



Consolidated Financial Statements

Island Waste Management Corporation

March 31, 2014

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Independent auditors' report

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To the Board of Directors of

Island Waste Management Corporation

We have audited the accompanying consolidated financial statements of Island Waste Management Corporation, which comprise the consolidated statement of financial position as at March 31, 2014, the consolidated statement of operations and changes in net assets and statement of 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 consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, 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 auditor considers internal control relevant to the Corporation's preparation and fair presentation of the consolidated 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 Corporation'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 consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Island Waste Management Corporation as at March 31, 2014, and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

Charlottetown, Prince Edward Island

June 16, 2014

A handwritten signature in black ink that reads "Grant Thornton LLP".

Chartered Accountants

Island Waste Management Corporation

Consolidated statements of operations and changes in net assets

Year ended March 31	2014	2013
Revenues		
Household user fees (Page 19)	\$ 13,611,047	\$ 13,414,530
Disposal fees (Page 19)	3,825,759	3,916,211
Tires	760,825	872,575
Decommissioning and monitoring	21,134	22,791
Environmental Industrial Services Inc. (Page 23)	823,093	801,936
Other	<u>416,798</u>	<u>269,718</u>
	<u>19,458,656</u>	<u>19,297,761</u>
Expenditures		
Administration (Page 20)	1,411,063	1,401,918
Advertising, education and public relations (Page 20)	109,744	106,013
Operational costs		
Residential collection (Page 20)	5,297,580	5,051,218
Disposal (Pages 21-22)	6,820,795	6,709,650
Tire collection and disposal (Page 22)	760,826	872,575
Decommissioning and monitoring	21,134	22,791
Interest on long term debt	1,435,303	1,494,537
Depreciation	2,538,182	2,637,511
Environmental Industrial Services Inc. (Page 23)	823,093	801,936
Other	<u>113,996</u>	<u>113,211</u>
	<u>19,331,716</u>	<u>19,211,360</u>
Excess of revenues over expenditures	<u>\$ 126,940</u>	<u>\$ 86,401</u>
Net assets, beginning of year	\$ 1,038,516	\$ 952,115
Excess of revenues over expenditures	<u>126,940</u>	<u>86,401</u>
Net assets, end of year	<u>\$ 1,165,456</u>	<u>\$ 1,038,516</u>

See accompanying notes to the consolidated financial statements.

Island Waste Management Corporation

Consolidated statement of financial position

March 31 2014 2013

Assets

Current

Cash and cash equivalents	\$ 3,477,615	\$ 5,362,493
Guaranteed income certificate, bearing interest at a rate of 2.13%	2,500,000	-
Receivables (Note 3)	1,251,175	874,752
Prepays	<u>100,006</u>	<u>102,590</u>
	7,328,796	6,339,835
Performance deposits	199,404	200,732
Property and equipment (Note 4)	<u>19,410,017</u>	<u>21,002,245</u>
	<u>\$ 26,938,217</u>	<u>\$ 27,542,812</u>

Liabilities

Current

Payables and accruals	\$ 1,387,830	\$ 1,411,490
Current portion of long term debt (Note 5)	1,026,006	962,889
Debt due on demand (Note 5)	168,111	168,111
Unearned revenue	<u>114,174</u>	<u>-</u>
	2,696,121	2,542,490
Contractor deposits	199,000	199,000
Deferred government assistance	180,747	139,353
Long term debt (Note 5)	20,794,706	21,820,712
Asset retirement obligation (Note 6)	<u>1,902,187</u>	<u>1,802,741</u>
	25,772,761	26,504,296
Net assets	<u>1,165,456</u>	<u>1,038,516</u>
	<u>\$ 26,938,217</u>	<u>\$ 27,542,812</u>

Commitments (Note 7)

On behalf of the Board

_____ Director _____ Director

See accompanying notes to the consolidated financial statements.

