



Consolidated Financial Statements

Island Waste Management Corporation

March 31, 2015

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# Independent auditor's 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, 2015, 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, 2015, 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 15, 2015

A stylized, handwritten signature of "Grant Thornton LLP" in black ink, enclosed within a light gray rectangular box.

Chartered Accountants

# Island Waste Management Corporation

## Consolidated statements of operations and changes in net assets

Year ended March 31	2015	2014
<b>Revenues</b>		
Household user fees (Page 19)	\$ 13,740,596	\$ 13,611,047
Disposal fees (Page 19)	3,954,392	3,825,759
Tires	812,029	760,825
Decommissioning and monitoring	21,374	21,127
Environmental Industrial Services Inc. (Page 23)	871,495	823,093
Other	<u>421,204</u>	<u>416,805</u>
	<u>19,821,090</u>	<u>19,458,656</u>
<b>Expenditures</b>		
Administration (Page 20)	1,461,384	1,411,063
Advertising, education and public relations (Page 20)	134,215	109,744
Operational costs		
Residential collection (Page 20)	5,510,078	5,297,580
Disposal (Pages 21-22)	6,886,899	6,820,795
Tire collection and disposal (Page 22)	812,029	760,826
Decommissioning and monitoring	21,374	21,134
Interest on long term debt	1,372,185	1,435,303
Depreciation	2,450,225	2,538,182
Environmental Industrial Services Inc. (Page 23)	871,495	823,093
Other	<u>102,599</u>	<u>113,996</u>
	<u>19,622,483</u>	<u>19,331,716</u>
Excess of revenues over expenditures	<u>\$ 198,607</u>	<u>\$ 126,940</u>
Net assets, beginning of year	\$ 1,165,456	\$ 1,038,516
Excess of revenues over expenditures	<u>198,607</u>	<u>126,940</u>
Net assets, end of year	<u>\$ 1,364,063</u>	<u>\$ 1,165,456</u>

See accompanying notes to the consolidated financial statements.

# Island Waste Management Corporation

## Consolidated statement of financial position

March 31 2015 2014

### Assets

#### Current

Cash and cash equivalents	\$ 1,503,593	\$ 3,477,615
Cashable guaranteed income certificates	4,000,000	2,500,000
Receivables (Note 3)	3,438,103	1,251,175
Prepays	<u>99,113</u>	<u>100,006</u>
	<b>9,040,809</b>	<b>7,328,796</b>

Performance deposits	199,404	199,404
Property and equipment (Note 4)	<u>19,628,399</u>	<u>19,410,017</u>

	<b><u>\$ 28,868,612</u></b>	<b><u>\$ 26,938,217</u></b>
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### Liabilities

#### Current

Payables and accruals	\$ 3,665,349	\$ 1,387,830
Current portion of long term debt (Note 5)	1,093,262	1,026,006
Debt due on demand (Note 5)	168,111	168,111
Unearned revenue	<u>177,144</u>	<u>114,174</u>
	<b>5,103,866</b>	<b>2,696,121</b>

Contractor deposits	199,000	199,000
Deferred government assistance (Note 2)	166,313	180,747
Long term debt (Note 5)	19,701,444	20,794,706
Asset retirement obligation (Note 6)	<u>2,333,926</u>	<u>1,902,187</u>
	<b>27,504,549</b>	<b>25,772,761</b>

<b>Net assets</b>	<b><u>1,364,063</u></b>	<b><u>1,165,456</u></b>
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	<b><u>\$ 28,868,612</u></b>	<b><u>\$ 26,938,217</u></b>
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Commitments (Note 7)

On behalf of the Board

\_\_\_\_\_ Director \_\_\_\_\_ Director

See accompanying notes to the consolidated financial statements.

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## Island Waste Management Corporation

### Consolidated statement of cash flows

Year ended March 31

2015

2014

Increase in cash and cash equivalents

#### Operating

Cash received from customers	\$ 19,186,526	\$ 19,121,192
Cash payments to suppliers	(11,873,395)	(12,316,156)
Cash payments to employees	(3,175,087)	(2,934,730)
Interest paid	(1,376,900)	(1,442,787)
Interest received	110,287	80,327
	<b>2,871,431</b>	2,507,846

#### Financing

Government assistance received	-	55,822
Repayment of long term debt	(1,026,006)	(962,889)
	<b>(1,026,006)</b>	(907,067)

#### Investing

Increase in performance deposits	-	1,328
Purchase of guaranteed income certificates	(1,500,000)	(2,500,000)
Proceeds from sale of equipment	10,723	8,841
Purchase of property and equipment	(2,330,170)	(995,826)
	<b>(3,819,447)</b>	(3,485,657)

Net decrease in cash and cash equivalents (1,974,022) (1,884,878)

Cash and cash equivalents

Beginning of year	<b>3,477,615</b>	5,362,493
End of year	<b>\$ 1,503,593</b>	\$ 3,477,615

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See accompanying notes to the consolidated financial statements.

