

Appendix B:

Financial Report
& Independent
Auditors Report



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INDEPENDENT AUDITORS' REPORT

To the Members of British Columbia Used Oil Management Association

Opinion

We have audited the financial statements of British Columbia Used Oil Management Association (the Association), which comprise:

- the statement of financial position as at December 31, 2020
- the statement of changes in net assets for the year then ended
- the statement of operations for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of the Association as at December 31, 2020, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Association to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

As required by Societies Act (British Columbia), we report that, in our opinion, the accounting policies applied in preparing and presenting the financial statements have been applied on a basis consistent with that of the preceding period.

KPMG LLP

Chartered Professional Accountants

Victoria, Canada
May 3, 2021

British Columbia Used Oil Management Association

Statement of Financial Position

As at December 31, 2020

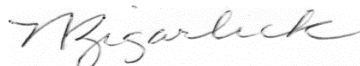
	2020 \$	2019 \$
Assets		
Current assets		
Cash	1,757,628	2,022,298
Accounts receivable (note 3)	4,143,403	3,741,116
Short-term investments (note 4)	10,069,773	9,717,413
Prepaid expenses	27,437	10,207
	<u>15,998,241</u>	<u>15,491,034</u>
Property and equipment (note 5)	175,870	53,678
Long-term investments (note 4)	-	767,693
	<u>16,174,111</u>	<u>16,312,405</u>
Liabilities		
Current liabilities		
Return incentives and return collection facilities incentives payable	1,553,043	1,562,055
Accounts payable and accrued liabilities (note 6)	232,464	322,758
	<u>1,785,507</u>	<u>1,884,813</u>
Net Assets		
Unrestricted	3,411,273	3,770,597
Internally restricted (note 7)	10,801,461	10,603,317
Invested in property and equipment	175,870	53,678
	<u>14,388,604</u>	<u>14,427,592</u>
	<u>16,174,111</u>	<u>16,312,405</u>

Commitments (note 8)

Approved by the Board of Directors



Director



Director

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

British Columbia Used Oil Management Association

Statement of Changes in Net Assets

For the year ended December 31, 2020

	Unrestricted \$	Internally restricted \$	Invested in property and equipment \$	Total \$
Balance – December 31, 2018	5,237,575	9,857,514	1,105	15,096,194
Deficiency of revenue over expenditures for the year	(667,497)	-	(1,105)	(668,602)
Purchase of property and equipment	(53,678)	-	53,678	-
Fund transfer (note 7)	(745,803)	745,803	-	-
Balance – December 31, 2019	3,770,597	10,603,317	53,678	14,427,592
Deficiency of revenue over expenditures for the year	(17,108)	-	(21,880)	(38,988)
Purchase of property and equipment	(144,072)	-	144,072	-
Fund transfer (note 7)	(198,144)	198,144	-	-
Balance – December 31, 2020	3,411,273	10,801,461	175,870	14,388,604

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

British Columbia Used Oil Management Association

Statement of Operations

For the year ended December 31, 2020

	2020 \$	2019 \$
Revenue		
Environmental handling charges	14,247,929	14,965,354
Investment income (note 4)	698,143	745,803
Interest and other income	38,720	69,700
Registration fees	1,400	1,600
	<u>14,986,192</u>	<u>15,782,457</u>
Expenditures		
Program costs		
Return Incentives	12,455,449	13,778,930
Communications and public relations	508,093	518,966
Depot infrastructure	417,757	480,633
Return collection facility operations	184,752	114,919
Consulting	164,138	154,980
Legal fees (note 10)	105,840	240,320
Management and administration contracts (note 10)	93,684	107,398
Technology support and investment	168,913	134,437
Compliance reviews	70,229	57,615
Bad debt expense	-	15,351
	<u>14,168,855</u>	<u>15,603,549</u>
Administrative costs		
Management and administration contracts (note 10)	442,031	377,163
Legal fees (note 10)	189,685	175,455
Office and general expenses	60,070	92,925
Rent	68,236	73,619
Financial audit fees	45,134	51,740
Board expenses	29,289	75,503
Amortization	21,880	1,105
	<u>856,325</u>	<u>847,510</u>
	<u>15,025,180</u>	<u>16,451,059</u>
Deficiency of revenue over expenditures for the year	<u>(38,988)</u>	<u>(668,602)</u>