Island Waste Management Corporation

Consolidated statement of cash flows

Year ended March 31

2014

2013

Increase in cash and cash equivalents

Operating

Cash received from customers	\$ 19,201,519	\$ 19,453,455
Cash payments to suppliers	(12,316,156)	(11,994,453)
Cash payments to employees	(2,934,730)	(2,840,879)
Interest paid	<u>(1,442,787)</u>	<u>(1,502,804)</u>
	<u>2,507,846</u>	<u>3,115,319</u>

Financing

Government assistance received	55,822	25,706
Repayment of long term debt	<u>(962,889)</u>	<u>(903,654)</u>
	<u>(907,067)</u>	<u>(877,948)</u>

Investing

Decrease in performance deposits	1,328	34,123
Purchase of guaranteed income certificate	(2,500,000)	-
Proceeds from sale of equipment	8,841	86,000
Purchase of property and equipment	<u>(995,826)</u>	<u>(1,487,632)</u>
	<u>(3,485,657)</u>	<u>(1,367,509)</u>

Net increase in cash and cash equivalents (1,884,878) 869,862

Cash and cash equivalents

Beginning of year	<u>5,362,493</u>	<u>4,492,631</u>
End of year	<u>\$ 3,477,615</u>	<u>\$ 5,362,493</u>

See accompanying notes to the consolidated financial statements.

Island Waste Management Corporation

Notes to the consolidated financial statements

March 31, 2014

1. Nature of operations

The corporation is a Prince Edward Island crown corporation established under the provisions of the *Environmental Protection Act* and therefore is exempt from income taxes under paragraph 149(1)(d) of the Canadian *Income Tax Act*. The corporation's objective is to implement and manage a province-wide waste management system. This includes the collection and disposal of solid waste generated in Prince Edward Island.

Environmental Industrial Services Inc. is a wholly-owned subsidiary of Island Waste Management Corporation. The corporation's objective is to operate water and wastewater facilities.

The Corporation and its wholly owned subsidiary are located at 110 Watts Avenue, Charlottetown, Prince Edward Island.

The financial statements were authorized for issue in accordance with a resolution of the Board of Directors on June 16, 2014.

2. Summary of significant accounting policies

Basis of presentation and adoption of IFRS

The financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements of the Island Waste Management Corporation comply, in all material respects, with IFRS as issued by the International Accounting Standards Board (IASB) in effect as at March 31, 2014.

The principal accounting policies applied in the preparation of the financial statement are set out below. These policies have been consistently applied, except where departure from IFRS is explicitly permitted under the transitional provisions for first time application of IFRS or another IFRS.

Basis of measurement

The financial statements of the Corporation have been prepared on a historical cost basis. The Corporation's functional currency is the Canadian dollar, which is the currency of the primary economic environment in which the Corporation operates, which is also the presentation currency of the financial statements.

Island Waste Management Corporation

Notes to the consolidated financial statements

March 31, 2014

2. Summary of significant accounting policies (cont'd)

Principals of consolidation

The consolidated financial statements include the accounts of the corporation and its wholly-owned subsidiary, Environmental Industrial Services Inc. Significant intercompany transactions are eliminated upon consolidation.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks, net of bank overdrafts, and highly liquid temporary money market instruments with original maturities of three months or less. Bank borrowings are considered to be financing activities.

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of property plant and equipment are added to the cost of the assets until they are substantially ready for their intended use.

Revenue recognition

Household user fees are based on an annual assessment applied to the household's property tax assessment. Revenue is recognized evenly on a monthly basis based on the annual assessment rate.

Disposal revenues are recognized when the waste has been delivered to the drop off facilities.

Tire revenues are recognized when the tires have been disposed of at disposal sites.

Revenues and earnings from utility user fees and excess expenditure recoveries are recorded when collection is reasonably assured and all other significant conditions of service are met.

Deferred government assistance

Government grants relating to the acquisition of assets and equipment purchased by Environmental Industrial Services Inc. are recorded as deferred credits. This account is being amortized on the same basis as the related assets are being depreciated and is reflected as a reduction in current depreciation expense.

Island Waste Management Corporation

Notes to the consolidated financial statements

March 31, 2014

2. Summary of significant accounting policies (cont'd)

Financial Instruments

The Corporation designates its financial assets as loans and receivables. Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. Financial assets designated as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are comprised of accounts receivable and performance deposits. These are initially measured at fair value and then at amortized cost less impairment. When impaired, the carrying amount is reduced by the impairment loss directly.

Financial liabilities are recognized initially at fair value and are subsequently stated at amortized cost. These liabilities included accounts payable and accrued liabilities, long term debt, debt due on demand and contractor deposits.

Accounting estimates and measurement uncertainty

The preparation of financial statements in conformity with IFRS requires the use of judgements, assumptions, and estimates as at the date of the financial statements that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities and the reported amounts of revenues and expenses during the reporting periods presented.