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# Island Waste Management Corporation

## Notes to the consolidated financial statements

March 31, 2015

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### 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 15, 2015.

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### 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, 2015.

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.

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# Island Waste Management Corporation

## Notes to the consolidated financial statements

March 31, 2015

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### 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.

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# Island Waste Management Corporation

## Notes to the consolidated financial statements

March 31, 2015

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### 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.

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# Island Waste Management Corporation

## Notes to the consolidated financial statements

March 31, 2015

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### 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

#### 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.

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# Island Waste Management Corporation

## Notes to the consolidated financial statements

March 31, 2015

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<b>3. Receivables</b>	<u>2015</u>	<u>2014</u>
Trade	\$ 986,786	\$ 970,807
Sales tax, net	<u>2,451,317</u>	<u>280,368</u>
	<u>\$ 3,438,103</u>	<u>\$ 1,251,175</u>

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### 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	40 yrs, 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, 2015, 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, 2015

### 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
<b>Gross carrying</b>												
Balance Apr 1, 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
Additions	3,679	-	2,090,419	-	-	27,440	191,923	186,750	233,396	2,792	-	2,736,399
Dispositions	-	-	-	-	-	-	(163,301)	(147,885)	-	-	-	(311,186)
Balance Mar 31, 2015	830,099	593,719	10,269,842	1,656,267	21,180,532	2,264,477	6,483,915	1,532,706	776,233	351,744	400,169	\$ 46,339,703
<b>Depreciation and Impairment</b>												
Balance Apr 1, 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)
Disposals	-	-	-	-	-	-	130,320	140,652	-	-	-	270,972
Depreciation	-	(29,686)	(626,890)	(69,173)	(1,056,149)	(150,050)	(309,381)	(137,296)	(52,933)	(18,667)	(27,578)	(2,478,803)
Balance Mar 31, 2015	-	(139,635)	(7,237,268)	(436,570)	(12,281,362)	(1,338,734)	(3,516,081)	(796,996)	(528,934)	(347,383)	(88,341)	(26,711,304)
<b>Carrying amount</b>	<b>\$ 830,099</b>	<b>454,084</b>	<b>3,032,574</b>	<b>1,219,697</b>	<b>8,899,170</b>	<b>925,743</b>	<b>2,967,834</b>	<b>735,710</b>	<b>247,299</b>	<b>4,361</b>	<b>311,828</b>	<b>\$ 19,628,399</b>
<b>Gross carrying</b>												
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
<b>Depreciation and Impairment</b>												
Balance Apr 1, 2013	-	(109,072)	(5,924,230)	(298,224)	(10,169,067)	(1,040,037)	(3,135,009)	(791,074)	(490,000)	(326,261)	(33,652)	(24,506,955)
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)
<b>Carrying amount</b>	<b>\$ 826,420</b>	<b>483,770</b>	<b>1,569,045</b>	<b>1,288,870</b>	<b>9,955,319</b>	<b>1,048,353</b>	<b>3,118,273</b>	<b>693,489</b>	<b>66,836</b>	<b>20,236</b>	<b>339,406</b>	<b>\$ 19,410,017</b>

As of the end of the year, cell number six at the East Prince Waste Management Facility was under construction and was not available for use. The addition of \$1,681,148 is included in landfill cell additions above and has not been depreciated as of yearend.

# Island Waste Management Corporation

## Notes to the consolidated financial statements

March 31, 2015

<b>5. Long term debt</b>	<b>2015</b>	2014
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.	<b>\$ 20,794,706</b>	\$ 21,820,712
Prime plus 3% demand loan advanced to Environmental Industrial Services Inc. As security for the loan, the borrower has provided a promissory note for the full amount of the loan. The loan will not be outstanding for a period a period greater than 120 months.	<u>168,111</u>	168,111
	<b>20,962,817</b>	21,988,823
Less: current portion	<b>1,093,262</b>	1,026,006
debt due on demand	<u>168,111</u>	<u>168,111</u>
	<b>\$ 19,701,444</b>	<b>\$ 20,794,706</b>

Based on normal repayment terms, annual principal repayments in each of the next five years are due as follows: 2016 - \$1,093,261; 2017 - \$1,164,925; 2018 - \$1,241,287; 2019 - \$1,322,653; 2020 - \$1,409,354 and beyond 2020 - \$14,731,337.