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

British Columbia Used Oil Management Association

Statement of Cash Flows

For the year ended December 31, 2020

	2020 \$	2019 \$
Cash from (used in) operating activities		
Deficiency of revenue over expenditures	(38,988)	(668,602)
Items not involving cash		
Amortization of tangible assets	21,880	1,105
Unrealized (gain) loss on investments	(632,302)	(482,060)
Accrued interest on investments	(23,520)	(18,890)
	<u>(672,930)</u>	<u>(1,168,447)</u>
Changes in non-cash operating working capital		
(Increase) Decrease in accounts receivable	(402,287)	352,526
(Increase) Decrease in prepaid expenses	(17,230)	(2,826)
(Decrease) Increase in accounts payable and accrued liabilities	(90,294)	88,464
(Decrease) Increase in return incentives payable	(9,012)	(16,585)
	<u>(1,191,753)</u>	<u>(746,868)</u>
Cash used in investing activities		
Proceeds on maturity of investments	3,035,001	2,070,901
Purchases of investments	(1,963,846)	(2,237,496)
Purchase of property and equipment	(144,072)	(53,678)
	<u>927,083</u>	<u>(220,273)</u>
Change in cash	(264,670)	(967,141)
Cash – beginning of year	<u>2,022,298</u>	<u>2,989,439</u>
Cash – end of year	<u><u>1,757,628</u></u>	<u><u>2,022,298</u></u>

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

British Columbia Used Oil Management Association

Notes to Financial Statements

December 31, 2020

1 Authority and purpose

The British Columbia Used Oil Management Association (“the Association”) was incorporated under the Society Act of the Province of British Columbia on March 18, 2003 and commenced active operations effective July 1, 2003. It was formed to establish and administer a waste minimization and recycling program under the Post-Consumer Residual Stewardship Program Regulation, B.C. Reg. 111/97. In 2004, the Post-Consumer Residual Stewardship Program Regulation, B.C. Reg. 111/97 was repealed and replaced by the Recycling Regulation, B.C. Reg. 449/2004. As a not-for-profit organization, the Association is exempt from income taxes, provided the requirements of Section 149(1)(l) of the Income Tax Act (Canada) continue to be met.

2 Summary of significant accounting policies

These financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CPA Canada Handbook. The Association’s significant accounting policies are as follows:

a) Revenue recognition

The Association follows the deferral method of accounting for contributions. The Association recognizes environmental handling charges (“EHC”). EHC revenue is due when the lubricating oil, oil filters and oil containers are first sold by a registrant. EHC revenue is recognized when there is reasonable assurance of collection. Included in EHC revenue are amounts owed to the Association for unremitted EHC fees identified by the Association’s compliance review process. Amounts identified by the compliance review are recognized as revenue in the year in which the compliance review is conducted.

The Association has internally restricted funds in investments to maintain sufficient cash resources for operational needs. Investment income earned on these funds is recognized as revenue in the year it is earned.

b) Return incentives and return collection facilities incentives

Return incentives (“RI”) and return collection facilities incentives (“RCF”) are recognized as incurred in the year when the lubricating oil and antifreeze materials are delivered to a registered processor’s facility by a registered collector and completed claim forms are received and accepted by the Association.

c) Cash

Cash includes cash on deposit with its financial institutions.

British Columbia Used Oil Management Association

Notes to Financial Statements

December 31, 2020

d) Property and equipment

Property and equipment are recorded at cost, less accumulated amortization. Amortization is provided on a straight-line basis at the following annual rates:

Furniture and fixtures	5 years
Computer equipment	3 years
Computer software	5 years

Assets are not amortized until available for use. When a capital asset no longer has any long-term service potential to the Association or the value of future economic benefits is less than net carrying amount, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations.

e) Financial instruments

The fair value of a financial instrument on initial recognition is normally the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets. Transaction costs on financial instruments are recognized at fair value when incurred.

The Association's financial assets include cash, accounts receivable and investments. Cash and accounts receivable are initially recorded at fair value and subsequently accounted for at amortized cost using the effective interest rate method. Investments in guaranteed investment certificates are recorded at amortized cost and other investments are recorded at fair value. Unrealized gains and losses, dividends and interest income are included as investment income in the statement of operations.