Measurement uncertainty exists when there is a variance between the recognized amount and another reasonable amount. Some accounting measurements require management's best estimate, based on assumptions as at the financial statement date, that reflect the most probable set of economic conditions and planned courses of action.

Asset retirement obligations, employee future benefits, allowance for doubtful accounts and depreciation are the most significant items that are based on accounting estimates. Actual results could differ from the estimates made by management in these financial statements, and these differences, which may be material, could require adjustment in subsequent reporting periods. See Note 6 for additional details on the asset retirement obligation.

Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow or resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Corporation from a contract are lower than the unavoidable costs of meeting its obligations under the contract.

Island Waste Management Corporation

Notes to the consolidated financial statements

March 31, 2014

2. Summary of significant accounting policies (cont'd)

Specific accounting policies

To facilitate a better understanding of the Corporation's financial statements, significant accounting policies are disclosed in the notes, where applicable, of the related accounting topics. A listing of these notes is as follows:

Note	Topic	Page
4	Property and equipment	10
6	Asset retirement obligation	12
9	Employee future benefits	16

Changes in accounting policies

The Corporation applied IAS 19, Employee Benefits (revised 2011) ("IAS 19R") in the current period in accordance with the transitional provision set out in the revised standard. The adoption did not have a material impact on the consolidated financial statements.

During the year, the Corporation adopted IFRS 13 Fair Value Measurement on a prospective basis. IFRS 13 replaces the fair market value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurement. The adoption of IFRS 13 did not have a material impact on the fair value measurements carried out by the Corporation.

Future Accounting Standards and Reporting Changes

In December 2013, the IASB issued narrow scope amendments to a total of nine standards as part of its annual improvement process. Amendments were made to clarify items including the measurement of short term receivables and payables under IFRS 13 Fair Value Measurement, definition of related party in IAS 24 Related Party Disclosures and other amendments. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014. The Corporation intends to adopt these amendments in its financial statements for the annual period beginning April 1, 2015. The extent of the impact of adoption of the amendments has not yet been determined.

The IASB is currently working on revisions to IAS 17 (Leases), and IAS 18 (Revenues). At the current time, the impact of proposed revisions is not determinable.

Island Waste Management Corporation

Notes to the consolidated financial statements

March 31, 2014

3. Receivables

	<u>2014</u>	<u>2013</u>
Trade	\$ 970,807	\$ 782,539
Sales tax, net	<u>280,368</u>	<u>92,213</u>
	<u>\$ 1,251,175</u>	<u>\$ 874,752</u>

4. Property and equipment

Accounting policy

Property and equipment are reported at cost less subsequent depreciation and impairment losses. The cost of property and equipment includes expenditures that are directly attributable to their acquisition or construction, including borrowing costs, and any other cost directly attributable to the installation and decommissioning of the asset. Property and equipment are depreciated over their estimated lives on the diminishing balance basis. When parts of an item of property and equipment have materially different useful lives or patterns of benefit consumption, they are accounted for separately (i.e., as major components). The rates used are as follows:

Buildings	20 yrs, straight line
Motor vehicles	5 yrs, straight line
Computer equipment	5 yrs, straight line
Computer software	5 yrs, straight line
Leasehold improvements	5 yrs, straight line
Site equipment	5 and 10 yrs, straight line
Leachate facility	15, 25 and 30 yrs, straight line
Compost facility	10, 15, 20 and 25 yrs, straight line
Waste Watch drop-off centers	15 yrs, straight line
Waste and compost carts	10 and 20 yrs, straight line
Waste water infrastructure	40yrs, straight line

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

IAS 36, Impairment of Assets, requires an entity to test assets for impairment if indications of impairment exist. Based on an analysis of cash flows, the Corporation has established that the appropriate cash generating unit for impairment review is the entire entity. As the Corporation has the power to increase disposal and sewer rates to ensure full funding into the foreseeable future, impairment at the entity level is remote. As at March 31, 2014, management conducted an impairment review at the entity level, which confirmed that there were no significant indicators of impairment which would have a material impact on the Corporation's ability to generate future economic benefits from its operating non-financial assets.