## **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

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# Island Waste Management Corporation

## Notes to the consolidated financial statements

March 31, 2015

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### 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>2015</u>	<u>2014</u>
Asset retirement obligation, beginning of year	\$ 1,902,187	\$ 1,802,741
Liabilities incurred	406,233	55,757
Accretion expense	<u>25,506</u>	<u>43,689</u>
Asset retirement obligation, end of year	<u>\$ 2,333,926</u>	<u>\$ 1,902,187</u>

The key assumptions, on which the carrying amount of the obligation is based, include a risk free rate of 1.36% (2014 – 2.46%) and inflation rate of 2%. The total undiscounted amount of the estimated cash flows required to settle the remaining obligation is \$4,173,000 (2014 - \$4,173,000). The expected timing of payment of the cash flow required for settling the obligation is 8 years.

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### 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:

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

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# Island Waste Management Corporation

## Notes to the consolidated financial statements

March 31, 2015

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### 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:

2016	\$ 4,509,932
2017	\$ 4,655,404
2018	\$ 4,704,569
2019	\$ 3,980,991
2020	\$ 2,021,452

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

2016	\$ 12,600
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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 \$2,041,000 (2014 - \$2,017,000).

The corporation has entered into an agreement to construct cell number six at the East Prince Waste Management Facility. The contract to construct the cell is for \$5.6M of which \$1,681,148 has been incurred up to March 31, 2015.

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### 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.

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# Island Waste Management Corporation

## Notes to the consolidated financial statements

March 31, 2015

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### 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 cash flow 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, 2015, 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 \$59,000 (2014 - \$68,000). 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.

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# Island Waste Management Corporation

## Notes to the consolidated financial statements

March 31, 2015

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### 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.

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### 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 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 \$161,000 (2014 - \$154,000).

At March 31, 2014, the Civil Service Superannuation Fund reported that the pension plan was 100% funded.

#### Retirement pay benefits

The Corporation currently provides a retirement pay benefit equal to one weeks pay for each year of service, subject to a maximum benefit equal to 26 weeks pay. The retirement pay benefit is payable upon retirement. Employees qualify at retirement if they have accrued 10 years of service, attained age 55 and are eligible to receive a pension from the Civil Service Superannuation Fund. Retirement pay benefits are accrued on an annual basis based on eligibility and are reflected in the accounts payable at year end.

#### 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.

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# Island Waste Management Corporation

## Notes to the consolidated financial statements

March 31, 2015

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### 9. Employee future benefits (cont.)

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.

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### 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.

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>2015</u>	<u>2014</u>
Short term employee benefits	\$ 199,631	\$ 200,583
Post employment benefits	<u>24,655</u>	<u>23,450</u>
	<u>\$ 224,286</u>	<u>\$ 224,033</u>

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### 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.

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### 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.

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# **Island Waste Management Corporation**

## **Notes to the consolidated financial statements**

March 31, 2015

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### **12. Capital management (cont.)**

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.

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### **13. Other matters**

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

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## Island Waste Management Corporation

### Consolidated schedule of revenues

Year ended March 31

2015

2014

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#### Household user fees

Billed by Island Waste Management Corporation	\$ 71,505	\$ 106,710
Billed through property taxes	13,751,322	13,582,930
Cart revenues	1,275	450
Refunds and adjustments	<u>(83,506)</u>	<u>(79,043)</u>
	<u>\$ 13,740,596</u>	<u>\$ 13,611,047</u>

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#### Disposal fees

East Prince Waste Management facility	\$ 2,240,025	\$ 2,094,914
Energy from Waste	1,075,767	1,082,068
Central Compost facility	351,698	374,793
Brockton	89,214	80,148
Dingwells Mills	67,520	67,777
Murray River	50,745	48,223
New London	79,708	74,875
Other	<u>(285)</u>	<u>2,961</u>
	<u>\$ 3,954,392</u>	<u>\$ 3,825,759</u>

## Island Waste Management Corporation

### Consolidated schedule of expenditures

Year ended March 31

2015

2014

#### Administration

Dues and memberships	\$ 2,486	\$ 2,730
Insurance	23,541	22,744
Interest and bank charges	4,715	7,484
Miscellaneous	5,144	10,200
Office equipment	1,461	1,197
Office supplies	22,472	21,344
Professional fees	21,508	22,371
Rent	16,800	16,800
Repairs and maintenance	16,068	21,057
Salaries and benefits	1,244,356	1,188,287
Supplies	5,250	397
Telephone	37,473	38,958
Travel	34,269	35,227
Utilities	25,841	22,267
	<u>\$ 1,461,384</u>	<u>\$ 1,411,063</u>

#### Advertising, education and public relations

Advertising	\$ 1,791	\$ -
Education	63,196	55,290
Public relations	9,294	6,861
Wages and benefits	59,934	47,593
	<u>\$ 134,215</u>	<u>\$ 109,744</u>

