Investments	\$ 10,779,015	\$ 10,646,759	\$ 4,760,608	\$ 4,756,401
Cash	242,764	242,764	5,592,353	5,592,353
	<u>\$ 11,021,779</u>	<u>\$ 10,889,523</u>	<u>\$ 10,352,961</u>	<u>\$ 10,348,754</u>

4. Commitments

The Association has a lease agreement for its office premises that will expire on 31 March 2015. 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:

2015	\$ 20,268
2016	<u>5,067</u>
	<u>\$ 25,335</u>

CANADIAN ELECTRICAL STEWARDSHIP ASSOCIATION
Notes to the Financial Statements
For the year ended 31 December 2014

5. 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 (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, \$617,428 (2013 - \$31,171) 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.

CANADIAN ELECTRICAL STEWARDSHIP ASSOCIATION
Notes to the Financial Statements
For the year ended 31 December 2014

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 2014.

(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.

CANADIAN ELECTRICAL STEWARDSHIP ASSOCIATION
Notes to the Financial Statements
For the year ended 31 December 2014

8. Subsequent event

During the year the Association conducted a review of operations which resulted in an adjustment to the recycling fees charged on products which will be effective 1 July 2015. Management estimates that this will result in a 15% - 25% decrease in the Association's revenue in the 2015 fiscal year.