Island Waste Management Corporation

Notes to the consolidated financial statements

March 31, 2014

4. Property and equipment (cont'd)

	Land	Buildings	Landfill cells	Leachate facility	Compost facility	WasteWatch drop-off	Waste carts	Site equipment	Motor vehicles	Office equip	EISI equip	Total
Gross carrying												
Balance Apr 1, 2013	\$ 504,420	591,530	8,118,193	1,656,267	21,180,532	2,222,389	6,193,126	1,294,705	550,289	436,140	377,979	\$ 43,125,570
Additions	322,000	2,189	61,230	-	-	14,648	426,381	199,136	79,672	22,489	22,190	1,149,935
Dispositions	-	-	-	-	-	-	(164,214)	-	(87,124)	(109,677)	-	(361,015)
Balance Mar 31, 2014	826,420	593,719	8,179,423	1,656,267	21,180,532	2,237,037	6,455,293	1,493,841	542,837	348,952	400,169	\$ 43,914,490
Depreciation and Impairment												
Balance Apr 1, 2013	-	(79,441)	(5,924,230)	(298,224)	(10,169,067)	(1,040,037)	(3,135,009)	(625,404)	(490,000)	(328,261)	(33,652)	(22,123,325)
Disposals	-	-	-	-	-	-	99,884	-	82,262	11,341	-	193,487
Depreciation	-	(30,508)	(686,148)	(69,173)	(1,056,146)	(148,647)	(301,895)	(174,948)	(68,263)	(11,796)	(27,111)	(2,574,635)
Balance Mar 31, 2014	-	(109,949)	(6,610,378)	(367,397)	(11,225,213)	(1,188,684)	(3,337,020)	(800,352)	(476,001)	(328,716)	(60,763)	(24,504,473)
Carrying amount	\$ 826,420	483,770	1,569,045	1,288,870	9,955,319	1,048,353	3,118,273	693,489	66,836	20,236	339,406	\$ 19,410,017
Gross carrying												
Balance Apr 1, 2012	\$ 504,420	421,801	7,872,750	1,656,267	21,180,532	1,981,187	6,091,648	1,231,167	555,736	321,197	315,610	\$ 42,132,315
Additions	-	169,729	245,443	-	-	241,202	223,773	630,839	40,809	114,943	62,369	1,729,107
Dispositions	-	-	-	-	-	-	(122,295)	(567,301)	(46,256)	-	-	(735,852)
Balance Mar 31, 2013	504,420	591,530	8,118,193	1,656,267	21,180,532	2,222,389	6,193,126	1,294,705	550,289	436,140	377,979	43,125,571
Depreciation and Impairment												
Balance Apr 1, 2012	-	(54,984)	(5,167,236)	(229,051)	(9,050,271)	(899,918)	(2,829,132)	(921,604)	(422,737)	(313,673)	(15,020)	(19,903,626)
Disposals	-	-	-	-	-	-	-	397,110	38,714	-	-	435,824
Depreciation	-	(24,457)	(756,994)	(69,173)	(1,118,796)	(140,119)	(305,877)	(100,910)	(105,977)	(14,588)	(18,632)	(2,655,523)
Balance Mar 31, 2013	-	(79,441)	(5,924,230)	(298,224)	(10,169,067)	(1,040,037)	(3,135,009)	(625,404)	(490,000)	(328,261)	(33,652)	(22,123,325)
Carrying amount	\$ 504,420	512,089	2,193,963	1,358,043	11,011,465	1,182,352	3,058,117	669,301	60,289	107,879	344,327	\$ 21,002,245

Island Waste Management Corporation

Notes to the consolidated financial statements

March 31, 2014

5. Long term debt	<u>2014</u>	<u>2013</u>
6.40% debenture amortized to and maturing in December 2027, payable in quarterly instalments of principal and interest of \$599,547. The debenture is unconditionally secured by the Province of Prince Edward Island.	\$ 21,820,712	\$ 22,783,601
Prime plus 3% demand loan. As security for the loan, the borrower has provided a promissory note for the full amount of the loan.	<u>168,111</u>	<u>168,111</u>
	21,988,823	22,951,712
Less: current portion	1,026,006	962,889
debt due on demand	<u>168,111</u>	<u>168,111</u>
	\$ 20,794,706	\$ 21,820,712

Annual principal repayments in each of the next five years are due as follows:
 2015 - \$1,026,006; 2016 - \$1,093,261; 2017 - \$1,164,925; 2018 - \$1,241,287;
 2019 - \$1,322,653 and beyond 2019 -\$15,972,580.

6. Asset retirement obligation

Accounting policy

An asset retirement obligation is recognized as a liability for obligations associated with the closure of the Corporation landfill site and returning such land to its original condition as set by standards of environmental regulations.