#### Residential collection

Cart purchases and write-offs	\$ 52,706	\$ 72,801
Collection contracts		
Compost and waste	3,781,014	3,639,302
Recyclables	1,242,926	1,232,846
Operations support technicians		
Wages and benefits	384,738	300,300
Vehicle and supplies	48,694	52,331
	<u>\$ 5,510,078</u>	<u>\$ 5,297,580</u>

# Island Waste Management Corporation

## Consolidated schedule of expenditures

Year ended March 31

2015

2014

### Disposal

#### East Prince Waste Management facility

Accretion	\$ 25,510	\$ 43,690
Equipment rental	15,224	9,650
Gas and oil	74,568	78,431
Household hazardous waste	16,250	18,027
Leachate disposal	85,135	48,974
Office and miscellaneous	14,856	17,914
Repairs and maintenance	163,007	138,746
Salaries, wages, and benefits	446,224	420,600
Security	6,411	12,468
Supplies and materials	91,167	99,765
Telephone	3,269	3,133
Travel and conferences	8,122	7,495
Utilities	41,029	35,799
	<u>\$ 990,772</u>	<u>\$ 934,692</u>

#### Queens County Regional Landfill

Repairs and maintenance	\$ 3,067	\$ 3,053
Utilities	1,534	1,460
	<u>\$ 4,601</u>	<u>\$ 4,513</u>

#### Energy from Waste

Fly ash disposal	\$ 184,312	\$ 204,542
PEI Energy Systems	2,107,128	2,145,637
Repairs and maintenance – scale	5,973	5,578
Scale house supplies	6,490	4,061
Wages and benefits – scale operator and inspector	110,491	99,517
	<u>\$ 2,414,394</u>	<u>\$ 2,459,335</u>

#### Central Composting facility

Contract	\$ 1,933,249	\$ 1,937,453
Insurance	53,564	53,265
Property tax	271	242
Repairs and maintenance	77,017	79,886
Wages and benefits	120,400	128,477
	<u>\$ 2,184,501</u>	<u>\$ 2,199,323</u>

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# Island Waste Management Corporation

## Consolidated schedule of expenditures

Year ended March 31

2015

2014

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### Disposal (cont'd)

#### Waste Watch Drop-Off Centers

Blue bag disposal	\$ 32,000	\$ 29,000
Green Isle Environmental contract	368,868	330,767
Household hazardous waste	106,468	106,821
Material and supplies	24,042	22,123
Miscellaneous and asphalt shingles	15,655	16,339
Repairs and maintenance	186,350	190,648
Security	984	738
Signage	1,585	900
Telephone	5,616	5,477
Travel	21,633	26,181
Utilities	10,204	9,573
Wages and benefits	<u>306,287</u>	<u>287,417</u>
	<u>\$ 1,079,692</u>	<u>\$ 1,025,984</u>

#### Transportation of material

Motor vehicle	\$ 96,772	\$ 84,588
Supplies	3,733	4,118
Wages and benefits	<u>112,434</u>	<u>108,242</u>
	<u>\$ 212,939</u>	<u>\$ 196,948</u>
	<u>\$ 6,886,899</u>	<u>\$ 6,820,795</u>

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#### Tire collection and disposal

Collection	\$ 265,103	\$ 273,185
Disposal	<u>546,926</u>	<u>487,640</u>
	<u>\$ 812,029</u>	<u>\$ 760,825</u>

# Island Waste Management Corporation

## Consolidated schedule of utility operations

Year ended March 31, 2015

	2015	2015	2014	2014
	<u>Revenues</u>	<u>Operating costs</u>	<u>Revenues</u>	<u>Operating costs</u>
Albany	\$ 365,617	\$ 365,617	\$ 324,966	\$ 324,966
Bloomfield	20,702	20,702	16,659	16,659
Bloomfield school project	14	14	-	-
Brudenell	85,252	85,252	103,666	103,666
Business development	4,500	4,500	-	-
Correctional Services	14,162	14,162	13,718	13,718
Crowbush	65,362	65,362	52,703	52,703
Eastern School	4,408	4,408	7,637	7,637
Eastern School project	-	-	23,880	23,880
Georgetown	101,929	101,929	107,882	107,882
Golf Links	140	140	490	490
Humpty Dumpty	2,254	2,254	2,468	2,468
Innovation PEI	9,183	9,183	8,248	8,248
Mill River	58,280	58,280	59,003	59,003
Northport - Alberton	40,600	40,600	29,355	29,355
Parks	74,816	74,816	44,456	44,456
Western School	24,276	24,276	23,017	23,017
Western School project	-	-	4,945	4,945
	<u>\$ 871,495</u>	<u>\$ 871,495</u>	<u>\$ 823,093</u>	<u>\$ 823,093</u>