The Association's financial liabilities include RI and RCF incentives payable and accounts payable and accrued liabilities. All financial liabilities are initially measured at fair value, and subsequently accounted for at amortized cost using the effective interest rate method.

All derivative instruments, including embedded derivatives, are recorded at fair value unless exempted from derivative treatment as a normal purchase and sale. The Association has determined that it does not have any derivatives and has not entered into any hedge transactions.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Association determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Society expects to realize by exercising its right to any

British Columbia Used Oil Management Association

Notes to Financial Statements

December 31, 2020

collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

f) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the year. Items subject to estimates and assumptions include the estimated useful lives of property and equipment, collectability of accounts receivable, estimates of return incentives and return collection facilities incentives paid for ineligible containers, and accruals for EHC fees not submitted to the Association by the registrant until the following year. Actual results could differ from these estimates.

g) Allocated expenses

Expenses relating to management and administration contracts and legal fees are allocated between program costs and administrative costs as noted below unless specifically related to a program or administrative activity. The Association allocates these expenses by determining management's best estimate of resources spent on program activities and administration activities each year.

	2020	2019
	%	%
Management and administration contracts		
Executive director contract		
Program costs	20	20
Administrative costs	80	80
Other contract staff		
Program costs	20	20
Administrative costs	80	80
Legal fees		
Program costs	20	20
Administrative costs	80	80

British Columbia Used Oil Management Association

Notes to Financial Statements

December 31, 2020

4. Investments (continued)

Investments at fair value

Fidelity Canadian Large Cap Fund (Cost - \$1,194,131)	1,185,453	1,279,458
PH&N High Yield Bond (Cost - \$105,676)	110,306	50,649
Fidelity Global Asset Allocation Fund (Cost - \$1,874,892)	2,117,251	1,736,265
Dynamic Preferred Yield Class Sr Fund (Cost - \$971,323)	937,794	772,301
RBC Core Plus Bond Pool Fund (Cost - \$1,022,435)	1,083,913	1,098,407
Fidelity Asset Allocation Private Pool (Cost - \$1,222,914)	1,457,087	1,319,736
Fidelity Global Growth & Value Fund (Cost - \$715,875)	944,939	1,079,395
Harvest Healthcare (Cost - \$75,792)	77,600	-
Fidelity Market Neutral Alternative Fund (Cost - \$700,000)	679,247	-
Fidelity Global Innovators (Cost - \$200,000)	201,086	-
Dynamic Energy Income Fund	-	253,410
Corning	-	37,867
	<u>8,794,676</u>	<u>7,627,488</u>
	<u>10,069,773</u>	<u>9,717,413</u>

Long-term investments

The Association also has funds invested in long-term GICs maturing as follows:

Maturity date	Interest rate %	2020 \$	2019 \$
April 26, 2021	2.22	-	767,693
		<u>-</u>	<u>767,693</u>

British Columbia Used Oil Management Association

Notes to Financial Statements

December 31, 2020

4 Investments (continued)

Investment income is comprised of the following:

	2020	2019
	\$	\$
Interest income	57,524	83,547
Gain on equity investments	8,317	180,196
Unrealized gain on equity investments	632,302	482,060
	<u>698,143</u>	<u>745,803</u>

5 Property and equipment

	2020	2019		
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Computer software	197,750	21,880	175,870	53,678

6 Accounts payable and accrued liabilities

Included in accounts payable are government payroll remittances payable of \$3,538 (2019 – \$383) related to payroll remittances on Directors' fees and CEO salary.

British Columbia Used Oil Management Association

Notes to Financial Statements

December 31, 2020

7 Internally restricted net assets

The Board of Directors has established a reserve fund. The purpose of the reserve fund is to cover the costs of the following: winding up the Association's programs; ensuring there are sufficient cash resources to meet operational needs; ensuring there are sufficient cash resources to fund any unanticipated changes to the Association's programs and mandate; and to cover the cost of any unforeseen claims or events.

Excess revenue over expenditures not required to cover the cost of ongoing programs may be allocated to the reserve fund as determined by the Board of Directors. In addition, the Board of Directors has targeted that the reserve fund be maintained at an amount equivalent to 12 months of the Association's expenses and contractual commitments. As of December 31, 2020, that target had not been reached.