Asset retirement obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the date of the statement of financial position. Provisions are determined by discounting the expected future cash flows at a risk free rate. The expected cash flows reflect current market assessments and the risks specific to the liability.

The obligation is reviewed regularly by the Corporation's management based on current regulations, cost, technologies and industry standards. The discounted obligation is initially capitalized as part of the carrying amount of the related landfill and a corresponding liability is recognized. The increase in the landfill site asset is depreciated over the estimated life of the corresponding landfill while the liability is accreted as finance expense in earnings, until settled or sold. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time, changes in the estimated future cash flows underlying the obligation and changes in the risk free rate. Estimated future cash flows are based on estimated current costs adjusted to the future expected closure date by applying an estimate of inflation. The increase in the obligation due to the passage of time is recognized as finance expenses whereas increases and/or decreases due to changes in the estimated

Island Waste Management Corporation

Notes to the consolidated financial statements

March 31, 2014

6. Asset retirement obligation (cont'd)

future cash flows or changes in the risk free rate are capitalized. Actual costs incurred upon settlement of the obligation are charged against the obligation to the extent the obligation was established.

Any reduction on the obligation, and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to profit or loss.

If the change in estimate results in an increase in the obligation, and, therefore, an addition to the carrying value of the asset, the Corporation considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment in accordance with IAS 36. If the revised assets net of obligation exceeds the recoverable value, that portion of the increase is charged directly to expenses.

The following presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation:

	<u>2014</u>	<u>2013</u>
Asset retirement obligation, beginning of year	\$ 1,802,741	\$ 1,535,876
Liabilities settled	-	-
Liabilities incurred	55,757	240,305
Accretion expense	<u>43,689</u>	<u>26,560</u>
Asset retirement obligation, end of year	<u>\$ 1,902,187</u>	<u>\$ 1,802,741</u>

The key assumptions, on which the carrying amount of the obligation is based, include a risk free rate of 2.46% (2013 – 1.76%) and inflation rate of 2%. The total undiscounted amount of the estimated cash flows required to settle the remaining obligation is \$4,173,000 (2013 - \$4,173,000). The expected timing of payment of the cash flow required for settling the obligation is 10 years.

7. Commitments

The Corporation conducts a portion of its operations, the compost facility, pursuant to an operating agreement with a third party operator. Effective April 1, 2014, the agreement provides for the payment by the Corporation to the operator of the facility a minimum annual fee plus an excess tonnage fee. The minimum annual fee commitment under the operating agreement is as follows:

2015	\$ 1,986,550
2016	\$ 2,026,281
2017	\$ 2,066,807
2018	\$ 2,108,143
2019	\$ 2,150,306
2020	\$ 2,193,312

Island Waste Management Corporation

Notes to the consolidated financial statements

March 31, 2014

7. Commitments (cont'd)

2021	\$ 2,237,178
2022	\$ 2,281,921
2023	\$ 2,327,560
2024	\$ 2,374,110

The Corporation has entered into various agreements for the collection of recyclables, waste and compost materials. Minimum payments for the contracts currently in place are as follows:

2015	\$ 4,445,484
2016	\$ 4,351,404
2017	\$ 4,014,543
2018	\$ 4,042,993
2019	\$ 3,311,251
2020	\$ 1,733,947

The Corporation has entered into a long term lease agreement for office space. Annual lease payments are as follows:

2015	\$ 16,800
2016	\$ 12,600

The Corporation has entered into a waste processing agreement dated August 8, 1995 to supply PEI Energy Systems with a minimum annual guaranteed amount of 30,617 metric tonnes of waste. The 30 year agreement, expiring in August 2025, provides for the payment by the Corporation of a \$45 per metric tonne quarterly fee adjusted for consumer price index fluctuations. Any shortage is the responsibility of the Corporation. Current annual costs for the waste processing are estimated at \$2,071,000 (2013 - \$2,017,200).

8. Financial risk management

The Corporation's financial instruments consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities, and long term debt.

Financial risk factors

The following sections describe the Corporation's financial risk exposure and related mitigation strategies:

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Corporation is subject to credit risk through trade receivables. The Corporation mitigates credit risk associated with its trade receivables through establishing credit approval limits and a regular monitoring process. The Corporation generally considers the credit quality of its financial assets that are neither past due or impaired to be solid. Credit risk is mitigated due to the large number of customers. Allowance for doubtful accounts is reviewed at each balance sheet date. The Corporation updates its estimates of allowances for doubtful accounts based on customer history.

Island Waste Management Corporation

Notes to the consolidated financial statements

March 31, 2014

8. Financial risk management (cont'd)

Household user fees are collected by the Province of Prince Edward Island through its provincial tax system.

Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. Financial instruments that potentially subject the Corporation to interest rate risk include financial liabilities with floating interest rates. The Corporation currently has no financial instruments which are exposed to interest rate risk due to floating rates but is exposed to risk associated with fixed term debt that does not mature until 2027.

Liquidity risk

Liquidity risk is the risk that the Corporation may not have cash available to satisfy financial liabilities as they come due. The Corporation prepares an annual cashflow budget which it monitors on a monthly basis to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements.

Market risk

The Corporation is subject to market risk related to the price of diesel fuel. The Corporation has entered into various agreements for the collection of recyclables, waste and compost materials. These contracts include a provision that requires the corporation to pay an annual fuel adjustment based on the annual average price of diesel fuel as compared to the base rate per the contract. For the year end March 31, 2014, had the average price of diesel fuel increased or decreased by 10% during the year, the earnings of the corporation would have increased or decreased by approximately \$68,000 (2013 - \$61,000). The Corporation currently has no strategy in place to mitigate this risk. Management does monitor the current price of fuel on a regular basis.

Fair values

The carrying amounts for cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate fair value due to the short term maturity of these instruments or terms of the instrument. The carrying amount for the long term debt approximated fair value as the interest rate was reflective of rates available for similar debt.

IFRS 7, "Financial Instruments – Disclosures", prescribes the following three-level fair value hierarchy for disclosure purposes based on the transparency of the inputs used to measure the fair values of the asset and liabilities:

- a) Level 1 – quoted price (unadjusted) of identical instruments in active markets that the reporting entity has the ability to access at the measurement date.
- b) Level 2 – inputs are quoted prices of similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, inputs other than quoted prices used in a valuation model that are observable for that instrument, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- c) Level 3 – one or more significant inputs used in a valuation technique are unobservable for the instruments.

Island Waste Management Corporation

Notes to the consolidated financial statements

March 31, 2014

8. Financial risk management (cont'd)

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value

The Corporation's financial instruments measured at fair value are cash and cash equivalents and are recorded based on level 1 measurement.

9. Employee future benefits

Short term benefits

The Corporation's short term benefits for qualified active employees include base salary, compensated absences, group life insurance, dental and medical coverage.

Pension plan

The permanent employees of the Corporation participate in the multi-employer contributory defined benefit pension plan administered by the Province of Prince Edward Island under the Civil Service Superannuation Act. The Civil Service Superannuation Fund provides pensions to employees of the Provincial Government and certain crown corporations and agencies based on the length of service and average of best three year's salary. Since sufficient information is not readily available to account for the Corporation's participation in the plan using defined benefit pension plan accounting, these financial statements have been prepared using accounting rules for defined contribution pension plans. The current year expense for this pension plan is \$154,000 (2013 - \$145,000).

At March 31, 2013, the Civil Service Superannuation Fund reported plan deficiencies of \$136,526,000 or 90% funded.

Employee benefits risks

The Corporation's defined benefit plan is indirectly exposed to economic risks with respect to measurement risk from assumptions based on economic factors, such as discount rates affected by volatile bond markets. Benefit obligations are exposed to uncertainty of future economic conditions, primarily inflation risk due to uncertainty of the timing of the payments.

Demographic factors affect current and future benefit costs with respect to the amount and time horizon of expected payments due to such factors as workforce average age and earnings levels, attrition and retirement rates.

The Corporation is also exposed to funding risk in the multi employer plans arising from legislative changes affecting eligibility for and amount of pension and related benefits and performance of plan assets affected by investment policies set by the government. Because these plans are governed by legislation rather than contract, there is little flexibility for participants with respect to withdrawal from the plan, plan wind up or amendments, and funding requirements.

Island Waste Management Corporation

Notes to the consolidated financial statements

March 31, 2014

10. Related party transactions

Included in these financial statements are transactions with various Prince Edward Island crown corporations, departments, agencies, and boards related to the Corporation by virtue of common influence by the Government of Prince Edward Island. Routine operating transactions in the ordinary course of business with related parties are settled at prevailing market prices under normal trade terms.