8 Commitments

Under the terms of a financial services and use agreements expiring August 2023 and additional agreement expiring August 31, 2021, the Association is charged a fee for provision of financial administration services of various staff. Under the terms of an employment service agreement expiring December 2022, the Association is charged a monthly rate for provision of professional and technical services. The Association has entered into a lease agreement for a new office location in Victoria commencing May 1, 2021 until April 30, 2026. The estimated minimum annual payments required under these agreements over the next five years are as follows:

	Contract services \$	Facilities \$	Total \$
2021	675,875	95,863	771,739
2022	507,016	143,795	650,811
2023	227,344	143,795	371,139
2024		147,564	147,564
2025		147,564	147,564
	<hr/>	<hr/>	<hr/>
	1,410,235	678,581	2,088,817

British Columbia Used Oil Management Association

Notes to Financial Statements

December 31, 2020

9 Ineligible containers

The RI paid for used oil containers may include payments for ineligible containers from related products such as windshield washer fluid and fuel or oil additives. Containers for these products are currently excluded from the Association's program.

Since the containers are generally made of the same plastic as used oil containers, there is limited economic or environmental benefit in separating these containers from the used oil containers waste stream. There are also additional costs related to segregating these materials. On account of these factors, the Association has elected not to strictly enforce the removal of these containers in RI payments.

Based on studies performed by independent consultants, the Association has determined that the percentage of ineligible containers is approximately 10% (2019 – 10%) by weight. This percentage is used to estimate the amount spent on ineligible plastics. The estimated amount is \$307,000 for the year ended December 31, 2020 (2019– \$327,000).

10 Allocated expenses

For the years ended December 31, 2020 and 2019, total expenses allocated between program costs and administrative costs were as follows:

	2020	2019
	\$	\$
Management and administration contracts	535,715	484,561
Legal fees	295,525	415,775

British Columbia Used Oil Management Association

Notes to Financial Statements

December 31, 2020

11 Financial risk management

Credit risk

Credit risk refers to the risk that a counterparty may default on its contractual obligations, resulting in a financial loss. The Association is exposed to credit risk with respect to accounts receivable and investments. However, the Association is not exposed to any significant concentration of credit risk due to its large registrant base. Management monitors its accounts receivable regularly and provides for any amounts that are not collectible in the allowance for doubtful accounts (note 3). The Association manages credit risk for its investments by maintaining them with Chartered Schedule I banking institutions and ensuring they are invested in accordance with the Association's Statement of Investment Policies and Procedures.

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

Liquidity risk

Liquidity risk is the risk an entity will encounter difficulty in meeting its obligations. The Association manages its liquidity by monitoring its expenses, working capital and overall capital expenditures. The Association primarily meets its liquidity requirements through the environmental handling charges and registration fees it earns. Investments and investment income are internally restricted to cover the cost of unforeseen claims and events. The Association prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. The Association expects to continue to meet future requirements through these sources.

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

Market risk

Market risk refers to the risk that the fair value or future cash flow of the Association's financial instruments will fluctuate because of changes in market prices. The Association is exposed to market risk with respect to its investments. Accordingly, the value of these financial instruments will fluctuate as a result of changes in market prices, market conditions, or factors affecting the net asset values of the underlying investments. Should the value of the financial instruments decrease significantly, the Association could incur material losses upon disposal of the instruments. This risk is mitigated by diversification of portfolio holdings amongst different asset classes and by holding investments with varying maturity dates and a variety of issuers.

There is no change in risk exposure from the prior year.

British Columbia Used Oil Management Association

Notes to Financial Statements

December 31, 2020

11. Financial risk management (continued)

Impacts of COVID-19

Beginning March 2020, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to contain the spread of the virus. Many governments have likewise declared that the COVID-19 outbreak in their jurisdictions constitutes an emergency. Reactions to the spread of COVID-19 have led to, among other things, significant restrictions on travel, business closures, quarantines and a general reduction in operational activities. While these effects are expected to be temporary, the duration of the disruption and related financial impact cannot be reasonably estimated at this time. Given the unprecedented and pervasive impact of changing circumstances surrounding the COVID-19 pandemic, there is inherently more uncertainty as compared to prior periods.