On March 31, 2014, the Corporation has purchased land from the Province of Prince Edward Island for \$322,000. This represents the net book value of the land that was held by the Province of Prince Edward Island at the time of the transaction.

The table below presents total compensation of the key management personnel, which includes the Board of Directors and senior executive management. Board of Director honorariums are paid based on standards set and approved by the Treasury Board.

	<u>2014</u>	<u>2013</u>
Short term employee benefits	\$ 200,583	\$ 198,031
Post employment benefits	<u>23,450</u>	<u>22,085</u>
	<u>\$ 224,033</u>	<u>\$ 220,116</u>

11. Rate regulation

The Corporation is subject to rate regulation on the household user fees and disposal fees charged to residents of Prince Edward Island under the *Island Regulatory Appeals Commission Act*. The purpose of this Act, which is administered by the Island Regulatory and Appeal Commission (IRAC), is to regulate the rate the Corporation may charge for collection and disposal of solid waste within Prince Edward Island and to ensure at all times a just and reasonable price for this service. Changes in household user fees and disposal fees can only be implemented with the approval of IRAC.

12. Capital management

The Corporation's objectives when managing capital is to safeguard the Corporation's ability to support the normal operating requirements on an ongoing basis, support any capital expenditures that may be required in the normal operations of the Corporation and generate sufficient cash flow to manage its existing debt.

The Corporation's capital consists of cash and cash equivalents, long term debt and net assets. The Corporation's primary uses of these funds are to finance capital expenditures, repay debt obligations and fund normal operations. In order to facilitate the management of its capital requirements, the Corporation prepares annual operating budgets and actual to budget forecasts on a quarterly basis. To maintain or obtain additional capital, the Corporation may issue new debt, reduce operating costs, utilize the central banking credit agreement or make a request to IRAC to increase household user and disposal fees.

The Corporation is not subject to externally imposed capital requirements and there have been no changes with respect to the overall capital risk management strategy during the year.

Island Waste Management Corporation

Notes to the consolidated financial statements

March 31, 2014

13. Other matters

Costs associated with the closure and decommissioning of provincial dump sites are the responsibility of the Province of Prince Edward Island.

Island Waste Management Corporation

Consolidated schedule of revenues

Year ended March 31

2014

2013

Household user fees

Billed by Island Waste Management Corporation	\$ 106,710	\$ 88,671
Billed through property taxes	13,582,930	13,408,284
Cart revenues	450	900
Refunds and adjustments	<u>(79,043)</u>	<u>(83,325)</u>
	<u>\$ 13,611,047</u>	<u>\$ 13,414,530</u>

Disposal fees

East Prince Waste Management facility	\$ 2,094,914	\$ 2,092,421
Energy from Waste	1,082,068	1,183,893
Central Compost facility	374,793	360,055
Brockton	80,148	79,836
Dingwells Mills	67,777	69,637
Murray River	48,223	47,655
New London	74,875	81,039
Other	<u>2,961</u>	<u>1,675</u>
	<u>\$ 3,825,759</u>	<u>\$ 3,916,211</u>

Island Waste Management Corporation

Consolidated schedule of expenditures

Year ended March 31

2014

2013

Administration

Dues and memberships	\$ 2,730	\$ 2,352
Insurance	22,744	21,025
Interest and bank charges	7,484	8,267
Miscellaneous	10,200	6,818
Office equipment	1,197	1,620
Office supplies	21,344	25,988
Professional fees	22,371	30,151
Rent	16,800	16,800
Repairs and maintenance	21,057	13,641
Salaries and benefits	1,188,287	1,164,724
Supplies	397	4,233
Telephone	38,958	44,976
Travel	35,227	40,554
Utilities	22,267	20,769
	<u>\$ 1,411,063</u>	<u>\$ 1,401,918</u>

Advertising, education and public relations

Advertising	\$ -	\$ 290
Education	55,290	56,046
Public relations	6,861	8,020
Wages and benefits	47,593	41,657
	<u>\$ 109,744</u>	<u>\$ 106,013</u>

Residential collection

Cart purchases and write-offs	\$ 72,801	\$ 157,303
Collection contracts		
Compost and waste	3,639,302	3,339,591
Recyclables	1,232,846	1,213,662
Operations support technicians		
Wages and benefits	300,300	276,358
Vehicle and supplies	52,331	49,991
Other	-	14,313
	<u>\$ 5,297,580</u>	<u>\$ 5,051,218</u>

Island Waste Management Corporation

Consolidated schedule of expenditures

Year ended March 31

2014

2013

Disposal

East Prince Waste Management facility

Accretion	\$ 43,690	\$ 26,560
Equipment rental	9,650	23,772
Gas and oil	78,431	73,580
Household hazardous waste	18,027	29,236
Leachate disposal	48,974	42,036
Office and miscellaneous	17,914	13,755
Repairs and maintenance	138,746	124,413
Salaries, wages, and benefits	420,600	401,117
Security	12,468	11,967
Supplies and materials	99,765	112,620
Telephone	3,133	3,289
Travel and conferences	7,495	2,603
Utilities	35,799	26,671
	<u>\$ 934,692</u>	<u>\$ 891,619</u>

Queens County Regional Landfill

Repairs and maintenance	\$ 3,053	\$ -
Utilities	1,460	1,268
	<u>\$ 4,513</u>	<u>\$ 1,268</u>

Energy from Waste

Fly ash disposal	\$ 204,542	\$ 188,459
PEI Energy Systems	2,145,637	2,023,776
Repairs and maintenance – scale	5,578	1,560
Scale house supplies	4,061	4,065
Wages and benefits – scale operator and inspector	99,517	101,801
	<u>\$ 2,459,335</u>	<u>\$ 2,319,661</u>

Central Composting facility

Contract	\$ 1,937,453	\$ 1,850,068
Insurance	53,265	54,533
Property tax	242	194
Repairs and maintenance	79,886	192,768
Wages and benefits	128,477	129,316
	<u>\$ 2,199,323</u>	<u>\$ 2,226,879</u>

Island Waste Management Corporation

Consolidated schedule of expenditures

Year ended March 31

2014

2013

Disposal (cont'd)

Waste Watch Drop-Off Centers

Blue bag disposal	\$ 29,000	\$ 20,000
Green Isle Environmental contract	330,767	392,287
Household hazardous waste	106,821	142,271
Material and supplies	22,123	18,577
Miscellaneous and asphalt shingles	16,339	5,597
Repairs and maintenance	190,648	167,401
Security	738	984
Signage	900	1,169
Telephone	5,477	5,730
Travel	26,181	22,948
Utilities	9,573	13,116
Wages and benefits	<u>287,417</u>	<u>283,234</u>
	<u>\$ 1,025,984</u>	<u>\$ 1,073,314</u>

Transportation of material

Motor vehicle	\$ 84,588	\$ 82,120
Supplies	4,118	4,084
Wages and benefits	<u>108,242</u>	<u>110,705</u>
	<u>\$ 196,948</u>	<u>\$ 196,909</u>
	<u>\$ 6,820,795</u>	<u>\$ 6,709,650</u>

Tire collection and disposal

Collection	\$ 273,185	\$ 303,693
Disposal	<u>487,640</u>	<u>568,882</u>
	<u>\$ 760,825</u>	<u>\$ 872,575</u>

Island Waste Management Corporation

Consolidated schedule of utility operations

Year ended March 31, 2014

	2014	2014	2013	2013
	<u>Revenues</u>	<u>Operating costs</u>	<u>Revenues</u>	<u>Operating costs</u>
Albany	\$ 324,966	\$ 324,966	\$ 285,598	\$ 285,598
Bloomfield	16,659	16,659	18,259	18,259
Bloomfield school project	-	-	9,317	9,317
Brudenell	103,666	103,666	116,578	116,578
Correctional Services	13,718	13,718	12,148	12,148
Crowbush	52,703	52,703	64,640	64,640
Eastern School	7,637	7,637	2,300	2,300
Eastern School project	23,880	23,880	-	-
Georgetown	107,882	107,882	109,041	109,041
Golf Links	490	490	446	446
Humpty Dumpty	2,468	2,468	2,730	2,730
Finance PEI	8,248	8,248	1,980	1,980
Mill River	59,003	59,003	51,804	51,804
Northport - Alberton	29,355	29,355	33,941	33,941
Parks	44,456	44,456	57,767	57,767
Western School	23,017	23,017	35,387	35,387
Western School project	<u>4,945</u>	<u>4,945</u>	<u>-</u>	<u>-</u>
	<u>\$ 823,093</u>	<u>\$ 823,093</u>	<u>\$ 801,936</u>	<u>\$ 801,936</u>